Sonoco Details Plans for Growth and Cost Reduction at Annual Meeting With Financial Community

December 8, 2000

NEW YORK, Dec. 8 /PRNewswire/ -- New Sonoco (NYSE: SON) president and chief executive officer, Harris E. DeLoach, Jr., today outlined plans to achieve average annual double-digit earnings growth and cost reductions of approximately $25 - $30 million at the Company's annual meeting with the financial community in New York City.

(Photo: http://www.newscom.com/cgi-bin/prnh/19991006/SNCLOGO)

While stating that recent earnings growth has not been acceptable, DeLoach pointed out that the Company has achieved record earnings in 38 out of the last 41 years; has paid consecutive quarterly dividends since 1925, with a current yield of about 4.5%; and despite recent performance, total return to shareholders has averaged 17% since 1975. He also noted that Sonoco's historical and 12-month returns on long-term capital and equity are among the highest in the industry and the manufacturing sector.

"That is history, however - - good and bad. The more important question is what are we going to do today and tomorrow to meet our objective of average annual double-digit growth in earnings per share and total return to shareholders with returns on capital and equity in the top quartile of the S&P 500?," said DeLoach.

"We believe our 4-point strategy is sound:

Growing the top line is obviously essential for sustainable growth. In that regard, we have identified five businesses for growth, including our two largest businesses, engineered carriers and composite cans where we are the global market leader in each; printed flexible packaging's $3.5 billion laminated/co-extrusion market segment where we doubled our presence last year with the acquisition of Graphic Packaging's flexible operations; custom designed protective packaging, a $900 million market segment; and packaging services, an emerging business where Sonoco manages the packaging supply chain for customers.

"Sonoco today announced a new 5-year, fee-based contract with the Gillette Company to continue managing the packaging supply chain for their North American razor and blade business and a new assignment to do the same for their European operations.

"Continuous productivity improvement is not optional. The Company has targeted $80 million in total productivity improvement for this year; however, volume has a big effect on manufacturing operations, and if we see further economic slowing, that will have an impact on this number. Our productivity improvement will come from three areas: manufacturing, driven by our Six Sigma initiative; purchasing and logistics; and reducing selling/general and administrative costs.

"The third driver in our strategy is capital effectiveness, or maximizing cash and optimizing its use. We expect free cash flow in 2000 of approximately $170 million and over $750 million over the next five years. Nothing is more important in determining near and long-term shareholder return than how effectively we manage our free cash flow. We will continue buying back stock, for which we currently have a 5-million share authorization from the board of directors, and paying down debt, while retaining the financial flexibility to take advantage of appropriate opportunities that may occur in this slowing economy," explained DeLoach. Through the third quarter of 2000, Sonoco has used free cash flow to buyback $46 million of stock and debt reduction of $68 million.

"Our fourth driver is people. Without the right people in the right places, no strategy will work. The primary reason for our recent stagnation in growth of earnings and shareholder returns has been the lack of consistent execution and "no excuse" accountability. To that end, we have made several significant organization changes among our senior management team, including a new head of our global composite can business. We also have globalized the responsibilities of our general managers for composite cans, engineered carriers and paper. And, we have reconstituted our executive committee to include the heads of our largest businesses," said DeLoach.

DeLoach said that the Company has experienced several issues to date this year that have negatively impacted earnings.

"While enjoying a favorable price/cost position, our engineered carriers business is experiencing soft unit volume growth, reflecting a weakening general economy. Unit volumes are likely to remain soft through the first quarter of 2001. Historically, when industrial demand slows, the consumer sector is relatively stable. Unfortunately, the year 2000 has been an exception, with most businesses in our consumer sector falling short of our expectations," said DeLoach.

"Our composite can business remains strong, but we have seen slower earnings in recent quarters. There are three primary reasons: (1) new products have not been pushed through the pipeline quickly enough, (2) European margins have not met expectations, and (3) our investment in our North American chip business has been ahead of the product's growth rate," he explained.

DeLoach said that the Company believes these issues are principally management related and that recent management changes are expected to put this business back on track.

He noted that the Company is addressing costs in Europe with such actions as the recent reduction in head count at its Manchester, England operation and is continuing to examine possible additional European structural changes.

DeLoach also stated that actions are being taken to bring costs related to chip cans in line with demand. Therefore, as that business grows, Sonoco will have already made the principal capital expenditures.

"Another issue in the consumer sector has been our high density film business, where we have suffered resin increases of $.18 per pound from January 1999 to June 2000. Domestic supplier consolidation and high capacity utilization in the industry have been the principal causes of these increases," explained DeLoach.

He said, however, that Sonoco has gained some leverage with the two principal domestic resin suppliers by purchasing resin from Asian suppliers. He noted that subsequent to June 2000, Sonoco has benefited from about a $.05 per pound resin market pricing decline and that resin costs are expected to continue to weaken.

"Despite these expected improvements, we are very actively examining several viable options for this business because of basic structural changes in the industry," added DeLoach.

DeLoach said that another issue affecting this year's performance to date has been the Company's flexible packaging business which is in the process of assimilating last year's acquisition of Graphic Packaging's flexible operations.

"This acquisition, which doubled our flexible business to about $235 million, is slightly accretive. Nonetheless, we have experienced considerable costs associated with the assimilation. These costs, however, will soon be behind us, and we expect improving profits from this business as $60 million in new contracts awarded this year begin to be phased into Sonoco throughout next year," said DeLoach.

"Costs have been another major issue. Excess costs are not acceptable in this day of low inflation, supplier consolidation and resulting decrease in pricing leverage," noted DeLoach.

"Therefore, we are targeting a minimum of $25 - $30 million in cost reductions through global restructuring and plant consolidations. We will announce further details in January. While we are unable to quantify related charges at this time, they will begin in the fourth quarter of this year but are expected to be offset in the quarter by one-time gains. Excluding these one-time transactions, fourth quarter earnings should be in the range of $.42 to $.46, as previously announced.

"The significant majority of reductions and related charges should occur in the first quarter of 2001. Please note that simultaneously with these reductions, we continue to examine our portfolio. At the time we announce details of the cost reductions, we also plan to provide guidance regarding our earnings expectations for the first quarter and full year 2001. We expect these cost reductions to be sustainable," said DeLoach.

"So what will make 2001 different from recent years? (1) Strong free cash flow; (2) improved profits expected from composite cans; (3) improvement expected in high density film; (4) $60 million in new contracts for flexible packaging; (5) productivity improvement; (6) $25 - $30 million in cost reductions; and (7) the right people in the right places," stated DeLoach.

"In conclusion, perhaps our greatest challenge and most important contribution to near and long-term success lies in effectively managing our free cash flow. We take that obligation seriously. We will continue buying back stock and paying down debt, while keeping our "powder dry" for appropriate complementary opportunities," said DeLoach.

"We believe that our 4-point strategy, combined with effective execution and accountability plus high returns on capital and equity should produce average annual double-digit earnings per share and, along with dividends, average annual double-digit total returns to shareholders," concluded DeLoach.

Webcast

A replay of the meeting can be accessed via the Internet at http://www.videonewswire.com/SONOCO/120800 beginning at noon EDT on December 8, 2000, or through Sonoco's website (www.sonoco.com) Investor Communication section for 90 days after the meeting.

Sonoco, founded in 1899, is a $2.5 billion manufacturer of industrial and consumer packaging products and provider of packaging services, with 285 operations in 33 countries serving customers in some 85 nations.

Cautionary Statements

Statements included herein that are not historical in nature are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are based on current expectations, estimates and projections about the company's industry, management's beliefs and certain assumptions made by management. Such information includes without limitation, discussions as to estimates, expectations, beliefs, plans, strategies and objectives concerning the company's future financial and operating performance.

These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. Such risks and uncertainties include, without availability and pricing of raw materials; success of new product development and introduction; ability to maintain or increase productivity levels; international, national and local economic and market conditions; ability to maintain market share; pricing pressures and demand for products; continued strength of the company's paperboard-based tube, core and composite can operations; and currency stability and the rate of growth in foreign markets. Additional information concerning some of the factors that could cause materially different results is included in the company's reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. Such reports are available from the Securities and Exchange Commission's public reference facilities and its Internet website or from the Company's investor relations department.
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