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Participants:

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- Adam Josephson; KeyBanc Capital Markets Inc.; Research Division, MD & Senior Equity Research Analyst
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PRESENTATION

Operator^ Thank you for standing by, and welcome to the Sonoco Products First Quarter 2022 Earnings Conference Call. (Operator Instructions) Please be advised that today's call may be recorded. (Operator Instructions) I would now like to hand the call over to Roger Schrum, Vice President of Investor Relations. Please go ahead.

Roger Schrum^ Thank you, Latif, and good morning, everyone, and welcome to Sonoco's First Quarter 2022 Investor Conference Call. Joining me today are Howard Coker, President and Chief Executive Officer; Rodger Fuller, Chief Operating Officer; and Julie Albrecht, Chief Financial Officer.

Also, I'm pleased to announce that Lisa Weeks has joined Sonoco and will be my successor as Head of Investor Relations. Lisa is on the call with us today, and I will be working with her on a transition during the next several months. We're glad to have Lisa as part of the Sonoco team and welcome aboard.

A news release reporting our financial results was issued before the market opened today and is available on the Investor Relations website at sonoco.com. In addition, we will reference a presentation on our first quarter financial results which was also posted on the website this morning.

Before we go further, let me remind you that today's call and presentation contains a number of forward-looking statements based on current expectations, estimates and projections. These statements are not guarantees of future performance and are subject to certain risks and uncertainties. Therefore, actual results may differ materially.

Furthermore, today's presentation includes the use of non-GAAP financial measures, which management believes provides useful information to investors about the company's financial condition and results of operations.

Further information about the company's use of non-GAAP financial measures, including definitions as well as reconciliations of the -- of those measures to the most closely related GAAP measure, is also available in the Investor Relations section of the website. Now with that introduction, I'll turn it over to Julie.

Julie Albrecht^ Thanks, Roger. I'll begin on Slide 3, where you see that earlier this morning, we reported first quarter earnings per share on a GAAP basis of $1.17 and base earnings of $1.85 per share. This very strong result is $0.50 higher than the top end of our original guidance range of $1.25 to $1.35 per share and $0.05 above the updated range that we provided on March 22 of $1.70 to $1.80 per share.

In addition, these results are $0.85 ahead of the $1 of base EPS that we delivered in the first quarter of last year with our legacy businesses driving $0.50 per share of this increase. The balance comes from the addition of Sonoco Metal Packaging to our portfolio, reflecting strong operating results that are net of interest expense on the debt we issued to fund the acquisition.

Related to the $0.68 per share difference between base and GAAP EPS, I'll first highlight that most of these nonbase items are driven by the Metal Packaging acquisition, and/or significant inflation and most notably, the dramatic increase in steel costs this year. The largest nonbase item of $0.37 per share was for acquisition-related net costs driven by the Metal Packaging transaction. These were primarily from the partial write-off of purchase accounting step-up on the acquired inventory as well as cash-based professional fees.

Next, we had an add-back of $0.14 per share related to acquisition intangibles amortization expense which, as we announced in February, is a change in our base earnings definition starting this year. All of our prior year results have been recast to reflect amortization expense as nonbase. The next item was a $0.14 per share increase in our LIFO reserve driven by the significant steel inflation.

And on a go-forward basis, any changes in our LIFO reserve will be treated as nonbase. And finally, we have $0.11 per share related to restructuring and asset impairments and an $0.08 per share net gain in other items. I'll note that these restructuring and impairment charges include $0.05 per share related to the write-down of the net assets in our small Russian operations. Howard will talk about our planned exit from Russia in a few minutes.

So moving to the base income statement on Slide 4 and starting with the top line, you see that sales were $1,771 million, up 31% from the prior year. I'll review more details about our key sales driver on the sales bridge in just a moment. Base gross profit was $416 million, $138 million above the prior year. This performance resulted in a 23.5% base gross profit as a percent of sales, which was 300 basis points higher than the first quarter of last year.

Our SG&A expenses of $155 million increased by $30 million year-over-year. The key drivers were higher expenses for employee compensation and benefits, strategic IT expenses and the lack of nonrecurring COVID incentives that we received last year. So all this resulting in operating profit of $261 million which is 72% above last year. I'll discuss the key drivers on the operating profit bridge in a few minutes.

Net interest expense of $19 million was $1 million higher than last year due to the higher debt balances related to the Metal Packaging acquisition. Income tax expense of $61 million was $27 million above last year due to higher pretax profits, partially offset with a slightly lower tax rate.

So moving down to net income. Our first quarter 2022 base earnings were $183 million compared to $101 million last year. Now looking at the sales bridge on Slide 5, you see that volume mix was higher by $27 million or 2% for the company as a whole. This increase was driven by our Consumer segment and our All Other business group and was partially offset by lower volume in our Industrial segment.

Consumer Packaging volume was up $24 million or about 4%, driven by strong demand growth in flexible packaging and in plastics food. For our Industrial Paper Packaging segment, volume/mix was down $12 million or about 2%, reflecting, among other things, severe winter weather, supply chain disruptions and operational closures in China stemming from COVID-19 restrictions.

Volume declines were concentrated in Asia and Europe, tube and core operations, North America recycling as well as fiber protective packaging. And finally, our All Other group saw an increase of $15 million or about 9% and this was driven by stronger volume across almost all of these businesses.

So moving over to price. You see that selling prices were higher year-over-year by $275 million. Almost 60% of this increase was in the Industrial segment with about 35% in Consumer and the balance in All Other. Most of these price increases are driven by our continued work to recover escalating costs around the globe.

Moving across the acquisitions and divestitures, you see a top line positive impact of $141 million, mostly driven by the Metal Packaging acquisition, but also reflecting sales removed with last year's U.S. Display and Packaging divestiture. And finally, the sales impact from foreign exchange and other was negative by $25 million, mostly associated with foreign currency translation on a stronger U.S. dollar year-over-year.

Moving now to the operating profit bridge on Slide 6 and starting with volume mix. The contribution to sales of $27 million had a $3 million positive impact on operating profit. This low drop-through was due to the negative impact of sales mix across numerous businesses. Now price/cost. I will remind you that this category includes the earnings benefit from higher selling prices as well as the impact of total inflation.

In the first quarter, we had $85 million of favorable price cost with most of the benefit generated in our Industrial and Consumer segments. Approximately 45% occurred in our Consumer segment, which was driven by the timing of price/cost changes and recovered about half or just over half of the negative price cost incurred by these businesses in 2021. We do expect our Consumer segment margins to normalize beginning in the second quarter.

The balance of our first quarter price/cost benefit was mostly generated in our Industrial segment driven by price increases to recover inflation and supported by continued strong demand, driving rising market indices like bending chip. As usual, there is an OCC market pricing slide in the appendix that shows that Southeast OCC averaged $160 per ton in the first quarter.

While this was well above the $87 per ton average in the first quarter of last year, Southeast OCC declined sequentially in the first quarter from an average of $183 per ton in the fourth quarter of 2021.

Next on the bridge is the impact of total productivity. You see that our total productivity was $1 million year-over-year with a favorable impact from our Consumer segment partially offset by a negative impact in our Industrial segment and All Other Group. At a high level, our productivity results were negatively impacted by supply chain, weather issues and labor shortages across numerous businesses.

Now moving to acquisitions and divestitures. You see the net addition of $49 million of operating profit from our Metal Packaging acquisition as well as the divestiture of our U.S. Display and Packaging business. Lastly, you see that the operating profit change in other was unfavorable by $30 million, with the main driver being the higher SG&A expenses that I mentioned before.

Moving to the segment analysis on Slide 7. You see that our Consumer Packaging segment sales were up nearly 50%, driven by the addition of Metal Packaging, higher selling prices as well as increased demand. Consumer segment operating profits increased by 113% driven by the Metal Packaging acquisition, favorable price/cost results and the improved volumes. Our Consumer segment margin increased by 600 basis points to 20% versus the first quarter of last year when the margin was 14%.

Shifting to our Industrial segment. Sales grew by almost 24% mainly due to year-over-year price increases mostly to cover inflation and raw materials as well as operating

expenses. Industrial's operating profit increased by almost 39% due to improved price/cost dynamics compared to last year.

Our Industrial segment's operating profit margin was 10.4%, up by 120 basis points, which compared to 9.2% last year. And finally, all Other Sales declined slightly, reflecting the sale of U.S. Display and Packaging which was almost completely offset by strong volumes and year-over-year price increases mostly to cover inflation.

Operating profit decreased by 22.6% as the negative impacts from the D&P divestiture and productivity more than offset the positive impacts of price cost and volume mix. And our All Other margins decreased to 7.1% from the prior year quarter's 9.1%.

For the total company, sales were up nearly 31% and operating profit increased by 71%, resulting in a company-wide operating margin of 14.7%. So shifting to cash flow on Slide 8. About halfway down this slide, you see that our first quarter operating cash flow was $1 million compared with $139 million last year.

This decrease was almost entirely driven by an increase in cash consumed by working capital compared to the same period of 2021. Our higher working capital balances this year are driven by increased sales volumes, seasonal inventory build and of course, inflation.

Our net CapEx spending in the first 3 months was $67 million compared to $39 million in the first quarter of last year. While spending did continue for Project Horizon, this year-over-year increase was largely driven by increased strategic investments in consumer growth and productivity projects.

This takes us to free cash flow, which was a use of $66 million for the first quarter compared to free cash flow generation of $99 million last year. Finally, we paid cash dividends of $44 million in the first quarter of this year compared to $45 million in last year's first quarter. Our dividend was unchanged on a per share basis, but this reduced cash payment was due to lower shares outstanding driven by our share repurchase activity in 2021.

On Slide 9, you see that our balance sheet and our liquidity position remain strong and reflect the net assets and debt associated with the Metal Packaging acquisitions. I'll note that we've completed our preliminary purchase price accounting work, and this is reflected in our first quarter balance sheet.

Next, on Slide 10, you see our guidance for the second quarter and our updated guidance for the full year 2022. So focusing first on our second quarter guidance, we're projecting a range of $1.20 to $1.30 base earnings per share with a midpoint of $1.25. This midpoint represents a strong 34% increase over the $0.93 of base EPS we delivered in the second quarter last year.

This increase is driven by slightly higher volumes in our legacy businesses, continued favorable price/cost results and, of course, the addition of Metal Packaging.

We're raising our full year base EPS guidance to $5.25 to $5.45 per share, reflecting our first quarter earnings beat as well as our solid outlook for the second quarter. This new full year midpoint is a 14% increase from the $4.70 per share midpoint of our original February guidance. In addition, we are increasing our full year EBITDA guidance to a range of $995 million to $1.045 billion.

Both our operating and free cash flow guidance remain unchanged from prior guidance despite our outlook for stronger earnings. Due to inflation and increased business activity, we do remain cautious about our working capital balance trend. So that concludes my comments, and I'll turn it over to Howard now.

Robert Coker^ Okay. Well, thanks, Julie, and good morning, everyone. Let me start with some brief comments on our record first quarter performance. I'll bring you up to date on our capital spending plans. And then provide some thoughts about market trends we see entering the second quarter.

Now our team delivered exceptional results during the first quarter, which exceeded the high end of our updated guidance provided towards the end of March. I've been with Sonoco for more than 35 years, and this is the first time that I can remember that both our Consumer Packaging and Industrial Packaging segments achieved record top and bottom line performance in the same quarter.

In addition, we welcome Metal Packaging to the Sonoco family on January 26, and we were very pleased with our better-than-expected first quarter results. We continue to make solid progress on our integration activities and look forward to the contributions the team will make to our future success.

You may have read that we recently named Ernest Haynes, President of Metal Packaging. Ernest will work alongside Jim Peterson to ensure a seamless transition. Ernest is a veteran can maker having run our North American paper can and can and closures business since 2018. I have complete confidence in him and our overall Metal Packaging team. I want to also thank Jim for his willingness to stick around over the coming months to help Ernest in this transition.

In addition to building the Metal Packaging team, our integration process is well underway. We've identified and are implementing several synergy opportunities, including optimizing raw material purchases, leveraging our indirect spend and coordinating our supply chain logistics. Combined, we believe we should easily meet our target of $20 million in cost savings by 2024.

Another key element to our future success is our strategy to invest in ourselves as illustrated by the nearly $325 million we plan to spend this year on capital projects to drive both growth and margin improvements in our core businesses.

During the first quarter, capital spending almost doubled from spending in the same period last year, and we have recently approved several new important projects. One of which will have us spending just over $11 million to add a second paper can line to our newest operation in Brazil. This expansion will double our current capacity to produce stack chip cans and is necessary to meet growing customer demand.

In total, we expect to invest approximately $60 million in paper can expansions and new technology upgrades over the next 2 years in the U.S., Brazil, Europe, Asia, inclusive, obviously, of Malaysia. We expect to spend about $25 million in capital on the Metal Packaging business this year, including increasing 2-piece production in our Milwaukee, Wisconsin and Chestnut Hill, Tennessee facilities.

We're also in the process of spending approximately $60 million of new capital over the next 2 years in our flexible packaging operations. Our flexible business achieved record sales in the first quarter, including 13% volume mix growth.

We're focusing on growing in niche food markets and launching new products with new customers. Our latest investment is to add new pouch-making capacity into our Hickory, North Carolina operation to increase our production capabilities by about 45%. This addition will increase our competitive position in the growing pouch market.

Finally, after recently starting up new fiber protective packaging lines in Poland and Tulsa, Oklahoma, we have now approved capital to build a new production facility in Turkey to serve one of the largest appliance makers in the region.

Our durable and stackable Sonopost packaging will be used to protect ovens, dishwashers, washing machines, dryers and other consumer electronics. Demand for this unique paper-based protective packaging is primarily driven by our customers' request for more sustainable options, replacing resin-based materials.

As Julie mentioned, we took an asset impairment charge in the first quarter reflecting our decision to exit our small industrial packaging presence in Russia. These operations generated approximately $25 million in annual revenue last year, and we have about 60 employees primarily serving only in-country customers to meet all applicable laws.

We're in the process of winding down our involvement in these operations and they are receiving no materials or investments from Sonoco at this time. Sonoco's broader business interest has very limited contacts with suppliers in Russia and what little we have sourced, there has been transitioned to other vendors.

The human toll be all about the war has been unthinkable and I want to thank our employees for all they have done in donating funds, food, clothing, medical supplies, along with room and board and even blood to help the massive effort to provide relief for millions of refugees. Sonoco has donated $50,000 to the International Red Cross for

refuge-related efforts, and we'll continue to look for ways to support our people in the region.

Looking forward, we're excited about our accelerated start to the year and combined with our expectation for continued solid business activity in the second quarter, we're confident about our outlook for strong 2022 performance. Because of timing of certain onetime cost/price benefits experienced in the first quarter, we anticipate the margins in our Consumer segment will normalize in the second quarter. In addition, we expect to continue benefiting from the integration of the Metal Packaging acquisition as we move through the year.

Due to supply chain challenges, which impacted our ability to obtain sophisticated electronics equipment, we have made the decision to delay the conversion of a Hartsville paper machine from corrugated medium to uncoated recycled paperboard to the third quarter.

This delay is expected to result in less downtime and should provide more favorable results in our Industrial segment in the second quarter. Despite the delay, we're very pleased with the progress we're making and we're already seeing the benefits from completed parts of the project, including the new pulping system, which is now operational, along with other infrastructure changes which are improving our overall logistics.

We also expect modest improvements in our All Other group of businesses as our teams continue driving commercial and operational improvements. In our ThermoSafe business, we successfully completed a $28 million order for COVID vaccine shippers in the first quarter and are continuing to provide logistics services. In addition to new product launches, we're seeing our base temperature-assured business improve as general medical activity is picking up while COVID cases decline.

Within all of our businesses, we remain diligent in staying ahead of the price/cost curve and continue to press necessary price/cost increases to offset continued raw material, energy, freight and other nonmaterial inflation. Our teams are also continuing to wrestle the supply chain disruptions, particularly in specialty materials such as starch adhesives, certain resins and other paper-making chemicals.

As we mentioned at our December Analyst Meeting, we're pursuing a series of self-help actions over the next few years that we believe will drive significant EBITDA growth and margin improvement. These actions are tied to our efforts to simplify our operating structure to create a more effective organization. We also remain focused on managing our portfolio for fewer but larger businesses where we have distinct competitive advantages.

In closing, we remain committed to returning cash to shareholders and achieving our objective to be the benchmark company for yield and stability in the packaging industry.

Our announced 9% increase to our quarterly dividend as an illustration of that commitment and a reflection of our expected strong financial performance going forward.

As a reminder, our $1.96 per share annualized dividend provides shareholders with approximately a 3% yield to our stock price and is more than double the dividend paid by the S&P 500. Sonoco's paid dividends for 388 consecutive quarters, dating back to 1925, and we have increased the dividend 40 consecutive years. Now with that, operator, would you please review the question-and-answer procedures?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Mark Weintraub of Seaport Research.

Mark Weintraub^ Congratulations first. Obviously, a fantastic quarter. Question for you, just as we don't get ahead of ourselves, you did reference the onetime cost/price benefits in the first quarter. And I do see that you raised guidance for the next 3 quarters. So certainly, the underlying earnings power seems to indeed be stronger. But could you bracket how significant what you would define as onetime cost benefits in the first quarter were?

Robert Coker^ Sure, Mark. Basically, what we have seen in the first quarter is a net of between $0.30 to $0.35 and really materializing in the consumer sector. So that is what we are viewing as the onetime benefit in the quarter. But what I do want to do is walk you back. So if you net that out, and as you noted, the underlying performance of the business, you net that out, we're about $1.50 against last year's dollar per share performance. So we are absolutely thrilled with how the businesses are performing, how they're proceeding.

Julie talked about price/cost, $85 million in the quarter alone with that being split between Industrial and Consumer. We've got select margin improvements that we talked about. And of course, we had a base contribution from the acquisition as well. So about now $0.30 to $0.35 is one-off and just a real positive outlook on a go-forward basis.

Mark Weintraub^ Super. And one follow-up. As you're thinking about the rest of the year, what type of inflation expectations are you building in? Is it sort of more of the same, more inflation? And are you beginning to see any signs of flattening out? For instance, there have been some commentary that maybe freight is starting to even come in a little bit? Are you seeing any of that? Or is that still to be hopeful, but not apparent yet?

Rodger Fuller^ Mark, it's Rodger. Good question. Yes, we are building in more inflation than we did when we last spoke to you back in February. The most significant really is resin. We talked about a -- I think, an 8% to 10% increase in resin in February. Now it's more like 18% to 20%, so almost double. And then if you translate that into some of our laminations we purchased for our flexible business, we're seeing increases there.

The balance, paper, packaging materials, freight, we're really staying stagnant, still up but about the same we said in February. As far as your question, particularly on freight, we've seen the spot market ease some on freight, which is a good sign, but contract market, no.

So still very solid volumes. Contract market is very solid. We have seen the spot market ease up some. So that could be temporary or that could be a sign that it is slowing. I think it's just too early at this point to really make a call on if it's a significant shift or not.

Robert Coker^ Yes. Mark, what I'd add is that if you look at our go-forward guidance, we don't know what's going to really happen. But I think what Rodger kind of covered is how we're viewing our guidance through the end of the year. So that's our expectations.

Operator^ Our next question comes from Adam Josephson of KeyBanc.

Adam Josephson^ Lisa, welcome.

Lisa Weeks^ Thank you.

Adam Josephson^ A couple of clarification questions for me as well. Of the EBITDA guidance increase of $85 million, can you help me with how much was price/cost? And just also help me with what your updated price/cost expectations for the year is in terms of millions of dollars compared to what it was before?

Julie Albrecht^ Yes. Sure. Adam, it's Julie. Yes, I'd really say most of that EBITDA increase is price/cost. And again, just pretty -- I'd say broad across the business, but really the strong Q1, as Howard mentioned, is really just a key driver there. And then when we look at how we've refreshed our view on the full year when it comes to really all of our key drivers and bridge items, we absolutely have increased our outlook for contribution from price/cost.

I'd say right now, we're probably looking at to operating profit, and that's closer to like $125 million-ish of positive price/ cost. So if we delivered $85 million like we did in the first quarter, you can tell that we expect that to normalize some in the coming quarters, but the outlook there is, again, upwards of $125 million.

Adam Josephson^ Just related to that, I think all Ball Metalpack EBITDA last year was about $110 million, if memory serves. And then I think you were previously expecting EBITDA of about 130 this year. Forgive me if I'm off. But what is your current expectation along those lines compared to what the business's EBITDA was last year?

Robert Coker^ Yes. Thanks, Adam. You're correct in last year and what our go-forward expectations were, and we had pretty clear visibility of that $130 million, $135 million type range. As we come out of the blocks continue to see this great performance. As I

talked to when we first announced the acquisition with the new almost $200 million of capital spent in that business over the course of 2 years.

And frankly, it played into our valuation as well that we were going to see increased productivity coming off of lines that literally were starting up in November, December, and these were major capital investments. So we made our best guess at about 130, 135. And as we look into to go forward, we're probably going to be north of that in the 160-ish range. So again, very, very pleased with how the business is moving forward.

Adam Josephson^ And Howard, do you consider that kind of a normalized number? Or do you think there's some onetime benefits in there? And perhaps we shouldn't think of that as kind of a run rate level of profitability for the business?

Robert Coker^ I'd like to think it as a run rate going forward, as the synergies start kicking in and the productivity continues. So from the visibility I have today as we go into 2023 and beyond, I would say that, yes, that's what we hope and expect will happen.

Adam Josephson^ Got it. And just one last one on demand. Can you talk about, Howard, what you're seeing in April to the extent it differed at all from what you saw in 1Q?

And just given the substantial price increases that you and your competitors and your customers and everyone are implementing, when would you expect to see some demand elasticity? I mean, your volume was up 4% in consumer. Obviously, CPG -- food volumes have been down, but your volume was up nicely. How are you thinking about that issue of demand elasticity as we progress through the year?

Robert Coker^ Yes. I'm -- ask Rodger to speak really more granularly. But what I'd say is that as we enter April, we're seeing more of the same in terms of overall demand. We've got softness in select markets, obviously, China. But we feel really, really good about the visibility we have right now. So Rodger, if you don't mind, just talk through what we're really seeing around the world.

Rodger Fuller^ Yes, Adam, more quickly, I think industrial would be the one to look at, if you're talking about demand elasticity, but we actually expect Industrial volumes to be better in the second quarter than the first. If you look at our first quarter, we had a number of onetime events like winter storms in North America, which took 10,000 tons of URB out of our system, disrupted a number of our converting plants.

Onetime issues in Europe. We had a planned 3-week downtime at one of our large paper mills in Europe, we did some footprint consolidation in Europe. So the market itself in both the Americas and in Europe held up extremely well in the first quarter, and we're seeing that continue into April.

Maybe we'll see some impacts from the issues in Ukraine in the second quarter in Europe. But so far, we've not really seen anything that would raise concern other than the actions we're taking in Russia, which Howard has already talked about.

Asia is -- the challenge primarily in China. For example, our cone volume in China was down 30% in the first quarter versus first quarter last year. Our tubing core business was down 16.5% in Asia versus last year, all in out of China. The balance of Southeast Asia held up fairly well. So I guess the point is, we feel like the industrial volumes will hold up well into the second quarter, which I think is a good sign for the economy overall. And we're not seeing any pullback from what you said around price increases.

In fact, our global URB system has -- continues to be sold out. We continue to have customers on allocation, and we're seeing no letup in demand. And the All Other segments really recovering from all the COVID issues, that segment was most hit by COVID.

We're seeing recovery in our medical business. We're seeing recovery in our retail security business. And of course, the ThermoSafe business continues to be strong and growing. So, so far, as Howard said, nothing major changing in the second quarter. And again, we actually expect Industrial to be slightly better.

Robert Coker^ And Adam, I'd add some and I think more to your question, where is the macroeconomic situation with -- there's a lot of concern about what the economies are going to look like during the second half of the year.

I'll just remind you that we participate 80% of our consumer businesses in what I would call a staple food items. And we performed extremely well. As we see consumer activity slowdown, I hate to say the word recession, but that's been floated around, but we've always really driven well through that. So -- and that's the way we expect it to play out. .

Operator^ Our next question comes from George Staphos of Bank of America.

George Staphos^ Thanks for all the details. Lisa, congratulations. We look forward to working with you, big shoes to fill. Roger, thanks for all you've done again, and we look forward to working with you in the transition. I wanted to hit on -- since Adam teed up a review back again on Ball Metal. And so when I look at the bridge on EBIT, and you had about $49 million of benefit, and that was net of divestitures.

So that, if being simplistic about it, would suggest that annualizing that, you're running maybe upwards of $200 million out of Ball Metal, if I do that for the whole year. Howard, why is the new run rate only 160 on the one hand? And then on the other hand, when you gave us the updated guidance, what changed in terms of the productivity. That's a big jump from 131, 135 to the 160. So a couple of questions there on Ball Metal and acquisitions.

Robert Coker^ Sure. George, the noted first comments, we do see that there's about $0.30 to $0.35 that -- in the consumer sector that is related to what we would call a one-off type environment catching up in terms of productivity. Now within that, I will say that is across the consumer sector, not just in B&P or F&P now.

And in terms of the productivity items I talked about, they're real and it's just what we model out in terms of better performance on the capital investments that we've made. On top of that, the synergies. So a big part of pull-down from an annualizing 1 quarter which I know that like to do, there's going to be a bit of a fall off and we're going to see some normalization. But at the same time, we're going to see some ramp up as it relates to productivity and synergies coming in for.

George Staphos^ Okay. And if we could talk a little bit about what was actually one-off in the quarter within consumer in terms of those price/cost benefits if there's a way to parse that? And then if I do some simplistic math on that, take the $0.30, $0.35 multiplied by shares, gross it up for tax, it kind of suggests that Consumer may be over earned by 4% to 5% margin. Would that be fair? So parse that and then is that a decent adjustment factor for the margin in terms of where you should be 2Q, 3Q in Consumer?

Julie Albrecht^ George, it's Julie. Just a thing -- one thing back to your prior question, just to be sure, I just want to make sure we got all the dots connected. Of course, the operating profit bridge and when you look at that acquisition divestiture bucket, that's operating profit. And Howard's comment, of course, was EBITDA with the 1 50 for Metal, I just wanted to make sure you had all that lined up. But yes, when we look at what some of the key things, I mean, I will say there are various onetime items in that $0.30 to $0.35.

Obviously, some positive price/cost. But as well, we talked about higher SG&A around comp and benefits and some IT spending, that type of thing that are also we view as a little bit unique in the first quarter, but we actually view that as consistent in '22 and things that very well may normalize as we get into 2023. So some positives related to price/cost and timing of some things. But then some of the things we've netted against that are really in the SG&A arena.

So just to kind of give that color. And I do just want to highlight. I mentioned this in my prepared comments, but really, it's just really important to note that a lot of that benefit in Q1 in Consumer price/cost really was recovery from negative price/cost last year. And we didn't get all the way recovered in that regard, and we do expect some additional timing of that recovery to come in the second quarter.

But anyway, so when you look at -- really, for us, we're looking at, hey, how does price/cost and especially in Consumer performed quarterly and through '21. And again, we were negative most of '21 and for the full year. And then now how is that trending into 2022, of course, by quarter. And again, the first quarter was just a real positive kind of catch up from some of that negative timing of last year, and we do expect that, again, to normalize as we move forward.

I think as far as Consumer margins going into the Q2, I think you probably have underestimated that just a little bit. I think that kind of maybe 11%-ish range is probably more appropriate for what we're looking for in the second quarter for Consumer.

George Staphos^ Okay. And I appreciate that, Julie, and I'll turn it over after this question, and I don't want to belabor it. Again, you had a great quarter. And congratulations to you starting the year off on such a strong footing. What I heard you saying though is basically comparisons were easy, right?

You were running negative price/cost last year, you caught up a lot of your contracts allow for the catch-up on January. So yes, you had a very strong price/cost in consumer, but I'm still not sure why that's kind of a onetime and why it doesn't continue going forward other than your comps get tougher, but your margin shouldn't drop. So help me understand if there's anything else that I need to be mindful of.

Robert Coker^ So George, last year, I think first quarter was about 14% in Consumer, and that's with a substantial, as Julie noted for the year, negative price/cost. So once again, I can point towards my opening comments around the $0.30 to $0.35 net positive impact that we have seen in the 4. We do have increased margin, I think, opportunities coming as it relates to -- we haven't called off on all of our contracts yet. So we've got the and full cloud contracts that all come into price movement doesn't come into play until the second quarter.

And similarly, on the paper side of the business, we have same. In fact, if you look at last year, for the second half of the year, we recovered very little on our paper can side of the business during the type inflection in the period. So that's a long-winded way of saying 11% to 13%. That's more of my range. I think as we look into the second quarter, and we'll see how that plays itself out for the second half of the year.

Operator^ Our next question comes from Anojja Shah of BMO Capital Markets.

Anojja Shah^ I just wanted to ask about the health care portion of All Other. In your comments at the beginning of this call, we heard of some very positive mentions of COVID vaccine shippers. I think you said $28 million and a pickup in medical spending. But then the release has -- it mentions lower health care packaging demand. Can you just clarify that a bit?

Robert Coker^ Not quite sure. the second half of the question. .

Julie Albrecht^ Well, I think this is glass. I think the ThermoSafe business performed very well, and it was our TEQ medical thermoform containers that actually did have lower demand in the first quarter. And I believe that was the only piece of that particular business group that had lower demand. So that was the -- that's the outlier there. So those 2 medical businesses, but very different markets.

Rodger Fuller^ That's right. That's right, Julie. This is Rodger. Yes, that was specifically the Thermoscan probe covers for ear thermometers that really took off during the pandemic and have now settled back to actually lower levels than normal as they built up a lot of inventory. But that's a very specific issue in that medical business.

But across that, we're seeing pickup in elective surgeries, so all the operating room products are coming back. So it is playing out like we thought that it was really negative on that one product, which is fairly significant for that business.

Anojja Shah^ Got you. And then the other question I wanted to ask about was the labor shortages. I know this hasn't been going on for a while, and it's certainly not just you guys, but what actions can you take or what have you been taking? And is this sort of accelerating your plans around automation?

Rodger Fuller^ Absolutely. Yes, this is Rodger again. If you would ask that question 6 months ago, I'd say we were about 10% short of people on average in our U.S. plant. That's eased up some. Now it's probably 5% to 7%, so still shortage. But we've got a very comprehensive automation strategy now.

We talked last year about a partner that we just joined with Sonoco, one of the best integrators in the country, and we've got a very comprehensive plan, and we're rolling out focused on those large -- 4 large businesses that Howard talked about early on, the 4 integrated businesses where we can multiply that effect by standardizing across very light converting operations or light packing operations.

So the answer is absolutely. That takes some time, of course. But as you mentioned, that entry-level job is the one we really need to attack, especially on off shifts. So that automation strategy will pay off over the coming years.

Operator^ Our next question comes from Ghansham Panjabi of Baird.

Ghansham Panjabi^ I was hoping you could get a little bit more of a bridge on the Industrial segment. Just trying to reconcile your comments about $85 million in price/cost and roughly half of that came from that segment. So that's, let's say, $40-plus million and the operating profit only being up 20. If you could just give us some of the offsets there.

Julie Albrecht^ Yes, sure. Yes, when we look at Industrial, I mean, the one positive operating profit driver there absolutely was the very strong price/cost, like we've mentioned. Really, again, as you know, we've mentioned volume, and so the drop-through to operating profit was slightly negative, not that material, but a little bit of a headwind.

And as well, I mentioned their productivity was slightly negative as well. Again, I'd say not that material, but both the lower demand at the total industrial level as well as the weaker productivity were slight headwinds to that price/cost benefit.

Really, the rest of that is what we call that other bucket. And again, really higher SG&A expenses, so not just specific to industrial, but really at the, call it, company level and allocated across the segments.

So again, as I mentioned, we're -- we've got inflation and comp and benefits. We are doing really good things in IT as that strategy continues, and Rodger just mentioned some of that focus on automation, but we've got other digital-oriented cybersecurity-type projects that we're investing in there. And so again, that -- the rest of that, call it, negative impact to operating profit is really in that other category.

Robert Coker^ Ghansham, let me just add as well. If we talk about the negative volume in Industrial, that really is isolated to Europe and our Asian operations, of course, Russia, but -- we had a single largest student core customer has not operated due to strikes, the union activities they've had since the beginning of the year. I'm not even sure. Are they operational yet?

Rodger Fuller^ Not yet.

Robert Coker^ Still nonoperational. And of course, Rodger has already talked to the impact in China. On the productivity side, particularly as it relates to Western Europe and here in the United States, demand is so strong on our URB network. That just simply drives negative productivity.

It certainly drives price and price/cost improvements that we've well noted that lots of changeovers and other supply chain issues that have caused us to miss our productivity targets. But as soon as things normalize, our expectation is that the tight market, we should continue with the solid price/cost scenario in Industrial, and we'll start seeing our productivity start ramping up accordingly.

Ghansham Panjabi^ Okay. On the Consumer side, I mean -- so the volumes were very, very strong at plus 4%. You had a relatively healthy comparison from a year ago also. As I look at my model, I mean, the fourth quarter was down in that segment. So do you sort of see that as this normalization between 2 quarters from a volume standpoint? Or do you see actual underlying strength?

And then second, as it relates to All Other, also a very strong volume quarter, but we're seeing a lot of headlines associated with auto production moderation given all the various iterations of issues that continue. So should we expect that segment to start moderating as well from a volume standpoint as the year unfolds?

Robert Coker^ Yes, Ghansham. We try to note and get it across in fourth quarter in our Consumer side, we really had supply chain disruptions from our customers. We had one of our largest customers here in North America that did not operate for 2.5 weeks or so because they just simply could not get their necessary raw materials. In turn, that has led to a recovery that we're seeing into the first quarter of this year.

So in particular, but if you get down to it, the can business was roughly flat globally. But I'd like to point out that, that's against a 4% increase Q1 of last year, a COVID-related type environment, high demand. So we're really pleased that we've held on to that type of

volume. And then we've seen just continued ramping up of the plastics side of the business in terms of the trays, frozen and ready-made meal sector. So that continues to improve. And Rodger, if you want to...

Rodger Fuller^ Yes, I would just add, Ghansham, the flexible business continues to show good growth, and it's not only the recovery of segments like confectionery, which was up probably 25%. But that business is doing a fantastic job of going out and winning new business, new products with new customers, share from some of our existing accounts. And flexibles was up significantly in the quarter, and we expect that to continue into the second quarter. The only challenge there is getting the materials we need to make the product.

All other, we'll see a little bit of moderation in ThermoSafe because we had the slug of COVID vaccine packages in the first quarter. We'll see some of that but not as much in the second quarter.

But again, if you look across the board, our alloy business, our retail security business, our medical business, other than the example that I've already given -- one example we've already given is picking up. So I would expect all others to look a lot like the first quarter and the second quarter, we see volumes there holding up fairly well.

You mentioned automotive, that's our protective business. It was weak in the first quarter. So we would expect a little bit of the same in the second quarter. But all in all, I think volumes will be solid for the second quarter and all other, just like the first.

Operator^ Our next question comes from Joshua Spector of UBS.

Unidentified Participant^ This is Lucas on for Josh. I was just wondering if you could talk a little bit more about Metalpack volumes. Could you tell us what the growth was there year-on-year and how you see the demand progressing sequentially?

Robert Coker^ Yes. Volumes were -- we don't have a great comparative. We didn't own them last year. But my understanding is slightly down. And frankly, that has to do with some of the COVID on the aerosol side, some of the COVID products that were in, obviously, high demand, but not.

I wouldn't say materially down. We're looking forward to the really busy part of the season, which is starting now. We're starting to build inventories as we get into the tax season and to the second and third quarter. So at this point in time, we really don't have any concerns about the go-forward volumes on the business.

Unidentified Participant^ Great. And then just on the paper side. I was wondering if you guys could just update us on your outlook for OCC and URB from here and the spreads at the moment are kind of pretty much at record labels. So sort of just wondering how you guys are thinking about the sustainability of that as we move through the year.

Robert Coker^ Lucas, I think your question is around OCC?

Unidentified Participant^ Yes, OCC and URB and with the spreads kind of being at record levels currently. So how you're going to see the outlook for both there through the year and whether you think the spreads are sustainable from here or not?

Robert Coker^ Yes. First off, OCC, I think we're about 1 50 right now in Southeast. Our best look at things is we might see maybe a slight decline through the second quarter, but those things normalize in the second half of the year for from a demand perspective, new volume or capacity coming on stream. We're modeling somewhere between -- in second half, somewhere between $160 and $165. So picking up during the second half of the year.

But the spread, we don't -- we see it maintaining itself, the URB market is continuing to be tight. We are still remaining on allocations. We're very much looking forward for the #10 machine to complete its conversion so that we can get back up to full supply of the amount of demand that we have.

So my new term today is we have seen a bifurcation of price/cost, and we expect that to continue as market dynamics right now appear to support that from going into the future. So really bullish about -- no matter what OCC does, that the type of spreads we're enjoying today will continue into the foreseeable future.

Operator^ Our next question comes from Kyle White of Deutsche Bank.

Kyle White^ Congrats on a pretty strong quarter. Just focus on the Hartsville and the conversion there. Are you able to give us kind of the negative impact that you're expecting related to the downtime that you're going to take in the third quarter as you convert that machine? And then any kind of thoughts about maybe even potentially prolonging that just given some of the price increases that we're seeing over on medium and the benefits you're getting from that as well?

Robert Coker^ So for number 10, the third quarter impact, what is somewhere around $10 million?

Rodger Fuller^ $10 million, spread between the third and the fourth.

Robert Coker^ Third and fourth quarter. And the second part of the question, I'm sorry, Kyle, on?

Kyle White^ Yes. Second part was just if you have you given any kind of thoughts to potentially even prolonging or delaying that conversion, just given kind of the strength in medium and the recent price increase that market just got as well.

Robert Coker^ Yes. Thanks. Interesting question. So the first part of that is certainly the delays have not hurt us, but no, we think that as just said, we're short right now in terms

of meeting the overall demand on URB. The price/cost spread is very attractive right now.

So all of the original economic assumptions that we made from the beginning remain true that yes, linerboard or medium is strong right now, but URB is equally as strong. So -- and the pent-up demand to help load the machine up as it starts up. So all good.

Kyle White^ Sounds good. And then for my second question, just on M&A. I mean, clearly, you're in deleveraging mode following the Metalpack acquisition right now. But you can't always time when deals and assets come to market. So I'm curious if you would have any appetite from an operational and the financial standpoint in the event that an asset comes to market in the food and aerosol can space.

Robert Coker^ Right now, we're really focused on the integration of the business. There's a lot of balls in the air around the globe. Our focus again is just nail this integration, let's deliver on the promise that we've made to our shareholders on this one. And we'll see what happens depending on opportunities that may or may not come into play.

Kyle White^ I'll hand it over and good look for the balance of the year.

Operator^ Our next question comes from Gabe Hajde of Wells Fargo Securities.

Gabrial Hajde^ I hate to belabor the point here, but I guess maybe just for posterity's sake, and make sure maybe I understand. Can you tell us EBITDA contribution from the Metalpack acquisition in the first quarter?

Robert Coker^ Gabe, we really have never talked about individual business unit results. We really focus on the segment.

Julie Albrecht^ Yes. I mean you can look at the operating profit bridge. And obviously, there's some net there of the contribution to operating profit of against Metalpack addition versus the Display and Packaging U.S. divestiture last first quarter, albeit, as you're aware, D&P U.S. was a relatively small decline year-over-year because of just the nature of the size of that business. So I think we probably can leave it at that from an operating profit kind of contribution from really that net M&A activity.

Gabrial Hajde^ Okay. Maybe a point of clarification, Howard, on the $25 million of spending in Metal Packaging. Is that return capital, i.e., incremental above and beyond, I think what you identified is the $20 million to $25 million of sort of maintenance CapEx that was required for that business?

And then post adding some of this 2-piece capacity, is that in fact, replacing existing 3-piece capacity? Or is it adding incremental 2-piece capacity, if that makes sense? And then how much after the fact will be remaining that's 3-piece?

Robert Coker^ Yes. Gabe, it is almost all value-added capital that we spent off. It's not new 2-piece investments, expansion of 2-piece lines to increase productivity. It's a big part of that. And the remainder is also tied to increasing productivity on various operations throughout the business.

So I'm not saying it was -- and I haven't said that it was well capitalized going in with state-of-the-art equipment that the team, and we all agreed that we could actually improve on those initial investments by enhancing them with incrementals. So it's spread out over -- I'm trying to think through, part of the largest of the $25 million, there's a couple of $5 million, and then there's a tail off from there. But no, it's all about how do we become even more stronger than we are today.

Gabrial Hajde^ Okay. Last one for me. Maybe, Julie, can you -- I mean, I'm coming up with to kind of get back into the range with respect to the bridge between EBITDA and operating cash flow, working capital use of $75 million to $100 million. Is there anything else in there? Does that number sort of resonate with you and anything else that we should be mindful of?

Julie Albrecht^ I think on a full year basis, you're spot on, and I will tell you it's tough in this environment to forecast full year change in working capital, but our teams are very focused. I'll just add this on collecting receivables on time, managing our inventories appropriately, and then we're just looking at all kinds of ways and especially even with Metalpack bringing the Sonoco balance sheet to Metalpack actually is helping us better manage their working capital.

So just a little color on ways we're trying to offset pressures of inflation and other things on upwards on working capital. But I think your range is as good as ours, kind of that $70 million to $80 million higher working capital year-over-year is what we've got penciled in. So you're -- I think you're in pretty good shape there. Otherwise, there's nothing else really terribly unusual and especially that's changed much since our initial cash flow guidance and the assumptions we made early in the year.

Operator^ (Operator Instructions) Next question comes from the line of Adam Josephson of KeyBanc.

Adam Josephson^ Just one follow-up for, I don't know, Howard or Julie. Just back to the price/cost for a moment. So if the entirety of the EBITDA guidance increase, just go with me on this, was price/cost, it's $85 million, of which $30 million was in Ball Metalpack, as you talked about earlier. Then at least $50 million of additional price/cost elsewhere in Consumer and consumer ex Ball Metalpack, Industrial, All Other, et cetera.

I know you implemented price increases in consumer, but your resin cost expectations are vastly higher than they were 3 months ago. And then in Industrial, you got another URB price increase, but I think that was really -- I mean OCC has gone down by a little bit, but not too much. So can you help me, Julie or Howard, with what -- where the other $50 million is coming from and why?

Julie Albrecht^ Well, I think, Adam, I mean, really, a key part of this is we really do look at the benefit we had in the first quarter, right? This $85 million -- and again, split between, as we've talked about, not exactly half but roughly between consumer and industrial. So really, that's in itself about almost 70% of what we're expecting from the benefit from the year.

So -- and I think we've kind of explained a fair amount in this call about kind of the drivers to that. So I think when you look at our inflation expectations for the rest of the year, broadly speaking, as Rodger has mentioned, and then really our continued focus on how we're managing price, it does moderate as we move through the year.

So I don't know that we can really provide a lot more specifics than we already done today. But a lot of this price/cost or again, about 70% of this, we think, is in the first quarter, so already recognized. And at this point, we're going to continue really working hard to, again, manage the price versus all this inflation. And so I don't know that we can get a lot more specific than what we've already done.

Robert Coker^ Yes. And one thing I'd add to that is we're obviously not done, as Julie just said, but we've got contracts legacy and acquisition-related that we still have not recovered from. So we've got price movements happening in the second quarter. We've got price movements just based on contracts with customers, and these are annual type prices at one time a year increases that will come into play July 1. So we've got more to come.

And I would just finally end by saying that I think the team has done a remarkable job over the last year or so putting us in the position we are today from a price/cost positive perspective, and they will continue to do that.

We have really honed our skills, if you will, in terms of making sure that we're not only capturing the material side of inflation, but now even more importantly, all the nonmaterial inflation that we're seeing. So does -- doesn't necessarily fill out a bridge for you, Adam, but just to give you a color on how we're thinking.

Operator^ Thank you. At this time, I'd like to turn the call back over to Roger Schrum for closing remarks. Sir?

Roger Schrum^ Thank you, again, Latif. In closing, let me simply say it's been my pleasure working with each of you over the past 16 years. I think this is my 66th earnings call with Sonoco. So I've certainly enjoyed each and every one of them. I look forward to introducing Lisa to each of you over the next few months. And as always, thank you for your interest in the company and just give us a call with any other questions you might have. Thanks again.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.