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PRESENTATION

Roger P. Schrum - *Sonoco Products Company - VP of IR & Corporate Affairs*

Good morning, and welcome to Sonoco's 2021 Virtual Investor Conference. For those of you that don't know me, I'm Roger Schrum, Vice President of Investor Relations, and thanks for joining us today. Let me start with a few instructions and introductions regarding today's event. We'll start with 4 live presentations from our top senior leaders and then we'll transition to a question-and-answer session. The Q&A will be conducted very much like we handle our quarterly earnings conference calls. (Operator Instructions)

We'll put up this slide at the very end as a reminder and will -- it will take us just a few minutes to get everybody in the queue before we start the session.

For nearly 20 years, Sonoco has held annual investor conferences, but we were forced to take a break from that streak last year for obvious reasons. So we're going to start this year's conference with remarks from our President and CEO, Howard Coker, who will provide you with an overview of what we have accomplished in 2021, and a deeper dive into the foundations of our strategy and thoughts of managing our portfolio for the future. Next, Rodger Fuller, Executive Vice President, will provide a review of our consumer packaging, industrial paper packaging and other groups of businesses. Rodger will dive into the growth drivers and investment plans we have for each of these businesses.

We've asked Elizabeth Rhue, our Head of Global Sustainability and Environmental Affairs, to walk you through our sustainability strategy and our aggressive new commitments to significantly reduce greenhouse gas emissions. After this session, Julie Albrecht, our Chief Financial Officer, will walk you through our 2021 financials, including updating our guidance and review the outlook for 2022, including earnings, projections and bridges, cash flow guidance and capital deployment plans. Howard will have some concluding remarks and then, of course, we'll take your questions, all of the questions you may have.

But before I turn it over to Howard, let me remind you today's 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 risks and uncertainties. Therefore, actual results may differ materially. Additionally, this presentation includes the use of non-GAAP financial measures, which management believe provides useful information 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 those measures to the most closely related GAAP measure, are available in our annual report and on the Investor Relations section at sonoco.com.

Now with that, Howard, I'm going to turn it over to you.

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

We have been looking forward to providing a more detailed review of our strategy for some time and look forward to today's conversation. Several faces on our senior leadership team should be familiar to you, but we have some new folks as well. Of course, you're going to hear from Rodger Fuller, Executive Vice President; and Julie Albrecht, our CFO. Also our senior team, Rob Dillard, Vice President of Corporate Development and Strategy; John Florence, Vice President of Human Resources and General Counsel; Rick Johnson, Vice President and Chief Information Officer; Marcy Thompson, Vice President of Marketing and Innovation; and of course, you've already heard from Roger Schrum.

Also today, you'll hear from James Harrell, our Vice President of Industrial Operations in the Americas; and Jeff Tomaszewski, Vice President of our Global Consumer Operations.

Unfortunately, as with mixed emotions that I announce 2 members of this team will be retiring soon. Recently, we announced that Marcy Thompson will be retiring at the end of the year. It would be impossible to capture all the contributions Marcy has brought to Sonoco during her 15-year career. She ran 3 of our businesses as General Manager. She took on the task of focusing our marketing efforts. She has served as a liaison with various South Carolina University. Marcy has also been a strong advocate in our diversity inclusion initiative and has personally mentored more than 200 developing leaders within Sonoco over her career.

And while he hasn't set an exact retirement date, Roger Schrum has also made the decision to retire after 16 years with the company. Of course, most of you know Roger as he serves as the face of our company, handling our Investor Relations and Corporate Affairs. Roger has worked with 4 Sonoco CEOs and plays an important role behind the scenes in helping shape our messaging and communications to all our stakeholders. Roger has promised me he will work through the next couple of quarters and our annual meeting before spending some much deserved time at a lake house he's building. I personally want to thank Marcy and Roger for all their contributions, and we wish them the best during their next chapter.

So as I look back at all we accomplished in 2021, I couldn't be more proud of how our Sonoco team has worked together to achieve truly amazing results despite unprecedented headwinds. We weathered several storms literally to meet the critical needs of our customers. We had to deal with the impact of winter storm Uri, along with floods, hurricanes, fires and, of course, COVID-19. These disruptions, along with the strong economic recovery and associated supply chain issues, led to shortages of resins, adhesives, critical infrastructure equipment and other materials.

Starting in the second quarter of this year, we also had to deal with unrelenting inflation and labor shortages, which impacted productivity, increased our cost by approximately 9%. To counter this, we have aggressively driven price increases across all our businesses. After more than 2 years of chasing higher raw material and nonmaterial inflation, we expect to be price/cost positive in the fourth quarter. And while we expect inflation to continue into next year, we're projecting to be solidly price cost positive in 2022. We've also grown our top line with organic volume mix expanding 5% year-to-date, one of the highest growth rates in many years.

When I became CEO in February of 2020, I said we would be spending more time looking in the mirror instead of looking out the window. What I meant was that we'd be taking closer -- a closer view of our core consumer and industrial businesses and determining how increased investments in our people and technology can better drive growth, improve productivity and generate strong returns. As a result, we expect expenditures for capital to grow to about $250 million this year compared with $194 million last year. Much of this increased capital is going to fund Project Horizon, which is modernizing our hearts for recycled paperboard complex.

We also asked our other businesses to bring us their best ideas, and they have responded. As a result we've authorized an additional $175 million in new high-return projects for the next 2 years. We have better focused our environmental, social and governance, or ESG initiatives, by setting aggressive science-based targets to reduce greenhouse gas emissions by 25% by 2023. We've also set tough goals to further improve our diversity, and we continue working in collaboration with our customers to develop new sustainable packaging products. We simplified our portfolio by selling the lower margin display and packaging assets in Europe and North America. And we will more than displace the loss of earnings from these operations to improve performance by our core consumer and industrial businesses in 2021.

In addition, we further strengthened our investment-grade balance sheet, reducing debt by approximately $200 million. And we successfully annuitized our U.S. pension plan for the benefit of our retiree participants. We also returned a record amount of cash to our shareholders, including $180 million in dividends, more than $200 million in share repurchases, utilizing proceeds from divestitures. These combined actions, along with a lot of hard work by our entire Sonoco team, is allowing us to more than meet our financial commitments for 2021. More specifically, we expect 2021 base earnings per diluted share to be near the top of our previously communicated guidance of $3.49 to $3.55. Julie will provide you with more details in a few minutes.

And while we were busily effectively running our operations, we spent considerable time thoughtfully reviewing each of our businesses and developing a value creation strategy that we believe will make Sonoco better than ever. I want to spend the rest of my comments focusing on our strategy.

Sonoco is a unique packaging company as we offer our customers the strength and stability that comes from more than 122 years of experience as well as options and flexibility to meet their changing needs. And thoughtfully considering our path forward, we spent time asking our stakeholders what they felt was most important for us to accomplish. The results of our review, analysis and direct feedback are spelled out in this 1-page Principles of Our Strategy, where our goal is to create value for all stakeholders in an efficient and effective manner. Our shareholders told us they most appreciate a strong, stable business focused on consistently producing strong returns and a growing dividend. As a result, we expect to be the benchmark yield and stability packaging company.

In addition, we will put capital allocation at the forefront of our strategy, supporting the dividend with a meaningful yield, and we'll maintain an investment-grade capital structure. We also will focus on our core capabilities and utilize our unique competitive advantage in the markets we serve. And we'll increase our focus on sustainability, both commercially and operationally. At Sonoco, we have long held the belief that people build businesses by doing the right thing. As such, we will focus our structure, talent and culture to drive our strategy while increasing efficiency and effectiveness. We will continue to simplify our portfolio to enable more focus on our competitive advantage, and we will augment our portfolio by entering markets that align with our strategy and where we have a right to win.

We will follow 4 steps in implementing our strategy, which include solidifying our foundation to meet stakeholder expectation, actioning our businesses to invest and grow, activating and refining our competitive advantage and focusing our organization on the future. Let me review each of these steps and provide some key financial metrics and actions we'll be taking to reach our objective.

We're targeting to generate $1 billion of base earnings before depreciation and amortization, or EBITDA, over the next 5 years. By reaching this 2026 financial target, we expect to generate average annual double-digit returns to our shareholders, which will support our objective of being the benchmark yield and stability packaging company. We will put a capital allocation in front of the dividend -- excuse me, in support of the dividend at the forefront of our strategy.

But to generate growth of our dividend, we must grow earnings and cash flow, which we expect to accomplish by increasing internal investment into our core businesses, what we have referred to as investing in ourselves, and we'll be mindful of maintaining a strong balance sheet. We expect to continue utilizing acquisitions and divestitures to manage our portfolio and drive incremental growth. And finally, as we demonstrated this year, we will return excess cash to our shareholders to share repurchases if acquisitions do not materialize.

Step 2 of our enterprise strategy will be to invest in our core businesses to create near-term value by accelerating growth and increasing productivity while generating strong returns. Over the past 18 months, we have performed detailed reviews of each of our businesses to better understand what growth or margin improvement opportunities exist. I can tell you, we've been pleasantly surprised with what we have found. As I mentioned earlier, we have already started authorizing additional capital for these projects. However, we have also developed new processes to better evaluate, implement and track internal capital to use to make sure we're achieving the results and the returns that we expect. Similar to investing in ourselves, our acquisition strategy will be focused on generating value in our core and core-like businesses.

Finally, but equally as important, we will consolidate around a uniform operating model that is focused on our competitive advantage. The results of our initial discussion showed that investing in our businesses will generate more than $90 billion -- $90 million of incremental bottom line improvement, which will grow our expected base EBITDA from $762 million in 2021 to $854 million in 2026. Clearly, this leaves us about $150 million short of our 5-year annual EBITDA target of $1 billion. So the next steps in our strategy have been determining what more needs to be accomplished to meet our goal.

To bridge the gap, we've started efforts to generate self-help actions that will improve our competitive advantages and focus our portfolio for long-term growth. We're focusing on achieving approximately $180 million in incremental EBITDA of our planning horizon but making a step change in organic growth and margin improvement. And this will be achieved independent of acquisition activity. And let me be clear, we still are interested and active in acquisitions, and we certainly have the balance sheet and ability to make the right deals. However, we expect to make acquisitions that will better align our portfolio with our strategy, not drive our strategy. So we will implement a series of self-help actions to drive our operating strategy and bridge the gap in meeting our bottom line performance targets.

Our operating strategy is based on expanding current capabilities and transforming our structure to improve efficiency and effectiveness. These include self-help opportunities such as making additional strategic capital investments, expanding our operational excellence and commercial excellence program, expanding supply chain savings and finally, executing a transformation of our existing operating structure. As this chart shows, we believe we can drive improved EBITDA performance to initiatives, including $50 million from a combination of incremental strategic investments and operational excellence. Commercial excellence will help us achieve $50 million in additional improvement. Supply chain will add roughly $30 million. And transforming our structure will add approximately $50 million in EBITDA improvement. We feel very confident that the level of improvement from these actions is achievable and probably somewhat conservative. Each action will require some additional investment and some third-party assistance.

As we show with this diagram, these 5 elements create a virtuous cycle that we believe can be leveraged to further drive our long-term value creation. At the center of the cycle, the sustainability excellence, which we believe is a key driver in further creating value to our customers and our other stakeholders.

Let me walk you through each of these elements to help you better understand why we are confident we can achieve the target $180 million in additional improvement. As mentioned, we are conducting ongoing reviews with our businesses, including challenge sessions to make sure our plans are achievable. What these sessions are finding is our significant number of opportunities for both organic growth and productivity improvements across our existing businesses. This slide shows 10 specific projects we have supported this year with new capital to be implemented in 2022 and 2023. I'm going to let Roger go into a bit more detail on these opportunities as he reviews our operations. And rest assured, we will track the progress of growth, margin improvement and returns on each of our businesses as we provide them with this incremental capital.

You've heard us speak before about the effectiveness of our operational excellence program, which we call the Sonoco Performance System. SPS has averaged about $23 million in manufacturing savings per year since 2012. We've implemented SPS at 110 manufacturing locations in 2 functional areas. This has driven sustained improvement in our manufacturing by incorporating Lean Six Sigma and total productive maintenance capabilities to drive continuous savings.

Our 5-year acceleration plan calls for us to further move SPS to additional manufacturing locations, specifically more international sites. We believe at least $50 million in additional savings can be achieved through this effort over the 5-year period. We're making a step change improvement in driving automation and robotics to more of our operations, particularly those focused on speeding productivity and reducing labor, which is becoming tougher to find and retain. We've partnered with Integrated Systems, Inc., a world-class automation expert, the state adoption and build first-of-their-kind robotic capabilities specifically designed for our operations. We've worked with ISI for more than a decade and currently have more than 20 projects in development. Under our agreement with ISI, they have dedicated engineers, programmers and project managers, and we expect to spend approximately $15 million per year to further expand adoption into our operations.

Our use of commercial excellence has contributed significantly to margin support over the past 4 years, realizing the value of our products and services is important to gaining both margin and new business with existing customers. We expect to drive an incremental $50 million in EBITDA over the next 5 years through increased investment in new digital tools that will align and speed better pricing decisions and lead to more opportunities for new business development.

Driving further procurement savings across more spend pools into more global operations is expected to add an incremental $30 million of productivity savings over the 5-year period. Key to meeting this target is further investing to drive global alignment with our suppliers and business partners through the use of new digital tools. We realized that over the years, Sonoco has grown into a somewhat complex organization. We expect to be able to drive at least $50 million of potential cost savings by building a more efficient and effective organization that can better execute on our strategy. We have brought in a third-party expert to assist us in transforming our structure, focusing on determining what roles are best handled at center, reducing complexity to our operating model, leveraging process automation and standardizing processes while upskilling our talent. We are very encouraged by the initial opportunities identified in this effort, and we believe there is upside to the potential savings that will also increase our agility and speed and decision making.

In addition to self-help actions, we believe we must better manage our portfolio of businesses to leverage our competitive advantage to drive long-term growth and profitability. Our goal is to simplify our portfolio to create fewer, bigger, better businesses. We believe simplification will allow us to do more of what we do well. So what might this look like? If you simplified Sonoco's many businesses, what you would ultimately find is 5 key product groups. But we have no plans to change our current reporting structure. You might view the company in terms of its primary markets, including global cans and closures, Global Industrial, which would incorporate our integrated paper to core and cone businesses, as well as reels, fiber protective packaging and even industrial plastic products, which serve industrial customers and, in some cases, similar customers.

Flexibles, which serves niche consumer markets, primarily in North America. Protective Packaging would include ThermoSafe temperature-assured packaging business, along with our molded phone division. Finally, thermoforming would include all of our food tray operations, along with our health care packaging and retail security business. As we work towards simplifying Sonoco, we will reduce the complexity of our portfolio. As I mentioned earlier, our plan, which is targeted to increase base annual EBITDA to $1 billion in the next 5 years does not include new acquisitions.

Now that does not mean that acquisitions will not play a role in our strategy. However, we will only use M&A to improve our portfolio and complement our plan by focusing on key areas where we believe we have a right to win in the marketplace. We expect to invest in a healthy mix of core businesses, with a near-term focus on our cans and closures business, our paperboard products and flexibles.

Now with that overview, let me turn the discussion over to Rodger Fuller, who will give you a further update on our operations.

Rodger?

Rodger D. Fuller - *Sonoco Products Company - EVP of Global Industrial & Consumer*

Thanks, Howard, and good morning, everyone. I want to spend my time today focusing on the trends we're seeing in our consumer, industrial, protective and health care businesses and speak in more detail about the investments we're making to drive growth and margin improvement. Let me start by also offering my thanks to our Sonoco team for the extraordinary efforts they made to deliver strong results despite significant challenges, especially inflation. As the chart to the right shows, we expect to experience approximately $250 million in higher metal, freight, resin, paper and packaging costs during the year, excluding higher recovered paper and labor costs. Due to supply chain disruptions, we've been continually challenged to secure an adequate supply of key resins, adhesives and many other materials. Logistics have also challenged our business during the year as our operations have unfortunately missed sales opportunities simply due to the lack of available trucks to pick up and deliver our products.

Our supply management team, which has been primarily focused on driving purchasing, productivity and doing a fantastic job, has had to work over time to strengthen strategic relationship with key suppliers to obtain surety of supply to meet our commitments to our customers. Like many companies, labor has been a significant challenge with many of our U.S. operations running between 10% to 15% below full staffing levels, which is driving up overtime expense and reducing our productivity and flexibility. To attract and retain our supervisory associates, we put in place a number of grassroots recruiting techniques and implemented out-of-market wage increases as well as providing signing, referral and retention bonuses.

All told, this has added about $10 million in additional expense. Our team has done a great job in 2021, driving price to cover these higher costs. Inflation will not just go away in 2022. We currently project inflation for metal, freight, resin paper and packaging increased an additional 7% in 2022, adding to the 9% increase we experienced this year. The rate of inflation will require additional price increases starting in January, especially in our consumer packaging businesses, where we've been chasing resin, metal and other raw material costs, much of the second half of 2021.

Now let me provide a brief review of our operating segments, starting with Consumer Packaging. We're the global leader in paper food cans and closures as well as a niche market provider of flexible and rigid plastic food packaging, primarily in North America. Top line sales in this segment increased more than 7% year-to-date due to a nearly 4% increase in price, a 1% increase in volume mix and sales added from the August 2020 acquisition of can packaging.

Consumer Packaging operating profit is a very respectable $196 million year-to-date, which is off about 7% due to the negative price/cost relationship, stemming from material and nonmaterial inflation, which was more than offset productivity improvements and positive volume mix.

Consumer Packaging volumes appear to be normalizing from the peak of the pandemic when most consumers were eating most of their mills at home. That said, with 80% of our consumer packaging portfolio focused on packaging fresh, frozen and processed foods, we believe we are uniquely positioned to continue benefiting from consumers eating at home, elevated eating at home trends, which are being driven by remote working and consumers, particularly younger consumers, adopting new cooking habits. Whether driven by eating at home or on the go, consumers around the world are also increasing snacking, which also benefits our paper can, flexible and rigid packaging plastic portfolio.

Finally, sustainability continues to gain momentum as consumers prefer packaging that is recyclable and has higher recycled content. As 1 of the only packaging companies has also a leading recycler, we understand what packaging can actually be recycled and what materials can best meet consumers' demands.

Let me spend some time talking about our individual consumer packaging businesses and their opportunities for growth, starting with our iconic paper can. Recently, The Wall Street Journal listed milestones in packaging, in which the writer focused on packaging that over the years, was friendlier to consumers and the environment. This has 1 of the key breakthroughs with the development of a tubular paper can for stacked chips. Today, Sonoco is the global leader in advanced paper can technology, with the sales of approximately $1.3 billion. With 43 facilities in 16 countries, Sonoco produces more than 7 billion cans annually, which would make us the fifth largest food can and closure producer in the world. We're the leading provider of cans for stacked chips, refrigerated dough, powder beverages, nuts, power and for formula coffee and assortment of other food products. We're also a leading provider of paper and plastic to be used for adhesives and sealants.

Sonoco has been developing and producing all paper cans for years, so we significantly added to our technological expertise with the acquisition of Can Packaging. Despite COVID restrictions, we've been extremely pleased with the performance of this acquisition as volumes have grown to more than 140 million units, and we've exceeded our pro forma financial expectations. Adding Can Packaging's innovation and proprietary manufacturing capabilities is allowing us to offer customers more recycled paper packaging options to have a wide range of food barrier properties for our European customers. Can Packaging has the ability to produce cans with 92% and up to 98% paper content, including integrated paper overcaps and various shapes and sizes.

In addition to growth in Europe, we're also developing opportunities to utilize Can Packaging's unique low-cost machine technology to expand our consumer product offering into new growth markets. The future of our paper cans is right with new technology being developed to provide our customers with a variety of more sustainable options. Let me show you a brief video narrated by Jeff Tomaszewski, who heads our global paper can business, to talk more about these exciting new developments.

Jeffrey S. Tomaszewski - *Sonoco Products Company - VP North America Consumer & Global RPC*

Thanks, Rodger. Sonoco manufactures paperboard containers for our customers in a variety of height and width for numerous food and nonfood items. These containers protect the customers' products through the rigor of the filling process, the supply chain and from oxygen and moisture transmission while ensuring shelf life up to 18 months. Most of the containers in our portfolio today have a plastic overcap, a metal membrane top, a paper body with a liner and a steel metal bottom. To meet both current and future recycling goals, we've been developing new-to-world paper overcaps and paper-bottom alternatives to expand our portfolio and provide our customers with more options. We have developed and now offer paper overcaps in a 1-piece, 2-piece integrated plug lid style.

We also have added paper bottom alternatives and now offer styles in our classic recess, a wraparound body seal and a deep recessed inside seal. These options, combined with existing or higher paper content can bodies and may be applied at a range of production speeds and barrier protection to give our customers more options in the marketplace for their products. Our iconic steel bottom container may be recycled today in the steel recovery stream and the newer all paper containers in the paper recovery stream, ensuring that our containers will be able to meet current and future recycling goals.

You've already seen more of these new product options in the marketplace after our acquisition of Can Packaging in 2020. We continue to accelerate development and add more new-to-world paper container options to market in all regions around the world. Recently, we were able to convert a major CPG in Europe from a plastic package to an all-paper container. This meaningful order will require more than $10 million in capital and expect first production toward the end of 2022. We also had increased demand in Asia all-paper units as well, which will require a new production line in a new facility in Malaysia. Sonoco has been producing paper cans for more than 30 years, and we're excited about the rapid development and acceptance of our new all-paper option. We think they'll be a major driver as we expand use over the next 30 years.

Rodger D. Fuller - *Sonoco Products Company - EVP of Global Industrial & Consumer*

Thank you, Jeff. Certainly our new can options are what our customers are looking for around the globe. And over the next 2 years, we plan to invest more than $50 million to expand capability and capacity to meet that growing demand. As Jeff mentioned, we are actively working with several large customers in Europe to convert their plastic and glass packaging into more sustainable all paper cans. This year, we added a new high-speed can line to our operations in Poland and are investing in new paper bottom capabilities in Europe.

Over the next 2 years, we will be first building a new can production plant in Malaysia, which will be our third, to produce both cans and metal closures for new customer growth; second, further adding production capabilities in Eastern Europe and South America; third, developing new capabilities for a new processed food customer in North America; and finally, developing new seamers, sealing and paper bottom capabilities around the world.

In our flexible packaging business, we couldn't be more excited about the improved performance of this business as well as its future growth opportunities. Following a strong performance in 2020, we expect this business to produce record top line and bottom line results in 2021, with volume mix growing about 4%. Sonoco's flexible packaging strategy is focused on higher-growth niche markets that match our current capabilities. To meet future growth, we've authorized capital to fund new standup pouch making capacity and will expand our gravure and flexographic press and laminator capacity. We're also working with our customers to produce either to recycle monomaterial polyethylene and paper scrubs.

I mentioned earlier that consumers working from home are driving a change in eating habits that's benefiting our prepared and specialty food trade business. These work-from-home warriors are enjoying to improve quality and convenience of frozen and refrigerated meals that utilize our dual ovenable and recyclable plastic trays. While we've seen double-digit volume growth in this business, we're also seeing new demand for frozen and refrigerated food trays used in schools, hospitals, nursing homes and other institutional venues. Working with a new customer, we recently increased capacity to our operations in North Carolina to capture this new growth. We're also receiving increased request for easy to recycle thermoform trade options, utilizing no pigment and increased recycled content.

Now let me switch gears and talk about the strong turnaround we've seen in our Industrial Paper Packaging segment this year and how we believe it is set for continued improvement in 2022 and beyond. Sonoco is the global leader in production of uncoated recycled paperboard, along with tubes, cores and cones, using industrial packaging applications, serving the paper film, textile tape and specialty markets. Following nearly a 5% decline during 2020 due to the pandemic, we've seen a strong rebound in global demand for URB and industrial products with volume mix up more than 7% year-to-date.

Overall, sales have grown 25% during the first 9 months of 2021 compared with last year as price increases put in place to recover rising more material and nonmaterial inflation, increased sales by 16%. Operating profit also rebounded strongly this year, up about 21%, as volume gains and productivity improvements more than offset a negative price/cost relationship as we chase rising OCC prices much of the year. We were slightly price cost positive in our Industrial segment in the third quarter as our team has successfully implemented a series of price increases, totaling $330 per ton for URB in North America since November 2020, again, to offset rapidly rising OCC prices and other inflation. Over the past year, OCC prices in North America have risen from $70 per ton to as high as $195 per ton before recently pulling back to $170 per ton.

In addition to market announcements, RISI has recognized a 42% increase in the 10 bending chip index for uncoated recycled paperboard, with prices reaching $1,000 per ton for the first time. Key to our ability to drive both top and bottom line growth in our Industrial segment is our integrated supply chain network. As mentioned earlier, Sonoco is a top 10 recycler in the U.S., annually collecting about 2.8 million tons of recovered paper and other materials, of which we use about half in our North American mill network.

Globally, we operate 24 paper mills with 33 machines, which have the capability of producing approximately 2 million tons of URB annually as well as corrugated medium in the U.S. About 55% of our URB is used internally by our converting operations to produce tubes, cores, cones, cans and fiber protective packaging costs. The rest of our paperboard is sold to trade customers with the bulk in the U.S. going to the growing tissue and towel market as well as other industrial and consumer applications.

Currently, the globally integrated URB system is extremely tight due to strong rebound in demand. We also believe over the longer term, demand for URB will continue to accelerate as the need for more sustainable paper packaging used for a variety of consumer and industrial markets will continue to expand. We also expect to further internalize URB within our converting businesses. So recently, we committed a small bolt-on acquisition of a tube and core operation, which not only helps strengthen our position in a growing carpet and textile market in Northeast Georgia, but will allow us to internalize approximately 13,000 more tons per year.

The best example of our investment in our sales strategy has been the capital we're spending on Project Horizon, which will convert our Hartsville corrugated meeting machine into a state-of-the-art URB machine with annual production of 180,000 tons. Horizon's price tag has grown some as we expand the scope of the project to generate additional cost and due to inflation. Let me share with you a brief video of the project narrated by James Harrell, Vice President of our Industrial operations in the Americas.

James Harrell

Thanks, Rodger. In a nutshell, Project Horizon is the resetting of Sonoco's Hartsville mill complex and our #10 medium machine for the future of our production of uncoated recycled paper in North America. The Hartsville mill complex is a 100-year-old evolution of buildings and production capabilities. With any manufacturing site that has been built over a long period of time you end up with old buildings and new buildings and material flows that are not optimized. Project Horizon brings 5 Phases redesigned together to create the largest and lowest cost URB mill in North America.

The capstone of this redesign will be the conversion of Sonoco's 180,000 tons per year corrugated medium machine to a 180,000-ton URB machine. This conversion will involve new headbox, top wire former and pressing section, which will enable us to produce industry-leading specification ranges and (inaudible). Supporting this conversion will be a new and expanded fiber yard and state-of-the-art fiber plant. The yard, which was completed this fall, better organizes our OCC mill and increased storage from 3 days to 7. It also expands the unloading capability from 3 docs to 10 and improves the movement of materials with all fiber entering the rear of the mill.

The new fiber plant will bring state-of-the-art fiber process, capability, which will allow for the increased separation and optimization of fiber as well as the ability to upsize the use of lower cost mixed paper by factor of creation. We have also added a new integrated 130,000 square foot finished goods warehouse, which will house our new world-class material handling and automated sliders to process the paper tons from our newly converted URB machine. The material handling systems will allow automated transport to the sliders and delivery to the warehouse. The new warehouse will eliminate the double handling of inventory that used to be stored in outside warehouse as the mill complex lacks space and sites. All of this will then be optimized for logistics with system scheduling of drivers, auto weight scales and the redesign of the road system, leading into and out of the campus to ensure the most efficient transition times for our incoming and outbound freight.

The final step will be the optimization of our operating and data management systems focused on automated data collection, analysis and the optimization capabilities. We expect the physical transformation of the machines and structure be completed by mid-2022, while we'll begin producing URB in the third quarter of '22. The final optimization of material flows and logistics will likely be completed by mid-2022.

A final thank you to our Sonoco teams from the hearts [of management] who are supporting this transformation and building a foundation for our next 50 years of leadership in URB manufacturing.

Rodger D. Fuller - *Sonoco Products Company - EVP of Global Industrial & Consumer*

Thank you, James. We will experience some downtime during the conversion but expect this will only have a minor impact on our profitability in 2022, while providing annualized savings of approximately $30 million. We have a number of other growth and margin improvement projects underway in our industrial businesses. But we're really excited about the opportunities to further grow our Sonopost fiber protective technology around the world. Early next year, we'll open a new 110,000 square foot plant in Tulsa, Oklahoma, where we're combining an existing tube and core operation with 2 new fiber Sonopost lines that serve the growing appliance and HVAC customers in the South and Western U.S.

Also, we just opened a new Sonopost operation in Poland and are working on new growth opportunities with new customers in Turkey and Mexico. Our fiber protective business is attracting a lot of new customers and a lot of new orders as our customers are looking for more sustainable and durable protected packaging alternatives to resin-based foam products.

Finally, we have been disappointed in results from our all other group of businesses this year, which consists of industrial plastics, protective, health care and retail security packaging units. We will see solid improvement in 2022 due to improved cost recovery, strengthening demand and some self-help actions. I'll remind you that 2021 top line and bottom line results from this group have been impacted by the divestiture of the Display and Packaging unit, which produced sales of about 36% -- which reduced sales by about 36% and operating profit by 42%. Several other business in this group struggled with a negative price/cost relationship due to rising resin and other input costs. That said, volume mix has grown more than 8% as several of these businesses have experienced improved demand.

Our Industrial and Specialty Plastics business, which produces a variety of injection molded components for both industrial and consumer applications, has experienced a strong rebound in 2021, with sales up 31% and operating profit more than doubled, driven primarily by a 25% increase in volume mix as it served markets rebounded from the pandemic. And while volume mix improved nearly 19% in our protective molded phone business year-to-date, supply chain disruptions to the automotive industry have negatively impacted productivity while rise in resin prices impacted price costs. We're working to diversify the mix in this business and are focusing on our expanded polypropylene EPP technology to grow into higher-margin consumer markets.

Our Healthcare thermoforming business suffered from the COVID hangover this year due to slower-than-expected elective medical procedures and higher resin costs. We expect this market to improve as we are investing to restructure our European operations to boost performance in 2022.

Finally, our alloyed retail security business is relatively flat year-to-date, and we're investing to expand our thermoforming capability to include our award-winning sustainable paper blister packaging to generate growth.

Finally, we're extremely excited about growth opportunities in our ThermoSafe cold chain packaging and logistics business. Volume mix was up 9% year-to-date, and we're extremely busy this quarter with the new product launches and the COVID-19 vaccine orders. One of our new products, Pegasus ULD, is the world's first FAA-approved passive bulk temperature-controlled unit load device for temperature-sensitive pharmaceuticals. This unit is able to speed through international air freight handling and customs processing at lower cost and battery-powered active shippers. Pegasus contains a fully integrated FAA-approved telemetry system. This provides real-time cloud-based data on payload, ambient temperatures and key environmental factors precisely synchronized with GPS location. We've been building out lanes with a number of major international airlines this year and expect to increase unit development over the next 2 years.

And as this video from ABC's Good Morning America shows, ThermoSafe has been extremely busy, recently building and kitting temp-ensured shippers for transporting COVID-19 vaccines. Following approvals for boosters and child vaccines in the U.S., we received a significant order to rush these vitally needed vaccines to market. As one of the only approved vaccine shippers, we've been proactively working for months to meet the lab test specifications necessary to safely ship this vaccine.

And because supply chains are extremely tight, we've joined with our strategic suppliers to obtain the necessary materials to fill this order. As an example, Epsilyte, a large EPS supplier, along with Styropek and others, helped secure more than 120 truck loads EPS to produce the thermal shippers. We expect to be fulfilling this significant order into the first quarter and believe we'll have additional orders through 2022.

Now with that overview, let me turn things over to Elizabeth Rhue to speak about Sonoco's sustainability strategy.

Elizabeth Rhue

Thank you, Rodger. I'm going to spend my time taking you through a high-level overview of our sustainability focus areas.

I'll begin with an overview of our sustainability structure. Historically, our sustainability and environmental teams have been separated, with our sustainability team primarily focused on areas related to customer compliance, business strategy and the impact of our product footprint. Whereas our environmental team has been more heavily focused on regulatory compliance, emissions and other topics related to the impact of Sonoco's operational footprint. As our sustainability journey continues to evolve, we realized there are opportunities to leverage synergies between these 2 teams to deliver a more comprehensive sustainability strategy, where we are better able to leverage the expertise that exists, provide a cohesive sustainability road map and metrics for our businesses and ultimately streamline our efforts around reducing our carbon footprint and tracking and reporting on key ESG initiatives.

As such, we have joined the sustainability and environmental teams under the same leadership to help drive these synergies. When we think about our approach to our global sustainability and environmental efforts, we are focused on 3 key areas. First is product, as in what products are we delivering to the marketplace, including thinking through material selection and how we leverage emerging technologies. Infrastructure, how does current and future infrastructure play into end-of-life treatment of our products, energy and even how we collect data and how that impacts and influences our strategy. And lastly, partnerships, how do we leverage relationships across a number of different areas from academia to customers to our supply chain to deliver on our goals.

We have established 2 sets of corporate sustainability commitments focused on our products and on our operational footprint. First, I'll walk you through our product sustainability commitments through our recycling facilities, paper mills and other facilities. Utilizing recycled materials, we have committed to increasing the equivalent by weight, the amount of product we recycle or cause to be recycled, from 65% to 85% of the product we put on the marketplace. We are pleased to say we have met and exceeded this goal for 2020 and are tracking well for 2021.

In addition, we are committed to responsibly managing resins using our facilities and are implementing operation clean suite, a program focused on preventing discharge of plastic pallets into the environment at all our facilities utilizing resins. We are also continuing to work to ensure at least 75% of our global rigid plastic portfolio, can make relevant on-pack recyclability claims, while also ensuring we are closing the loop through continued use of post-consumer recycled content in our products. As we turn to our operational commitments, we are excited to have our Scope 1, 2 and 3 emissions goals validated by the science-based targets initiative. We have committed to reducing our Scope 1 and 2 emissions by 25% by 2030. And in cooperation with our suppliers and customers, we are committed to reducing our Scope 3 emissions by 13.5% by 2030.

Furthermore, we are studying the necessary operational changes, technology developments and market changes that would be required to achieve net 0 emissions by 2050. Very closely related to our Scope 1 and 2 emissions goals, we have committed to a reduction in our normalized energy use by at least 8% by 2030 as well. Rounding out our operational commitments, we have additional commitments focused on water and waste that you'll see noted on this slide.

Because we know it will not be easy to meet these commitments, we put together an oversight committee, consisting of a cross-functional team focused on driving these commitments throughout all levels of the organization, ensuring we are incorporating sustainability and environmental metrics into our business strategy, decision-making and incentives. Some of the initiatives led by this team include establishing business unit level greenhouse gas targets, implementing shadow carbon pricing as part of our capital approval process and improved reporting and transparency of our environmental data.

One of the specific initiatives of the Oversight Committee is to oversee our emissions reduction strategy, which consists of efforts related to the power we generate within our operations, how we manage our energy use and the power we purchase. We believe it will take efforts in all of these areas to reach our Scope 1 and 2 emissions reductions goals.

To drive these initiatives, we have established dedicated capital funding to support projects that help reduce our energy use and emissions. I'll take you through a couple of specific examples of projects that we are moving forward to deliver against our emission strategy. In Hartsville, we plan to spend $2.5 million to convert waste methane generated from our mill affluent system into a fuel quality biogas, which will be treated, compressed and injected into pipelines to be used in industrial applications. We're also investing $1.5 million to install solar panels on an East Coast paper can plant and expect to add further solar panel projects in the near future. Combined, these projects will reduce approximately 5,300 metric tons of carbon dioxide annually, while generating returns greater than our cost of capital.

And of course, we continue to invest in our EnviroSense portfolio of more sustainable packaging with developments across a number of different platforms focused on improved material selection, increased recyclability and lowering our overall environmental impact. We are seeing growth as more customers look for sustainable alternatives to meet their packaging commitments, including significant growth in our paper can business across the globe as customers seek fiber-based alternatives to their current format. We also recognize that equally is important to the beginning of life and package design is end of life.

As such, we continue to focus on opportunities to improve the end of life for our packaging and to increase the rate of recycling of our products. These efforts include expanding the recycling of our paper containers within our own mill network, along with investing in technology within our own material recovery facilities as well as participating in initiatives aimed at expanding the slate of materials that can be sorted and processed for recycling more broadly. We believe that all these efforts will be key to allowing us to meet our sustainability commitments, but more importantly, to reducing the footprint of our products and operations.

With that overview, I will turn the podium over to Julie, who will take you through the financial review.

Julie C. Albrecht - *Sonoco Products Company - VP & CFO*

Thank you, Elizabeth, and good morning, everyone. Let me begin with a brief overview of our results through the first 3 quarters of 2021. Sales of $4.151 billion are up by 7% from last year, driven by a combination of factors, primarily solid volume growth and the positive impact of price increases, both partially offset by the divestiture of our global display and packaging business. I'll speak more to these items on the sales bridge in just a moment. .

Base operating profit was $391 million for the first 9 months of this year, and base EBITDA was $574 million. Both of these amounts are slightly below the prior year, mostly due to the high visibility impact of substantial cost inflation and supply chain challenges that you've heard about this morning. Base net income was $267 million for the first 3 quarters, which was almost 2% higher than the prior year, while base earnings per share was $2.66, approximately a 3% improvement over 2020. These solid base net income results are impacted by the positive effects from lower interest expense and improved effective tax rate and reduced shares outstanding.

On this slide, you see our sales bridge for the first 3 quarters of this year. As I've just mentioned, sales are up versus the prior year, mainly driven by the positive impacts from very strong volume mix growth of $181 million or about 5% and from price increases totaling $300 million. These were partially offset by a $248 million net reduction in sales from M&A activity due mostly to the divestiture of our global display and packaging operations.

Moving to the operating profit bridge through the third quarter. I'll first highlight the positive impact of our higher sales volume combined with mix that had a positive impact of $61 million. Next, you see the solid contribution of our productivity actions, which includes all of our procurement, manufacturing and fixed cost productivity initiatives.

Moving to price cost. Keep in mind that this is inclusive of the benefit from higher selling prices as well as the impact of total inflation. The first 3 quarters of the year show a negative impact to operating profit due to this year's trend of sharply increasing costs in almost all parts of our operations.

Moving to acquisitions and divestitures. The $19 million decrease in operating profit is the net impact from the divestiture of our global Display and Packaging business and the Can Packaging acquisition.

And finally, the other category is made up of various items, mostly within SG&A expense.

During our third quarter conference call, we provided guidance for the fourth quarter, where we projected that base EPS would be in the range of $0.84 to $0.90 per diluted share, bringing our full year base EPS estimate to a range of $3.49 to $3.55 per diluted share. This compares positively to the $3.41 per share that we delivered in 2020. We now expect to be at the top end of these ranges as operating results were solid in October and November due to better-than-expected demand in most of our businesses. However, keep in mind that for various reasons, December is always a difficult month to predict.

In October, we did not provide GAAP earnings guidance due to the uncertainty of our restructuring and other nonbase items during the fourth quarter. But since we are now less than 1 month from year-end, today, we are providing GAAP EPS guidance for the fourth quarter of $0.54 to $0.70 per share, and for the full year, a loss of $0.97 to $0.81 per share. As a reminder, this GAAP net loss for the year reflects the previously reported $407 million after-tax pension settlement charge related to our U.S. inactive plan. Additional detail regarding GAAP EPS guidance can be found in the non-GAAP reconciliations for the 2021 Analyst Meeting provided on our website.

Now shifting to our cash flow guidance. We are reaffirming our operating cash flow guidance with a midpoint of $535 million as well as our free cash flow guidance at a $285 million midpoint. This guidance excludes the impact of a $133 million voluntary contribution that we made in the second quarter related to our pension termination process. Also, you see that our free cash flow guidance includes an estimated $250 million in CapEx spending for this year.

I'll start my review of our 2022 outlook with comments about certain key assumptions that we've used to develop our guidance. We are projecting sales growth in volume and mix to be approximately 1% after considering what we're hearing from our customers about our served markets and activity within our sales funnels. More information will be provided when I review the sales bridge in a minute. As you've already heard this morning, we expect that inflation will continue to be a challenge in 2022, but the price/cost will have a positive impact on earnings. In terms of our key raw material prices, which are closely correlated to movements in both our sales pricing and our related costs, and starting with our outlook for old corrugated containers, we've assumed OCC to be on average at $155 per ton based on prices in the Southeast.

In addition, we've assumed Tan Bending Chip uncoated recycled paperboard to remain at $1,000 per ton. We expect steel prices to double, and resin prices are expected to increase on average by high single digits. Energy inflation presents a challenge, specifically in North America and Europe, but also globally as natural gas and electricity continue to present double-digit inflationary pressures. And lastly, we expect to see continued pressure on freight, adhesives and wages, considering current dynamics in the global supply chain and tight labor market conditions.

We expect depreciation and amortization expense to be $255 million, which is approximately a $10 million increase year-over-year. The impact next year from foreign currency fluctuation is projected to be unfavorable due to a stronger dollar on average compared to 2021.

SG&A expenses are projected to be higher, driven by higher wages and benefits, but also by continued strategic investments in IT.

Interest expense is projected to be lower by approximately $7 million due to reduced debt balances. But this is offset by a higher effective tax rate as we've experienced some discrete onetime tax benefits this year.

Our fully diluted shares outstanding is expected to be approximately 98.6 million, reflecting the actions of our stock repurchases through 2021. And I'll provide more information about this year's activity in a few minutes.

And lastly, no new acquisitions or divestitures are assumed in our 2022 outlook.

So moving to the sales bridge. We project in 2021 with sales of approximately $5.6 billion. The organic volume growth that I described earlier is projected to add $45 million for the company. In terms of volume by segment, Consumer is expected to be roughly flat compared to this year as consumers demand for eat-at-home products in North America normalizes but is offset by a rebound in confection and travel-related snack products and flexibles, coupled with increased stacked chip demand in Asia and South America. We're expecting to have slightly higher volumes in industrial after the strong demand rebound this year and inclusive of project Horizon-related interruptions expected in the second and third quarters of next year.

Our all other group of businesses is expected to grow by 4% to 5%, driven by new business awards for COVID-19 vaccine shippers and our temperature-assured business and growth in our Industrial Plastics and retail security businesses. We're also expecting a recovery in our medical business as elective surgeries ramp up to pre-pandemic levels and that the supply chain disruptions impacting automotive will ease in 2022. Higher selling prices are expected to increase sales by $310 million. This notable impact from pricing reflects the significant continuing inflationary environment.

Moving to acquisitions and divestitures. The $30 million decrease in sales is due to the impact from the divestiture of our U.S. Display and Packaging business that we sold in early April of this year. The main driver to the negative $105 million in FX and other, it's from foreign exchange and more specifically, the expected strengthening on average of the U.S. dollar. So all of this results in a 2022 sales target of approximately $5.8 billion.

So to pull the pieces together, and starting with the midpoint of our 2021 base EPS guidance of $3.52, the volume growth with mix considered, would add approximately $0.05 to base EPS. In the price/cost category, we're projecting a positive base earnings impact of $0.25 per share. While we still anticipate inflationary impacts, as previously mentioned, we do expect the rate of inflation to normalize, allowing price to catch up. And that will have continued solid execution in our commercial excellence activities. We're expecting an additional earnings contribution of $0.31 per share from our productivity actions. I will note that this outlook for next year is lower than we've delivered in recent years due to continued challenges in the global supply chain and very tight labor markets.

Moving to interest and shares. You see a positive base EPS impact of $0.12, driven by $0.08 from lower shares outstanding and $0.06 from reduced interest expense.

Next, foreign exchange rates and taxes have a negative combined impact of $0.17 per share, driven by an $0.11 headwind from the strengthening U.S. dollar and negative $0.06 from a higher effective tax rate.

Finally, in acquisitions, divestitures and all other, of the negative $0.18 impact to base EPS, $0.03 is tied to the sale of our U.S. Display and Packaging business, while the remaining $0.15 is related to higher SG&A expense driven by strategic IT investments, nonrecurring COVID incentives, employee medical costs and benefit enhancements. So all of this results in a 2022 projected base EPS of $3.90, which is the midpoint of our range of $3.85 to $3.95 per share.

Overall, we're expecting our operations to contribute a year-over-year positive earnings impact of over 17%, driven by volume mix growth, positive price cost and contribution from productivity actions. And considering all items, our 2022 base EPS growth is strong at over 10%.

Moving from earnings to cash flow. I'll first note that the amounts on this slide are the midpoint of our range for cash flow results. I'll also highlight that the 2021 projected cash flows shown here do include the onetime $133 million pension contribution made this year related to our termination activities. In the footnotes on this slide, we've also highlighted certain unique cash outflows in both '21 and 2022 that we would not expect to repeat beyond next year. So with all of that said, in 2022, we're projecting to generate roughly $585 million in operating cash flow. This is a 46% increase over our 2021 expected results, including the unique items that I just mentioned.

In addition, we expect our 2022 capital spending to be approximately $300 million. This amount includes the final investments for Project Horizon as well as the increased carryforwards for value-creating projects approved this year, all resulting in our target to generate free cash flow of $285 million next year, which is almost double our expectations for 2021. This highlights our ability to generate very strong cash flows as well as the significance of the termination of our large U.S. pension plan. Moving beyond 2021, we do not expect any material contributions to our remaining and much smaller pension plans. This allows us to focus the use of our cash flows on value-creating investments that help us deliver our strategic goals.

In terms of our capital structure, this slide reflects our position at the end of 2020 and at the end of this year's third quarter when we had debt of just under $1.5 billion and cash of $160 million, with net debt being 1.7x our annualized base EBITDA. In terms of our debt maturity profile, you see we have nothing of significance maturing until 2030. So thus, a very strong balance sheet, which along with strong cash flows that I just described, gives us the flexibility we need to continue to invest in our business and return cash to our shareholders.

On this next slide, we highlight the key aspects of our capital deployment strategy. As Howard has mentioned this morning, we are committed to investing in ourselves as an important way to deliver value to shareholders. And as you just saw in our 2022 cash flow guidance, we're targeting $300 million in spending for capital projects next year, and we expect these investments to contribute to our EBITDA growth in the coming years. Also, as you know, dividends are an important part of our total return to shareholders, and we have a solid history of increasing the dividend.

In addition, this year, we've had the opportunity to use strong cash flow and divestiture proceeds to repurchase approximately 3.3 million shares for a total cost of $212 million. $150 million of this spending was earlier this year through our accelerated share repurchase, while the balance has been executed during the fourth quarter. So in summary, our capital deployment activities are tightly aligned with our strategy that Howard has reviewed this morning.

So lastly, this slide summarizes our guidance for 2022 financial results. I've just covered all the items except for EBITDA, which is expected to be approximately $815 million or about 14% of sales. This is a 40 basis point improvement over our expectation for this year.

That completes my financial update, and Howard will now provide some closing comments.

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

Thank you, Julie. We believe Sonoco has come in out of the pandemic well positioned with strong businesses, strong balance sheet and solid cash flow. Despite the headwinds, we've exhibited solid growth and are managing price costs in the face of unprecedented inflation. As Julie mentioned, we're excited that we expect to drive double-digit growth in base earnings in 2020. And we'll continue investing to the long-term potential of our core consumer and industrial businesses, while remaining committed to returning cash to our shareholders through dividends and opportunistic share repurchases.

Finally, we've developed a comprehensive strategy following science-based targets to aggressively reduce our carbon footprint, and we remain focused on improving diversity and inclusion.

Sonoco's purpose is better packaging, better life. What that means is that we are committed to creating sustainable packaging solutions that help build our customer brands, enhance the quality of their products and improve the quality of life for our stakeholders around the world. But we also believe the strategy we have articulated today will make us better than ever. As a reminder, our value creation strategy is focused on being the benchmark yield and stability packaging company. We're targeting to grow to $1 billion in annual EBITDA by 2026 without the benefit of acquisitions. We will continue investing in our core businesses to augment growth and generate strong returns.

We're on a journey to execute an operation strategy, implementing self-help actions that should generate approximately $180 million in annual EBITDA over the next 5 years to help us achieve our target. We will continue to simplify our structure, to build a more efficient and effective organization, and we'll manage our portfolio for fit around fewer, bigger business. Finally, we will use our acquisitions to improve our portfolio and complement our strategy.

Thank you for your participation today, and I hope you'll stick around for the Q&A session. The dial-in instructions for the live Q&A are shown here. We'll take a few minutes, let's say, 5 minutes to allow you to grab another cup of coffee and to dial into the session. If you just want to listen to the session, you don't have to do anything. We'll see you in a few minutes with your first question.

(Break)

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

First question from George Staphos from Bank of America.

George Leon Staphos - *BofA Securities, Research Division - MD and Co-Sector Head in Equity Research*

It's nice to be back at an Analyst Day with Sonoco. And congratulations, Roger. It's been a pleasure working with you. And I know everybody on this side of the phone has big -- shares that view.

I had 2 quick questions, and I will turn it over. Howard, from the learnings of Project Horizon, what would you say is most emphatic for you in terms of the project? And within the do-it-yourself or self-help measures, might there be another type of Project Horizon, large size, improving productivity, maybe adding low-cost capacity for Sonoco and the road ahead?

Second question, and I joined a little bit late. Can you talk about -- and maybe you already covered this. Can you talk about why you're confident -- what 1 or 2 things make you most confident about the growth outlook within consumer and how you will get that operating leverage and whether this new buying behavior we've seen from the consumer in the last 2 years is sustainable, which would obviously be a good thing for Sonoco that happens.

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

George, Project Horizon, so many learnings from it. I mean I guess to start with was the recognition that, and I don't want to get into all the details of behind the scenes, but recognizing that what truly is called Sonoco. And we had this very large paper machine that was not vertically integrated. We were subject to open market fluctuations. It was just the right thing to do, learning through the whole implementation.

Obviously, James went through that pretty well. We started with simply converting a machine that carried that into even a broader opportunity to change the whole scope and flow of materials around the campus. So it was a bit of an eye opener as we went through the process that led us down this path of saying how many more opportunities across the company, maybe not to the same scale, but when you add them up, they become extremely material within the other core businesses.

Do we see another project Horizon on the way? We don't have clear visibility. What we see as a collection, as noted, of opportunities that maybe $1 million, $5 million, $10 million could -- we could be talking about that scale of capital. But equally, we'd be talking about the similar type of returns, if not, even better or growth opportunities.

On the consumer side of the business, we said this as we went into the pandemic and we saw the volumes rise across consumer. We were hearing it from our customers that new participants in the market, we're trying the types of products that we supply in our customers' package, and they've never been there before. And what's been a bit of an affirmation of that, if you talk about volumes in 2019 versus 2020, it was all felt like COVID surge, it will return back to normal. Here we are finishing off 2021, and we're seeing a slight uptick to even 2020, maybe flattish but certainly not going back to 2019.

And so to carry that further, we all know. We're all seeing it that this work-from-home environment is with us for the long haul. And that means you've just got more consumers consuming meals at home, and that's where we play. So that's really why we feel like we'll see continued consumption levels at the kind of rates that we are today.

And I guess the last footnote is we're talking about consumer behavior, but then we look at, and specifically, I think about Europe and the amount of conversions that we have that Rodger talked about a few of them that we've already invested in and the amount of conversations we're having with customers to say they would love to see a shift from maybe a less environmentally friendly substrate to our all paper-type solutions.

Operator

Our next question comes from Ghansham Panjabi from Baird.

Matthew T. Krueger - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

This is actually Matt Krueger sitting in for Ghansham. I just want to extend my congratulations to Rodger as well. I guess I'll jump in with a 2-part question as well here. So the first part kind of focuses on inflation. So if you're expecting inflation to be up about 7% for 2022, why should we see more pricing flow through the business as well? Is there anything that's a little bit nuanced there? And then the second part of my question has to do with kind of the $240 million or so improvement in EBITDA through 2026. Is there anything unique or lumpy about the phasing of that EBITDA improvement? Is there any specific year that should see an outsized benefit? I'll wrap it up there.

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

Rodger do you want to talk about that...

Rodger D. Fuller - *Sonoco Products Company - EVP of Global Industrial & Consumer*

Yes, I'll take I'll talk inflation, Matt. What I would say is, what you need to keep in mind for 2022 is despite inflation being slightly below 7% versus 9% in 2021 and the great job our teams have done raising prices throughout the year, we're seeing metals, our tinplate steel double. We're seeing resins. If you think about the basket of resins that we buy, we bought just short of 0.5 billion pounds a year, half of that is PET. So we're starting to see some leveling off of polyethylene and polypropylene, but PET continues to escalate. EPS continues to escalate.

OCC, we're going to use -- $155 a ton average next year is a record versus $138 this year. So we will see continued price flowing into the marketplace this year. But again, we see that continued inflation offsetting some of that. So again, the teams were doing a really good job of implementing those increases, but in many cases, we've got quarterly price change mechanisms. So as resin PET continues to escalate, we'll be a quarter behind. So we'll be solidly price/cost positive next year, but that continued inflation will hold it back to some degree, what you saw on the bridge that Julie described.

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

Julie, you want to touch on EBITDA?

Julie C. Albrecht - *Sonoco Products Company - VP & CFO*

Yes, sure. From a phasing -- from, let's say, now until 2026 with the $1 billion, I mean, what you our guidance for '22 is really there is no significant step change next year towards the $1 billion. Nice progress, but nothing dramatic. I mean, really similar to capital projects. The, call it, expense investment we're making in supply chain and SPS and commercial excellence, those are going to be investments we're going to be making and kind of people, resources, some technology early first half of next year. So that will start paying off as we really move into late '22 and out of 2022.

And then I think when you start looking at '23 and beyond a few things, we mentioned Project Horizon a couple of times and the annualized $30 million in cost savings there. That's what we'd expect to start kicking in, in 2023. And again, maybe more full run rate 2024. So that's very helpful to the Industrial segment margins. And then the other self-help group of actions are really going to start taking hold more in '23 again and beyond. So I think more of a step change in '23, but then it will just be building '23 and then out to '26.

Matthew T. Krueger - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

Okay. Great. That's very helpful. That's it for me.

Operator

Our next question comes from Adam Josephson from KeyBanc.

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

Rodger, congratulations as well on your retirement. If I heard Howard correctly, there's no exact date for your retirement. So hopefully, in the months to come, you may change your mind. It would be wonderful if that happen. To my question on demand, it's a 2-part question. One is, Julie, can you just elaborate on the update you provided on October, November, saying it was stronger than you expected in most places. Can you just elaborate a little on that? And then along similar lines, you're expecting only 1% volume mix growth next year compared to 5% year-to-date. If memory serves, prepandemic, the company used to guide to about 2% growth per year, so the 1% would be below what the company typically guides to. I know the consumer demand was elevated this year. Industrial demand was elevated this year. So I'm just hoping you can elaborate on your thinking in terms of why the 1% expectation next year versus historically more in the 2% range.

Julie C. Albrecht - *Sonoco Products Company - VP & CFO*

Sure. Adam, I can take this. I'll make a few comments about how the fourth quarter started, maybe Rodger can elaborate a little bit. But really, pretty broad across the portfolio. We've seen, again, better than we expected demand. I mean, this is a difficult environment, right, to be forecasting demand in and especially going into the year, but obviously, so many different challenges ourselves and customers, et cetera. Nonetheless, really industrial, a lot of consumer and in the all other group of businesses. So it's relatively broad, but I'll kind of pause there. Rodger, is there anything you want to add.

Rodger D. Fuller - *Sonoco Products Company - EVP of Global Industrial & Consumer*

Yes. I think specifically, Adam, we mentioned in our comments. I mean, the global URB system is extremely tight. So it's sold out. The mills are running very well. So that's benefited the fourth quarter. [Indiscernible] core volumes have held up stronger than expected this time of the year, even through the holidays. So as Julie said, it's pretty broad-based. I'd say, especially the strength -- more strength in industrial than we expected coming into the fourth quarter.

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

Yes. And as we look into next year, yes, coming off a strong 2022 recovery, it's our best thinking right now, the consumer is going to be in that kind of flattish to 1% range. Again, you got to get back to the 2019 vantage point and that uptick that we're sustaining. And then Industrial has come back significantly over really the second half of this year. We expect to see a bit more. And probably the largest area of improvement has been in the weakest sector that we have had this year is in the All Other category where we're seeing a much, much bigger comeback. But all in all, yes, that 1% to 2% is how we're modeling at this point in time. And hopefully, we are completely wrong and it's going to be much north of that.

Rodger D. Fuller - *Sonoco Products Company - EVP of Global Industrial & Consumer*

And two specific -- and I'll just add two specific events next year. You got the six to eight weeks of downtime as we convert the corrugated medium machine and URB. And we talked last quarter, we walked away from something like $20 million of sales in our perimeter store plastic clamshell business. So you've got a couple of onetime events that are impacting the year-over-year comparison as well.

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

Got it. Appreciate that, Rodger.

Operator

Our next question comes from Mark Wilde from Bank of Montreal.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

I had a couple of questions. I wondered, first, if you could put a little more color on that term you used a couple of times, the fewer, bigger businesses going forward. And then secondly, there has been some discussions about the recyclability of composite cans are a pretty complicated structure of different materials. I wondered if you could just put a little more color on your efforts around moving to just an all-paper, can or other solutions. And then just the degree to which that really seems to be mattering to customers at this point. I mean, is it more of a PR issue than a real business issue at this point?

Rodger D. Fuller - *Sonoco Products Company - EVP of Global Industrial & Consumer*

Right. Really appreciate the question, Mark. Fewer, bigger businesses. So look, this executive team have really spent the last 18 months or so really digging into the core of our company and what are our true foundational businesses? Where are those businesses that we consistently win in the marketplace? And we highlighted those three businesses, if you will, at the latter part of my presentation. So the focus is on both inorganic and organic growth in those core businesses. And it's also part of this project that I talked about in terms of structural transformation of the company and it's a work in process, but what we're looking at right now is where do we really focus our centralized functional support around those core businesses and do we have a different view of noncore, call it, diversified businesses and would we manage those in a different way.

Of course, along this evaluation and path, we'll be certainly looking at our overall portfolio in terms of the right fit. So the message here is that where we're going to be spending the bulk of our energy and our resources around those core foundational businesses where we see that we have won consistently, be it inorganic or organic type growth opportunities and evaluating the rest of the -- and managing the rest of the portfolio in a different way. And I'll let Elizabeth talk about composite can. But what I will say is that, no, we're not seeing any type of pressures as it relates to the format. In fact, the story is a very solid one. We have been accepted into the steel recycling stream here in North America for a long, long time. We've actually proven, and this is one of the great benefits of Sonoco in this space is that we're actually a top 10 recycler, and we've shown that our paper cans end up with metal closures being called and collected at the same rate in the MERFs of, say, steel cans.

The real conversation around paper bottoms has more to do with Europe and their focus on more monomaterial and their anti-plastics and, in some cases, other formats, and their attraction to the fact that we've got a solution that has the benefits that it offers with much higher content. You carry that to North America, and I think the conversation is more around productivity, replacing a very high-cost steel component with the lower cost of paper. So setting our shelves up in North America to be able to have a dual source of recycling availability still bottoms heading over to the steel strain paper going into the carton strain. And those were -- I hope I didn't steal everything you were going to say. So please.

Elizabeth Rhue

You essentially did, but as Howard said, really tackling it from both angles, from a material perspective that all paper container being easily recyclable through the paper stream, but also having a home for our steel bottom containers where we've done the work to demonstrate through our own MERFs as well as we've increased the acceptance across the U.S. and other MERFs outside of Sonoco's network that accepts those cans. And again, as Howard said, recycles to through the steel stream. And in addition, we demonstrated the ability to recycle those cans, steel bottom or paper bottom, through our standard paper mills and are accepting cans through mixed residential recycling streams today as well in our paper mills.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

Okay. That's helpful. Thanks, Elizabeth.

Operator

Our next question comes from Josh Spector from UBS.

Joshua David Spector - *UBS Investment Bank, Research Division - Equity Research Associate - Chemicals*

Just two questions, if I may. So first, I was wondering if you could comment if you made any structures to how you're selling your products, specifically in the Consumer Paper business? And just thinking about a lot of your products, you have leading market share. Maybe it's more of a pull relationship as you're trying to focus on more growth, push type relationship. Is there differences or changes that you need to make from a structure or incentive standpoint? And then second, as we look at CapEx beyond '22 and your higher level of investments and growth that you're driving towards, what's the right level to think about for CapEx over the next three to five years?

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

Let me talk about the capital side. Rodger, maybe you can comment about how we're going to market on the can side. But what we're thinking about it right now is around that $250 -- $225, $250 range going forward. I think that's also relative to scale, so as the investments that we are making and that's really important to know that the investments we are making, I wish we could spend $5 million on a 20% return project and we have it all happened in the same month, but it does take a period of time there's a lag effect. But right now, $250 or so is what we're thinking. But as projects continue to pay off, as EBITDA continues to grow, that could move up but it would be relative it would descale us about the same.

Roger P. Schrum - *Sonoco Products Company - VP of IR & Corporate Affairs*

Josh, as far as selling our paperboard cans it's push and pull. And in the U.S. our share is fairly high on the type of products that they package and that round can today but the team is really doing an excellent job pushing into some new markets. I think [Indiscernible] he talked about a new process, opportunity that would be commercializing late next year. Big opportunity working with a major CPG. So the team continues to sort out those unique opportunities that still remain in the U.S. And there are still some, whether either coming from plastic or metal can conversions.

As Howard already said, much more of a pull in Europe. I mean, just fantastic opportunities for our all paper can in Europe coming from many different directions, coming out of plastic, coming out of glass, those are active different types of opening, closing features with paper bottoms and, to a lesser degree, in Asia. So it really depends on the market and where our share tends to be in that market. and then we address sales incentives to that market. So very excited about it. We talked about a number of those projects. But for me, I think we're being very flexible and meeting the market needs based on the current needs and our share and how we're positioned in that market. I mean, that's about what I would say as far as pushing and pull and how we're selling the paperwork in.

Operator

Our next question comes from Salvator Tiano from Seaport Research Partners.

Salvator Tiano - *Seaport Research Partners - Senior Analyst*

Yes. Firstly, I wanted to understand a little bit about the 180 million self-help actions is clearly a very significant number. So I'm wondering why now in terms of how come we haven't seen more pronounced savings and productivity improvements in the past few years. And now you're unveiling kind of a very big number for the next 5 years. The second question, I wanted to check a little bit on the health care. It remains, it seems, one of your core businesses, but it's not in one of the three areas that you said you would like to expand through M&A, which I think was in contrast to a couple of years ago when you highlighted it as a growth opportunity. You acquired TEQ, among others. So what has changed and you're not planning on expanding in health care anymore?

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

So Sal, what I'd say is why now in terms of the various programs that we review today. They're not new programs outside of the structural portion. So if you look at our performance over the last, call it, two to three years, pick a metric such as our EBITDA percentage, we have been in SBS. We have been in Commercial Excellence. We have proven to ourselves at the scale that we were operating under that we could deliver that $20-some-odd million plus annually on improvement. And it is reflective in the performance that you've seen historically. And so we spent a lot of time inside our four walls looking at what if we increased our activity, increased our focus on these areas, coupled with taking a look at how we're organized and how we support our business units.

We can actually continue on the pace for on, but actually step change it. And that's something as Julie talked to earlier, as we go into this year, we'll be putting more resources in support of being able to leverage these programs on a greater scale. But the truth is we've proven the base case, if you will. And now we're saying, let's expand in a much more rapid way to achieve the type of improvements that we're forecasting out over the planning horizon. Again, on the health care, what I'd say going back to earlier comments is really this team collectively looking at -- I'm talking going back over a 20-year horizon and saying, what -- where have we been most successful, where do we have market positions, where do we have know-how, technical capabilities that are unique, that give us -- sorry to keep using the term -- the right to win.

And so where that has left us with those businesses is that we -- that I highlighted during my discussion. Are we saying, "Hey, we're no longer focused on health care." Well, certainly, we're in the business. We own some very good businesses. And we're going to continue to manage those businesses as we historically have done with the best of the scale that we historically have. So that's the point. We are really, really going to focus on where we historically feel like we have strong market positions and demonstrated success, both organically and inorganically.

Rodger D. Fuller - *Sonoco Products Company - EVP of Global Industrial & Consumer*

Yes. And back, Sal, on the self-help, I'd add taking advantage of new technology. I mean, data analytics across the board. So we've got pricing optimization software that identifies margin enhancements by customer item level that we've installed in several of our North American businesses, but taking that and expanding it more broadly, more quickly on the floor data analytics. So online data coming from the machines, driving that through our SBS program and really having our operators understand how to reduce scrap, how to reduce weight. We're globalizing [Coupa] right now through our purchasing group to analyze all of our non-raw material spend.

So automation, how we're talking about automation in the presentation. So taking advantage of tremendous new technology and doubling down, expanding that globally, investing in that. So as Howard said, this is not new, but it's just doubling down and taking advantage of that new technology.

Operator

(Operator Instructions) Our next question comes from Kyle White from Deutsche Bank.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

Two questions. First, on the supply chain. Can you just talk about in terms of if you've seen any improvement or worsening since the last earnings call? And does your '22 guidance assume any improvement next year on the supply chain environment or are you guys holding things relatively constant as of today? And then second question on contracts, in regards to your commercial excellence that you're targeting, there was, I think, commentary regarding deep engagements on index-based price agreements on the strategy. Can you just provide more details on this? Are you looking to shift any of your contract structures, particularly in regards to your URB business?

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

Supply chain. Yes, sorry, supply chain disruptions. Maybe minor improvement primarily on the logistics side, but we're seeing trucking tighten up again around the holiday. So our projection will be the first six months next year will continue to be tight. We're still importing some adhesives from Europe into the U.S. because of shortages. There simply just was not enough inventory in system after the winter storm Yuri last year. So I'd say some minor improvements as we head into next year, but we still expect supply chain constraints to be fairly tough. Some parts of resin are easing up, others remain very, very tight.

Rodger D. Fuller - *Sonoco Products Company - EVP of Global Industrial & Consumer*

Yes. And on the contract side, we've always had a mixed industrial, particularly here in North America between tan bending chip and SEC. We have seen a shift more towards tan bending chip and we'll continue to probably evaluate. We've always liked the mix, but we're having internal dialogue right now about -- and of course, that's a conversation with our customers about what is the best balance there. Frequency, typically, it's on a quarterly basis. I don't see that changing too much. I'd say across the rest of the portfolio, it's -- there's always learnings when you get into these unique environments. So we're engaging differently as contracts come up to make sure that if we get into a situation like what we've just lived through, that we have language that is fair and reflective of a unique type of environment like we've just seen. So absolutely, we are having we'll be having those conversations, contracts or move forward.

Operator

Our next question comes from Salvator Tiano from Seaport Research Partners.

Salvator Tiano - *Seaport Research Partners - Senior Analyst*

Just want to understand, given that you're projecting significant inflation in 2020 as well, I know it's a little bit too early, but how much residual price cost do you think you're going to see in 2023? Because clearly, you're getting price, but you're going to get even more price, I would assume, based on your current assumptions the following year?

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

That -- we're in December of 2021 right now. So it's hard to say. I just really couldn't answer that. I mean, who knows what's going to happen second half of next year. I think CPI index just came out at about 7% for next year, which coincidentally is exactly what we've modeled for next year. Will there be a turn midyear next year that enhances price costs? It's just -- it's really too early, I think, for us to put a stake in the ground around that.

Salvator Tiano - *Seaport Research Partners - Senior Analyst*

Also, just very quickly, what do you think about the 1 billion cluster, just 2026 EBITDA target? Also, that doesn't include M&A, but how should we think about divestments? And could we end up being below that number just because you decided to simplify the portfolio, as you said? Or anything that happens will not be material and it won't impact the target.

Robert Howard Coker - *Sonoco Products Company - President, CEO & Director*

I would go with your latter [thoughts], it would not be material. I think what you may -- and again, from a modeling perspective, as I said, we are active in the M&A world. We make the right strategic investments. Does that trigger a conversation around possibly initiating a divestiture? I would think that it would be a net positive if those decisions were made. So I'll just leave it at that.

Operator

Thank you. There is no further questions at this time. And this concludes today's conference call. Thank you all for joining. You may now disconnect.