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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Sonoco third-quarter 2016 earnings conference call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Roger Schrum, Vice President of Investor Relations. Mr. Schrum, you may begin.

Roger Schrum - *Sonoco Products Company - VP, IR and Corporate Affairs*

Thank you, Andrea. Good morning, everyone, and welcome to Sonoco's investor conference call to discuss our financial results for the third quarter of 2016.

Joining me today are Jack Sanders, President and Chief Executive Officer, and Barry Saunders, Senior Vice President and Chief Financial Officer. A news release reporting our financial results was issued before the market opened today and is available on the Investor Relations section of our website at sonoco.com.

In addition, we will reference a presentation on the third quarter's results, which was posted on our Investor Relations site earlier this morning.

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

Furthermore, today's presentation includes the use of non-GAAP financial measures, which management believes provides useful information to investors about the Company's financial condition and results of operations. Further information about the Company's use of non-GAAP financial measures, including definitions, as well as reconciliations of those measures to the most closely related GAAP measure, is also available on the Investor Relations section of our website.

Now, with that covered, let me turn it over to Barry.

Barry Saunders - *Sonoco Products Company - SVP and CFO*

Thank you, Roger. I will begin on slide 3 where you see this morning we reported 2016 third-quarter earnings per share on a GAAP basis of $0.64 and base earnings of $0.72, which is above the top end of our guidance of $0.65 to $0.70, all of which compares to base earnings of $0.65 for the same period last year. Earnings for the quarter were stronger than our guidance, due to operating costs being slightly lower than what we had projected.

The differences between GAAP and base earnings are discussed in our press release and are related primarily to restructuring charges related to plant consolidation opportunities and the $2.6 million asset impairment charge related to writing off the goodwill related to our industrial business in Brazil, arising from some smaller acquisitions made in the 1990s.

On slide 4, you find our base income statement where you see sales were $1,209,000,000, down $33.9 million from the prior year, and you will see all the moving pieces in the sales bridge in just a moment. Gross profit was $235 million, up 2.6% from the prior year, while our gross profit margin percent was once again very strong at 19.5% for the quarter, Compared to 18.5% for the same quarter last year. Selling, general and administrative and other income and expense items were $120.6 million, which was down $2.8 million from last year, due to fixed cost reduction efforts and lower pension costs, which more than offset normal inflation, all then resulting in base EBIT of $114.7 million, up $8.8 million from the prior year, and again, you will see all the drivers of the change in the EBIT bridge in just a moment.

Below EBIT, interest of $12.4 million was right at $1 million lower than last year, due to lower average debt levels, including the repayment of $75 million and 5.625% notes earlier this year. Income taxes of $31.4 million were higher than last year, due to higher pretax income as the effective tax rate for the quarter of 30.7% was essentially the same as the same period last year.

Equity and affiliates, when combined with minority interest was $2.5 million and similar to last year, thus ending up with base earnings of $73.5 million or $0.72 per share.

Turning to the sales bridge on slide 5, let me spend a few minutes talking about all the moving pieces, starting with volume, which you can see was essentially flat for the Company as a whole. Consumer packaging volume was up just under a percent year over year, driven by a 3% growth in flexibles and almost 4% in plastics, but it was partially offset by global composite cans being down 2%. The lower volume in composites occurred primarily in Europe associated with the lower demand for tobacco packaging. Composite can volume was down just less than a percent in North America and up 13% in Asia. After reporting year-over-year growth for several previous quarters, display and packaging volume was down 3.4% this quarter with the lower volume across display manufacturing, fulfillment, and in the retail security packaging business. This excludes the impact of exiting the Irapuato, Mexico tax center, which is reflected in the exchange and other line item on the bridge.

Paper and industrial converted products volume was essentially flat for the quarter. Within the segment, global tube and core volume was up right at 0.5% as we saw a 2.4% improvement in Europe, but partially offset by a 1.4% decline in North America. The improvement in Europe continues to be driven most notably by some share pickup, while in North America volume improvement in cores sold into the film and specialty industries are being more than offset by the continued decline in cores sold into the paper industry.

Global sales of uncoated recycled paperboard, or URB, from our paper mills, were up about 1%, but the modest growth from this, along with the previously mentioned modest increase in tube and core volume, was then offset by our reels business being off 7.6% and some lower sales and recycling.

Finally, in protective solutions, volume was up 1.5%, which was much more modest than the growth rate that we had been experiencing in the previous quarters. Within the segment, molded foam components for transportation was only up 1% due in part to a year-over-year comparison as last year's July was particularly strong, particularly in the dunnage business. Paper-based protective packaging going primarily into the appliance industry was essentially flat, and temperature assured packaging was only up 2.4%, again some due to difficult year-over-year comps and some pushing out of the impact of the flu vaccine packaging into the fourth quarter this year.

So moving on down the bridge to price, you see that prices were lower by $4 million as lower pricing in the consumer packaging segment associated with lower commodity costs were partially offset by prices being higher in the paper and industrial converted products segment, associated with the yield we have realized from the previously announced price increases and higher OCC prices in general.

The improvement in pricing in the paper and industrial converted products segment is despite the $2.6 million negative trend in pricing in corrugated medium alone.

The net impact of acquisitions divestitures reduced sales by $6 million, most notably due to the sale of the paper mill in France. Exchange and other was negative by $24 million, most notably to the $20 million impact of lower sales in the pack centers associated with exiting the Irapuato, Mexico location.

The impact of translation on the top line year over year was not nearly as notable this quarter as it has been the last few quarters.

Turning to the EBIT bridge on slide 6, as you would expect, there was no impact from volume given what you just saw on the sales bridge. Price costs, including the benefit of procurement productivity, was once again favorable this quarter by $4 million, even with the drag from the one corrugating medium machine.

Moving down the line, you can see the divestiture of the mill in France favorably impacted results by right at $1 million. Manufacturing productivity was $4 million for the quarter, which was below our target, but improved over we reported last quarter. Overall, it is fair to say that manufacturing productivity was light in many of our businesses, simply due to flattish volume, but we also continued to experience operating issues in rigid paper Europe related to plant consolidation issues and running some new products there. And we had negative productivity from the one corrugating medium machine, which actually offset some of the productivity in the North American paper mills where they actually ran quite well, essentially at capacity for the quarter.

Even in Europe, the mills ran well, but took a good bit of downtime for capital-related projects and mill improvement projects.

Moving to the other line, the change on a year-over-year basis had a negative impact of only $3 million as the impact of normal inflation on everything other than materials and energy was notably offset by lower fixed cost spending associated with our fixed cost reduction efforts and some favorable changes in other charges. Translation of earnings in foreign currencies had essentially no year-over-year impact this quarter, and as expected, pension costs were lower year over year by $3 million.

Turning to slide 7, you see our results by segment. For the consumer packaging segment, sales dollars were essentially flat, but EBIT improved 15%, most notably associated with price cost as margins improved to a very strong 12.3%. Display and packaging sales were down 19%, again due most notably to exiting the Irapuato location, but earnings were down less than $300,000, thus the margin percentage improved to 3.9%.

Paper and industrial converted products trade sales were essentially flat, but earnings improved by right at 3% even with the negative impact of the corrugating medium machine, which was down $4 million year over year for the quarter alone. If the corrugating medium machine was just back to breakeven, the margin percent would have been right at 1 full percentage point higher for the segment as a whole.

Protective solutions sales were up 1.5%, but EBIT was down just slightly, thus margins backing off modestly to 9.5%, all then resulting in base EBIT margin for the Company as a whole at a very solid 9.5%, up a full percentage point from last year.

Turning to slide 8, you find our outlook for the fourth quarter and, thus, the full year. We are projecting that base earnings will be in the range of $0.60 to $0.65 for the fourth quarter. This assumes no significant change in the overall level of economic activity, simply normal seasonality and, of course, thus take into consideration that the fact that this year's fourth quarter has five fewer accounting days, which includes four fewer business days. This guidance also takes into consideration the expected closing on the sale of the Company's rigid plastics blow molding operation at or near the end of October. This brings our full-year guidance for base earnings to $2.70 to $2.75 per share, up from the previous $2.68 to $2.74, due to the better than expected results in the third quarter.

Moving from earnings to cash flow on slide 9, cash from operations was right at $163 million for the quarter, improved from $145 million last year, due to improved earnings and less of an increase in working capital this quarter versus the same quarter last year. Capital spending for the quarter was $40 million, and we paid $37 million in dividends, resulting in free cash flow of $85 million for the quarter.

For the full year, we are still targeting to deliver $140 million in free cash flow.

During the quarter, we used right at $21 million for share repurchases, bringing our year-to-date total to right at $59 million, and we expect to continue repurchasing shares through the balance of the year to complete the announced $100 million share repurchase program.

During the quarter, we also spent $20 million on two protective solutions acquisitions, Laminar Medica in the UK and the PharmaPort technology.

Turning to the next slide, you see our balance sheet for the quarter. I won't spend a lot of time reviewing it other than to mention a few things. The most notable of which is that all assets and liabilities related to blow molding operations have now been segregated and reported as assets held for sale.

As you can see, our financial position remains very strong with our net debt to total capital improving to 37%.

That completes my review for the quarter, and Jack will now provide some additional comments.

Jack Sanders - *Sonoco Products Company - President and CEO*

Thanks, Barry. Let me talk briefly about our 2016 year-to-date performance and update you on our initiatives to grow and optimize our portfolio and conclude with our outlook for the remainder of the year. Our ability to grow base earnings by 12% through the first nine months of 2016 is a testament to our strategy of growing and optimizing our businesses to produce more consistent earnings and improved returns. Gross profit margin in 2016 is running 101 basis points higher than the first nine months of last year, and our EBIT margin has risen 100 basis points to 9.5%.

Additionally, we are on track to produce our strongest margins in more than 15 years.

Operating profits from each of our four business segments are up year to date, led by the continued strong performance in our consumer packaging segment, which achieved its eighth consecutive record operating profit quarter.

Also, the segment's operating margin is up 130 basis points to 11.9% year to date. Within the global packaging segment, year-to-date operating profits from global rigid paper containers is up 5.6%, flexible's operating profit is up 22%, and rigid plastic is up 5.2%. Display and packaging operating profit for the first nine months of 2016 is up significantly from last year, about 85%, and we are gaining traction with new business where we can both sell services along with packaging to our customers.

Switching to our paper and industrial products segment, operating profit for the first three quarters is up 5%, and absent market headwinds in our corrugated medium operations, results would be up significantly in the mid-double-digit range.

During the first nine months of 2016, we have seen modest improvement in tubes and cores in North America and solid growth in Europe, and our URB mills are also having a very solid year. While we continue to be disappointed in results from our single corrugated medium machine due to difficult market conditions, we are seeing some encouraging signs. We now have orders to run the machine on a full schedule through the remainder of the year, and we expect pricing to improve.

We continue to seek a long-term solution for this mill and are looking at several different options.

Finally, in protective solutions, operating profits for the first three quarters of the year is up 11.8%, and operating margin is at 9.8%, up 20 basis points.

Manufacturing productivity continues behind our historic levels, and some of this poor performance relates to the drag from our corrugated medium operation, as well as a consolidation startup of new operations in global tubes and cores and composite cans.

For instance, we have closed four small tube and core operations in the past year and consolidated production into larger facilities. We have also consolidated composite can plants in the US and in Europe. However, total productivity, which includes manufacturing productivity, fixed cost reductions, and procurement savings, is running 12% ahead of our targeted rate for 2016.

That said, we remain focused on reducing our unit costs to produce by implementing our Sonoco performance system, which should provide better results for manufacturing productivity in 2017.

During the third quarter, we announced the sale of our rigid plastics blow molding operation to Amcor for $280 million, and we expect to close on the sale at the end of this month. Our goal is to use the proceeds to further enhance our targeted growth businesses of flexibles, thermoforming, and protective solutions.

Our North American blow molding business is a good business, and we believe we received a fair price. We are exiting this business because of the capital requirements to maintain or grow it would have pulled from our focused growth businesses. We determined the business would be better suited with someone looking to build a larger platform.

I will remind you our portfolio optimization efforts are focused on improving return consistency and earnings. You'll recall we earlier divested our metal ends business in 2015, and, more recently, sold a mill in France and a retail security packaging business in Puerto Rico. We may further optimize the portfolio, but primarily to help fund future strategic acquisitions.

As for acquisitions, we made two smaller purchases in the third quarter, adding the assets of Laminar Medica, a passive temperature-assured packing operation in Europe, and PharmaPort, an active temperature controlled cargo container operation. Both of these acquisitions complement our ThermoSafe business in the growing temperature-assured packaging market. You should not be surprised to see us continue to actively pursue rational, strategic acquisitions in our targeted growth businesses.

Also, our projects to expand composite can capacity in emerging markets and flexible packaging and thermoforming in the US remain on schedule. And we're looking forward to the launch of our new TruVue clear plastic can and about 400 grocery stores in the Southeast within the next few weeks.

Additionally, we are actively working with several other processed food customers for new TruVue developments in 2017 and beyond.

Finally, let me address what we are seeing heading into the final quarter of the year. As a result of our strong performance in the first three quarters of the year and our expectations for the remainder of 2016, we are raising our full-year guidance to $2.70 to $2.75 per diluted share, despite continued headwinds from slower global economic conditions. I personally think the average American consumer or global consumer, in fact, is in pretty good shape financially, but they remain uncertain about the future, which is tempering sales for many of our customers. Therefore, I don't think the situation will dramatically change in the coming quarter.

In closing, we remain firmly committed to our grow and optimize strategy, which is about growth, improving operating margins, shifting the business mix, maximizing cash flow, and, finally, returning cash to shareholders about $240 million in 2016.

Operator, we will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Manuel, Wells Fargo.

Chris Manuel - *Wells Fargo - Analyst*

Just kind of two topics I kind of wanted to go through. First was the path -- you guys have talked about it a chunk and have given us a lot of color here, the medium machine. How far down the path are you to addressing that or having -- you have talked about partner opportunities and things of that nature. Could you just give us an update as to where you are with the status of that?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, Chris, I can simply say that we have ongoing conversations to address that, and we have completed some other analysis, which would look at the machine on a different basis. In other words, do something else with it or shut it down completely. So we have all the numbers, and we have ongoing conversations. That is about all I can say.

Chris Manuel - *Wells Fargo - Analyst*

And I think earlier in the year, you were running it, maybe, three out of four weeks or something like that, but my understanding is at this point you have got it back to running full. Maybe that helps a bit or --?

Jack Sanders - *Sonoco Products Company - President and CEO*

It does. We were in a slow back mode, but from now until the end of the year, we are basically back to full schedule, and there is an announced price increase in the corrugated industry, and we will see how that affects us once it all plays out.

Chris Manuel - *Wells Fargo - Analyst*

Okay. That's helpful. The second topic I wanted to ask about was on the URB side. I believe you guys announced a series of increases both in board and in tubes and cores, and I just wanted to get a sense as -- I recognize that we are early into that process, but how you are feeling regarding what has happened in the competitive landscape, how you're feeling about realization of those, or kind of some thoughts there?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, as you know, it is early. All I can tell you is we are very committed to this increase, and we are moving forward with it and intend to stay the course there.

I will also say that I can't be more pleased with the performance of our URB mills and our tube and core business in the US. They have done a marvelous job. I would also say in Europe as well. They really have had a solid year.

Chris Manuel - *Wells Fargo - Analyst*

Okay. That's helpful.

Operator

Mark Wilde, BMO Capital Markets.

Mark Wilde - *BMO Capital Markets - Analyst*

First of all, is it possible to get the revenue number on that blow molding business that you are selling?

Barry Saunders - *Sonoco Products Company - SVP and CFO*

Yes. It is roughly $200 million on an annualized basis.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And it sounded, Jack, just in terms of any kind of further portfolio moves and any remaining assets are likely to be relatively modest. Am I reading that correctly?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, I think if you look at the portfolio, we have our foundational business, tube and core and composite cans, and certainly those are going to remain in the portfolio. But, then, we have some periphery businesses that are not inside those dedicated areas, which is flexibles, thermoforming, and protective solutions. So, yes, I mean, somewhat modest, but it can all help fund the acquisition into those key areas.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And then, just turning to the -- particularly the thermo side of that protective business, the temperature assured stuff, is the growth rate in that business, since you picked it up -- has that been what you expected? Because it seems like this quarter was a little lower than some of the numbers you have talked about for that business historically.

Jack Sanders - *Sonoco Products Company - President and CEO*

Yes, it has been all of that and more. I think this quarter what you get caught in sometimes is a timing situation as when does flu season actually start. Last year, it started into late in the third quarter. This year it is kind of sliding a bit into fourth quarter. So it is just a bit of a timing issue from that perspective.

But the industry continues to grow globally and, really, for the foreseeable future, don't see that changing.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And then, finally, just back to this medium machine, a while back, you had mentioned that you thought you might have a solution by year-end this year. Is that still realistic, or do you think it is a little bit further out, Jack?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, I would tell you, Mark, we are trying to eliminate the impact in 2017 one way or the other. So it certainly is a target. Will we get it done? We are shooting for it, but I couldn't say 100%.

Mark Wilde - *BMO Capital Markets - Analyst*

And do you have any sense just with this price I got there, the medium side of the industry has been the softest part of the industry. How long will it be before you have some sense of how much you are actually picking up from this hike?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, I think when publications and published price changes come out, then we can make, obviously, our adjustments. So maybe 30 days after that might be a good rule of thumb.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. That's great.

Operator

Ghansham Panjabi, Robert W. Baird.

Ghansham Panjabi - *Robert W. Baird - Analyst*

First off, on the margin expansion and consumer packaging, can you just give us some more color as to what drove that? You called out favorable price costs and a few other things. Was there also bigger mix benefit in the quarter with growth in plastics versus maybe some of the other substrates?

Jack Sanders - *Sonoco Products Company - President and CEO*

Not so much that. I think as you look at the consumer businesses in total, we have had some good productivity across the business, both in what we call price productivity, which gets mixed up in price costs is how we report it where we are using different materials, different types of materials, buying materials better, et cetera, and then, absolute throughput improvement in the business as well. That has really been a good part of the margin expansion story.

Ghansham Panjabi - *Robert W. Baird - Analyst*

Okay. And then, going back to your decision on blow molded and the decision to exit, you mentioned capital requirements, Jack. I remember that when you acquired the business in the middle part of the last decade, there was also some opportunity for cross-selling that you identified at the time. Is there any loss of sales that we should expect, just as you sort of exit that portion of the business?

Jack Sanders - *Sonoco Products Company - President and CEO*

From a cross-selling perspective, not really. I think that what we actually experienced is that, yes, there are -- there may have been some cross-selling opportunities, but they probably were not as big or as significant as we thought.

The other piece of that, I think, is that, as I said, both of these -- both flexibles and blow molding are somewhat capital-intensive and to fund and grow both and become relevant in both would have been very difficult. That term relevance we kicked in at the analyst meeting last year, it is an important term, and our decision after looking at all of it was we can be more relevant in flexibles or chose to be more relevant in flexibles so that is how we made the decision.

Ghansham Panjabi - *Robert W. Baird - Analyst*

Okay. And then, just one final question kind of going back to Chris's question on the pricing for both URB and maybe even container board, what are you assuming -- what is your guidance for Q4? Thanks so much.

Jack Sanders - *Sonoco Products Company - President and CEO*

I'm sorry. I didn't understand that.

Ghansham Panjabi - *Robert W. Baird - Analyst*

What kind of pricing expectations do you have embedded with your fourth-quarter guidance? For URB, yes.

Jack Sanders - *Sonoco Products Company - President and CEO*

Yes. We didn't put any price movement in it, so we will just have to see what we actually yield.

Ghansham Panjabi - *Robert W. Baird - Analyst*

Okay. Thanks so much.

Operator

Scott Gaffner, Barclays.

Scott Gaffner - *Barclays Capital - Analyst*

I hope everything is back to normal after the hurricane.

Jack Sanders - *Sonoco Products Company - President and CEO*

Getting there.

Scott Gaffner - *Barclays Capital - Analyst*

Yes. We were worried about you guys. Just, Jack, a couple of questions on the acquisition front. I think you did -- if I go back to the analyst day back in December, you did highlight that you were subscale in some of the rigid plastics and flexibles businesses, and you mentioned a couple small acquisitions year to date and it's kind of like they were more in protective. Can you talk about what you have seen over the last 10 months on the acquisition landscape? Are you getting to the table with some of these acquisitions? And then, the price is too onerous or maybe opportunities just haven't been there. Can you flesh that out a little bit?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, Scott, I would tell you that the opportunities are there, and we have been to the table more than one time. We have been several times. And it is not always the same situation. It could be a price issue. It could be a quality of earnings issue. It could be any number of things that we finally make the determination that the technology or the markets that we wanted, they didn't really have as firm a grip on.

But we continue to remain very active going forward. We know exactly what we are trying to do. We are trying to be more proactive and make the outbound call versus waiting for the inbound call, and we are going to continue that strategy as well.

So yes, we have been to the table, yes, it is very active, and, yes, it continues.

Scott Gaffner - *Barclays Capital - Analyst*

Okay. And have you done -- maybe strengthened that department within strategy as far as adding human resources to be able to be a little bit more proactive there, or maybe the businesses are bringing more targets to your attention?

Jack Sanders - *Sonoco Products Company - President and CEO*

No. We had an excellent resource about midyear, and we are talking about adding more at the end of this year to continue to help our ability to analyze situations.

Scott Gaffner - *Barclays Capital - Analyst*

Okay. Just one follow-up question. Sorry. Sticking on the acquisitions for one more question there. Tegrant, I think, was maybe a $550 million acquisition.

Jack Sanders - *Sonoco Products Company - President and CEO*

Yes.

Scott Gaffner - *Barclays Capital - Analyst*

From a size perspective, are you looking for businesses that -- or acquisitions that would be even that large, or are we talking more smaller bolt-on type deals?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, scale -- size isn't really a constraint to a reasonable degree. I mean, we would do -- if we had a $1 billion opportunity that made sense, we would move to do that. But the realistic view is that they are going to be in the $200 million or less range, maybe a little bit more. It is just really availability in those ranges is more the issue.

Scott Gaffner - *Barclays Capital - Analyst*

Okay. And then, from a capital allocation standpoint, you had the buyback. I think you are most of the way through it at this point. Can you just update us on that, and then when would the board look at maybe another buyback for 2017? When would that decision get made?

Barry Saunders - *Sonoco Products Company - SVP and CFO*

Thus far, we have spent about $60 million on share repurchases this year. So we would have another $40 million to complete the $100 million program by the end of the year.

Jack Sanders - *Sonoco Products Company - President and CEO*

Yes. And, as far as next year and what we do with cash, first and foremost, we are looking for the right bolt-on acquisitions in our markets. We are very disciplined. We know exactly what we are looking for. And, as I said, we are very active. So that is our first choice.

If we get into the first quarter and don't see realistic opportunities to make those acquisitions or we don't see any immediacy to it, then we would look to use some of the cash that we have accumulated to buy back some shares. But, first and foremost, is finding the right acquisitions.

Scott Gaffner - *Barclays Capital - Analyst*

Okay. Thanks. See you in December.

Operator

Phil Ng, Jefferies.

Phil Ng - *Jefferies - Analyst*

Volumes for your rigid plastic and flexibles packaging businesses generally have been pretty strong. How much of that is just your customer base or you benefiting from anything unique to yourself or some reversal destocking in general? Just want to talk about what you are seeing out there on the consumer side of things.

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, you know, I think that our customers, they are going to grow with the market in general, whatever that underlying growth rate is. But, as I have said in the past, it is somewhat product specific. It is what products are you packaging. They may get caught up in packaged food, but that may be an area where that is actually growing and I think that we have a couple of those.

But we have also continued to win new volume in those businesses, and so that has really been around the creativity that is coming out of the (inaudible) process and finding the opportunities to grow the business.

Phil Ng - *Jefferies - Analyst*

Okay. That's helpful. And then, sorry, one last question on the M&A front. I know you guys have targeted -- talking about targeting flexible packaging and rigid and some of these markets that you have highlighted. Part of that is kind of to really enhance your technology and potentially blow your own film. Would that be accretive to margins for consumer? How should we think about that dynamic?

Jack Sanders - *Sonoco Products Company - President and CEO*

When we talk about blowing film, we would want to blow high-end film.

Phil Ng - *Jefferies - Analyst*

Okay.

Jack Sanders - *Sonoco Products Company - President and CEO*

To really kind of create higher-end laminations and high-quality laminations. And, yes, it would be accretive to margins.

Phil Ng - *Jefferies - Analyst*

Okay. Just checking. And then, one last question for me. Margin in your display business has firmed up a bit. Can you talk about how sustainable that is longer-term? What are some of your internal targets? And, separately, does this business make sense longer-term for you to keep -- because you kind of talked about potentially pruning some non-core assets? Thanks.

Jack Sanders - *Sonoco Products Company - President and CEO*

Yes. Let me talk about margins in the business. I think the business certainly as we get beyond the Irapuato situation, you are kind of seeing it stabilize and do some other things. We are winning new business in the display and packaging area, which comes with higher margins. But we are also putting together different pack center models that also are yielding some higher margins for us. So I feel pretty good about that business and the margins in that business and where it is going. We have got an excellent team that has been now running it for a couple of years, and so they are making the headway that we expected them to make.

As far as, does the business make sense. Sure it makes sense. It continues to create intimacy. We like the business. But, as we have said, our focus is on flexibles and on thermoforming and on protective solutions. And, if opportunities come up of significance that would cause us to have to divest of some assets, then we would look and say, well, what would make sense for us to divest in order to build capabilities in those areas.

I really don't want to get specifics into certain businesses and say yes and no because I don't know. But I want to be clear that this is our area of focus. We have foundational businesses -- tubes and cores and cans and then come what may with the rest of it. But we are focused on growing in those three areas.

Phil Ng - *Jefferies - Analyst*

Got you. Appreciate it, Jack, and good luck in the quarter.

Operator

Brian Maguire, Goldman Sachs.

Brian Maguire - *Goldman Sachs - Analyst*

Most of my questions have been asked and answered, but just had a couple more. Just one more on the medium machine.

I think in the past you mentioned it's co-located with some of your other assets, so it probably provides some cost sharing. Just wondering if the $4 million to $4.5 million of quarterly loss as it is running at now, is that enough to offset the stranded costs you would get from either selling it or shutting it down at this point?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, Brian, I wouldn't want to get specific to those numbers, but you are right. It is co-located inside of a larger complex, and stranded costs are an issue that we are trying to deal with.

Brian Maguire - *Goldman Sachs - Analyst*

Okay. Got it. Maybe just a couple on the rigid plastics sale. Can you just remind us about what the dilution impact would be in the fourth quarter and for 2017, if you have an outlook there?

Barry Saunders - *Sonoco Products Company - SVP and CFO*

What we have currently included in our guidance for the fourth quarter is expecting that the transaction would close at the end of October, and it would have an impact of about -- a little less than $0.02 or so on earnings versus having the operation for the full quarter.

Brian Maguire - *Goldman Sachs - Analyst*

Got it. Thanks. And then, just the impact to CapEx from that sale as we think about 2017 versus 2016, will there be some CapEx savings and can you quantify those?

Jack Sanders - *Sonoco Products Company - President and CEO*

It is really difficult to say because our CapEx by business, obviously, varies year to year, depending on what initiatives we have had. So, obviously, there would be some maintenance savings, but it wouldn't be all that significant in the scheme of our total CapEx program.

Jack Sanders - *Sonoco Products Company - President and CEO*

And, over the last couple of years, the bulk of our capital spending has consciously gone to flexibles and to expansion in the composite can. And that was another reason that we said, hey, perhaps we should exit blow molding because of our focus.

Brian Maguire - *Goldman Sachs - Analyst*

Okay. Makes sense. Thanks, guys.

Operator

George Staphos, Bank of America Merrill Lynch.

George Staphos - *Bank of America Merrill Lynch - Analyst*

Thanks for the details, too. First question I want to come back to is consumer margin performances. It was very good in the quarter, certainly ahead of our expectations. Can you rewind the tape a little bit for us? As the quarter, last quarter, was ending, there was a bit of a slowdown that might have been driven by destocking by your customers. It seemed like volumes might have picked up a bit. How much of that pickup improved your margin mix in 3Q? How much of the price cost benefit that you have in consumer now do you think is sustainable over the next couple of quarters? Any thoughts around that would be helpful. Thanks. And then I had a few follow-ons.

Jack Sanders - *Sonoco Products Company - President and CEO*

Okay. Well, again, mix, that is hard to say as we look quarter over quarter. I will tell you that we certainly did see a slowing in the second quarter, but we saw a fast start to the third quarter, but then it slowed as it always does in August and a little bit of a rebound in September. So it follows a normal pattern.

I don't think it had a lot of impact on the margins, per se. One of the things that -- just the way that we report, a lot of those savings and price costs, about 70% of these savings are passed through quarter to quarter. So the bulk of that gets passed through to the customers. There is some that perhaps we are keeping with the other 30%, but the bulk of those price changes, per se, are being passed through.

The other is true savings in productivity. We either -- as I said earlier, we are doing something for the different material, a new supplier, a lower price, that is really driven internally by us and would not normally be passed along to the customer, per se.

George Staphos - *Bank of America Merrill Lynch - Analyst*

Okay. I appreciate the detail on that, Jack. So do you think you can keep this type of a year-on-year performance into the next several quarters? Not trying to get too precise. Fourth quarter you are up 10 bps. First quarter you were down 30 bps. But can you keep this sort of level of margin barring changes in commodity prices, which can change percentages, for the foreseeable future in that segment?

Jack Sanders - *Sonoco Products Company - President and CEO*

Yes. Obviously, sharp changes in commodity prices, we would have to chase it up, and it would have an impact on it. I think if you go back, George, we have consistently said consumer margins should operate somewhere between 10% to 12%. I believe that we are capable of generating and keeping margins in that range for the business. So to me, that would be the guidepost that I would simply use, and they are going to move around in that, really depending upon the situation. But those double-digit margins into that 10% to 12% range would be reasonable.

George Staphos - *Bank of America Merrill Lynch - Analyst*

Okay. That's fair. Second thing, in terms of the capital allocation and, obviously, you have talked about it and a lot of the other folks have asked questions around this as well in terms of M&A. When you say you're actively engaged -- I forget what the precise phrasing was in the press release -- how would you have us think about the probabilities that you have a sizable acquisition, at least as large, if not larger, than the smaller bolt-ons that you have done in the last quarter or so within the next couple of quarters? Is that a high probability, low probability, too difficult to say?

Jack Sanders - *Sonoco Products Company - President and CEO*

Anything I say is going to be a guess.

George Staphos - *Bank of America Merrill Lynch - Analyst*

I understand.

Jack Sanders - *Sonoco Products Company - President and CEO*

I would certainly say that we are active in the space ,and we are looking to make acquisitions that make sense as we always do. I mean, it is not really any different other than we are very focused on where they are. So would it be unreasonable for us to make an acquisition over the next two quarters? No.

George Staphos - *Bank of America Merrill Lynch - Analyst*

When we look at free cash flow generation, Jack, over the years, the Company has certainly rebounded more recently in operating cash flow, but it is relatively flat, if I go back, say, prior to that prior recession. Are the types of businesses that you are looking at, do you think that they are more cash accretive than the existing portfolio? Obviously, if you do that, then you are paying a price for that. Or, said differently, are there ways that you think you can -- instead of going through a cycle on free cash flow, continue to trend higher from these currently higher levels into the future and how would you do that? Is it through the mix, or is it through productivity, do you think?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, again, if you go back over the last four years or so, we have been following a plan for about three years, and that plan has been in place -- kind of rigid to it, and we have been getting increasingly better year on year. I think the markets we are looking to go in should have a greater EBITDA percentage as of the business.

So my expectation was -- is that by the time it is all said and done is that we should be able to prove improve the cash flow as well over the next two to three years going forward with the mix of the business changing the way we are trying to change it.

George Staphos - *Bank of America Merrill Lynch - Analyst*

Okay. My last two and I will turn it over. One, are you seeing any signs of auto slowing and that having some effect -- obviously, it is not the only business, but having some effect on protective solutions? And then, pension, Barry, is there any update in terms of what funding or expense might look like recognizing you might want to handle that on the December analyst day? Thanks, guys.

Jack Sanders - *Sonoco Products Company - President and CEO*

George, specifically to auto, yes, we did see a bit of a slowdown in third quarter. We actually had some shutdowns. Some of the customers shut down. What to expect now as we go into the fourth quarter, we are seeing some rebound from that slowdown, but not real certain what the actual rate is.

We are also working on new projects to help offset some of that loss, but we certainly did see a little bit of a slowdown in third quarter in automotive.

Barry Saunders - *Sonoco Products Company - SVP and CFO*

And, George, you're absolutely right. We really won't know what our pension expense is for 2017 until after the end of this year. But, as usual, we will go out with our best estimate and what that includes in terms of assumptions when we provide our first outlook in 2017 at the analyst day.

The only thing that I can say tell you as of this point, interest rates are now only down about 50 basis points from where they were at the end of last year versus last quarter we were talking about them being down 75 basis points. And each 25 basis point reduction in rate increases our pension expense by about $4 million.

We'll, on the other hand, point out that at least through August, our assets performance has been better than our assumed rate of return, returning at about 10% on the portfolio, so it might be a little bit of offset from the lower rate environment. But, to your point, we really won't have a good estimate until early December.

George Staphos - *Bank of America Merrill Lynch - Analyst*

We maybe should be getting our stock recommendations from you as opposed to the other way around, but anyway. Appreciate the time, guys. Good luck in the quarter.

Operator

Chip Dillon, Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

Thanks for all the details. My question is, if we think about -- you mentioned on the medium machine, you want to get it resolved if you can by year end. And it would sound like to me kind of a midpoint of what we could see and, thus, whether you keep it or you sell it or you close it, that a ballpark impact on earnings next year could be around $0.10. I mean, I am just basically -- I know there are a lot of moving parts with what it contributes to the facility in Hartsville, et cetera. But is that a good ballpark place to be in terms of the EPS impact that you would hope to get starting next year by having resolved the medium situation?

Jack Sanders - *Sonoco Products Company - President and CEO*

Yes. No, I would tell you that that is an overstatement of the amount and a pretty significant overstatement. It would be somewhere probably half of that. And, again, it all depends upon what the selling price of corrugated is and what the demand for corrugated is as to what the impact might actually be.

So it is a fluid situation. But where we are now, not so much the first quarter, but where we have been, even, it would be somewhat half of that, maybe a little bit more than half. But not quite that much.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And then, you highlighted in the quarter there were a couple of areas where I know in composite cans, I know the US -- you mentioned -- or North America the volumes were down slightly and that display was down also, and I guess that is more of a global number. Anything going on there? I recognize composite cans are still growing nicely outside of North America, but what might be impacting things here? Is it substitution or just the overall market?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, certainly, there is some decline in certain markets for composite cans that have been going on now for 10 years -- frozen concentrated orange juice. We talk about it always. There is no real change in that. I think that we have had one customer that has been in the process of consolidation. That probably impacted some volume. Another customer has been expanding and volumes shifting to different areas. That has probably been an issue. But nothing of significance. I mean, domestically, we were down less than a percent, so it was really kind of more or less on target.

The growth around the world has been significant in Asia. The biggest impact in the composite can is really occurring in Europe right now, and it is more in tobacco, which is a format. And there is some legislation around cans. Nobody really knows where it is going to shake out right now. We have developed alternatives -- square cans from round cans, unprinted cans. There is a lot of things going on. So that is kind of up in the air, but we are right in the middle of it and seem to be faring fairly well to date. But it is impacting volumes. That would be the biggest impact, Chip, on the composite cans. Everything else is -- the growth areas are growing as we expected.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And then, on the displays?

Jack Sanders - *Sonoco Products Company - President and CEO*

Yes. Displays is a timing issue as it always is. I think that part of the volume decline you are seeing, I know that we didn't put the Irapuato; that is caught in all other, I think, but that was pure volume. That is simply a timing issue. That will rebound in the fourth or you will see it in the first. I mean, it just moves around a little bit. Nothing of significance in that business, either, other than we have been winning some business that we will talk about probably in New York.

Chip Dillon - *Vertical Research Partners - Analyst*

Understood. Look forward to it. Thank you.

Operator

Steve Chercover, Davidson.

Steve Chercover - *D.A. Davidson - Analyst*

Just wanted to explore a couple of threads that have already been touched on, and the first one is on blow molding. We know what the revenues are, and we know with the impact is on an EPS basis. So it is fair to say that the margins there were kind of 300 or 400 basis points lower than the remainder of your consumer division?

Jack Sanders - *Sonoco Products Company - President and CEO*

No, but I think that they were lower than the average of the consumer division, but nothing appreciable, no.

Steve Chercover - *D.A. Davidson - Analyst*

Okay. So there is a range there. Okay. And the second one is on free cash flow. I am wondering if you have a target or stretch goal for free cash flow once the portfolio is more or less where you want it to be?

Jack Sanders - *Sonoco Products Company - President and CEO*

I'm sorry. Is our cash flow on target? Is that what you are --?

Steve Chercover - *D.A. Davidson - Analyst*

No. No. Do you have like an aspirational target for free cash flow on an annual basis once you've shuffled the portfolio?

Jack Sanders - *Sonoco Products Company - President and CEO*

You know, Steve, not expressed in those terms. What we do realizes that as we change the portfolio, as we shift the mix maybe 70% to 75% consumer, what we do expect to see is EBITDA margins improving, therefore improving the cash flow, and then having the ability to grow on a more consistent basis over time, which is really what we are driving for, a portfolio that is more stable and more consistent over time from a growth perspective.

Steve Chercover - *D.A. Davidson - Analyst*

Yes. I guess I am hoping to hear something like, we can get from the current 140 range towards 200 or 250 and think that that is sustainable and then we will grow from there.

Jack Sanders - *Sonoco Products Company - President and CEO*

I can't say that yet.

Steve Chercover - *D.A. Davidson - Analyst*

All right. Thank you.

Operator

Debbie Jones, Deutsche Bank.

Debbie Jones - *Deutsche Bank - Analyst*

I was hoping you could talk a bit about the growth prospects in your consumer business, just by category, plastics, flexibles, and rigids. What do you think is a good one- to three-year growth rate? I think that question might be kind of an obvious answer, but the second part on composite cans I think is a little less clear to me what the trajectory is for that business and, if there is a decline, how you manage that?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, again, I think when you talk specifically to composite cans, you have to look at it in two pieces. It is growing in some emerging markets, and then, of course, you have some of the potential decline to being flat in some of your mature markets. So globally, we would like to see that at least flat for the composite can.

I think the formats that we are choosing, flexibles and rigid plastics, have been growing in the 3% to 5% range, depending upon what the substrate maybe, and really would expect that to continue for the foreseeable future inside the food industry as format shift continues to occur to those types of substrates.

Debbie Jones - *Deutsche Bank - Analyst*

Okay. A second question just on guidance. Are you able to quantify in some way how the divestiture of blow molding is impacting the fourth quarter, the differential in days year-over-year and then, also, the hurricane? Are any of those meaningful to your Q4 guidance?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, go ahead, Barry.

Barry Saunders - *Sonoco Products Company - SVP and CFO*

Certainly, from the blow molding perspective, as mentioned just a couple of minutes ago, we would expect the impact to negatively impact us by about $0.02 -- right at $0.02 per share in the fourth quarter, assuming an end of October divestiture. We do have fewer accounting and business days in this year's fourth quarter versus last year, and that could actually be, when you work through that, roughly $0.02 as well on a year-over-year basis.

Debbie Jones - *Deutsche Bank - Analyst*

Okay. And do you expect any impact from the hurricane?

Jack Sanders - *Sonoco Products Company - President and CEO*

Nominally. There has certainly been some impact on the mill here in Hartsville. It was down. There has been some disruption in some other areas. So, for the quarter, there might be $0.01 or $0.02, but it would be hard for us to quantify right now. But I will --

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Debbie Jones - *Deutsche Bank - Analyst*

Okay. Is the $0.01 or $0.02 already in your guidance?

Jack Sanders - *Sonoco Products Company - President and CEO*

No, not really.

Debbie Jones - *Deutsche Bank - Analyst*

Okay. Thank you for that clarification.

Jack Sanders - *Sonoco Products Company - President and CEO*

(multiple speakers). We have the range of guidance (multiple speakers).

Debbie Jones - *Deutsche Bank - Analyst*

That makes sense. Yes. Okay. Thank you for that.

Operator

(Operator Instructions) Adam Josephson, KeyBanc.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Jack, a couple for you. One on consumer. I think George asked earlier about the margin profile for that segment. You mentioned it is 10% to 12% long-term, and year to date you are at the very high end of that, as you know. Other than lower pension and lower laws, is there anything else that happened year to date that you would point to as a result of (inaudible) high end of that long-term range?

Jack Sanders - *Sonoco Products Company - President and CEO*

Again, I think we mentioned productivity. That has certainly been a part of it. We have had improving performance in some of the businesses that are a part of the portfolio. That is also a part of it as well. So outside of that, and then, again, you have to look at it from the perspective of what happened to raw materials inside the quarter. If raw materials were falling inside the quarter, you have got a definitive benefit in that quarter that impacts the year-to-date results. If we had a year of constantly rising costs inside the quarter, it would have a negative impact on that margin for the quarter and for the year because it would just get averaged in.

So some of that is in there. It is very difficult to begin to quantify all of those moving pieces, however.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Sure. And just on that topic of raw materials, I know ethylene has been falling pretty significantly. Care to opine on where resin and for that matter OCC is going, Jack?

Jack Sanders - *Sonoco Products Company - President and CEO*

I am worse at resin then I am at OCC.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Well, then, you can start with the resin.

Jack Sanders - *Sonoco Products Company - President and CEO*

That is right. I have read everything -- like everybody else who has said there is going to be substantial polyethylene capacity come on the market in 2017 so that you should expect long-term price stability or decline in that. Short-term polypropylene, I think, is under a little bit of pressure or PET.

So I don't know. Oil seems to be a stable -- in a stable environment right now. So my guess is, within some realm of reason, that resin is going to be fairly stable now. That gets you absolutely nothing.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

OCC, I assume, similar commentary?

Jack Sanders - *Sonoco Products Company - President and CEO*

Yes, I do think OCC is in a pattern of stability. Supply and demand being equal. Which means that I expect a normal pattern, which would -- I think I said earlier, we are probably expecting a 10% drop between now and the end of the year.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Sure. Just one on your comments on the consumer and global conditions. I think you said earlier that the average consumer is in pretty good shape, albeit cautious, but that you are seeing slower global conditions. So I presume your consumer commentary was regarding the US specifically, or can you just elaborate on that?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, really, what I was trying to say is that, as I look around, there is probably no reason for the malaise that I see in the economy because I think things are actually pretty good. Not only here, but certainly improving in Europe. Asia has some issues, but that there is a significant amount of uncertainty in the marketplace and that is more domestic relative to the election and what is going to happen after that. But I just think the consumer is very cautious, and that cautiousness is being translated into an impact to our customers. They are just not spending the way they were spending three years ago, four years ago. Well, maybe it is longer than that now. I can't remember. But there has just been a change in those spending habits and, again, I think it is because of the level of caution in the global consumer.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Sure. Thanks for that. And then, just one last one on M&A. You have talked before about seeing multiples being high at the moment, but obviously interest rates are just the opposite. So can you just remind us just how you think about the balance between interest rates being historically low, multiples being quite high and how that affects your thinking about potential M&A?

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, the one thing we are absolutely certain of is, if you overpay for an acquisition, it is virtually impossible to ever get it back. So that is always on our mind, but it is certainly creates some opportunities. We have an excellent balance sheet. We have the ability to borrow a substantial amount of money and still maintain our credit, and we can do it at a very, very low rate. We have a commercial (inaudible) available to us that is extremely inexpensive. And so we have a lot of options in front of us.

So, for us, it is about, is it strategic. Can we get it at a multiple that we can lever down through synergies to make it reasonable to us? And that is really how we look at it. What the multiple we pay is is less important than what is the net multiple to us through synergies and through ability to grow or combine with other businesses and help us grow our business in other areas. But it is that net multiple that we try to really make the judgment on.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Sure. And I presume that the deals you lost out on is because it is just so cheap to borrow that others are willing to pay a higher multiple than you are and perhaps you have a longer-term focus than they do.

Jack Sanders - *Sonoco Products Company - President and CEO*

Well, absolutely. We have seen certain people who are willing to pay some high multiples. So ours is for the long-term benefit of the company and creating a long-term stable company, like has been in existence in the 117 years before me.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Sure.

Jack Sanders - *Sonoco Products Company - President and CEO*

I would hate to be the one (multiple speakers).

Adam Josephson - *KeyBanc Capital Markets - Analyst*

No, I hear you loud and clear. Thanks, Jack.

Operator

This concludes today's Q&A session. I would now like to turn the call back over to Roger Schrum for any closing remarks.

Roger Schrum - *Sonoco Products Company - VP, IR and Corporate Affairs*

Thank you again, Andrea. Sonoco will host its annual Investor Day on Friday, December 2, at the New York Palace Hotel at 455 Madison Avenue. Breakfast will begin at 7:30 am, and presentations will begin just before 8:00 am. You will hear from Jack and Barry again, and we will conduct a unique fireside chat Q&A with members of our senior leadership team. And, as always, we will have some samples of some of our new products to showcase at the meeting as well.

Those who cannot attend in person can join the meeting via the phone or on the Internet through a link on the Investor Relations website at sonoco.com. We certainly look forward to seeing many of you for our breakfast and a discussion, and we promise to keep the meeting brief and to the point.

In closing, let me, again, thank each of you for joining us today, and we appreciate your interest in the Company. And, as always, if you have any further questions, please don't hesitate to contact us. Thank you, again.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program, and you may now disconnect. Everyone, have a great day.