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SON.N - Q4 2020 Sonoco Products Co Earnings Call

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OVERVIEW:

Co. reported 4Q20 sales of $1.376b, base earnings of $83m, GAAP loss per share of $0.12 and base EPS of $0.82.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Fourth Quarter 2020 Sonoco Earnings Conference call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your host today, Roger Schrum, Vice President, Investor Relations. Please go ahead.

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

Thank you, Sarah, and good morning, everyone, and welcome to our fourth quarter and full year investor conference call. Joining me today are Howard Coker, President and Chief Executive Officer; Rodger Fuller, Executive Vice President; and Julie Albrecht, 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 website at sonoco.com. In addition, we will reference a presentation on our 2020 financial results and our 2021 outlook, which also is posted on our website this morning.

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

Furthermore, today's presentation includes the use of non-GAAP financial measures, which management believes provides useful information to investors about the company's financial condition and results of operation. 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 in the Investor Relations section of our website.

Now with that, I'll turn it over to Julie.

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

Thanks, Roger. I'll begin on Slide 3. We see that earlier this morning, we reported a fourth quarter loss on a GAAP basis of $0.12 per share and base earnings of $0.82 per share, which was above the top end of our guidance range of $0.70 to $0.80 per share. This quarter's base EPS results were also $0.07 stronger than the $0.75 we delivered in the fourth quarter of last year. Our fourth quarter results were above our expectations, primarily due to better operating performance across all 4 segments.

The businesses that improved most notably compared to our expectations were flexibles, Global Rigid Paper Containers, integrated industrial North America and ThermoSafe. In terms of the $0.94 difference between base and GAAP EPS, $0.56 related to asset impairment charges, most of which related to our perimeter-of-store thermoforming operations. $0.17 was driven by our Display and Packaging Europe divestiture, $0.11 was due to restructuring activities, $0.05 was from nonoperating pension costs and $0.05 was primarily from M&A and other expenses.

Now moving to our base income statement on Slide 4 and starting with the top line, you see that sales were $1.376 billion, up $67 million from the prior year period. I'll review more details about our key sales drivers on the sales bridge in just a moment. Gross profit was $275 million, $28 million above the prior year. This solid performance lifted our gross profit as a percent of sales to 20%, a 110 basis point improvement versus last fourth quarter.

SG&A expenses of $149 million increased by $16 million year-over-year, mostly driven by the timing of compensation expense increases. I'll also highlight that we did have lower expenses tied to COVID-19 such as travel, but they were offset by the addition of expenses from acquired businesses, all thus resulting in operating profit of $126 million, which is $12 million above last year. I'll discuss the key drivers on the operating profit bridge in a few minutes.

Net interest expense of $19 million was $3 million higher than last year due to the actions we took in 2020 to strengthen our liquidity position. Income tax expense of $25 million was slightly above last year due to our higher pretax profit. Our fourth quarter 2020 effective tax rate of 23.5% was mostly unchanged from the prior year quarter.

Moving down to net income. Our fourth quarter 2020 base earnings were $83 million, a 9% increase over last year. And for your information, we've included a full year base income statement in the appendix as well as full year bridges for both sales and operating profit.

And looking at the sales bridge on Slide 5, you see volume mix was higher by $52 million or 4% for the company as a whole. This increase was roughly split between stronger demand as well as 2 additional days in the quarter versus last year. Consumer Packaging volume was up $33 million or about 6%. We had continued nice growth in Global Rigid Paper Containers, which saw volumes increase by a robust 9.5%.

Our flexibles business demand grew by a solid 3% due to continued COVID eat-at-home patterns, most pronounced in our cookies and crackers end-use market. Finally, global plastics volume was flat, driven by prepared and specialty foods demand growth at almost 12%, but this was offset by continued weakness in the industrial end-use markets as well as lower volumes in perimeter-of-store. Display and Packaging volume was down $8 million or 5.5%, driven primarily by lower demand, specifically driven by the pandemic.

Moving to paper and industrial converted products, volume was up $7 million or 1.5% as volumes recovered in our global paper mill network as well as across our tubes, cores and cone operations. And finally, sales volume in Protective Solutions was up $19 million or about 16%, driven by strong demand in each business unit within this segment.

So moving across the bridge to price. You see that selling prices were higher year-over-year by $6 million. This was driven by price increases in the industrial segment, partially offset by decreases in the consumer segment, each primarily driven by raw material costs. Additionally, we do continue to see benefits from the recognition of the value of our products and services provided to our customers.

Moving to acquisitions and divestitures. You see a top line impact of $11 million from the addition of TEQ and Can Packaging in our consumer segment, with a partial offset from the sale of Displays and Packaging Europe at the end of November. And finally, the sales impact from foreign exchange and other items was negative by $2 million and includes no unusual activity.

So moving to the operating profit bridge and starting with volume mix, our higher sales volume of $52 million combined with the impact of mix had a positive impact on operating profit of $22 million.

Moving to price/cost. I'll remind you that this category includes the earnings benefit from higher selling prices as well as the impact of total inflation. In the fourth quarter, we had $36 million of unfavorable price/cost, which was roughly split between the impact of nonmaterial inflation and negative price/cost dynamics within our industrial segment, all of which was in line with our expectations.

As usual, there's a slide in the appendix that shows recent OCC trends, and you'll see that in the fourth quarter of 2020, Southeast OCC official board market pricing was stable at $70 per ton until market pressures caused an increase to $80 in December, all resulting in an average of $73 per ton in the fourth quarter. This was more than double $35 per ton average in the fourth quarter of last year.

Next, you see the impact of productivity and see that our total productivity in the fourth quarter was a very strong $42 million year-over-year. We have solid execution across our productivity levers and shop floor execution, procurement as well as fixed cost due to a combination of deliberate cost controls and restructuring benefits. And finally, the change in other was unfavorable by $16 million, with various moving pieces, but primarily related to the timing and amounts of compensation expense.

So moving to Slide 7. You'll find our segment analysis, where you see that Consumer Packaging sales were up 10%, driven by the addition of TEQ and Can Packaging as well as higher volumes driven by COVID eat-at-home behaviors. Consumer segment operating profit increased by 47%, driven by strong volume mix and excellent productivity results. Our consumer segment margin jumped by 280 basis points to 11.1% versus the fourth quarter of last year when the margin was 8.3%. Display and packaging sales were down by 20%, mostly due to the divestiture of D&P Europe as well as lower demand due to COVID-19. Operating profit was down 11%. The margins did improve by 50 basis points to 5.3% due to productivity actions and divesting the lower margin European business.

Paper and Industrial Converted Products sales grew by 3.6% due to year-over-year price increases as well as the recovering demand. Operating profit declined by 28% due to much weaker price/cost dynamics compared to the prior year. These headwinds were somewhat offset by solid improvements in productivity. The industrial segment's operating profit was 7.1% of sales, down by 310 basis points when compared to the fourth quarter of last year.

And finally, Protective Solutions sales grew by 17%. Operating profit increased by a very strong 42.5% due to the stronger volumes as well as better cost efficiencies. This segment's margins improved to 11%, a solid 200 basis point improvement over the prior year's 9%. So for the total company, sales were up just over 5%, and operating profit increased by 10.5%, resulting in company-wide operating margin of 9.2% of sales.

Shifting to cash flow. In the middle of this slide, you see that our full year operating cash flow was $706 million compared with $426 million in 2019, an increase of $280 million. The largest single driver to this increase was the $165 million of after-tax voluntary pension contributions that reduced last year's operating cash flow.

Midway down the slide, you see that our working capital balances decreased in 2020 by $51 million, which was a $15 million higher source of cash compared to last year. This was a result of significant improvement in all aspects of our working capital management despite a very challenging business environment.

Moving down to other operating activity. The $75 million cash generation from this category includes an approximately $30 million benefit from COVID-related FICA deferrals as well as an approximately $35 million cash tax benefit from our planned pension termination contribution in 2021.

Now moving on to free cash flow. Our net CapEx spending was $184 million, a slight increase of $2 million compared to last year, and our dividends paid in 2020 were $173 million compared to $170 million in the prior year. And finally, our free cash flow for the full year 2020 was $349 million, an increase of $275 million over last year, and virtually all of the improved cash flow was driven by the higher operating profit -- or operating cash flow that I just reviewed.

On Slide 9, you see that our balance sheet and our liquidity position remained extremely strong. Our year-end 2020 consolidated cash balance of $565 million increased by $420 million during the year. This increase reflects the proceeds from the divestiture of Display and Packaging Europe and our very strong cash flow generation, somewhat reduced by the acquisition of Can Packaging in the third quarter. Our consolidated debt totaled $1.7 billion at the end of 2020, an increase of only $19 million from the prior year-end following our $442 million repayment of short-term debt during the fourth quarter.

And finally, you'll see at the bottom of this slide that our net debt to total capital decreased from 45.8% at the end of 2019 to 37% at the end of 2020.

So with that, I will hand it over to Howard.

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

Thanks, Julie, and good morning, everyone. Let me provide some brief commentary regarding our full year performance and then talk about our strategic direction in 2021 before I turn it back to Julie to provide you details regarding our guidance.

2020 was both the test of our resolve as a company and a testament of the strength of our people. On a personal note, I cannot thank enough our 20,000 associates around the world for all they have done and continue to do to meet the critical needs of our customers during this pandemic and for supporting me in my first year in this role.

Despite COVID, our team quickly refocused operations by accelerating production of food packaging to meet consumers' growing demand while making adjustments in our industrial and related businesses such as protective packaging in response to demand swings. We developed vitally needed temperature-assured packaging to begin shipping life-saving vaccines and therapeutic drugs to combat the spread of the virus, and we further improved our portfolio by acquiring Can Packaging, a European designer and manufacturer of sustainable paper packaging and related equipment while divesting our lower-margin European contract packaging business.

As shown on the full year segment review on Page 10, we have a strong year in Consumer Packaging, with organic sales up 2% and operating profits reaching a record up 21% -- 27% from last year. Rigid Paper Containers had a strong year with volume mix up more than 4%. Flexibles also had one of its best years, although volume was mixed with gains in food packaging, offset by declines in confectionery sales. Prepared and specialty plastic trays had an exceptional year with organic sales up double-digits, but that was offset by volume declines in our economic-sensitive industrial plastics business.

Display and Packaging segment sales declined due to slowing retail activity during the pandemic. However, the team managed the business very well, and operating profit increased by 10%. The pandemic also had a significant impact on our global paper industrial segment last year, with operating profits declining nearly 30%, due to a 4% decline in volume mix and a negative price/cost relationship driven by rising OCC prices. As we mentioned previously, industrial volumes declined significantly in the second quarter of the year, but recovered through the rest of the year and continue to improve as we enter this year. Finally, our Protective Solutions segment had a strong second half of 2020, which drove a 3% improvement in operating profits.

Now let me switch gears and talk about our strategic focus as we enter 2021. As I shared with you last year at this time, we will continue to drive a sense of urgency throughout our company to move more quickly to address longer-term issues and support opportunities that can lead to long-term performance improvements. A key part of our strategy is to invest in ourselves to drive both growth and margin improvement in businesses we know and know well.

A prime example of this strategy is our $114 million investment in Project Horizon, which will convert our Hartsville corrugated medium machine to produce uncoated recycled paperboard. When completed by the second quarter of 2022, this project will drive approximately $30 million in annualized cost savings. In addition to Project Horizon, we have developed a strong pipeline of high-return internal opportunities with the ability to accelerate growth or enhance productivity. We expect to spend approximately $85 million on Project Horizon in 2021.

So let me give you a quick update on our progress. There are 4 aspects to the project, starting with modernizing our facility to better transport, handle and store recovered paper. We're well into the demolition and expect this phase of the project to be completed by July.

Next is a construction of a new stock prep system, which will feed our 180,000 ton per year new URB machine as well as other -- machines on campus. The new pulping system will allow us to use more mixed paper, thus lowering cost, and construction there begins on March 1 and should be completed by September. We'll sequence this activity with the building of the new finished goods warehouse to modernize the finishing and storage areas of campus. This new complex should be completed by mid-October. Finally, the conversion of the machine should be completed in March of 2022. We will continue producing medium through the end of this year, about 3 months longer than we previously planned.

Before I turn the call back to Julie, I want to mention that we will change our reporting structure in 2021 to better reflect how we are managing our businesses going forward. There's a picture to illustrate this new simplified structure on Page 11 of our presentation. This change will leave us with two reporting segments: consumer and industrial paper packaging. Our remaining businesses will presented in an All Other group. The Protective Solutions and the Display and Packaging segments will be eliminated, and their business has moved into this new structure. Changes to the Consumer Packaging segment will include moving our TEQ health care packaging and industrial plastics business to All Other.

Industrial paper packaging will be relatively unchanged, except that our fiber protective packaging unit will be added from the former Protective Solutions segment. All other will include our health care and protective packaging businesses, including tech, Sonoco ThermoSafe, consumer and automotive molded foam as well as alloyed retail security packaging and the U.S. Display and Packaging business units.

So Julie, with that, why don't you talk about our financial guidance for 2021?

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

Absolutely. Thanks, Howard. So on Slide 14, you see our key assumptions for our 2021 guidance. As a starting point, our outlook was developed using regional macroeconomic recovery assumptions related to COVID, with recovery generally occurring around midyear 2021. After factoring this overall level of economic activity in with what we're hearing from our customers about our served markets along with activity in our sales funnel, we're targeting to drive a 2% increase in volume for the company as a whole, and I will provide more information about volume and outlook by segment in a few minutes.

The impact from the recent divestiture of Display and Packaging Europe and the acquisition of Can Packaging are reflected for a full year in 2021 as these deals close in the second half of last year. In terms of selling prices and related costs that are tied to market indices, the outlook for old corrugated containers, or OCC, is to average $90 per ton, while the 2020 average was $71 per ton. In addition, our outlook assumes that resin prices will increase approximately 10% over last year. Inflation is a challenge as we start this year, so our outlook includes significant inflation headwinds in areas including freight and insurance. Our interest expense is projected to be lower by $12 million in 2021, primarily due to our expected repayments and refinancing of debt that is maturing this year. In terms of taxes, we've estimated our 2021 effective tax rate to be 25.4%, which is flat to 2020.

So on the next slide, you see our 2021 outlook sales bridge. First, again, for the company as a whole, we expect 2% volume improvement to drive an increase in sales by $105 million.

I'll now provide some color around our volume expectations for each segment using our new segment structure that Howard has described. For 2021, our consumer segment volume is projected to be relatively flat to 2020 as Global Rigid Paper Containers retract by around 2.5% after the very strong 2020 benefit from COVID eat-at-home patterns. Conversely, our flexibles business forecasts growth of around 3.5%. And global plastics expect to be flat, with growth of around 7% in prepared and specialty foods on new business opportunities, but this is mostly offset by lower demand in perimeter-of-store. We expect our industrial segment volume to increase by about 3.5% year-over-year. Global tube, core and cone volumes rebound by about 7%, while global paper is expected to recover with growth of approximately 2.5%. And in All Other, we're projecting a

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4.5% increase in volumes, driven by high-single-digit growth in ThermoSafe, TEQ and retail security, partially offset with lower growth rates in other parts of this business grouping.

So moving across the sales bridge, you see a positive impact of prices of $115 million year-over-year. Our industrial segment makes up about 2/3 of this increase. Overall, these price increases are driven by contract pricing resets tied to market indices as well as a continued focus on our commercial excellence activities.

Next, you see acquisitions and divestitures, which mostly reflects the impact from the divestiture of Display and Packaging Europe, which is slightly offset by the addition of Can Packaging. And finally, the sales impact from foreign exchange and other is $17 million, primarily due to foreign exchange translation, assuming a weaker dollar in 2021. So in total, you see that our 2021 projected sales are $5.2 billion.

So now moving to the base EPS bridge and starting with our 2020 base EPS of $3.41 per share. I'll first point out that we expect the net impact of the acquisitions and divestitures made in 2020 to reduce earnings by $0.14, primarily due to the divestiture of Display and Packaging Europe. So now that we've removed our acquisitions and divestitures from our 2020 actual results, we can focus on how the operational drivers to our earnings compare on a year-over-year basis.

The 2% overall volume growth that I described earlier, with mix considered, is expected to add $0.23 to base earnings. Next, we project to have a positive impact of $0.40 per share from total productivity, which is split between procurement and manufacturing gains. You then see a positive impact of $0.12, mostly from lower interest expense and improved foreign exchange translation.

Moving to price/cost, inclusive of material, energy and freight cost changes, we're expected to have a net negative price/cost impact of $0.43 per share. This does include favorable increases in selling prices year-over-year, but these are more than offset by inflation in key areas such as freight, insurance and compensation.

And finally, related to IT, strategic investments and other items, there's a net negative impact of $0.09 per share. In 2021, we are increasing our spending to upgrade key elements of enterprise technology, including network infrastructure improvements and our global ERP deployment. In addition, we do have a headwind from the nonrecurrence of certain unique other income items last year.

All of these base EPS movements result in our 2021 outlook for base EPS of $3.50 per share, an improvement of 2.5% over 2020 reported base EPS or an increase of 7% after adjusting for our acquisition and divestiture activity last year.

So before I review our 2021 free cash flow guidance, I'll note that beginning this year, we are changing our definition of free cash flow to be operating cash flow less net CapEx spending. Our cash flows for the dividend will no longer be included in our free cash flow definition or results.

So for 2021, our outlook is to generate $285 million of free cash flow compared to $522 million in 2020. The key assumptions underlying our 2021 outlook are no change to year-end 2020 working capital balances and CapEx spending increasing to $300 million. This higher CapEx spending does reflect our invest in ourselves strategy and as Howard noted, includes about $85 million related to Project Horizon. We also have an approximately $45 million year-over-year cash flow headwind related to the $30 million of FICA payments deferred from 2020 and required to be made in each of 2021 and 2022.

So before I finish my comments, I'll add that we are active with our pension termination process that we've discussed previously. We currently expect the process to be completed in mid-2021 with an annuitization of approximately $1 billion of U.S. pension liabilities. We do expect to recognize an approximately $560 million non-base noncash settlement charge mid this year related to this pension termination process. In addition, we expect to make a voluntary pension contribution of around $150 million when we complete the termination and annuitization process. For now, we've excluded this contribution from our 2021 cash flow guidance due to the inherent uncertainty about the amount and final timing of the contribution.

And so with that, I'll turn it back over to Howard.

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

Thanks, Julie. Entering 2021, we feel good about how our balanced mix of consumer and industrial businesses are progressing despite the uncertain economic outlook. The positive momentum we experienced at the end of 2020 seems to be continuing into the first quarter. Our Consumer Packaging segment, which is primarily focused on food packaging, should continue to benefit from our consumers' at-home eating habits.

Demand in our industrial paper packaging markets continues to show sequential improvement. Although we still face a negative price/cost relationship due to escalating year-over-year recovered paper, freight and other operating costs. I'll mention we are aggressively working to recover this inflation, including recently announcing a second $50 a ton price increase for URB in the U.S. and Canada, effective March 1. We believe we can achieve this price increase as we continue to experience significantly longer backlogs in our mill system and inventories remain tight.

In All Others, we expect solid demand in our pharmaceutical and industrial markets. We're still in the early days of providing qualified cold-chain shipping solutions for FDA-approved COVID vaccines and therapeutics to the broader public, but we expect demand to expand as last-mile distribution systems become more organized.

Finally, turning to Slide 19. I want to make just a few comments about our balanced capital deployment strategy. As Julie mentioned, capital expenditures will increase to $300 million in 2021, driven primarily by Project Horizon and hold over capital projects that were delayed by the pandemic in 2020. Returning cash to our shareholders remains a top priority, and we were pleased that the Board authorized a 5% increase to our dividend, representing the 96th consecutive year we provided a cash payout to our shareholders. I'll also mention this is the 38th consecutive year that we have increased dividends. And our payout ratio is roughly 3%.

M&A has historically been an important element of our strategy, and we continue to selectively acquire and invest to help optimize our core consumer and industrial portfolio. Our strong balance sheet and robust cash flow provides us a solid platform to evaluate and pursue most internal and external opportunities. However, we remain committed to maintaining our investment-grade rating. Finally, share repurchases are always an option, but only if we're unable to find the right internal or external investment opportunity.

We're proud of how our people have grown comfortable operating in uncomfortable times. We remain confident that Sonoco is well positioned for when the grip of the pandemic weakens. We'll continue to invest to reinforce the long-term potential of our core businesses while remaining committed to returning value to our shareholders.

Now with that, operator, would you please review the Q&A procedures?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Gabe Hajde with Wells Fargo Securities.

Gabrial Shane Hajde - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

I hope you and your families are well. I appreciate it's difficult to comment in a format such as this, but I guess with a few reports out indicating Sonoco as a potential bidder for certain assets in Europe, I was hoping you can maybe help us think through the strategic merit of such a transaction, including kind of your footprint in the region as well as your experience in getting food to retailers in the supply chain in both the U.S. and Europe. And then lastly, you kind of finalized your comments with -- Howard, your investment-grade rating is obviously important so to the extent you would consider using equity as a form of payment there.

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

Thanks, Gabe. Frankly, yes, I've actually heard the same rumors, read some of the same reports. And frankly, I'm not necessarily surprised that they're out there considering our can and closures business and the correlations there. But frankly, to your opening, we really aren't going to get give any context as it relates to a market-type speculation. So that's really about as far as I can go with that. So...

Gabrial Shane Hajde - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

No, I appreciate that. Not a problem. On the temperature-assured side, you talked about kind of waiting for the supply chain to get together. And really, that's where you will kind of participate. To the extent that you can comment and have done work there, can you give us any sense for what that opportunity might look like and a little bit more, I guess, specificity around timing?

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

We've started seeing activity really into the fourth quarter. I wouldn't call it terribly material in the fourth quarter. We're seeing that ramp-up at this point in time. It's really, really difficult for us to really quantify what this could possibly mean. There's -- as we noted earlier, the -- you know that there's a bit of chaos in the market right now. But our feelings are, as things stabilize, as we start seeing more, we call it last-mile type deliveries, we certainly expect to be well engaged with that. But frankly, from where we sit right now and as we look into our forecast for the year as it relates to our ThermoSafe and Protective, we're not being overly aggressive right now. We really got to see how this thing plays out, but we certainly will be a participant.

Rodger, you got any color you want to add to that?

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

Yes, Dave, this is Rodger. The only thing I would say is ThermoSafe had a fantastic year in 2020, record top line and bottom line performance. As we continue to win new business across the pharma space, we will be involved in delivering COVID vaccines. We booked some business, but it's just simply too early to put an estimate on the total. We expect ThermoSafe in 2021 growth to be in the high single-digit without COVID vaccines and above into double-digits with COVID vaccines.

So by the second quarter meeting, I think we'll be able to give you firmer numbers as some of the incremental other vaccines that are in process of being approved come out. But for now, it's just too difficult to give you a specific estimate. But we're very excited about it. It will be an opportunity for us.

Operator

Our next question comes from the line of George Staphos with Bank of America.

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

I guess the first question I had is going to be kind of a couple of parts on just the portfolio. A couple of times during the call today and in the prepared remarks, you referenced that the perimeter-of-store is still seemingly anyway performing perhaps less well than you would like. If you could give a bit more color on what's going on in the business as relative to, say, a quarter or 2 or 3 ago, how well you think it fits in the portfolio, both in terms of sales mix and your own capabilities?

And then relatedly, you mentioned in your -- one of the last slides, you're pursuing of accretive acquisitions in core consumer and industrial markets. Can you give us some guardrails on what would tend to be a more appealing type of acquisition for Sonoco versus a less appealing one as we're studying your strategy and what you might do down the road? And I had a quick follow-on to that.

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

Sure, George. Let me break to talk about the acquisition side. One of the things that we've said consistently for the last year or so is that we're really happy with the foundational businesses that we have in our portfolio. So if you want to think in terms of where we would be interested in growing and building on an acquisition base, it would be in that, basically staying within what we feel like our core competencies of staying in that lane now. Now of course, we've got quite a number of businesses across our portfolio, both on the industrial and the consumer side. And I can simply just say that any acquisitions that we do, and I've said this before, should not be a surprise to anyone that you should say, I get it. That's exactly why they've done. That makes sense for Sonoco to make that type of acquisition.

I'm going to let Rodger give more color on the perimeter-of-the-store question. But just quickly on where it fits, we're real pleased with our overall thermoforming platform from the recent acquisition in health care with TEQ to what we're doing in the quick-serve market, our play business, and in those 2 cases, where we feel like we've got solid #1 positions. What you're going to see us talk more about in the future is less about a particular market segment approach to thermoforming, but really thermoforming in totality as it relates to all of the business units that I just described.

So you'll probably be seeing midyear, so we're just referencing our food, thermoforming business in total. But yes, a lot of changes have taken place last year. And then, of course, as we start off this year. And Roger's talked about some of those in the past. And if you don't mind, Rodger, maybe a little more color on?

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

Sure. So real quick, but George, as an update, we've completed the consolidation of the 3 operations in the West Coast and 1 mega plant in California. So that's complete. Now on the West Coast, we're out raising prices on certain products as needed. And frankly, we're putting some volume at risk, and Julie mentioned some of the pros headwinds from a volume standpoint. So combined with that consolidation and some price moves on the West Coast, we will see some volume pressure there. But from a savings standpoint, the announcement we came out in the fourth quarter, we said we would save about $10 million -- in a $10 million range on an annual basis from that consolidation, and we see that playing out.

As Howard said, if you look at the rest of our thermoforming business, including our perimeter-of-store business on the East Coast, it's growing. Eggs are growing. We've got new products in the marketplace in leafy greens with the plastic thermoform bottoms with a peel resale closed top from our flexible business. So we're still excited about the perimeter-of-store business in general and the growth prospects, it was more of a specific issue on the West Coast that we had to deal with. So as Howard said, going forward, you'll hear us talk about our thermoforming food platform which is very strong, very successful, and we'll be leveraging those strengths across our perimeter store business as well. So does that answer your question?

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

Yes. That's very helpful, Rodger. And quickly, and I'll turn it over because I know it's getting late. On Slide 16, you gave us a very helpful bridge on your earnings guidance for the year. And there's a big bracket number on price/cost, which we understand. What assumption do you have in that figure for your latest pricing? Is that embedded in that number? Or could you shrink the negative price/cost, if, in fact, you're successful with this latest round of pricing? And overall, what else could you do to take that figure lower given its diminishing of all the other good stuff you've got going on between volume and productivity? Good luck on the quarter.

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

George, it's Rodger. The assumptions in there are the successful implementation of the first price increase that we implemented the first 50 and achieving core increase. So hopefully, as we continue to implement the second, we could see some of that price/cost come down. We're also working hard on freight. The hardest part of inflation on freight hit in the fourth quarter, so we took some very aggressive actions in the fourth quarter and the first part of this quarter in recovering that freight and working on our freight contracts.

And then finally, resins, as you know, resin is going to be a headwind for us in the first quarter. We're expecting resin in the first quarter to be up in the 15%, 16% range for the year. In the 10% range, we're also aggressively out moving prices on our resin-based products as well. So I think that kind of gives you the big 3 as far as inflation and our price/cost recovery for '21.

Operator

Our next question comes from the line of Adam Josephson with KeyBanc.

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

I hope you and your families are well. Howard, one more on the portfolio for you. Obviously, you sold the European contract packaging business. You took the impairment in the thermoforming business. How do you think about how the portfolio is structured now? Do you think you need to further simplify it? So investors will sometimes say that there's just -- there are many businesses to follow, and it's somewhat complicated and it makes their lives more difficult. And some of them have said a more simple portfolio, easier to understand, more of a pure-play would just be -- would go down easier for some of them. How do you think about the issue of how much you like all the businesses you have against the potential benefits of having a simpler company to explain to investors?

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

Thanks, Adam. Just directly, you can expect that there'll be some further movement in the relative near to midterm. But in total, as we look at the portfolio, particularly as we've resegmented and go by line item by line item, we have got some really solid businesses with some solid leadership. And so frankly, while it will always be challenging the structure of our portfolio, particularly as we move forward from an acquisitive standpoint, it will always be under -- the word I'm looking for -- we're always looking at our portfolio. And I'm not answering your question very well. I would say that we're happy with the business we've got. There's going to be some movement I would expect in the relative near term, both from a divestiture and acquisitive standpoint. And as we set these new structures and these new segments in place, I think you'll see more logic to it as we go forward.

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

Terrific. And just one on guidance. The 2% volume mix, the company often starts the year guiding to about 2% and sometimes falls short of that target for various reasons. I know that's been the case for the last couple of years. How much confidence do you have in that 2% volume mix target? And just on the inflation you're expecting, how would you compare that to the last big bout of inflation you saw in 2018? Is it worse? Is it less bad? Just any thoughts there.

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

We feel good about the guidance. If you were to go through the portfolio, consumer side of the business, we're holding relatively flat. And when you look at that, you say, "Hey, you have a strong years related to COVID." And certainly, as we start the year, we're seeing it that way. But we also picked up new business during the course of the year, so there's room for some COVID-related degradation on the consumer side. Stepping down into the industrial, we've talked about it, the sequential improvements we've seen. And frankly, we're pretty much getting back to a normal type run rate. And as we enter again the first quarter to go around globally, we're seeing fairly strong demand, very strong demand, not only here but around the world.

And we've talked about the protective side, continued strength on the white goods space. We could -- that be tapering off somewhat towards the mid part of the year, probably so. But as Rodger pointed out, on our ThermoSafe business, it continues to perform and perform extremely well, independent of any type of COVID-type situation. So actually, it should be even some upside there. So when you look at that 2%, feel pretty good about where we're positioned at this point in time.

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

And just on the inflation piece, any comparison to the last bout of big inflation? How long-lasting do you realistically think this is going to -- I know it depends on the global economy, but any strong views of the inflation situation you're facing, how temporary or longer-lasting you think it's likely to be?

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

It's hard to make that call. I think the critical part about that is recovery side of it. And again, as Rodger pointed out, extremely aggressive. And specifically, Rodger was referencing on the industrial side, but on the consumer side, equally the same. So when will it start to subside, that's almost anyone's guess, but our plan and how we're executing this is just to recover that and recover in full on a very rapid basis. I really can't comment on when we would expect to see that turning in the other direction.

Operator

Our next question comes from the line of Salvator Tiano with Seaport Global.

Salvator Tiano - *Seaport Global Securities LLC, Research Division - Senior Analyst*

Yes. Firstly, a little bit on uncoated recycled board. You are out, as you said, with the $50 increase. I think you mentioned before in response to the question that what you're assuming is $50 right now. And if I remember correctly, RISI has reflected $30. Can you, first of all, clarify that difference and what you're seeing with your customers versus what RISI is reflecting? And secondly, with the second price increase, if it does go through in March, what could be the potential impact on earnings, both in 2021 and on an annualized basis?

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

Yes. This is Rodger. I'll start with the first question. Yes we announced $50. And as you said, the RISI index has recognized $30. We really can't comment or explain RISI's movements, but we have achieved the full $50 in our customer base as well as our 6% to 7% achieved in core, that was the first one. And so far, really good performance on the next $50 a ton increase effective March 1. And then RISI will do what RISI does, but we're very confident in pushing those through. We're doing the same in Europe. We're really doing the same in every region of the world. So at this point, we're confident that we'll see the majority of that second increase you go through to our customer base. And then we'll follow the index as it changes.

Salvator Tiano - *Seaport Global Securities LLC, Research Division - Senior Analyst*

And with regards, I guess, to the potential earnings impact if the March price increase goes through?

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

I would say accretive.

Salvator Tiano - *Seaport Global Securities LLC, Research Division - Senior Analyst*

Yes. Okay, perfect. And let me ask one more question about, I guess, your organic investments. Clearly, there's a step-up here with Project Horizon. But how do you see CapEx from 2022 and beyond as the main project is done? And essentially, what opportunities do you see to increase CapEx on a more sustainable basis? Do you see a lot of projects? I think you mentioned a robust pipeline, but can you give some examples?

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

Yes. There's a lot of examples. But let me go back to your first question, we're going to -- we've increased with Horizon, we're going to play this out this year. We'll let you guys know what it looks like going forward, '22 and beyond. But what I will say is we've talked about earlier in the year, we're going through a strategic planning process with all our business units to say, "What if you had more, what could you do?" And they have come out with -- to your question, can I give an example, yes. I mean but it's spread across a number of the business units. And we've been -- we walked away very impressed by how much pent-up demand there is to deploy more capital dollars into our existing business units to mine, both organic growth as well as productivity going forward.

I wouldn't do a lot of service. There's not a Project Horizon-type project. It is really across the board and across the portfolio. So no real big major that has come to light at this point in time.

Operator

Our next question comes from the line of Ghansham Panjabi with Baird.

Ghansham Panjabi - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I guess going back to consumer and the 6% volume growth for the quarter for 4Q, let's say, 2% from extra days and stuff like that, but it really was well above the trend line from the previous 3 quarters relative to your peer group and what the packaged food environment was doing just more broadly. So I guess, first off, what changed there in terms of the volumes? Was there some sort of delay that impacted 3Q that flowed into 4Q? Or was it just an acceleration at the end market level?

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

Yes. I think, Ghansham, it's -- to your lot of point, acceleration. Normally, if we play in the fourth quarter, we see a pretty busy -- our busiest month of the year is October trailing into November, and we expect to see that to taper down into December, that didn't happen, and frankly, somewhat across the board in our can business, flexibles and our thermoforming business as well. So -- and frankly, as we enter the first quarter of this year, it still remains very robust. The whys behind all that, I can only just say of what we all know in terms of pantry stocking, consumption at home. Frankly, could it be as well that -- well, the seasonality kind of touches on that, and we normally would slow down breaks on mid-December, that just didn't happen.

Ghansham Panjabi - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Got it. And then just looking back over time, I mean, it's rare for Sonoco to have 2 consecutive years of negative price/cost of significance, which is basically what you're guiding to for 2021 based on the EPS bridges. What makes this -- going back to an early question, what makes this particular inflation cycle different? Is it just the rate of change for freight and maybe insurance? And maybe, Julie, if you could quantify the impact from higher insurance costs as well.

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

Yes. Ghansham, we're seeing it across almost every category, every spend category. And it's unfortunate from year-over-year, we're seeing the same type of -- but it seems to be more broadly painted going into this year than we have in previous year where we may have had a commodity or a series of commodities, as Rodger had mentioned earlier, and you mentioned insurance across the board. So to your point, though, directly on insurance, that is meaningful and Julie...

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

Sure. It's about $6 million of year-over-year increase is what we're expecting, and really, a lot of that is in our property insurance, which is really very market-driven. But roughly $6 million is what we've got in our outlook.

Operator

Our next question comes from the line of Mark Wilde with Bank of Montreal.

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

Julie, I wanted to just come back to an earlier question that Gabe asked, and that is just about leverage, particularly how you think about sort of the upper limit of leverage for you from potential acquisitions. We heard you very clearly on wanting to remain investment-grade, but what does that actually mean in terms of net debt-to-EBITDA or however you want to measure it?

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

Yes. Absolutely. So yes, absolutely, Board, management, extremely committed to the investment-grade rating, as Howard has already mentioned. Our GAAP debt-to-EBITDA as we wrap up the year and look into 2021 is around 2x. We do look closely and model really very regularly, normal course of business, our rating agency metrics, right, to keep an eye on our planning in the normal course as well as, obviously, yes, opportunities and how we might address them from a balance sheet perspective.

So we're pretty comfortable with our internal modeling around the type of business, the size, let's say, that we can acquire and remain investment-grade, although we, obviously, would always keep in touch very closely. We do keep it such closely with the rating agencies. But yes, we -- again, when we look at, let's say, just to pick one, Moody's adjusted leverage ratio and that kind of like 3x is something that we, over a long-term, I'd say, target, but we monitor very closely with our actual results and again, as we model out future profits, cash flow scenario, that type of thing. So I don't know, Mark, does that answer your question?

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

Yes. So if we just thought about it like simplistically in terms of net-debt-to-EBITDA, what would that mean going to, Julie? What would the upper bound be?

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

On a GAAP basis?

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

Yes.

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

Maybe like 2.5x or something. From a -- but of course, really what we monitor really side-by-side is really our leverage on a rating agencies adjusted basis, right? That's obviously pretty important. But they tend to move -- the GAAP and the adjusted ratios tend to move in tandem with each other, but we closely monitor both sets of metrics.

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

How much room would you have right now?

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

Yes. Well, we, I mean, clearly have a very strong balance sheet, right, and have ample liquidity for the business, however we choose to grow it. So...

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

So Mark, I mean, that's exactly -- we do have a very strong balance sheet. That's going to give us some opportunities, as I've already talked about back to Sal's earlier question in terms of where we're going in terms of investing in ourselves, spending more in terms of capital and certainly, yes, we're going to continue looking at acquisitions that fit within our core that are complementary. But we are firmly committed to staying in, as Julie's pointing out, investment-grade rating category. So we got a nice balance sheet. Other uses of cash we talked about in the opening comments, if they be share buybacks, if we don't have better use for cash, but we think at this point in time, we've got some pretty good opportunities, both internal and external, but focused on our strength of our balance sheet.

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

Okay. And Howard, for follow on, I just -- I don't want to like flog a dead horse here, but I'm just curious, you seem to be exiting kind of the Display and Fulfillment business. That was actually a pretty big acquisition for you and then a pretty big target for incremental capital. You've taken some write-downs in that West Coast thermoforming business. When you look at what happened in those cases, what are the lessons that you take going forward in terms of future M&A?

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

That's a big question. You point about Display and Packaging, that's a business that's been around for a long time. It was built around a strategy that we were running during that period of time. I think most of you -- certainly, we realized that, that had played its course in terms of being a strategic asset for Sonoco. As noted, it has performed well. It just has not been a division that we felt strategically that was important to us. We can talk about pros, Rodger went through some of the changes, et cetera, that we've put in place to improve that business. But I think more to your point on select acquisitions that we've -- think what you're trying to say that maybe we've learned some lessons in terms of what may or may not have gone to our initial strategy. We've got plenty of them that have.

And I guess the point I'd like to leave you guys with kind of takes us back to about a year ago, where we said, as a company, as a leadership team is that we've got some things in our portfolio that we need to clear up. Display and Packaging was really no secret. We've acted on that and dealt with that. We have been very open from really for the last couple of years that we've had issues on the West Coast portion of our thermoforming business, and we've dealt with that as well.

So I'm hoping your takeaway from this is that we're actually doing what we said we're going to do. We're going to address issues that we've got in our portfolio, and we're going to move this company forward.

Operator

Our next question comes from the line of Josh Spector with UBS.

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

Just a question on the tubes and core business and the performance over the last couple of quarters. With North America still down and rest of world up, I was just wondering if you could provide some context about what drives that. Is it product mix, regional dynamics? And what's kind of your outlook for those 2 different parts of the business over the next couple of quarters?

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

Yes. This is Rodger. It's primarily product mix. Even though it's declined over the years, graphic papers, newsprint, printing and writing papers, it's probably still 25%, 26%, 27% of our tube and core business represents that much of our tube and core business in the U.S. It's less than that outside of the U.S. In fact, we've seen very strong recovery in textiles from the bottom of the market's, down 40% of the previous year in the second quarter, back to 90% in the fourth to 100% as we start off the new year, the same in film.

So that's really the dynamic you're seeing as well as we've got some really good wins in Europe and Russia and Turkey, some of the emerging markets around textiles. So that's the dynamic you see, and we expect and are projecting our tube and core business in the first quarter to turn positive and kind of follow the trend of the rest of the regions of the world.

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

That's helpful. And just quickly on your OCC outlook, you're forecasting a modest increase from today's price and that holding through the year. What gives you kind of conviction in that taking place? Or maybe how much conviction do you have in that view?

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

We're pointing at each other. Right, our forecast is $9 a ton, we feel pretty comfortable at that range. Can it move plus or minus that $10 range, we don't see any really situation where we could see it increase on a rapid debt base or frankly, decrease. So at this point in time, we feel pretty comfortable that the range we're in, understanding that there will be some volatility in that.

Operator

Our next question comes from the line of Kyle White with Deutsche Bank.

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

I just wanted to follow up on Salvator's question regarding URB and pricing. Just curious if you could give us how much of your business there and the contracts there are tied to the actual RISI index relative to maybe some of cost base mechanisms that you have.

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

Yes. If you look at our tube and core business, about 60% is tied to the RISI index, 25% what we call open market and about 15% OCC. Paper really is more tied to OCC about 50%. We're gradually increasing our external paper sales to RISI, but it's about 25% in the balance or open market. So a little bit of mix between URB and paper, but that's where we are today.

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

Got it. And then I'm just curious, there was a large kind of change of hands on the consumer space regarding nuts. Just wondering if there's anything there in terms of change of control provisions regarding that customer or business or anything with the existing contract that could potentially be at risk as a result?

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

You're talking about the planters business, I assume?

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

Yes, planters.

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

Well, we should be fine. We supplied paperboard cans to planters nuts for many, many years. Dedicated facility for that volume, so we see no issue with that going to Hormel. Look forward to building a bigger, long-lasting relationship with Hormel, so we view that as an opportunity.

Operator

We do have a follow-up question from the line of Salvator Tiano with Seaport Global.

Salvator Tiano - *Seaport Global Securities LLC, Research Division - Senior Analyst*

Very quickly, I guess, on the volumes in industrial paper. I think you were down 8% to 10% over the past 3 years. And you're seeing a recovery of only 3%, what's kind of preventing you from growing a little bit more? And has there been any meaningful cap from reducing your URB capacity with some closures in the past year or so in your volumes?

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

Yes. If you recall, we've taken 2 machines out of the URB -- our URB system in North America. And our commitment has been, as we invest in our low-cost machines and add capacity that we will, at the same time, take out any high-cost capacity. And that's what we've done over the past year. So I think it was 120,000 tons or so that we removed as we continue to invest in our lowest cost machines, and that's our commitment going forward.

Operator

There are no further questions. I would now like to turn the call back to Roger Schrum for closing remarks.

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

Well, again, thank everyone's patience for giving us your time today. And again, if you have any further questions, please don't hesitate to give us a call. Thank you again for your participation.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.