Sonoco Products(Q3 2022 Earnings)

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Corporate Speakers:

- Lisa Weeks; Sonoco Products Co.; VP of IR & Corporate Affairs
- Howard Coker; Sonoco Products; CEO
- Robert Dillard; Sonoco Products; CFO
- Rodger Fuller; Sonoco Products; COO

Participants:

- Anthony Pettinari; Citigroup; Analyst
- Georget Staphos; BofA; Analyst
- Adam Josephson; KeyBanc Capital Markets; Analyst
- Mark Wilde; BMO Capital; Analyst
- Mark Weintraub; Seaport Research Partners; Analyst
- Gabrial Hajde; Wells Fargo; Analyst
- Matt Krueger; Robert W. Baird & Co.; Analyst
- Kyle White; Deutsche Bank; Analyst

PRESENTATION

Operator^ Good day, and thank you for standing by. Welcome to the third quarter 2022 Sonoco Earnings Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Lisa Weeks, Vice President, Investor Relations. Please go ahead.

Lisa Weeks^ Thank you, operator, and thanks to everyone for joining us today for Sonoco's Third Quarter 2022 Earnings Call. Joining me this morning are Howard Coker, President and CEO; Rob Dillard, Chief Financial Officer; and Rodger Fuller, Chief Operating Officer.

Last evening, we issued a news release highlighting our financial performance for the third quarter, and we prepared a presentation that we will reference during this call. The press release and presentation are available online under the Investor Relations section of our website at www.sonoco.com.

As a reminder, during today's call, we will discuss 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. Please take a moment to review the forward-looking statements on Page 2 of the presentation.

Additionally, 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 to GAAP measures, is available under the Investor Relations section of our website.

For today's call, Howard will begin by covering a brief summary of third quarter performance. Rob will then review our detailed financial results for the third quarter, and along with Rodger Fuller, will discuss our guidance update for the fourth quarter and full year 2022. Howard will then provide a progress report on our priorities followed by a Q&A session.

If you will turn to Slide 4 in our presentation, I will now turn the call over to our CEO, Howard Coker.

Howard Coker^ Thank you, Lisa, and good morning, and thanks to all of you for joining our third quarter call. As you read in our press release, we reported strong year-over-year performance for revenue grew 34% to $1.9 billion, and we expanded base EBITDA margins 200 basis points to 15%. Our base earnings per share of $1.60 was a 60% increase over the third quarter of last year. These results, which were above the high end of our guidance range, were enabled by stable Consumer Packaging demand, mainly from staple food items, strategic pricing and our commercial excellence initiatives and overall improving supply chain conditions.

As a result of our strong results year-to-date, we have increased our full year 2022 guidance. This performance is another positive proof point for our continued successful execution of our strategic priorities and what remains a dynamic environment. Our teams have remained diligent in support of our customers, while we continue the journey to build a better Sonoco. I want to express a warm thanks to all of our team members for their incredible hard work during this period.

With that, I'm going to turn it over to Rob, and they're going to take you through our financials for the quarter.

Robert Dillard^ Thanks, Howard. I'll begin on Slide 6 with a review of key financials for the third quarter. Please note that all results discussed will be adjusted to base, and all growth metrics will be on a year-over-year basis, unless otherwise stated. The GAAP to non-GAAP EPS reconciliation can be found in the appendix of this presentation as well as in the press release. The third quarter financial results again represented Sonoco's ability to deliver strong results from our core market position. Sales increased 34% to $1.9 billion in the third quarter.

This sales growth was driven primarily by the Sonoco Metal Packaging acquisition and an 18% increase in prices and strategic pricing efforts continue to both offset inflation and reflect the value we provide to our customers. We've been steadfast in providing excellent service and availability to our customers, and we believe we are being rewarded for this in the market. We grew volumes to 1.6% in Consumer, largely as a result of this commitment. Furthermore, our strong revenue growth is translating into operating leverage. Base operating profit increased 67% to $225 million and base operating profit margin increased 240 basis points to 11.9%.

Turning to Slide 7. Base EBITDA increased 55% to $284 million and base EBITDA margin increased 200 basis points to 15%. This focus on margin improvement is strategic, and it's backed by ongoing portfolio management actions, footprint optimization activities, value-enhancing capital investments and strategic self-help programs. Finally, base earnings per share increased 60% to $1.60. This increase in earnings is attributable to strong operating performance, offset by $0.05 of negative [FX] and $0.09 of negative tax rate.

The sales bridge on Slide 8 provides the primary drivers for revenue growth in the quarter. volume/mix was negative $52 million or 3.7%. Our Consumer segment continues to see growth in core RPC and flexible businesses. However, industrial volumes were down 9.5%, with the greatest impact in Europe and Asia, while notably the U.S. was also negative due to the #10 paper machine downtime and continued weakness in the white goods market. Price was $250 million positive, up 18% in the third quarter. Consumer prices increases were led by a strong performance in our core RPC and flex tools businesses.

Industrial price increases were led by strong performance in the U.S. and in Europe. Acquisitions increased sales $334 million as Metal Packaging completed their peak food can season with food volumes up sequentially, offset by mid-single-digit year-over-year decline in aerosols. Aerosol volumes would decline were impacted by inventory destocking as volumes normalize to pre-COVID levels. While acquisitions have been an important part of our historical revenue growth, excluding acquisitions, organic sales growth was still 10% in the quarter.

Foreign exchange and other was negative $57 million in the third quarter. As a reminder, 75% of our sales are generated in the U.S. [H9] has our base operating profit bridge. This displays the operating leverage of our core businesses in the current market environment. Overall, volume/mix was negative $14 million, again, with strength in RPC and flexibles, offset by lower volumes in industrial. Industrials was impacted by the shutdown of the #10 paper machine as we completed the grade conversion from corrugated medium to high-value URB. We estimate this volume impact to operating profit was between $7 million and $8 million.

Price/cost was a positive $90 million benefit to base operating profit. Our core franchises continue to achieve strong strategic pricing performance and price/cost improved sequentially from the $79 million we achieved in the second quarter. The Consumer business overall had strong price/cost performance, generating over $20 million of favorability. The Industrial business had strong price/cost performance as well as we continue to benefit from strategic pricing, while OCC costs continue to decline. OCC averaged $123 per ton in the quarter, and OCC prices are currently $45 per ton based Southeast Index.

Year-to-date, we have achieved $254 million of price/cost. As a reminder, we experienced approximately $0.40 to $0.45 per share of metal price overlap in the first half of this year, most of which is accounted for an acquisition under the Metal Packaging business and not accounted for in price/cost. Acquisitions and divestitures generated $32 million in the quarter as Metal Packaging continues to perform as expected.

Margins in the business were lower than previous quarters due to normal seasonality associated with heavier mix to our seasonal food cans and lower volumes in aerosol. Other impacts on the quarter were negative $18 million due to higher depreciation, nonrecurring COVID benefits and FX headwinds, which impacted operating profit $6 million in the quarter.

Slide 10 has our segment performance for the quarter. Consumer sales grew 72% to $1 billion, and operating profit grew 93% to $128 million. Operating profit margin increased 130 basis points to 12.4%. The primary drivers of this performance were Metal Packaging and strategic pricing, while productivity and volumes were also positive. Industrial sales grew 4% to $661 million, and operating profit grew 48% to $82 million. Operating profit margin increased 365 basis points to 12.4%.

The primary driver of this performance were strong price/cost performance with prices up and OCC declining, offset by lower volume mix, especially in international markets and lower productivity due to planned downtime of the #10 paper machine. All other sales increased 10% to $198 million and operating profit increased 19% to $15 million. This growth was driven by strong strategic pricing performance while volume was essentially flat.

Turning to Slide 11. Our capital allocation framework is aligned to our business strategy to drive value creation for our shareholders. Our priority is to allocate capital to high-return investments in core businesses to drive growth and improve efficiencies. From a free cash flow perspective, we remain committed to increasing the dividend, which is at present $0.49 per share on a quarterly basis or a greater than 3% average yield over the last 12 months. Year-to-date, we paid $193 million in dividends. After capital investments in the dividend, we prioritize investments in accretive M&A transactions aligned with our long-term strategy. We'll manage capital to optimize our balance sheet and to retain our investment-grade credit rating. During the quarter, operating cash flow was $138 million and capital investments were $87 million.

On Slide 12, we have our updated guidance. For fourth quarter, our EPS guidance is $1.20 to $1.30. We're increasing our full year EPS guidance to $6.40 to $6.50, a $0.20 increase from previous guidance. We're increasing our full year expected base EBITDA guidance to $1.14 billion to $1.16 billion. This record performance is based on our continued strong strategic price performance and a stable market environment in our defensive consumer markets.

We're reducing our operating cash flow and free cash flow guidance by $100 million due to increased working capital current demand. Current elevated working capital is associated with inflation and disrupted supply chains, both from our suppliers and our customers. As supply chains normalize, we anticipate inventories to normalize and benefit cash flows. While this is occurring now, we expect higher free cash flows in 2023. For your reference, we've included additional modeling information in the appendix of this presentation.

Now Rodger will discuss our outlook on a segment basis.

Rodger Fuller^ Okay. Thanks, Rob. So please turn to Slide 13 for our view on segment performance, which supports our fourth quarter guidance. Across consumer, volume trends are seasonally lower in the fourth quarter. In our Legacy Packaging businesses, we have lower planned shipments from pre-holiday stocking of some packaged foods and lower seasonality of fresh fruits and vegetables in our plastic (inaudible) business. But we see another overall solid volume quarter for both global rigid paper containers and flexibles given the seasonality. In the Metal Packaging space, we're seeing solid volume in food cans sequentially to Q3, offset by aerosol cans, which continue to trend lower than the COVID highs.

We continue to invest heavily across the consumer business for innovation and around new sustainability programs to support global growth in snack packaging and an overall efficiency projects aligned to our operational excellence programs. Finally, in Consumer, we believe we'll continue to benefit from previous strategic pricing initiatives as well as relative stability in our raw material costs.

In industrial converting, we don't expect volume recovery in Europe and Asia in Q4, and we are seeing slowing industrial demand in North America as many of our customer bases are reducing inventories prior to calendar year-end. The global tube and core market is experiencing slowing demand in paper mill core, supply in the containerboard market and housing-related markets like textiles and flooring products. On the paper side of the business, with our #10 machine now operational in North America, we've begun production qualification ramp-ups for new paper grades and are balancing supply with demand to maintain reasonable backlog levels.

In Asia, Europe and Latin America, weaker economic conditions continue to drive lower demand. The lower demand for URB globally is allowing us to complete some overdue maintenance in the fourth quarter, which will allow our paper machines to return to more normal run sizes and reduced changeovers, which should positively impact productivity as we move into 2023.

Similar to consumer products, we're continuing to execute our capital investment plan in industrial. Sustainability will continue to drive the need for additional paper production capacity, and we'll continue to invest capital for machine upgrades on our best paper assets. On the pricing side, our commercial excellence programs continue to generate beneficial strategic pricing with the steady (inaudible) index, to which the majority of our pricing is set with lower overall OCC pricing and the management of our ongoing energy challenges, we expect favorable price cost benefits to continue in the fourth quarter.

Finally, in our All Other businesses, we have stable demand across most of our products, including transit packaging for pharmaceuticals and seasonally improved demand for vaccine shipments. Similar to consumer and industrial segments, European markets remain soft. We're continuing to drive value from strategic pricing activities, manage nonmaterial inflation and expect to benefit from declining resin prices in the fourth quarter.

So with that update and look at the fourth quarter, I'll turn it over to Howard.

Howard Coker^ Okay. Thanks, Roger. If you'll turn to Slide 15, I'm pleased to announce that in the third quarter, we did release our updated corporate responsibility report, which demonstrates Sonoco's commitment to environmental, social and governance principles. I'm very, very proud of the progress we've made. Okay. We just lost power at our location, if you guys can bear with us for one minute, if you're still on, we'll try to get that rectified.

(Technical difficulty)

Okay. We have had a shift from lamps to -- we did pay the bill, Rob, didn't? To flash light. So let me see if we can pick up close to where I left off, and we'll keep going as we try to figure out what's going on there. As I'm saying, sustainability is a key driver for innovation and our new product design activities, as Roger had mentioned, and we continue to grow with both existing and new customers where our solutions provide differentiation and enable our customers to win in their markets.

While there is much more work to be done, you can see from our numerous partnerships and memberships that the decisions we make are motivated by our mission, which is to create sustainable packaging solutions that help build our customers' brands, enhance the quality of their products and improve the quality of life for people around the world. That is why I'm pleased to announce progress on one of the most significant investments in Sonoco's history.

On Page 16, Slide 16, we have an update on Project Horizon. In mid-2020, we announced our efforts to modernize the Hartsville paper mill operations with plans for one of the largest and lowest-cost URB manufacturing centers in the world. This project fully aligns with our sustainability mission to transition Sonoco globally into production from only 100% for cycle fiber while reducing electrical consumption, greenhouse gas emissions and total water use. In the third quarter, we successfully completed the #10 conversion from medium to URB and now have the capability to make a number of high-end paper prices. As planned, we have taken down the #1 and #9 machine in Hartsville and expect to wrap up #10 through this quarter and into next year, where at volume, our cost savings opportunities should be somewhere in the neighborhood of $30 million.

Additionally, as indicated on Slide 17, I'm very pleased to announce our intent to acquire Skjern Paper in Denmark. The rationale for this deal is straightforward for Sonoco. We need more lightweight production capacity in Europe to support our customers' transition to sustainable paper packaging. We see a long runway of opportunities for our rigid paper containers in Europe, and Skjern is a key part of ensuring continuity of supply. Skjern manufactures only from 100% recycled paper and has robust sustainability programs in place for renewable energy powered by a biomass boiler system, similar to the one we have here in the Hartsville complex. In 2022, the company is expected to achieve $50 million in sales, and this transaction is expected to be accretive to both earnings per share and cash flow, and we expect the transaction to close this quarter.

Now if you'll turn to Slide 18, I want to remind you that we continue to execute a playbook to fundamentally change the company. We are simplifying our portfolio into fewer larger businesses where we have a right to win. If you look back over the last several years, we have purposely realigned our portfolio to a more stable, consumer defensible markets, which now represent over 50% of our annual sales. In parallel, we continue to refine our global footprint to maximize efficiency while we support our customers' changing needs. We also remain focused on aligning our organizational structure and talent to support these larger scale businesses with a structural infrastructure as part of our structural transformation initiatives.

Core of these changes is our commitment to build a diverse and inclusive workforce at all levels of the organization, which is vital to the heart of the Sonoco culture. As Project Horizon and the Skjern Paper acquisition demonstrate, we have invested and will continue to invest for the long-term growth of our core businesses. These investments, along with our commitment to self-help actions, will sustain and expand margins well into the future. Central to all our activities is our commitment to execute on sustainability initiatives. We have a number of innovative projects with our customers and suppliers where we are intentionally aligning our long-term development roadmaps for improved recyclability and and the commitment of a circular economy. We see how some of the best technical experts in the business focused on these initiatives day in and day out.

So in closing, all these activities are focused on creating a better portfolio and a more resilient foundation, and ultimately, a more agile company. I'm confident in our long-term strategy and the foundation that we are building. As we look ahead, we will remain focused on consistent execution as we continue to invest in the future of Sonoco. So let me say thank you for your support, and we'll open up for any questions that you may have.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

Our first question comes from the line of Anthony Pettinari with Citi.

Anthony Pettinari^ On the updated free cash flow guidance and inventory headwinds that you called out, can you talk about maybe expectations or visibility into maybe recovering some of that $100 million in 2023? And I guess relatedly, directionally, how much price/cost benefit do you expect that you could carry over into next year, just given kind of current run rate for inflation and the pricing that you have in place now? I guess I'm thinking specifically on URB, but maybe just for the broader company.

Robert Dillard^ Rob, do you want to grab that?

Howard Coker^ Yes. For net working capital, I'd say, there's 2 parts to that. I mean what we anticipated was really the impact on 2020 is really just timing. We had anticipated supply chains would cure somewhat in the third quarter and that we would be able to take out some working capital, which is the delta really between the year and what we had initially expected. We do see that coming out now, and we anticipate that, that will come out through the balance of this year. Though I think that, that $100 million just rolls into next year where we think next year, working capital should be around $100 million benefit versus this year being a negative $200 million to $250 million detriment to cash flow next year.

So we're really bullish on how next year is going to shape up from a working capital perspective as supply chains normalize, and we're able to really get back to normal and how we operate the business and how we're buying -- how we're utilizing our procurement assets. On price/cost, I would say, we're more thinking about the headwinds of the Metal Price overlap from last year and the benefit that we got in the first half of the year. We're thinking a lot about industrial price/cost right now. Obviously, that's a real tailwind, but I think that we're very cautious to think a lot about industrial volumes in the fourth quarter and then the first half of next year and really kind of tempering our price/cost expectation to do that.

Anthony Pettinari^ Okay. That's very helpful. And then just in the consumer business, can you talk about how demand trended over the 3 months of the quarter and then into October? Did you see any kind of meaningful change or step down there? And then just on customer inventory levels, you referenced that quickly that -- is inventory destocking kind of a significant headwind in the consumer business? Or is it something that you anticipate as being a headwind in 4Q?

Howard Coker^ Yes, Anthony. I would say, we saw a pretty normal seasonal build quarter, and we're towards the end of October, and again, seeing very robust activity on the consumer side. And I think Roger talked to that in terms of the volumes. So feel very, very good about the trends we're seeing in consumer. On the inventory side, that really was more driven off of what we're hearing from our industrial customers, saying they're needing to draw down just as we and many, many folks across the board are talking to and talk about working capital. And Rodger, I don't know if you've got any more to add to that.

Rodger Fuller^ No, that's right. So Anthony, globally, especially textiles and some of our kind of housing-related activity, we're seeing a real pullback just about all textile companies announced incremental downtime over the holidays. So what we're doing is, we're getting out in front of that. So we're getting out in front of that by taking the maintenance downtime that we need in the fourth quarter. And for now, what our customers are telling us is, it's inventory reduction, it's not necessarily consumer spending. We'll have to see how that plays out in the first quarter of next year.

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

George Staphos^ I want to hit on a couple of strategic points. One, on value-based pricing either on self-help and productivity, Howard, can you talk a bit about qualitatively or in terms of talking on initiatives where you stand on value-based pricing? I'm not looking for a dollar amount of benefit next year, although I take that if you wanted to give it, but more in terms of the types of activities, the type of analysis that you're doing. By '23, are you largely done or you largely done now? That's the flavor I'm looking for. In terms of self-help, I seem to recall self-help is going to be a larger driver of '23. Is there a way you could give us a bit of an update there and what the dollar amount in this case could actually benefit '23? And then I have a couple of follow-ons.

Howard Coker^ George, let me handle the self-help side, and I'm going to pass on to Rodger. I have difficulty understanding the first part of the question, sorry. We've got technical issues here in Hartsville. But on the self-help side, not to put out a specific number, but to kind of walk through some of what I talked about in my narrative and have been discussing all year is really how we're looking at the structure company focusing on the 4 core businesses. And to be clear, what we're -- the parenting strategy that we're undertaking right now is that we have the All Other category in the 4 foundational, which we're calling our can business, our industrial and our flexibles businesses.

Those will be supported from center as opposed to the All Other. And with that is going to drive productivity and opportunities, and we're finishing that work up yet. And as we get into our budget season, which is just happening right now, we'll have better clarity on exactly what type of economic implications that's going to have. The other self-help has to do with the investments that we've been making. #10 has been the poster child. It is the largest single, but as you can follow over the last several years, we have increased our capital outlay from an organic perspective materially.

And so there's just a number of projects that actually would surpass in totality the size of #10 that are going across those core businesses that we see or it should be and will generate really, really nice productivity. And that started about 2 years ago or so. So it takes about that period of time. So we should see that. That's a big expectation for next year. You can see our productivity numbers. We're going to see those not only return to the normal level as supply chain disruptions lessons, but also as these capital initiatives start coming into place. And I guess, finally, I'd say, on a capital perspective, that's both top and bottom line. So not able to give you a number to ink right now, but that will be coming as we get ready to give you guys our guidance and outlook for next year.

George Staphos^ But Howard, it would be fair to say that we're looking at more to come as opposed to more already having been digested. Would that be fair?

Howard Coker^ Yes. In fact, very little has been been seen thus far. So we're viewing that as a tailwind going in the coming periods.

George Staphos^ And on pricing?

Rodger Fuller^ No problem. Yes. I mean as you know, we kicked off our Commercial Excellence initiative 4-ish years ago, and what we're seeing is continued really nice improvements from that. The focus on preparing our teams for large contract negotiations really digging into all price change mechanisms, which certainly have helped us through the last couple of years of spiking inflation. Turning our attention now to share gain opportunities in some of our businesses, and as Rob said earlier, with a tremendous performance of our team through the supply chain challenges in the last 2 years, we're seeing numerous opportunities there. So strategic pricing will continue regardless of inflation and/or deflation. And that's been a pretty consistent contributor over the last 3 years, and we expect that to continue as we move into 2023.

Howard Coker^ Yes. Rodger, let me just add to that just to reinforce that certainly, we've got cost movements up and down all the time. But we -- what we're seeing through these initiatives is recognition and COVID would really help with us with supply chain interruptions and our ability to keep our customers running is that we are being recognized for our value through the margins. And what you -- we always talk and we do it as well, price/cost, price/cost, but we deserve a certain level of margin. Our customers are recognizing that. And it's really about cost pass-through or recovered. But our intentions are that the margins should be reflective of the value generation that we are providing in the market. And that's what Rodger is talking about and our focus in that area.

George Staphos^ Okay. Howard, if I can get a quick one on #3, and I'll turn it over. In the past quarters this year, you've talked about even with the very tough comparisons because of metal and other factors, you still expect it to grow earnings in '23. Since we last spoke, industrial has gotten tougher in terms of the outlook. FX has probably gotten tougher in terms of the outlook. Would you still expect to be growing earnings next year? Or is that too tough to call this juncture?

Howard Coker^ Yes. Again, I'd say, it's too close to call. We do have that headwind. So I think if you look at next year, it's certainly first quarter, maybe even second quarter is going to be very tough comps because of that. But as we pull our budgets together, we'll look at how that materializes through the course of the year. What I'd say from a cash perspective and an EBITDA perspective, we are very bullish as we release the working capital from this year that I would say this, I'd be rather disappointed that we weren't able to generate the type of EBITDA levels that we have this year.

Operator^ Our next question comes from the line of Adam Josephson with KeyBanc Capital Markets.

Adam Josephson^ Howard, I may want to start paying closer attention to your accounts payable in the future given this issue you're dealing with this morning. On some more serious question, Rob, in terms of your price/cost guidance for the year, I think in last quarter, you mentioned you expected a $250 million to $300 million benefit. Year-to-date, you mentioned it's $254 million. Have you changed your expectation along those lines this year? And then relatedly, your Sonoco Metal Pack expectation for the year, I think, last quarter was trending toward the $200 million range. Can you give us any update there?

Howard Coker^ Yes. We're seeing continued positive direction in terms of price/cost as we go through the year. And on the Metal Pack side, I think you're right in that ballpark of the expectation for this year. Adam, the way you should think about it is, Q2 was 79. Q3 was 90 in terms of positive price/cost benefit. The phasing of that is consumer has been relatively consistent and that industrials picked up as we've gotten the benefit of some strategic pricing, offsetting declining OCC input prices. So that trend we expect to continue through quarter. So there is some volume uncertainty in the fourth quarter, as we've said.

Adam Josephson^ I appreciate it. And how much of that, Rob, did you say you expected to in effect reverse in the first half of next year, specifically in Metal Pack?

Howard Coker^ Well, I mean, what we've disclosed is that there was $0.40 to $0.45 of what we're calling metal price overlap and on EPS basis in the first quarter of last year. We do expect that to not recur next year, which should overall be a relatively meaningful headwind in the first half.

Adam Josephson^ Yes. No, perfect. In terms of the progression of volume trends, can you just help us with -- compared to the volume mix down 4%, how volume was by month and then into October, if you have such data?

Howard Coker^ Yes, I'll take a shot at that. But I think the trends are pretty similar as we went through the quarter into October. I mean if you break down the 1.6 growth in overall consumer, global paper cans was up 5%, pretty consistent through the quarter. And as we've already said, it seems to be holding up -- will hold up in the fourth quarter based on our guidance. Flexible is up 4% and still pretty consistent across the quarter. We look at similar for the fourth quarter. So from a consumer standpoint, volumes seem to be holding up fine and with no real slowing as the quarter went along, if that's what you're asking. In Industrial, we have seen some accelerated slowing.

We talked about -- Rob talked about the 9.5% down for industrial. Remember now, #10 is in this number, but if you strip that out, just like (inaudible) globally, as an example, is down 6.5% with highs in the mid-20s in Asia, down to negative 2.2% in U.S. and Canada. So that gives you a feel, but we have seen slowing that we've already talked about with our customers taking inventory out of the system by the end of the year in both our paper and our tube and core market. So we have seen some accelerated slowing that is built into our guidance for the fourth quarter.

Adam Josephson^ I appreciate that. And Howard, just one last one on the long-term EBITDA guidance you gave right around a year ago. I think if I take Metal Pack out of that, you'd be basically -- well, that was pre all metal pack. But effectively, you're at that 2026 guidance already, aided by the price/cost benefits you've had this year. At what point would you think it necessary to update that 2026 guidance? Do you think that still applies? Any thoughts there, I would appreciate.

Howard Coker^ Yes. We're in process right now, Adam, of really relooking all of our longer-term objectives. And obviously, we are at our 5-year -- we reached our 5-year target in 1 year via acquisition. We're continuing -- for George's question, that walk of $180 million of self-help over the 5-year period. We have not backed off on that at all, but you should hear from us early next year into the first early second quarter as we walk you guys through our next 5-year horizon and objective. And Adam, I wanted to go back to your comments about and question to both me and Rob is related to the metal business, a couple of things to note. One is, we had 11 months this year.

So we do have a month extra going into next year, and we -- aerosol is an important part of that business, and we're actually forecasting at this point in time, growth in aerosol next year. The previous buyers that own that business with the inflation coming place last January or this past January, there was a big pre-buy program. So we were very, very weak in aerosols in the first quarter coupled with the optics we have on share expansion going into next year. So there's some positive things to help offset what the headwind that we are waking up with from a price/cost perspective, but we'll just see how that all unfolds as we finish up our plans for next year.

Operator^ Our next question comes from the line of Mark Wilde with BMO Capital Markets.

Mark Wilde^ Rob, I wondered -- just to start out, can you give us some sense for kind of benefit from just lower OCC and lower resin as we think about the third quarter? And then what you're expecting in the fourth quarter? So it sounds like OCC in the fourth quarter might be down $70 or $80 a ton.

Howard Coker^ Yes. I mean it's down more than that actually. I mean, OCC, we averaged kind of [123]. We started the third quarter in the [150] range, and we're probably below that (inaudible) right now with some softness to go in the fourth quarter. So OCC has had a historical decline in the last 4 months. And there's relatively little inventory in the -- in our system in terms of OCC, and so that's really kind of flowing through on a real-time basis. That has been a positive for price/cost. 2/3 of our price/cost benefit in the third quarter was from the industrial business.

We anticipate that trend to increase as we're steadfast in kind of providing value to our customers and ensuring that our prices reflect that. So we think fourth quarter should have benefit there that we do, as I said, we're very mindful of the downtime we're expecting to take, which will be more than the third quarter and the fourth quarter as a result of just the market weakness as we bring the #10 machine up.

Mark Wilde^ Okay. Second question, I'm just curious, Rob, either from your side or maybe Howard from your side, we've got a new CFO. Rob, you've got a little different background than past CFOs that I've dealt with have had. You've also got hired a new head of M&A. And I'm just curious about just broadly how you think this is going to change the capital allocation process at Sonoco, particularly around acquisitions.

Robert Dillard^ I mean no change. We've always been really mindful of what the opportunities are out there. I think we've been really intentional, as Howard said, about really formulating a really forward-looking strategy and focusing on the core and what we really do well and how we can drive value prospectively. So I think now more than ever, we've really got the key list of things that we do really well that really add value in other businesses where we're actually the better owner of those assets. And I think that we're showing that in the Metal Packaging acquisition. We've really kind of brought new energy to that business and to that industry. That's really the gist of the strategy from an M&A perspective.

We're thinking a lot about what would the one 5% to 10% of current market that are really kind of additive, and we do view that can business as just the can business that they were completely adjacent and are additive to each other. So we're constantly looking for other opportunities to add to the strategy. We're being really thoughtful about what we can do prospectively, and we've got the capabilities internally to really execute M&A at a really high level.

Howard Coker^ Yes. Mark, let me add to -- and this does relate to acquisition. The type of growth opportunities that we're seeing right now, particularly in our paper can business tied to sustainability. The can packaging, again, it was wholly notable. It was EUR 40 million acquisition made on the eve of COVID. We're now able to, as things have opened up, to take that technology and start leveraging it, and we're seeing really, really some tremendous opportunities from an organic perspective.

And frankly, we're spending a lot of time now looking at our investment capital in terms of really, we have to be cautious about how we deploy it. We have got so many global pent-up opportunities from an organic basis. So that's the kind of thing we're looking at. I know that the Skjern, and again, $50 million in sales URB complex are what. Well, we don't -- we're not in the lightweight business in Europe. It's 100% consumer-facing. We actually represent 15% of their volume in our own can business. So it gives us, as I said in my commentary, security of supply, but gives us a forward look in the other markets on the consumer side in Europe before we just weren't able to participate in at least from a Board perspective.

Mark Wilde^ Okay. All right. Last real quick one for me. Just as you talk about fewer and bigger businesses, can you help us with what that might mean for some of the joint ventures that you have going forward?

Howard Coker^ Don't spend a whole lot of time contemplating those. We're in several. Some, the partner is managing it, and we're certainly on the Board and a part of the business. Others are more like a 50-50, but we don't really have that many and many other that material. So we don't spend a whole lot of time there.

Operator^ Our next question comes from the line of Mark Weintraub with Seaport Research Partners.

Mark Weintraub^ On the $180 million of self-help, which you're targeting over the next several years, and I realize this is a difficult question to parse. But how much would you say is going to be delivering on the cost type side of things versus how much might be more volume driven? And of that, what might be sort of more market dependent on having a good backdrop versus, for instance, it sounds like with the #10, maybe you're increasing addressable market a little bit as well with the new products that you have? Any color you could provide on those would be great.

Howard Coker^ Yes. I'm going to let Rodger handle that, but I don't want to leave that without noting that the commentary about capital investment, growth opportunities, new products, the oil and plastics and our opportunity with a 90% to 95% paper solution, all that is totally disconnected from this conversation around the $180 million, and it's really a walk of of several key areas that we're focused on. So Rodger?

Rodger Fuller^ Yes. I mean if you remember, we -- I think we were pretty specific about how we divide it into the category. So let's say, a quarter or so is commercial excellence, which we've already touched on and really ramping up the look of commercial excellence beyond specific major customer negotiations and getting into other areas like deeply into price change mechanism people in the share gain deeply into driving volume growth into some of these adjacent markets that we're talking about. So therefore, opening up the opportunity for growth. Productivity, it's really a lot of us around the capital projects and the capital planning that Howard has already talked about. In addition to growth focus, like the sustainability project, you talked about tremendous amount of energy-saving type projects, productivity-generating improvements.

Those are ongoing, and you'll see Rob talked about the capital spending for this year that accelerates as we get into next year, focused on the integrated business. And from the cost side, we talked about some structural transformation work we're working on now as we set up these fewer bigger businesses. We've taken the opportunity to consolidate some businesses into larger businesses within the integrated business, which leads to strictly cost out. Now of course, it was offset through labor inflation that we've seen this year, but that's strictly cost out.

And then supply management, supply chain, I think, is the biggest opportunity we see over the coming years as we really get into this integrated supply chain on our 4 integrated businesses and drive continued productivity on how we manage those businesses, how we manage data, giving our plants the best data on a daily basis to make the best decisions to drive productivity and serve our customers. And that's more longer term and somewhat dependent on market forces and volume going forward. So I think it's a pretty even split between cost and driving value through the businesses in -- through the markets and the opportunities in the market.

Mark Weintraub^ Okay. And so for the second part, which would be more volume driven, it comes, but it may come more when the market is in a place to support it. Is that kind of a fair way to think about it?

Rodger Fuller^ Yes, I think so. I think if you think about -- if you look at our productivity this year, we're not the only one in this boat with having tough productivity results this year. Some of it's, frankly, just the better operating of our equipment as we're able to schedule out. I think about our global paper footprint this year, we've had tremendous volume demands, which led to many changeovers and exactly how you do not want to run major paper complexes. So managing that going forward based on volume demand will be very helpful.

Mark Weintraub^ Great. And then a second question, and this -- again, it's a tough one, but since everybody is, I think, wondering about it, I'll ask and see what you feel comfortable sharing. The URB markets kind of -- historically, there have been sometimes volatile pricing, things are good. Prices go up, things are not so good. Prices go down. You've been working a lot on your commercial excellence. We're in this environment though where you've got wastepaper going lower, demand is weaker. As we're trying to figure out what's likely to happen in this market, is there anything that you would share as we do our prognostications and analysis.

Rodger Fuller^ Yes, I think Howard touched on it earlier. I mean our focus is on margin and generating the value and getting the value that we're adding through our integrated products, including our URB, which we sell on the outside in our integrated products like paper cans and tubes and cores. So that's our focus. We talked about what we're doing in the fourth quarter, adding more maintenance to offset some of the reduced demand. Look at the third quarter, an excellent example of how we handle reduced volume. We had #10 down for a good part of the quarter. We had soft volume in Asia and Europe. Look at our operating margin in the Industrial segment for the third quarter.

So we've managed that through strategic pricing. We manage that through changing most of our contracts to (inaudible) Index in the U.S. So for me, it's about maintaining that margin going forward, if OCC stays down versus continuing to drive positive price/cost off of higher prices. So I think the teams managed it extremely well. We're investing in our best paper assets and Howard talked about. And this was announced when we announced Project Horizon. We took #1 and #9 machines down in Hartsville, which were older, higher cost, less efficient machines. So we're sticking with that strategy that we started 4 or 5 years ago, and so far, look, the third quarter is paying off.

Operator^ Our next question comes from the line of Gab Hajde with Wells Fargo.

Gabrial Hajde^ I wanted to dig in on, I guess, it's your Q4 guidance, Slide 13, and you may have mentioned about lower food shipments. I guess I'm trying to understand what exactly that is. Maybe it's timing related in terms of when you ship some product. But then on the composite can side, I think you were investing in some new capacity there, and we're expecting kind of positive volumes. Elasticity has seemed to be, I don't want to say nonexistent, but consumers pretty resilient in terms of CPGs taking hefty price increases. Any feedback from your customers in terms of expectations kind of going forward as it relates to composite cans and snacking as such?

Robert Dillard^ Go ahead.

Howard Coker^ I was going to just touch on the last part of that. As I said earlier, we've got a tremendous funnel (inaudible) bringing new capacity on our paper can business here in the U.S. In Brazil, we've got a new plant going into place, and that's just starting up now in Southeast Asia. We've got investments going in multiple locations in Europe around our foundational products, but the more exciting is the can packaging type products that are 90% to 95% paper. And in Europe, where -- the funnel there is just phenomenal in terms of how many machines that we're going to have to build over the next period of time to service not only Europe, but other parts of the world.

So it is an impressive looking runway to the point, I mean, we just looked at a capital review just for North America over a couple of years period that we're going to be spending somewhere around $40 million in that business from a recapitalization standpoint, productivity standpoint and a growth standpoint, and that's just in one area of the world. So on that side of the business, just could not be more pleased with the amount of opportunities that we have.

Rodger Fuller^ And the comment on Slide 13 is really about sequentially fourth quarter versus the third quarter. I mean, seasonally, if you think about confection, the holiday has been prepacked. Halloween has been prepacked. Christmas has been prepacked. And then the fresh fruit and vegetable business to plastic clamshell business seasonally very low in the fourth quarter. As I said, given the seasonality, and Howard just mentioned, our paper can business, our flexible business should be solid. So if the question is, are we seeing any reduced demand, our customers are not telling us that yet at this point. So we expect, again, pretty solid demand in consumer outside of those very specific seasonally lower markets.

Howard Coker^ Yes. I can point to is, there was some choppiness in Europe, and that's not demand that has to do with energy. And in the food industry, energy is a major component, and we saw customers in September, October that were pushing out orders, waiting to see whether they're in a particular market or a country was going to put caps in. And they didn't want to put inventory on the floor that realizing that there was a fairly large reduction in the cost of energy just around the corner.

Gabrial Hajde^ Okay. No, that's super helpful. And then I guess on the Metal Packaging side, it seems like we're navigating a couple of different unique or discrete items. We had some prebuy at the end of 2021 that impacted 2022. It sounds like you're making some organic investment for volumes, maybe picked up a customer there. So I guess maybe going into 2023, all else equal, what I'm hearing is, you'd expect aerosol to be up despite what might be a weak kind of economic backdrop for aerosol cans.

Howard Coker^ Yes. There is -- that's what we're saying, and I talked through that, that from a year-over-year perspective, the first half of this year was not good from a volume perspective. Just due to the amount of pre-buy activity, the previous owner wanted to put in place coming into the inflation. And yes, there's been value recognition. I would simply say that we have extremely good assets. It's a well-capitalized business, and we continue to put capital in it as well. So from an aerosol, which is the more sensitive side of the business as it relates to the slowdown, we see the opposite of what you normally would expect.

Gabrial Hajde^ Okay. And one last one, if I may. I guess getting into both Mark's questions on the industrial side of the house. As we think about, again, it sounds like price/cost is expected to be positive here in the fourth quarter, a lot of different influences that impact OCC prices. But at least to the extent that OCC on a year-over-year basis is lower, and we don't see any change in (inaudible) Indices, is there a reason why price/cost would not be positive in the industrial business in the first half of '23?

Howard Coker^ Well, at this point in time, we've got a lot of inflation. We spent a lot of time talking about OCC, but all the chemical starch, diesel labor, there is just a lot of inflation still out there. OCC, obviously, is the biggest driver of them all. Look, if it didn't -- in the end, if it didn't move, that I really don't know how to answer that. I'd say, yes, probably, we would be on a more positive side, but we don't see any indications right now why the ends would move.

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

Matt Krueger^ This is actually Matt Krueger sitting in for Ghansham. I wanted to take a step back and think about the potential EPS variances for next year. So (inaudible) on the midpoint of your guidance for 2022 as a starting point, can you talk about what the major EPS variances could look like heading into 2023? I'm just thinking about factors such as impact from higher interest rates, FX headwinds and rollover acquisition contributions, synergy capture productivity that you hinted at the metal impact from year-over-year. Just other big picture factors would be helpful.

Rodger Fuller^ Yes. I can tell you, we're going through budgeting and planning as we have been for a while. I would say that this environment is really unique and that we're on the precipice of potentially having a recession. We're very mindful of that and the impact that has on demand. We're controlling the controllables. So as Rodger said, we've got a really robust pipeline of productivity activities, and we're anticipating SG&A to be lower as a result of our structural activities.

We also do have kind of some known norms, which is that the metal pricing overlap will not anniversary and the depreciation will be higher and that the the growth of those two is in excess of $100 million negative. Though we do feel like that, as Howard said, there's consumer volume opportunity and we're continuing to watch industrial demand and the availability of industrial price cost.

Matt Krueger^ Got it. That's helpful. And then just following up and maybe digging in on some of that consumer strength that you're referencing. Many of the CPG food and beverage customers are clearly employing a value-over-volume strategy currently to offset inflation in their own portfolios. What are you experiencing from a consumer demand elasticity perspective as it relates to the massive level of pricing being passed through the supply chain? It sounds like you've been very resilient. Do you expect that this could be any sort of natural volume headwind into 2023? Any thoughts there would be really helpful.

Howard Coker^ Well, yes, we're really not seeing it right now. And we do -- we participate purposefully and just have across be out, so from the store brand to the brand later. So trade downs are not a negative to us at all. I think the other is, if you go particularly on the plastics side of the business, we continue to see good strength in our mill business from the more walkers at home -- consuming that home. So Matt, we just -- right now, Rodger, unless you have any additional color to add, but we're not feeling it on our end. There may be substitutions, but we benefit from that substitution as well depending on the substrate.

Rodger Fuller^ Yes, that's right. Our customers are telling us they're bigger challenges, supply chain constraints of certain raw materials versus demand. I mean global stacked chips is put out there by one of our largest customer. In that market, they're producing and publicizing their volumes. Good growth there. Snacks, cookies, good growth there. So we're not hearing it. We're hearing their biggest challenges more, getting materials to get the product on the shelf versus seeing any significant reduction in demand at this point.

Howard Coker^ In fact, curtail in marketing because they don't want to spend more than (inaudible).

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

Kyle White^ On the core -- the strategy of focusing on the core, if we go back 10 years ago or so or actually the 2014 Analyst Day, the company had a similar strategy of focusing on its core business and optimizing the portfolio. I think you had the bull molding divestiture around that time, but I don't recall too much more happening. And then obviously, the strategy focus to be more on growth later on, but I guess, what is different this time around versus 2014 or 10 years ago? Is there more of a focus to actually optimize the portfolio? And then what kind of implications does that have from a capital allocation or CapEx standpoint going forward?

Howard Coker^ Yes. The easiest thing -- the way to answer that is, we've got a whole new leadership team with a different vantage point and a lot more work that we put in and what is core. And really, Rob discussed it, but we spent at least 18 months doing in fact what you're doing going back 10 and 20 years and saying, what is the journey that we've been on, and what have we learned from that? And we woke up and we finished this analysis, and said, I'll tell you what we learned is that the foundational businesses in this company has really driven the success that we've enjoyed for all these many years. And we need -- and if you can't just look at 14 years ago, you can look at 5 years ago, or again, 20 years ago and say, look, are we on a self-fulfilling prophecy, but we're optimizing industrial businesses for cash as opposed to acting as who we are.

The market leader and global market leader in URB in tubes and cores and the case in point is, projects are rising. That's not an optimizing activity, that is saying that we're going to invest in these foundational business. I hate to keep saying it that way. And they are going to continue to deliver strong value generations to come, and so it is different. There has been a heck of a lot more thought and processes that's gone into the journey that we're on, and that's how we've landed where we've landed. And we've got our all other category, and we're managing those businesses as best we can as best owners, and we're seeing improvements in those businesses.

And we'll just see where that takes us going in the long term. But equally important is, if you go back, as you know, to 2014, we didn't structurally change how we manage the company. We are actually structuring the parenting of the company and such that the focus is only on the core, and these other businesses who are frankly burdened by centralized support in some areas and that there are markets that they serve require a totally different approach in that competitive landscape and that customer build. So it's a different day in time, and this is not a repeat of anything that we've done certainly in my tenure.

Kyle White^ Got it. That's helpful. And then I just had a real quick one. On rigid paper containers, that business continues to perform very well on volume growth. Can you just help us understand the divergence there as to why volumes are still very strong while (inaudible) Food has seen some declines, both benefit from auto consumption or I would think they would be somewhat correlated.

Howard Coker^ I don't know if I caught the whole question.

Robert Dillard^ Yes. I mean (inaudible) food is a really mature defensive market that our business is growing along with the industry and the CMI kind of down a little bit this year. We anticipate that to kind of have really soft demand trends over the long run, so around kind of GDP minus. But I think what we've seen is and what Howard has been talking about with our rigid paper maintainers businesses is, just a real revitalization and a real focus on growth and opportunity there and having great customers as partners and really kind of identifying and going to the opportunities. So we've got a great innovation funnel, as Howard said, with can packaging, and that's really driving a lot of this opportunity along with just some really focused market participation that we've partnered on.

Rodger Fuller^ Yes. And I'd say, on the metal side, the integration has gone extremely well. We have synergies on the come, and those are building. We've been able -- we will be announcing in January that we have 4 dedicated metal plants and legacy Sonoco that will be falling in and being run by -- they should be run by, which is the metal's experts, which will also drive additional synergies. But I guess the most impressive for me is having the opportunity to be out in the market and the type of reception that we've received from the customer base has just been exceptional. So we'll see how it plays out, but extremely encouraged about what the volume profile may look against a business that on a macro perspective is, as Rob said, GDP are slightly less.

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

George Staphos^ Very quickly. I know it's late in the call. Rob, first off, do you have a view on what FX would be if we mark-to-market relative to your guidance for '22 in terms of what the headwind could be for '23? Second, there have been a couple of questions around this. Bottom line, do you expect -- or what do you expect your consumer volumes to look like fourth quarter year-on-year versus fourth quarter? And then lastly, Skjern, is there a way to size what benefit to earnings you'll get from having that business?

Howard Coker^ Yes, we're still evaluating that back. I mean we don't take a position versus where it currently is. So if you just held it where it currently is, you would anticipate that next year would be a mild headwind. On Skjern and then I can pass off on consumer volumes. Skjern, that is -- we are anticipating that to be an accretive acquisition for the size that it was. It was a really a beneficial transaction. It's going to be high single-digit sense accretive on a year -- on a full year basis, and we anticipate that to close in the fourth quarter. So we'll get the full benefit in 2023 with some synergies on top of that.

Rodger Fuller^ George, I think on the (inaudible) fourth quarter, we said that we expect similar volumes in rigid paper containers globally and flexibles and then we're going to see weakness in our resin-based businesses due to the fresh fruit seasonality being down. So we finished at 1.6% up for the segment in the third quarter. So I'd expect it to be down slightly from there.

Operator^ That concludes today's question-and-answer session. I'd like to turn the call back to Lisa Weeks for closing remarks.

Lisa Weeks^ Thank you again for joining our call today, and thank you for your interest in Sonoco. We had published a press release earlier that indicates all of our conference activity in the fourth quarter. We definitely hope to see you there. If you do have any, don't hesitate to reach out, and we hope that all of you enjoy the rest of your day. Thank you.

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