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Q4 2022 Sonoco Products Co Earnings Call

EVENT DATE/TIME: FEBRUARY 09, 2023 / 1:30PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Sonoco Fourth Quarter 2022 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 and Communications. Please go ahead.

Lisa K. Weeks ***Sonoco Products Company - VP of IR & Corporate Affairs***

Thank you operator, and thanks to everyone for joining us today for Sonoco's Fourth Quarter 2022 and Full Year 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 fourth 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 summary of 2022 performance. Rob will then review our detailed financial results for the fourth quarter and the full year, and along with Rodger Fuller will discuss our guidance update for the first quarter and full year of 2023. Howard will then provide closing comments followed by a Q&A session.

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

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

Thank you, Lisa, and thanks to all of you for joining our call this morning. We really look forward to sharing our transformational results for the past year and provide our outlook for 2023.

As we look at 2022, it was a pivotal year for Sonoco, where we made significant progress on our strategy to continue growth as a world-class packaging company with a portfolio of highly engineered and sustainable products to support our customers. When I took this role 3 years ago, we started on a journey to fundamentally change the trajectory of long-term profits of the company. And to do that, we had to take a pretty complex business and simplify both our portfolio and the way we run the company to drive improved growth and profitability.

These changes were necessary for us to deploy capital more efficiently to our larger core business units and to better integrate acquisitions. In fact, the metal packaging acquisitions were the largest in the company's history, and performance and integration are well ahead of schedule. In parallel, we worked hard on commercial excellence to reposition pricing to less follow total indices, while improving the timing of recovery for higher manufacturing costs.

It's taken several years with the efforts of these programs reflected in our 2022 results, and we expect them to continue well into the future.

In 2022, we saw strong year-over-year performance in which revenue grew 30% to $7.3 billion. Base EBITDA grew 51% to $1.15 billion and base earnings per share grew 65% to $6.48. These records obvious -- obviously were a record in the [124-year] (corrected by company after the call) history of this company. I couldn't be more proud of the team for these results, which were achieved in another year, which was nothing short of chaotic. All of us staying true to the mission of Sonoco and further advancing our ESG and sustainability initiatives, which are intently aligned to the values of this company and a part of our everyday lives.

So with that, I'm going to turn it over to Rob to take you through the financial results and our forward guidance.

Robert R. Dillard ***Sonoco Products Company - CFO***

Thanks, Howard. I'll begin on Slide 6 with a review of key financial results for the fourth 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 fourth quarter and full year 2022 financial results again represented Sonoco's ability to deliver strong results from our core market positions, despite challenging market conditions.

Sales increased 16.5% to $1.7 billion in the fourth quarter. The sales growth was driven primarily by the Sonoco Metal Packaging acquisition and an 11.5% increase in price as strategic pricing efforts continue to both offset inflation and reflect the value we provide our customers.

Volumes in the fourth quarter declined 8.5%, due primarily to declining demand in the global URB and converted paper products markets, and also due to soft consumer volumes, particularly in the last weeks of the quarter.

Base operating profit increased 34% to $184 million, and base operating profit margin increased 145 basis points to 11%. This strong performance was due to strategic pricing that offset inflation and a lack of operating leverage due to low volumes.

While metal packaging was important to these results, excluding metal packaging, operating profit would have grown 28%, and operating profit margin would have been 12.2%. The base EBITDA increased 31% to $241 million, and base EBITDA margin increased 160 basis points to 14.4%. This margin improvement has been strategic and is backed by ongoing portfolio management actions, footprint optimization activities, value-enhancing capital investments and structural transformation. These actions have enabled a reduction in SG&A as a percent of sales from 9.8% in 2020 and 8.8% in 2021 to 8% in 2022. Importantly, we have reduced this metric while also investing in our commercial, operational and supply chain capabilities.

Finally, base earnings per share increased 28% to $1.27. This increase in earnings was attributable to strong operating performance, offset by $0.04 of negative FX and enabled by a lower tax rate of 21.3% in the quarter.

The sales bridge on Slide 7 provides the primary drivers for growth in the quarter. Volume mix was negative $123 million or 8.5%.

Consumer segment volumes were down primarily due to consumer inventory management and weather in the fresh food businesses. We view these effects as transitory and not a trend. We do not anticipate they'll continue in the first quarter.

Industrial segment volumes were also down in the quarter and continued declines in Europe and Asia. U.S. industrial volumes also declined, particularly due to the exiting of the corrugated media market.

Price was $166 million positive, up 11.5% in the fourth quarter. Our pricing performance continued to reflect strategic pricing efforts associated with our commercial excellence strategy, mainly selling to value and managing contracts to recover inflation.

Acquisitions increased $239 million, driven by metal packaging in our first month of Skjern. The integration of Skjern is ahead of schedule, and we're excited about both adding new team members in Europe and our expanded capability to serve consumer end markets. The base operating profit bridge illustrates our improving profitability in greater detail.

Volume mix was negative $35 million, primarily due to lower volumes in industrials. Price/cost was an $87 million benefit in the quarter. Consumer had strong price cost performance, generating $16 million of favorability primarily from RPC. We achieved $66 million of positive price/cost in the Industrial segment in the fourth quarter. The strong price/cost performance was due to contractual pricing mechanisms and historically low OCC costs. OCC averaged $38 per ton in the quarter versus $123 per ton in the third quarter and $183 per ton in the fourth quarter of 2021.

In 2022, we achieved a record $340 million of positive price/cost. These figures exclude metal packaging, which was accounted for in the acquisitions.

Acquisitions and divestitures generated $9 million of base operating profit in the quarter. As metal packaging continues to perform as expected, margins in this business were lower than previous quarters due to normal seasonality associated with food can volume and lower volumes in aerosols associated with inventory rebalancing. Other impacts on the quarter were negative $8 million due to higher depreciation and FX headwinds, which specifically were -- impacted operating profit of $5 million in the quarter.

Slide 8 has an overview of our segment performance for the quarter. Consumer sales grew 49% to $879 million due to the metal packaging acquisition and strong performance -- strong price performance, only partially offset by negative volumes of 2.5%. Volumes would have been generally flat, excluding the impact of weather and plastic foods and mix from exiting ice cream segment in RPC Europe.

Consumer operating profit grew 37% to $85 million in the quarter. Operating profit margin declined 83 basis points to 9.7%. Again, excluding metal packaging from -- for comparison purposes, consumer operating profit margins would have been 11.9% at 139 basis point improvement.

Industrial sales declined 8.9% to $597 million due to a 15% decline in volumes. Volumes weakened throughout the quarter due to customer inventory management and lower end market demand and more economic sensitive regions and segments. Operating profit grew 34% to $79 million as price/cost offset low utilization.

Industrial pricing is holding, as pricing mechanisms are now oriented to overall inflation recovery and value delivered rather than OCC prices. Operating profit margin increased 422 basis points to 13.3%, while other sales increased 2.5% to $200 million, and operating profit increased 24% to $20 million. Growth was driven by strategic pricing and overall stable volumes.

Moving to Slide 9. We have a record full year 2022 financial summary. Revenue grew by 30% to $7.3 billion, driven by acquisitions, volume in Consumer Packaging and strategic pricing. Base operating profit increased 63% to $920 million, driven primarily by positive price/cost and acquisitions. Base EBITDA rose 51% to $1.15 billion and base EBITDA margins expanded to 15.8%. Last, our base EPS for 2022 grew by 65% to $6.48.

We also announced the acquisition from WestRock of the remaining equity interest in RTS packaging in 1 paper mill in Chattanooga, Tennessee. In light of the current status of the regulatory review process, we now expect the closing of the acquisition to occur in the second half of 2023.

Turning to Slide 10. Our capital allocation framework is aligned with our business strategy to drive value creation for our shareholders. Our priority is to allocate capital to high-return investments in our core businesses, to drive growth and improve efficiencies.

From a free cash flow perspective, we remain focused on increasing the dividend, which at present is $0.49 per share on a quarterly basis or a greater than 3% average yield over the past 12 months. We paid $187 million in dividends in 2022.

After capital investments in the dividend, we prioritize investments in accretive M&A transactions aligned with our long-term strategy. We prioritized our access to capital and retaining our investment-grade credit rating. For the quarter, operating cash flow was [$187 million] (corrected by company after the call) and capital investments were $88 million. For the year, operating cash flow was $509 million and capital investments were $319 million.

On Slide 11, we have our 2023 guidance. For the first quarter, our EPS guidance is $1.15 to $1.25. Our full year 2023 EPS guidance is $5.70 to $5.90. Our full year 2023 base EBITDA guidance is $1.1 billion to $1.15 billion. Our full year operating cash flow guidance is $925 million to $975 million. We anticipate net working capital to be a meaningful benefit to cash flow in 2023.

Now Rodger will discuss our outlook on a segment basis.

Rodger D. Fuller ***Sonoco Products Company - COO***

Thanks, Rob. Please turn to Slide 13 for our view on segment performance, drivers for the first quarter and the full year of 2023, which supports our guidance.

Across the consumer segment for the first quarter of 2023, we expect sequential volume growth in all products, including metal cans, rigid paper packaging and flexibles. The only exception we expect is plastic packaging for fresh fruits and vegetables, which continues to be hampered by weather issues.

On a year-over-year basis for Q1, we expect to see positive volume driven primarily by the 1 extra month of metal packaging sales as we closed the acquisition at the end of January in 2022. For first quarter earnings, we have projected headwinds in our guidance from lower steel prices and are managing through other raw material costs and availability issues with energy, adhesives and laminates.

For consumer during the first full year of 2023, we see volume increases year-over-year across the portfolio included mid -- including mid-single-digit volume increases in our metal can business. We're continuing to invest for growth and productivity led by the increasing demand for sustainable packaging in our rigid and flexible packaging businesses.

In our Industrial segment, we see continued softness in volumes globally in our converting and trade paper sales in the first quarter. In North America, Protective Packaging for appliances and household goods remains weak, and we expect a little near-term recovery for products that support residential home building and construction markets.

We're monitoring the Europe and Asia demand recovery carefully as this will be critical to the overall volume outlook in industrial for the full year, which at present, we believe, will be down low single digits versus 2022 levels.

Like Howard mentioned, with transitioning our contracts to more stable indices, putting in better cost recovery mechanisms and current lower input costs on OCC, our pricing in industrial remains stable. Even with the most recent modest decline of $20 a ton for URB on the RISI Index and some expectations of modestly higher OCC costs in 2023, we expect positive price/cost benefits this year in Industrial.

With planned downtime in our global paper operations, we continue to maintain reasonable backlog levels and are ramping up all paper grades on our #10 machine in Hartsville. In our -- in our all other businesses, we continue to have net stable volume demand across this collection of businesses. With improved productivity and favorable pricing actions, we expect slight increases in profitability for the all

Other segments this year.

As we look to 2023, we have a keen focus on all forms of productivity as we see the benefits of fewer supply chain and labor disruptions. Over the past several years, we've taken decisive actions to help offset inflation and build resiliency in our operating model. At the same time, we've invested capital in our core, consumer and industrial businesses to position us for long-term growth and profitability.

With that, I'll turn it back to Howard.

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

Okay. Thanks, Rodger. If you would turn to Slide 15. The base earnings per share view visually demonstrated here clearly shows the step change in profit improvements for Sonoco. Our full year results include the benefit of metal pricing overlap for the company, which was approximately $0.53. Without this benefit, you would still see a very strong roughly $6 per share earnings for the period.

Since [2020] (corrected by company after the call), that -- the high-return investments we've made, while reshaping the portfolio and improving the operating model, have also resulted in an expected 15% CAGR in earnings per share through 2023, based on the midpoint of our 2023 annual guidance.

While 2022 was a year of progress, we are only just beginning. We intend to grow profits through organic and M&A investments as well as a better efficiency in how we run the business day in and day out.

In closing, if you turn to Slide 16, we carry sustained momentum from our strategy and operating model into the new year, which we believe positions us well to navigate near-term volatility. We expect stable operating performance in the coming year where the midpoint of our base EBITDA guidance is essentially the same as last year.

And let me be clear: The operating environment does remain very tough right now. But our expected performance reflects our better portfolio and business mix that is expected to be less volatile to business cycles.

We expect the first quarter to be the low watermark for the year based on our customer forecasts with improvements in the second and third quarter and then concluding the year with a more seasonal Q4. With improvements in working capital, we expect free cash flow for the year to be at the midpoint, around $600 million. We also remain focused on $180 million of incremental base EBITDA improvements through 2026, based on additional actions planned to further improve our core businesses and refine of our -- operating model.

As always for Sonoco, capital allocation remains a cornerstone of our strategy, and we intend to continue increasing dividends while maintaining an investment-grade balance sheet. In 2023 and beyond, we're focused on improving returns on invested capital through organic investments in core accretive acquisitions and through further portfolio rationalization. I have never been more positive about the long-term outlook for Sonoco.

So at this time, we would be pleased to take any questions that you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Kyle White with Deutsche Bank.

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

Correct me if I'm wrong, but I think in the food can business, I think you said you expect mid-single-digit volume increases for this year? What gives you this confidence? Curious what is driving that? Just as we look at some of the industry data that shipments have been frankly a little bit weaker than that.

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

Kyle, it's Howard. Yes, we're talking from a sequential perspective. And we just have visibility of that through our conversations with our customers, our expectations. A bit of share lift, but that's exactly what our customers are reflecting to us and that's what we're building into our models.

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

Got it. So sorry, was that -- you're saying it's a sequential uplift mid-single digits, not year-over-year?

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

Well, year-over-year.

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

Okay. And then within that business, just a follow-up, can you remind us what the impact was from the sell-through of lower-priced steel inventory last year, and then maybe what you're projecting as a headwind in 1Q and possibly 2Q from that impact?

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes. So for the full year last year, it was $0.54 of detriment. There's actually -- because tinplate is declining this year, 10% or so. There's actually going to be detriment as well this year for metal price overlap from the inventory we've carried over. We think that will be an incremental $0.20 to $0.30.

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***

Congratulations on the progress in '22. I wanted to hit on consumer trends that you're seeing. You talked about some inventory management by your customers at the end of the quarter. Can you talk about what they're seeing and what you're seeing as you're entering 1Q across some of your key, either end markets and product lines?

And if you would try to differentiate in the center store, paper versus plastic, we get that plastic for fresh is having its issues, But center store, what are you seeing in terms of your paperboard consumer packaging versus your plastic-based packaging?

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

George, let me try to hit on that. And Rodger, if you've got any follow-up. But it wasn't just on the consumer side, it was across the entire portfolio that we just saw a tremendous brakes hit towards the latter part of last quarter, and I think that's across all industry actually.

On the consumer side, we were being told that, that really is a reflection of inventory drawdowns, et cetera. As we've entered the quarter, we have not finished up and closed out of January. But looking at the top line, pretty impressed with the comeback that we're seeing across the board. And the plastic side, the real issue there is the weather events, both in Florida with the freeze and in California with the floods and the impact on the fresh produce.

But -- no, we're seeing really, really solid signs and reflecting, I think, this year somewhere in the neighborhood of a 4% and a 5% type lift year-over-year on the consumer side. But coming out of the gates, pretty impressed with what we're seeing right now. Rod, don't you got anything?

Rodger D. Fuller ***Sonoco Products Company - COO***

No, you hit it, Howard. I think the modest declines in the rigid paper cans in the fourth quarter, George, as Howard said, seeing a nice recovery in January. Really nice -- another nice quarter by flexibles 4% growth. And the fourth quarter, budgeting something 5% for the year and expect more of the same as we head into next year. So the pressure really was from our plastics business.

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

Understood. That's very, very helpful, guys. Secondly, can you talk to what benefit realizing it's a moving target. It's going to be based on the evolution of the market, evolution of your inputs.

But what benefit should expect for Sonoco from commercial excellence this year and other self-help measures? And where we stand in terms of ultimately realizing the targets you would have on both of those during the transformation?

Rodger D. Fuller ***Sonoco Products Company - COO***

Yes, George, it's Rodger again. Commercial excellence, I mean, you saw -- you see the results from last year on price cost. And frankly, that's from a couple of years of really hard work around commercial excellence. And we talked about what we see in the guidance for the next year from a price cost standpoint. So those efforts continue and continue to pay off, and you can see it in our operating margins.

On the self-help side, really, it's all about productivity as we look at 2023. We expect our productivity results to return to more historical levels and then probably plus some with the easing of supply chain and labor issues. I mean, George, you know our historical levels of productivity as well as anyone. We expect to get back to those levels and beyond.

So the self-help, the subtle transformation we did this year is paying off from the operating margin standpoint. So I think across the board, we're still confident in that $180 million over the next several years.

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

George, let me just add on to that and not just talk year-to-year and really the journey that we've been on. And I know there's a lot of folks on the call that are pent up to either ask or thinking about, okay, we're slowing down. You are in a paper business. You're going -- you guys have performed extremely well, well at all historically in a recessionary-type environment.

So I just want to touch on what you called it, self help, whatever you want to call it, but the amount of focus and energy that we've put over the last 4 or so years in terms improving our performance in our industrial sector. And I think you can see that sequentially in terms of the returns that we've demonstrated over the periods.

So if you look at the profile of the company now, and you take -- #10 machine is one that's an interesting conversation. Of course, we spend a lot of time talking about it, but creating the lowest cost URB mill in North America, certainly within our network on a global basis, and the productivity that's going to drive. And how that is going to be attracting volume from our higher cost mills, and then we're seeing that happening now. So the benefit from that.

But the unseen benefit that we haven't spent a lot of time talking about is controlling what we can control to reduce the amount of variability within this business. And getting out of corrugated medium, I cannot tell you how volatile being in that market with such a small machine, non-vertically integrated that has been for us over the course of the last, call it, 8 to 9 years within the company.

And you add to it the amount of effort on a global basis in terms of consolidations, again, focusing only solely on industrial right now, really rightsizing our locations, the investments we've made in automation. And I've said it before, and I'll repeat it, and it sounds like -- it feels like we are in a recession from our perspective on industrial, that we're in a much better position today than we have ever been. And we do not expect to see the type of variabilities that we saw pre- engaging in the activities, this global team has put forth.

So sorry for the dissertation, but I noticed in questions about that. But we just -- it kind of gets frustrating when you just look at quarter-to-quarter and what you do yesterday, versus tomorrow and not look at the long runway of efforts that this global team has put in place to create the risk of -- the appropriate level of margins that we deserve for the value we generate for the market and our customers.

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

Howard, we appreciate that. My last quickie is a great segue to that. So within industrial, within paperboard, you talked about the change in the contracts, commercial excellence of productivity. Can you give us some guardrails, i.e., if prices drop in the published indices by X, or OCC goes up by Y, what that might mean to the business on a going-forward basis so that we also are -- are managing our forecast with less volatility or more accuracy?

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

Yes. Thanks, George. What I would say is we have assumed that price is going to -- to moderate by X and cost is going to go up by Y, and that's built into what we feel like is going to happen this year. So that's a good question. I get it, but we have -- and I want folks to understand that we feel like there's going to be some moderate pressure on price, and there's going to be -- OCC cannot stay at $35, so we've built an upward look and impact to that in our go-forward models.

Operator

Our next question comes from the line of Cleve Rueckert with UBS.

Cleveland Dodge Rueckert ***UBS Investment Bank, Research Division - Associate Director and Associate Analyst***

I just -- I wanted to follow up on the Industrial business when we're talking about it. And I'm just curious how much visibility you have into the industrial backlog. And just, sort of, given what you know about it right now, whether there is the potential for any volume growth in 2023 or if you know you have sort of visibility on a longer-term basis? And then, Howard, maybe you just sort of mentioned what are the puts and takes? I know there's some transition going on in that business. But if you could give us some help on what you're seeing for volume growth overall in the plan, that would be helpful.

Rodger D. Fuller ***Sonoco Products Company - COO***

Yes, on the backlog question, this is Rodger, in Industrial. If you look at the fourth quarter, our capacity utilization across our paper business was in line with the published numbers of the industry. And as I said in my opening comments, we did take some lack of business downtime in our global paper system, more in Asia and Europe than the U.S., and some maintenance downtime to match market demand. And we're seeing that continue at about the same levels in January.

As far as we can see, we're -- we think we've reached the bottom there and we're starting to see some slight change to that and move in the right direction. But again, in our guidance, we're projecting year-over-year down a couple of percentage points for industrial based on what we saw.

And if you remember, our first 2 quarters of 2022, we're down around 2% year-over-year. So the real deceleration happened in the second half of the year. We expect it to turn the other way. Our toughest volume quarter should be the first quarter, then we expect some recovery.

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

Yes. I think what we're seeing around the world, it looks like we're at -- bouncing around at bottom, at least the first part of January. So expecting to see a bit of a turn. Cleve, can you explain deeper what you mean by transitions beyond what I shared earlier? I don't want to repeat what I shared on...

Cleveland Dodge Rueckert ***UBS Investment Bank, Research Division - Associate Director and Associate Analyst***

I'm just wondering how much headwind you have coming out of containerboard and whether there are some other businesses that are growing. I was just wondering what that balance is. But if you can't share any more, that's fine.

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes. That's a good question, Cleve. So we definitely look at all the various end markets, and we do sell into a number of end markets and a number of kind of final end markets, and we've done a really deep analysis on where is it that URB or the product that's made or facilitated by that URB product ends up going.

And it's a lot more -- I'd say, that those are much more consumer and stable end markets than you would anticipate with things like containerboard or tissue and towel in there in a meaningful way. And that's been a part of our strategy is to manage the mix.

And one reason why we bought RTS, or in the process of buying RTS, and one reason why we like Skjern is because it gives us access to really utilize the utility and the sustainability profile of URB and new markets that we think have some final growth and long-term opportunity.

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

So Cleve, that's one of the things that the team is working on now. We keep talking industrial, and it gets the connotation of its pure industrial. And when you really get into it, there's a huge consumer connection. And roughly 30%, I think I'm saying this correct, 30% of our URB ends up in trade sale tissue and towel sector, not -- you wouldn't define that as industrial.

So we owe it to you guys, and I know Lisa and the team were working on helping you guys better understand the true nature of cyclicality that would tie to an industrial type flow now.

Cleveland Dodge Rueckert ***UBS Investment Bank, Research Division - Associate Director and Associate Analyst***

That makes a lot of sense. That's very helpful. So it sounds like maybe more stable -- driving towards a stable, less volatile run rates as we move forward.

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

The strategic direction that we are continuing to focus on, yes.

Cleveland Dodge Rueckert ***UBS Investment Bank, Research Division - Associate Director and Associate Analyst***

And then I'm sorry if I missed it earlier, but I just sort of recapping at a higher level on the guidance. You talked about, sort of, I guess in 2 of the 3 segments, you get up to fasten up volumes. It sounds like price/cost is expected to be positive pretty broadly.

But ultimately, margins and earnings are falling a little bit year-over-year. So I'm just wondering if you could lay out just at the high level what the the negatives or what the headwinds are. I don't want to belabor the negative aspects of the guidance. But just so we know what the puts and takes are.

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes. I can give you that color, Cleve. So consumer volumes, really excited about the volumes this year. Mid-single-digit positive across the board, across the various businesses. All those businesses have great consumer-orient strategy.

Price/cost in consumer is actually going to be meaningfully negative. And it's because of this metal price overlap that we talked about, the $0.54 from last year and then another carryover this year from the deflation that we're having in tinplate. So that will be actually a pretty meaningful negative price/cost. And then we're also anticipating that resin prices will kind of turn over in the year and that will provide some price cost headwind as well.

So consumer will actually see relatively meaningful negative price costs, which is a big driver for the bridge between last 2022 to 2023. Industrial volumes, yes, we think they're going to be down low single digits. And price, as we've talked about, down kind of low single digits, but not in such a meaningful way that price cost will be a meaningful headwind for the year.

The other business, it's got so much diversity in it. What we really -- the way to really characterize that as normalizing end market trends and taking costs out of those businesses should result in some pretty meaningful operating profit improvement. And then there's just normal way headwind from nonoperating items like depreciation and amortization going up $32 million interest going up in kind of normalize into the statutory levels that we project that.

Operator

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

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

So just to clarify, I think you've stated it. But so if the Metalpack overlay benefit was $0.54 last year, and you're looking at $0.20 to $0.30, so is that -- are you expecting like a negative $0.74 to $0.84 comparison from Metalpack overlay '23 versus '22? Is that the way to understand it? Or are we just giving up $0.20 to $0.30 of the $0.54.

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes. It's not just Metalpack because there was -- we did have a pretty meaningful tinplate business and RPC. And then, yes, so that -- but that is discretely the impact of the positive going away and the negative coming in.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

Got it. So -- so that $6.48, we can actually back off as we're bridging to the guidance, we can back off $0.74 to $0.84. And so that's -- as you said, that's a very big part of the seeming bridge. I'm getting that right.

Robert R. Dillard ***Sonoco Products Company - CFO***

When we normalize it, I don't think that, that I think that there's opportunity there from normal operating conditions versus just kind of taking it away and saying that was all onetime.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

Presumably -- well, would we just add back the $0.20 to $0.30 to get to normal? Or is there something above than or different from that?

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes. I don't think we've modeled it that finally, but we definitely have a lot of productivity in that business.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

Okay. And then I guess the other elements of the -- and thanks for the bridge and the last question. And I guess, M&A with RTS it, maybe that's not so big. But how impactful M&A and self-help as we're thinking about the bridge, is that in the calculation of what you think '23 will be versus '22?

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

Yes. RTS is not in our forward-looking numbers at this point in time. And as I think Rodger said, maybe Rob earlier, that we hope now that closed by midyear, second half of the year. But we haven't built that in. Only Skjern, of course, closed late last year, and it's nominal.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

Okay, super. That is helpful. And I guess one last try and understand the sensitivity. But on the URB, can you share with -- are the contracts still tied directly or indirectly to indexes? Or is that not even how your product is getting priced anymore?

Rodger D. Fuller ***Sonoco Products Company - COO***

This is Rodger. Yes, if you look at -- in general, our total URB tons, about 60% or so is tied to the RISI, [TAM bending into] index 20% or so is still tied to OCC moves, and the final 20% is open market.

Operator

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

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

I hope you're well. Rob, just a couple of clarification questions to start off, if you don't mind. The mid-single-digit consumer volume growth that you're expecting, is that organic?

It just seems like I don't remember the last time consumer volumes were up mid-single digits in a year. I would think that would be just a multiyear high growth rate amid these pretty weak conditions. Just trying to understand that volume expectation a little bit better in consumer.

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

Adam, Howard let me handle at least the macro view of that, and I'll let Rob take over from there. But we've talked really over the last several years, and you can see it in our capital spend pool of how much new growth capital we've put towards our overall businesses that has been disproportionately weighted against the consumer side.

So we've just got known -- I mean, we've got a launch that's going national right now on the new line in Chicago. It was actually, I was watching Squawk Box this morning, and the CFO of the company was touting the new products. So we've got a lot of things going on within our legacy businesses, that give us great confidence in terms of what we're forecasting.

And then you take the big hit we took in the end of the fourth quarter, and that 4% to 4.5% tangibly in terms of new growth opportunities, organic that we talked about in terms of how much capital we're deploying around the world, as well as a bit of softness towards the end of the fourth quarter that gives us great confidence there. So Rob, I don't...

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes. Adam, it's obviously an incredible focus of the business to develop the right strategies and really invest behind them. And you saw that with the flexible business, which has mid-single-digit growth throughout last year. Even in December with the difficult market conditions that everybody saw.

But we've done this -- we've got new leadership in the global can business and a really unified strategy. I'd say most of the regions in the world are growing high single digits, and Asia is growing double digits in paper cans, and we're really excited about bringing innovation to that segment and enabling our customers to launch new products there.

Plastics is another area that really have -- we've invested behind and they've started to really grow. So each one of those businesses have mid-single-digit growth prospects. And we're anticipating that, that will come through this year.

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

Wow, okay. And just to be clear, for the total company, Rob, what is roughly, what is your volume expectation for the year? I assume you're assuming up something even with industrial being down?

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes, up 1% to 2%.

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

1% to 2%. Okay, and one other clarification, Rob. On the working capital, you said that you're expecting a meaningful benefit. Can you be any more specific than that?

Robert R. Dillard ***Sonoco Products Company - CFO***

Well, I think that we're targeting at least $100 million of improvement and mainly through inventory management.

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

Got it, lower inventories. Okay. Howard, just -- you expressed, I think, some frustration about just some of the questions you're getting. And I guess, from our seat, most -- really all paper-based packagers had historic price/cost benefits last year for reasons you're well aware of and many experienced historic margin expansion, as did you.

And so it's hard for us just on the outside to parse out the rising tide lifting all boats versus these company-specific operational initiatives that you have. So is there any help -- more help you can give us in terms of parsing those 2 out and understanding how that -- how you're thinking that will shake out this year and thereafter, for that matter?

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

First, Adam, I deeply apologize you felt like I was frustrated. I look forward to these calls like you have no idea each quarter and our subsequent meetings within the quarter. But it does become frustrating when -- and I'm sorry, again, yes, the dissertation as you may say.

But again, going back not too many years ago, 50% of this company was a paper industrial company. It's now in the 30%, 35% range. And that is a tail end in and of itself. I can't answer your question specifically other to say is that if there is a frustration, the peanut butter spread of you're a paper company is a paper company is a paper company, that's trying to give you guys a little bit more color in terms of how we're looking at our segment within the paper industry and how we're doing the things to take away as much of the volatility that we historically have had through those self-help actions that I described.

So all in -- inclusive, as I said, we're expecting to see price moderation. We're expected to see cost inflation. OCC cannot stay where it is forever. But we're -- we've taken actions over many years to reduce our exposure, be it from ultimate price to our controlling productivity, et cetera. So I'm backing down a bit, Adam, so...

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

No, I just -- it's helpful to hear you. Because again, it really is hard for us to know how much of rising tide lifting all boats situation this is, because we just -- we obviously don't have the visibility that you do.

Just the last thing, Rob, just back to the volume for one moment, if you don't mind. Compared to the 1% to 2% up to the year, what are your expectations for the first quarter? Just I'm trying to understand how back half weighted that expected volume growth is.

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes, that's a good question. So quarter-to-quarter, I'd say consumer volume growth is coming through now on a year-over-year basis and sequentially for industrial. We're kind of -- we're probably going to be flat sequentially with some back-end improvement, and we've modeled in our core, our base scenario for that business is that we're going to see kind of a flat recession or a soft landing.

And then some recovery in the second half of the year, which we think is the consensus from those sources. And then the other businesses are expected to -- and we're seeing kind of a good start to the year that will flow through the full year.

Operator

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

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

This is Matt Krueger sitting in for Ghansham. So you highlighted customer inventory de-stocking on the consumer side of the business late into the fourth quarter. But it doesn't sound like there's any expectation for a lingering impact or carryover in the first quarter.

Are you seeing real-time improvement here already? And it seems like a quick inventory de-stock cycle. Can you just talk through some of the dynamics that you've seen in that business and why the confidence on such a quick improvement in the first quarter here?

Rodger D. Fuller ***Sonoco Products Company - COO***

Yes, this is Rod. I don't know if I'll even describe it as a quick improvement. But as I think Rob has already said, if you look at our rigid paper can business, globally, we're seeing strength as we head into January. A lot of it is coming from the investments that we've made and capacity expansions and some new products that are being introduced.

So the paper can business looks up for the first quarter and what we see after 1 month is meeting expectations. Flexibles also, just like the fourth quarter, continues the strong growth. We expect another strong year from flexible. Their volumes coming in. They're winning putting new products into the marketplace, and we're seeing that, that's additive in the first quarter.

Metal cans, we didn't own the metal can business in the first quarter last -- in January of last year, but we have seen recovery. Our food can, metal food can business is strong. So in that case, we assume that was just inventory reductions at the end of the last year.

If you look at aerosol last year, we're somewhat heavily weighted to a couple of segments like disinfectants, spray paints, that built up inventory through COVID and they worked that off last year. So we're seeing some recovery there as well.

So again, the only exception is our primary store plastics business, with fresh fruits and vegetables continues to be very soft. Other than that, we've seen a nice start in consumer to the year from a volume standpoint.

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

Okay, great. That's helpful. And then switching over to the cost side of things. What do you expect from cost inflation overall for 2023? What do you expect from cost inflation for the raw material basket specifically? And then can you talk through some of the key constituents and the dynamics there for the upcoming year?

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes. I mean we have our base case assumptions for what we think is going to happen. For cost, I can tell you kind of discretely with a couple segments. I mean resin, we're anticipating that down with the front-end orientation really kind of driven by a broad basket that we buy. It's a meaningfully broad basket that we buy, we anticipate that's going to be down high single digits to double digits.

OCC, obviously less important than it has historically been because it's not really driving price. But as a cost factor we talked about kind of the meaningful deflation that we saw at the end of last year. We think that, that will somewhat recover just to a normal level because the handling cost around OCC is probably $60 to $80 a ton. And so we think that it has to go up to that kind of level in order to just have some stasis.

Otherwise, things that -- you should know is just employee, variable labor has definitely gone up, and we're anticipating it to go up. And that will be an inflation headwind through the year. Other kind of costs like fixed and depreciation will also be going up.

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

Got it. So what is that net to for the overall inflation budget for Sonoco?

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes. We don't -- I mean, we look at kind of business by business and we also measure it against kind of where the price and the ability to get recovery on productivity is. So we don't have a discrete number that I have off the top of my head, but we can definitely follow up with you.

Operator

(Operator Instructions) Our next question comes from the line of Anthony Pettinari with Citi.

Anthony James Pettinari ***Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst***

Just a couple of follow-ups. I guess on the Industrial segment and the volume guidance for industrial volumes, down low single digits for the full year. Apologies if I missed this, but is there a specific view on volumes for 1Q on a year-over-year basis?

Robert R. Dillard ***Sonoco Products Company - CFO***

It's going to be flat sequentially, which is kind of about the same magnitude down as it was in the fourth quarter.

Anthony James Pettinari ***Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst***

Okay, okay. And on RTS, there was some discussion of synergies. And I'm just wondering, you've been kind of a minority owner of that for a number of years. If you could talk to maybe sources of synergies or maybe just more broadly how you can run that business differently now that you're the full owner?

Robert R. Dillard ***Sonoco Products Company - CFO***

Well, so we're not the full owner yet. We're anticipating closing it in the second half of the year. We're excited about that project as much as we ever have and anticipate the synergies will be -- justify the transaction.

Operator

Our next question comes from the line of Gabe Hajde with Wells Fargo.

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

Howard, Roger, I'll leave the Plato references out, I guess. But just from a philosophical standpoint, you guys did a really good job in 2022. You're able to kind of beat and raise over the course of the year.

Given kind of the economic backdrop uncertainty and some of the headwinds that you're facing on tinplate, I guess, what some of us are trying to struggle with is why the aggressive, sort of, seemingly out of the gate, again when Q1 is a little bit below?

And/or what gives you the confidence? I mean you've mentioned conversations with customers. But just from our vantage point, there's a lot of uncertainty, maybe. And then from a geographic perspective in Industrial, maybe there's a knock-on effect from China reopening, and that's why you're feeling better about the second half. Just anything from a geographic standpoint that you can talk about?

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

Sure, Gabe, it's Howard. I'm not but -- Rob answered the bulk of the question, just to say. Just so you understand, I mean, as we build our bottom-up budgets, we do a very, very thorough -- go through a very, very thorough process with all of our business units and understanding the puts and takes that they see in their individual businesses and their markets.

We stress test that, so that when we have these conversations and these forecasts, we -- based on what we know today, these all feel like very realistic targets for the coming years. So Rob may be able to get a little deeper into that, but this is not with your thumb and see which way the wind is blowing. I mean we put a lot of effort over the fourth quarter to -- and manage it almost up until the day of announcement of what we think from our team's perspective, what we're seeing from a macro perspective, and what our customers are telling us. So Rob, I don't know if you have more to add on that.

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes. We feel really good about the budget and the guide. We think that it's very balanced. We think that there's obviously opportunities that we go after every day, but there's certainly risks that we've seen in the last -- in the 2 to 3 years like we've never seen before.

I'd say with regards to Q1 and then thinking about the full year, a big part of that really is this metal impact. And now when that -- that business has seen absolutely unusual inflation and now deflation, which just has really meaningful bottom line impact.

And so as I said, Q1 in a total impact just from metal is going to be $0.50 to $0.60. And if you took that away, we would almost be at the 185 that we were at last year. So I think that Industrial certainly has some impact there, but we're anticipating kind of a good year from productivity and a good year from performance.

So rolling kind of those -- taking that metal price impact off and then rolling forward because we think that, that metal price impact is most acute in Q1, there was some lingering impacts in Q2, but then completely gone in Q3 and Q4, you can think about our year in that regard and get to the number that's in a pretty, pretty straight line.

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

Yes. And I think just finally, Gabe, Slide 14, I spoke to at the end of my prepared remarks. I mean that's the point here is that we are on the appropriate trajectory without onetime benefits. An unbelievable trajectory without the onetime benefits.

And -- so look, I won't belabor the point. We're really bullish about the long term of the company and the action of the global teams have been taking over the years that are getting us to this point.

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

Understood. All right. And one last one. I don't think we mentioned it or has been mentioned, CapEx being $325 million to $375 million. I thought we were sort of thinking about a step-down, post project horizon. So maybe you guys found some other discrete projects in there that you're spending on.

Robert R. Dillard ***Sonoco Products Company - CFO***

Yes. It's a big part of our strategy. We've been really focused on trying to identify as many good projects as we could. And we've got -- we were in a really good position right now where we've got so many good projects that we're really managing it, and really identifying the best projects and the ones that fit our strategy the best.

So I'd say that to reflect that number as a reflection of that. It's also a reflection of us just being a bigger company than we've ever been before. And so as a percent of sales, it's still kind of in line with what we've been targeting. And it's also, as a percent of sales, a way for us to kind of continually ratchet up what we call value-enhancing projects as a component of that spend so that we're getting better and better ROI.

Operator

Our next question is a follow-up from Adam Josephson with KeyBanc Capital Markets.

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

Howard, just one follow-up. George asked a question about what you're seeing in center of the store in terms of plastic versus paperboard. Any shifts you're seeing from one substrate to the other, given that you're uniquely positioned to answer that question. Can you -- forgive me if you answered it, and I just -- I didn't hear it, but can you address that question?

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

Sure, Adam. It's really where it resonates, paper versus plastic, and the beachhead right now is really in Europe. And we are seeing a lot of opportunities. We're commercializing where once a product was on a plastic container is now coming to one of our all-paper containers.

It's -- we're just now rolling out the all-paper solutions that we've developed internally as well as to our acquisition of Can Packaging several years ago, just that's COVID hit. And so we've got some assets coming into North America.

We just don't have the same level of pull here in the U.S. Certainly, there's focus and attention on the CPGs that Europe, it's almost a mandate. And how quickly can you get us out of substrates such as plastic for flexibles into an all paper or mostly papers products.

So our expectation is that we'll continue to build on a more enhanced basis here in the United States. We're seeing it in Asia and South America, almost to the equivalent of the situation in Europe.

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

I appreciate it. Just one -- because I read, I think, that the EC was classifying any paperboard packaging with poly coating as technically a single-use plastic, and that was limiting the appeal at least to some CPGs in Europe. Any thoughts on that issue in Europe and the States for that matter?

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

Yes. I don't know if I have a good answer for that because it's a moving target, and it's by member country in the EC. But barriers are required, and we've been really focused on paper content percentages.

And so we've got solutions out there in the market today that are 95% paper, that are able to be recycled on the paper strain. So different countries in the EU. There will be different states that take on different positions here. But the reality is you do need some types of barrier. And our focus, again, is to create solutions that have easily managed through the recycling systems and programs.

So we've -- we're actually seeing a positive reaction in countries like the U.K., France, et cetera, with the products that we're putting out in the market today.

Operator

Our next follow-up comes from George Staphos with Bank of America.

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

Just given that, Adam, segue that for us. Just one quickly then. Why are you comfortable, or are you that North America won't see kind of a similar impact as you're seeing in Europe in terms of your customers trying to get out of plastic to go to paper?

Is it from their research or yours, the consumer here cares less? Or is there more confidence about the sustainability merit of the plastic packages you and others are bringing to the market and maybe something else?

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

Yes, George, I'd say we're just going to wait and see here what -- if the U.S. in totality follows the trends in Europe. But that's just different. It's a totally different environment right now. And I don't know how to answer that.

We are not seeing a lot of pressure right now. These are fit-for-purpose solutions. We've got a lot more space and opportunities to to either recycle and/or other options for -- [forward strains]. So I'd just say, just watch the space over time. Typically, we do end up following what's going on in Europe.

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

Yes. Hopefully, EPRs have a good benefit too.

Operator

And I'm showing no further questions at this time. I'd like to hand the call back over to Lisa Weeks for closing remarks.

Lisa K. Weeks ***Sonoco Products Company - VP of IR & Corporate Affairs***

Thank you all for joining our call today. And if you have any follow-up questions regarding our results, please let us know. We look forward to giving you an update on our Q1 results in May. And thank you all again, and have a wonderful day.

Operator

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