

Sonoco Products Co.

I-Day, 2024: Steady growth, while SON
“hangs around net” (our phrasing)

Maintain Rating: BUY | PO: 64.00 USD | Price: 57.61 USD

Sonoco rolls out 2028 targets at I-Day

Sonoco (SON; Buy) hosted its Investor Day today, its first since 2021. Members of the management team on hand for the presentation included Howard Coker, President & CEO, Rob Dillard, CFO, Rodger Fuller COO, and other senior leaders. Overall, we thought the most important concept discussed was Sonoco’s 2028 financial targets. Paramount is the \$1.5bn EBITDA goal by 2028, but other key goals include low-single-digit pct (LSD) revenue growth, high-teens adj EBITDA margins, and cumulative operating cash flow of \$4-5bn. The company plans to reach these goals through productivity and other performance improvements, very targeted investment, and portfolio management. Please see Exhibit 1 for individual segment targets for 2028.

Takeaway: steady on and “hanging around the net”

Our past industry research suggests that SON may have some difficulty hitting all its top-line goals but that the EBITDA margin and dollar targets are more achievable than its top-line objectives, and this would particularly seem to be the case given its impressive \$300-500mn net productivity goal through 2028. Given the company’s attractive valuation at 11x ’24 earnings and 8.4x EV/EBITDA, as well as its 3.6% yield, investors are more than fairly paid to wait on Sonoco’s upcoming performance in the next five years. While we cover other points below, our sense from the discussion is that SON will patiently try to drive profit growth in its non-paper-oriented businesses through technology, productivity and innovation, while riding strong volume and earnings momentum in Rigid Paper. And over time, we expect the company will “hang around the net” (our phrasing) and be open to M&A opportunities as they arise in its non-paper businesses, as a way of accelerating growth.

Other nuggets: Flex better than we know? We’ll see

Other points from the discussion: (1) yes, we’re skeptical that putting Flexible and Thermoforming together will lead to mid-single-digit revenue growth...; (2) ...but we think SON’s volume in both (Flex, Therm) areas has actually been positive, at least from the company’s vantage point. We’d like to see more data on this over time; (3) SON called out \$10mn in overhead savings but our sense is there could be much more in productivity within Flex-Therm from combining units; and (4) Sonoco only grows through acquisitions? While that is frequently the view in the market, excluding the Metal Pack acquisition, SON’s EBITDA would apparently be ~\$900mn, close to the \$1bn by 2026 goal it shared at its last investor day in 2021.

See below for the individual segment targets for 2028.

22 February 2024

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Stock Data

| | |
|---------------------------------|-----------------------|
| Price | 57.61 USD |
| Price Objective | 64.00 USD |
| Date Established | 15-Feb-2024 |
| Investment Opinion | B-1-7 |
| 52-Week Range | 49.98 USD - 63.74 USD |
| Mrkt Val (mn) / Shares Out (mn) | 5,806 USD / 100.8 |
| Free Float | 99.2% |
| Average Daily Value (mn) | 23.50 USD |
| BofA Ticker / Exchange | SON / NYS |
| Bloomberg / Reuters | SON US / SON.N |
| ROE (2024E) | 20.1% |
| Net Dbt to Eqty (Dec-2023A) | 120.5% |
| ESGMeter™ | Medium |

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Timestamp: 22 February 2024 07:30PM EST

Exhibit 1: Segment 2028 Targets
Sonoco Segment Targets

| Business | RPC | Flexibles | Metal Pkg | Industrial Paper |
|--------------------|------------|-----------|-----------|------------------|
| Revenue Growth (*) | HSD | MSD+ | LSD+ | LSD |
| EBITDA Margin | High Teens | Mid-Teens | Mid-Teens | High Teens |
| ROIC (**) | -SON | -SON | -SON | -SON |
| Revenue % of total | 20-25% | 15-20% | 10-15% | 37% |
| Capital % of total | 30-35% | 10-20% | 10-25% | 25-30% |

Source: Sonoco

(*) 2024-2028 CAGR; high-, mid-, or low- single digit (HSD, MSD, LSD)

(**) SON indicates Sonoco's 2023 ROIC of 19.7%; SON= corporate average

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Price objective basis & risk

Sonoco Products Co. (SON)

Our \$64 price objective is derived from a three-part valuation approach, which includes: (1) a 13-14x 2024E P/E multiple, (2) an 9-10x 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which assumes \$600mn of normalized FCF, 10% cost of equity, and -2% growth rate. The P/E and EV/EBITDA multiples are consistent with past valuation multiples within packaging.

Downside risks to our price objective are: (1) potential volatility in old corrugated container (OCC) prices, (2) execution on restructuring and integration initiatives, (3) integration of present acquisitions, (4) periodic volatility in its business, (5) execution of its consumer/growth strategies in packaging, (6) unexpected volume and pricing trends, (7) macroeconomic trends, (8) potential trend reversals related to Administration policies. In addition, energy and commodity cost volatility represent ongoing risk for all packaging companies.

Upside risks to our PO are: (1) Sonoco's ability to acquire businesses accretively, making our forecasts too pessimistic, driving SON above our PO, (2) Additionally, should volumes accelerate while input costs stay benign, this could lead to higher earnings than we are projecting and result in the stock exceeding our PO, (3) The factors noted earlier could play out in a way that causes results to exceed our forecast and drive the shares above our PO.

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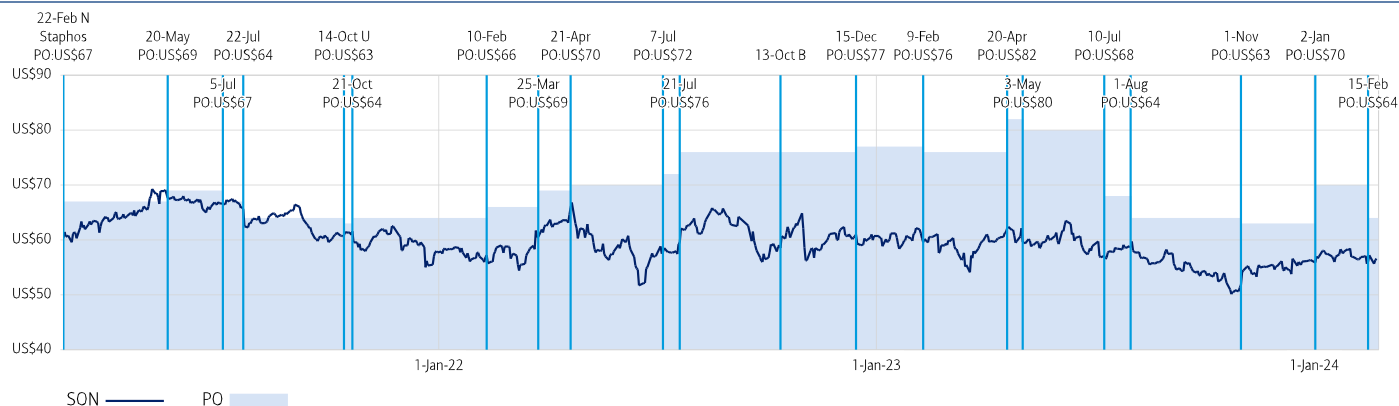
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Sonoco Products (SON) Price Chart



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|-------------------|-------|---------|--|-------|---------|
| Buy | 14 | 60.87% | Buy | 10 | 71.43% |
| Hold | 6 | 26.09% | Hold | 5 | 83.33% |
| Sell | 3 | 13.04% | Sell | 2 | 66.67% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
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| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

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|-------------------|---|--|
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