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CORPORATE PARTICIPANTS

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

Robert C. Tiede *Sonoco Products Company - President, CEO & Director*

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

CONFERENCE CALL PARTICIPANTS

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

Brian P. Maguire *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Deborah Anne Jones *Deutsche Bank AG, Research Division - Director*

Edlain S. Rodriguez *UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals*

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

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

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

Molly Rose Baum *BofA Merrill Lynch, Research Division - Research Analyst*

Salvator Tiano *Vertical Research Partners, LLC - VP*

Scott Louis Gaffner *Barclays Bank PLC, Research Division - Director & Senior Analyst*

Steven Pierre Chercover *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2019 Sonoco Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference, Roger Schrum. You may begin.

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

Thank you, Gigi. Good morning, everyone. Welcome to Sonoco's investor conference call to discuss our first quarter 2019 financial results. Joining me today are Rob Tiede, President and Chief Executive Officer; and Julie Albrecht, Vice President and Chief Financial Officer. A news release reporting our financial results was issued before the market opened today and is available on the Investor Relations website of sonoco.com. In addition, we will reference a presentation on the first quarter results, which was also posted on the website this morning.

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

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

Now with that, let me turn it over to Julie.

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

Thanks, Roger. I'll begin on Slide 3 where you see that earlier this morning, we reported first quarter earnings per share on a GAAP basis of $0.73 and base earnings of $0.85 per share, which is above our guidance of $0.77 to $0.83 per share and also compares very favorably to base EPS of $0.74 in the same period of last year. Overall, we had solid first quarter results to start the year.

Related to the $0.12 difference between base and GAAP EPS, $0.08 is due to restructuring activities and $0.04 relates to nonoperating pension costs. As a reminder, starting in this quarter, we are removing from base earnings the amount reported on our income statement as nonoperating pension costs or income.

Now looking briefly at our base income statement on Slide 4, starting with the top line. You see that sales were $1.352 billion, up $48 million over the prior year due primarily to the impact of the Conitex and Highland Packaging acquisition. I'll review more details about our key sales drivers on the sales bridge in just a moment.

Gross profit was $270 million, $19 million above the prior year, due to positive price/cost and the impact of these recent acquisitions. SG&A expenses of $142 million were unfavorable year-over-year by almost $5 million, driven solely by acquisitions as other expenses were down versus last year's first quarter, all this resulting in an operating profit of approximately $128 million, which is almost $15 million above last year, and I'll review the key drivers on the operating profit bridge shortly.

Net interest expense of $15 million was $2 million higher than last year due to increased expense from higher U.S. interest rates but reduced interest income on lower offshore cash balances. Income taxes of $27 million were slightly higher than last year, driven by a combination of higher pretax profits but a lower effective tax rate. Our first quarter 2019 effective tax rate of 24.1% was lower than the prior year quarter due to a decrease in the GILTI tax and an increased benefit from equity-based compensation. Moving down to net income. Our first quarter 2019 base earnings were $86 million or $0.85 per share.

In looking at the sales bridge on Slide 5, you see volume was lower by $18 million or 1.4% for the company as a whole. Consumer Packaging volume was down $14 million or 2.5%, where some growth in rigid paper containers, especially in Europe, was more than offset by lower volume in rigid plastics, which was negatively impacted by a weak fresh fruit harvest due to adverse weather on both the East and West Coasts.

Display and Packaging had strong volume growth at almost $16 million or 11.2%, driven by increased business activity in both domestic displays and international pack centers. This does exclude the impact of exiting the Atlanta pack center, which is included in the exchange and other category.

Volume in Paper and Industrial Converted Products was down almost $18 million or 3.8% due to weak tube and core volumes in most global regions and lower paperboard and corrugated medium demand in the U.S. and Canada. And sales volume in Protective Solutions was down by almost $2 million or 1.4% with a continued trend of weak volume in molded foam and consumer fiber packaging but strong demand for temperature-assured packaging, which did exceed our expectations.

So moving over to price. You see that selling prices were higher year-over-year by $27 million, driven by price increases both to cover higher material and nonmaterial costs as well as other efforts to better realize the value of our products and services that we provide to our customers.

Moving over to acquisitions and divestitures. You see an impact on the top line of $90 million from the Highland Packaging acquisition and Consumer Packaging and the Conitex acquisition in Paper and Industrial Converted Products. And finally, exchange and other was negative by approximately $52 million, driven by a $37 million negative impact from foreign exchange translation and $15 million of lower sales from the Atlanta pack center exit in September of last year.

Now before I walk through the operating profit bridge on Slide 6, I'll note that we have updated several of the categories on this bridge to what we feel is a more streamlined approach that also improves how we explain our results. Starting with volume/mix, which did not change from our prior bridge format, our lower sales volume combined with the impact of mix had a negative impact on operating profit of $4 million. This impact was spread among the segments, generally in line with the sales volume changes.

Moving to price/cost. I'll first explain that this category now includes the earnings benefit from higher selling prices and the impacts of total inflation including material cost as well as all variable and fixed costs. So we had $7 million of positive price/cost in the first quarter, most of which was in the Paper and Industrial Converted Products segment, and there's a slide in the appendix that shows recent OCC prices where you'll see that OCC prices averaged $75 per ton in the first quarter of this year compared to $107 per ton average in last year's first quarter. Although some of our second quarter customer contracts have reset at this lower level for OCC, we have been successful in implementing price adjustments on noncontract business along with contract pricing that is based on market paper indices such as tan bending chip, which are actually higher year-over-year.

Next, you see that the impact of acquisitions added $9 million to earnings this quarter, roughly split between our Highland and Conitex acquisitions.

Moving over to total productivity. This is an updated bridge category and that it includes all results from our productivity actions, including manufacturing, procurement and fixed cost. Previously, these drivers were spread around several different operating bridge components. You see that our total productivity was positive year-over-year by $7 million and was spread across our segments. The main contributors to this positive productivity were procurement and fixed cost. And finally, the change in the exchange and other category was unfavorable by $4 million, primarily driven by foreign exchange translation.

Moving to Slide 7. You find our segment summary where you see that Consumer Packaging sales were up 3.5% due most notably to the Highlands acquisition while operating profits were higher by 1.7%. The consumer segment margin was 10.5%, slightly below the first quarter last year but well above the weak performance of 7.6% in the fourth quarter of 2018.

Display and Packaging sales were down 3.6% due to the Atlanta pack center exit in September of last year but partially offset by strong volumes in the remaining business. Operating profit increased well over 100% to $6.4 million and margins of 4.7%. This earnings increase is due to the same drivers as with sales.

Paper and Industrial Converted Products sales were up almost 8%, mostly from the Conitex acquisition while operating profit was higher by almost 22%. This strong earnings growth is from price/cost, the earnings from Conitex and improved productivity. The industrial segment's operating profit was a solid 9.8% for the first quarter this year.

And finally, Protective Solutions sales were down 2% but operating profit improved by 3% due to strong productivity results. The segment's margins of 8.6% were slightly above the prior year quarter.

So for the total company, our sales were up 3.6% and base operating profit was higher by 13%, resulting in a company-wide operating margin of 9.5%. This is an 80 basis point improvement over last year's first quarter.

Moving to Slide 8. You find our outlook for the second quarter where we are forecasting base earnings to be in the range of $0.93 to $0.99. This assumes no significant change in underlying economic activity but does reflect the normal seasonal uptick as we move out of the first quarter.

With our solid first quarter earnings and our assessment of the rest of 2019, we are increasing our full year guidance to $3.52 to $3.62. This raises the bottom and half end of the range by $0.05, which is the amount of our first quarter outperformance.

I'll add that our second quarter guidance assumes an effective tax rate of 26.5% and we're updating our full year effective tax rate to be 25.5%, slightly lower than our original 26% assumption and mostly driven by our lower first quarter tax rate.

Now moving from earnings to cash flow. On Slide 9, you see that our first quarter 2019 operating cash flow was $92 million compared with $120 million in the first quarter of 2018. This $28 million decrease was primarily driven by changes in working capital as GAAP, net income and most other components of operating cash flow were little changed compared to the same period last year.

Midway down the slide, you see that our working capital balances increased during the first quarter by $46 million, which was a $19 million increase in cash usage by working capital versus the prior year quarter. The primary driver to this increase was accounts receivable, driven by the timing and mix of sales volume in the first few months of this year compared to what we had in early 2018.

So after capital spending, net of asset sale proceeds of $42 million and after paying dividends of $41 million, our free cash flow in the first quarter of 2019 was $9.5 million.

Our outlook for this year's operating cash flow was unchanged at $600 million to $620 million and our outlook for free cash flow is also unchanged at $225 million to $245 million.

On Slide 10, you see that our balance sheet and our liquidity position remains strong. Our first quarter 2019 consolidated cash balance of $124 million reflects a slight increase from our year-end cash balance of $120 million.

Moving on to our debt balances. Our consolidated debt totaled $1.41 billion at the end of the first quarter 2019, a slight increase of $25 million from year-end. I'll note that approximately $15 million of this increase is due to the new lease accounting standard that we adopted at the beginning of this year. Also related to this new lease accounting standard, you see a new right-of-use lease asset of $308 million, and in the liability section, you see the addition of a noncurrent operating lease liability of almost $263 million.

This concludes my review of our first quarter financial results. So I'll turn it now over to Rob.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Thanks, Julie. Let me provide some commentary around our first quarter performance and then I want to talk briefly about efforts we have underway regarding package sustainability, and finally, I want to speak about capital allocation and what we see going into the second quarter and the remainder of 2019.

Sonoco produced solid first quarter results, which exceeded the high end of our guidance, as our diverse mix of packaging businesses successfully navigated through what I could describe as a sluggish global economic condition. Julie took you through the numbers for the quarter, but I want to spend some time talking about our improved operating and margin performance.

Overall, base gross profit margin improved 77 basis points and base operating profit improved 13% while base operating margin improved 78 basis points. We were extremely pleased that each of our business segments recorded year-over-year improvement in operating earnings during the first quarter.

Our Consumer Packaging segment reported slightly improved operating results in the quarter and a slight decline in operating margin. However, these results were significantly better than the disappointing 2018 fourth quarter results as, sequentially, margins improved by 291 basis points. We were very pleased with the performance of our rigid paper container businesses where we saw solid volume growth in our 2 largest markets of North America and Europe. I would also mention that during the quarter, we started test runs on our new operations in South Africa and Brazil, and we expect these facilities to be in commercial operation by the end of the second quarter. In rigid plastics, solid earnings from our 2018 acquisition of Highland Packaging, along with the positive price/cost relationship, more than offset the significant volume decline we experienced as extremely wet weather in California and the cold weather in January in Florida impacted the start of the strawberry harvest.

Our Paper and Industrial Converted Products segment reported its eighth consecutive year-over-year quarterly operating profit improvement as operating margins improved 112 basis points compared to the first quarter of last year. Conitex, which we acquired in the fourth quarter of 2018, had a strong first quarter and the segment overall continued to benefit from a positive price/cost relationship and had solid productivity improvements.

The turnaround in our Display and Packaging segment continue with operating margin expanding 348 basis points over the prior year period.

And finally, our Protective Solutions segment showed improvement in operating earnings led by extremely strong growth in our ThermoSafe business while operating margin expanded by 45 basis points.

Everything that I've discussed so far is happening against the backdrop of lots of discussion around packaging sustainability. So let me briefly touch on our commitments in this area and all the products and the services we're working on to meet the needs of our customers and to reduce the real problem in the world, food waste. You've heard me say before that food waste is a massive issue, accounting for somewhere between 30% and 40% of all food products in the world. We've talked previously about our partnership with Clemson University, where our Sonoco FRESH program is working to bring together some very smart people from a range of industries and create an environment where they can work on solving issues related to food waste. Sonoco is proud that we have so many resources to tackle food waste and packaging sustainability issues. Our recycling paperboard mills manufacture approximately 2 million tons of 100% recycled paperboard with 96% of the fiber used in our mills coming from recycled content, 85% of it being post consumer.

Furthermore, 22% of the revenues in our plastic packaging globally comes from recycled content with 19% post consumer. We are recycling or causing to be recycled 75% of the packaging that we produce globally, which is some 4.75 million tons. And we expect this to move to 85% by 2020. When asked to talk about packaging sustainability, previously, I've stated that there is simply no silver bullet when it comes to addressing this issue. There are also unintended consequences around every corner, and this truly requires objective, big picture, out-of-the-box thinking. That is why on September 17 and 18, we will be hosting a sustainability and food waste summit for our CPG and food packaging customers as well as other thought leaders at our headquarters here in Hartsville. The goal of this summit is to explore fresh thinking about the future of packaging and food. I'm excited about this outreach effort and it will not be about selling our products but about finding real solutions to real issues. So stay tuned.

Now let me switch gears and talk briefly about capital allocation. Given our cost cash flow projections and capital structure, Sonoco is in a very good financial shape, which provides us tremendous flexibility. We expect to maintain a balanced deployment strategy between growth and returning value to shareholders. As Julie mentioned, we expect to spend more than $200 million on capital expenditures this year, allocating that about 50-50 split between growth projects and continuing to maintain and modernize our global manufacturing network. We also will remain focused on making rational accretive acquisitions in our targeted growth areas of flexible packaging and thermoform rigid plastic containers as well as consolidating paper and tube and core assets.

Yesterday, we announced to our shareholders at our annual meeting that we would raise our cash dividend approximately 5% to $1.72 per share on an annualized basis. This was the 37th consecutive year we've raised dividends, and we have paid dividends for 376 consecutive quarters. That's 94 years.

Finally, because of our strong financial position, we also have opportunity to consider various de-risking actions for our U.S. defined pension plan if market conditions warrant. This legacy plan has been closed to new entrants since 2004 and most participants stopped accruing benefits as of year-end 2018, making our pension plan a noncore operation within the company. As a result, we will continue to evaluate which options are in the best interest of our participants and the company.

Turning to the second quarter and the rest of 2019. Because we're off to a solid start to 2019, we were pleased to be able to raise our full year guidance by $0.05 to $3.52 to $3.62 per diluted share with a second quarter guidance of $0.93 to $0.99 per share. I'm optimistic we have the initiatives in place to achieve our targets for profitable growth, improved operating margins and strong free cash flow. That said, we must also be realistic about the balance of the year as global economic conditions showed some weakness to start the year and the uncertainty of tariffs, trade disputes and regional policy concerns are still hanging over business and consumer confidence.

Finally, in the next few weeks, we will celebrate Sonoco's 120th anniversary, and given our strong foundation, we are confident that our people, our products and our portfolio have us well positioned to compete in a changing market environment while achieving consistent earnings growth and improving returns to shareholders. Now with that, operator, would you please review the question-and-answer procedures?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Ghansham Panjabi from Baird.

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

I guess, first off, yes, kind of looking back at the first quarter, volumes in each of the segments were down. I don't know if they were pretty much in line with your expectations but they were slightly below ours. Yet you're raising guidance for the full year 2019 very early in the year. So I guess first off, Rob, what gives you that level of confidence that you'll be able to offset the sluggish volume backdrop? Maybe we could start there.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Sure. Well, let me start off, Ghansham. First off, in Q1, we have 1 less day this year than we had last. So if I look at the volume results for the company overall, we were down directionally about 1%, 1 day in 91 is directionally 1%. So as I look at it, it's relatively flat year-over-year. And then when I take a look at it in sort of the big moving pieces, there are a couple of things that occurred in the quarter. One was as Julie and I both mentioned, the issue around weather, specifically for the perimeter of the store, which was rather significant. We got a late start on the East Coast directionally a month because of cold weather, specifically in Florida. And then it hasn't stopped raining -- well, it has now, thank God, on the West Coast and people are now in the fields picking. But we lost significant volume as a result of that timing delay. And then on the other side, on the paper side, we talked about some softening in our corrugating business in the fourth quarter that continued in the first quarter, but what we also did do is we had our normal maintenance outage here at the Hartsville campus for a week and we also extended the downtime on our #10 machine by a couple of days to allow, if you will, volume and demand to settle out. Those 2 big buckets really had an impact. If I look at the volume moving forward, as we head into April, and April -- 1 month does not a quarter make, our medium machine is full. And so when I look at that, when I look at what's going on with our perimeter of the store now that they're shipping, barring anything else happening of consequence around the world, that's what gives us some confidence as we look forward.

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

That's very helpful. And then just my second question on the consumer segment, I'm just trying to put the margin improvement on a sequential basis in perspective. Was that partly a function of just lower run through cost kind of flowing through? Was it inventories being realigned and you saw a commensurate operating profit boost? And then also, can you just update us separately on what's been happening with some of the other operating costs such as freight?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Sure, but it's a number of things. It's -- did we get some benefit from resin, the answer is yes. If you recall, we were chasing resin for the better part of 5 or 6 quarters. It reversed itself in the first quarter and so we did get some benefits. Some of that was baked in. I would tell you that probably got a little bit more than we initially thought but not much. The biggest change is, if you recall, we were shutting down a facility in the fourth quarter. We were distributing equipment. We were hiring up people, training up folks in the fourth quarter. We also had 2 plants in our flexible system where we were bringing in new equipment and we were rebuilding equipment in another site, and that work had been completed. There was still in the first quarter some costs associated with that. So we're still doing some training in the first quarter on the plastic side as we're bringing up people and -- both in the U.S. as well as in Mexico, and we're also getting those machines ramped up early in the first quarter on the flexible side. So there was a little bit of lingering that occurred in the first quarter as well from a cost side. And I think the balance of your question was around further material movement, was that in freight?

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

Yes.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

I would tell you in the first quarter, our freight inflation, we had -- I think we had talked about it being up around 6% is what our expectation was as we look forward. We did see inflation in the first quarter directionally probably around $0.02 worth, which was not far off the line with what we expected in the first quarter. And so we're monitoring that closely. Hope that helps.

Operator

Our next question is from George Staphos from Bank of America.

Molly Rose Baum - *BofA Merrill Lynch, Research Division - Research Analyst*

This is actually Molly Baum sitting in for George. Just 2 quick questions, the first one going back to Consumer Packaging. Could you give a breakdown of kind of the performance between plastic flexibles and composite cans? And then on the latter point, the strong growth in the rigid paper business, do you think that has any correlation to this increased focus on sustainability?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Okay. So let me -- you have multiple questions there, as you said. So let me start it off with the consumer side. We did see strong performance in our composite can paper-based construct product line here in North America. We saw it in Asia. We saw it in Europe as well. I would tell you in Europe, did we pick up some volume that was as a result of people having concerns around plastic? The answer is yes. We did commercialize some new business but that wasn't the significant driver. We just saw a solid performance by pretty much across the portfolio in Europe, and we saw good performance here in North America as well. On the plastic side, I will -- let me go -- flexibles performed right in line with where we had expected it to be, and the rigid plastic side, the biggest impact was what I described, that shortfall of product that occurred in the first quarter specifically related to the perimeter of the store.

Molly Rose Baum - *BofA Merrill Lynch, Research Division - Research Analyst*

Got it. And then the last one for me. Looking at OCC and where prices are right now, in your view, are they at a level that could, in theory, discourage collection and, as a result, reduce supply? Like theoretically, do you think that we've kind of reached the bottom at this point?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Every time somebody asks me about OCC, I'm wrong. So just remember that when I say what I'm about to say, and this is you're beating Adam to the punch. So we -- has it hit bottom? I'm not sure that it's hit bottom yet. I won't be surprised if we see further decline as we head into May, but then I would expect it to start creeping back up when things get a little tight in July, August, September and probably in October, and then we typically see a bit of a downturn. So -- and do I think it will discourage collection? No. And the reason I don't believe it's going to discourage collection is China still has a problem and they need to get their fiber through some other methodology, and so we're seeing Chinese investment in old mills and they're looking to convert those to create pulp-able material that they can ship back and, if you will, work through the environmental issues of us sending OCC over. So I don't think that collection will be curtailed.

Operator

Our next question is from Edlain Rodriguez from UBS.

Edlain S. Rodriguez - *UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals*

Quick question. Rob, you talked about, like, those sluggish nests you saw in the first quarter that -- has that dissipated yet? Or are you still seeing that not much has changed yet?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. Let me -- yes, maybe, Edlain, the best way for me to do it is walk you around the world as to what we're seeing, and hopefully, that gives you some color in terms of why we talked about the sluggish economy. Let me start with Mexico and then just work my way around. We were entering the year thinking that GDP of Mexico was going to be somewhere in the 3.2% range. I think the latest look is now in the 1.3% range, 1.4% range. We've clearly seen that on the converting side, on the industrial side of our business. Our paper system's still full. If I move down to Brazil, we're seeing the same sort of thing. The economy there has gotten a little more sluggish, maybe a little more pessimistic than initially anticipated. They are running around -- their latest forecast is in the 1.3% range, and we've seen that market dynamic sort of play out both in the consumer and the industrial side. If I move over to Asia, first quarter is always a challenge because you got Chinese New Year. But if I take a look at the -- if I look at Asia in its totality, clearly, China is slow. But we saw the balance of Southeast Asia sort of offset that, and then obviously, we've had the addition of Conitex that's come in to play in the first quarter of this year for us and they had a very solid performance in the first quarter in Asia. On the -- sorry, on the consumer side in that part of the world, we did see the growth start to come back again after Chinese New Year, but the volume is not as robust as it was last year. So clearly, again, it's in line with our expectations and in line with what you would expect the Chinese growth rate to be. If I look at Europe, our converting side on the industrial side was down directionally, I think, around 4% to 5%. The paper systems is still very robust. I think maybe we had 1 mill that was contemplating taking some downtime for a couple of days, more so the deal with some holidays coming up. And our consumer side, not only in the can side, but if I look at our display business, was very strong. And then we come over to North America and strong performance in the consumer side other than, if you will, the glitch that we had as a result of weather-related dynamics in the plastics side. And if I take a look at the URB system, the URB system remains full. In our tube and core business, we did see some decline, which was consistent with what we've seen before, but if I match the decline and I take a look at do we really lose the tons of paper, the answer is no. We simply rerouted them to another plant. So hopefully, that gives you a sense of where we are. As we now look into Q2, as I said, on the corrugating side, again, I'm just looking at -- I've got visibility to the first month. On the corrugating side, the machine is full. If I take a look at the backlogs in our consumer business, I'm pleased with what I'm seeing here in North America. I'm pleased with what I'm seeing on the consumer side in Europe, and I think Asia, again, on the consumer side, will continue to grow simply not at the same rates we've seen in the past. However, we will be starting up 2 facilities, 1 in Brazil, 1 in South Africa, and we just need to see how that volume goes on. Typically, what we've seen in the past, and I'm not saying the past is a predictor of the future, we will be ready before the producer of the product will be because they're both greenfield sites and so there'll be learning curves that will go on. But I do expect by third quarter, all those glitches will be resolved and we'll be up to running at commercial pace. Hopefully, that helps.

Edlain S. Rodriguez - *UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals*

That was very helpful, Rob. And one quick one on the M&A pipeline. Can you talk about what you're seeing there and discussions about valuations between yourselves and potential sellers?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. I would tell you, Edlain, we -- the M&A pipeline is as robust as it's ever been. In terms of valuations, I think that -- again, if I go back to December, I thought what we would see is a correction in the marketplace. But then January, the market corrected all the undoings, if you will, that occurred in December. And so I do think that expectations are still relatively high for quality assets and probably will be that way for a period of time. So we've got to be very judicious and selective in terms of where we want to go. We've said that we will look at opportunities in flexibles, thermoform,

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our rigid plastics business, specifically the thermoform side of things as well as on the paper assets, both in the developed world as well as the developing world where it makes good sense.

Operator

Our next question is from Scott Gaffner from Barclays.

Scott Louis Gaffner - *Barclays Bank PLC, Research Division - Director & Senior Analyst*

I just had a few follow-ups. First was really around the recycling business. I mean historically, when OCC prices have gotten here, you had some negative impacts on the recycling business. I mean, was the contract restructuring just effective enough last time? Or is it just a small enough portion of the business that we're not hearing about it. I'm just trying to understand that in relationship to the question about declining collections and maybe the industry sort of restructured on the recycling front.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Sure. So as you know, I mean, because we're an integrated supply, any negative impact gets passed through, that we would get the benefit of the positive side on the paper side and vice versa, the other way dependent upon which way OCC is going. I mean, I look at our recycling business twofold. I mean, we're in it to collect the best fiber possible to drive the best product we can off our machines, and I look at it from how we go about collecting. I think one of the things that we probably haven't talked about is the de-risking of curbside pickup or at the municipality where we have a lot of the risk, and as we're now looking at things differently, we're pushing some of that risk back to municipalities, and so that's having a positive impact for us and that's not just us doing it. That's an industry-wide trend that's occurring. So I think that's probably a throwback to where when we first started in the recycling business and taking things other than paper. It's more of that model. So I think our recycling business is doing everything they can. And then I think the other thing is as we look at collections, obviously, there's the cost of collecting paper. And so as we look at where OCC goes, there is a cost -- even if it goes to lower levels there's a cost associated with that, that ultimately gets borne in the overall system and that you and I as a consumer ultimately pay for.

Scott Louis Gaffner - *Barclays Bank PLC, Research Division - Director & Senior Analyst*

Going back to your comments on the sluggish global market, I guess if we look at other company commentary, not just packaging companies, I understand that sort of the economic downshift in Mexico, Brazil and everything that we've been hearing around Asia. But it seems like, so far, most companies haven't necessarily seen it show up in their results and I just didn't know if maybe you were feeling it more on the consumer side or on the sort of more industrial-related side. If you could get maybe just a touch more granular on where you're seeing some of the weakness.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. If I were to break it down into 2, if you will, 2 segments, industrial and consumer, the softness was more so in the industrial than it was in the consumer because you've got the consumer, you got display and you got Protective Solutions that I view as the consumer base and the industrial, the other side. So that's where the softness has been, more so than on the consumer side. And specifically, it's more on the converting side than it is on the paper side. So hopefully, that gives you some granularity.

Scott Louis Gaffner - *Barclays Bank PLC, Research Division - Director & Senior Analyst*

Absolutely. That helps. Last one for me is just coming into the year, you were talking about -- you thought, I think, your overall resin basket would decline about 2% and it sounds like maybe that in the first quarter accelerated to the downside a little bit more than you expected but very moderately so. I mean, there's some talk about resin prices actually moving back up on higher oil prices. Can you talk about sort of what you're seeing in the market today and whether or not you still think that overall decline of 2% is achievable.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. So you're right in exactly the comments you've made. We did see a slight, if you will, improvement over what we expected in Q1, not significant but slight. And are we seeing some upward movement as a result of WTI pricing being up? I think it's around -- directionally around $64. We started the year at $54, somewhere in that range. So our producer's using that as an opportunity to move or at least attempt to move things up. The answer is yes, but we also see capacity coming on, certainly in the polyethylene side that we do think it will then trend back down. PET, I think, we're sitting here all waiting to get that Corpus Christi plant online, but that's held reasonably well, slight increases there. But I would tell you, with all of that mumbo jumbo I've just given you, I do believe that we should be able to stay directionally in that 2% decline. Again, keep in perspective, we were chasing resin like crazy for the last 5 or 6 quarters before this first quarter.

Operator

Our next question is from Brian Maguire from Goldman Sachs.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Just to piggyback on that question. I just wonder if it's possible to quantify how much resin the temporary lags in the pass-through in the resin might have benefited 1Q. Just trying to -- obviously, you've had some headwinds in the last couple of years and we're trying to strip those out and a tailwind in this quarter. I just wonder if it's like $1 million, $3 million, $5 million something in that kind of ballpark.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

I would say that over what we had projected, I would expect it to be directionally $1 million better than what we thought would happen in the first quarter.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. And it sounds like you're still kind of assuming the same deflation there in the full year guide. The other input that moved around a lot, obviously was OCC down. I think you had assumed 75 before. Is there an updated number you're thinking for the year here?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

For the year, Brian, is that what you're asking?

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Yes, just like the guidance range. I'm just basically trying to parse out how much of that is just the lower OCC and maybe even resin prices versus improvement in the actual business.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. So for OCC, as I think about OCC, I think we -- our forward-look is in that $50 to $60 range for the year. There's some fluctuations through the course of Q2, 3 and 4, but that's where we think we're going to play out. And then your question around resin, I don't think we've ever really talked about resin other than the 2% deflationary effect that we'll see and there's some ebbs and flows associated with the individual pieces and it's in the different quarters.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Yes. That's what sort of I was getting at. That makes sense. And then just last one for me. And the consumer business obviously had a good quarter, and we had some challenges in the last couple of quarters there. I just wondered if you could comment on some of the productivity issues that you had if they're all behind us. It sounded like on the last call, you were sort of already coming out of the period where you were pretty confident that, that was all behind you and these results certainly backed that up. I just wondered if you could update us on how those particular assets are performing and whether there's more improvement from here or we're pretty much at the run rate we'd expect them to be at now.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Sure. So let me answer it this way. My expectation is that our consumer business, when running well, should be in the 10% to 11% range in normal years. We did see good improvement in Q4 into Q1. However, we still had costs that impacted the results in the first quarter, specifically in the plastics and the -- and in the flexible space as it related to those 2 plants in flexibles and the shutdown of the plant and redistribution of the equipment and training of people. Do I expect to see improvement in plastics as the year goes on? The answer is yes. Do I expect to see improvement in the flexible side as the year goes on? The answer is yes. And I think from the can side, they actually performed very well operationally throughout the quarter in every region of the world.

Operator

Our next question is from Adam Josephson from KeyBanc.

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

Rob, I can't believe you let Molly field my question.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

I was going to say, Adam, the OCC question has been answered, next.

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

I've got nothing then. Well, a couple on volume. Just on the medium machine for a moment, Rob. I think you -- correct me if I'm wrong. You said things slowed quite a bit in 4Q and remained slow in 1Q and then it's full in April. Is there any reason why it would suddenly have filled up in April after having been weak for a number of months?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Well, I think, part of it, Adam, is just the balancing that took place. The demand has caught up with the machine. I think the other thing that we really haven't talked about is some of the alternative optionality we have around that medium machine. So as you know, we got our assets in China through the acquisition of Conitex. And as a result of OCC challenges over there with -- we've got a machine that's capable of running some of that pulp-able material that's needed by our mill system in that part of the world. So now having said that, as I look at April, I would tell you, the vast majority of what we've got on there, what I mean vast majority, I mean the vast majority, is really domestic demand.

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

Okay. And just one more on volume. I think you started the year expecting about 1% volume/mix growth. Did anything on the quarter -- did volume performance in the quarter change your outlook for the year in terms of the 1% growth?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. I would tell you, Adam, as I look out -- and again, if I look at the first quarter and I'm looking at the enterprise-wide and I'm making a generalized statement when I say 1 less day, we're really flat as a company from a volume perspective year-over-year. The only thing that would have me concerned at this point based on what I know is will we see some real challenges in the paper side. I have nothing at this point that says that, that exists. So I'm still comfortable in that 1%, plus or minus something range, that we started off the year with.

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

Perfect. And just 2 others, 1 on the paper business, Rob. How much of the year-over-year margin improvement was attributable to the decline in OCC during the quarter versus other factors? Because a year ago, you had the exact same OCC drop in the quarter, so it makes me wonder why you'd have then an incremental margin benefit, if you know what I mean. And then do you expect just continued margin improvement in 2Q just given the fall in OCC in April, and it sounds like you expect another one in May.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. So let me remind you, as we think about the paper I think in thirds: 1/3 is open market, 1/3 is OCC, 1/3 is tan bending chip. Tan bending chip has held. So that's obviously a benefit and in line with where we would expect it to be given the demand in the mill system. On the OCC side, I would tell you that I think I said this, Adam, but I'd have to go back to the transcript, but what I think I said in February was that the benefit that we expected from OCC was probably going to be offsetting any price adjustments that we had to have in the marketplace, and I think that pretty much played out just the way we said it would. So while we -- while you would logically think that we should be getting a benefit, that benefit was offset by some of the pricing that we had to put into the market.

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

Got it. And just one on sustainability. Have you seen any drag in your plastics business from whatever sustainability push is happening? And do you expect any volume loss in your plastics business in the foreseeable future?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Adam, I think I talked about this at the end of the third quarter. We did lose some volume in our thermoforming business and it had to do with the frozen food sector where we had a customer move from a plastic tray to a fiber-based construct, and that's the only thing we have seen. What I would tell you is we've won some new business and -- in the plastics space. My expectation -- and here's the challenge with it, my expectation was -- I'm sorry, our flexibles and our plastics business were both going to grow somewhere in that 3% to 4% range and they're in line to do that. Now the problem we had is this weather-related issue in the fourth quarter, which negatively impacted volume, which the strawberries aren't going to wait and/or the other berries. So that may be some volume that will be offset. So based on what we're seeing in our system, we haven't seen any of that kind of decline. What we have had is a lot of conversations with customers to really understand plastics, the impact of plastics and the magnitude of what we already put into our plastics in terms of recycled content. So those are the conversations we're having. The specific answer to your question is we haven't seen anything yet. I'm not saying it won't happen, I just -- we just haven't seen anything.

Operator

Our next question is from Debbie Jones from Deutsche Bank.

Deborah Anne Jones - *Deutsche Bank AG, Research Division - Director*

I have 2 questions, one on Protective Solutions and I have one on sustainability as well. Julie, I think, you mentioned on Protective Solutions that you saw diverging trends. Those, I think, you weren't quite expecting on the upside and downside. I was wondering if you could just walk through that a little bit more and how you expect things to go in Q2 and beyond.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Okay. Debbie, I apologize if I don't answer this appropriately, it's just that I'm having a hard time hearing you. So I think it was around Protective Solutions and you're asking for just a walk-through of the components and how they performed.

Deborah Anne Jones - *Deutsche Bank AG, Research Division - Director*

Yes. I thought Julie said that there was some better-than-expected growth in certain categories and maybe a bit more than others.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Got it. Yes. So I think I said we had extremely good results out of our ThermoSafe business. In fact, it was probably the strongest quarter -- certainly the strongest first quarter they've ever had, and that's -- a couple of reasons. One is just some work that we've done with the pharmaceutical companies and then sort of expanding out the use of our product line for some other applications, and so we're seeing some nice growth associated with that. If I break it, then go to the automotive side, the automotive molded foam side, that volume continues to be what it's been in the last couple of quarters. It's sort of dropped to a level where I think we're at the bottom. And so the things that we're dealing with there is really addressing the cost structure as best we can. And then thirdly is what I'll call the legacy paper post business, specifically the white goods side and from a bottom line perspective, performed well. From a volume standpoint, a little bit sluggish just because some of our customers went in with some rather aggressive price increases as it relates to the tariffs that they've been facing. And so they've been -- they've lost, if you will, shelf space in retail for that. But I do think that that's starting to correct itself as we're seeing them start to come back into the market in a more assertive way.

Deborah Anne Jones - *Deutsche Bank AG, Research Division - Director*

Okay. That's helpful. My follow-up question, my second question on sustainability, and Rob, I know you tried to really tackle this subject quite often and get the message out there. But I'm curious, what really resonates with your customers when you're having these conversations? Is it kind of the science behind it? Is it working with them to have the recyclable package? What is it that -- certainly with your form coming up, what is the message? And what are you trying to convey?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Sure. I would tell you it's both. It depends on the market application. Obviously, if it's in a health care-related situation, it's about -- it's all about the science, and where it is -- where we can introduce post-consumer recycled content, the issue is, okay, we would like to make that happen and really communicate the story. So when I think about the fresh fruit baskets that we do out on the West Coast and in -- on along the East Coast and into the Midwest as it relates to some of the vegetables, there's a tremendous amount of recycled content in, and it's getting that story out. So that's resonating. So if I'm eating fresh and natural and I've got a recycled product that's holding it and it's recyclable, then they've got a wonderful story. The other big question that we ask you is, well, how will we get more and more of this product physically collected in the system. So one of the things that we have done because we run MERFs, we capture, if you will, PET bottles in the system. We have partnered with a processor, and that processor will then grind it down or put it into flake, wash the product, put it into flake and then we ship it to our plants so that we have created a source of supply for PET so that, that then goes back into the product. So as best we can, we're trying to create a closed loop system. The biggest challenge is going to be the behavioral issues for consumers to make sure that they, in fact, take these bottles, and convenience today trumps recycling. So it's an infrastructure thing or it's a behavioral thing, and we're going to have to figure that piece out. And that's some of the conversations that we're having with people and saying, okay, what would have to be true in order to be able to capture more of this, and those are the conversations we're having with our customers who are the CPGs and those are also the conversations that were having with some of our suppliers of resin. So I think we're finally starting to get all the right parties together so that when we say the industry is coming together to start talking about this, it's not just the packaging organization.

Operator

Our next question is from Gabe Hajde from Wells Fargo security.

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

Two quick ones hopefully. The Display and Packaging performance was a touch better than what we were modeling. That doesn't necessarily mean anything. But was it in line with what you were expecting? And can you talk about sort of the cadence or the trajectory over the balance of the year? Should we expect a similar type improvement until we reach the fourth quarter and most of that reflecting the Atlanta pack center?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. The performance was in fact in line with what we expected other than what I would say is Europe, as I mentioned earlier during the Q&A here, that we saw strong performance in our consumer business beyond the can side in Europe, and our display business in Europe performed well as did our business here in North America. As I look out, Gabe, the answer is yes. I do expect that -- to see continued improvement, and that's largely because we've taken a lot of talented people that were tied up, working on this project that we really want it to be successful in Atlanta. Unfortunately, it didn't work out. They're back and they're laser-focused on the business itself and growing with some of the other customers that are out in the marketplace, and we've been successful in getting some of that business and growing that business and focusing on running that business as opposed to trying to fix a problem.

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

Okay. And I apologize if I missed it, but normally, you guys give us a sense for what tube and core volumes look like by geography and then potentially if there is anything that stood out to you from the end markets that you serve.

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. Well, yes, the answer is yes. And we went around that, but let me go through it again. If I go around the world, we saw a decline directionally of about 5% in Europe on the tube and core side, and I'm just talking the converting side of things. And here in North America, I think, it was directionally in the 3% range, which is in line with our expectations given the holistic work that we've been doing. And as I mentioned earlier, while we lost that converting side, we didn't lose the paper. That just simply moved to another location. And then Asia, Asia has been light, and part of that is as a result of us also rationalizing some of our operations and then appropriately putting them in place, and we have seen softness on the converting side in both Brazil as well as Mexico.

Operator

Our next question is from Steven Chercover from Davidson.

Steven Pierre Chercover - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

So a lot of this has been kind of drilled into, but with respect to weather, now that the drought in California is officially over, does that bode well for the future of fruits and vegetables, I assume?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

It does. What it means that people are out in the fields now picking and we're shipping product out to them to do that. And I would expect to see a rather significant ramp-up on that part of the -- that side of the country throughout the second quarter.

Steven Pierre Chercover - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

But I assume that some of the fruits and vegetables couldn't be harvested in Q1 and they've gone to waste, right?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. That's what I'm trying -- yes, you're right. The answer is some of that volume that we lost in the first quarter is we lost one of the picking opportunities. So we're really harvesting the next round, if you will.

Steven Pierre Chercover - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Got you. And then switching gears. I like how you're defining your sustainability mandate to reduce waste, but there is a tension between that objective and plastic packaging. So at a high level, are you investigating cellulose-derived plastics?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

We do have -- our technology group is looking at multiple different product lines and trying to understand those economics. So the answer is yes. We are looking into those types of materials.

Operator

(Operator Instructions) And our next question is from Mark Wilde from Bank of Montréal.

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

Can we just come back to OCC for a minute or 2 more? Can you -- first of all, can you give us some sense about what you think the cost to collect and process OCC looks like?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

To collect it, Mark, and process, is that what you're asking? Or just collecting...

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

Yes, exactly. Exactly.

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

I'd say 50 -- well, to help you understand. So again, I think we've always kind of used a framework within collection and trucking -- this is Roger, by the way, of somewhere less than $100 a ton but probably less than that now, so we continue to take cost out. So the whole purpose of this discussion is that, clearly, OCC is well below that collection and cost framework. And that's why we're seeing a lot of different changes in behaviors with regards to our work with the -- our customers and municipalities in which we collect, where we're having to have a different discussion about those options.

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

Yes. I was out at the ISRI last week in Los Angeles, there was a lot of conversation about that. The other thing I guess with OCC, I'm just curious, do your assumptions for this year assume that any of this most recent drop that we've seen, I guess, we're down to around $40 right now, that any of this arbitrages back to the customer in the -- in your industrial packaging business?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

No, I think if it goes back, I mean, what we've built is around that $50 to $60 OCC. That's how we've built that piece in. I don't know that we look forward to anything other than the way we built our models previously.

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

Just kind of reestablishing what we've said earlier with regards to how our contracts reset, again, about 1/3 of them are tied to OCC, and so those do change. Another 1/3 -- or a little bit more -- are actually tied to tan bending chip, and of course, you can follow that [raising] metric. And then the other one is just open market pricing, which we announced publicly. So again, that kind of gives you that framework of how changes can occur within our contract.

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

Okay. All right. That's fair. And then Rob, I take from one of your earlier comments, you're still in the process of kind of rationalizing the business portfolio within tube and core. Is that fair to say?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes, that body of work is underway, and I would tell you that -- what our expectations were. It is proving out and Howard, who runs our industrial business globally, has got that program rolling in Europe as well. So, if you will, the hypothesis we laid out seems to be playing out the way we expected. So we're very bullish on the activities that our teams are undertaking.

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

Okay. And finally, can we just talk a little bit about sort of the -- how you think about Display and Packaging fitting in within Sonoco just from a strategic and a financial standpoint? Are there lengths between that business and your other businesses? Do you have some kind of unique competitive advantage in that business? How do you think about it?

Robert C. Tiede - *Sonoco Products Company - President, CEO & Director*

Yes. I think when we first got into it, the objective was for us to link primary packaging in through there and we did have some businesses where that worked out well, but those became sort of more one-offs, and typically, to make sense of it, it was really around large deals. It was a business that, Mark, we said we need to fix before we think about doing anything else and how does it play out. It uses thermoform materials. It uses backer cards. It uses medium materials. So there's linkages but they're not significant linkages into that business.

Operator

Our next question is from Salvator Tiano from Vertical Research.

Salvator Tiano - *Vertical Research Partners, LLC - VP*

So just very quickly, so I was late in the call, just building up on Adam's question about OCC price. If I heard you correctly, you mentioned that any OCC pricing plans have you now -- well, lower OCC prices that you are now seeing, you expect essentially to just be offsetting price adjustments on the marketplace, if I heard correctly? And just looking not broadly about OCC as an input cost, but specifically on this portion of your business at least tied to a specific amount, south of the OCC price, and that creates kind of a positive or negative spread over the next quarter. Is there a way you can quantify what happened in Q1 if you had a positive spread of, let's say, $1 million, $3 million or $5 billion and what is kind of baked into your guidance for Q2 with March being quite higher than April already?

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

Well, this is Roger. And again, let us focus on what we've previously said, which is our expectation for pricing for OCC for the rest of the year is in that $50 to $60 average price range. Clearly, right now it's at $50 a ton. Our expectation is that we could see some decline in this quarter but then probably ticking up as we get into the third, potentially into the fourth quarter. The impact that, that has on pricing for our customers, again, based upon our contracts, are essentially tied -- 1/3 is tied to the resets of OCC, which is always done the last month of the prior quarter. So that going into this quarter, that pricing would be $65 a ton. It has now gone down since that time. Tan bending chip is also a link to another part of our contracts, about 1/3. And again, that pricing has stayed relatively stable and is up year-over-year, approximately $100 a ton. And then the final portion of it is tied to just market pricing, which is again more linked towards announced pricing that we have in the marketplace. So benefits or -- obviously, those are linked within our guidance. So our -- the expectations that we have for pricing are tied directly to our expectation of guidance going forward.

Operator

At this time, I'm showing no further questions. I would like to turn the call back over to Roger Schrum for closing remarks.

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

Well, thank you, again, Gigi. And again, thank you everyone for participating in the call today. We appreciate your interest in the company. And as always, if you have further questions, please don't hesitate to contact us. Thank you, again.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.