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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2018 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, Vice President of Investor Relations. You may begin.

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

Thank you, Gigi. Good morning, and welcome to Sonoco's investor conference call to discuss our 2018 second quarter financial results. Joining me today are Rob Tiede, President and Chief Executive Officer; and Barry Saunders, Senior 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 section of our website at sonoco.com. In addition, we will be referencing a presentation on our second quarter results, which also was posted on the Investor Relations site this morning.

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

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

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

Barry L. Saunders - *Sonoco Products Company - Senior VP & CFO*

Thank you, Roger. I'll begin on Slide 3 where you see that earlier this morning, we reported second quarter earnings per share on a GAAP basis of $0.88 and base earnings of $0.93, which is $0.04 above the high end of our guidance of $0.83 to $0.89, all of which compares to base earnings of $0.71 for the same period last year. So it is fair to say that this was an excellent quarter.

In terms of the differences between base and GAAP, $0.02 is due to restructuring charges with no individual noteworthy amounts included in such and $0.02 related to acquisition costs.

Looking briefly at our base income statement on Slide 4, starting with the top line. You see sales were $1,366,000,000, up $126 million over the prior year due to the impact of acquisitions, higher volume, higher overall selling prices and the favorable impact of translation, and you'll see all of that quantified in the sales bridge in just a moment. Gross profit was $276.5 million, $38 million above the prior year, due most notably to favorable price/cost, but also the impact of higher volume, acquisitions and manufacturing productivity, partially offset by nonmaterial inflation, but you'll see more details of the drivers in the operating profit bridge in just a moment.

Our gross profit margin percent improved to 20.2%, up a full percentage point from last year. Selling, general and administrative and other income and expense items was $138.2 million, which was up $18 million from last year, due most notably to the impact of acquisition, but also higher management incentive accruals and general inflation. All then resulting in base operating profit of $138.3 million, up $20 million from the prior year.

Below operating profit, you see the impact of nonservice pension income of only $130,000, which compares to nonservice expense of $3.3 million last year. Interest of $15.1 million was $2.3 million higher than last year due primarily to the impact of acquisition, financing, and to a lesser extent, slightly higher rates. Income taxes right at $33 million were essentially unchanged as the impact of the notably higher pretax profits was essentially offset by a lower effective tax rate of 26.7% due to the impact of the Tax Act. Equity and affiliates, when combined with minority interest, was $3.5 million, up almost $1 million from last year, thus ending up with base earnings of $93.8 million or $0.93 per share.

In looking at the sales bridge on Slide 5, you see volume was higher in the second quarter by $35 million, or 2.8% for the company as a whole. In terms of volume by segment, it was encouraging to see some growth in our Consumer Packaging volume, which was up 1.8%; where flexible volume was up 5.5%; global composite can volume up 2%, driven by growth in Europe and Asia, all then partially offset by plastics being down 2%, but really flat in plastics if you exclude the impact of some changes in the revenue recognition under the standard in this quarter. Volume was up 17% in the Display and Packaging segment due most notably to the new battery packaging operation. Paper and Industrial Converted Products volume was also up about 1.2% where growth in global paper and our reels business was partially offset by global tube and core sales being down about 2%, with volume down in all major regions of the world other than in Latin America.

Specifically in the U.S., tube and core volume was down about 2.7%, with much of that coming in the smaller accounts directly related to our customer optimization strategy. And volume was essentially flat in Protective Solutions for the quarter at some nice growth in the temperature-assured packaging business, which was up about 10% year-over-year, was offset by lower demand in transportation components, down 7% due to the continued weakness in automotive related sales.

Moving over on the bridge to price. You see that prices were higher year-over-year by $11 million, driven by price increases, both to cover higher material cost, particularly higher paper, resins, steel and aluminum; as well as nonmaterial inflation, including freight, wages and other operating expenses. Overall, prices were higher in the Consumer Packaging segment but lower year-over-year in the Paper and Industrial Converted Products segment due to the portion of the business with contractual resets associated with lower OCC prices.

Moving over to acquisitions. You see an impact on the top line of $62 million all in the Consumer Packaging segment with about half of that coming from last year's Clear Lam acquisition, and the other half coming from the Highland acquisition, which closed in April. And finally, exchange and other was positive by $17 million, driven primarily by the dollar being slightly weaker, particularly in the early part of the quarter.

Turning to the operating profit bridge on Slide 6. The higher volume, when combined with mix, added $6 million to earnings. You might recall from the sales bridge discussion that the greatest volume improvement was in the Display and Packaging segment where the margin is much lower than our other traditional manufacturing businesses. And we also had some negative mix in some of our other businesses as well.

Price/cost, including the benefit of procurement productivity, was very favorable this quarter, up almost $32 million, with roughly 2/3 of that variance in the Paper and Industrial Converted Products segment, driven by the fact that OCC prices are lower year-over-year, averaging $82 per ton in the second quarter this year versus $165 last year. We have also been successful in raising prices on tubes, cores and paper that are not tied to an index, and this is on a global basis, with all regions reporting a favorable year-over-year spread on price/cost. Even in Europe, where pricing has been difficult for many years, the paper system has tightened up, allowing for price increases to stick. And we have certainly seen some improvement on pricing and corrugating medium as well.

The impact of the acquisitions of Clear Lam and Highland added $3 million to operating earnings, with it being fair to say that results at Clear Lam were somewhat short of our expectations, but Highland had a very solid quarter.

Moving over to manufacturing productivity, you see it was positive by $5 million with notably solid performance in Consumer Packaging in both composite cans and in our flexibles business. Paper and Industrial Converted Products productivity was very light, where productivity was negative in our tube and core business in North America, driven by some of the deleveraging associated with the lower volume as well as the continued impact of implementing plant consolidation. But it was also running light in our recycling business associated with the additional sorting requirements to allow us to more effectively use mixed paper. But it is fair to say our mill system in the U.S. and Canada ran very well. We also saw continued positive productivity in Protective Solutions this quarter.

And finally, the change in all other on a year-over-year basis was unfavorable by $26 million, which is driven mostly by normal inflation -- nonmaterial inflation, but also the impact of the notably higher management incentive accruals, and specifically in the Display and Packaging segment, which had just under $3 million in startup costs associated with the battery packaging operation.

On Slide 7, you see results by segment where Consumer Packaging sales were up 18%, due most notably to the impact of acquisitions, while operating profit improved by 5.5% due to the lower operating profit margin on acquisition sales as well as the impact of mix resulting in an operating profit margin of 10.3% as compared to 11.6% in the same period last year. Display and Packaging sales were up 24%, due most notably to the new battery packaging activity, but operating profits down $2 million due to the continued operational and startup issues at that location.

Paper and Industrial Converted Products sales were up modestly about 1%, but operating profit improved by $16 million due to very favorable price/cost, with the operating profit margin up to 13% versus 9.7% in the prior year.

And finally, Protective Solutions sales were down slightly but operating profit improved by $2.6 million or 24%, driven by favorable price/cost and strong manufacturing productivity, with the operating profit margin improving to 10.3%. All thus ending with total company sales up 10% and operating profit improving by almost 17%, and the company-wide operating profit margin improving to 10.1%. Although not noted on this slide, our operating profit before depreciation and amortization percentage is up to 14.4%, up from 14% last year. So moving in the right direction towards our 2020 target of 16%.

In looking forward, our guidance on Slide 8. You see our outlook for the third quarter and the balance of the year, starting with the full year, we are updating our guidance on the top and bottom side by $0.05 due to the strength of results in the second quarter, bringing the full year range to $3.27 to $3.37 per share. For the third quarter, we are forecasting base earnings to be in the range of $0.82 to $0.88. At midpoint, this is down from the second quarter due to somewhat higher material costs, including the impact of tariffs and rising OCC costs and the normal seasonality in our European business.

Turning from earnings to cash flow on Slide 9. You see we had another very solid quarter, bringing our year-to-date cash from operations to $251 million versus $102 million for the first half of last year. The improved cash from operations is coming from several factors, including higher net income, a higher add back in depreciation and amortization, lower pension contributions, some lower cash tax payments year-over-year, the collection of some miscellaneous receivables and a higher net change in accrued expenses, and most all of these changes were truly as expected.

But however, given the updated earnings estimates, both last quarter and this quarter, we are now increasing our full year estimate of cash from operations by $10 million, to a range of $570 million to $590 million. And after our projections for CapEx and dividends, which are really unchanged, we are now projecting free cash flow to be higher by $10 million from our original estimates, with the updated range now being between $190 million and $210 million for the full year.

That completes my financial review for the quarter, and we'll now turn it over to Rob for some additional comments.

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

Thanks, Barry. Let me give you my take on the first half performance, then speak about our acquisition and margin improvement efforts, and finally, touch on our opportunities and challenges for the second half of 2018.

We had an outstanding first half performance, and I got to tell you, I'm really proud of what our team has achieved, including driving record double-digit top line and bottom line consolidated results, producing strong cash flow from operations and free cash flow, and producing a 35 basis point improvement in base operating margin, along with a 13.8% EBITDA margin, which is approximately 80 basis points higher compared to last year's first half. We also completed in mid-April the acquisition of Highland Packaging Solutions, which further enhances our capabilities and opportunities for expansion into the fast-growing fresh food perimeter of the supermarket. I might add that Highland had a very good second quarter as they were in the midst of the harvest season.

We signed a definitive agreement with Texpack, Inc. at the end of May to acquire a 70% interest in our Conitex Sonoco joint venture along with the composite can plant in Spain for approximately $143 million. We believe we should be able to complete the transaction by the beginning of the fourth quarter, which will create opportunities for us to further grow our Paper and Industrial Converted Products segment, especially in the faster-growing Asian market. In addition to achieving record first half results, this was the fourth consecutive quarter Sonoco has achieved record base earnings, and we beat the high end of our second quarter guidance by $0.04 per share. I believe this clearly demonstrates the strength of our balanced portfolio of consumer industrial related businesses.

During the first half of 2018, our 2 largest segments, Consumer Packaging and Paper and Industrial Converted Products, accounted for 80% of our revenue and 90% of our operating profit. Consumer Packaging sales grew by 18% in the first half, primarily due to acquisitions, while operating profit increased 4.2%. Operating margin declined to 10.5% from 11.9%, primarily due to a change in our mix of business stemming from acquisitions, along with the impact of higher resin, freight and other operating cost inflation. We are targeting operating margin in the Consumer segment between 10% and 12%, and I believe we have the ability to improve this segment's margins during the remainder of 2018. Volume improved in flexible packaging and in our international composite can business during the second quarter, and we remain on track with our expectations for the year as new product sales should hit approximately $60 million this year.

Paper and Industrial Converted Products had a record first half. Segment sales were up modest 2.5% as recovered paper prices declined, while paper volume remains strong, both in North America and Europe. Operating profit improved 42% year-to-date, primarily due to a positive price/cost relationship throughout most of the segment except in our recycling operations. First half segment operating margin was 10.8%, up a solid 300 basis points from last year.

A wise man once said that good fortune is located at the intersection of preparation and opportunity. I'm making this point because a great deal of preparation and a lot of hard work has gone into our commercial excellence program, which is helping drive our positive price/cost results. This isn't just the case of lower OCC prices driving our business performance. We have active programs aimed at realizing the value of our products and services, which is allowing us to better manage price. In addition, our optimization efforts in the industrial segment are driving margin and cash flow improvement in our tube and core and mill operations in the United States and Canada. I believe the successful implementation of these efforts through 2020 should result in a step change in the performance of this segment.

Now switching to our Protective Solutions segment. We had a good turnaround in performance for the business as first half operating margins improved 80 basis points when compared to last year. Year-to-date sales were essentially flat as continued weak volume in automotive components essentially offset improvements in ThermoSafe and our paper-based protective post business. Finally, our Display and Packaging segments operating profit declined in the first half as volume growth, positive price/cost relationship and productivity improvements were more than offset by a negative mix of business and continued higher operating costs driven by the ramp up of operations at our pack center in Atlanta. While we are improving case ready standards, we continue to add new lines and are hiring and training more workers to run those lines, which is driving costs. Last year at this time, we had just installed 3 lines and we were starting to hire workers. Today, we are operating and/or qualifying 18 automated lines and 3 additional highly automated lines are going to be installed in the third and fourth quarter. Clearly, we have work to do to get this business to a level of acceptable performance, and we are working closely with our customer on an acceptable operating outcome.

As Barry mentioned, we had a very strong first half for operating cash flow and free cash flow and have increased free cash flow guidance for the full year to a midpoint target of approximately $200 million after we pay $165 million in dividends to our shareholders.

While working capital performance has improved year-over-year, we still must have a strong second half to meet our objectives. As mentioned previously, we have linked a portion of management incentives to improving working capital, which is clearly driving improved performance, particularly in accounts receivable.

Looking forward, we're projecting year-over-year improvement in the second half, which led us to raise our 2018 guidance to a midpoint target of $3.32 per diluted share. Our growth and margin improvement targets remain on track, and we are excited about what the prospects of the Conitex Sonoco acquisition will add. However, like many companies, we are facing inflationary cost pressure from higher freight, wages, energy and material costs, particularly resins, along with uncertain headwinds from newly imposed or threatened tariffs. Specifically, we are projecting tariff costs in the second half that could be in the range of $7 million to $9 million, primarily for steel and aluminum, including foil laminates and labels. This does not include any impact from recent proclamations, which have not yet been put in place. This increased cost is requiring us to drive recoveries through proactive price increases in many of our businesses, including our recently announced 4% increase on rigid paper containers in the United States, which is effective August 1. Finally, although recovered paper prices appear to have stabilized for the time being, experts believe they should rise some in the second half of the year, in which case, we would not enjoy the same price/cost benefit we saw in the first half of the year.

Overall, we remain optimistic about general economic activity and believe the breadth of our diversified consumer, industrial and protective operations enhances our ability to produce consistent earnings, improved returns and greater rewards for our shareholders.

Operator, with that, would you please review the questions and answers procedure.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Edlain Rodriguez from UBS.

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

Rob, quick question. Can you talk about like the M&A outlook and the pipeline and what you see in there, especially in your desire to be bigger in flexibles package? Like what does the pipeline look like in there?

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

Yes. I would tell you that we continue to be very active in the space looking at opportunities. As we've laid out our strategy for 2020, we've been very clear in saying that we need to -- in order to achieve that, we've set out a goal of driving net acquisitive growth of about $1 billion over the course of the next 3 years. So we are engaged in conversations but we don't talk about those until we get to a point where it makes sense for us to talk about them.

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

That makes sense. And one quick one on Display and Packaging. The margins there don't seem to be improving much at all. Like will we ever see a turnaround in that business? And how long are you willing to wait before you decide to take any drastic actions?

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

Yes. Edlain, let me answer the question this way. If I take a look at our business, solid performance in our European operations, good performance in our display activities, even here in North America. The challenges, the facility, the operation that we've been talking about, and the fact that we are into the busy season being hurricanes and holidays, and we are still bringing equipment in and training up people, we're going to -- we're going to have to work through some of these things in a very aggressive manner, which we are doing. We have seen some operational improvement, but we still have a long ways to go. And I do expect the margins to be somewhat challenged through the end of the year.

Operator

Our next question is from Ghansham Panjabi from Baird.

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

I guess, first off, on the tubes and core volume decline of 2%, how much of the decline do you think relates to your price increase initiatives and related customer optimization? And also, what's your sense as to the market as a whole in terms of growth in the context of the global economy and the best that we've seen for the past 10 years or so?

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

Sure. I would tell you that the -- if you will, the decline is right in line with what our expectations were. Did we price some customers -- or did some customers, some small customers, actually take some action based on pricing? I'm sure there were some. But I would also tell you that the targeted markets and customers, we did see solid growth in the quarter. So we are pleased with respect to that. And then as we look at it on a global scale, one of the things that we haven't talked about, but we're applying that holistic look in Europe as well, and during the second quarter, we did shutter a facility, which accounted for a good portion of their volume decline. So it's right in line with the plans that we had laid out, and we're pleased with the results that are coming from the tube and core business.

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

Got it. And then on consumer and the 100 basis point operating margin decline during the second quarter, you mentioned that there should be some improvement for the back half of the year. Can you just give us some more color as to what's going to drive that improvement just given higher operating costs and freight, et cetera?

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

Yes, certainly. We were chasing a material price on the polymer side through the second quarter. So there's a reset that's taking place in Q3. That will have a positive impact. I would tell you the other thing, and Barry referenced it in his comments. We -- I think we did a very quick and thorough integration job in our Clear Lam facility, and it consumed a lot of people's time. We've got those folks now focused back on what they need to be focused on because a lot of the heavy lifting's all been done. The other pieces on the business that we saw as we went around the perimeter of the store, those acquisitions are performing right to where we thought they would be. But there was also an impact in the first half, specifically in the salad space, as a result of that listeria scare, and it did have an impact on some of our customers. So we see them coming back into the market.

And so we're excited about heading into the second half and seeing some margin. But the mix of our consumer businesses also changed, so there's going to be an impact. But we do expect to see margin improvement.

Operator

Our next question comes from George Staphos from Bank of America Merrill Lynch.

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

Rob, first question, I don't want to overdo it but -- because it's not the largest business. But in Display and Packaging, we've been talking about Atlanta, it seems, like really since last fall and the issues that came about because of the hurricanes and the like. As you take a step back, could part of the issue be that perhaps the volume wasn't properly priced and so you took on a lower margin than you should have relative to what the cost base would be? Or is it just purely you've been playing catch-up based on kind of the -- it wasn't your fault, the weather-related hurdles that you had to get over in second half of last year?

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

I think it's a couple of things. I think the volume is what the volume is and what we expected it to be. I think that the complexity of some of the lines played into this, George. And some of these are very highly integrated lines, not easy to change over, and it takes a while for people to understand how to do that effectively. I think the other piece is we've been hiring ahead to bring people in. So that's driving some of the cost. And then as I said, I think we all -- both parties know a lot more about the realities of the operations now that we've been at it for, if you will, a year, albeit, still ramping up. And we're having conversations about what -- how to deal with those types of issues.

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

Okay. That's helpful and clear. Let me switch gears. Two quick ones for me, then I'll turn it over. You took up your full year guidance by less than the second quarter positive variance versus your prior guidance. And certainly, again, if we were in your seat, I'm not sure that we'd do anything differently, right? Better to [being raised] than the alternative. And it sounded like part of the issue was you were building in some variance for inflation and the like. Based on current costs as opposed to costs you expect, how much would your guidance change either for the third quarter or for the year? In other words, how much inflation cushion have you built into your back half forecast, if you can provide that?

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

I don't think we build in any inflation cushion into it. We could base this on what we believe we're going to be facing. And clearly, as we talk about the tariffs, the ones that we're aware of and what we're seeing roll through, we do expect to go after those, and we have by the price increases, however, there's going to be a lag in us capturing all of that, because the price increases are going in after these tariffs have already been put in place. So there's a portion of that. And I'll tell you, George, the other thing that I do have some -- I don't want to say reservation, but I do have some concerns, as these costs roll into the marketplace, you and I as a consumer are going to ultimately have to bear that, and will that, at some point, have an impact on the vast majority of Americans as they go to the stores. You've got increased gas prices. And clearly, these costs are going to have an impact on the ability to deal with the consumers' disposable income. So hopefully, that answers the question that you asked.

Operator

Our next question is from Scott Gaffner from Barclays.

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

Rob, just talking about M&A for a minute and going back to it for a second. Another question was asked about the net acquisitions. But when you look at the private company valuations versus public right now, there seems to be a fairly large disconnect. And you've had a couple of pieces of your portfolio that aren't necessarily core for quite a while. Are you -- is there an acceleration of interest in maybe divesting some of those smaller businesses that are no longer core to the Sonoco franchise?

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

Well, I would tell you that we always assess the portfolio, Scott, and what makes the most sense. I think we've been pretty vocal and direct in terms of strategically where we want to go and where we want to put a disproportionate amount of our resources. Clearly, in D and P, we've got a situation that we need to fix and we're working very hard. And we've got talented people working on getting that resolved, and we will continue to assess the situation as we move forward.

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

Okay. And when you look at the -- you mentioned you were allocating some capital to the recycling business in order to clean up some of the material that you're recycling so you can sell that into the market. But what about potentially looking at investing capital to convert more of that recycled paper yourself given it's relatively low cost material these days and maybe would stay that way for some time.

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

Yes, great question, Scott. We actually are investing to do exactly that thing. We talked about investing between $60 million and $70 million into our North American paper mill system to do exactly that, focusing on making investments in the recycling operations to help clean some of that paper. And also to put the appropriate equipment in place that we can use more of that paper in our paper mill system. So that's exactly what we're doing.

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, one question just on the quarter, and forgive me if I missed this earlier. But what specifically was better than you expected going into the quarter? I mean, OCC prices fell by a little bit, but not too much. So was the beat relative to your expectation all in the paper business? And if so, where did it come from?

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

No. I would tell you that it was good that year-over-year improvement in our Protective Solutions business, notwithstanding the automotive drain, our ThermoSafe business has had solid year-over-year improvement. Our post business was solid throughout the course of the quarter. We had solid growth in our flexibles business. We had good growth globally in our can business. There's nothing like a World Cup that gets people snacking and watching football and drinking beer. So we're the benefactor of that, unashamedly so. And our plastics business performed well. So I would tell you it was across the board. We also saw solid volume improvement in our Display and Packaging business, but for the challenges that we've got to overcome in an operation that we're working very hard to do. So it was across the board. So I was pleased with the teams across the company and the work that they've been doing.

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

On consumer volumes, I believe you said, you were up nearly 2% in the quarter, I think 1.8%. One, was that all organic? And if so, just can you help me understand that, because I know in quarters and years past, consumer volume growing, that's been a real struggle for the company. And frankly, for many CPG companies, growing volume has been a real struggle, and it doesn't seem like it's gotten much if any better in Q2. So I'm just trying to understand where the acceleration in consumer volumes would've come from in the quarter.

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

Sure. And the answer is yes, it's all organic. It came in cans. We had strong growth year-over-year in Europe. Again, I'll give the World Cup some credit, but I'll also give our team a lot of credit for that. We saw 5.5% organic growth in our flexibles business. Our plastics business was flat year-over-year. But as I mentioned, when I think about the lettuce issue that kicked in, in first quarter and had a drag into the second quarter, we were clearly impacted by that. So it was growth in all 3, if you will, platforms in the consumer side.

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

Got it. Just 2 others, Rob. One, in the paper business. Of course, your EBIT margin in that business was the highest I've ever seen. I don't know if it's the highest in the company's history in any quarter, but it's certainly high by any historical standard. Do you consider these sorts of margins sustainable? Or just given how high it is relative to any other margin you've earned over the last 10, 20 years, are you inclined to think it's going to revert to some more historical average, particularly given what seems to be your outlook that recycled fiber prices are going to go up to some degree in the back half?

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

Yes. And I was just going to say -- first of all, I wish they would stay at these levels. And I can't tell you whether I know for certain, but if it's not a record, it's got to be darn close to a record for the industrial side. I think our folks around the world have really stepped up and done a fantastic job. I do think that it's going to be dependent upon how OCC acts is going to, obviously, have an impact as we talk about price/cost, and you know this as well as anyone. We are projecting, based on a lot of smart people around the world telling us what they believe to be true around OCC, we do expect to see OCC go up in Q2, and we've built in -- I'm sorry, Q2 -- Q3. And also a further step up in Q4, sort of following trends that we've seen historically. So I do expect there to be some margin compression. But I still believe that we will see some positive price/cost as a result of some of the other things that we have been doing in terms of the optimization activities that we put in place and that we've discussed previously.

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

Just one last one on single-use plastic packaging: Straws, cups, bags, the discussion you're intimately familiar with. What are you actually seeing your customers and other CPG customers doing? It seems like from what I've read, if anything, they're moving toward plastic rather than away, which would run counter to what we're all reading about and concerned about. Can you just help us just share your thoughts on the issue with us?

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

Yes, it's a great question. In fact, I was with a food scientist yesterday and a chemical engineer, and we were just chatting about this. We obviously don't do anything in that -- for the most part, in the single-use category. So straws and cups is not where we participate. But what we have seen, and a lot of work that's being done, specifically around food waste, and I'm deflecting your question, but the conversation very quickly led to that, and we were talking about what is the biggest challenge environmentally, and we talked about food waste. And we were talking about, ultimately, polymer provides the best solution to provide shelf life or extended shelf life to these food groups. And so part of it is educating, and we're seeing it. We're seeing it in our growth in our flexible space, and we're seeing the projects that we're taking on in our plastics space. That's not to say that we're not working on some very interesting all paper solutions as well in some of our legacy product lines. So I think we're in a unique situation, Adam, where the fact that we are in all these platforms allows us to get a really interesting view of where the market is.

Operator

Our next question is from Brian Maguire from Goldman Sachs.

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

Rob, just wanted to come back to the metal tariff. I just wanted to understand that you're expecting that there's $79 million of costs in the second half. Is that cost you're paying to the government for the tariff on it? Or are you just talking about just kind of overall inflation in metal prices? And is any of that contractually passed through? Or you have to go out and actually kind of raise price and hope to get that recovered?

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

Yes. So that would be money that we're paying through antidumping, countervailing duties and the tariffs. So yes, the government's getting all that money. And with respect to the contracts, this is outside of your normal material increases. So we are going into the market to recover those. And then when they -- if and when they get alleviated, then we'll address that going the other way as well. But our customers are well aware of it. Nobody likes it, but they're all well aware of it, and we're going into the market to recover that.

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

Okay, great. And then I think in the consumer segment, the margin targets you gave are -- maybe the high-end of it, 1 percentage point higher than last time we talked about it. Just wondering what's changed there. Obviously, freights gotten a little bit worse. Just wondering about any of the other components that would be offsetting that. I think that the volumes were pretty solid in 2Q. But at the margin cost level, any other things that are causing you to raise the outlook there?

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

Sure. I mean, in terms of the -- and I want to make sure that I understood your question right, Brian. So in terms of the expected consumer margin range, we've always talked in terms of 10% to 12%. Clearly, we did get hit with rising freight. We were chasing resin. So that had an impact. We do have resets. We have gone into the market for what I would call traditional -- traditionally, where we've seen inflation in the marketplace, we've always said productivity needs to offset nonmaterial inflation. But when it exceeds the levels that you can truly do, those are costs that we have to go in the marketplace and those are the prices that we've gone to the customer with. Did I answer your question, Brian?

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

Yes. No, I think you did. And I just had one follow-up, to put a bow on it. Just the assumptions in the guidance for the year, do you include the URB price increases that are sort of out there in the market? And on OCC, it sounds like you're expecting some inflation there, but on resin, you're just kind of assuming flat with current levels. Is that right?

Barry L. Saunders - *Sonoco Products Company - Senior VP & CFO*

Yes. Brian, this is Barry. We certainly have assumed some increase from the announced increases that have been made. Certainly expecting to see some reflection of that in the published index prices when they're released. So certainly, a part of that announced increase has been factored into our guidance.

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

Okay. And then just on resin, all else equal, you just assume it's flat for the guidance?

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

Can you say that, again, Brian? I'm sorry, I just didn't catch it.

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

Just resin pricing assumptions for your guidance versus where we're at today. Any benefits or headwinds you'd assume there from current price levels?

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

Yes, no. I would tell you, if I look at it holistically, we're thinking that it's going to be flattish for -- in through Q3 and into Q4 based on what we know. Now that -- what we don't know is what the impact of the explosion in Mexico is going to have on PET suppliers, and so that could change tomorrow. But that's what we put into our guidance moving forward, sort of flattish look on the polymer-based constructs in Q3, Q4.

Operator

Our next question is from Mark Wilde from Bank of Montréal.

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

Rob, I wondered just to start off, you had called out some mix issues in that display business. Can you put a little more color on that?

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

Yes. I mean, some of it was we saw some growth in some products that were sort of flow-through products where we're bringing products together, customer product along with what we're doing, and there isn't really a margin associated with some of that activity. And then part of it was just a mix of display versus what I'll call more case ready type packaging. So it's a mix of all 3 of those types of activities.

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

Okay. And then your -- I guess about 2 years into the growth in this, the clear plastic, the Clear Lam, the Peninsula, the Highland businesses, can you just give us an update on kind of how you kind of assess the progress in those businesses and the performance?

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

Yes. We're just into it for about a little over a year, Mark, and we are very pleased with the performance of both Clear -- or Peninsula as well as Highland. Now Highland's only been around for a quarter, but I'm extremely impressed with the performance that they had and the management team we have in place. And I'm really impressed with how the teams are coming together and sharing ideas. And so I continue to expect to see the growth that we've laid out, and I'm excited about what the team is projecting to be able to do for 2019 around the perimeter of the store. And Clear Lam is part of that, so the flexible space is part of that as well. And just some of the development work that they are doing to supplement what we're doing in the perimeter of the store. So I think it's coming together very nicely.

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

Rob, you might want to add a little bit how we're bringing some of those businesses to work together to have a better offering.

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

Yes, so we -- what we had -- thank you, Roger. As we look at the perimeter of the stores, the category it's really a cross-functional group that comes together along with our marketing group and working with customers and really assessing what customers' and consumers' preferences are and trying to provide the appropriate solution. So it is really a solid cross functional activity that's going on in terms of not just thinking about fresh produce and fresh fruit, but the entire perimeter of the store and utilizing some of the technology that we now have in our system.

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

Okay. All right. Just 2 other quick ones. Can you give us your productivity target for the full year this year?

Barry L. Saunders - *Sonoco Products Company - Senior VP & CFO*

Yes. In terms of manufacturing productivity we had targeted for the full year, we routinely target something to cover nonmaterial inflation, which would be just a little less than $50 million. That's just the manufacturing productivity piece and does not include procurement productivity and other fixed cost productivity targets, which would then enhance that number. And as we've acknowledged, it's going to take some of these initiatives that we have going on and customer optimization, investment in the paper mills, the other activities, to get to really that run rate that we've targeted, Mark.

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

Okay. All right. And the last one I have is we've talked on a lot of other calls about maybe a different owner for the medium machine or a partner for the medium machine. Any update on that?

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

Yes. Strategically, what we've laid out and said is looking and engaging and finding ultimately a takeout partner is still very much what we're pursuing. In the meantime, we continue to run the machine as best we can and continue to do so, but that has not changed, and we look for a potential partner takeout.

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

Is that easier in a tight -- isn't that easier in a tight market like this, Rob?

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

It may be. It's just a function of finding who that right partner might be.

Operator

Our next question is from Gabe Hajde from Wells Fargo.

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

I really just have one, and that would center around the benefits of owning -- fully owning this Conitex Sonoco JV. I mean, is this something where you envision -- I mean, you guys are doing what seems like for a decently attractive multiple. Does owning those assets fully enable you to get closer to your customers, maybe expand that business a little bit better? And sort of asking in the context of the prior 2 acquisitions that you guys have done of size that have been more in the consumer business.

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

Yes. Strategically -- thanks, Gabe. Strategically, what we have said is that we want to expand on the industrial side, especially in the emerging markets, where we can take advantage of infrastructure that we might have or that the acquired company has and it's technology we understand. The beauty of the Conitex deal is it has a large presence in Asia, which Howard Coker, who runs the industrial side of our business outside of North America, has identified as an opportunity for us. And it allows us to do a couple of things. One, it does reunite us with some customers we've had in the past, but also provides us access to customers we don't have. Number one. Number two, it brings a very solid management team into the fold in Asia. It gives us paper mills and a source of paper that we can utilize both in our tube and core business in that part of the world as well as in our composite can business. So we're really excited about the opportunity. And it gives us more presence specifically in China. And we've said that the Chinese tube and core market is as big as it is here in North America, except it's growing at 3%. And so we want to participate in that market as well with technology that we can bring that clearly we understand and have capabilities in other regions of the world to supplement. So we're -- that's the focus and that's why we did the Conitex transaction.

Operator

Our next question is from Debbie Jones from Deutsche Bank.

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

My first question. You just made some comments earlier about the paper market in Europe tightening up. And I just wanted to know if there's anything incremental there from last quarter that you're seeing that's notable and how you feel about just the overall supply demand balance there.

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

Yes. I would tell you what we're seeing right now, Debbie, is that demand continues to be very robust, both here in North America, in Europe and we're seeing it in Asia as well. So I would tell you, it's a global phenomenon, and obviously, we've got some operations in Brazil and they're exceptionally busy as well. So it's a global tightness of the paper market that we're seeing and don't see that lightening up in the short term.

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

Okay. And my second question on the consumer business. A few questions here on the inflection in volumes. What I want to know is if I should assume beyond the listeria impact, are you expecting the same growth in kind of the various subsets that you called out this quarter? And then 2, as it relates to pricing, are you going out and getting price increases ahead of the contractual pass-throughs to offset other things like freight?

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

Yes. So on the volume side, yes, we do expect some of those plastic customers that specifically referenced the listeria to come back into the market, and we're starting to see that. And with respect to pricing, are we getting -- I'm sorry. I want to make sure I got your question right. It was ahead of the cost...

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

You have a general contractual pass-throughs. But I was just curious if you've been going out and getting increases beyond that to offset other costs that may not be in those contracts.

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

The answer is yes. We are going out and talking about this extraordinary inflation that we're facing that is outside of material price increases. Just think of freight as an example, and that's one of the examples. So yes, we are going into the marketplace with those price increases out of necessity, and our customers don't like it but they understand it because they're facing exactly the same things.

Operator

(Operator Instructions) And our next question is from Chip Dillon from Vertical Research.

Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

I wanted to ask you if you could talk just a little bit about what your thinking is, Rob, with recycling, especially now that we're hearing that China's getting more serious about actually maybe even ending the importation of OCC, which would seem to me would be a windfall for a while until they get up and running with replacing what would be a massive amount of container board capacity, I guess, since they need boxes. Does that change how you think about your contracts or about your sourcing or collection methodologies?

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

Well, first of all, I'm glad that we are in recycling. Because the reason we're in it is to make sure that we have a steady source of fiber coming into our paper mills system. And that is going to remain a focus for us. As it relates to looking at our contracts in terms of collection, yes, we are looking at those things differently where we were previously paying for certain materials coming in now that, that pendulum has swung differently. And so we are assessing and looking at opportunities where that cash flow reverses and we will be charging for some of those activities. So that -- time will tell with respect to that. But in terms of maintaining our recycling activity, it's really truly focused around providing sufficient input into our mills system and that won't change.

Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

Okay, that's helpful. And while we're on the topic, I know you guys announced, I believe in the last few weeks, some pricing initiatives in your uncoated paperboard-based products. And I imagine a lot of those or some of those are formula-based. But could you just remind us how much are not? And kind of how if they are successful, how we could see the timing of those price increases roll in and how much of those did you include in the guidance?

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

So we've gone out with our second $50 a ton increase. The first one went out earlier, late last year? I keep trying to remember, first quarter. And we went out with the second one, and that is -- it's too early to talk about the yield, but we had very strong yield on the first one. And I would expect that we will have strong yield on the second one as well. And that is -- those were increases outside of OCC.

Barry L. Saunders - *Sonoco Products Company - Senior VP & CFO*

And to further add to your question, about 35% of our business is not under some sort of indexed pricing arrangement that's subject to the market announced increases.

Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

I got you. And are they pretty much incorporated into the full year guidance?

Barry L. Saunders - *Sonoco Products Company - Senior VP & CFO*

Yes. That's testament of what that yield would be at this point is.

Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

Oh, okay. And then one last one. I think you mentioned -- I might have missed this, or it was mentioned, a $62 million sales contribution from Clear Lam and Highland. And I just wanted to know how that -- are those businesses, while they have tremendous long-term promise, obviously, in the sides of the grocery store, are you -- how are these businesses looking today versus, say, a year ago when you didn't own them? Are they growing from that point?

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

Yes. I want to make sure I understood what you said. You said $62 million -- are you talking about the sales?

Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

Yes.

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

Okay, yes. Are they performing the way we expect? Yes. The -- if I think about the perimeter of the store, it is meeting or exceeding expectations. If I again, getting granular, we did have this listeria thing that did have an impact in one of the facilities. And then on the flexible side of the business, we did a very solid integration. And I'm very bullish in terms of the products and projects that they've got underway. And so I would tell you that they are performing just the way I would expect them to perform.

Operator

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

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

So Rob, I just wanted to make sure I understood. The new product sales that you mentioned, I think in your opening remarks, or maybe Barry did. Can you talk to us a bit -- or if you said it before, remind us, what the phasing of those revenues might be, what target categories should we expect. I'm guessing you'll probably give us a bit more color in December when you do your Analyst Day, but color there would be helpful. Then my second question, I think you already answered it. But can you comment specifically about -- you mentioned the paper market being strong globally. Are you seeing that not just in cylinder board in North America, and URB but also in medium? Can you talk about the tenor of the market relative to, say, what you're seeing in the first quarter? And then lastly, on the question of China and whether it might more significantly and permanently drop RCP import. Do you think that creates a more structural improvement in margin in paper and industrial carriers towards -- I forget who asked the question -- towards the longer-term margin question in that segment?

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

All right, George, I'm going to try to remember all those questions. So let's start with the new product sales. I did say that we are on track to do $60 million of new product sales. So that's through the IPS process that you're well aware of and understand, and that is a growth year-over-year from $44 million that we did experience last year. The vast majority of that is -- well, not the vast majority, all of that is predominantly on the consumer side, and that growth is in terms of new products. As it relates to your question around medium. The volume continues to be strong. In fact, we're running record tons on a daily basis off that machine, and we don't see that lightening up in the short-term even with some of the new capacity coming on over the course of the next year or so. And then lastly, the China impact. While it's still pretty early to really fully appreciate given the announcement they made yesterday. So I need to sit down with some of our folks to really understand what all this means, and if we really know or this is a part of the overall negotiating. But let's just sort of play this out hypothetically. Does that mean that more mills will start running paper here and shipping product to China and -- well, that would be fantastic because then our tube and core volume should grow. So that allows our paper system also to provide further downstream material for our system. But I'm not sure that I know enough today to really talk about what impact that ultimately will have, George.

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

Rob, the net 60 on new products, is there 1 or 2 key categories you'd have us focused on?

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

Yes, yes. Flexibles was a big driver. Some of the conversations that we've had in the past around consumers wanting to see the products, so clarity and high barrier constructs is what we're focusing on.

Operator

At this time, I am showing no further questions. I would like to turn the call back over to Roger Schrum, Vice President of Investor Relations, for closing remarks.

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

Thank you, Gigi. Let me again thank everyone for joining us today. We certainly appreciate your interest in the company. And as always, if you have further questions, don't hesitate to give us a call. Thank you, again.

Operator

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