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SON - Q4 2017 Sonoco Products Co Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth quarter 2017 Sonoco Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Mr. Roger Schrum, Vice President of Investor Relations. Please go ahead, sir.

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

Thank you, Christi. Good morning, and welcome to our investor conference call to discuss our fourth quarter and full year financial results and future outlook. Joining me today are Jack Sanders, President and Chief Executive Officer; Rob Tiede, Executive Vice President and Chief Operating Officer and CEO elect; 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 referenced a presentation on the fourth quarter and full year 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

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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 opening, I'll 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 fourth quarter earnings per share on a GAAP basis of $0.06 and base earnings of $0.72, which is above the midpoint of our guidance of $0.68 to $0.74 and compares to base earnings of $0.62 for the same period in 2016. This brings our full year base earnings to $2.79. The differences between GAAP and base earnings are discussed in our press release and are most notably associated with the impact of the Tax Cuts and Jobs Act on deferred taxes as well as the transition tax on deferred international earnings and profits, and I'll cover more about that a little bit later. We also had restructuring and asset impairment charges that impacted earnings by $0.17.

Looking briefly at our base income statement on Slide 4. You see sales were $1,299,000,000, up $157 million or almost 14% over the prior year, and you'll see the key drivers in the sales bridge in just a moment. But in summary, the improvement is due to organic revenue growth, acquisitions, higher selling prices and the positive impact of translation.

Gross profit was $242 million, $27.6 million above the prior year, due most notably to favorable price/cost and the impact of acquisitions, while the gross profit margin percent was essentially unchanged at 18.7%.

Selling, general and administrative and other income and expense items was $127.4 million, which was up $7 million from last year, due most notably to the impact of acquisitions, all then resulting in base earnings before interest and taxes, or EBIT, of $115 million, up $20.5 million from the prior year, and again, you'll see all the drivers of the change in the EBIT bridge in just a moment.

Below EBIT, interest of $14.2 million was $2.5 million higher than last year due to acquisition financing. Income taxes of $29.6 million were higher than last year due to the notably higher pretax earnings and then only a slightly higher effective tax rate of 29.4%. Equity and affiliates, when combined with minority interest, was $2.3 million, which was lower than last year by $1.2 million, thus ending up with base earnings of $73.4 million or $0.72 per share.

And looking at the sales bridge on Slide 5. You see volume was higher by 2.8% for the company as a whole. To spend a more -- a little bit more time talking about volume by segment, Consumer Packaging volume was essentially flat, as just under 4% volume growth in plastics and a modest 0.5% improvement in flexibles was offset by global composite can and metal end sales being down 1%.

Display and Packaging volume was up 19% due to the addition of the dedicated battery packaging operation.

Paper and Industrial Converted Products volume was up 4% due mostly to global paper sales being up 8%, while tube and core volume was up 1.6% globally due to a really strong quarter in Europe, which was up 7%, including the mix impact, only then partially offset by volume being down 2% in North America. The European strength was driven primarily by the overall level of manufacturing activity in served markets, while in North America, we saw some erosion in share mostly associated with our focused efforts on serving the right customers. Even our rails business had a very solid quarter with volume up more than 8%.

Protective Solutions volume was down a disappointing 5% due to the continued weakness in the transportation components business, which was off 20% year-over-year and temperature-assured packaging volume being down, all then partially offset by consumer base protective packaging had another strong quarter, up 6%.

So moving on across the bridge to price. You see that prices were higher year-over-year by $40 million, mostly driven by the Paper and Industrial Converted Products segment associated with higher OCC prices.

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In the appendix to this presentation, specifically on Slide 15, you'll find a summary of OCC prices based on pricing in the Southeast, where you see that average prices for the fourth quarter were $122 per ton, which was right at only $10 per ton higher year-over-year. I will point out that the prices dropped off more in the Southeast than in other regions as well as non-OCC grades of recovered paper did not have the same movement downward as well.

If you focus on September, which represents the reset point for many contracts, you can see prices were at $175 in September 2017 versus $110 in the prior year.

Moving over to acquisitions. Net of divestitures, you see a net benefit to the top line of right at $51 million, all taking place in the consumer segment, where the additional sales coming from the Peninsula Packaging and Clear Lam acquisitions were only partially offset by not having 1 month of sales in blow-molding, which was divested at the end of October of 2016.

And finally, exchange and other was positive by $34 million, driven by the weaker dollar.

Turning to the EBIT bridge on the next slide. You see the higher volume, when combined with mix, was positive but only by $3 million. You might recall from the sales bridge that the greatest volume improvement was in the Display and Packaging segment or, given the nature of that business, has much lower margins than our other manufacturing-related businesses.

Price/cost, including the benefit of procurement productivity, was very favorable this quarter, up $22 million, with most of the favorable variance in the Paper and Industrial Converted Products segment, driven by the OCC movement, as you saw on the chart a few minutes ago, as well as the overall global pricing efforts, including the impact on corrugating.

The impact of acquisitions, net of the blow-molding divestiture, added right at $1 million to EBIT. Manufacturing productivity was positive by $4 million, with notably solid performance in Consumer Packaging, particularly in flexibles, but relatively light productivity in the Paper and Industrial Converted Products segment, most notably associated with the recycling business due to their lower volumes. But overall, the real drag came from Protective Solutions where we continue to face issues associated with costs versus volume in auto-related facilities.

The change in all other on a year-over-year basis was unfavorable by $10 million, where normal inflation of $13 million and other startup costs were partially offset by fixed cost productivity and a $3 million favorable impact from the translation of earnings and foreign currencies. And finally, as expected, pension costs were essentially flat year-over-year.

On Slide 7, you find results by segment where you see that Consumer Packaging sales were up 14% due most notably to the impact of acquisitions and, to a much lesser extent, higher selling prices and translation, while EBIT improved by 20% due to favorable price/cost, strong -- and strong manufacturing productivity, with the EBIT margin at a very solid 11.9%.

Display and Packaging sales were up 26% due to the battery packaging activity and, to a lesser extent, exchange rates, but EBIT was down $5.4 million due mostly to the startup issues in battery packaging. Of course, Jack will talk further about our actions we're taking to turn around results in these operations in a few minutes.

Paper and Industrial Converted Products sales were up 14% due to higher selling prices, the nice volume improvement I described and exchange, while earnings improved 72% due to price/cost and the higher volume, with the EBIT margin up all the way to 9.4% for the quarter. It is fair to say that this margin is really not sustainable at that level in the very near term as we did have some benefit from price/cost I described earlier.

And finally, Protective Solutions sales were flat year-over-year as the lower volume was offset by higher selling prices and the impact of exchange, while EBIT was down 29% due to the lower volume and negative productivity, with the EBIT margin falling off to a disappointing 6.9%. Like in Display and Packaging, we have very focused efforts in place to improve performance in this business, all of this ending with total company sales of just under 14%, while EBIT improved almost 22% and the company-wide EBIT margin improving to 8.9%.

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Moving to Slide 8. You find a summary of the impact from the U.S. Tax Cuts and Jobs Act, given the significant impact it had and will continue to have on earnings and cash flow. In the fourth quarter, we recorded provisional amounts for the impact of the transition tax on deferred earnings of $77 million as well as a reduction in tax expense stemming from the revaluation of net deferred tax liabilities of right at $26 million. Again, these are current best estimates and will be finalized in 2018. The transition tax on foreign earnings will actually be paid over 8 years, and based on our current estimate of the total, $6.2 million is payable in 2018.

In terms of the impact to 2018, we are estimating that our effective tax rate on base earnings to be in the range of 26% to 27%, and we've used 27% in our guidance, which I'll review in just a moment. This takes into consideration the decrease in the U.S. statutory tax rate from 35% to 21% but also includes our best interpretation of the impact of other provisions of the act, most notably being the very complex global intangible low tax income provision, otherwise known by that acronym, GILTI. This is our current assessment, and it is possible that our effective tax rate could be lower than the 27% used in our outlook.

The reduction in the tax rate, along with the benefit of immediate deductibility for 100% on capital spending, partially offset by the amount of the transition tax to be paid in 2018, will add roughly $15 million to cash flow in 2018. As noted here, we are also evaluating the potential repatriation of up to $240 million in offshore cash.

Looking forward on Slide 9. You see our guidance for the first quarter and full year for base earnings, where we are projecting to earn between $0.69 and $0.75 for the first quarter compared to $0.59 in the same period in 2017, with the growth and earnings driven by a combination of expected improved volume, the benefit of the acquisitions made last year, total productivity and the impact of tax reform. We are now projecting full year earnings to be in the range of $3.16 to $3.26 per share, whereas the midpoint of $3.21 is higher than the midpoint of our previously issued outlook in December of $3.05 due to the impact of our updated estimate of taxes associated with the Tax Act.

Turning from earnings to cash flow on Slide 10. You see, for the full year, cash from operations was $349.4 million compared to $398.7 million in the prior year. And there are many moving pieces that led to this decrease, but when you really boil it all down to the items that really impacted cash flow, it was the higher pension contributions, notably driven by our decision to make a $50 million voluntary contribution to our U.S.-defined benefit plan in the fourth quarter, higher cash taxes in the year and several changes that fall into the all other category, including an increase in miscellaneous receivables, mostly related to international value-added tax and some state income taxes, both of which are simply timing issues and a drop-off in accrued expenses and other miscellaneous accounts. So after capital spending of just under $184 million and after paying dividends of $153 million, free cash flow was $12.6 million for the year.

Cash from operations and resulting free cash flow were about $60 million lower than our previously communicated target, about $30 million of which came from higher-than-expected year-end working capital, mostly in accounts receivable associated with the timing of payments from customers and, to a lesser extent, more of a drop-off in accounts payable than expected. The remaining $30 million was spread across changes in various other assets and liabilities but most notably related to the previously mentioned increase and value-added tax and state income tax receivables.

We feel that about half of the $60 million shortfall from our previous target is simply a timing issue and, along with the increased cash flow from tax reform, is the reason we have increased our operating cash flow target for 2018 to be between $560 million and $580 million, with a corresponding increase in our free cash flow estimate to be between $180 million and $200 million.

That completes my financial review in the quarter and will now turn it over to Jack for some additional comments.

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Thanks, Barry. Let me comment briefly about our fourth quarter and full year 2017 results and then focus on the key opportunities and challenges we see facing -- face -- that faces entering 2018.

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Overall, I'm extremely pleased we're able to deliver record base earnings for the quarter, as sales were up 14% and base earnings up 17%. Our Consumer Packaging segment continues to drive forward as sales and operating profit achieved records for the fourth quarter, with sales up 14% and operating profit up 20% and operating margins expanding 60 basis points.

Our Paper and Industrial Products segment had significant improvement with sales up 14% and operating profit up nearly 72%, while operating margins expanded 320 basis points.

As Barry said, we're clearly disappointed with the results in Display and Packaging and Protective Solutions, which faced difficult market conditions and operational issues during the quarter. We are putting in place detailed profit improvement plans to address both businesses and expect solid improvement in 2018.

For the full year of 2017, our 2 largest segments, Consumer Packaging and Paper and Industrial Products, drove us to record sales, record gross profits and record base earnings. In 2017, sales and operating profit in our Consumer Packaging segment reached record levels, with each growing 4%, while our operating margins remained at a very solid 11.8%.

In our Paper and Industrial Products for the year, sales grew 10%, and operating profits grew 19%, while operating margins improved 60 basis points to the highest level since 2014.

Protective Solutions grew sales in 2017 by 2.4%, but operating profit declined 18% and operating margins declined to 7.8% due to volume deterioration in our automotive components business, our inability to quickly and efficiently reduce our costs and a negative price/cost relationship.

Barry's talked about the reasons why our Display and Packaging segment underperformed in 2017, so I will focus on the actions we're taking to improve performance.

In hindsight, it would have been very nearly impossible to expect the new battery pack center using new equipment and new people to deal with the tremendous volume demands it faced following multiple hurricanes, immediately followed by the peak holiday season. That said, we put new leadership in place who have decades of experience, starting up similar pack centers around the world. This new facility is consolidating several of our customers' distribution centers, so we are still continuing to install and qualify new production lines and continuing to acquire and train new personnel.

We are starting to see the early signs of improvement, but we have a long way to go and continue to work with our customer to achieve acceptable levels of performance.

Now let me switch to the company's expectations for 2018. Despite recent stock market volatility, I'm pretty upbeat about the coming year. Global economic fundamentals remain strong, and U.S. consumers appear to be in a more upbeat mood about the economy, particularly following the new U.S. tax cuts. Overall, we're targeting a 15% improvement base earnings and a substantial improvement in free cash flow.

We have put in place new management incentives focused on improving working capital, so I would expect a very solid effort toward achieving our targeted cash flow results.

We expect to further grow our business in 2018, following our perimeter-of-the-store strategy. In addition, you should not be surprised to see us remain active in pursuing acquisitions. We made it clear, our focused growth areas are thermoformed plastics, flexible packaging and consolidating industrial opportunities, particularly in emerging markets. Also, we will continue to focus on optimizing our businesses through process improvement, standardization, cost control and commercial excellence.

But we will face challenges in 2018. Inflationary pressures ranging from higher freight costs, higher labor costs and higher costs for materials will require us to raise prices for many of our products. In addition, we must substantially improve the performance of our Display and Packaging and Protective Solutions segments. However, if there's one thing Sonoco has demonstrated over the past 12 decades, it's the ability to adapt and respond to change.

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Achieving our 2,000 base earnings target would mark the fifth consecutive year of improvement. We believe this performance illustrates that over a long term, a manageable mix of industrial and consumer businesses should produce more consistent earnings, improved returns and, of course, greater rewards for our shareholders.

This will be my last earnings call as I will be retiring on April 2. Rob and our leadership team have the responsibility for meeting both our strategic and financial targets in 2018 and for achieving our 20/20 Vision that we outlined at our analyst meeting in December. That said, I will remain a Sonoco shareholder, and you can expect I'll remain interested in the future of the company.

So with that, operator, I'd ask you that you please review the question-and-answer procedure.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of George Staphos of Bank of America Merrill Lynch.

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

Jack and Rob, again, congratulations to you, and the best of luck to both of you in the next chapters. I guess, I wanted to first dig back into Display and Packaging and Protective Solutions. And look, we acknowledge and appreciate that the company is redoubling its focus to improve performance here. But Display and Packaging had really a multiple year on and off performance record in my assessment. And Protective Solutions, the weakness related to auto, we've talked about this before. That could have been expected a year or 2 prior as the auto cycle is rolling over. So I guess, Jack, what gives you confidence and why should we be comfortable that the performance will improve from here given that narrative, if you agree with that? And the related point, when we do the math on the revisioning guidance, incorporating the benefit you get from tax, it would look like something came in below where you were previously guiding as of the December Analyst Day. I'm assuming you reduced your forecast in these 2 segments, but if you could qualify that or add some color, that'd be helpful, and I have one follow on.

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

George, that's usually 3 questions in 1, but I did manage to capture. So let me start with Protective Solutions. I think part of what we didn't say in Protective Solutions is that the consumer piece of Protective Solutions had a very good year. That's our traditional paper-based business and the EPS foam business that goes with it. That business did have a very solid year. And you're right, in automotive, we could see that coming, and as I said, we simply didn't react strong enough to that downturn. We should have taken more capacity out of the system. We should have moved faster. We didn't. We know that. We will. We will get it done. And I expect that, that will have a fairly strong positive impact on the business. The other piece is that we expected ThermoSafe this year actually to have a better performance than it had. We expected more drug launches. So we saw kind of a down year in drug launches. ThermoSafe, as a reminder, is the temperature-assured packaging piece. We are seeing that those have now been released in late 2017, so they will flow into 2018. So we will see the pickup on that side of the business. As I look forward for Protective Solutions, we do see us matching -- working -- getting further down the line to match capacity to demand on the automotive side, continued strong performance of the consumer business and then a rebound in the ThermoSafe side. So we do see a rebound in Protective Solutions. We continue to believe it's a solid business, especially on the temperature-controlled packaging side, we see a future there. On Display and Packaging, I can't argue, there has been a multi-year on/off business. We do think the battery pack center and the opportunity that we have in Atlanta is significant. We've invested significant money, and we believe that it will be a strong revenue producer. As I said, it was meant to be a multi-year or at least a multi-month startup, and it did not turn into that for a lot of different reasons, not all ours. We had to ramp that business up extremely fast. 3 hurricanes ripped through the area, take all the batteries off the shelf. So now we're not in a startup mode. We're actually in a pack-out mode doing everything we can to get every battery we can into the stores as replacements. That immediately is followed by the peak holiday season,

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which is the critical battery period. So once again, you saw in the fourth quarter, the business actually lost money in total. We don't expect that to continue. We believe we know how to run pack centers. We believe we can get that right. We've got the very best people in the world that have now -- are on the team running this operation. So we believe we can turn that around. And that is our focus right now in Display and Packaging. Fix the business, and we'll see where it goes from there.

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

Okay. 2 quick ones, and I'll turn over.

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

I remember 2. On the revision in the guidance? As we did look at the year, there is substantial inflation that's flowing into the business now in the fourth quarter -- starting the fourth quarter relative, as I said, to freight, labor and other types of things that are going to impact the first quarter a bit, although we still think we're going to have a solid first quarter. But that inflation, we're going to have to get out in front of that, raise prices and do some other things. So that's probably a little -- that is the walk-back, a little bit of a walk-back as we do see some inflationary pressures that we're going to have to recoup. Battery pack center is starting up slower now. It's kind of rolling this year.

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

Quickly, yes, no, should we assume up earnings for Display and Packaging, Protective Solutions in '18 versus '17? And Barry, if you gave a CapEx number for the year, I missed it. If you could repeat it, that'd be great.

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Yes to up or both.

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

And we have not changed our estimate of CapEx for the year. We're still targeting to spend right about $220 million, which is up notably from our historical spending levels, mostly associated with the investments we're making in our paper mills as part of our mill optimization strategy.

Operator

Our next question is from Ghansham Panjabi of Baird.

Matthew T. Krueger - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

This is actually Matt Krueger sitting on for Ghansham. First off, congratulations to both Jack and Rob, and good luck moving forward. So my first question relates to price/cost for 2018. What are your expectations for overall price/cost for the year? And any details on the segment level would be helpful. Third, what do you think about the timeline for any raw material recovery across your various businesses? Obviously, paper and industrials caught up, but across the other 3 would be helpful.

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M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Well, price/cost, we would expect, as we usually do, to be positive for the year in 2018, not to the degree that you saw in 2017. We are not counting on that type of price/cost. But normally, we're able to manage price/cost to a positive number. I missed the other piece of the question. What was it?

Matthew T. Krueger - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Yes, just any sort of time line for recovery on raw material costs across the consumer business, particularly the plastics-related businesses?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Yes. We're going to kind of work to recover noncontract, but 70% of the volumes on the contract, so it's going to reset here at the end of March. And so I'd expect that recovery to begin as early as Q2. And then we'll see where it goes from there. Prices begin to drip down. We could get very positive swing. We'll just see what resin does. But it's a fairly short timeframe on both consumer and industrial. And we are out with a $50-ton price increase. I think that's a fit number on paper, and that starts on Monday.

Matthew T. Krueger - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Yes, that's very helpful. And then given the expected improvement in global macroeconomic growth that you cited in your prepared remarks, can you update us on what you're seeing across your various regions currently and then provide an updated growth outlook on a regional basis for 2018?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Yes, I think, as Barry said, certainly, in our industrial businesses, we saw very strong results in Europe. They were up some 7%. Brazil was up 23%. Latin America also fared fairly well. So we are seeing the positive results of the global economic improvement around the world. We certainly had solid -- in our can business in Asia, we had solid improvement, 9% year-over-year. So we are definitively seeing a stronger global economy on both the consumer and industrial side.

Operator

Our next question is from Debbie Jones of Deutsche Bank.

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

You mentioned, I think, early on in the call about lower volumes in the recycling business and the impact that, that had. Could you just elaborate a bit? And how much you think that extends into 2018?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Well, again, lower -- that's really kind of built around our collections and our collection system and what we're seeing that has normally flowed through to the e-commerce and those types of things. Those are the type of numbers. And then the export is a big part of that, and that's where we're seeing the reduction. I think exports were down some 35% -- or projected to be down 35% in 2018 in -- for OCC and OCC-related products.

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

So the assumption is, and you continue to experience, I've -- just kind of unclear to me how much that is impacting you, how material it's been to your overall performance.

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Can you clarify what you're asking? I didn't follow that, really.

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

You just mentioned earlier in the call that you saw an impact in Q4 just from the lower volume it's just unclear to me how significant that is, and I'm asking because I think the assumption is that issue might continue in 2018.

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

The lower volumes and the lower mark -- and the lower price? We're having a little bit of (inaudible) trouble hearing. But I don't think it's going to be -- Barry?

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

Yes. Certainly, the comment I actually made was the impact it had on productivity associated with the lower volume. And of course, we address productivity issues as we get the cost structure rightsized with the actual level of activity. So that part will be addressed. Obviously, there is -- remains uncertainty as to overall volume levels, depending on China export activities, the impact of mix paper, et cetera, but certainly, the productivity issue will be addressed.

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Yes, and I'd say barring any wild changes in price, the impact of recycling is not going to be any real different than it was in '17 than it is in '18.

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

Okay. And did you guys give your actual OCC assumption and guidance?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

No. I think we came out at the beginning of the year about $155 was what we expected. I would tell you today, it's probably somewhere around $140, and that's my final projection in OCC. And I'll write that down and see how do...

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

And just final question, you made a comment about switching incentives around working cap. I couldn't remember if that's new or not? And I'm just wondering how far down that goes from management's perspective?

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M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

I'm sorry? Okay. Well, I'll tell you that we had incentives around working capital for several years and had tremendous success. I'm sure if you followed the company, you would have seen that. We took it out last year. We've taken out more or less for the last 2 years because we kind of expected to be managed. Made the decision to put it back in. So I think it's going to have a very strong impact on driving working capital back to an acceptable level.

Operator

Our next question is from Adam Josephson of KeyBanc Capital Markets.

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

A couple of questions. Just, Jack, you mentioned inflation being higher than you had expected at the Analyst Day. You held that first week of December. Can you just walk us through precisely what change since then? Was it freight? Was it materials? What exactly changed from early December to now along those lines?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Two things kind of pop in my head. First of all, freight, freight availability, and then the price of oil has really moved substantially more than we would have seen it, which is impacting the price of resins. So those are the 2 areas. And of course, then it affects diesel fuel. Those are the 2 areas where, I'd say, that has been substantial. And I would say that freight, it's not only freight, those costs -- inflationary costs. It's availability. We're having to kind of pay premiums to get loads to get the truck in here on time. So that's a big issue as well.

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

Appreciate that, Jack. Also related to raw materials, it sounds like you've taken down your OCC price forecast by $15 already. It sounds like the Chinese are just not buying much at the moment for whatever reason. Do you still expect a spike in the foreseeable future? And if so, why?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

A spike? I think the only way a spike happens is if they just open the floodgates on their permits. My expectation is that OCC is going to follow a normalized year pattern right now, which would be kind of up then down and then falling off at the end of the year.

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

Okay. And just -- sorry, one other kind of bigger-picture question. There's been -- you make obviously both paper and plastic packaging, and there has been obviously increasing environmental scrutiny of plastic bottles and other types of rigid plastic packaging, more so in Europe than in the U.S., but also in the U.S. because of the lack of recyclability, of course. What do you make of what the industry needs to do or is doing to combat what's happening along those lines?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Yes, let me turn it over to Rob. I think that's a good question.

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Robert C. Tiede - *Sonoco Products Company - Executive VP & COO*

Thanks. Adam, I would tell you that -- a couple of things. One, I don't think the industry has done a very good job of getting out front of this issue. And I think it's got a very good story to tell. And when I think about the big issue, it's recyclability, it's sustainability. And I think about things such as food waste, I think polymer constructs is the one platform, or if you will material, that ultimately really helps solve the biggest issue, and that's one around food waste. And when we take a look at the data and just specifically when I think about retail stores, that is about a $16 billion waste problem. One additional day of shelf life equates to directionally $2 billion of food savings. And so I think we, as a company, have got a good story to tell. We've done a lot of things throughout our business in terms of using recyclable materials in our plastic constructs. But I think the industry overall needs to help promote itself, and I think we've been fairly silent. And I think companies will come together to start talking about the benefits of the polymer constructs.

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

And just one more, Rob, for you. You mentioned at the Analyst Day that you were seeing some traction at the center of the store. And I think Jack talked earlier about seeing improvement in consumer spending, but you also mentioned in your release that you're expecting continued negative trends in packaged food and grocery store sales. So can you help us understand exactly what's going on there?

Robert C. Tiede - *Sonoco Products Company - Executive VP & COO*

Yes. I would tell you that the move to fresh and natural continues to grow in momentum. We're seeing that. We're seeing the benefits associated with that. But with that said, our customer base that is traditionally growing up in the middle of the store hasn't been standing still. They've been focused on putting together more healthy-related products. We saw that in new product sales in 2017. We see that carrying over into 2018. A lot of that has to do with change in formulation, number one, but the other one is showing the product to the consumer, as they are shopping so they have visibility of the product, not only reading the ingredients. So the customers in the center are not standing still. We continue to see activity by them in terms of trying to change how they're perceived and, more importantly, changing the product itself.

Operator

Our next question is from Brian Maguire of Goldman Sachs.

Connor Daniel Robbins - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is actually Connor Robbins sitting in for Brian Maguire. I just had 2 questions. The first one that I've been looking at, kind of the price increases that U.S. have announced this year. Wondering if you give a little bit more color on this, any customers have been pushing back on those at all, kind of what type of price increases are including your 2018 assumption?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Well, the paper increase actually is effective Monday. What we have seen is we've seen very solid support across -- I mean, there've been announcements. And that increase is really driven by: a, the utilization that's occurring in the industry; and b, the increases in the costs that I talked about. These freight rates, I failed to mention supplies and expenses coming into the paper mills, chemicals, et cetera. All those things are going up. So the costs are real, and so far, the support, at least from an announcement standpoint, has been there. So we'll see, over the next coming weeks, the yield that we actually would get.

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Connor Daniel Robbins - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay, that's helpful. And then is that -- are those price increases included in your guidance? Or do you assume guidance was flat than the price before?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Yes. I mean, we've kind of looked at the costs, and then we're trying to cover the cost with the increased. So it is in the guidance.

Connor Daniel Robbins - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay, got you. And then just one more, I think you mentioned at your Investor Day 2020 Vision targets of, I think, 16% EBITDA margins. And I'm just wondering if you could give us an update on how this has progressed. And if any sort of headwinds in the margins based on this last quarter from Display and Packaging and Protective Solutions side, I guess, change your outlook at all? And what we can expect for Display and Packaging Protective Solutions margins going into -- or I guess heading out of 2018?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Yes. I'm going to answer one part of that. Does it change your expectations at all? Absolutely not. The rest, I'm going to turn it over to Rob.

Robert C. Tiede - *Sonoco Products Company - Executive VP & COO*

Thank you, Jack. In terms of 2020, it's a 3-year look. So a quarter does not change the outlook. I would tell you that as we set out in New York, and we talked about this, we said there are really 6 steps, and 2 of them are really interrelated organic and inorganic growth. Our expectation has not changed whatsoever. We also talked about commercial excellence. And what does that really mean is, I think, this is the benefit of the investment we made in Oracle a number of years ago where it gives us incredibly granular data, where we know how many times we ship? Are we shipping full truckloads? Are we shipping half truck loads? And what were the assumptions made when the pricing was put together? What were the expectations of our customers? And what are we doing? And it really allows us to take emotion out of the conversation, and it's all data and fact-based. So we're seeing significant opportunity in terms of having and changing the dialogue with our customers. On the operational excellence side, if I can call it that, you heard us talk about the activity as it relates to our paper mill and the significant investment that we're making there to upgrade certain of our machines to ensure that not only we have longevity, but it also helps us drive appropriate cash flow. We talked about a holistic look at our businesses, and what that really means is serving the right customers at the right price with the right equipment and the right utilization. And so that body of work is underway here in North America. We've now started that process. Very, very early stages in Europe, specifically in our tube and core business. So we continue to be very focused on what we've set out of setting a target of driving ourselves to a 16% EBITDA margin by 2020. And it's -- the expectation is as we look around portfolio, this is a continuation of the Grow and Optimize plan that -- and strategy that we laid out a number of years ago. It's just a case of the accelerating some of the activities where we've now put the capabilities in place.

Operator

Our next question is from Mark Wilde of BMO Capital Markets.

Anojja Aditi Shah - *BMO Capital Markets Equity Research - Senior Associate*

It's actually Anojja sitting in for Mark. I just wanted to switch over to the M&A pipeline. Can you talk a little bit about what you're seeing? What was -- are you seeing a lot? What kind of valuations are out there?

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M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Well, I would certainly tell you that we've been running down a bit of a different track and that we've been working from, what I'd call, an inside-out philosophy. We looked around and saw what businesses -- we knew what businesses we want to be in, what companies would we really like to be in dialogue with, and we instituted the dialogue ourselves. We don't really get it -- of course, we got involved in bids or whatever the case may be. But ours was more inside-out. And so we continue to have very active dialogues in the areas in which we're interested. And multiples are what multiples are. It really, to us, is about, okay, if we had this business, what can we do with it? And can we get the return that we need for our shareholders?

Anojja Aditi Shah - *BMO Capital Markets Equity Research - Senior Associate*

Okay. And kind of along the same lines, how are you thinking now about Sonoco's current portfolio? I know 2 to 3 years ago, you made some comments at the Investor Day that there would be -- you're trying to do more acquisitions, probably some divestitures. And you have made some moves and spend. But maybe just a status update on where you are. Are you happy with the current situation? What else are you trying to do, et cetera?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Well, we certainly have made moves. We've divested ourselves of blow-molding and some other smaller businesses. We made some acquisitions recently in the focused areas, as I said, of thermoforming and flexible packaging. Are we happy where we are? No. There's more to do. And we are just say in process.

Operator

Our next question is from Chris Manuel of Wells Fargo Securities.

Christopher David Manuel - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Well, along those lines, so I know you said this is your last OCC forecast, but I'm going to push you on that. So when I look at the table you've got in the back that Barry referred to, with lower permits seemingly going to be issued going forward, what keeps OCC from kind of staying more in a, call it, $100, $130 banned over the next 1, 2, 3 years as opposed to moving back up? So that's part one of the question. And part two is, I know, Rodger Fuller did a lot of work over -- still is doing a lot of work at trying to utilize more mixed paper into your mix. How do you go about doing that? Or what can you do to raise those levels if you wish?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Yes, it's all about clean fiber and removing a lot of the contaminants. So -- and we are doing a lot, and we are making progress. But -- and I would tell you that virtually, every paper company out there is learning, how do we use more mix, how do we use different types of paper as opposed just to OCC, simply based upon the cost differential. So I think that will continue. What keeps OCC from just being $130 or whatever the number might be, I'm not certain of how long China can -- will actually stay out of the market, how long they want to stay out of the market. There are advantages to American OCC. The fiber's longer. It creates longer board there. So some would argue that you have to have it. Now you can replace it with pulp, but how long can you realistically do that? Does the price -- is there a crossing point on price? I think exports will remain a part of the market. When exactly they kick back up and at what level do they actually participate? I think we're just kind of saying they're going to be more normalized than they have been or at least they were during the course of '17.

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Christopher David Manuel - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

All right. So I guess, where I'm going big-picture question is, again, why -- you previously had a $160 forecast. Now you have $140 for the year, which still implies, given where we are today, that we're going to go up to something, $150, $160 by the end of the year. I guess, my question is, why over the next 2, 3, 4 years? So I'm asking you for your detailed annual forecast because you love giving those.

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Well, I think we are now -- we're entering the slowest generation period. So, I think there's going to be some pressure on supply. I think U.S. demand for boxes is going to be pretty strong. So again, I think that you'll see it move up from here. Now does it move up $30 or $40? I did -- I give you my best shot at $140. I don't know. But it's just more of a normalized pattern. And there is going to be some pressure on it as the summer gets there. I do think you're going to have a -- I think we're going to have a really good year in 2018, and I think business in general is going to have a good year in 2018. I think you're going to see it reflected in commodity prices.

Christopher David Manuel - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay, that's helpful. And if I could switch gears for one second and come back to the display unit, Display and Packaging unit a second. Historically, when I look back, and kind of following along George's line of questioning earlier, this is a business that had 3% to 4% margins and was giving you, I don't know, in the teens and up into the 20s of EBIT. You've got the revenue number backed up. You won some business here. Is there anything -- I guess, it's kind of 2 parts of this. Is there anything with the new business that you've won that brings it in, in a much lower margin rate such that after you get past the kind of unusual battery issues, you had late last year into this year, getting things back into shape, that this can't to get back to a better level with the margin? Or is it really just that there was that much of an issue and it would appear to be $10 million to $15 million issue through the end of last year with transitioning and getting a new center up?

Robert C. Tiede - *Sonoco Products Company - Executive VP & COO*

Yes, Chris, it's Rob. Let me take that question. Let me be real candid. Did we have some challenges for that startup? Absolutely. If I take a look at the business and I look at the different regions, Europe performed exceptionally well as we expected it to. We -- as I think about Atlanta, and in Atlanta, it was all hands on deck because it went from 0 to 100 in very short order, and hurricanes and holidays is really the nature of that business, I think, if I'm being very candid, we probably erred on not getting talent in early enough, number one. But having said that, there was a delay in that startup, and that startup was really built around, for all intents and purposes, almost a 2-year ramp-up period. And as I said, we went into this full-fledged -- and nobody could have predicted the hurricane season we had, followed by an earthquake and then right into the holiday season. So as Jack said earlier, we have put the best talent in place to remedy and rectify the shift. We are -- we're still bringing in equipment and we'll continue to bring in new lines into that facility into the second quarter. So we are and have been bringing in talent. So we will be training them up in advance of some of those lines arriving. And so we really won't see, if you will, the expected turnaround in full-fledged until probably the second half of the year, which gets us right back into the busy season. But we will at least be, if you will set up for success. And so I do expect the margins to improve in that business simply because of the planning that we've got, specifically as it relates to that site. And that site was a significant impact on the results that we had, not only in the fourth quarter, but also in the third quarter.

Christopher David Manuel - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

All right, that's helpful. I mean, just kind of in summary there, after you get through a lot of this transition, and I appreciate it's a couple year ramp-up, should we then be able to think about 2019, 2020 kind of stuff that's back to a 3-ish percent plus margin in that business as opposed to 1 or so?

Robert C. Tiede - *Sonoco Products Company - Executive VP & COO*

Yes. The answer is yes.

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Operator

Our next question is from Chip Dillon of Vertical Research.

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

This is Salvator Tiano sitting in on for Chip. I have 2 questions. The first, just to make sure. At the beginning, you talked a little bit about the guidance being actually a little bit lower than the December 1 one, excluding the tax. And I wanted to make sure, on the cash flow guidance as well, it seems that the EBITDA bridge doesn't fully support the normally $30 million to $50 million increase. So is that kind of gap solely because of the lower net income guidance, excluding tax? Or is there any other cash items that have been put in there that lead to only $30 million to $5 million -- to $50 million increase?

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

Okay. Yes. Certainly, as we mentioned that if you look back at the change in the effective tax rate from what we originally used and compare that to our current guidance, you'd say that there was about $0.04 difference between our outlook in New York and what we're providing now. And as we mentioned earlier, that really is due to inflationary pressures in the system that are greater than what we first thought they might be as well as just a slower recovery in the battery packaging operation that we talked about several times today. In terms of our add-on for cash flow, it is up notably from what we discussed at our Analyst Day, and it's really driven by the 2 factors. And that is the impact of tax reform on our overall tax rate, which adds roughly $15 million to cash flow. And then the balance of the increase is really expecting to recover most of the timing differences that I mentioned as it related to the shortfall from our target in the fourth quarter. So that really as it relates to improvement in working capital and some other miscellaneous receivables and assets that we saw in the fourth quarter. So again, we consider our cash flow target to be nicely enhanced with the add-ons that I just described.

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

Sure. And then a 2-part question on volumes. First of all, do you see volumes from Clear Lam and Peninsula growing faster than your legacy portfolio? Are they kind of helping repositioning your asset base as you are expecting?

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

Yes.

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

Okay. And the second part here is, obviously, you mentioned volume growth company-wide was driven, I think, from the new plant in the Display and Packaging. But it seems there is some decent acceleration in the more -- in the larger segments, Paper and Industrial and Consumer Packaging. So how sustainable do you see that pickup in volume growth being -- going into 2018 and '19?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Well, I would tell you that industrial was up 4% in the quarter in volume, really driven by paper and tube and core as well as our real business was up 8%. So we did have a strong industrials. We look into next year, we see industrial up at least 1%. So we see that, that being very positive. We do have a strong recovery in protective packaging. We see it up being around 3%. And we see consumer next year as well, driven by those businesses you talked about a little bit earlier. So we're projecting about a 2.5% increase in volume next year. And I would tell you, from the end of last year through to where we are today, we're starting on that path. We certainly feel it. So hopefully, the year plays out like we've started.

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Operator

Our next question is from Scott Gaffner of Barclays.

John Andrew Dunigan - *Barclays PLC, Research Division - Research Analyst*

This is John Dunigan on for Scott. I just had a quick one getting back to the working capital. You'd mentioned about $15 million of the increase is coming from working capital and miscellaneous. Out of that $15 million, which I'm assuming is an approximate target for a source of capital in 2018, could you just break out maybe what some of the recouping of working capital uses of cash at the end of 2017 are going to be versus maybe what some of the sources from the new working capital intensive plan would look like and where the opportunities are from that?

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

Yes. Let's just clarify. We said in the short fall of that $60 million from our previously communicated target, about $30 million of that was related to working capital, and then the remaining $30 million was really spread across changes in various other assets and liabilities accounts, mostly associated with value-added tax and state income tax receivables. Of the working capital component, we feel that a notable amount of that was, in fact, just timing and will, in fact, be recovered in 2018. And that's why we're not projecting any notable change in working capital levels even with the organic growth that we're expecting in 2018. Of the remaining -- of the other $30 million change, some of that is simply due to the activity in some of our international business with VAT and so forth. The state income tax income receivable clearly has already been collected. That was roughly $7 million. So again, all of that activity is the basis for why we've added roughly $30 million to our free cash flow estimate for the full year.

John Andrew Dunigan - *Barclays PLC, Research Division - Research Analyst*

Okay. And then the new incentive plan, is that mostly based around inventories? Or is it...

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

No, it's total working capital, but that certainly is one of the reasons we think we'll get the attention we need to drive the turnaround in working capital that we're expecting.

Operator

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

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

It's late in the quarter on the call. Just quickly here. Can you give a little bit more color, if possible, on Peninsula and Clear Lam's growth in the quarter? Secondly, the $240 million that you're considering repatriating, what would you likely do with that in terms of priorities? And then lastly, I forget who asked the question, it might have been Adam. Just the inflation that you saw in the last quarter, has there been any lessening of pressure in any of those inputs that were causing you some consternation in the fourth quarter? Or as the level of intensity stayed pretty much where it was last quarter?

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Robert C. Tiede - *Sonoco Products Company - Executive VP & COO*

George, it's Rob. Let me take the first one. Given that Peninsula and Clear Lam was their first year, if I go back to their historical level of the year before, the growth that we saw in both those businesses were in excess of 5%. Going to the cash question that you've got, the first approach we want is to invest it back in the business. So if we have acquisitions that make sense, that's how we would use that cash that'd be repatriated. If not, then we'll look at cash the way we always have historically in terms of what's the best use and highest use of that money. And I apologize, the third part of your question?

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

Do we see an abating or (inaudible)

Robert C. Tiede - *Sonoco Products Company - Executive VP & COO*

Yes. I would tell you, the inflationary pressures, I do expect, as I think about trucking, I think we are going to be in that for a period of time. It's going to be not only units, but it's going to be access to drivers that's going to be critically important. With respect to resin, given some of the new capacity that's planned on coming in, not only in polyethylene, PET, coming back into the market, I do expect to see resin costs start to trickle down towards the end of the year, in fact, starting as late as first quarter, start downward movement.

Operator

Our next question is from Chris Manuel of Wells Fargo Securities.

Christopher David Manuel - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Just -- I just want to make sure, Jack, we push in a little overtime here on your last call. But -- so 2 questions. The first is the media machine. What -- kind of how is that -- sounds like it's doing better, but I know it wasn't that long ago, a year or 2 ago, that was a pretty substantial drag with the several price increases we've had and then the supplemental medium one. Is that -- and it sounds like I'm pretty sure it's probably booked full? Are you back to earning -- back to earning at a cost of capital there? And is the thought process still towards finding a partner or doing something with that?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Well, certainly, the media machine is doing a much, much better, and we are pleased that it is. However, again, if you look at what we're trying to do with the portfolio, our clear vision on Grow and Optimize and getting the portfolio right, the #10 machine doesn't really -- it's here on the complex. It has to be, but it doesn't fit the portfolio. So yes, we are still looking for a permanent takeout situation. And we have opportunities. They're wrapped up. It gets complicated. But they are out there, and we're continuing to have dialogue.

Christopher David Manuel - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay, that's helpful. And then the second question was, if I got this right, you talked about some maybe walking away from some business or some price pressure or competitive landscape stuff. In the tube and core business in North America, and your volumes are down 2%. Is this something that was a temporary thing? Is this something that might we be down a couple of percent, that it's going to run for another 3 quarters till we anniversary it? How should we think about domestic tube and core volumes?

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M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Yes, I think, as we go into next year, we continue to see some, what we call, rationalization of that. But the simplest way to think about it is that not all customers are created equal, but what companies tend to do is to create a cost structure to serve all customers equally. What we're trying to do is to say, "These are the customers that we want to have. We're going to create a cost structure to serve these customers." So you have to go through the rationalization, and then you begin to gain share in those customers you target. And that's the process. So no, it's not going to go on indefinitely. You're actually going to see our volume start to swing up. So I think somewhere during the course of this year, you're going to see that probably begin to shift a little bit to where we have some modest improvement as we go through the year in volumes quarter-to-quarter. But I do want to remind you, in all those cases, margin is improving.

Christopher David Manuel - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. So it's an up tier of mix? Got it.

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

Yes.

Operator

Our next question is from Adam Josephson of KeyBanc Capital markets.

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

Jack, Rob, just one last question for me. Just in light of the recent increase in interest rates and the volatility in the markets, are you any of less inclined to lever up for acquisitions than you might have been 3 or 6 months ago?

M. Jack Sanders - *Sonoco Products Company - President, CEO & Director*

I would tell you that I don't think it's changed in terms of our outlook. For the right transaction, we would lever up if we had a clear path to getting back to where we need to be from an investment-grade standpoint. So I don't think it's changed. We will always be prudent, and the capital structure will be appropriate.

Operator

Thank you, and that does conclude our Q&A session for today. I'd like to turn the call back over to Roger Schrum for any further remarks.

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

Thank you, Christi. Again, let me thank each of you for joining us today. We appreciate your interest in the company, and as always, if you have any further questions, please don't hesitate to give us a call. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. And you may all disconnect. Everyone, have a great day.

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