THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SON - Q1 2017 Sonoco Products Co Earnings Call

EVENT DATE/TIME: APRIL 20, 2017 / 3:00PM GMT

CORPORATE PARTICIPANTS

Barry L. Saunders *Sonoco Products Company - CFO and SVP*

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

Robert C. Tiede *Sonoco Products Company - COO and EVP*

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

CONFERENCE CALL PARTICIPANTS

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

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

Christopher D. Manuel *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

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

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

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

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

Philip H. Ng *Jefferies LLC, Research Division - Equity Analyst*

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

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

PRESENTATION

Operator

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

I would now like to turn the conference over to Roger Schrum, Vice President, Investor Relations. Sir, you may begin.

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

Thank you, Shannon. Good morning, and welcome to Sonoco's Investor Conference Call to discuss our 2017 first quarter financial results and outlook.

Joining me today are Jack Sanders, President and Chief Executive Officer; Rob Tiede, Executive Vice President and Chief Operating 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 reference a presentation on the first quarter results, which was posted on our Investor Relations website also 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 on the Investor Relations section of our website.

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

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

Thank you, Roger. I'll begin on Slide 3, where you see this morning, we reported first quarter earnings per share on a GAAP basis of $0.53 and base earnings of $0.59, which is within our guidance of $0.55 to $0.63 for the quarter, all of which compares to base earnings of $0.65 for the same period last year. The differences between GAAP and base earnings are discussed in our press release, but as you see here, are related restructuring charges and acquisition expenses.

On Slide 4, you find our base income statement, where you see sales were $1,172,000,000, down $54 million or 4.4% from the prior year, and you'll see the key drivers in the sales bridge in just a moment. But in summary, this is due to the lost sales from the blow-molding divestiture and slightly lower volume only then partially offset by higher selling prices and the impact of acquisitions.

Gross profit was $220.2 million, right at $25 million below the prior year due to the lower volume, the loss of earnings from the blow-molding divestiture and a negative price/cost relationship, all then partially offset by lower fixed cost spending. And you'll see more of the details of the drivers in the EBIT bridge in just a moment, with the gross profit margin percent at 18.8% versus a very strong 20% at this point last year.

Selling, general and administrative and other income and expense items was $123.4 million, which was down $10.3 million from last year primarily due to the impact of the blow-molding divestiture, 2 fewer general ledger days, lower accruals for management incentive plans and year-over-year cost reductions, all of which more than offset normal wage and other selling and administrative type inflation. All then resulting in base EBIT of $96.8 million, down $14.7 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 $12.1 million was $1.7 million favorable to last year due to lower average debt levels. Income taxes of $26.2 million were lower than last year due to lower pretax earnings and a more favorable effective tax rate of 30.9% for the quarter.

Equity and affiliates, when combined with minority interest, was $1.9 million, not notably different from last year, thus ending up with base earnings of $59.9 million or $0.59 per share.

Turning to the sales bridge on Slide 5. You see volume, when combined with mix, was negative by $29 million or 2.4% for the company as a whole. I will mention that this year's first quarter had 2 fewer calendar days, representing a 2% change, while the number of business days was unchanged year-over-year. The impact of the day difference varies by business unit. For those businesses that run 24/7, 2 less calendar days could've had an unfavorable 2% impact on the quarter, while for many of our converting businesses, the billing days were unchanged. Thus for the company as a whole, our volume was somewhere between being flat to down 2% when the day impact is considered. All of my volume numbers that I'll mention today are not day-adjusted. So again, you could add something between 0% and 2% to get to a day-adjusted comparative number.

To provide a little bit more detail by segment. Consumer volume was down 2.8%, driven by global composite cans being off 5.8%, where within that business, composites in North America were down about 4% but off 11% in Europe due most notably to much lower tobacco can sales this year versus last year, when we had a particularly strong quarter associated with the changing tobacco packaging laws.

Flexible packaging was essentially flat for the quarter, while we experienced about a 2% growth in our rigid plastics business driven by very solid growth in food-related thermoforming.

Display and Packaging volume was down 4.3% due to lower volume in retail displays and security packaging in the U.S. and lower component sales internationally.

Volume in the Paper and Industrial Converted Products segment was down only by 1.3%, so probably close to flat on a day-adjusted basis. Volume was off 2% in the U.S. and Canada but in contrast, actually saw a slight uptick in cores sold in Europe, with it being up 2% due to continued growth in Eastern Europe and some economically driven pickup in Western Europe across most served end-use markets.

Protective Solutions volume was down 2.1% as an 8% decline in foam components sold into the automotive transportation sector was only partially offset by improved volume in molded foam packaging for consumer electronics and an improvement in paper-based protective packaging, including some non-appliance related growth.

So moving on down the bridge to price. You see that prices were higher year-over-year by $33 million driven by the Paper and Industrial Converted Products segment associated with higher OCC prices, where based on prices in the Southeast, averaged $152 per ton versus $80 in the same quarter last year. And I'll speak more to OCC prices when discussing price/cost in just a few minutes.

Selling prices were also higher in Consumer Packaging but to a much lower extent due to higher material costs in that business.

Moving down to acquisitions/divestitures. The net impact was a negative $34 million with most of the impact in the Consumer Packaging segment related to the divestiture of the blow-molding operation last year, partially offset by last year's flexibles acquisition of Plastics Packaging Inc. and a few weeks of the Peninsula Plastics business, with the acquisition completed very late in the first quarter of this year.

And finally, exchange and other was negative to the top line by right at $24 million, but it is driven most notably by exiting the Irapuato pack center in Mexico, as foreign exchange rate variances were not that significant year-over-year.

Turning to the EBIT bridge on Slide 6. The lower volume, when combined with mix, was negative but right at $10 million, with the negative mix impacted by the mix within and between some of the business. Price/cost, including the benefit of procurement productivity, was negative but only by $4 million even though the negative impact of rising material costs was notably greater than the impact of selling price changes as such change was partially offset by procurement productivity initiatives. As you would expect, the negative impact is greatest in the Paper and Industrial Converted Products segment associated with rapidly increasing OCC prices. You can find a chart in the appendix to this presentation that shows the evolution of OCC pricing based on prices in the Southeast, where you might recall, we saw a $10 uptick in December to end the year at $120 per ton, then saw a significant run-up in the first quarter, with March prices at $185 per ton, thus prices averaging $152 per ton, while many contracts had reset at the December price of $120 per ton. Thus causing the negative price/cost impact for the quarter. As you'll note on the chart, prices had moved down $10 in April, and we are expecting another $10 to $20 drop in May, then holding firm in June. Thus, price/cost would once again turn positive in the second quarter.

On the next line down on the bridge, you see the impact of the divestitures, net of smaller acquisitions, lowered EBIT by $6 million.

Moving down to manufacturing productivity. You see it was actually negative year-over-year by $1 million, certainly well below our target. Before getting into the specifics, it is fair to say that notable productivity is much harder to drive in a no-growth environment, but it should have had -- been better than it was. Consumer Packaging productivity was weak due to continued operating issues in rigid paper in Europe, again, much of which was volume-related and the startup of a new line. We also experienced some quality and startup-related issues in both plastics and flexibles that, combined, negatively impacted our results by roughly $2 million.

And in the Paper and Industrial Converted Products segment, productivity was weak but most notably due to the corrugating medium machine, which experienced some unscheduled downtime and did not run as well for much of the quarter, but seemed to be back on track in the last few weeks. The change in the All Other category on a year-over-year basis was favorable by $9 million. This is the line where the benefit on fixed costs of fewer days shows up, which was approximately $6 million, and fixed cost productivity was once again favorable by about $5 million in the quarter, which along with reduced accrual for management incentives, more than offset the normal nonmaterial inflation of roughly $12 million for the quarter.

Translation of earnings in foreign currencies, which would also show up in this line, had essentially no year-over-year impact on earnings. And finally, as expected, pension costs were higher year-over-year by $2 million.

Results by segment are found on Slide 7, where you see that the Consumer Packaging sales were down 8.6% due to the lower volume and the net impact of the divestiture of blow-molding, with EBIT dropping a similar amount, thus, the EBIT margin percent remaining very strong at 12%. Display and Packaging sales were off 20.5% due most notably to exiting the pack center in Mexico, but profits only off 3% due to the lack of earnings at that location, with the EBIT margin improving modestly to 2.8%.

As we've mentioned before, given some of the activity in the segment is service-related as well as the resale of purchased goods, we would not expect the margin to be equal to our other businesses, but it is fair to say there is certainly still some opportunity for improvement.

Paper and Industrial Converted Products sales were up 4.6% on lower volume due to the higher -- and also due to the higher pricing associated with higher OCC prices, but EBIT was off 26% due most notably to the negative price/cost as price increases have not yet caught up with the cost changes, resulting in a 5.6% EBIT margin, down 7.9% for the -- from the same quarter last year.

And Protective Solutions sales were up 1%, but EBIT was off 9.7% due to the negative price/cost and the overall mix of the business, with a resulting EBIT margin of 8.2% versus 9.1% for the same quarter last year. All of this ending with total company margins of 8.3% as compared to 9.1% last year.

Turning to our outlook, on Slide 8. You see we are targeting to drive base earnings of $0.67 to $0.73 per share for the second quarter, which compares to $0.73 in the same period last year. The outlook for the quarter assumes no significant step change in volume other than normal seasonality, but as previously mentioned, doesn't assume an improvement in price/cost. Our outlook for the full year is $2.73 to $2.83 per share, which is essentially unchanged from the guidance provided in February, with the guidance now including $0.07 for the impact of acquisitions, about half of which will come from the Peninsula acquisition, with the other half projected to come from other potential acquisitions. Our outlook for the full year assumes an effective tax rate of 31.5% for the year.

Moving from earnings to cash flow, on Slide 9. You see cash from operations for the quarter was $67 million, which was essentially unchanged from the prior year although there were several moving pieces. Although you don't see the details here, working capital was much more favorable this year than last year in both accounts receivable and accounts payable, wherein accounts receivable in particular, we had notable improvement from year-end associated with collecting some past-due invoices associated with a few key customers. As expected, we did experience higher cash tax payments and higher pension contribution, along with some other miscellaneous changes, which essentially offset the benefit of the reduced working capital requirements.

During the quarter, we spent right at $49 million on property, plant and equipment and paid out $37 million in dividends, resulting in free cash flow of a negative $18 million year-to-date. For the full year, our target to deliver $125 million in free cash flow remains unchanged.

While speaking of dividends, we hope you saw the release yesterday that our Board of Directors approved an increase of $0.02 in the quarterly dividend, raising it by 5.4% per quarter to $0.39, which annualizes to right at 3% yield based on the current stock price. Dividends are an important component of our total return to our shareholders, and this extends the history we have of increasing dividends as earnings grow.

And finally, on this chart, you see we spent $221 million on the Peninsula acquisition in the quarter, which was funded with debt and cash, which you see on the balance sheet on Slide 10. I won't go through each and every line but simply point out that you see notable changes in many accounts, most notably associated with the Peninsula acquisition and, to a lesser extent, the impact of translation associated with the dollar weakening some from the end of the previous quarter. With the reduction in cash and increase in debt, you can see our net debt to total capital increased to 39.3% from the 33.8% at year-end.

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

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

Thanks, Barry. I won't spend much time talking about the first quarter but instead update you on initiatives to grow and optimize our portfolio and talk more about what we see going into the second quarter.

As Barry mentioned, we faced some significant headwinds in the first quarter, particularly from an historic spike in OCC prices and other raw material inflation. In addition, we are facing a tough comparison from a record first quarter in 2016, particularly as we transition from the sale of our blow-molding operations, which had their best first quarter ever last year. While I was pleased we were able to meet the midpoint of our guidance, our performance in the past quarter could have been better. Overall, volume was not what we expected but -- and we did a solid job in driving savings from fixed costs and supply management productivity and in controlling overall costs. Manufacturing productivity, however, was weaker than we expected, particularly impacted by weaker volume. However, we should have operated better across our businesses. For example, we had several self-inflicted issues during the quarter, ranging from product quality mistakes to problems in ramping up new growth projects and new equipment. As Barry mentioned, we're starting the second quarter somewhat behind the price/cost curve. However, we've announced the necessary price increases, and along with contractual resets, we should be able to recover raw material inflation in all of our businesses as the year progresses.

As we manage these headwinds, we continue to be pleased with the performance of our consumer-related businesses, which accounted for nearly 2/3 of our operating profit in the first quarter and where our Consumer Packaging operations remain -- margins -- operating margins remained at a solid 12%. We continue to see consumer demand for processed foods sold in the center of the store struggle, while fresh food sold on the perimeter continued to show solid growth. Our recognition of this change in consumer behavior is exactly what led us to our recent acquisition of Peninsula Packaging. For those of you who are unfamiliar with Peninsula Packaging, they are a leading manufacturer of thermoformed plastic packaging for fresh fruit and vegetables with 5 strategically located plants in the heart of the largest produce farms in the U.S. and now Mexico. We're expecting annualized sales of approximately $190 million, and fortunately, we acquired the business right at the height of the produce harvesting season. We believe this acquisition should achieve about half of the base earnings accretion expected to come from acquisitions in 2017. But more importantly, our expansion to capture share at the perimeter of the store is another example of how we are executing our strategy to change our business mix and capture growth.

In addition to Peninsula Packaging, the integration of our late 2016 acquisitions, including Plastic Packaging Inc., a North Carolina-based flexible packaging business, and Laminar Medica, a U.K.-based temperature-assured packaging producer continues to go well, and both were accretive to earnings in the first quarter.

In closing, we remain optimistic about 2017 and firmly believe our Grow and Optimize strategy is a winning formula to deliver more consistent earnings, improve returns and create greater value for our shareholders.

We have 3 critical focus areas for the year: driving growth, both organic and through acquisitions; recovering raw material inflation; and finally, we must do a better job of reducing our unit cost to produce through manufacturing productivity.

As I told shareholders at our annual meeting yesterday, we are focused on launching new initiatives such as our pack center for the Duracell batteries in Atlanta and the continued commercial expansion of our TruVue clear can, where this fall, a West Coast customer is introducing 2 varieties of premium fruit in this new container for selected store brands. We are also actively exploring further growth opportunities through rational strategic acquisitions in flexible packaging, thermoforming and protective packaging.

Additionally, we'll continue to look at ways to further optimize our portfolio by aggressively pursuing new and different alternatives to improve performance in our Industrial businesses and continue to optimize our cost structure throughout the company.

Finally, I've asked Rob Tiede, our Chief Operating Officer, to join us this morning as we take your questions.

So with that, operator, I'd ask that you please review the Q&A procedure.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from George Staphos with Bank of America Merrill Lynch.

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

I guess the first question I had, is it possible to get at a little bit more detail in terms of the volume trend and what the early 2Q outlook is, especially for the areas that were a little bit weak for you, Jack? That would be helpful. And then my second question, it's a broader question. When I look at your performance in the quarter, you were in line with the midpoint of your guidance, yet you did it in a period where certainly costs were much more inflated than you expected in your February guidance and with volumes being a little bit weak. Does that suggest that maybe you had built in more cushion, cost-reduction conservatism in your guidance? And if that's the case, why should we not see sort of a better outlook for you since it seems like you're past that hump in terms of costs for 2017? And I have one more follow on, and I'll turn it over.

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

Okay. George, let me start with the volume trends. I think on consumer, as we started out, we were originally projecting about a little over 2% growth in the business for the year. As we see it now, it's probably closer to 1%. And we sort of said that as well because a lot of the growth was coming in Display and Packaging and so it would feel more like a 1%, but we're actually a little bit down from that. And I think that it really has to do probably less with the Industrial businesses. We see them being flat maybe to up slightly on a year-over-year basis. But certainly on the Consumer side, while we do expect to see growth in our plastics business, we do expect to see some modest growth in flexibles, there is weakness in composite cans, particularly in Europe relative to tobacco. So I think that, that's something that we're going to have to kind of face. Now I will tell you that as the year progresses, that weakness is going to be offset by growth in emerging markets, new volume and new capability coming on, so that will help as we go through the year. Protective Packaging, Automotive was down in Protective Packaging. If you read the journals, it says automotive is flat, but there is a shift going on from trucks -- from cars to trucks and most of our products are in cars, so that's where we saw it. The rest of that business, I'm less concerned about appliances actually. Other consumer electronics were up. And as the year goes on, our temperature-assured packaging will be up as well. So volume trends, we're going to see those businesses we've continued to point out, Protective, should be up; Consumer plastics, flexibles should be up; flat in Industrial; and then -- and probably composite cans will be down a little bit on a year-over-year basis but improving as we go through the year. Yes, as far as the $0.59, you're right. We didn't get there the way we thought we would. But I'd have to tell you, we do that more times than not. You have to pull every lever you can quarter-to-quarter. And I think this -- the management did a very good job of controlling costs, controlling fixed costs as well. We did, obviously, look at incentives based upon this performance. That was an adjustment as well. But it really all occurred around managing the fixed costs in the business to the volume that we were dealing with.

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

Okay. I appreciate the color there. I guess my -- I want to be respectful of everyone's time. My follow on and I'll turn it over. So with the focus on costs, and it certainly bore fruit in the last quarter, given the volume outlook and given the earnings that you put up, and given the incremental earnings now from acquisitions that you're building in, free cash flow guidance didn't change much. So again, not trying to be too granular, why with what seems to be good operating performance and now the inclusion of earnings from M&A, why not a pickup in your free cash flow guidance for the year?

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

George, it's just a little bit too early to have a real good outlook on how much that should change because of acquisition-related activity. So basically just stuck with our original guidance on free cash flow.

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

Okay, but you would agree that there's probably more upward than downward tension at this juncture. Would that be fair, Barry?

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

Yes, that's certainly fair to say that we would expect the acquisitions to add some from a cash flow perspective.

Operator

Our next question comes from Scott Gaffner with Barclays.

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

Just a couple more on the cost savings in the quarter. It sounded like the incentive comp drawdown, or lowering of incentive comp, was incremental to the guidance before. Can you talk about how much that was in the first quarter? And do you expect that to continue in the rest of the year?

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

It would've been a couple of million dollars in the quarter, and we certainly built in our estimate of what the impact would be from the longer year into the guidance for the full year.

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

But I don't think it will continue quarter-to-quarter.

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

Correct. At that level.

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

Because we are expecting to get back on the plan here.

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

Right. Well, I guess I'm confused by that, because when you say get back on the plan, you did -- and I know you didn't seem pleased, Jack, with the underlying operating performance at some of the businesses in the quarter, but you still did hit above your midpoint of guidance. So I guess I'm trying to reconcile the change in incentive comp versus what, at least on the bottom line, was a pretty good performance.

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

Scott, let me clarify. Obviously, there are multiple components to our incentive plan, and certainly, one of the significant elements this year is growth, which is about 30% of our annual plan. On that plan, we certainly don't expect to pay out at target. And so that is one of the reasons you don't -- we do expect to still have positive benefit from lower incentives that we built in through the balance of the year. We also periodically have to look at our long-term plans and adjust those for the outlook, so there was some pickup from that in the quarter as well that wouldn't repeat because that's just whenever you're updating your outlook on all open plan.

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

And let me add to that as well. When we put the plan together, we were showing a growth rate of about 2.5%. So as we look at it now, we're kind of looking it's going to be more in that 1%-ish range if you look at it today. So you've got to overcome that as well in the go-forwards. I mean that lower growth rate is in that go-forward look.

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

Okay. And then on price/cost. I mean, you were only down $4 million on total price/cost on the EBIT bridge in 1Q. Do you think you can get positive on that into the second quarter?

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

I certainly expect to be -- us positive in Q2. That's another area where we performed extremely well in the first quarter, was in procurement. We did a good job with -- in that area as well. So I expect Q2 to have a solid positive price/cost simply because of the contractual resets in OCC and just the way the mechanism works.

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

Sure. And what about the -- your price assumptions on URB? I mean, what are you -- which price increases are you actually including in the forward guidance?

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

Yes, well, I think that as we looked forward, we had a solid yield from the price increase that went in the latter part of last year, very pleased with it. The new -- the price increase is currently, the latest one is in process right now, just now beginning to start. I don't know what we're actually going to get from that. Depends upon how far and how fast the OCC falls. I will tell you that the price increase we put at the end of last year was designed to get recovery on other costs, not just OCC. So we still need this second round of price increases, I think, to get the kind of recovery we need. We're going to continue to push for it. I just am not in a position yet to kind of see how effective we will be from that yield. So not a lot built in yet.

Operator

Our next question comes from Chris Manuel with Wells Fargo.

Christopher D. Manuel - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

A couple of questions. I do want to -- let me start with the price question then first. And I did hear your response that you just had. But kind of along those lines, I mean, you've got increases out across a number of different product grades, whether it's tubes and cores, whether it's URB, whether it's -- and I guess even your giant operation for recycled medium there. If I understand -- I'm joking, but if I think about where you are in that process, what have you realized thus far? Do you have most of your increases for tubes and cores in? Or does it make it very difficult given what you outlined with falling OCC right now to -- how would we think about that a little bit better?

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

I would tell you from the price increases that we put in during -- beginning late last year into the first quarter, they're in. They're in and done. The price increase that was announced with an April beginning is just starting. So I don't know how much we've actually yielded from that. I just don't have that.

Christopher D. Manuel - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

So this is URB specifically you're talking about?

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

Well, again, prices across all of our businesses. We had price increases in Protective Packaging to recover resin prices in plastics and to recover resin prices as well. We had some in composite can. Those went in during the first quarter.

Christopher D. Manuel - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Okay, all right. So I mean, candidly price/cost was -- I'd anticipated it would be probably a lot worse in 1Q than what it was. Could there still be some tailwind to 2Q for that?

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

Well, I think Q1 was better than -- did you say Q1 was -- you thought it would be worse?

Christopher D. Manuel - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

I thought it would be worse. It was better than what I thought. I thought given the big run in OCC in resins and other pieces that you'd be much further behind, to be honest.

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

Yes, and 2 things offset that. I think our procurement group did a very good job of reducing costs on other things that we buy across the company. The second is that we do have a natural offset in our recycling business, which performed very well during this run-up in OCC, which helped offset.

Christopher D. Manuel - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Okay, that's helpful. One last question on Peninsula, if I may. Help us with the -- what did you see here that you liked? I know that kind of I can see it from both perspectives. On one hand, it checks off the box for it's clear, it's fresh, it puts you in a faster-growing segment. So perhaps, maybe you could talk to us a little bit about what growth rates and other pieces are like here. But the flip side of that is, and maybe I'm wrong about this, but it seems like a relatively simple thermoform of a clear piece of plastic. It doesn't seem like there would be maybe a lot of technology or barrier or other components here. So what struck you that you liked, why you think it's a good fit, et cetera?

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

Well, I certainly think there's a lot more technology to it. And Let me let Rob answer that question.

THOMSON REUTERS

Robert C. Tiede - *Sonoco Products Company - COO and EVP*

Yes, Chris, clearly the movement to the perimeter of the store, which we've been talking about, was attraction number one. Number two, their leadership position in that space. And three, the customers that they deal with and the technological change that we anticipate in that market in terms of just the growing season, where the product's grown, how it gets delivered to market, we think that the combination of not only thermoforming but the flexibles material as well is going to help revolutionize that side of the space. So it's a combination of those things. The marketplace, I think your question was what's the rate of growth expectation. We are looking at 4% to 5% growth in that segment today, and the real question is at what rate will we see that shift accelerate as more and more people start their eating patterns a lot differently than what you and I grew up with.

Christopher D. Manuel - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Okay. And the platform that you've got in place there, can you accommodate 2 or 3 years of that growth? Or would you need to expand it to accommodate that?

Robert C. Tiede - *Sonoco Products Company - COO and EVP*

The answer is -- do we have available capacity? The answer is yes. Will we add some additional equipment into that business? Yes, because we clearly see the growth in that segment so we're going to put some capital into that business to allow it to grow. But it has available capacity today.

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

Chris, I'd tell you one other thing is that -- to Rob's point, is that today, there's some clamshells with tops, there's a migration to film as the closure on top and that really kind of plays into our flexibles business, so there's a strong match to what we're trying to do, what we've publicly said we want to do.

Operator

Our next question comes from Adam Josephson with KeyBanc.

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

Barry, just a quick one on the incentive comp issue. Just to be clear, are you saying that you're going to just spend whatever you didn't spend in 1Q later in the year? Or is it now permanently lower than it would've been otherwise?

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

It is permanently lower than what it would have been otherwise. The adjustments in future quarters wouldn't necessarily reflect the improvement that we -- the reduction in accrual related to the long-term plans because that's really more of a step change based on outlook for earnings and asset utilization, et cetera. But the short -- the annual plan, we factored in what we expect to pay out based on our forecasted earnings levels and our forecasted growth.

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

And that was about a $0.02 benefit in the quarter, if I heard it correctly?

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

It could've been that or a little bit more.

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

Okay. Okay. Jack, just a couple on OCC. You mentioned you think it will be down 10% to 20% in May and then stabilize thereafter. Can you just talk about why you expect the stabilization thereafter? And if, in fact, OCC goes down by 10% to 20% in May after having gone down by 20% in April, why that wouldn't have an impact on the price increases that you've announced for April?

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

Well, why do I think it's going to stabilize? We're really just kind of looking at it that now, it falls into a more standard pattern, which is the summer tends to be high -- fairly high generation. So you have supply in but it also is high demand, so it kind of become stable. And then we kind of expect it to fall off in the fourth quarter like its traditional pattern. So that's really what we're just projecting forward from where it is. And we don't expect any noticeable change in U.S. demand right now. We kind of think it's going to be fairly stable for the balance of the year. That's obviously what we're projecting in our forward guidance. So that's why we see -- that's why we're saying what we're saying about the price of OCC.

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

So if you're -- if OCC is down $15 in May, following a $20 decline in April, you're talking a $35 decline over the last 2 months. So why would that not have an impact on the pricing? I mean, to the extent you've been raising prices because of higher OCC and now it's coming down $35, would it not adversely affect the price increases that you're trying to implement?

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

It certainly could have a potential impact on the price increase we're trying to push now. On the price increases that are in, those are done. The ones that are done by contract are reset automatically, so that's done. Yes, it could potentially have an impact on that. But as I said earlier, the increase we started with at the latter part of last year really wasn't driven by changing in OCC prices so much as it was changes in other cost increases. So we still need to recover those because OCC has kind of eaten up the price increase that we put in at the end of last year. So that would be why we've continued to go for it. What the yield is, again, I don't know yet.

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

Okay. And just one on -- just related to OCC, which is the topic of e-commerce that people are talking about quite a bit. Obviously, box demand has been on fire lately seemingly because of e-commerce, but we're also seeing elevated OCC costs that are presumably related to fewer boxes ending up getting recycled. Do you have any thoughts on e-commerce as it relates to both demand and costs in your medium business and otherwise?

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

Well, I certainly -- I do believe e-commerce, and the way I look at it, e-commerce is adding one box, one corrugated box to every product purchased. Every product is kind of an extreme. But it's basically an extra box because I bought 2 pairs of shoes this week. If I'd have gone to a shoe store, I'd have walked out with 2 shoeboxes. But I got them delivered to my house, so the 2 shoeboxes came in a corrugated box. So that's happening every day, everywhere, not only in the U.S. but also in Asia, China specifically. So I believe that it is having an impact. The negative side of that is that if that box -- if the master box that carried shoes went to the shoe store, it would then be collected, put in the back of the store, we would have picked it up from our recycling business. Today, I now have the box, so I don't have curbside recycling here in Florence, so I'm going to throw it in the garbage can, and it'll wind up in the landfill. So it's a dual impact that in those areas where you don't have recycling, it's winding up in the landfill, which is taking it out of the recycling stream. And then, of course, the extra box that is created by e-commerce, the extra shipping container.

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

Right. So there's clearly some positive impact on volume and some negative impact on costs, and it's a matter of figuring out which more than offsets the other, right?

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

Correct. Well, what's the new average cost? I mean, we've seen OCC rise from $75 a ton 10 years ago average to $110. What's the new number? And we'll figure that -- I don't know what it is, but it will settle out.

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

And there's also the issue of recycling companies having gotten out of the business because of low commodity costs that's compounding the issue, right?

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

Somewhat, yes. But that's usually picked up somehow.

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

Okay. Okay. And just on Industrial, figure me if I missed this. But what were your overarching comments? Just obviously, the survey data has been on fire, and the actual hard data has been less than on fire. So what are your thoughts about the industrial economy here?

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

Yes, well, our hard data has been less than on fire since we're saying it's around flat on a -- flat to down slightly on a year-over-year basis. I'm kind of an optimist, so I do expect the hard data to become more in line with what you're reading as the year progresses. I think that it will get a little bit stronger, but I'm usually an optimist on those things, and I think that will be reflected in our Industrial businesses. But we'll see.

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

Right and just one last one on Consumer, Jack. Do you have any reason to think, emerging markets aside, that Consumer volumes will pick up later in the year, excluding Peninsula? And if so, why?

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

Well, I see or read nothing that would tell me that you're going to see a substantial change in Consumer volumes. Now, I think, as I've said many times, for each company, it's specific to what you tend to package. So we see some of the products we package had a down quarter. I don't think that those will necessarily stay down all year long, and I think it'll change. But as far as just general trends in food, I don't see anything that's going to change it. And part of the reason why we moved to the perimeter is that we can get from fruits and vegetables to meat and cheese, salads --

precut salads. Those are the things that seem to be really increasing in demand. They're up that 4% to 5%. That's what we're trying to do. That's what we've been espousing.

Operator

Our next question comes from Ghansham Panjabi with Robert W. Baird.

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

This is actually Matt Krueger sitting in for Ghansham. So first, touching on the industrial segment, can you provide some additional detail on volume performance in the quarter by product type and then also by region versus your internal expectations heading into the quarter? And then what are your volume expectations with that same sort of granularity, kind of moving throughout 2017?

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

Well, I think if you looked around the world, domestically, we were down slightly in tubes and cores. And it was really you saw paper up and some decline in textiles; film, it was down slightly. But overall, when you look at domestic, it's more or less flattish. Europe was actually up about 2%, I think. And that was really some solid, well, let me say, just some more normalized growth in Western Europe. But then that frontier region we operate in, the Polands, the Turkeys, et cetera, had a pretty strong quarter. I would tell you that Mexico and northern South America is on fire. Very strong numbers, solid growth. Brazil, kind of down to flat. And then getting a little bit better in Asia. So that's the way we would see it around the world, and there's not going to be a lot of variance as far as end-use market around the world.

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

Okay, that's helpful. And then moving over to the Protective Packaging segment. Can you expand on the volume performance by product type during the quarter? And then was the slowdown in the segment in terms of volume solely due to the auto production weakness in North America? And then, thirdly, can you remind us of the auto exposure for that segment?

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

Yes, I would tell you that our molding business, there's 2 -- we mold components. And that was really the business that was down, that's the one primarily serving the automotive market. The molding business that services Consumer durables was actually up, stronger. The paper-based piece was up, stronger. The ThermoSafe piece was down slightly to flat, and that was more us not getting things done properly with a new launch. We'll fix that. That will be up for the year for certain. So it was really in the automotive segment, and the exposure of that percentage of the business -- I don't...

Unidentified Company Representative

A total of 150.

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

Okay. 150 of 500.

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

Okay, that's helpful. And then as a quick follow-up, did that ThermoSafe business being down impact margin during the quarter for that segment?

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

Yes, yes. And from a -- we run the businesses together, so it's more of a deleveraging effect.

Operator

Our next question comes from Brian Maguire with Goldman Sachs.

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

Just to get back to the massive corrugating machine business you've got, I just was wondering if there's any -- yes, I know it isn't that big, but I wondered if there's any update on it. I think last quarter you had said that the outlook had improved a little bit, and you've contracted some orders through midyear. Has the order book extended out a little bit since then? And just kind of any thoughts on strategy change there.

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

Well, certainly I would tell you that the order book remains fairly full and continues to expand, which is a positive. Pricing is up, and we do expect the increase to be effective, what, tomorrow I think. So that will be all positive for the machine for 2017 as long as that continues. As far as our strategy, no, we continue to look for a more permanent solution for that machine that would remove the volatility from us. So remove us from really dealing in selling corrugated medium.

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

And just on the comments about the $0.07 of contribution to EPS from acquisitions. You said Peninsula is half of that. The fact that these acquisition will, of course, come later in the year, does that imply that in aggregate, you think it will be a bigger number, a bigger contributor than Peninsula would be by itself?

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

Well, no. I think Peninsula gets us half the way there. We said $0.06 to $0.08, so somewhere in that range. I think Peninsula gets us halfway there. Quite honestly, I think we're going to have some overperformance in those acquisitions we made at the end of last year that will help. And then, as always, we're actively engaged in conversations and are hopeful that we can continue to make solid, accretive acquisitions as the year progresses.

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

Okay. Just one housekeeping one. There's one more day in the second quarter than a year ago, is that right?

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

No, there would be no difference in general ledger days in the quarter year-over-year. Second or third quarter would always have the same number of general ledger days.

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

Okay, so you make up -- so the one -- the 2 days in the first quarter, one was the leap day, the other you'll make up in the fourth quarter?

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

Correct.

Operator

Our next question comes from Chip Dillon with Vertical Research.

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

My first question has to do with -- I just want to make sure I understand a little bit about the year-over-year, I guess, impact of the media machine. And what I'm thinking about is you look at this year, and certainly you can make the case that you might be averaging up, I don't know, $75 a ton in price. And I know it's like 175,000 tons and you didn't run that well last year, and it sounds to me that you're probably finding a more receptive market. And I know that's not your long-term strategy, and you want to neutralize the volatilities you mentioned, but it would seem to me that it could add, I don't know, $0.10 or something to this year, just given the change in price and my guess that you would run more this year than you did last year. Can you help us with that?

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

Well, on a year-over-year basis in Q1, basically, it was flat. But certainly, as the year progresses, if what's happening today stays for the year, there'll definitely be a solid pickup on a year-over-year basis. Nowhere near $0.10, but certainly there will be a positive on a year-over-year basis. But still, Chip, it still doesn't change the long-term strategy relative to that machine.

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

Got you. Got you. And are you -- is there anything you can say which way you're leaning toward in terms of what you do there? I know it absorbs a lot of free cash -- sorry, fixed costs in Hartsville, and I didn't know if you -- if there's -- if it's leaning more towards some kind of repurposing or elimination?

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

Well, no, certainly, repurposing is on the schedule. Ideally, at one point, we had a takeout partner, where we just were the producing company, and that would be the ideal scenario for us.

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

Okay, got you, of course. And then second question is just looking at the working capital. I remember you, last year, called out that there were some -- there was a lot of need, I guess, to invest in it to -- for some -- for various reasons. And then this year, the working capital, it looks like it was just a $5 million pull. Can you tell us where you see that relative to what you expect in the next few years? Do you think -- and the rest of this year, so is there a seasonal component, and do you see that coming down further? Or is it just difficult given, perhaps, interest rates going up might make it less attractive to factor receivables and that kind of thing?

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

Quite a few different questions there. So let me address several of them. First of all, we don't factor to any significant level. So most of our receivables are direct amounts due from the customers. There is seasonality. We always see an uptick in the use of working capital in the first quarter simply because of the significant falloff in receivables in December. So you see those rebuild back to a more normalized level by the time you get to the end of the first quarter, and then, again, it kind of unwinds as you move through the year. As I mentioned earlier, we did have a very favorable impact of working capital in the year-over-year comparison in the first quarter this year in both accounts receivable and accounts payable. And in accounts receivable, it was directly related to, at year-end in '16, we had several customers with some notable invoices that were outstanding simply over year-end. So again, our normal use of working capital, given any normal growth in sales, on an annualized basis would probably be roughly $20 million or so is what we would generally build into a model for normal growth in working capital.

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

Okay, that's very helpful. $20 million a year. And then just a last question real quickly. You mentioned, obviously, composite cans was challenged volume-wise, and you mentioned tobacco. I think I heard in the last day or so that, at least in the U.K., I think they're moving toward a more generic type, plain packaging requirement. And do you see that as having any impact on your business there or elsewhere in Europe if that spreads?

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

Yes, Rob, will answer that.

Robert C. Tiede - *Sonoco Products Company - COO and EVP*

Yes, I mean, the generic -- I guess, at the end of the day, it really comes down to cessation of smoking, and whether there is graphics on it or not graphics on it is not going to impact the people who want the product. And the carrying device of choice is the can for you roll your own. So do I expect that it will decline at the normal rate of cessation? Yes. But I don't see that having a negative impact volume-wise in terms of what we produce.

Operator

(Operator Instructions) Our next question comes from Philip Ng with Jefferies.

Philip H. Ng - *Jefferies LLC, Research Division - Equity Analyst*

Jack, if I heard you correctly, you now expect a more muted volume backdrop for the full year and a lot of that was around Consumer. Is that largely tied to that composite can business in Europe? Or are you seeing that headwind in prices, too, have magnified a bit recently in North America?

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

No. I think it is kind of just mostly related to the composite can and what we see happening both in North America and in Europe. But being offset -- not as dramatic as it was during the first quarter, being offset as the year goes on by a continued growth of the composite can in the emerging markets, where we put in the new facilities. So that will be offsetting that as the year goes on, so it won't be as dramatic.

Philip H. Ng - *Jefferies LLC, Research Division - Equity Analyst*

Okay. Did you call any reason why there is weakness in North America in composite cans? Is it just general trends? Or was there any specific North America?

Robert C. Tiede - *Sonoco Products Company - COO and EVP*

Yes, Philip, it's Rob. Let me answer that. I would tell you that it's in the markets that we've been talking about where we've seen sort of a decline. Refrigerated dough, coffee, nuts. And those segments have been in sort of a decline for a number of years. And that's really what drove the decline.

Philip H. Ng - *Jefferies LLC, Research Division - Equity Analyst*

Okay, that's helpful. And then from a resin standpoint, you've started seeing prices kind of bounce along -- trend down in the fourth quarter and bounce back up in the first quarter. Can you comment on the outlook and what's baked in, in terms of the impact for 1Q or 2Q in terms of margins, whether it's Consumer or product? And would you be able to offset that going forward?

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

Well, we saw resins up in Q1 from Q4. The adjustment mechanisms kick in for the vast majority of the products that are on that side -- on the Consumer side of the business. I think for the balance of the year, I kind of see them flat in the second quarter and then slightly down third and fourth. So I don't expect a lot of resin volatility for the rest of the year. I can't believe I'm saying that, but I just said it. So...

Philip H. Ng - *Jefferies LLC, Research Division - Equity Analyst*

All right. That's helpful. So it doesn't sound like you're expecting resin to be a big margin impact going into 2Q. That's helpful. And then the $0.03 or $0.04 you said you've baked into your guidance for M&A, can you provide any color on how close you are? Any market that makes sense that you're targeting? Are there any opportunities that are similar to Peninsula, where you target the fresh side -- fresh food side of things, where growth is a little more robust?

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

Well, I can certainly be specific that we are targeting flexible packaging, thermoforming and protective solutions. We've been very consistent with that. I can't tell you how pleased I am with this entire organization for our focus on the strategy and what we're trying to accomplish. And I will tell you that that's where our focus is and that's where our conversations are.

Operator

Our next question comes from Mark Wilde with BMO Capital Markets.

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

Listen, the first question I have, you talked about picking up these procurement savings. Can you just help us understand what exactly would be in those procurement savings?

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

Well, anything that we buy on the outside. For example, we have janitorial services. So if we restructure a new deal that somehow results in a lowering of the price, not because of a standard drop in a cost, but because the deal is just restructured, then we would consider that a procurement savings that was generated by the procurement activity. Those are the types of things that wind up in procurement savings. Not market adjustments based upon changes in raw material costs, but renegotiations that result in a lower price or a lower method of calculating price.

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

Right. Well, since you obviously -- since you did well there in the first quarter, are there one or two things that you might want to single out?

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

No.

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

Okay, all right. Next question for you. I'm just curious, maybe Rob's the guy to answer this, but is the display business being influenced one way or the other by all this turmoil we're seeing in the retail sector?

Robert C. Tiede - *Sonoco Products Company - COO and EVP*

There's no question that, that has an impact on it. And then the other is the rate of a new product launches that are coming into the market. I've seen customers really sort of retrench and take a look at the number of SKU proliferations that they're putting into the market. They're trying to control their costs in a non-growth environment. So it's a combination of that.

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

Okay. And the next thing I had, Jack, just in the release, and then I think in your comments, you talk about aggressively pursuing new and different alternatives to improve performance in our Industrial packaging businesses. You throw that out there, it kind of begs the question, what type of new or different alternatives might you be looking at?

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

So you took the bait, right?

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

Yes.

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

Thank you, Mark. Well, we continue to press our Sonoco Performance System, or SPS, which really is a management system of how you manage manufacturing, and we're seeing very positive results from that in those facilities where it's been implemented. I think as we look at our -- all of our businesses now, but starting in our Industrial business, we're taking a really a holistic look at the business. And to try to determine what are our best -- what are the best markets, what are the best products that we make, et cetera, and is there a better way to organize to serve those markets more efficiently? So really, it's a real big holistic picture of the business we're in that I think will result in some changes that will have positive impact to the bottom line and to our customers. But it's more about how we operate and who we service and the products we make.

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

And does it also -- does this imply some portfolio changes?

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

No, no. I think what it -- it probably would affect the footprints of the businesses that we have, make them more focused, make them more cost competitive, et cetera.

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

Okay. And if I could just ask on that, Jack, I mean, here you are, you're a company, you're trying to be more of a consumer-oriented packaging company, and you're making these like great, big wire reels and everything. I mean, at some point, doesn't it make sense to kind of look at this just from a portfolio standpoint and say, if we're trying to be perceived and valued as a consumer products company, maybe some of these other businesses don't fit as part of the portfolio?

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

Well, Mark, I can't argue with the logic. And I would tell you that as we have opportunities to make acquisitions of significance on the Consumer side, if selling one of those businesses would make sense to help fund that acquisition, we will certainly do it. But I think revenue replacement is always important. It's easy to go out and sell businesses. It's much harder to buy them effectively. So I want to make sure that we're matching what we sell with what we buy. Let me say offsetting what we buy by selling something. So that's kind of the focus. Specifically to that reels business, that's a pretty good business. Selling it would be -- even in its depressed state now, it's still a pretty good business. So I would only sell it, obviously, if I had that opportunity to make a substantial move into a consumer business that really impacted our strategy positively.

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

Okay. And the last question I had is really for Barry. Any sense, Barry, on where you think the SG&A is going to come out for the full year? I think you've talked about trying to get this down to 10% or below.

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

It's unlikely it would be much below 10%, so around 10% would be our best estimate at this point.

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

Because I think you're about 10.5% this quarter. So you think the full year could still come in at 10%?

Barry L. Saunders - *Sonoco Products Company - CFO and SVP*

Yes, I would say probably a little bit higher, but 10%, 10.5%. So within that range. It's really difficult to estimate exactly where it will end up, but it's -- we would expect in that range.

Operator

Our next question comes from Steve Chercover with D.A. Davidson.

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

A quick question on Peninsula. Just as consumers are migrating from the center of the grocery store to the perimeter, I would expect they're probably also looking for environmentally benign packaging. So can Peninsula, and perhaps your legacy businesses, migrate from polyethylene to some sort of biodegradable or bioplastic?

Robert C. Tiede - *Sonoco Products Company - COO and EVP*

Yes, let me start off. I mean, the vast majority of the inputs into our product line in Peninsula is recycled materials. And I think the biodegradable option is certainly something in the future, once it becomes more cost effective and that's a material that we've looked at as well.

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

I see. Because I guess if you're really catering to fresh food and produce, all you've got to make sure is that the shelf life of the packaging is 2 or 3x longer than the shelf life of the interior product?

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

And protection.

Robert C. Tiede - *Sonoco Products Company - COO and EVP*

Yes, protection is a big element of it. You don't want those strawberries bruised when you pick them up at the store.

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

No. Heck, no. My daughters won't eat them.

Operator

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

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

Thank you again, Shannon. Just in closing, let me again thank each of you for joining us today, and we appreciate your interest in the company. And always -- as always, if you have any further questions, please don't hesitate to give us a call. Thank you again.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day.