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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2019 Sonoco Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded. I would now like to introduce your host for today's conference call, Mr. Roger Schrum, Vice President of Investor Relations. Sir, you may begin.

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

Thank you, Crystal, and good morning, everyone, and welcome to our Investor Relations call to discuss our second quarter 2019 financial results. Joining me today are Rob Tiede, President and Chief Executive Officer; and Julie Albrecht, Vice President and Chief Financial Officer. A news release reporting our financial results was issued before the market opened today and is available on the Investor Relations website at sonoco.com. In addition, we will reference a presentation of our second quarter results, which also was posted on our website 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 website today.

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

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

Thank you, Roger. I will begin on Slide 3, where you see that earlier this morning, we reported second quarter earnings per share on a GAAP basis of $0.80 and base earnings of $0.95 per share, which is within our guidance range of $0.93 to $0.99 per share and slightly above our base EPS of $0.93 in the same period of last year. Overall, we had a challenging second quarter with increasing macroeconomic headwinds coupled with certain operational disruptions. But with our focus on managing controllable costs, our earnings results was solid.

Related to the $0.15 difference between base and GAAP EPS, $0.10 is due to restructuring activities and $0.04 relates to non-operating pension costs. Looking briefly at our base income statement on Slide 4 and starting with the top line, you see that sales were $1.360 billion, down almost $7 million from the prior year period. And I'll review more details about our key sales drivers on the sales bridge in just a moment.

Gross profit was $275 million, just $1 million below the prior year's second quarter as gross profit as a percent of sales remained a strong 20.2%. SG&A expenses of $131 million were favorable year-over-year by $7 million, driven by cost reductions across the business, which more than offset the addition of SG&A from acquisitions. All thus resulting in operating profit of $144 million, which was $6 million above last year. Our second quarter operating profit as a percent of sales was 10.6%, a 50 basis point improvement over the prior year period. And I'll review the key drivers to operating profit on that bridge shortly.

Net interest expense of $16 million was almost $1 million higher than last year, primarily due to higher non-U. S. debt balances and reduced interest income on lower offshore cash balances. Income taxes of $33 million were effectively flat to last year, driven by a combination of higher pretax profits but a lower effective tax rate. Our second quarter 2019 effective base tax rate of 25.9% was lower than the prior year quarter, primarily to a decreased impact of the GILTI tax. And moving down to net income. Our second quarter 2019 base earnings were $96 million or $0.95 per share.

And looking at the sales bridge on Slide 5, you see volume was lower by $48 million or 3.5% for the company as a whole. Consumer Packaging volume was down $24 million or 3.9%, driven mostly by lower demand in rigid paper containers North America and in plastics but also by some weakness in our flexibles business. Rob will be providing more color about these volume declines in his comments.

Display and Packaging had solid volume growth at almost $5 million or 3.2%, driven by increased business activity, primarily in our domestic displays business. I'll note this does exclude the impact of exiting the Atlanta pack center, which is included in the exchange and other category.

Volume in Paper and Industrial Converted Products was down almost $27 million or 5.7% due to weak tube and core volumes in all global regions and lower paperboard and corrugated medium demand in the U.S. and Canada. And sales volume in Protective Solutions was down by $2 million or 1.6% with a continued trend of strong demand for our temperature-assured packaging, offset by weak volume in molded foam and consumer fiber packaging, where we serve the automotive, consumer electronics and appliance markets.

So moving over to price. You see that selling prices were higher year-over-year by $12 million, driven by price increases both to cover higher material and nonmaterial costs as well as other efforts to better realize the value of the products and services we provide to our customers.

Continuing on to acquisitions. You see an impact on the top line of $67 million, which was primarily driven by the Conitex acquisition in the fourth quarter of last year. And finally, exchange and other was negative by $37 million, driven by a $27 million negative impact from foreign exchange translation and $16 million of lower sales from the Atlanta pack center exit in September of 2018.

Moving to the operating profit bridge on Slide 6, and starting with volume/mix. Our lower sales volume, offset somewhat by a positive mix of business, had a negative impact on operating profit of $16 million. This impact was spread among our segments, generally in line with the sales volume changes.

Shifting over to price/cost. We had $2 million of positive price/cost in the second quarter, driven by our Consumer Packaging and Paper and Industrial Converted Products segments.

There is a slide in the appendix that shows recent OCC prices, where you see that OCC prices averaged $42 per ton in the second quarter of this year compared to an $82 per ton average in last year's second quarter. Although some of our third quarter customer contracts have reset at this lower level for OCC, we have been successful in implementing price adjustments on noncontract business along with having a good mix of contracts with pricing that is based on market paper indices such as tan bending chip, which are actually higher year-over-year.

Next, you see that the impact of acquisitions added $7 million to earnings this quarter, which is primarily related to our Conitex acquisition in the industrial segment.

Continuing to total productivity. You see that our total productivity was positive year-over-year by $11 million and was spread across the segments. The main contributors to this positive impact were procurement and fixed cost productivity. And finally, the change in exchange and other was favorable, driven primarily by the positive earnings impact from the exit of the Atlanta pack center last September.

Now moving to Slide 7. You'll find our segment summary, where you see that Consumer Packaging sales were down 2.2% due most notably to softer demand, which also drove operating profits down by 1.1%. The consumer segment margin was 10.4%, slightly above the second quarter of last year.

Display and Packaging sales were down 5.9% due to the Atlanta pack center exit last September but partially offset by strong volumes in the remaining business. Operating profit increased well over 100% to $5.9 million and operating margin, which was negative last year largely due to the Atlanta Pack Center, improved to 4.4%. Earnings also benefited from the volume gains in display and retail security packaging.

Paper and Industrial Converted Products sales were up 3.6%, driven by the Conitex acquisition and partially reduced by lower demand. Operating profit was relatively flat due to these sales drivers as well as positive price cost and total productivity. The Industrial segment's operating profit was a solid 12.5% for the second quarter of this year.

And finally, Protective Solutions sales were down 1.6% but operating profit improved by almost 5% due to strong productivity results. This segment's margin of 10.9% improved by approximately 70 basis points from the prior year quarter. For the total company, sales were down 0.5% while base operating profit was higher by 4.4%, resulting in a company-wide operating margin of 10.6%.

On Slide 8, you'll find our outlook for the third quarter, where we are forecasting base earnings to be in the range of $0.88 to $0.94 per share. Our full year guidance range is unchanged at $3.52 to $3.62 per share. Our guidance does assume no significant change in underlying economic activity but does reflect approximately $0.03 of higher interest cost associated with the short-term debt funding of our recent pension contribution.

Turning to cash flow. On Slide 9, you see that our operating cash flow for the first 6 months of 2019 was $40 million compared with $251 million in the same period of 2018. This $211 million decrease was driven by the year-to-date $175 million after-tax cash impact of the voluntary U.S. pension contribution that we made in May. This pension contribution was for $190 million, and we had a related second quarter cash tax benefit of $15 million.

Midway down the slide, you see that our working capital balances increased during the first 6 months of this year by $66 million, which was a $21 million increase in cash usage by working capital versus the prior year period. The primary driver to this increase was timing of accounts payable activity. So after net capital spending of $101 million and after paying dividends of $84 million, our free cash flow in the first 6 months of 2019 was a use of $145 million. Excluding the impact of the voluntary pension contribution, our 2019 year-to-date free cash flow would have been a positive $30 million.

Due specifically to the full year after-tax cash flow impact of $165 million from our voluntary U.S. pension contribution, our outlook for this year's operating cash flow is now $435 million to $455 million, and our updated outlook for free cash flow is $60 million to $80 million. I'll note that this $165 million full year adjustment to our cash flow guidance reflects our total voluntary pension contributions of $200 million, partially offset by an expected $35 million positive cash tax impact.

On Slide 10, you see that our balance sheet and our liquidity position remains strong. Our second quarter 2019 consolidated cash balance of $96 million reflects a $24 million decrease from our year-end cash balance of $120 million. This decrease was mostly driven by the repatriation of offshore cash balances that were used to repay short-term debt in the U.S. and in Canada.

Next, looking at our debt balances. Our consolidated debt totaled $1.5 billion at the end of the second quarter, an increase of $160 million from year-end 2018. The main driver to this higher debt balance was a new short-term bank term loan used to fund the recent voluntary U.S. pension contribution. I'll also highlight that related to this pension contribution, our liability for pension and other post-retirement benefits decreased by $196 million since year-end 2018.

This concludes my review of our second quarter financial results, so I'll now turn it over to Rob.

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

Thanks, Julie. Let me speak briefly about our performance in the second quarter as well as the first half of 2019, and then I will speak to what we see as we enter the second half of the year, including addressing some of the measures we are and have been taking to help us meet our financial and operational goals.

Sonoco produced extremely strong results in the first half of 2019. This was despite a clear slowing in the global macroeconomic activity which, impacted demand in many of our served markets, along with the impact of several unforeseen fires, a flood and other events, which damaged 4 of our operations in the second quarter.

Reflecting on the second quarter, I was really proud of how our team responded to these challenges while producing record base earnings, which are well within our guidance. As most of you know, I'm a numbers guy, so I'll point out that the base operating profit of $144 million was an all-time record, and our operating margin of 10.6% was up approximately 50 basis points compared to last year's quarter and up 110 basis points from the first quarter. In fact, we did a little digging and you'd have to go back to the third quarter of 2001 to find a higher base operating margin performance by the company.

Regarding the unforeseen events that impacted 4 of our operations during the quarter, let me start by saying thankfully none of our associates were injured. Several of the events occurred in the month of June, including a fire at our Waco, Texas flexible packaging operation, which damaged a rotogravure press. No customer orders were lost as a result of the press being down for repairs for approximately a month as our team did a terrific job in moving business to our other flexible operations to ensure uninterrupted service.

Also in June, a spillway malfunctioned along the Trent River in Ontario, Canada, which flooded our Trent Valley paper mill, shutting down operations for 6 days. Again, our team did a great job in drying out the mill, obtaining and installing new motors and electrical switches and getting the mill back in production.

Also in our industrial segment, a tube and core operation in Perth, Australia was completely destroyed due to a fire at a neighboring customer's operations.

And finally, we are continuing to deal with the near roof collapse at our Hayward, California ThermoSafe packaging plant, where we've had to evacuate a significant portion of the facility. Again, our team has done a great job in securing the structure and making sure none of our customers are negatively impacted.

Combined, these unforeseen events cost us about $0.02 per share in the quarter to cover insurance deductibles and other business losses.

Looking more closely at our first half performance, you'll see sales were up a modest 1.5%, due primarily to acquisitions, while base earnings were up a solid 8.7% to $182.7 million or $1.81 per share. Results in the first half benefited from earnings from acquisition, productivity improvements and a positive price/cost relationship, which more than offset lower volume mix and the negative impact of foreign exchange.

Our operating profit for the first half of 2019 was up 8.2% to $272.3 million, and operating margin was a solid 10%, an increase of 60 basis points from last year.

In Consumer Packaging, base operating profit in the first half was up just slightly from last year to $125.1 million and base operating margin was essentially flat at 10.5%.

The consumer segment's operating profit benefited from productivity improvements, earnings from acquisitions and a positive price/cost relationship, which again offset the impact of lower volume/mix and negative impact of foreign exchange. I would say volume in our consumer business has been disappointing, particularly in the second quarter. Rigid paper containers, which had a solid start to the year, saw some slowing in the second quarter, particularly towards the end of the quarter, which may have been a combination of slowing demand and destocking.

Our flexibles converting business continues to do well in our primary confectionery hard baked goods segment. We did see some softness and other served markets, and as we mentioned previously, we were closing the forming films operation in our Elk Grove facility at the end of the second quarter, which will drive operational improvement in the second half of the year. However, closing the forming films department did reduce sales slightly in the second quarter, and it will lead to reduced sales for the balance of the year. But as I said, it will drive operational improvement going forward.

Rigid plastics volume continues to lag due primarily to poor perimeter of the store performance, partially due to the weather, and quite frankly, partially due to some of our operations, where we continued to deal with the consolidation of a facility and relocation of 4 thermoforming lines into 3 operating facilities. The plastics business also experienced a slowdown in some of our industrial served markets.

Switching to our Paper and Industrial Converted Products segment. Results for the first half of the year were up 8.2% to $109.6 million while operating margin was 11.1%, up about 30 basis points from last year. Earnings from the Conitex acquisition, positive price/cost relationship and productivity improvements, again, more than offset a lower volume/mix and negative impact of foreign exchange.

As Julie mentioned, clearly, volumes struggled in the second quarter in global tubes and cores as well as paper, both in uncoated recycled paperboard and corrugating medium. We are continuing to run some recycled pulp in our corrugated medium operations in Hartsville to offset lower orders for medium.

Also in the quarter, we signed a definitive agreement to acquire Corenso Holdings America for $110 million. Corenso produced sales of approximately $75 million in 2018 and operates a 108,000-ton per year URB mill in Wisconsin Rapids, as well as 2 core converting facilities. Corenso has attractive assets and customer mix, and 100% of its products are made from recycled paper, which further enhances our commitment to increase the amount of material we recycle or cause to be recycled relative to the volume of products we put into the marketplace. We expect the transaction to close by the end of the third quarter.

Our Display and Packaging segment in the first half showed a strong turnaround, with operating profit at $12.3 million compared to $1.2 million last year. You'll recall we struggled with the Atlanta pack center last year and have since exited that contract.

And finally, our Protective Solutions segment had a good first half with operating profit up 4% to $25.3 million, and operating margin at 9.8%, up about 60 basis points. We continue to experience strong productivity improvements in this segment, and volume growth in our ThermoSafe temperature-assured protective business is more than offsetting weaker volume in our automotive molding and fiber-based consumer protective packaging businesses.

Let me conclude by addressing what we see entering the second half of 2019. At the end of 2018, we became concerned that global macroeconomic conditions would deteriorate in 2019, which we clearly felt in the second quarter. That is why starting in the first quarter, we have been quietly implementing several fixed cost restructuring actions and have set in place further efforts, which are targeted to lower costs between $15 million to $20 million this year. As a result of these efforts and others, we are maintaining our earnings guidance for 2019. And we expect to be able to absorb an additional $0.03 per share and higher interest expense coming from the term loan which we took out in May to substantially fund the transition in our U.S. defined pension plan. As Julie mentioned, the voluntary contribution to the plan is the sole reason why we have lowered our operating cash flow and free cash flow projections.

In conclusion, we are pleased with how we managed our business in the first half of 2019 in the face of headwinds, which were mostly unexpected and beyond our control. Our ability to adapt and adjust when faced with unforeseen events, whether driven by nature or other factors, continues to be a strength of our organization. The rigor and discipline we apply to focusing on what we can control while being flexible when needed has and will serve us well as we move through the remainder of the year. However, no matter the environment, we remain intensely focused on doing what we need to do to drive profitable growth, margin expansion and solid free cash flow.

Now with that, Crystal, would you please review the question-and-answer procedures?

QUESTIONS AND ANSWERS

Operator

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

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

Well, I have a couple of questions on volume. Like what was the impact of all those natural disasters and the floodings and fire on volume? And when you look at Consumer Packaging, and it's supposed to be a little bit more defensive, but we're seeing weakness all across-the-board. I mean what exactly is going on in there?

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

Sure. So let me start with the volume of the unforeseen events. For the most part, I would tell you that the volume in our flexibles business, where we had the fire, we were able to move the business around, albeit it was run a little less efficiently in other operations. So I don't think from a volume perspective, we had a significant event there. When I think about the flooding that occurred in our operation in Trent Valley, we were down 6 days. Edlain, I would say, directionally, it was about a loss of 2,000 tons or so as a result of that activity before we got back up and running.

When I look at the consumer side, let me try to break it down a little bit for you. When I think about our can business, where we had a drop-off, and I sort of reflected on this the other day, and take a look at where we were last year, last year, in the first quarter, we had a very slow first quarter with a rebound in the second quarter. When I take a look at this year, I saw a very strong first quarter with a slowdown in the second quarter. And I don't know if we saw some destocking associated with that towards the end of the second quarter.

Adding a little more color to it, when I think about how everything performed on the consumer side in the second quarter, we had a very strong April. We had a good May. And June, especially the second half of June, things really slowed down. So I don't know if that was in anticipation for holidays or not. And that's why I said I'm not sure if we're seeing a destocking in the business.

When I take a look at our flexibles business, the bookings continued to be buoyant. We talked about this being a segment that we expect to grow 3% to 4% a year. And clearly, the bookings support that as we look out and move forward.

Now one of the things we did in the flexibles business, we talked about shuttering the forming films department in our Elk Grove facility. That really started towards the middle of the first quarter and then sort of tailed off through the end of the second quarter and it is now closed. So that had a slight impact in terms of volume and sales dollars.

And then let me talk about the plastics, and hopefully this is giving you some granularity. When I think about our plastics business, clearly, if I take the perimeter of the store, weather did have an impact on the first quarter, and we had an exceptionally strong April as the weather broke and product flowed out. I think we saw some volume, especially in certain of the [areas] really flood the retail market. We did see a diversion in May of some of that volume into processed product as opposed to fresh product.

And then the other thing that I mentioned, if you go back to the fourth quarter, we talked about closing a plant, specifically the Hollister plant in California and reallocating equipment to a number of our facilities. We moved it to 3 different facilities, 4 different machines and an extruder. And the turn on of those machines has not gone as well as we had expected. We have worked through some of those issues. We still have a little bit of lingering on that. But I would tell you that, that had a negative impact on volume because we couldn't service our customers to the level that we wanted. And directionally, that was north of $7 million that we simply were not able to provide the service to the customer in the near term.

So that's the consumer, if you will, impact. If I then take and maybe answer the question before you ask it, if I then take and look ahead to the balance of the year as it relates to consumer, my expectation is that we will be flat to down 1% holistically across the board on the consumer side for the balance of the year based on everything that we see. Hopefully that helps, Edlain.

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

Perfect. It definitely does. So just to -- just to get us, so back in -- during the Investor Day, you've talked about like a volume exception of 1% for the year for the whole portfolio. Like what does that look like now given that the first half is already down almost like 2.5%?

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

Yes. If I think about the second half of the year, I would tell you the way I'm looking at the balance of the year based on what we know today, and this is coupling the consumer and the industrial side. So maybe to give you some color on the industrial side, I do expect the industrial side to be down about 4%. So basically, what we're seeing as we moved through the first half of the year and then flat to down 1% in terms of volume for the consumer side. In sales dollars, I expect it to be directionally flattish for the second half of the year in comparison to the second half of last year.

Operator

Our next question comes from Ghansham Panjabi from Baird.

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

I guess, Rob, picking up on your final prepared comments on -- before you opened it up to Q&A, you're talking about the outlook. Obviously, you have a very sluggish industrial economy not just here in the U.S. but Europe as well. Consumer came in below your expectations. Your interest expense is higher than you initially thought given the bond offering. What are the positive offsets to sort of give you the confidence of maintaining your guidance? You mentioned cost cutting. Maybe you can kind of scale that for us in terms of size, et cetera.

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

Sure. I think it's a couple of things. As you recall, we've talked about the number of different things over the past 18 months or so in terms of actions that we've taken. We've talked about looking at our business holistically and making some tough decisions around some business that we have, and are we being paid for the value that we bring? And as I think about what's transpired, clearly, we had put some business at risk because we made some hard decisions around some business.

The other thing that we have done is going again on that holistic business approach. If you recall, we took a very focused look at starting with our tube and core business here in North America, which is really the operation that tested out our thesis or hypothesis, if you will, where we took a look at our business and said, "Can we do more, drive more utilization off fewer machines if we had fewer rooftops?" That journey is well underway here in the U.S., where we have taken a number of costs out. We have also made some investments in lines, what I'll call new state-of-the-art lines, which have a significant impact on the operations where it makes sense.

We have taken that same level of activity to Europe, and the team there is starting to do exactly that. And I spent time with the team members in the last 2 weeks, and I am very impressed with the plan that they've laid out in terms of taking on exactly the same actions we've done here in North America. If you recall, we made a pretty significant investment into our paper assets here, putting money into our best machines and had certain expectations related to the return associated with those machines. And we are 4/6 of the way or, I guess, 2/3 of the way through that activity. We will finish off midpoint next year.

And then we also said when we made that investment, as and when things are appropriate, we were going to take some high-cost equipment out of line if that made sense. And so we're looking at that and will act on that appropriately if the market conditions warrant it.

And then lastly, in terms of the cost-out I referenced in my comments, taking out $15 million to $20 million of costs, that work really commenced in the beginning of the first quarter and has started to roll out in the second quarter. And we know what we've got targeted. So we're confident that we can take those costs out, the vast majority of which have already been acted on. So we will see that play out over the balance of the year. So it's those things that we see.

And then ultimately, it's about driving the margin. And that's what gives us the confidence, based on what we see today and what we believed to be true today. Ghansham, if we see a wild swing in volume, then obviously, all bets are off. But we do not see that at this point in time other than what [we see in the front].

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

Sure. That makes sense. And then I guess just my second question as it relates to paperboard fundamentals in the U.S., especially URB. I mean, clearly, OCC prices are quite low. Industrial markets are quite challenged. How are you thinking about URB pricing for the balance of the year?

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

I think from a volume standpoint, we're down, I think in the second quarter directionally 4%. Clearly, there's some softness in the marketplace. But as I think about it from our perspective, I think we're going to take some appropriate actions as required in the market. Is there some price challenges that are creeping into the space? The answer is yes. But we also had prices hold. So it's sort of a mixed bag for us. And when I think about the input costs going forward, I don't see much movement in OCC going into the balance of the year. So I think we've sort of plateaued over the course of the last couple of months or bottomed out, I'm hoping.

Operator

Our next question comes from Adam Josephson from KeyBanc.

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

Kudos to you on a really solid quarter given the circumstances.

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

Thank you.

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

Rob, I think in response to Edlain's question, you talked about the cadence of some of the consumer businesses volume-wise that in some parts of that business, April was strongest. The last couple weeks of June were the weakest. Can you talk about that on the industrial side if it was a similar trend in your industrial business that April was the best and June was the worst and into July for that matter?

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

Yes. I would tell you, Adam, it wasn't that pronounced on the industrial side the same way we saw in the consumer. I would tell you that we saw the softness going into the tail end of the first quarter, and it pretty much continued on April and May and June. If there was a fluctuation, it wouldn't have been what I'll call a needle-moving fluctuation in any 1 month over the other. So we saw that drop off and then sort of it's hanging in at that 4% reduction level here in the U.S. as it relates to the paper side.

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

Which is why, correct me if I misheard you, that you're expecting 4% industrial line declines in the second half similar to what you experienced in the first half. Is that right?

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

That is correct. On a blended basis with our converting operations, yes.

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

And any differences in terms of medium versus tubes and cores, et cetera? Are all down at a roughly comparable rate, are you thinking?

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

Yes. I will tell you on the medium side, as you know, we're really not a factor in the medium space given our one machine. And if you recall, we have talked about supplementing some tons in our medium machine with the pulp that we are shipping to our operation in China. And so just offhand, Adam, I don't know the exact split. But I do think that our medium volume was down more than the 4%, but it was offset by some of this pulp activity. And maybe it's a 2% or 3% or 4% more on the medium side, but again, it's such a small component for us.

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

And just on the tubes and cores. I wanted to ask a question about that, Rob. Particularly, the paper volumes have seemed to have fallen off a cliff in the last couple of months, coated, uncoated. I know that's your biggest served market within tubes and cores. What do you make of what's happening there?

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

Well, I would tell you that what we saw -- what we've seen is a drop off across all the market segments. So if I think about it in terms of here in the U.S., we're down about 4% in our tube and cores space, and it's every segment with the exception of a slight uptick in our films business or film core business. But if I think about our specialty and tape business, when I think about our textiles, when I think about our paper, clearly, the paper, we all know what's going on with paper. So we see that. We've seen some mill downtime as it relates to fine writing paper and newsprint. And that didn't come as a surprise. Obviously, the tubes and cores that we make for the containerboard industry, we saw a decline there. Again, no shock or surprise there. I am pleased that the film side is up slightly. But that, again, 1 quarter does not a trend make, so we just need to monitor that closely.

But the interesting thing is that if I go around the system, now that we're -- our URB is about 2 million tons a year and half of -- a little over half of it is here. What we did see was paper was actually up in Europe for us even though our tube and core volume was down.

And then if I take a look at the converting side in other regions of the world, clearly down in Asia but it was interesting. It is a tale of countries. And when I think about what we saw in Asia, China and Taiwan definitely down pretty dramatically. And I think I attribute that to some of the tariffs that -- the conversations between our President and the Prime Minister or the President of China and the dialogue that's going on there.

If I go to South America, what's interesting is we're seeing actually a bit of a balance in Brazil. And that seems to be the only country in the world right now that's looking positive and has for the last couple of quarters. And then the balance of South America, including Mexico, is very much along the lines of what we're seeing here in North America.

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

And just one on sustainability, Rob. In which specific areas are you hearing from customers, either regarding concerns about your existing plastic packaging, thermoform packaging or otherwise, or desire to buy more composite cans, say, in Europe in lieu of plastic?

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

Well, we've clearly got a lot of activity going on in Europe with the interest in the all-paper can and to meet, if you will, the recycling requirements of Germany, which then sets the trend for the rest of Europe. And if I think about the only place that I can say definitively where we did see a switch was -- it was with that paper bowl for a frozen meal construct. And we talked about that, I think last year.

And I would tell you that the conversations we're having with our customers today are much more collaborative and really trying to understand the whole notion of sustainability and recycling and making sure that we really understand what is possible and what isn't. And then the other conversation that we are having that is much more, again, I'd say on the collaborative side is if you have something in plastic that is recyclable, and we can make sure that it can be recycled, what do I trade -- what's the trade-off? What do I give up in terms of shelf life? And am I willing to give up some of those attributes, if you will, of the package? So I find those very constructive conversations, which are leading to meaningful projects between us and the customer base that we have.

Operator

Our next question comes from Gabe Hajde from Wells Fargo Securities.

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

I had a question about the destocking or, I guess the cadence trajectory of the volume environment for composite cans. I was curious if you could, Rob, maybe reflect back as to other times in the past that you've seen destocking efforts from customers. And I know part of it is somewhat conjecture. But might it be in anticipation of lower OCC costs flowing through the system or something like that? Or could there be some other factor than managing of balance sheets or something that you could give us some insight into?

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

Yes. And I'm going to give you a bunch of anecdotal kind of stuff. But if I think about, for example, some of the destocking we've had, we've had it in the snack chips, specifically cans business in the past from time to time as a result of either promotional thing -- promotional product coming in or about to end and they want to flush product out. We've seen the same thing on the flexible side from time to time. I think part of that is our customers are really seeing a buildup of inventory. But it's typically around situations dependent upon specific events in the market and/or there being a strong belief that there's going to be a significant movement in some of the input costs.

But I would tell you that when I take a look at forecasting from our customers, and then hence us doing the same thing to our suppliers, shoot, we're probably 45% to 50% accurate at best. So some of these destocking events that do occur from time to time don't last very long. I clearly think that as we headed into the end of the fourth quarter, there was clearly a destocking activity that took place.

I think the other event, and I don't know this for certain, was the whole issue around Brexit, the impact on Brexit. And was there a run-up in the first quarter as a result of some of that? With the benefit of hindsight, I think absolutely that was the case. So more to come. I don't know that I'm answering your question, Gabe, but that's sort of directionally what we've seen in the past.

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

No, that's helpful. And then on the flexible side, I'm curious if you can comment at all relative to how the overall industry is performing and if this is some sort of a little bit of share shift or sustainability issues starting to creep in outside of the onetime or sort of isolated issues that you guys encountered.

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

Sure. I would tell you -- it's a great question because I happen to be talking to the CEO of the FPA last week on a couple of other issues. And I talked about this -- that specific question, what are you seeing? Overall, the industry continues to grow at a good clip, at a 3% clip, and so I don't think it's a sustainability-related issue that we're seeing.

Are people creating new constructs and flexibles based on what I'll call some trade-offs that customers can live with so that you can create a uniform construct of one material? Those are conversations that are going on, and you take something from, for example, an 18-month shelf life to a 9-month shelf life, given the distribution channels in place, is that sufficient? And I think customers have better data today and it allows them to start looking at things like that a little bit differently.

Operator

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

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

Piggybacking on the sustainability discussion. Obviously, we've done a fair amount on this topic over time. What are you seeing from the consumer from your research in terms of whether they care about recyclability or actual recycling rates? Because given our analysis, you get different answers depending on which metric you look at. So what do you think will be important for the consumer and, therefore, ultimately your customers in terms of which packages they choose down the road?

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

Yes. You know what, George, this is going to sound like I'm a politician to deflect this, but it's not meant to be that. I think part of it is really we've got to work hard at educating the consumer. I think the consumer wants to do the right thing, and I think the consumer needs to have the dots connected. And you and I have had an opportunity to talk about this offline from time to time around the whole issue around food waste and allowing them to understand it. I think that we need to help connect those dots. And as a result, we're having a summit in September 17 and 18, and I heartily invite all of you to join us for that because it's going to be a number of people from different industries talking about how and what we collectively can do. And quite frankly, it was an impetus of the conversation you and I have had about how do we bring everybody together. So we've got consumer products companies there, we've got ourselves there, we've got the government there and we have education there -- or academia there. So I think it will be a good platform for us to have a conversation around exactly that issue.

As I said, I really do believe the consumer really wants to do the right thing, but they need to understand what that right thing is. They don't want recyclability if the unintended consequence has a more detrimental impact to the environment. And I think that's really the conversation that we're trying to have with these folks. And I think ultimately, that's what's going to be most meaningful to the consumer once they understand all that. But it's incumbent upon us to help connect those dots.

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

Okay. I appreciate, as always, the discussion on that, Rob. A quick one related to flexible packaging. You mentioned that the FPA is seeing 3% growth. From my recollection, they tend to evaluate their growth in nominal terms, i.e., including pricing. Was that a real volume expectation that they have for the industry? Because certainly, I'm not really seeing it across a lot of end markets. So was that more of a nominal or was that a real volume expectation of the FPA? If you can comment to that effect.

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

Yes. No, George. It is nominal. It is measured in dollars. I don't think I've ever seen anything based on impressions or pounds or tons. And as you know, in the flexibles space, you down-gauge things or you shrink the header of a bag. Unfortunately, it's measured in dollars and that 3% growth is really driven in dollars, so it could be a combination of volume as well as price.

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

Okay. Two last ones and I will turn it over. With the margins that you're seeing, the decremental margin on the volume loss so far this year, has been running around 30% or so. Is that what we should expect over the balance of the year? Is that what you would normally target in terms of a decremental margin? I would echo -- I forget who has mentioned it earlier, maybe it was Adam, I think you've done a really good job operationally this year given to all the volume and operational challenges notwithstanding. But that's a pretty large decremental. Any way to improve on that in the second half of the year?

And then my last question, and I'll turn over. All this discussion about weakness in volume, certainly, the transports and the rails, box shipments, et cetera, are suggesting a sluggish, if not weakening, outlook for demand. It was nice to see some improvement in Display and Packaging. Realize the comps there are easy. But are there any sort of silver linings? Any positives we should take from the benefits you're seeing there in terms of the outlook second half and into 2020?

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

Thank you, George. The decremental margin volume loss, that seems high, so I would tell you that I would not expect that going forward. That's the magnitude of that. With respect to weakness in volume, I think we probably looked at the same thing. We -- CSX went and announced yesterday, and I think their CEO spoke to the perplexity of the economy that he's seeing. We clearly see that. We also look at the trucking index and take a look at where the number of loads versus the number of tractors available last year versus this year has basically been cut in half. So as I take a look at that, I am -- obviously, we -- I'm concerned about what we've seen and I don't see that changing dramatically in the business moving forward.

If I take a look at the volume increase that we did see in the D&P business, we did win some new business after we got our people really focused on that. I do think folks are trying to push their product in -- through different venues, old bricks and mortars, which is where the display goes.

And then the other area that I would tell you that is interesting and it does tie into our fresh and natural approach, our ThermoSafe business had a very strong order in relation to the temperature-assured side. And it was strong in 2 areas. One was in the fresh and natural food space, which is an extension of some of the product lines that we have, and we saw a significant growth there around an unpasteurized product. And then the other piece that we did see was very strong performance on the biologics side and the pharma side. So there are segments of it that -- but if I take a broad brush, I've still got a wait-and-see attitude to see what's going on because here's what I can't correlate: the retail data that came out to what we are seeing in -- across all of the market segments.

Operator

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

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

First one just on Corenso. You indicated that the desire is to get towards an 85% overall recycling content. So what's the current level, please?

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

We are just over 75% that we recycle or cause to be recycled around the system based on weight of all the product we put into the marketplace.

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

Great. And then secondly, and I wouldn't want you to try and predict OCC pricing. But at a high level, do you get concerned that if prices persist at these current levels, the entire collection system can break down? It seems like it's hardly worth collecting for $42 a ton.

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

Well, first of all, I don't think you can collect it for $42 a ton. There's a lot of costs associated with picking up, handling, trucking it and delivering it and all that kind of stuff. So we've got a system that collects 2.8 million tons. We consume about 1.3 million, 1.4 million of that ourselves. The rest we trade as a result of the MERFs that we have, the model, and we're in that business because we want to have surety of supply of fiber for our system, our mill system here. And then the other piece that I would tell you that we're seeing, clearly, we're acting on but I would tell you, most recyclers, if not all, are already doing it.

The pendulum has swung. If you go back in time, the recyclers charged municipalities to bring them the waste, then that pendulum swung to where we bought the waste. The pendulum has now gone back to where we're charging to receive that material. And I think the alternative, if you've got municipalities that are going to say, "Well, we don't want to do that," how are you going to, in good conscience, after educating all of us as consumers that recycling is an important aspect to keeping the Earth pure, say, "Well, we're going to start burying all this stuff again." I don't think that's going to play out. Ultimately, you and I as consumer will pay for it, so I think we'll find a way to make this system work out of necessity.

Operator

Our next question comes from Salvator Tiano from Vertical Research.

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

So first question, a little bit on M&A. The past couple of years, you've been doing 2, 3 acquisitions, enhancing a little bit the position on the perimeter of the store, which seemed to be the issue in the past 2 quarters actually in Consumer Packaging. So kindly let us know with regard to volume and operating profitability, how are the companies that you acquired performing versus their performance at the time of the acquisition?

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

Sure. At a high level, I would tell you that it's mixed. We've had good success in portions of the perimeter of the store. But if you recall I said earlier, part of the challenge that we had as we shuttered a facility, moved things around and have not executed as well as we should, those plants have been negatively impacted as we go through the growing season, unfortunately, this year, but that is a temporary situation.

If I break it down into the acquisitions that we would've talked about publicly, very pleased with how Highland has performed and continues to perform along with portions of what we've got on the West Coast. But we've got some work to do and this is a long-term play. Still very, very committed to that market because the trends that led us to make those acquisitions continue to be enhanced as just evidenced by what I said earlier around our ThermoSafe business, where we're creating additional opportunities for using other packaging that we have to bolster our offering into that marketplace.

Operator

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

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

Rob, first, I wonder, can we just talk about how you feel about that $18 million worth of productivity improvement in the first half?

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

Well, I feel good about it.

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

No, I was just trying to think about that in the context of what you're trying to generate each year. Are you on track for where you want to be for the full year?

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

We are slightly behind as it relates to what we had laid out at the beginning of the year. But some of the activities that we're taking on with respect to the cost-outs that I mentioned, those were outside of the original plan. I think that will help us get to where we need to be as we finish off the balance of the year.

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

Okay. And can you -- is it possible to put any kind of -- just give us a general sense of that $15 million to $20 million that you talked about, what kinds of incremental things are in that?

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

It's a whole raft of things throughout the organization. Some of it is in SG&A. Probably a good portion of that would be in the SG&A space. And that's an area that we focus on. As you know, as we acquired businesses, we're bringing SG&A in. One of the things that we have talked about is are there opportunities for us to simplify, standardize and automate activities so that we can bring things to more of a center-of-excellence activity in different regions around the world? We've had pockets of it. We're trying to expand that so that we deploy our people to more value-added activity. So that's really the driver behind it, Mark.

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

Okay. And then I wanted to just turn into portfolio, Rob. You've talked with us at Investor Day and at other points about sort of things that you're interested in on the acquisition front. And I wondered if it's possible for you to just talk with us about what you're seeing in terms of the acquisitions right now, what valuation looks like. And at the same time, you've also talked about some potential moves on noncore businesses. And I wondered if we could get a little color on how that process is evolving.

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

Sure. I would tell you that we are as active as we've ever been looking at things, getting engaged in a number of different things over time. You know we'll talk about it when we're ready to talk about it but still very active. I honestly -- and I think we've probably talked about this before, where I thought December was going to bring some reality to expectations, but that is not necessarily the case. The multiple environment still appears to be rather frothy, and it's an opportunity and it's also a frustration, if you will. So as it relates to us taking a look, first and foremost, it's got to be strategic. Does it help us drive either scale or customer or capability or geographic reach that's critically important for what we've laid out? Those are the things that we look at. So and we will continue to do so.

On the -- and I thank you and I have talked about in the past in terms of if we were to simplify -- or talk about our strategic focus, it's about simplification. It's about focusing in 3 platforms: flexibles, paper and rigid plastics. And we needed to fix a few things so that we could then assess strategic alternatives. And those are the things that we are underway, and when we can, we will talk about where we are in that process.

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

Okay. And then the last one for me. I wonder if you could just talk a little bit about Corenso. And I guess I'm just particularly curious about sort of what the regulatory issues might look like there. Because the tube and core market is pretty consolidated here in North America, so I'm curious how you got comfortable with your ability to pick up even more of that market.

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

Yes. I mean the market is pretty expansive, and we're -- as you know, we're one of a couple of larger players. But there -- if you look at it, I mean there's really not a lot of barriers to entry if you want to make tubes and cores. And if I think about Corenso, and it goes back to what we had laid out with respect to our thinking around our paper assets, we want to invest in best-in-class assets. We were very pleased with the asset that presented itself in the Corenso mill. And it allows us to take a look at our footprint through a different light. And so I think from that perspective, we thought it made good sense for us in terms of our network, and we look forward to getting that deal closed in the next 60 or so days.

Operator

And we do have a follow-up from Gabe Hajde from Wells Fargo Securities.

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

I will try to make this brief. Julie, I'm looking back at 10-year funding history for pension, and the average is, I don't know, $55 million or so. Is there an expectation going forward, I'm coming up with $10 million to $15 million, appreciating that pensions tend to be pretty volatile organisms?

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

Yes. Well, to your point about pensions being volatile, that's really at the core of the recent decisions we've made with our Board on derisking our pension plan. So that includes the $190 million contribution we made in May, and then we do have about a $10 million additional kind of top-off voluntary contribution that we're going to make in the second half of this year. So beyond that, at that point, our plan is very, very close to 100% funded. And that's in the U.S., which that's the largest part of our pension liability, as you can imagine.

So really on a go-forward basis, we've got very limited pension requirements on a go forward. Again, we put the money in, in May, got a little more to go. We've shifted most of those investment, pension investment into fixed income. And so that then immunizes, for the most part, the funded status. And so I would expect that next year, we might have $100 million or so of cash flow going into the pension plan as we kind of wrap up some derisking activities next year. And then beyond that, we're -- it's extremely limited, the impact of pension on our cash flows.

Operator

Thank you. And I am showing no further questions from our phone lines. I'd now like to turn the conference back over to Roger Schrum for any closing remarks.

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

Thank you, Crystal. Again, as Rob mentioned, if you have any interest in attending our Food Waste and Sustainability Conference this September, please just let us know and we'd be glad to accommodate you. Also, I want to congratulate Rob. He became a grandfather during the conference call. So -- he already is a grandfather, he became -- had another grandchild. So congratulations, Rob.

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

Thank you.

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

Again, thank you again for joining us today. And if you have any further question, please don't hesitate to give me a call. Thanks.

Operator

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