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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2017 Sonoco Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I'd like to introduce your host for today's conference, Mr. Roger Schrum, Vice President of Investor Relations. Sir?

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

Thank you, Vince. Good morning, and welcome to Sonoco's investor conference call to discuss our 2017 second 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 second quarter results, which also was posted on our Investor Relations website.

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 operation. Further information about the company's use of non-GAAP financial measures, including definitions as well as reconciliations of those measures to the most closely related GAAP measure, is also available in the Investor Relation section of our website.

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

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

Thank you, Roger. I'll begin on Slide 3, where you see that earlier this morning, we reported second quarter earnings per share on a GAAP basis of $0.43 per diluted share and base earnings of $0.71, which is just over the midpoint of our guidance of $0.67 to $0.73 and compares to base earnings of $0.73 for the same period last year.

The differences between GAAP and base earnings are summarized on this slide. The most significant driver is the impact of recording a $31 million pretax pension settlement charge or $0.19 per share after tax related to lump-sum payouts for certain vested participants in our defined benefit plan who elected to accept the offer made as part of our pension derisking strategy. We also incurred $0.06 in restructuring charges; $0.05 in acquisition-related expenses, all then partially offset by $0.02 of net favorable nonbase tax items.

Looking briefly at our base income statement on Slide 4. You see sales were $1,241,000,000, up $35 million or 3% from the prior year, and you'll see the key drivers in the sales bridge in just a moment. But in summary, higher selling prices and the impact of acquisitions more than offset a slight decline in volume. Gross profit was $235.9 million, right at $6 million below the prior year due to the lower volume, while the gross profit margin percent was 19% versus a very strong 20.1% at this point last year.

Selling, general and administrative and other income and expense items were $120.9 million, which were down $4.9 million from last year primarily due to lower accruals for management incentive plans and other cost -- year-over-year cost reductions, all of which more than offset normal wage and other SNA-type inflation, all then resulting in base EBIT of $115 million, down $1.3 million from the prior year. And you'll see all the drivers of the change in the EBIT bridge in just a moment.

Below EBIT, interest of $12.8 million was essentially in line with last year. Income taxes of $32.7 million were higher than last year due to a higher effective tax rate of 32%. Equity and affiliates, when combined with minority interest, was $2.3 million, not notably different from last year, thus ending up with base earnings of $71.8 million or $0.71 per diluted share.

Looking at the sales bridge on Slide 5. You see volume, when combined with mix, was negative by $23 million or 1.9% for the company as a whole for the quarter. I will mention that this year's second quarter had one fewer business days due to how the Easter holiday fell into the second quarter this year, which could have theoretically negatively impacted volume by just over 1% for those businesses that don't run 24/7. But none of the volume numbers that I'll discuss today are adjusted to reflect the difference in business days, given the uncertainty of what that adjustment should be.

To provide some details by segment. Consumer volume was down just under 1%, driven by 3.2% shortfall in rigid paper containers for, within that business, composite can sales in North America were relatively flat, but the business was impacted by lower metal end sales. And European composite can volume was off 5%, once again most notably due to lower tobacco can sales.

Flexible packaging was essentially flat for the quarter, while we experienced about a 3% growth in our rigid plastics business, driven by very solid growth in food-related thermoforming. Display and Packaging segment volume was down 9% due most notably to lower component resales internationally and lower fulfillment activity in the U.S.

Volume in the Paper and Industrial Converted Products segment was down 1% for the segment as a whole. Volume was off 3.6% in the U.S. and Canada tube and core business. But in contrast, European core volume was up a similar amount, 3.6%, due to continued growth in the frontier east region in Eastern Europe but also what was considered to be some economically driven pickup in Western Europe as well.

Protective Packaging volume was down 2% as the 5% decline in foam components sold into automotive transportation and a 9% decline in temperature-assured packaging was largely offset by a strong 5% increase in the consumer-related protective packaging, most notably associated with appliance packaging.

So moving on down the bridge to price. You see that prices were higher year-over-year by $51 million, driven by the Paper and Industrial Converted Products segment associated with higher OCC prices, where based on prices in the Southeast, averaged $165 per ton versus $87 in the same quarter last year. And I'll speak more to OCC pricing when discussing price/cost in a few minutes.

selling prices were also higher in Consumer Packaging but to a much lower extent due to higher prices for paper, steel and resins.

Moving down to acquisitions and divestitures. You see the net impact was favorable by $16 million this quarter due most notably to sales in plastics being favorable with Peninsula sales being greater than the impact of the blow-molding divestiture as well as the benefit in flexibles of last year's Plastic Packaging Inc. acquisition.

And finally, exchange and other was negative to the top line but only by $8 million as foreign exchange rate variances were not that significant on average for the full quarter year-over-year.

Moving on to the EBIT bridge on Slide 6. You see the lower volume, when combined with mix, was negative by about $5 million. As expected, price/cost, including the benefit of procurement productivity, moved back to the positive this quarter, favorable by $2 million, mostly due to the Paper and Industrial Converted Products segment. And that's even with price/cost in Europe being negative by almost $2 million as we've not yet fully recovered higher cost in that region.

To provide a little more color around price/cost in the industrial businesses in North America, you'd find a summary of OCC price movement on Page 14 of this presentation.

You might recall that we ended the first quarter with OCC at $185 per ton based on prices in the Southeast, which represented the reset point for much of the business with contractual pass-throughs, while OCC prices then dropped in the second quarter, averaging $165 per ton. Unfortunately, for the third quarter, pricing for those same contracts will be based on the June price of $165, which has already moved up to $185 in July and could be higher in August with price/cost again turning negative.

Price/cost was only marginally positive in the consumer segment even with procurement productivity due most notably to negative price/cost in plastics where contractual pass-throughs have not yet but will catch up with rising resin cost. Price/cost was also negative in Protective Solutions due to some unrecovered higher material cost from both paper and resins.

On the next line down, you see that there was essentially no net impact when considering acquisitions net of divestitures where the loss of earnings from blow molding had been more -- or essentially offset by the combined impact of last year's flexibles acquisition and Peninsula, which was now in for the full quarter.

Moving down to manufacturing productivity. You see it was once again light at only about $2 million. 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 been better than it was.

In the Paper and Industrial Converted Products segment, manufacturing productivity was actually quite solid and in line with our overall targets, including much improvement with the #10 corrugating medium machine. Consumer Packaging productivity was weak due to some operational issues in plastics, where we had [righted] $1 million in quality claims, and we also had some start-up cost in our flexibles business.

Display and Packaging productivity was negative almost entirely due to issues in our retail security packaging business associated with the influx of new business. And Protective Solutions had a difficult quarter due to deleveraging associated with the lower volume, in -- particularly in the transportation component plant and some material inefficiencies.

Moving down to the change in all other, which is the catchall category, was essentially flat, where normal nonmaterial inflation of $12 million was offset by lower fixed cost spending, including lower management incentive accruals. This was also the line where you would see the impact of any differences due to exchange rates on the translation of earnings in foreign currencies but, again, had essentially no year-over-year impact on earnings for the quarter. And finally, there was essentially no difference in year-over-year pension cost as well.

Moving on to the segment analysis on Slide 7. You see that Consumer Packaging sales were up 2% due most notably to acquisitions, while EBIT was essentially unchanged, thus the margin dropping slightly to still a very solid 11.3%.

Display and Packaging sales were off 12% due to the lower volume, as previously described, but profits off 71% due most notably to the lower volume and negative manufacturing productivity with the EBIT margin being only 1.2% for the segment as a whole.

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

Paper and Industrial Converted Products sales were up 8% due most notably to the higher selling prices associated with higher OCC prices with the EBIT improving 16% due to price/cost and where manufacturing productivity and favorable fixed cost more than offset all other nonmaterial inflation, resulting in a very solid EBIT margin of 9.3% for the segment versus 8.6% for the same quarter last year.

Protective Solutions sales were up 3%, but EBIT was off 23% due to the negative price/cost and negative manufacturing productivity with the resulting EBIT margin of 8.1% versus the 10.9% last year, all thus ending with total company margins of 9.3% as compared to 9.6% for the same quarter last year.

On Slide 8, you find our outlook for the third quarter, where we're targeting to drive base earnings of $0.71 to $0.77 per share, which compares to $0.72 in the same period last year. The outlook for the quarter assumes no significant step-change in volume other than normal seasonality and certainly takes into consideration higher OCC prices, as I've previously mentioned.

Our outlook for the full year is essentially unchanged, which of course, now includes $0.07 for the impact of acquisitions, just over half of which will come from the Peninsula acquisition and the balance expected to come from the recently announced Clear Lam acquisition, which we expect to close shortly.

Moving from earnings to year-to-date cash flows on Slide 9. You see that cash from operations is $104 million versus $186 million last year, a decrease of $82 million. Since this is such a significant change, I wanted to provide some additional detail this quarter, so let me spend just a few more minutes than usual walking through the individual line items.

As a starting point, you see net income is $19 million lower due most notably to the pension settlement charge I mentioned earlier, which really has no impact on cash flow as you move through the balance of the cash flow statement. Specifically related to pension activity, you can see that the year-over-year change on the cash flow statement between the positive this year and the negative last year is a net positive change of $20 million despite higher pension contributions in 2017 of $13 million.

In the first half of 2017, the use of working capital has been slightly lower than last year, but there are many moving pieces within those numbers. Year-over-year, cash flow from accounts receivable is worse by $15 million with $25 million associated with higher selling prices. This has been partially offset by good January collections of past-due accounts at year-end 2016. This weakened cash flow from receivables was more than offset by year-to-date changes in payables, which was $17 million more positive in 2017 than in 2016. The first half of 2016 was negatively impacted by the timing of payments, while this year's trend is a little bit more typical.

One of the biggest drivers of the year-over-year change is tax-related accounts, which were negative this year by $22 million versus an add-back of $16 million last year, a net change of $38 million. This is essentially due to 2 major drivers. The primary driver is the fact that we paid $25 million more of taxes during the period, including $12 million related to the 2016 disposal of the blow-molding division, and we had an increase this quarter due to an $8 million prepayment for federal taxes.

The second driver of the change in taxes is the pension settlement tax impact, which was book only and had no impact on our taxes payable but rather only a reduction in our deferred tax liability, which accounted for $13 million of the change.

The final year-over-year difference driving the total $80 million variance is the all other line item, which accounts for about $35 million of the change, $10 million of which is associated with lower expense accruals, including lower management incentive accruals. Another $20 million of this change is associated with various other assets and liabilities. This includes $4 million received in 2016 related to the relocation of a facility from a customer payment; a $4 million reduction related to some nontrade receivables that were collected in 2016; a $4 million reduction in noncash share compensation and several smaller other miscellaneous changes.

Although there are many moving pieces that have impacted us year-to-date, for the full year, we've reduced our outlook for free cash flow from $125 million to $100 million. This change is driven by the step-change in receivables associated with our selling prices, which are now expected to remain near these elevated levels for longer than previously forecasted. Otherwise, the year-to-date changes were either anticipated in our original forecast or offset in some way as we move through the balance of the year.

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

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

Thanks, Barry. Let me spend a few moments talking about our first half performance and then address some of the key issues we see for the rest of the year and the actions we're taking to address opportunities and challenges.

Let me start by thanking our team for delivering first half results, which met the midpoint of our guidance as well as analyst consensus estimates. Collectively, we did a very good job of managing our businesses and moving the company toward our 2017 goals despite generally weak market demand and fluctuating raw material costs. You've heard me say this before: We believe there's strength in the diversity of our portfolio. If you look at our performance in the first half of 2017, you can see why.

In the first quarter, when rising OCC prices impacted our global paper businesses, we were able to offset some of that impact with continued strong results in our consumer-related businesses. In the second quarter, our industrial businesses had their best results in nearly 3 years, which helped -- I'm sorry, our industrial businesses had their best results in nearly 3 years, which helped offset weaker results in other areas of the company.

One of our toughest challenges right now is dealing with generally weak demand from many of our Consumer Packaging customers. This isn't new. Consumer Packaging volumes have been flat to down since the end of 2014 as consumers' preference for packaged food is clearly being impacted by changing taste for more fresh and natural products.

We see this challenge as an opportunity. We've been focused on gaining new thermoforming and flexible packaging capability to serve the growing consumer demand for products on the perimeter of the store. Our recent acquisitions of Peninsula and Clear Lam are examples of how we're changing our business mix to capture this new growth.

Peninsula, which we've had for the entire second quarter, performed well in meeting our targets and essentially offset prior year results from our divested blow-molding operations. Peninsula and Clear Lam are expected to produce about $0.07 of earnings accretion in 2017 and will add additional accretion in 2018 and beyond. We plan to grow these businesses and recently approved capital to put a new thermoforming line in our plant in Guadalajara, Mexico.

One of the key attractions of Clear Lam is the ability to leverage their expertise in modified atmosphere packaging to drive additional growth to our existing flexible and thermoforming customers, who require improved shelf life. We expect to close this acquisition by the end of July and then work diligently to meet our accretion target and internalize much of our needs for multilayer barrier films.

Of course, our call wouldn't be complete without a discussion of recovered paper prices, which continue to confound most of the experts, including us. As most of you know, Sonoco is a significant recycler and consumer of OCC. The cost of OCC reached historic levels in March, then declined in April and May but has now pushed back to record levels of $185 a ton in the Southeast.

Because we collect approximately twice the amount of recovered paper we consume through our recycling operations, we have a partial hedge against rising OCC prices. Furthermore, we have in place quarterly OCC contract pass-through mechanisms in about half our customers with the remaining half subject to announced price increases, which we are currently implementing in all geographies.

I will remind you that over the past 10 years, we have had only 2 years where we have experienced a slightly negative price/cost relationship, and we fully expect to recover rising raw material costs through the rest of 2017. However, with OCC prices rising now, we will face challenges in the third quarter. Our expectation is prices could rise again in August before stabilizing and then declining somewhat in the fourth quarter.

In closing, we are cautious entering the second half of the year and have lowered the top end of our guidance and expect to be in the range of $2.73 to $2.80 per share, which includes the targeted $0.07 per share coming from acquisition. However, personally, I am still targeting $2.78 per share.

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

Finally, while we've been very effective adjusting to the current environment, we realize we must continue to improve our operating structure. In order to do so, we're taking a more holistic look at each business to ensure we're serving the right customers with the right cost structure to ensure we improve our competitiveness and drive long-term margin improvement.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Ghansham Panjabi of 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 question, can you expand on the plans to review each business and then streamline the operating structure? And then can you possibly quantify the savings potential from these actions even if it's on kind of a broad basis?

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

Yes. I want to do this on a real broad basis because we've just started the process. But when I mean holistic, look, we're really taking a very deep dive now that we have an Oracle system that's capable of giving us very, very granular data. I'm looking at what are the customers that we service the best? The processes and procedures we have in place, what are the products and the customers that are best served by Sonoco? As opposed to looking and say, we'll serve everybody, we're beginning to focus on those customers where we can deliver the most value and consequently, extract the most value from our perspective. In looking at that, then you'd rescale the entire operation to really build it around those customers. The margin impact and the EBIT impact of doing that across our business model could be anywhere from 3 to 5 points of margin. So we're just beginning, but we think it's an excellent way to look at the business. It's a part of our Grow and Optimize strategy because optimize means optimizing your customer base as well and understanding your value proposition. So I do think it'll have a strong impact. It's going to take several years to roll out, so I don't want to create an expectation that, next quarter, we'll be talking about how successful it was. It will not be that way. It will take a while. But it's a very disciplined process, and we've just begun.

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

Okay. That's helpful. And then can you provide some added detail on what specifically drove the volume shortfall for the Protective segment? And then what are your expectations for the segment throughout the remainder of the year? I know you gave the volume numbers, but if you could kind of provide some detail on the specific end markets, that'd be helpful.

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

Yes. If you look at the market and its 3 segments, we had a shortfall, of course, in automotive that we knew was coming that should not have surprised us and did not surprise us. We had actual growth in our consumer segment, which is really built around appliances mostly. I believe that was up some 5%, but then we had a shortfall in our ThermoSafe business, and that's a bit of surprise to a degree in that, that business has a strong growth profile and will continue to have one. Right now, however, some of our customers are late launching new drug trials. The number of drug trials or new launches are down on a year-over-year basis, so -- and that's been kind of delayed and pushed back into the latter half of the year. So looking forward, I certainly expect us to continue strong in consumer. I expect us to see a rebound on the ThermoSafe side of the business. We already have new volume won. We'll be launching that in the second half of the year. We're going to continue to struggle with volumes in automotive. I don't see any improvement in that. And quite frankly, we're a little late to the table in rationalizing our cost structure around servicing that industry, but you can bet we're going to be very aggressive doing so in the third and fourth quarter to match our capacity to demand on the automotive side of that business.

Operator

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

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

Barry, maybe a question starting on the working capital. I think you mentioned that receivables were either $15 million or $25 million more negative this year in terms of your projection, and that's the primary reason why working capital comes down. I assume that's just going to be -- mean you get that much benefit in 2018. That should be a positive for you. It's just a timing issue. Would that be fair?

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

Well, actually, George, to clarify, if prices remained at these current elevated levels indefinitely, it would really be a $25 million step-change just in our base receivables. Obviously, if prices come back down, then certainly we'd recover that whenever that might happen. (inaudible) All else being equal, it would be a onetime step-change this year. And again, if everything was completely unchanged year-over-year, we'd be back up to another $125 million in free cash flow next year, again, if everything was consistent.

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

I've got you. I assume because of what's been happening with input cost, obviously, you're now following with your own selling price increases. By the time you get those implemented, there's a lag effect. But I see what you're saying right now in terms of that component. You already covered a little bit in answering Matt's question, but on productivity, can you answer a little bit more, provide a bit more color in terms of what you're doing in the segment to improve productivity? It was obviously a good quarter year-on-year and certainly versus our model. Any more color there would be very helpful.

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

Well, productivity is a pretty wide area. You have purchasing productivity. We have manufacturing productivity. And we have fixed cost productivity. When you aggregate it all, we're doing quite well. But specifically in manufacturing productivity -- in the plants that have SPS, we just have stellar results that have fully implemented it. You see very strong progress. Flexibles is a division that, volume up or down, they continue to drive productivity. I think North America, RP had some solid numbers, so did our tube and core business as well. But day in and day out, paper drives SPS. The paper division had very strong productivity. And SPS is a key part of driving productivity for us. And those businesses that really embrace it and drive it, you can see the consistent results in that part of productivity -- manufacturing productivity.

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

Okay. Jack, I want to turn -- next question. I've got one after, then I'll turn it over -- to volume. So tube and core volume in North America was down 3.5%. We -- obviously, having tracked the company for a while know that a lot of that business is driven by the containerboard business, which I thought would have been relatively strong, correct me if I'm wrong on that. It would mean that your graphic paper, tube and core and other markets for that matter were, obviously, that much weaker. But was there anything surprising in the volume number in the second quarter for tube and core North America? And then in Display, are you beginning to see -- I think this question has come up in the past, any effect from the purchase from the consumer occurring now in direct and through e-commerce as opposed to at the storefront and what that's having -- what effect that's having on your display business?

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

Okay. First, to tube and core volumes, certainly, what you say that what we are seeing increased demand for craft or our corrugated liner cores, that's certainly there. During the course of the year -- during the course of the quarter, I believe we saw some weakness, and it's more of a timing issue for film cores as film producers were kind of waiting to see resin coming down. They experienced that. That certainly was part of that weakness as well. Half the weakness, George, is really volume loss or share loss as we have pushed price pretty hard. Some of that is coming from this holistic look I talked about, about looking at the business in a more holistic way and using price to sort through that is driving some of that share loss. So I suspect that you're going to see an improvement in those relative numbers in the third quarter because I think film's going to be somewhat stronger as we move into third quarter than it was in the second quarter.

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

Okay. And the effect of e-comm on your Display and Packaging business. And I'll turn it over with that.

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

Okay. For me to quantify that would be extremely difficult. I will tell you, I think this is a slower period of the year in Display and Packaging, and this appears to be pretty slow as far as demand in D&P right now. So is e-commerce having an effect? That, I don't know. It's hard for me to quantify, but it's certainly -- volume in D&P is down in the Display end of the business as well.

Operator

Our next question is from Philip Ng of Jefferies.

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

Jack, I know you said it was early in the process, but based on your initial analysis on just servicing, customers add the most value, any color on whether it's like larger CPGs versus smaller upstarts, organic food and -- upstarts or organic food companies? And as part of this initiative, are you looking to kind of retool the resources your sales force allocate or based on the mix of your customers? Just some color on that front would be helpful.

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

Yes -- no, let me -- yes, again, I don't want to get too far down the line here. First of all, we're starting on the industrial side of our business. So it's not impacting consumer. But it's really built around what do we do best and what are the customers where we can create the most value? And then focusing on those customers and then working with the other customers to make sure that they're serviced properly, either through an alliance or through setting up a different model to service them internally but not trying to do all the same -- not trying to feed everyone from the same spoon, from the same facility, if you will.

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

Got you. But to initiate this new -- new approach, it's not going to require a lot of capital. Is that the right way to think about it?

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

Well, there's going to be capital required as we upgrade equipment to the state-of-the-art status for the equipment that we'll keep in place. And then there's going to be capital -- there's going to be cash required as we consolidate the footprint. That's a big part of the entire process is really to consolidate.

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

Got you. That's helpful. And I guess, sticking with big picture. I know in terms of your M&A approach, I know for some time you were talking about doing something more sizable potentially in flexible packaging. But just looking at your more recent bolt-on acquisitions that you've done, it does seem like you're pivoting away from some of these markets, and it's really more focused around a perimeter of stores. So in years past, you were very focused on big, large CPGs. Are you kind of reallocating in how you're thinking about that and just resources going forward?

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

Well, again, we've been very specific. It's thermoforming. It's flexibles. And it's Protective Solutions. And we're following that religiously and right down the line. I will tell you that -- and I've -- we've said this a month ago, is that it's capability focused. We want to add certain capabilities to our mix. We wanted to blow film. We now have it. We now have 3-, 5- and 9-layer capability through Clear Lam. We wanted to get to the perimeter of the store. And certainly, we knew that Peninsula brought -- would bring that to us. So we're adding -- we're inside our focused areas, and we're adding capability, and that's what's driving us.

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

Okay. And just one last one from me. Your margins for protective was under pressure. Part of that is volume, but price/cost was negative as well. Do you expect that to become positive or more neutral going forward through a combination of price increases? Or any view that you have on resin in the back half?

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

Absolutely.

Operator

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

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

Jack, just one on volume and then a couple obligatory ones on OCC. You started the year expecting around 2% volume growth. And then last quarter, you said it'd be more like 1%. What is your expectation now?

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

Well, I still think that by the time the end of the year gets here, overall, we say we're going to be somewhat flat. So what that means is for the second half of the year, we're going to have to see a little bit of pickup from where we are now, above even the seasonal pickup but slight. So I think by the time we get to the year-end, we'll be flat to slightly up, but we'll be in that range.

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

For the year, you mean?

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

Yes.

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

Okay. And just a couple on OCC. Can you give us a sense how much higher prices you're expecting in August?

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

Sure.

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

I had to ask, Jack.

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

I understand. It could drift up another $10, but that's just the best guess I've got.

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

Is this a less certain situation than normal? Last quarter, I think you said you thought it'd be down $10 to $20 in May, if I'm not mistaken, and then stabilize thereafter. It sounds like you're a little less certain this time around.

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

Well, certainly, it did drop in April and May, but then we got a fairly strong spike back up in -- as we began the third -- as we began June. And so we are less certain, and it's much harder to predict now because, normally, we'd be going into -- this is a fairly improving -- this is a lower generation time. But as we move into third quarter, you're moving into higher generation. That higher generation's important for OCC collection, and it's -- that's a bit of unknown now. I don't know what that generation is going to be, given the e-commerce impact, what's going to be available behind the stores. That's creating the uncertainty to me.

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

And just a couple related to that point, Jack. You said you expect a decline in the fourth quarter, which is historically what's happened. But obviously, last year, OCC prices started spiking in the fourth quarter because of e-commerce. So why do you expect OCC to go down in the fourth quarter just given what we know about e-commerce growth?

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

Yes. I think that's a solid question. I'm expecting it to follow more of a consistent pattern. One of the things that is still confusing me, and I must say this, is e-commerce isn't new. It's been here for some time. What's so unique about this particular year? I think that we really need to get our hands around that. We're working internally to better understand it. AF&PA is also working to understand how you improve recycling rates through the home -- through homes versus behind the stores. I think we're going to have a fairly strong holiday season. Consumers seem to be in a pretty good mood so kind of predicting based on what is historically and that was anomaly of last year.

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

And just this recent surge in OCC, Jack, compared to what's historically happened, I mean, how unusual is it? And how much do you think e-commerce, Chinese demand, the recent recycle capacity additions in the U.S., et cetera, play into how different this last 10 months or so has been compared to historical?

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

Well, certainly, you can go back in time and find -- you can find where OCC has risen during the summer months. It has happened. It's usually situational. I certainly think a combination of factors. E-commerce is driving more demand domestically. I think that that's fairly obvious. I think China is in the market right now, filling their pipelines and other things. And they're probably experiencing a lot of what we're experiencing with e-commerce in China. So as you -- as the market figures out how to get more OCC back from the homes, I think it'll begin to level out over time. I think there's going to be a big push on how you do that. The corrugated is still there. You just have to go get it differently.

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

And just last on China, Jack. The National Sword inspection program, I mean, that's limiting their imports of mixed paper, what impact do you think that'll have on their demand for U.S. OCC in the next several months or longer, for that matter?

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

Adam, right now, first of all, we need to really understand the definition that they're applying to mixed wastepaper. There's a -- that needs to be defined clearly. If it's a very, very restrictive decision and it really limits mixed wastepaper, it'll have an impact on OCC and will drive demand for OCC. If it's a fairly liberal interpretation of loose paper, not like we use here in the U.S., I don't think it'll have much impact at all. They just need to clarify exactly what they mean by wastepaper -- mixed wastepaper.

Operator

Your next question is from Chris Manuel of Wells Fargo.

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

I just had a couple questions. If I could start with the Clear Lam. Can you give us a sense as to what specifically there got you excited about this particular property? I know that being able to blow some of your own films instead of purchasing on the outside, but what -- are you able to shift some of what you're buying over towards them? Or where are they at with utilization, et cetera? And are there very specific areas within the barrier component that they're particularly good at, whether that's -- I don't know, if it's dairy, if it's meat or -- what areas that you feel they've got an opportunity and how you can overlap?

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

Chris, this is Rob. Let me answer it in multiple ways. Not only do they blow film, but they also extrude thermoforming sheet that we could internalize inside our system. The -- Jack talked about the multilayer, so it is barrier constructs that they're making. And today, they do participate in meat, cheese and dairy as well. The other real application for us is the marriage of our portion pack thermoformed cups that we make, where they are our living stock partners. So we now have the ability to go to market no different than BMS and Winpak with a total solution as it relates to sauces that we see growing not just in quick-serve restaurants, but going outside of quick-serve restaurants as well.

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

And they've got the capacity to service your existing business. You don't have to add more barrier-blowing capability?

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

No, they've got some available capacity on the sheet side of things, and there's some equipment coming in as well.

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

Okay. That's helpful. And then, Jack, back to kind of recovered fiber and some of the impacts through the system, a couple different directions here. One, I know with some of your consumer businesses you've got resets, particularly with certain stacked chips or different areas of that, that are kind of once a year. Are you able to go out, when you have such big movements like this, and recover extra pieces. Part one, and then part two is we've been reading about a number of surcharges and elements on OCC recovery as well. How did that work through your system? I mean, I know you net collect kind of 2:1. But how does that get reflected into any of your contracts?

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

Well, yes, I guess that if it got just too onerous, we certainly would move forward with trying an out-of-market increase. But for the most part, it is annual contract adjustments, and they occur some in the beginning of the year, some in the middle part of the year. So we're usually able to be fairly good at recovering what those costs might be on the paper side of the business.

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

Okay. And then with respect to the premiums and things, and so when you have pass-throughs or different mechanisms in your contacts, are the premiums also -- do they fall underneath that and are pass-through-able, if that's a word, or are you kind of stuck with those? How does that work?

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

Well, I'm not sure what the premium...

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

But it's -- yes, at different times that we've seen -- there's a published OCC price, but there've also been some premium numbers we've seen attached to it in a few places.

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

Well, again, I think that there are premiums. It's usually based upon the market price for the product. Most of these contracts do have phrases for extraordinary increases in cost. And if we can deem it as extraordinary, we can go in to negotiate it. But the premium that you might read about that says somebody is paying a $20 premium, that we wouldn't be able to really affix to it. It's going to have to be based upon the published indices for the party, if that's what you're asking me.

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

Yes, yes. That's wonderful. And then -- and just last question along these lines, I think you're out with a number of price increases across products: Tubes and cores in Europe, URB in different locations and as well a supplemental medium increase here in North America. Can you give us a sense as to how those are going today or efficacy of those. I know at different times, you've got more or less of some of the tube and core ones, but if you can kind of run through maybe what you're in the market with and give us a sense as to how they're going thus far would be helpful.

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

Well, Chris, I would tell you it's real early in the process. The effective date really was July. We are raising prices tube and core globally because of the domestic situation with OCC. As you know, some markets are going to do better than others depending upon just how that market kind of reacts to those types of things, but we're going to push hard. We're going to go for recovery. These are real increases, every one of our competitors. No one's not receiving these cost increases. So I remain fairly confident that our competition understands the magnitude of the increase that's hitting them, and we'll react accordingly. I'll be able to update you better in the third -- at the end of this quarter or at the end of this month or -- but right now, I just don't have a window to it other than we're pushing hard.

Operator

Our next question is from Scott Gaffner of Barclays.

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

Jack, I just want to talk about Protective Solutions for a second, and the -- I think you said 5% decline in the automotive business. Is that specific to a certain customer or a platform loss? Or what is driving the minus 5% within the automotive business in Protective?

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

There may be a couple of other factors and influences, but primarily, the parts that we manufacture go into automobiles, not SUVs and trucks. Now that doesn't mean we don't have parts in SUVs and trucks. It just means there have been more opportunities in automobiles like trunk liners and those types of things that are molded from this polypropylene for cars. So we're -- what we're experiencing really is across-the-board decreases in the customers where we supply parts. We're just seeing their volume in cars are down, so consequently, our volume in EPP or the molded parts are down.

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

Okay. And then within that business, I think you mentioned as part of this holistic cost approach, really, it seemed like cost to serve within that segment of the business was relatively high, meaning maybe your customer has a lot of just-in-time demands, et cetera. Is that maybe an example of where you've over-served a customer? Is that how we should think about it?

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

Well, yes, first of all, we haven't taken the process to -- it's not made it to Protective yet. We're just now piloting it in the tube and core business here in North America. But specifically is that what we have to do is to match demand to our production capability. So that's what we're looking at right now, specifically in tube and cores to make sure that demand and production are matched based upon what we see going forward.

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

Okay. And last one from me, just in Paper and Industrial Converted. I think you said Europe is up 3.6% despite maybe some negative tobacco trends. So can you talk about where you're seeing -- especially in Western Europe, where you're seeing areas of strength?

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

Yes. Scott, that's 2 different areas. The negative tobacco trend is impacting composite cans. Tubes and cores are strong in what we call the frontier. But also, domestic demand of Western Europe as we call it, just the more developed market, has improved a little bit. So it's better Western European demand and then what we call the frontier of Poland, Turkey, et cetera, volume growth into those markets has been good.

Operator

Our next question is from Mark Wilde of BMO.

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

Jack, want to come back to the display business just briefly. Any thoughts kind of in the near term about just whether the consumer products companies are allocating their promotional spend any differently and whether that might be affecting the display business?

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

Well, I certainly think they're probably evaluating a lot of things, Mark, on a -- certainly, in the processed food area about what they need to do. What we do see is that we see a lot of what we call, I guess, the industry calls ready pack and a move to ready pack, where it's in some sort of case display, and it's easily put on to the shelf, so a lot of the businesses may be moving in that direction. We're certainly participating in some of that. But this is traditionally a slow time for our display business, so we're experiencing that as well. But I'm sure they're rethinking everything inside the CPGs.

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

Yes. And then just kind of staying on the theme a little bit. Just with this growth in e-commerce, our -- is this creating sort of situations where you need to valuate particular packages that you produce, or you need to think about sort of alternative formats?

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

Well, I certainly think that inside the protective packaging arena, we're looking at opportunities and options about how do we participate in e-commerce. I also think that there's opportunities for us to think about the basic packages for products. One of the things that -- if you buy stuff over the Internet, you may get a large container of dishwashing soap along with a lightbulb. And if it's rattled around in the box, it may damage the lightbulb.

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

Damage the lightbulb, huh?

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

I mean, those are the types of things that we're thinking about is that how do we adapt to the growth of e-commerce? And what are the products that we need to kind of have in our offering that would create value for our customers.

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

Okay. And then the last question I had. We had been talking for several quarters about just options for the medium machine. And I wondered, given the uptick we're seeing in the containerboard market and particularly over in the medium business, whether this is perhaps accelerating some discussions?

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

Well, certainly, the medium machine is performing extremely well on a year-over-year basis. We still are looking to resolve this issue. And I would tell you, nothing has changed from that perspective. We want a long-term resolution to #10 and continue to look for it -- look for a good one.

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

And would you think we might get one this year?

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

I would hope so.

Operator

Our next question said from Brian Maguire of Goldman Sachs.

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

I just wanted to come back to the discussion about the holistic view, and it seems like it's really focused on tubes and cores. I mean, what we're really talking about here is some -- are URB capacity closures sort of on the table? And is that something that you guys are trying to contemplate? And just kind of tied -- is that at all tied into the conversation around OCC prices and maybe we're kind of in a little bit of a different paradigm there? And is there any comment about kind of the long-range profitability for some of your URB operations?

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

Well, now I would tell you that we're not that far along yet in the process. I will tell you that when you look at the mix of business and the number of SKUs, you can simplify the business a good bit and not really have a significant impact on your URB demand. Nothing major. So we're not that far down the line in that process, Brian.

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

Okay. And then just maybe for Barry. The free cash flow guide, I understand that the reduction was more to provide receivables, but it does seem like the seasonal cadence is a bit different. I think you provided some color to walk through it, but it seems like an awful big step-up in the second half. Just wondering if you could remind us big picture what's driving the -- it seems like about $170 million of free cash flow that you're guiding for in the second half, and typically, it looks like you'd be more like in that $50 million to $100 million range. Just what are some of the kind of factors that would drive that?

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

You're certainly right. There are many moving pieces to that, but just some things. Obviously, receivables used a little bit more cash than we expected in the quarter. Our compliance percentage dropped little bit just due to a couple customer specifics that we clearly expect to get back on track. We had some prepaid taxes that I mentioned that we'll recover and use effectively through the balance of the year. And outside all of that, there are just a lot of fits and starts to the way payments and accruals, the timing of all that falls. But again, at this point, we're comfortable in saying that the only change in our free cash flow forecast is really the impact of the onetime step-change in receivables.

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

Okay. Just one last one, if I could, on the working capital front. As we're thinking about OCC and where it might end the year, and it sounds like you're expecting it to be maybe a little bit lower by the end of the year, maybe you can go just sizes, look at what a $10 a ton move in OCC price would have on your inventories or your working capital as you settle it up at the year-end?

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

I don't have that readily available, but just think of it in terms of we ended last year at $120, and we're expecting it to be notably higher than that even if it goes down some de minimis amount. So it's the magnitude of the year-over-year change that we're really talking about.

Operator

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

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

Just a couple of quick questions. First, on Clear Lam. It sounds like its sales and the purchase price are both about 75% as large as Peninsula. So is it fair to say that the earnings contribution is also 75%? Because it sounds from Barry's comments like it might be a little more profitable.

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

Yes. And not having done that in the past, it's hard for me to kind of get to that conclusion. (inaudible) mathematically run it through my head.

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

Well, are you able to maybe give us an EBITDA multiple of what you paid?

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

Yes -- no, well, I don't -- we don't do that. I will tell you that in the final analysis with Clear Lam, we expect that multiple to be below 7 with all the synergies that we believe comes along with it.

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

Okay. That's helpful. And then secondly, the performance in Paper and Industrial was really a substantial recovery from Q1. So I'm wondering, was there a lot of maintenance in Q1, much more than in prior periods year ago or Q2?

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

No, no. I think that Q1 to Q2 was a little bit about price/cost, a little bit about runability. And certainly, #10 was a positive impact as well. But the business ran very, very well in Q2.

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

All right. Yes. I mean, it really stands out. Okay.

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

It's from what I would expect it to do, to tell you the truth.

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

So then Q1 was disappointing in the mid-20s for EBIT?

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

Yes, absolutely.

Operator

Our next question is from Debbie Jones of Deutsche Bank.

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

I just have 2. One -- or another one on e-commerce and one on resin procurement. The first question on e-commerce. If you could just focus on your consumer business. Have you identified what percentage of your business would really be or has been impacted by the shift in distribution? And then two, could you just give us a sense of what your customers are talking about if it's kind of stepped up, they need to kind of switch formats and whether or not you think that it could be margin enhancing for you?

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

Well, it'd be very difficult for us to give you some idea of the impact of e-commerce because we sell it to our customers. And then how they distribute it, we don't know. So we can't help you with that. I will tell you, we're having conversations with certainly large customers as well as e-commerce providers about what type of packaging do we need to solve our problems. Anytime that there's an opportunity to redesign the package or be a part of the solution, yes, I believe margins can be enhanced through the process.

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

Okay. And then second question on resin procurement. You've done a number of bolt-on deals in plastics-oriented companies. And I'm just wondering, you talked in the past about wanting to kind of increase your resin buy, but at the same time, you've also had some divestments. So I wondered if you're kind of happy with your current level or you think there's a need to kind of increase your competitiveness by increasing your overall resin buy through acquisitions?

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

Yes -- no, I would tell you, yes, we're pleased with our -- the way we procure resin and the formulas that we have in place. We think we do a very solid job there. Debbie, I'd tell you, clearly, we would not buy something to increase the amount of resin we buy. That's not the format that we would use. We would only buy something because we think it adds capability to our mix and it improves our ability to serve the customer. Having said that, there are clearly opportunities to increase our footprint in thermoforming and that we bring additional capabilities, and we are focused on doing just that.

Operator

Our next question is from Chip Dillon of Vertical.

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

Jack, I had a question about the refrigerated temperature-assured business. I know you've added a couple of pieces to that in recent years, and you mentioned a volume decline in the quarter. Maybe you could talk a little bit about maybe what caused that. Is the business -- is that just sort of a hiccup? Or is the business maybe not expanding at the rate you thought it might be?

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

Chip, it's Rob. It's actually a tale of 2 cities. We did see some volume decline. So let me give you some color on that. If I go back to 2015, there were directionally 45 launches of new drugs that took place. You see that sort of flow through the next 12 months, and we picked up our proportionate share. So we saw significant growth in 2016. In 2016, there were 25 -- or I'm sorry, 22 new product launches. So we see that decline take place this month. First half of this year, there were 24. And Jack mentioned earlier that we have been awarded a number of these projects, so we're going to see that start to roll through the second half of the year. If I take a look at the sales for the quarter, the businesses that we acquired actually offset the volume decline that we experienced in the legacy business. So that is just ramping up. So if I look at it just in dollar terms, our ThermoSafe business is flat year-over-year. With the acquisition offsetting the volume decline, I think the volume decline that we've experienced is one of timing, and that timing is related to the launch of the new -- the projects that we've been awarded.

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

Got you. That's very helpful. And then just real quickly, in the Clear Lam Packaging acquisition, did you -- I know you were -- it was very helpful. I see you gave some sales guidance. Can you give us some rough EBITDA guidance as we think about you owning it and what synergy possibilities there might be?

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

Not yet. (inaudible) Chip, the synergies are substantial from internalizing supply, to blending with thermoforming and offering a complete solution as well as with both Peninsula and our portion control. So there are significant synergies here.

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

Got you. And I would imagine all of this will fold into the consumer segment, correct.

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

Correct.

Operator

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

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

I know it's late in the call. I'll be quick. Jack, just want to come back, the cautious view you have on the back half of the year, as you stated in the press release, is that more just driven by the volatility in OCC and inputs and the unpredictability there? Or is it through the lingering volume weakness you're seeing at the consumer company level that's driving that statement?

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

Yes, it's more around the OCC, George, and how does that actually turn out.

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

Okay. That's fair. And then my last question, a number of years ago, I don't know, 4 or 5 years ago, Sonoco had talked more and more about getting into the way stream, so to speak, with your existing capabilities, obviously, and offering that, creating a more commercial business entity from that with MERFs and helping your customer source and procure and reclaim material more effectively and, obviously, getting paid for that service. That ultimately, I think, faded away in part as input costs decline. With OCC now rising again, do you see an opportunity maybe to turn that into more of a profit center and a bigger business over time or not really?

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

George, certainly, there's an opportunity that's there, but it's not really for us, and it has to be around purpose. We're in the OCC or we're in the recycling business to paper our mills and to assure we have the absolute lowest cost of supply. I think that was a realization we came to. Business is complicated enough. We don't need to complicate it more. So we just -- we retrenched and said our purpose is to paper our mills at the lowest cost -- lowest possible cost, and that's kind of the way we run the business today.

Operator

At this time, there's no other questions in queue. I'll turn it to Mr. Schrum for closing remarks.

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

Thank you again, Vince. In closing, let me again thank each of you for joining us today, and we appreciate your interest in the company. And as always, if you have further questions, please don't hesitate to contact us. Thank you again.

Operator

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