

Sonoco Products(Q1 2024 Earnings)

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Corporate Speakers:

- Lisa Weeks; Sonoco Products; Vice President of Investor Relations
- R. Howard Coker; Sonoco Products; President and CEO
- Robert Dillard; Sonoco Products; Chief Financial Officer
- Rodger Fuller; Sonoco Products; Chief Operating Officer

Participants:

- Ghansham Panjabi; Baird; Analyst
- George Staphos; Bank of America Securities; Analyst
- Mark Weintraub; Seaport Global; Analyst
- Gabe Hajde; Wells Fargo; Analyst
- Gregory Andreopoulos; Citi; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Q1 2024 Sonoco Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker, Lisa Weeks, Vice President of Investor Relations. Please go ahead.

Lisa Weeks^ Thank you, Operator. And thanks to everyone for joining us today for Sonoco's first quarter earnings call.

Last evening we issued a news release highlighting our financial performance for the first quarter, and we prepared a presentation that we will reference during this call. The press release and presentation are available online under the Investor Relations section of our website at sonoco.com.

As a reminder, during today's call we will discuss 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. Please take a moment to review the forward-looking statements on Slide 2 of the presentation.

Additionally, 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 to GAAP measures is available under the Investor Relations section of our website.

Joining me this morning are Howard Coker, President and CEO; Rob Dillard, Chief Financial Officer; and Rodger Fuller, Chief Operating Officer.

For today's call we will have a prepared remarks section followed by a discussion of the results for the quarter and outlook for the second quarter, followed by a Q&A. If you will turn to Slide 5 in our presentation, I will now turn the call over to our CEO, Howard Coker, for business update.

R. Howard Coker^ Thank you, Lisa, and thank all of you for joining us today. Let me kick off the discussion this morning with an update on our first quarter 2024 overall financial performance. We executed well and delivered solid results in the quarter, which were in line with our expectations. Sales were \$1.6 billion, adjusted EBITDA was \$245 million and EBITDA margin of 15%.

Our adjusted earnings per share were \$1.12, which was above the midpoint of our guidance and operating cash flow was \$166 million with strong working capital management. Productivity in the first quarter came in strong as well at \$51 million, which is just an outstanding result from our team's focused execution and operating discipline.

Our productivity results are from the value-added capital investments across our plant network including automation, process improvements and energy cost reductions, all of which is underpinned by our portfolio simplification activities and strong expense management.

So I do want to say thank you to our team for your hard work and commitment for our results this quarter.

If you'll turn to Slide 6, this past February, we were happy to host our Investor Day 2024 in New York, share our strategy updates and what's next for Sonoco.

Since I took over the CEO role in 2020, we've been on a transformation journey to improve the performance of the company, and we are making progress.

We have built a strong portfolio that delivers greater value, simplified the company and unified our global operating model to improve financial results while maintaining our disciplined capital structure.

At our Investor Day, we provided our outlook over the next five years where we are targeting adjusted EBITDA of \$1.5 billion with high teens EBITDA margin. And we are expecting to generate cumulative operating cash flow of \$4 billion to \$5 billion, although we remain committed to growing our competitive dividend.

Our next era that enterprise strategy is supported by our commitment to maintain a focused portfolio, align the appropriate capital to our businesses and invest in our people and sustainability while we operate with discipline.

If you turn to Slide 7, we committed to keeping you updated on our progress along the way on our near-term strategic priorities through 2025, which are centered on continued alignment of our portfolio and investments in our four core businesses.

We'll continue focused on investing and streamlining operations for these core businesses or we resolve the all other group of businesses.

If you turn to Slide 8, we made an important step toward the all other resolution with the completion of the Protective Solutions divestiture on April 1. This is a great business for Sonoco for many years, but through our portfolio simplification and investment analysis lens, we deem this business to be noncore and took the appropriate action to find the right owner.

As we progress through additional portfolio activities, we'll keep you apprised of our progress, which is focused on strategic sales time for value.

In parallel, we announced that as of January 1, 2024, we have taken five businesses that were run independently and now merge them under one leader and operating structure in our consumer segment called TFP. This new scaled platform of \$1.3 billion based on last year's revenue, it's focused on niche markets where we believe we have the right to win and the right to grow.

The integration of this business is well underway, and we expect to see operational and sales benefit in the future. The spirit of innovation to drive sales growth in the business is aligning well. Two of our most recent products were recognized (inaudible) Global Awards for 2024.

Our EnviroSense paper blister award won the best in show for sustainable packaging and our Enviro paper can, but the paper bottom also won best-in-class awards for sustainable packaging and award for distinction for design innovation.

We're delighted to be recognized for our proprietary designs to help our customers achieve their sustainability packaging goals.

In support of our environmental commitments, we were pleased to announce that we entered into a 15-year virtual purchase power agreement with NG's wind project.

Starting in 2025, we will contract 140 megawatts of electricity through NG, which is almost half of our U.S. electrical needs. Projects like this help our progress towards our emission targets by consuming clean, reliable power in the communities where we operate.

If you'll turn to Slide 9, our sustainability efforts are highlighted in our 2023 corporate sustainability report update, which we published just last week.

Similar to last year's report, our materials were prepared in reference to GRI, TDFC and SASB standards and detailed progress to our 2023 targets are in line with the science-based target initiatives.

On the social side, we have updated our workplace diversity hiring progress, provided updates on our supplier diversity programs as well as our community investments for the Sonoco Foundation.

We're grateful for the recognition we received for these efforts, and we are most recently named by Newsweek as one of America's most trustworthy companies, which is fully aligned to the mission and values of Sonoco.

And with that update, I'm going to turn the call over to Rob to take us through more details on our results and second quarter outlook. Rob?

Robert Dillard^ Thanks, Howard. I'm pleased to present the first quarter 2024 financial results, starting on Page 11 of this presentation.

Please note that all results are on an adjusted basis and all growth metrics on a year-over-year basis, unless otherwise stated. The GAAP to non-GAAP, EPS reconciliation is in the appendix of this presentation as well as in the press release.

As Howard said, we've built a solid foundation for continued resilient financial performance, building on our enduring operating model and strong market positions.

Our strategy is to deliver shareholder value by growing these positions through disciplined and targeted investments while also maintaining our investment-grade balance sheet and our differentiating dividend.

First quarter results again represent the resilience of our teams and our ability to deliver strong earnings despite a low volume environment.

Adjusted EPS was \$1.12, which exceeded the midpoint of our guidance range of \$1.05 to \$1.15. This result was driven by positive productivity of \$0.39 per share, offset by negative price cost of \$0.51 per share and negative volume mix of \$0.12 per share.

For the quarter, net sales decreased 5% to \$1.64 billion due to index-based price pressure. Volume mix was flat due to low single-digit volume decline to consumer, high single-digit volume increases in industrial and double-digit volume declines in all other. These metrics include acquisitions.

Organic volume mix was negative mid-single digits due to lower organic volumes in consumer and flat organic volumes in industrial.

Index-based price pressure impacted sales negative \$57 million. This result was expected as paper, metal and some resin indexes have declined from their peaks. Adjusted operating profit was \$176 million, a sequential increase due to positive sequential volume mix as well as improved sequential productivity. Adjusted EBITDA was \$245 million.

We maintained this historically strong profitability to incredibly strong operating performance. Productivity was positive \$51 million.

We achieved positive manufacturing productivity due to our lean programs, and we achieved positive fixed cost productivity due to continued efforts to reduce our plant footprint and optimize our supply chains.

From an EBITDA perspective, volume mix was negative \$16 million as consumer continues to be impacted by inflationary pricing at retail and industrial begins to improve. Acquisitions were positive \$10 million as the Inapel, RTS and Chattanooga acquisitions are all ahead of plan. Price cost was negative \$67 million as industrial price cost was negative \$56 million and metal price overlap was negative \$16 million, though price cost of metal was only negative \$4 million due to pricing actions.

Adjusted EBITDA margin was 14.9%.

We expect EBITDA margins to improve throughout 2024 as we anticipate price cost and volume mix to improve in both segments.

Page 12 has our consumer segment results. Consumer net sales decreased 5% to \$911 million. Consumer volume mix decreased low single digits due to continued inflationary pricing at retail. Many consumer customers are beginning to return to historical pricing practices including discounting.

However, with list prices at elevated levels, volume have been slow to return to historical patterns.

Despite the year-over-year declines, consumer volumes remain on trend and increased 5% sequentially.

As a comparable, Q1 2023 was unusually strong to the end of destocking in most consumer markets. RPC sales declined high single digits due to high single-digit volume mix declines with particular weakness in North America relative to last year's strong comparable. TFP sales were flat as weakness in core flexible segments in cookies and confection and thermoforming food was offset by acquisitions.

Metal Packaging sales declined mid-single digits as negative index-based price actions offset low single-digit volume gains. Aerosol volumes were positive and food volumes

were slightly negative. Consumer EBITDA was flat at \$129 million, as \$16 million of productivity and \$8 million of benefit from restructuring and nonoperating benefit was offset by \$9 million of price costs and \$15 million of volume mix. Consumer EBITDA margin increased 60 basis points to 14.1%.

We anticipate that EBITDA margins will increase in Q2 due to improved mix in RPC and increased mix of thermoforming and TFP.

Page 13 has our Industrial segment results.

Industrial sales decreased 4% to \$593 million. The reclassification of recycling reduced sales by \$33 million or 5% and as we now account for recycling as a procurement function with recycling sales margins reflected only in cost of sales. This accounting better aligns with our strategy of conducting recycle activities to ensure low cost and available supply of recycled materials. And 2023 recycling contributed \$100 million in sales.

Adjusted for the impact of recycling reclassification, industrial sales would have increased 2%.

Industrial volume mix was positive high single digits due to acquisitions and a mid-single-digit recovery in Europe. North American volume mix was positive mid-teens due to acquisitions.

Organic volume mix in North America was flat.

Industrial volumes are improving, but the recovery is uneven across our markets in a way that is unique relative to historical recoveries.

We expect industrial volumes to improve as we are experiencing improved order rates and higher utilization, especially in the North America paper markets.

Industrial [fuel] price decreased mid-single digits due to index-based price actions.

We achieved the majority of our announced market price increases enacted to offset higher OCC and other inflationary inputs.

However, paper index has not met the market.

We anticipate paper indexes will correct in the second quarter and industrial prices will more accurately reflect the inflationary environment and the improving market conditions.

Industrial EBITDA decreased to \$95 million due to \$56 million of negative price cost offsetting \$28 million of productivity.

Industrial EBITDA margin was 16.1%.

We believe this is our new low cycle profitability level and margins will improve with volume recovery and future pricing actions.

We believe we have changed the fundamental profitability of the business through a series of restructuring activities in the last four years.

We have shuttered six older, smaller paper machines and replace their volume with larger and more efficient machines.

We believe that this, along with restructuring our converting network and increased automation have driven lasting profitability improvement.

Page 14 has our results for the all other businesses. All other sales decreased 14% to \$134 million due to volume mix to Cons and Protective Solutions and the ThermoSafe cold chain business. All other EBITDA decreased to \$21 million due to lower volume mix and negative price cost offsetting \$7 million of productivity.

We completed the sale of Protective Solutions on April 1. This business underperformed in the quarter by \$0.03 of adjusted EPS and will now have a negative \$0.10 pro forma impact on the year.

We continue to evaluate strategic alternatives for the remaining all other businesses. We're being disciplined with our approach to divestitures and our intent on maximizing value over the long term.

Moving to Page 15.

Our capital allocation framework aligns with our business strategy to drive value creation through earnings growth and margin improvement. The four pillars of our capital allocation model are capital investments to drive growth and improve profitability dividend increases to reward shareholders, programmatic M&A to action the portfolio strategy and share repurchases to return capital and maximize shareholder value.

We are intent on driving shareholder value by maximizing cash flows and investing or returning cash in the most efficient manner.

Currently, we're focused on investing in our RPC growth strategy and in M&A with a focus on metal packaging and TFP.

We are being disciplined in the disruptive M&A market, and we'll execute the right acquisitions at the right time for us. On Page 16, we have our cash flow performance for the quarter.

In the first quarter, we generated operating cash flow of \$166 million. This was a meaningful improvement from a year ago due to strong working capital management and increased focus on other cash costs. Capital expenditures was \$86 million for the quarter.

We're on track with all major initiatives and anticipate investing approximately \$350 million of capital expenditures in 2024. Turning to Page 17. The foundation of our value creation strategy is disciplined management of our investment-grade balance sheet.

Our balance sheet is in excellent condition. We have over \$1.1 billion of liquidity. We have a weighted average maturity of 6.9 years and we have a weighted average cost of debt of 3.8%.

We developed this position through continued focus on debt reduction and management of our leverage levels. We repaid \$22 million of debt in the first quarter of 2024 and reduced net to adjusted EBITDA to 2.8x.

Furthermore, we used proceeds from the Protective Solutions divestiture to repay \$75 million of debt subsequent to the end of the first quarter. Since the Ball Metalpack acquisition in 2022, we have now repaid gross debt of \$375 million.

Page 18 illustrates our history of increasing our dividend. We're excited to increase the quarterly dividend of \$0.52 per share. We've now paid a dividend for 99 consecutive years and have increased the dividend on an annual basis for the last 41 years.

We're committed to increasing the dividend in place a priority on dividend increases on allocating capital. Page 19 has our guidance for Q2 2024. Guidance for Q2 2024 adjusted EPS was \$1.25 to \$1.35.

We expect consumer volumes to remain on trend in Q2 and expect year-over-year volumes to increase due to acquisitions. We expect industrial volumes to improve in Q2 as we are experiencing improved order rates and backlogs, especially in the North American paper markets.

Industrial price trends are expected to improve and price cost is expected to improve sequentially. OCC is expected to increase in the quarter and tan bending chip is expected to reflect market increases.

We're revising our guidance for full year 2024 adjusted EPS to \$5 to \$5.30. This guidance now includes the sale of Protective Solutions, which reduced results by approximately \$0.10. Similarly, we are revising full year 2024 adjusted EBITDA guidance to \$1.05 billion to \$1.09 billion.

We are reaffirming our operating cash flow guidance to \$650 million to \$750 million, we're confident in this guidance as we anticipate we can continue to outperform our working capital expectation for the year. Now Roger will further discuss the outlook for the business.

Rodger Fuller^ Yes. Thanks, Rob. Please turn to Slide 20 for our view of segment performance drivers in the second quarter of 2024.

In the consumer segment, we expect volume to be up sequentially and essentially flat year-over-year. We believe the continued retail price inflation and a slower uptick from promotions are the primary drivers of volume in the second quarter.

In Rigid Paper Containers, we see sales decline sequentially and year-over-year in the second quarter in North America, primarily in snacks and other discretionary food products.

Customer demand is lower than originally forecast, and we see limited impact from promotions in the near term. Rigid Paper Container net sales for the rest of the world are flat year-over-year where new product launches are progressing against the backdrop of sluggish consumer demand for legacy products in Europe.

Our newly merged Thermoform and flexible packaging business, we anticipate sales to be up sequentially in the second quarter from seasonal volume improvements in both flexibles and thermoforming. The thermoforming and flexible packaging team is making excellent progress in the integration of the leadership team and plant structure, and we'll see a near-term cost benefits from the integration.

Our focus now will be on driving growth through these resin-based businesses.

In our Metal Packaging businesses, sales are expected to be up sequentially in both Aerosol and food cans. Aerosol demand improvement is offsetting lower volumes in food cans, and we expect total year-over-year volumes to be up mid-single digits in the second quarter. The first quarter was impacted by metal price overlap, which extended into the second quarter last year.

So this will be a net positive for the quarter. It's worth noting that we are carefully monitoring tightening tinplate steel availability, domestic supply constraints as well as uncertainties around import tariffs have created a tight supply market.

Our teams are doing a great job of managing this issue, but it bears watching in the near term. Across all of our consumer businesses, we expect strong productivity in the second quarter.

In Industrial, we expect sales to be up low single digits year-over-year. In our North American paper businesses, volumes and support of tissue and tile consumer end markets remain strong. And we've seen an improvement in sales to the construction industry versus the lows we saw at the end of last year.

The capacity utilization of our North American paper operations will remain strong in the second quarter. The same is true for our North American converting businesses, where

volumes are projected to be up organically year-over-year and sequentially in the low single digits.

Similar to Q1, we experienced negative price cost for the second quarter as higher input costs such as OCC and wage inflation, have not yet been recovered through pricing increases.

We believe this, as Rob said, to be a timing issue as price increases have not been fully reflected in index pricing, but our open market increase in North America has been fully implemented.

While overall international sales in industrial will continue to be sluggish, we are seeing some signs of improving volumes in Europe.

In all other, we expect lower-than-expected sales as volume demand remains soft in our [temperature] packaging business due to product transition delays in various shipping products.

However, effective price cost is offsetting some impacts from these lower volumes. The remaining businesses and all other are also benefiting from positive productivity.

Our teams are doing a great job on the productivity front across all businesses, and we expect continued strong productivity results in the second quarter, supported by footprint rationalization, ongoing expense activities and continuous improvement programs. We are very well positioned operationally for volume improvement. So with that, Howard, I'll turn it back to you.

R. Howard Coker^ (Technical Difficulty) created tremendous over the last several years for the foundation and of (technical difficulty) Yes. I'm sorry. We had a little technical issue here. Yes, Operator, let's handle any questions that you may have.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question will be coming from Ghansham Panjabi of Baird.

Ghansham Panjabi^ I hope I didn't miss too much with the call. But I guess, first off on consumer, if we kind of look at that segment, is it fair to say that at this point, coming out of 1Q that destocking is behind you for the most part and now you're just kind of bearing what the major end markets are doing. Is that how you see things unfolding here?

R. Howard Coker^ Yes. Ghans, this is Howard. Yes. We feel like we're fairly well through a destocking, and it is market conditions at this point in time.

Ghansham Panjabi^ Okay. And then in terms of Aerosol, is that your performance seems a little bit better than the market. What do you attribute that towards?

R. Howard Coker^ On the thing I can say to that it is the mix of customers that we have. On the way I can really answer that.

It's certainly -- I don't think -- I don't see any share movements as much as the customers that we have in our portfolio are doing better than they did, obviously last year.

Ghansham Panjabi^ Okay. That's a fair answer. And then last question is on the consumer segment and the RPC component. Just give us a little bit more color in terms of what drove the extent of that decline and the evolution in terms of getting back towards flat. Is that just a function of easier comparisons as the year unfolds?

R. Howard Coker^ Yes. I'd say for the quarter, really impressed if you look at internationally with high how I can say the high teens, growth in Asia, South America, relatively lower numbers in Europe. And then we -- in North America really had a difficult quarter. Really around a few discrete customers. And it's back to not unique to Sonoco, but in North America, the price versus volume equation and our customers on the RPC side and on the flexible side as well are telling us that they're starting to fill the pain of deleveraging and are planning to start increasing our promotion and marketing activity.

So as we go into the remainder of the year, we feel like we should see some benefit from that. But it really was a North American story in RPC.

Operator^ And one moment for our next question. And our next question will be coming from George Staphos of Bank of America Securities.

George Staphos^ I guess first question I had, you generated, I think you said \$51 million of productivity Howard or Rodger, on the back of not a lot of volume. And so on the one hand, kudos to everyone on the Sonoco team in that regard, but how much longer can you continue to drive productivity if the volumes don't materialize.

Can you remind us what your budgets are for productivity for this year? And how volume dependent they might be?

Rodger Fuller^ Yes, George, this is Rodger. I think we said last quarter, our productivity guide for the year is over \$100 million. If you remember last year, we did had a record year in productivity over \$100 million last year. Certainly we're tracking to do better than that this year.

As I said in my comments, second quarter, we should see continued strong productivity and that's volume sensitive to some degree, but the work -- the capital investments you weighed, the footprint work we've done, and that continues this year.

We're confident we can have another record year in productivity this year. We don't really guide quarter-to-quarter, as you know.

But based on what we see for the year from a volume standpoint, the plans we have in place around productivity, we expect a stronger productivity this year than last year.

So hopefully, that helps.

R. Howard Coker^ Yes. And George, I'd just say you're right, volume equals leverage, and we're looking forward to volume returning to really start driving the invested at the plant level. Improvements that we've made. And we'll talk about this, I'm sure, but really encouraged with what we're seeing from a loading of our North American paper business.

I think it's the first time we've seen the amount of backlog that we have in place since we've made some really material capital investments, rationalizations. And so see this as upside as we go forward.

George Staphos^ Understood. And not to push too hard on this one, but let's say, hopefully not, we're here in October, and we're talking about this persistent issue, consumer hasn't come back. There's still this lingering destocking if that would even be possible. And let's say, volumes are trending, especially in consumer kind of low single-digit declines. Does that put at risk your productivity target for the year? Just trying to get a sense there...

Rodger Fuller^ No. It does not put at risk the target we laid out for the year of over \$100 million.

George Staphos^ Okay. Thanks for your thoughts and your patience on that one. So if we talk about consumer a bit more, I guess the overarching question would be what are your customers especially in paper seeing? It sounds like in answering Ghansham's question, a lot of it is just inflation and the effect on the consumer and their discretionary spending.

If I missed that, please relay what you think is happening? And if overall consumer volumes are flat in the quarter coming up, and I think you said metal overall will be up mid-single digits. It would suggest that everything is down, but can you give us a sort of size order, what of the other large consumer segment are down the most and why?

Rodger Fuller^ Yes, George, Rodger again. RPC Global, we're expecting to be down a little over 1% in the second quarter, which is an improvement, obviously from the first quarter, and that's driven by Howard already mentioned some really nice international growth with a softness in continuing in North America. And it's exactly what you said.

Our customers are telling us it's the price on the shelf. They are promoting, but we've seen limited impact from that.

Hopefully, that shows up over time. slightly positive in Flexibles in the second quarter from a year-over-year standpoint and then slightly negative in thermoforming versus a

strong second quarter last year. And then metal, as you said, up mid-single digits. So that's why we're calling consumer flat for the second quarter.

Operator^ Our next question will be coming from Mark Weintraub of (inaudible).

Mark Weintraub^ So if we look at Page 27 or Slide 27, the number that really jumps out was that negative \$56 million price cost in industrial. And as you said, you announced a price increase for February, and that didn't get reflected by Pulp and Paper [weak] in February, March or April.

But you are seeing it in our open market transactions. And so I guess the question is, what do you do with Pulp and Paper [weak] doesn't reflect it? How dependent are -- is your ability to get prices on the converted product, et cetera, for it to be reflected in pulp and paper, what options do you have to make sure it happens.

And maybe I'll start there.

R. Howard Coker^ Mark, I'd say just direct to your question, we have contractual obligations that are aligned to certain indices, and we're going to have to live by those.

I think maybe where you're going is a longer-term question, and that's something that we're taking in consideration, but what do you do? If it doesn't happen, we pull the contingency plans that we've got in place to make up for the difference.

But you noted exactly right that the uptake from our open market was highly successful.

We are running here in North America with backlogs that I just noted a minute ago that we haven't seen in literally in years.

And that is as far as we can see out, let's just say, end of the third quarter. So I would be shocked if any index didn't reflect those type of market conditions. But I think maybe you're asking a longer-term question, and that's one that we're certainly considering at this point here as well.

Mark Weintraub^ That's very helpful. And maybe now with the RTS transaction done as well could you remind us sensitivities for every \$10 per ton change, let's just say, in the index, how it impacts the North American market, how it would flow through to EBITDA.

Rodger Fuller^ Yes. Each \$10 move in tan bending chip is about \$5 million a year, up or down.

Mark Weintraub^ I'm sorry, I don't -- maybe I'm asking the wrong question. But don't you have north of 1 million tons of...

Rodger Fuller^ Yes, 1.2 million tons in North America. But remember, almost 40% of that does not move off the index either open market and some OCC movement.

Mark Weintraub^ Okay.

Super. That is helpful. And just maybe real quickly to. You noted that OCC you thought would be higher 2Q than 1Q, I believe, yet it had shown signs of moderating in April. Is that just a carryover from 1Q having been rising as it progressed? Or is that that you're expecting OCC to start ticking higher again?

Rodger Fuller^ Some carryover, and we have projected another \$5 move in the quarter as we get to the end of the quarter.

Operator^ And our next question will come from Gabriel Hajde of Wells Fargo.

Gabe Hajde^ I wanted to ask about the food can business. We're reading more reports about imported full cans of vegetables and fruits hitting shelves maybe to circumvent templates steel tariffs and otherwise. I think that's roughly 40% of your food can mix.

I'm curious based on conversations with customers, and I know they have to kind of plan for the stuff in terms of plan things, what the expectation is for the upcoming pack season that's embedded in the food can business?

R. Howard Coker^ Gabe, I really don't have that level of detail. I heard the same thing in terms of imports. I don't think we're hearing that as a direct impact to our customers. And as we said earlier, we expect to see a slight improvement in the second quarter. And that's feedback from our customers.

So at this point in time, I really can't speak to any type of material influence that we are aware of within our customer base related to (inaudible) materials, certainly it's out there.

Operator^ (Operator Instructions) And our next question will be coming from Gregory Andreopoulos of Citi.

Gregory Andreopoulos^ Just a few quick questions for me on consumer price costs. So you mentioned CPGs are kind of stepping up promotions or that could be happening in the near term.

So I'm wondering how you think about your -- or the dynamic of CPGs stepping up promotions versus your ability to capture positive pricing in consumer or even positive price cost, depending on how you want to address it? And then I had one follow-up after that.

Robert Dillard^ Yes. I mean I think that we definitely have seen pricing dynamics at the consumer level, we think that the customer -- our customers are being really dynamic in

their response to kind of higher prices on the shelf and our acting appropriately to drive the right volume for them.

In terms of our price, how we see that, there are a number of index-based prices that affect that. I think overall, we've got kind of a little bit of price pressure. So I would say low single-digit price pressure going into the second quarter.

And I think that some of that is going to be metal probably a little bit more offset, but overall, modest pricing pressure going into the second quarter from a sequential basis and then also on a year-over-year basis.

Gregory Andreopoulos^ Okay. That's fair. And I mean price cost didn't seem as bad as it could have been in 1Q, but down 9%. And I think you mentioned last quarter that you had some contracts resetting lower.

So I'm wondering if you could kind of address what kind of [cap] price cost relatively close to neutral? And then if you could remind us what's implied for the full year guide in terms of consumer price cost for the balance of the year. And I'll turn it over after that.

Robert Dillard^ Yes. Price cost was -- we had a really strong performance in the businesses. I think they're doing everything they can to kind of manage price with their customers, most of these are index-based prices that are causing a little bit of decline, and that was across the board, across consumer.

So it was pretty evenly spread. And Q1 is when we experienced metal price overlap, which was \$16 million this year, so a little bit down because we've been managing the inventory at the end of the year.

And they did a really good job kind of managing the timing and the activation around that. So that, that was only \$4 million of the \$9 million or \$10 million that we had in price negative price cost in Q1.

We think that will relieve somewhat in Q2, and actually, we'll get some positive price costs in metal, which will get us to a modest positive in price cost for consumer in the second quarter, and we expect that to continue through the balance of the year.

Operator^ (Operator Instructions) I'm showing no further questions. I would now like to hand the call back to Lisa Weeks for closing remarks.

Lisa Weeks^ Thank you, again, for joining us today. If you have any follow-up questions, we'll be around after the call. And please feel free to contact me if you'd like to schedule a follow-up meeting.

We look forward to seeing you all on the road at our planned conferences and events in the coming weeks, and we look forward to reporting our second quarter results in early August. With that, please have a great day. Thank you.

Operator^ And this concludes today's conference call. Thank you for participating. You may now disconnect.