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WestRock Company (WRK) CEO Steve Voorhees on Q4 2019 Results - Earnings Call Transcript

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FQ4: 11-07-19 Earnings Summary

Press Release *10-K* *Slides*

EPS of $1.24 beats by $0.05 | Revenue of $4.65B (9.80% Y/Y) misses by $-189.25M

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WestRock Company (NYSE:WRK) Q4 2019 Results Conference Call November 7, 2019 8:30 AM ET

Company Participants

James Armstrong - Vice President of Investor Relations

Steve Voorhees - Chief Executive Officer

Ward Dickson - Chief Financial Officer

Jeff Chalovich - Chief Commercial Officer and President of Corrugated Packaging

Pat Lindner - President of Consumer Packaging

Conference Call Participants

Mark Weintraub - Seaport Global

Chip Dillon - Vertical Research

George Staphos - Bank of America

Steven Chercover - D. A. Davidson

Anthony Pettinari - Citi

Gabe Hajde - Wells Fargo Securities

Brian Maguire - Goldman Sachs

Mark Wilde - BMO Capital Markets

Mark Connelly - Stephens Inc.

Adam Josephson - KeyBanc Capital

Operator

Good morning. My name is Jake, and I will be your conference operator today. At this time, I would now like to welcome everyone to the WestRock Company Fourth Quarter 2019 Earnings Conference Call.

At this time, I would like to turn the call over to Mr. James Armstrong, Vice President of Investor Relations. Please go ahead.

James Armstrong

Thank you, Jake. Good morning. And thank you for joining our fiscal fourth quarter and full year 2019 earnings call. We issued our press release this morning and posted the accompanying slide presentation to the Investor Relations section of our Web site. The release and presentation can be accessed at ir.westrock.com, or via a link on the right side of the application you are using to view this webcast.

With me on today's call are Chief Executive Officer, Steve Voorhees; our Chief Financial Officer, Ward Dickson; our Chief Commercial Officer and President of Corrugated Packaging, Jeff Chalovich; as well as our Chief Innovation Officer and President of Consumer Packaging, Pat Lindner. Following our prepared comments, we will open up the call for a question-and-answer session.

During the course of today's call, we will be making forward-looking statements involving our plans, expectations, estimates and beliefs related to future events. These statements may involve a number of risks and uncertainties that could cause actual results to differ materially from those we discussed during the call. We describe these risks and uncertainties in our filing with the SEC, including our 10-K for the fiscal year ended September 30, 2018. Additionally, we will be referencing non-GAAP financial measures during the call.

We have provided reconciliations of these non-GAAP measures to the most directly comparable GAAP measures in the appendix of the slide presentation. As mentioned previously, the slide presentation is available on our Web site.

With that said, I'll now turn it over to you Steve.

Steve Voorhees

Thanks, James. Good morning. Thanks for joining our fiscal fourth quarter 2019 earnings call. It's been an eventful year at WestRock, and I'm proud of all that our teams accomplished. During the past fiscal year, we've completed the KapStone acquisition and we've made substantial progress on the integration in the strategic capital projects that we have underway. We've delivered solid operating performance, including generating over $1 billion in adjusted free cash flow for the fourth consecutive year since we formed WestRock.

In this morning, we announced that we're increasing our dividend by 2.2% to $1.86 per share on an annualized basis. The increase demonstrates our confidence in our ongoing ability to generate strong cash flow for the long-term. As many of you know, WestRock's vision is to be the premier partner and unrivaled provider of winning solutions for our customers. Our performance in fiscal '19 advanced our progress toward achieving our vision. We have the advantages of the industry's broadest portfolio of sustainable fiber-based paper and packaging solutions combined with an organization that's becoming increasingly successful at delivering the customized value-added solutions that help our customers win in their markets.

As an example, since July of 2018, our sales of plastic replacement solutions have generated a run rate of more than $100 million in annual sales. For the entire fiscal year '19, net sales of $18.3 billion were 15% higher year-over-year, excluding prior year recycling sales. Fiscal '19 was marked by several key achievements. We grew our North American box segments by 18% from 80 billion square feet to 94 billion square feet.

And while most of the increase was due to the KapStone acquisition, we still grew our organic daily box shipments by 2.5% in fiscal year 2019. And this compares to the industry growth rate for the same period of 0.5, or 0.5%. We grew our enterprise sales where customers buy more than $1 million annually from each segment to $7.3 billion. More than 150 customers are realizing and appreciating the value of our diverse differentiated portfolio.

We generated $2.4 billion in adjusted operating cash flow, and we use that cash flow to invest more than $1.3 billion in capital, including our strategic capital projects. We returned more than $550 million to stockholders through dividends and share repurchases. We've paid down $757 million in debt since the end of the first fiscal quarter, and we remain focused on returning to 2.25 to 2.5 times leverage target.

Let's turn to the fourth fiscal quarter. Our sales were more than $4.6 billion, up 13% compared to the same quarter of last year, also excluding prior year recycling sales. Our adjusted segment EBITDA margins were 19%. Our Corrugated Packaging adjusted segment EBITDA margins of 22% remain strong despite the softer year-over-year market conditions. North American Corrugated Packaging adjusted segment EBITDA margins were 23%. Our consumer packaging business reported EBITDA margins of 16.1%, up 100 basis points year-over-year. We grew converting shipments and implemented previously published price increases for paperboard.

Our adjusted segment EBITDA increased $89 million or 11% year-over-year. The KapStone acquisition, lower inflation and productivity improvements, contributed to this EBITDA growth, which was partially offset by lower volumes, a pass through of previously published price changes and lower prices for pulp export containerboard and craft paper.

Now to our Corrugated Packaging segment. Our adjusted segment EBITDA increased 14% year-over-year. Adjusted segment EBITDA margins in North America of 23% represented another outstanding performance by WestRock's Corrugated Packaging team

The flow through, previously published price reductions for containerboard and craft paper, lower pole prices and weakness in export prices, negatively impacted EBITDA during the quarter. However, the negative EBITDA impact from declines in volume and pricing was more than offset by the inclusion of KapStone and our results, as well as lower cost and productivity improvements. Given the softer supply and demand environment for containerboard, we matched our production with our customers' demand. During the quarter, we took 97,000 tons of economic downtime and an additional 34,000 tons of maintenance downtime.

We saw growth in many of our end markets, including agriculture, bakery, e-commerce, pizza, protein and retail. Our broad based strength in these end markets was slightly offset by lower margin business that we exited, and also by lower year-over-year external containerboard and craft-paper shipments, excluding KapStone. Our integration rate for the year was 77%, and we’re targeting long-term integration rate of 90%.

For the month of October, our daily box increased by 1.8% over the last year. During the month of October, the combination of the increase in the box demand over last year, stronger than expected demand from domestic and export customers and our scheduled maintenance downtime, allowed us to operate our systems with no economic downtime, while reducing our inventories by 36,000 tons.

For the entire December quarter, we scheduled 131,000 tons of maintenance downtime. This includes 65,000 tons of downtime for the outage now underway at our Florence mill. This outage is taking place, while we’re executing our project to replace our three older paper machine with a new modern paper machine. After we complete the outage later this month, we want to start up one of the three older paper machines that has capacity of 15,000 tons a month. We expect to start up the new paper machine in the spring of 2020.

The strength of WestRock's differentiated product portfolio shows up in our results. We distinguish ourselves with high quality board and design, and consistent delivery of value for our customers, including the value we deliver through our machinery offerings. Our platform includes a scaled footprint with a broad portfolio of products and services. Our platform, combined with our commercial approach, supports our ability to meet the needs of thousands of local, regional, national and global customers and helps to explain how we’ve been able to sustain above market organic growth rates and attractive EBITDA margins.

In Consumer Packaging, adjusted segment EBITDA margins grew 100 basis points on lower revenue. Year-over-year, pricing improvements, lower energy, material and freight costs and productivity improvements, were only partially offset by lower volumes, lower pulp prices and wage inflation. In addition, volumes were lower year-over-year as slight growth in converting shipments was more than offset by lower paperboard shipments, primarily due to the restoration of inventory following the strategic outages at Mahrt and Covington.

Currently, backlogs and all of our grades are at levels that we expect during this time of year with SBS, CNK and CRB backlogs in the range of three to six weeks. We've just begun to tap the full potential of our broad fiber based packaging portfolio. Since 2016, sales from customers that buy more than $1 million per year from each segment have grown by approximately $2.5 billion or roughly 50%.

As the market realizes the value of our differentiated portfolio and the ability to deliver the right fiber-based solution, regardless of the substrate, we expect further sales opportunities and growth. We're optimizing our system to reduce cost. We're investing in a number of strategic projects that will drive cost savings and efficiencies throughout the system.

We expect to realize more than $240 million a year in incremental EBITDA from these initiatives. I'm excited to see each of these projects come to fruition and especially enthusiastic about our new box plant in Porto Feliz. I attended the opening last month this box plant's well-equipped with the capacity produce about 5 billion square feet each year. We also operate the first preprint machine in South America. Our Porto Feliz has an amazing workforce that is highly capable has the expertise to deliver high-quality packaging to a wide variety of customers.

We're realizing the synergies from the KapStone acquisition. Through the fourth quarter, we've realized $90 million in annualized synergies and are on schedule to achieve more than $200 million by the end of fiscal year '21. We've internalized 100,000 tons of annualized shipments to our Victory Packaging system, and now supply 250,000 tons to Victory.

Asset optimization is another lever of EBITDA improvement to drive costs out of our system. In September, we announced the North Charleston mill reconfiguration that will reduce linerboard capacity by 288,000 tons. And once completed in the spring of 2020, will eliminate $40 million of annual cost.

Now let's talk about sustainability. Our customers are embracing the increasing desire for sustainable packaging solutions. They are setting aspirational short-term and long-term goal for increasing their use of packaging that’s recyclable, reusable and/or compostable. Fiber-based packaging is especially well positioned, because it's made from either recycled fiber or virgin fiber that's been sourced from sustainable forest.

Our team at WestRock is enthused about working with our customers to help them meet their sustainability goals by creating customized alternatives using WestRock's differentiated portfolio of Corrugated Packaging, Consumer Packaging and machinery solutions. We've been successful doing this. And so far since July of '18 we've increased our annual run rate of sales by $100 million by replacing plastic in a wide variety of use cases. The largest market today has been food and food service where we've replaced plastic with our paperboard, clamshell and folding carton solutions, perfect for dine-in, carry out and delivery use.

In beverage, we've replaced shrink wrap, our Cluster-Pak paperboard solution, and used our CanCollar paperboard rings to replace plastic rings for dozens of customers. Our machinery makes the transition to paperwork solutions easy and cost-effective for our customers. We're frequently asked what the addressable market is for plastic reprising.

While it's difficult to estimate exactly, we believe the addressable market is at least $5 billion. Importantly, the addressable market is expanding as consumers demand more sustainable packaging. We’re working with our customers to innovate to develop more fiber based packaging opportunities. WestRock's designed paperboard science and machinery capabilities position us for continued opportunities to work with customers to develop even more sustainable fiber based packaging application.

Many customers regularly tell us that labor efficiencies and the need for improved productivity are among their biggest challenges. Our machinery solutions address these issues for all types of businesses. We provide solutions that best fit our customers' needs. Often when customers are just starting out with us, we can instantly boost their productivity by supplying them with a simple case erector or case sealer.

Further, we can help even the largest operations that use their footprint more efficiently by designing turnkey solutions for both primary and secondary packaging, and increasing throughput without additional labor or expansion cost. Approximately 35% of our corrugated packaging sales are to customers that use WestRock's machinery solutions. Our machinery replacements keep growing. We typically have longer-term contracts and stable demand for machinery customers that appreciate the service and innovative solutions that we've developed.

One new machinery solution that we've recently developed is our Pak On Demand pouch system. Consumers have begun pushing back against single use plastics, including plastic bubble mailers. Through Pak On Demand pouches, we're able to make custom sized corrugated pouches that help our customers eliminate the use of single use plastic.

The Pak On Demand system helps lower labor cost and reduces or eliminates board fill. The pouches help our customers grow their sales and improve productivity, while providing the recyclable packaging experience consumers demand. Pak On Demand demonstrates how our machinery offerings help drive supply chain efficiency and often meets new sustainability goals for our customers. WestRock create solutions that solve our customers' critical challenges helping them lower their cost, grow their sales, improve their sustainability and minimize the risk. This creates value for our customers.

The first alert Packaging story, as a current example, have WestRock's enterprise approach is helping our customers solve their critical challenges. First Alert started with a complex supply chain with more than a 150 SKUs and the challenge of creating a sustainable package that provides an improved customer experience. We also needed to keep the same footprint and reduce the cost of access of tooling changeovers. Solving for this complexity and creating a sustainable packaging solution, that's the type of challenge of WestRock team loves to solve.

WestRock team reduced the SKUs into three common cards sizes and 13 common blister cards using our NatraLock paperboard. We converted the paperboard, provided to clear blister shell and provided the machines to heat seal the new and improved package. WestRock won the sustainable Packaging Award for this package from the paperboard packaging Counsel.

This award highlighted the 61% reduction of plastic in the packaging and the 36% reduction in packaged weight. This was one of only 13 awards from the Paperboard Packaging Counsel that we received with the most in the industry and a very positive reflection on the performance of our highly capable team. We're providing sustainable packaging solutions that create value for our customers every day.

Now I will turn it over to Ward to discuss our full year and first quarter FY ' 20 outlook. Ward?

Ward Dickson

Thank you, Steve. On slide 15, we outlined our fiscal year 2020 guidance. We expect net sales to be between $18 billion and $18.5 billion. This guidance reflects the flow through of previously published declines in North American container board and craft paper index pricing, and the full year impact of market pricing declines that we've experienced in export container board, craft paper and market pulp. Offsetting these declines is an additional month of KapStone sales, as well as forecasted growth in our corrugated box volumes in North America and Brazil, and the increased volumes in our Consumer Packaging business.

Adjusted EBITDA is expected to be in the range of $3 billion to $3.2 billion. The key assumptions include the impact of pricing declines that I just mentioned, and our ongoing inflation in wages, benefits and other non-commodity cost categories. We anticipate commodity deflation, especially in recycled fiber. We will also experience some operational impact in our mill system from the Florence and Três Barras upgrade projects.

We also expect productivity improvements during the fiscal year of more than $200 million. We have provided an adjusted EBITDA guidance range to reflect the potential variability of our key assumptions around volume, pricing and input costs. Our earnings pattern will reflect typical seasonality and is directly impacted by the timing of maintenance outages and our strategic capital projects.

We project that approximately 45% of our adjusted EBITDA will be generated in the first half of the year and 55% in the second half of the year. One of the strengths of WestRock is our significant cash flow generation. We project adjusted free cash flow to be more than $1 billion for the fifth consecutive year. Adjusted operating cash flow is expected to be greater than $2.1 billion. We anticipate a higher cash tax rate and increased working capital usage during the year.

As we have shared previously, we will invest $1.1 billion in capital expenditures to maintain and improve our mill and converting systems, including $275 million for our strategic projects in Florence and Três Barras. As we complete these projects, we anticipate that we will return to 900 million to $1 billion annual capital investment level in fiscal year 2021. In the appendix, we have provided additional details that should help you complete your models.

Turning to Slide 16. We detail the key assumptions included in our first fiscal quarter 2020 guidance. We expect adjusted segment EBITDA in the first quarter to be between $670 million and $690 million as compared to $733 million in the first quarter of fiscal 2019. Some of the current analyst models for our first quarter of fiscal 2020 do not account for the earnings seasonality that I mentioned earlier.

Walking through the year-over year bridge, we expect higher volumes to add $40 to $50 million of adjusted segment EBITDA, as we include a full quarter of KapStone in our results, given the November close in the first quarter of fiscal year 2019. We expect price and mix to negatively impact results by approximately $110 million. The pass through of previously published container board pricing, lower export and craft paper prices, will be partially offset by the benefit of the previously published indexed price increases in our Consumer Packaging business.

Pulp prices are down globally and we anticipate a negative year-over-year impact of approximately $30 to $35 million. Finally, we expect $42 million to $47 million improvement over the prior year quarter as lower commodity cost productivity improvements more than offset higher scheduled maintenance outages of 170,000 tons. This is 103,000 tons higher than the prior year quarter. And as you would expect this also includes a higher year-over-year wage and healthcare cost. We have provided additional items to assist you with completing your models for the first quarter. And now I'll turn it back to Steve for closing remarks.

Steve Voorhees

Thanks, Ward. WestRock team is performing well as we proactively respond to a challenging industry environment. We're seeing increasing opportunities in the market for sustainable packaging, e-commerce and value-added packaging solutions. We're taking advantage of these opportunities in several ways. We're growing organically by creating customized value added solutions for our customers that support their need to grow their sales, reduce their total cost and risk, all while helping them achieve their sustainability goals.

We're investing in our business and in our people for the long term to sustain and expand our competitive advantage. We're building our systems and processes to take advantage of the scale of our platform. We're using digital technology to enhance our customer experience, improve our operating efficiency and better engage our team mates. We're moving from a period of growth by acquisition and investment in large strategic projects to a period of increased focus on organic growth, sustainability, innovation, productivity and free cash flow generation, a combination that will create value for our customers, stockholders and teammates for the long term.

That concludes my prepared remarks. James, we're ready for Q&A.

James Armstrong

Thank you, Steve. As a reminder to our audience to give everyone a chance to ask a question, please limit yourself to one question. We'll get to as many as time allows. Operator, can we please take our first question

Question-and-Answer Session

Operator

Thank you. Our first question comes from Mark Weintraub with Seaport global.

Mark Weintraub

I was hoping just to understand the walk through to the free cash flow number. And perhaps it's the fact that you're saying its $1 billion plus, and that gives plenty of scope as to what the plus could be. But if we look at the EBITDA and we back out the CapEx and we know the cash tax rate is at 21%. I come up with something north of $1.3 billion on the free cash flow, which would seem to be providing quite a bit of room for either working capital build or something else going on. Any color along those lines would be great.

Ward Dickson

Mark, this is Ward. So you're right. You read key components of the guidance correctly. So the midpoint of our adjusted EBITDA range is $3.1 billion cash interest will be around $400 million. The cash tax rates rises from 17% to 21%. We did say in my comments that we expected a modest increase in working capital so there'll be some normal seasonal fluctuations as we go through our maintenance outages and execute the strategic capital projects. In addition, part of the strong performance that we had in Q4, there was some timing of, we had a very strong cash collections quarter in Q4. There was some amount of that was timing Q4 versus Q1 and then we also mentioned that we're rebuilding our inventory levels and consumer as we came out of the strategic outages.

We will be focused on driving free cash flow generation, we did say more than $1 billion and we'll be focused on inventory reductions as we go through the year and also on expanding our supply chain, financing and payables to balance the exposure that we have with our customers as they push for extended terms. So we feel very confident in this guidance and we said more than $1 billion there is implied a small working capital build and we are going to strive to minimize that.

Mark Weintraub

And just one other quick one, if I could. Previously you talked about the strategic investments generating about $50 million of EBITDA, the year just ended and additional $65 million in fiscal '20 and then additional $70 million in '21, and additional $90 million in '22. Are those still the types of numbers that are embedded in the guidance you provided for '20? And you did also mention that there would be some costs related, for instance the Florence, et cetera. Could you give us a sense as to transitional costs would be in '20 offsetting some of the benefits that we get from the projects?

Ward Dickson

So again, Mark, you read my comments correctly. The achievement of the returns from the strategic capital projects is still in line with what we previously disclosed. What we've said with the major outage that we'll have Três Barrasas and as we get prepared for the transition in Florence, the negative impact of those two items will be between $35 million and $50 million in the year. So in this year, it offsets some of the benefits as we prepare to complete those projects.

Operator

Our next question or comment comes from Chip Dillon with Vertical.

Chip Dillon

My question has to do with -- you mentioned about 35% of sales now, maybe 40% to customers that buy both, folding cartons and paperboard, and container board and boxes. And if you could talk about where you're finding synergies or those customers are finding synergies, other than say just pricing. Is there another reason you're seeing such overlap?

Jeff Chalovich

Chip, good morning, it's Jeff. We are seeing value and our customers are finding value in the broad portfolio of offerings, simplicity of doing business with one group, we have enterprise account leads with our top accounts. And if you look at our top 200 or 210 customers, we do about $10 billion in those. And some of those we have, we mentioned 152 of them we do over $1 million each. And then some of them are large customers we don't have quite over $1 million each, but there's about $15 billion of fiber-based packaging in those 210 customers. And we think about eight or nine of that is addressable for us in our space. And we built account teams, account plans to look and grow that business organically by solving those critical customer challenges through the supply chain.

If you look at our surveys from our customers, our customers, whether the consumer or on the corrugated side, tell us help us with the supply chain optimization. So that's total cost take out and we can best do that across the platform with the folding consumer Corrugated business, and then automation with machines. The second is sustainability and you saw we presented today. So we have a sustainable product. We pair that with process and automation that takes out fiber and optimizes the packaging together. They're asking for channel help, brand help. And so with our capabilities across the business and one place to go for that, we're finding synergies for our customers that they value and that's helping fuel our growth.

Chip Dillon

And then just one quick follow-up. I think Ward mentioned $30 million to $50 million in start-up costs I'll call them for all the projects that start up in fiscal '20. Do those largely go away in fiscal ' 21 or how should we see those eventually dissipate?

Ward Dickson

Chip, this is Ward. So we will largely be through the strategic capital projects. We'll have just a small tail with Três Barras as we move into fiscal 2021, and then the benefits from all of the projects will start to ramp up as we complete fiscal '20 and get into '21.

Chip Dillon

So said differently, you're not only going to get a benefit in '21 and '22 from Florence, which I think you've said was somewhere around $70 million but you're on top of that, you'll have a reversal of these costs. Is that right?

Ward Dickson

That's right.

Operator

Thank you. Our next question or comment comes from George Staphos with Bank of America.

George Staphos

Thanks for all the details, as always. I wanted to continue on the questioning on systems and cross-selling and machinery, and maybe kind of a quick first one and then a longer follow on. Jeff, can you comment how many machine installations do you have currently at customer periodically, you gave us that figure just would be helpful. I remember the last number being somewhere in the range of 3,000. But if you could give us a quick update on that that'd be great.

Jeff Chalovich

So George, we have about 3,675 roughly, so between 3,600 to 3,700 deployed, across the system and customers, and the APS sales this year are up about 40%. So strong year helping us grow organically and differentiating us to our customers helping them solve those critical challenge across our platform and we're up 4% as a system across the whole machine platform and consumer and corrugated.

George Staphos

My other question, taking a step back, you talk about, and you're seeing it in total, a benefit from cross selling between corrugated and consumer and you also talk about the benefits that you're getting from sustainability across the platform. It strikes me though. Just looking at the volume numbers that corrugated might be getting a bigger lift from both. So differently said consumer volume was only up slightly on a converted basis but given the cross-sell opportunity from corrugated given the benefit that you should be getting from sustainability, should we be seeing perhaps a stronger volume growth number in Consumer on a converted basis? If so, what's been the headwind, if you will there? Thank you and good luck in the quarter.

Pat Lindner

This is Pat Lindner. Yes, it's a bit and so the consumer volumes as you noted in the quarter were down overall and the converting volumes were up and they were up actually year-over-year quite significantly and are in the 4% to 5% range. The challenge we had in the 4th quarter around volumes really wasn't related to cross selling. It really was related to is what Steve mentioned in more mentioned around restoring our inventory levels, primarily in SBS as well as in C&K from the strategic outages. And just to give you an idea of that when you look at fiscal year ' 19, overall production across all of our paperboard grades or was about 60,000 tons less than in fiscal year ' 18 and that was really because of our strategic outages. So we're obviously now coming out of that in the first quarter here.

Our fiscal first quarter, we're building our inventories back so we can capture some of that growth, but we see tremendous demand in consumer and corrugated across the whole enterprise. We see tremendous demand driven by sustainability and plastics replacement and we're going to continue to capture that as our ability to supply restores to normal levels.

George Staphos

I thought you had said converted was up slightly, but that explains it. Thank you very much.

James Armstrong

Just to remind everybody, we would like to limit yourself to one question, so we can get to as many questions as possible. Operator, can we go to our next question.

Operator

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

Steven Chercover

So a few quarters ago the hot topic was Amazon rightsizing packaging. I think they referred to it is frustration free, but have you really felt an impact on volumes? I mean I assume this is very good for pack on-Demand, but how about for your overall system?

Jeff Chalovich

So we've seen no degradation from that I think this gives us an opportunity again to help solve critical challenges, so the frustration pre-package is really the packaged experience of the opening and then the, as you mentioned the pack on Demand our box size or our automation platform in general help to right size the package, so that you take out waste, number one, it can reduce the fiber, so if you think of a mandrel formed carton; you can take up to 30% of the fiber up good sustainable solution and you can run multiple packages on a machine, which is the tooling change.

Box size, that we just invested in helps multiple footprints and you can right size the package and get rid of all the internal peanuts, plastics, all things that you have to throw away and can't be recycled and then as you mentioned our pack on Demand gives us an opportunity to get rid of some of these plastic packaging envelopes that are not recyclable and we've put out a machine we just introduced PMI and sold two. We had one built as a beta machine we sold 2 off the floor because of the appeal of number one , the optionality of size and that its 100% curbside recycling. So we're not seeing a degradation, we see this as an opportunity to solve problems for customers and their supply chain in the e-commerce channel, including for folks like Amazon.

Steven Chercover

And this is related, I know that in consumer your key competitor does have machinery but I don't think you other competitors in corrugated really talking about the machinery like you do. That's your knowledge, do they have these capabilities?

Jeff Chalovich

We're the only Corrugated manufacturer that builds machinery. I think some others can place they may make agreements with outside vendors, but we have a full machine business where we build, we work with OEM suppliers so our platform is very well established and it is different than our other competitors. Yes.

Operator

Thank you. Our next question comes from Anthony Pettinari with Citi. Please go ahead, sir.

Anthony Pettinari

I was wondering if you could provide any more detail on backlogs for the 3 boxboard grades, I think you cited 3 to 6 weeks, which is somewhat wide range and then just maybe following up on George's question you've articulated and integration target for the corrugated business. I'm just wondering if you have a similar target for consumer or any of the three grades within consumer given you seem to have a lot of these Sustainability opportunities on the consumer side as well.

Pat Lindner

This is Pat. Good morning. So let me talk about the backlogs. First is your first question. So as you've seen in some of the published industry statistics, some of the backlogs have come down and with some seasonal softness. This is typical of what's happened over the last three or four years, so CRB is down around 3 And SBS might be around three or four weeks of backlog. C&K isn't published and we think those are really in the normal typical range across the industry, so we see typical activity.

Now our situation, as I mentioned in the one of my prior answers the situation is a little bit different primarily on SBS so CRB and C&K or in the normal ranges for us kind of three to four weeks at that lower end of what we shared SBS is a little bit different to the higher end and that's generally in the area of four to six weeks. The reason for that is really attributable to the strategic outages that we had, that I mentioned before and the reduced availability of capacity and volume to sell in some of our, some of our markets so our SBS backlogs continue to be longer or a little bit longer than what the industry is publishing.

We expect to catch up on some of that although in the first quarter, we do have a high number of maintenance outages that we we're not able to complete in fiscal year '19 and so we'll continue through this fiscal quarter to continue to restore all those inventories and naturally we want to serve our customers to the best of our ability and bring those backlogs down so we can, serve them in the shortest time possible when they place the demand. Relating to your second question around integration, we think about integration in really 2 different parts. Number one is around specialty applications and this is really around three primary market segments of tobacco, commercial and liquid packaging.

These are all SBS product or markets we serve those with SBS and in each one of those were specified downstream in there really to the end user and that's about 40% of our total SBS that we sell. So we consider that to be integrated through those specialty applications. When you look at food, food service beverage and healthcare and some of the other areas where we're integrated by converting the paperboard in our converting facilities, SBS assets at about 20% C&K at 70 and CRB at about 60% and our view of integration really hasn't changed that much.

We generally view integration as a positive, especially as we get close to our end user customers and sustainability and sustainable packaging and plastics replacement. So it's generally a positive and we'll continue to look for ways attractive ways to increase our integration levels, but at the same time, our open market paperboard sales in those segments is very important to us.

Many of our customers service local, regional markets that are assets in our sales forces, are not as adapt at serving are capable of serving. So we see this nice mix of integration where we'll continue to look to improve and increase our integration level combined with accessing the open market paperboard sales is a really healthy and nice combination.

Anthony Pettinari

And then just a quick one on Corrugated if I could, one of your large competitors has talked about stabilization or maybe even a little inflection and export market conditions in October. I think specifically Europe which has been pretty weak all year. I'm just wondering if that's something that you're seeing or any kind of general comments on craft liner export markets?

Jeff Chalovich

We did see some stabilization in the quarter and then the second half of October coming to November the backlogs are stable and a little bit up actually in the container board space. China is still challenged with demand and their inventories. Europe is much more stable in their inventories coming back into balance and then where most of our shipments go 60% is that Latin America and we've seen that stabilize in the last three weeks or so here also.

Operator

Thank you. We have a question from Gabe Hajde with Wells Fargo Securities.

Gabe Hajde

I was looking at Slide 11 and the annual cost reduction of $40 million from closing the machine at Charleston. I was curious if this was part of the 200 and synergies you guys have already identified or if it's a separate and above and beyond. And then talk about the kind of how the integration is coming along and what drove the decision to close this machine and then I know that the remaining two machines there have ample flexibility. Can you increase productivity or production of liner board at those machines, if you chose to?

Jeff Chalovich

So that was not a part of the original-200 million of synergies so that was not contemplated when we looked at the synergies originally. Now, the machines do have flexibility. Machine number one had run previously door assort, so we're moving back door assort to machine number one and craft pack to number two, we're reducing the container board we could swing them. It gives us flexibility to swing if we wanted to, but we're looking at the door assortment craft pack moving those and then running 288,000 tons less of our container board at that mill. That was an opportunity at that mill because of the cost structure to really reduce the cost and that's why we really did it. They gave us an opportunity to further match supply and demand, reduce our cost structure at that at that mill and that's why we made the decision.

Operator

Thank you. Our next question comes from Brian Maguire with Goldman Sachs.

Brian Maguire

Just a quick question on the trend in box shipments, I think last quarter. Jeff, you talked about it. July starting off pretty strong at 5.4 looks like, it decelerated a little bit through the quarter to average out 2, just wonder if you could kind of comment on inter-quarter trends there and similarly, as we look at 1Q October starting out at 1.8, would you expect sort of a similar deceleration or maybe destocking at the year end, any signs or expectation of that? And then the last part of it just as you look out the 2020, it looks like the revenue, EBITDA guidance is calling for 1% to 2% box shipment growth any is that a WestRock specific comment or are you expecting the industry to kind of grow at that level? And if so, any reason why you would expect it to kind of accelerate from the flat trajectory it's been on for most of this year?

Jeff Chalovich

So I'll start with the July comment. So we did see some deceleration in that quarter, but that was atypical and if you look at our September for us last year, we were up over 5% per day and so there was a bit of deceleration, but we've come back. It was 2.2 for the quarter, which was a good quarter comparatively to the industry again and if you look at last year at the same quarter, typically we were at 1.7% and then we want to 2.4 and 5.8.

So I expect because of the e-commerce in the build us to look at more of an acceleration through the quarter, then a deceleration and our comments of 1% to 2%, we've grown 2.2% this year and 4% respectively. The two years prior, I expect the business to continue to grow positively and so it's a comment for WestRock not the industry. I think we continue to differentiate ourselves in the marketplace, we will grow this business and we feel confident in our projections.

Brian Maguire

Just a quick related follow-up just on the corrugated integration rate looks like it a little bit below 80% again. Any reason for that or is it just timing or seasonality and some of the business?

Jeff Chalovich

Seasonality, there is some more of exports, less of our integrated to our partners, Grupo Gondi, which is seasonal that's not uncommon in the quarter over 77% for the year trailing 12 months.

Operator

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

Mark Wilde

Good morning, Steve and Jeff, in particular, I have to say this Corrugated business has come a long way since 2011 but on this, on the business itself, I just the margins remain at the high end of the industry norms and we're seeing a lot of new capital flow into the business on both the mill and converting side. I wonder if either or both of you can talk about two or three key initiatives to maintain the current high level of margins and returns at WestRock ?

Jeff Chalovich

So we are continuing number one to satisfy customers. We have a outward focus on our customers and I think that solving customer problems and focusing on their critical challenges now will help us grow this business profitably and differentiated. Secondly, we continue to invest in our system both in the mills in the box plants and across our automation platform to reduce our costs.

So cost control, productivity process control, all of those things, doing a good manufacturing process and sites; we're going to continue to do to manage our costs, grow organically and we're going to work on growing the enterprise. We think the combination of the broad portfolio of products, our solutions package is going to give us an opportunity to differentiate and maintain our margin profile.

Ward Dickson

Mark, I'll add on to what Jeff said. i think we've been very transparent about what we're trying to do. I think when you look at a project like we're undertaking at Charleston. There is not a textbook that allows you to just have that come out of the answer. So the people we have, looking at our mill system, looking at our box system and how its operated as efficiently and come up with opportunities to invest capital to get even more out of what we have.

I couldn't be more proud of the people we have in that business, and it shows up in the results and I thank you went back to 2012 and if you look at the way people have talked about the assets that we've acquired we've made, I think tremendous use of the assets on both the converting side and the mill site and compensate that with the strategy to take care of our customers, and I think that's producing the results and I expect we're going to be able to continue to do that going forward.

Operator

Thank you. Our next question comes from Mark Connelly with Stephens Inc.

Mark Connelly

Following on the integration issue and container board you're at 77%. You want to get to 90 usually that means going out and buying independents but we're seeing more and more new box plants getting built shooters getting built and then we're also seeing a lot of debottlenecking going on. So how do you think about getting there when there's fewer independents to buy?

Jeff Chalovich

So the way we think about it is, we believe we can grow that 2% rate over the next 5 years, which puts us with the tonnage we need to get so approximately that 90%. So that's really organic growth . If there is bolt on opportunities in the future that makes sense for us, we'll certainly look at those, but we believe we have the system, the processes and capabilities to grow this business organically over the next 5 years and that would put us toward that 90% range.

Mark Connelly

Mark Connelly

And within your existing capital spends, are there lot of debottlenecking projects you going have to do to get there?

Jeff Chalovich

We have, as you know, if you look back from 2013 through today, we have built an outstanding system in the container plants and the mill by the investments we've done. We continue to debottleneck our plants and look at that we're bidding the constraints and our typical capital investments have taken care of that. So I believe in our normal capital investments that we have, we can continue to grow at that rate was nothing exceptional in the capital expenditures.

Mark Connelly

Just one clarification. Pat's comments about Consumer Packaging were helpful. But what I'm noticing is that the revenue per ton in that business has actually gone up very nicely even as the volumes have gone down, so was there a significant mix shift?

Pat Lindner

So thank you for the question. This is Pat. So one of the things I'm really proud of our team is how we've managed the available customer demand in this year through our strategic outages. So if you just look at our margins even on lower volume and what we just reported in the fourth quarter in 2019 was 16% at the 100 basis points over the prior year fourth quarter of ' 18 and that really reflects even with our reduced volumes and those volumes being tempered, we still were able to go after the most attractive business in service that consistent with our market segmentation and customer segmentation principles and so we're really proud of the team for doing that. So the answer is yes. To your question, the quality of the business, the mix of the business that we are continuing to serve is improving and increasing and we're really pleased to see that.

Operator

Thank you. Our next question comes from Adam Josephson with KeyBanc Capital

Adam Josephson

Just two questions. Jeff one back to I think Brian's question about your box shipment forecast. So you're forecasting up one to 2 this year, you're up 2.5 last year is the lower rate of growth you're expecting just see economies slowing down, e-commerce slowing down; can you just give me a little sense as to what's, what you're thinking there? And then do you expect to continue to outgrow the industry next year as part of that 1% to 2% growth forecast?

Jeff Chalovich

So I wouldn't say we're looking at accelerating. I think that we're looking at, Yes, we look to outperform the market in general and what we've what we've planned as you've seen is 1% to 2% and we started off the year almost that 2% were 2.5. So when you look at the higher end of that, when we're planning and when we're going to market. So the expectation, again to get to the 90% integration is that we can grow this business reliably at about that rate and that's how we build the system and that's how we think about it and if the market slowdown, we still expect to outperform but I don't have a crystal ball that says what it's going to do exactly in the future.

Adam Josephson

And then just more one on working capital. Could you give us just a rough sense of what your working capital expectation is in terms of the drag on I think you said modest, but can you? Just given that the bridge was getting to $1.3 billion, and you talked about $1 billion plus. Just can you give us any sense of how much of that delta is working cap?

Ward Dickson

It's approximately $250 million.

Operator

Thank you. Our final question comes from George Staphos with Bank of America.

George Staphos

Just a couple of quick cleanups. One, could you relay what your assumption is for recovered paper pricing recovered fiber pricing relative to what your budget is for next year? And then just a clarification, the insurance receipt in the quarter. I assume that was in the receivable in working capital and the cash flow for the quarter. Thank you, guys. And again, good luck in the quarter.

Ward Dickson

George, this is Ward. So the OCC or recycled fiber assumption for next year is that cost remains fairly constant with the current levels through the first half of the year and a modest increase in the second half. The average for the year is down approximately $15 a ton over the whole year versus fiscal 2019. For the insurance, I will remind everybody in our guidance for the fourth quarter, we assume that we would get $10 million of business interruption, or $15 million of business interruption and we only received $10 million. The total recovery did flow through cash flow in the quarter. It was expected as we were working with our insurance provider. And we've recovered $180 million during the fiscal year. We ultimately believe the claim will be in excess of $200 million.

Thank you very much. Thank you, Jeff. I think that ends our call. Thank you to our audience for joining our call today. As always reach out to us if you have any questions. We're always happy to help. Thanks and have a great day.

Operator

Thank you, sir. And that now concludes the call. Ladies and gentlemen, you may now disconnect.