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Packaging Corporation of America (PKG) CEO Mark Kowlzan on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-23-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $1.92 beats by $0.01 | Revenue of $1.75B (-3.27% Y/Y) misses by $-35.97M

Earning Call Audio

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Packaging Corporation of America (NYSE:PKG) Q3 2019 Earnings Conference Call
October 24, 2019 9:00 AM ET

Company Participants

Mark Kowlzan - Chairman and Chief Executive Officer

Tom Hassfurther - Executive Vice President

Bob Mundy - Chief Financial Officer

Conference Call Participants

Chip Dillon - Vertical Research

Brian Maguire - Goldman Sachs

George Staphos - Bank of America Securities

Mark Wilde - Bank of Montreal

Mark Connelly - Stephens

Gabe Hajde - Wells Fargo

Randy Toth - Citigroup

Mark Weintraub - Seaport Global

Steve Chercover - D.A. Davidson

Adam Josephson - KeyBanc

Operator

Thank you for joining Packaging Corporation of America's Third Quarter 2019 Earnings Results Conference Call. Your host today will be Mark Kowlzan, Chairman and Chief Executive Officer of PCA. [Operator Instructions]

I would now like to turn the conference over to Mr. Kowlzan, and please proceed when you're ready.

Mark Kowlzan

Good morning. And thank you for participating in Packaging Corporation of America's third quarter 2019 earnings release conference call. I'm Mark Kowlzan, Chairman and CEO of PCA and with me on the call today is Tom Hassfurther, Executive Vice President who runs the packaging business and Bob Mundy, our Chief Financial Officer.

I'll begin the call with an overview of our third quarter results and then I'm going to turn the call over to Tom and Bob who provide more details. After which I'll wrap things up and would be glad to take any questions.

Yesterday we reported third quarter net income of $180 million or $1.89 per share, which included $0.02 per share of special items expenses. Excluding the special items third quarter 2019 net income was $182 million or $1.92 per share compared to the third quarter 2018 net income of $211 million or $2.23 per share.

Third quarter net sales were 1.8 billion in 2019 and 2018. Total company EBITDA for the third quarter, excluding the special items was $364 million in 2019 and $406 million in 2018. Excluding special items third quarter 2019 earnings per share of $1.92 was $0.31 per share below the third quarter of 2018 driven primarily by lower prices in mix of $0.36 and volume $0.03 in the packaging segment and the lower volume in our paper segment of $0.03.

A richer mix and our box plans as well as higher labor and repair expenses contributed to higher converting expenses of $0.06 and we have higher operating and other costs of $0.03. These items were partially offset by higher prices and mix in our paper segment of $0.09, lower annual outage expenses of $0.09 and the lower freight and logistics expenses, $0.02.

Looking at the packaging business, EBITDA excluding special items in the third quarter of 2019 of $325 million, with sales of 1.5 billion resulted in a margin of 22% versus last year's EBITDA of $378 million and sales of $1.5 billion or 25% margin.

Our container board mills operated in an efficient and cost effective manner as we continue to balance our supply with current domestic and export demand, while optimizing our container board footprint to minimize freight and logistics costs across the system.

We finished the quarter with inventory 51,000 tones below last year, and 30,000 tones below the previous quarter. In addition, we maintain our industry leading integration rate by supplying our box plants with the necessary container board to establish new shipment records.

I'll now turn it over to Tom who'll provide more details on the container board sales and our corrugated business.

Tom Hassfurther

Thanks Mark. As Mark indicated our corrugated products plants establish new records for quarterly box shipments per day as well as total third quarter shipments, both of which were up 1.9% compared to last year's third quarter. In spite of the significant business loss we incurred at Sacramento Container due to the purchase of two large sheet customers by another integrated.

Outside sales volume of container board was about 26,000 tones below last year's third quarter as we ran our container board system to current domestic and export demand and supplied the increased needs of our box plants. Domestic container board and corrugated products prices and mix together were $0.23 per share below the third quarter of 2018 and down $0.20 per share compared to the second quarter of 2019.

As we have mentioned previously, the majority of the impact from the published index price decreases early in the year would be reflected in our third quarter results. Export container board prices were down $0.13 per share compared to the third quarter of 2018 and down $0.04 per share compared to the second quarter of 2019.

Now I'll turn it back to mark.

Mark Kowlzan

Thank you, Tom. Looking at the paper segment, EBITDA excluding special items in the third quarter was $58 million with sales of $243 million or 24% margin. This was compared to third quarter 2018 EBITDA of 44 million and sales of 254 million or 17% margin. Our seasonally stronger cup size and printing and converting volumes were higher than the second quarter levels as well as slightly above the third quarter of 2018. The average price and mix for our paper volumes during the quarter were about 6% above last year.

However, our average price and mix was about 1.5% below the second quarter of 2019, which was less of a decline than indicated by the published industry index prices. Obviously, overall paper segment volume and revenue were below last year's third quarter due to the exit from the white papers business at our Wallula mill. We continue to improve our profitability and margins in the paper segment in part by having exited this business at Wallula rather than continuing to allocate people and capital resources to it.

I'll now turn it over to Bob.

Bob Mundy

Thanks Mark. We had very good cash generation in the third quarter with cash provided by operations of $340 million and free cash flow of 247 million. The primary uses of cash during the quarter included capital expenditures of 93 million, common stock dividends totaled $75 million, $46 million are federal and state income tax payments, pension payments of 49 million and net interest payments of $4 million. We ended the quarter with $738 million in cash on hand.

Finally, our planned annual maintenance expense for the fourth quarter is unchanged from our previous guidance, which reflects a negative impact of $0.06 per share moving from the third to the fourth.

I'll now turn it back over to Mark.

Mark Kowlzan

Thanks Bob. Looking ahead as we move from the third into the fourth quarter in our packaging segment, corrugated product shipments with one less shipping day should be slightly lower. Container board sales volume will be lower as we continue to run to demand and work towards building some inventory prior to the year end in preparation for the first quarter of 2020 scheduled maintenance outages at our three largest container board mills, which will significantly reduce our production early next year.

We expect slightly lower prices as the remaining impact of the published domestic container more price decreases from earlier this year, work through our system and lower export prices. We also expect a seasonally less rich mix in corrugated products compared to the third quarter as the produce business in the Pacific Northwest as well as the display and high end graphics business for the holiday period normally falls off during the quarter.

In our papers segment volumes are expected to be seasonally lower along with lower average prices. With anticipated colder weather, energy costs will be slightly higher and we expect certain other operating and converting costs to be higher as well. These higher costs include approximately $0.03 per share associated with the startup of our new Richland, Washington box plant during this quarter. Finally, as Bob mentioned, scheduled maintenance outage costs should be higher than the third quarter. Considering these items, we expect fourth quarter earnings of $1.70 per share.

Happy to entertain any questions, but I must remind you that some of the statements we've made on the call constitute forward looking statements. These statements are based on current estimates, expectations and projections of the company and do involve inherent risks and uncertainties including the direction of the economy and those identified as risk factors in our annual report on form 10-K on file with the SEC. Actual results could differ materially from those expressed in these forward looking statements.

And with that Vetenia [ph], can we please open the call for questions please.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Chip Dillon with Vertical Research.

Chip Dillon

Good morning. Can you hear me?

Mark Kowlzan

Go ahead, Chip.

Chip Dillon

Yes, thank you very much.

Mark Kowlzan

Chip, you're cutting out.

Operator

It seems as if Mr. Dillon's line may have disconnected. And your next question comes from the line of Brian Maguire with Goldman Sachs.

Brian Maguire

Hey, good morning guys.

Mark Kowlzan

Good morning, Brian.

Brian Maguire

Mark you made some comments just around the seasonality and less rich mix into the fourth quarter the one – fewer shipping day obviously. Just wondering if you could comment on what you've seen so far in October on shipments and sort of related to those comments, any early thoughts on the holiday ecommerce season that a lot of discussion about that and how SIOC and some of the changes in Amazon, Frustration-Free packaging might impact the fourth quarter volume, just any early thoughts on that?

Mark Kowlzan

Yeah, Tom why don't you go ahead and get him that color.

Tom Hassfurther

Yeah, Brian, through 15 days we're starting out October 2% ahead of a year ago, so we're off to a good start in October. Regarding ecommerce, I think ecommerce will have a strong fourth quarter. Again, as mentioned previously, you're now comparing ecommerce and total with ecommerce of the past and it's not a mature market totally yet, but it has certainly has matured over the years. So we expect an uptick, but not to the degree it was when it was in its infancy and it was growing at double digit rates. I think Frustration-Free and SIOC are having minimal impact at this point in time. I think it'll be more so starting next year as we continue to develop that for Amazon, specifically. And as I said previously, I think that plays to PCA's strengths very well, especially the SIOC piece where it's much required for performance, design based, transportation based, those play very well into our strengths.

Brian Maguire

Okay, great. Just one, one last one for me, I think you were already asked a little bit about this on the last call, just broadening new recycling index, just now that it's rolled out. Any thoughts on how customers might react to that looking into maybe create down to the lower quality recycles board or maybe for environmental sustainability reasons, maybe having a preference for recycle packaging, just to highlight that it's mere recycle paper. I know you're mix of the customers is a little bit different than the general market. So maybe you're a little bit more immune to it. But just thinking overall, like what impact if anything do you think that this new index could have?

Tom Hassfurther

Well, Brian, this is Tom again. The index has had virtually no effect on us. As mentioned previously, it's a very different product. It's not performance based, it's not a lot of the other things that we sell to the open market plus there's not a lot of availability. So I think that there are a lot of reasons why it's had virtually no impact.

Brian Maguire

Okay, thanks very much.

Mark Kowlzan

All right, thank you. Next question, please.

Operator

Your next question comes from the line of Chip Dillon with Vertical.

Chip Dillon

Yes. Hi, good morning. Again, sorry about the technical difficulties.

Mark Kowlzan

Go ahead, Chip.

Chip Dillon

Yeah, first question is on the maintenance again, how does it look next year, quarter-by-quarter versus what it looks like this year?

Bob Mundy

Yeah, Chip. That's something we will talk about on the next call, regarding next year's guidance.

Chip Dillon

Okay. Okay. And then I don't know if you gave us a year end debt level – I'm sorry, the quarter end debt level. Did that change at all from the second quarter?

Bob Mundy

Yeah, we were down – our net debt was a bit above 1.7 billion. And leverage is sort of in between that 1.1 and 1.2 times.

Chip Dillon

Which means the gross debt did not change, got you.

Bob Mundy

Gross debt did not change.

Chip Dillon

Okay, that's very helpful. And then the third question I had was just quickly is if you could talk a little bit about what you're seeing in the export markets at least in terms of – it looks like we've seen another leg down in October, at least in Europe. And do you think that some people out there are getting close to a point where they might take some downtime and maybe even over in those markets, just because it seems like there's not a whole lot to gain by continuing to supply these markets?

Tom Hassfurther

Chip, this is Tom, I'll take that question regarding export markets. Yeah, we did see another trickle down in price here just recently, but I think that we're getting at or very near the bottom, given the reaction, I think to the marketplace on this last one. So I think your thesis is pretty close.

Chip Dillon

Okay, thank you.

Mark Kowlzan

Thank you. Next question, please.

Operator

Your next question comes from the line of George Staphos with Bank of America Securities.

George Staphos

Thanks very much. Hi, everyone. Good morning. I just wanted to perhaps get at the paper performance, which was a lot better than what we were looking for. Mark, could you parse perhaps what the – a little enough being in there meant in terms of the earnings bridge and any other factors, if not to the dollar, just key buckets in terms of the year-on-your performance in the pay per segment?

Mark Kowlzan

Well, again, a lot of it has to do with just the overall performance of operationally and then just where we are in the marketplace with that business. As I said before, we worked very hard of the last six years to take cost out of that business and then exiting Wallula in particular in the –finally exiting completely year-over-year lapping that has helped again with the entire cost structure of the business. And again, we're just very pleased with where the sales held up and don't forget, we talked about this over the years that one of the strong suits in that business is the legacy Boise logistics capability and the value proposition that that logistic capability brings to the equation so again nothing different. We're very pleased with business and volumes been in a good place for us.

George Staphos

Okay. Congratulations on the performance there. In packaging, I mean, just want to get at vertical integration by our calculations. Vertical integration probably moved up a couple 100, 300 basis points in the quarter. Could you comment to that effect? Could you comment where vertical integration is for you right now? And if you would prefer not to give a percentage, how far off are you in basis points from where you'd like to be optimally?

Mark Kowlzan

Let me answer it this way. We're, you know, we're currently in the low 90s as we've been talking this year. We're getting ready to start up the new Richland box plant. As that ramps up on the curve into next year, we fully expect to see. If the marketplace holds up as we are looking at the world, we would be starting to approach the mid-90s, where we were a couple of years ago, as the year unfolds next year. I don't want to give any specific numbers, but that's how we're looking at things.

George Staphos

Okay, I appreciate that Mark. Last one for me, and I'll turn it over. As you look at 2019, obviously, it hasn't been as full of a year perhaps, as had been 2018, at least through the first half. But in years that maybe aren't as strong from a demand standpoint, there are other things that are coming like PKG would do to improve the earnings profile and years ahead. Obviously, Richland is one of the things that you're doing. What other key initiatives do you have right now to improve the performance of the business which remains good, in a more – in a stronger environment? And what are you doing in particular on the converting side to the extent that you can comment relative to the continued growth of ecommerce in terms of a channel, what are you doing in terms of printing or converting to the extent that you can comment there? Thank you, guys. Good luck in the quarter.

Mark Kowlzan

Yeah, I'm going to start that off and then I'm going to let Tom finish up. But across the board, we're continuing to look at opportunities to take costs out. We mentioned earlier this year that with the big projects completed at DeRidder and Wallula. On the conversions, we've taken the engineering and technical resources and we're deploying them companywide now into the corrugating converting operations. And that's also allowing us to observe and see some new opportunities that we're able to go forward with. In addition, the annual hiring of new engineers will begin to place engineers into the box plant operations. But overall will continue to drive cost and volume opportunities in that side of the business with the effort we have. Tom, do you want to add to it?

Tom Hassfurther

Yeah, George, I would just add that, as you all know, we take a pretty long-term approach to our business. And we make investments at times when there can be slow periods. This is one of them, where the demand hasn't been incredibly robust. It's been okay, but not robust. And we're making some significant capital investments, we're doing some things that are – will position us for the long haul. And it's a good time to be doing that because as business does ramp up, there's demand does ramp up and we go through a little bit higher growth period. We're able to absorb that. So the W3 machine is a good example of that where we built some runway in terms of tones and we're doing some of the same thing in the box plants.

George Staphos

Okay, thanks. I will turn over. Thank you, Tom.

Mark Kowlzan

Thank you. Next question, please.

Operator

Your next question comes from the line of Mark Wilde be with Bank of Montreal.

Mark Wilde

Good morning. Mark. Tom. Bob.

Mark Kowlzan

Good morning.

Tom Hassfurther

Good morning.

Mark Wilde

Mark, just to start off, you've been talking more on reason quarters about really just running to demand and I wondered if you could just share a few thoughts on what the most effective strategies have been for throttling back production and running the demand. What are kind of the key elements there?

Mark Kowlzan

Again, with the capability at Wallula now, we've been able to rebalance that whole system and without shutting machines down we've been able to throttle back and that gives us the ability again to adjust in real time as the market dictates, as customer requirements flow through a quarter or we're much more nimble in how we service that market, but at the same time, it's given us a lot more confidence in how we manage our inventories. And if you think about the year-over-year inventory being down 50,000 tones in the second quarter, third quarter inventory being down 30,000 tones, that ability now to truly work the mill system is dictated by the demand is truly paid off for us and we now have that nationwide coverage of container board supply and we're taking advantage of it.

Mark Wilde

Okay, and then I just want to turn to this growth in recycled container board. It seems like some of the new mills and a number of the new machines are running a really high portion of mixed waste and with mixed waste being somewhere near zero right now that's definitely a cost advantage from. I wondered if you or Tom could talk a little bit about the puts and takes that using a container board product with a lot of mixed waste and it would involve? What is it good for and what can't you use it for?

Mark Kowlzan

Well again, mixed waste generally speaking, the fiber quality from a strength point of view is not anywhere near what you would expect with craft or OCC or VOK. Also, the contaminant level is significantly worse traditionally, unless you're getting sorted office paper, but again, the overall performance characteristics are much lower than traditional container more fiber furnishes. And so it's not that you cannot use some of that, but it's in very limited applications. And again we don't use mixed waste.

Mark Wilde

Okay, it just – going back to kind of Brian's question, is including more recycled content or bored in the mix is that something that would be interesting to you over the next say three to five years.

Mark Kowlzan

As matter of fact, one of the projects we just had approved at the board level in August was for a new OCC plan to be built at the Wallula mill starting next year and we hope to have it online by the end of the year. It's a 1000 ton a day OCC project that will provide the plant all the necessary recycled fiber and will have – as we've used this word before many times, the ultimate fiber flexibility at Wallula where fiber is our most expensive in terms of the mill system. So we're going to take advantage of the availability of the OCC and take advantage of it on the machines. And so Tom, do you want to add to that – about the opportunities?

Tom Hassfurther

Well, I'll just answer the last part of your question there, Mark. And that is to our customers asking for 100% recycled. Occasionally they do, but once they get the education and understand that in order to run this closed loop system that we have, it has to start with Virgin. Everybody understands that, everybody knows that. So I think that they're much more sensitive to performance based and what it does for them and how the box performs for them and delivers at a cost effective way. More so than saying I have to have 100%. OCC, they understand if all customers said that we wouldn't have a system anymore of closed loop. That material degrades very fast and over a period of time. So that's essentially where we are and that's why I think that this whole recycled line of board discussion is somewhat muted, at least, regarding PCA. A little more on that project, we're looking at that again as an opportunity for cost reduction. And the supply in that whole region if you go out to the coast and down to the inner Mountain region, we've identified our sources and so again, we expect to have that project Online by the latter part of next year.

Mark Wilde

Okay, thanks, Mark. Thanks, Tom.

Mark Kowlzan

Next question, please.

Operator

Your next question comes from the line of Mark Connolly with Stephens.

Mark Connelly

Thanks. Mark, you've said that Wallula has an unusually wide range of mix without having the efficiency hit that we usually see. Has that mix of business so far stayed within your expectations even as the markets gotten softer? And is Richland going to change the great mix that you're producing there?

Mark Kowlzan

No, it's worked out quite well. As we had planned on two years ago, the Wallula mill, in order to be successful had to produce the heavier weight, high performance grades, all the way down to the lighter weight, high performance grades. And we've been doing that all year. And so we obviously have not been running the mill up to its full capacity. But if Richland comes on, we'll be able to take full advantage of that remaining capacity. And we're very pleased with the quality. We're very pleased with the flexibility of the machine in terms of the heavyweight, high performance down to the lightweight high performance. So it gives us ultimate flexibility to provide the Pacific Northwest and the West Coast with all the board we need.

Mark Connelly

That's great. And just one more question. You've talked about the strategic importance of your export partners, but has that strategic importance of export markets changed as your system has grown and diversified?

Mark Kowlzan

Well, again, keep in mind that probably 30 plus years, 40 plus years we've had this legacy, customer business around the world, probably 36, 38 different countries. Tom, you want to add to that?

Tom Hassfurther

Yeah, I would just say Mark that it remained strategic from the standpoint of these are long, long term customers have been with us a long time. The grades are very good fit. The seasonality is a very good fit. There are a lot of things that go into the equation, but they still remain strategic.

Mark Connelly

Super, thank you very much.

Mark Kowlzan

Thank you, next question.

Operator

Your next question comes from the line of Gabe Hajde with Wells Fargo.

Gabe Hajde

Good morning, Mark, Tom, Bob.

Mark Kowlzan

Good morning Gabe.

Gabe Hajde

Mark, you made a comment about some outage plans for next year. So I'm going to take that as the end. Can you quantify any sort of lost production tones that occurred here in 2019? And maybe, I guess, hear contrast that to what you're expecting for 2020? And really, the nature of the question is, in 2018, seemed like the industry was running full tilt. Coming into '19 things were throttled back a little bit. And my impression was that you guys had taken a little extra time to do some other maintenance projects around the mills such that 2020 you could run a little bit harder, but it sounds like from your comment that you guys have a pretty heavy maintenance schedule again in 2020, so just trying to understand that.

Mark Kowlzan

No, we didn't take any inordinate downtime this year to do any extra work. We executed our normal planned annual outages. And then, again, taking advantage of the Wallula capability now we're able to truly supply all of our demands in the container board side of the business with our six mill system and truly run to demand, and that capability has allowed us to really move the inventory levels down to a much more comfortable level with that capability. That being said, we will continue to run to demand.

Gabe Hajde

Thank you. And then I guess, trying to understand customer dialogue a little bit here, not obviously trying to get anything specific, but just how are conversations going into – I guess our folks looking for a little bit more efficiency from their suppliers. I mean, when things start to slow down or I guess I should say when things are going well, maybe folks don't dial in as much on the cost side. But now things are that they're a little bit slower. Is it a more of a conversation around costs or efficiencies on the converting side?

Mark Kowlzan

We don't generally talk about customer specific activity. And you can only imagine, again, part of our proposition our value proposition is just that we provide tremendous value for our customers in many ways.

Gabe Hajde

Thank you.

Mark Kowlzan

Next question, please.

Operator

Your next question comes from the line of Anthony Pettinari with Citigroup.

Randy Toth

Good morning, guys. This is actually Randy Toth fitting in for Anthony.

Mark Kowlzan

Good morning Randy.

Randy Toth

Good morning. Over the past couple of years, you've done some impressive things on the hillside with the DeRidder and Wallula and then this year, I think you focus more on the box plant side with Richland and Wisconsin amongst others. Would it be fair to say that CapEx could step down in 2020 given all the work has been put in over the past couple of years?

Mark Kowlzan

Well, again, without answering that we'll give you a better assessment in January, when we have the January call. Just keep in mind that we will be able to take advantage of opportunities as we see fit. And so just rather answer that way that whatever opportunities we deem as true opportunities, we have the ability, we have the cash on hand, we have the resources to execute and so we're in a good place in that regard.

Randy Toth

Okay, that's fair. I guess, coming at it from a different angle. You've been using your internal technology organizations to improve your box plant system for a couple of quarters now or at least you've been looking at it. What inning would you say that process is in? Are we still first a second inning or is Richland and the other projects in Wisconsin, is that a decent chunk of what you expect?

Mark Kowlzan

It's in the first minute or the first inning.

Randy Toth

Okay, that's fair.

Mark Kowlzan

Which mean we have tremendous runway opportunity over the future years to continue to build out that side of our opportunity and much the same way we did in our mills 25 years ago.

Randy Toth

Understood, understood, that's very helpful. And then just switching gears quickly, I know you just announced the new OCC plant at Wallula. Historically, I think your recycled fiber mix has been somewhere around 15% to 20%. In your opinion, is there a natural limit to where that could go while still maintaining the performance that your customers expect from you? Or just how you think about that?

Mark Kowlzan

We don't have any current plans to move that significantly within our legacy mill system. But we do have the flexibility to ramp up and down at any given container board mill, but again there are limits as we call that over the years. So again, with the exception of the Wallula project, the remaining legacy mills will remain in the same range they've been in terms of OCC utilization VOK utilization.

Randy Toth

Okay, but that's all I'll turn it over. Thank you, guys.

Mark Kowlzan

Okay, thank you, next question.

Operator

Your next question comes from the line of Mark Weintraub with Seaport Global.

Mark Weintraub

Thank you. First on the box demand side, you were up close to 2%. In the just ended quarter you suggested that's how October is running. I think that previously you also indicated that the Sacramento related business loss was about a 1.5% drag. So is it fair to say that you're kind of in an environment where you might expect to – once you lap the Sacramento business be growing at about a 3.5% type rate? Is that a fair way to look at it?

Mark Kowlzan

Well, let me start that and Tom can give you some color. Obviously, I'm not going to speculate on what volume is going to do next year. I'm just saying we're in a much better place. And, again, you mentioned the keyword wit laps as of the December period we will be coming up on the year that that businesses exited and so into next year it's a different metric. But again, it all depends on what the demand looks like and so I can't speculate on it. Tom you want to add anything?

Tom Hassfurther

I've got nothing else to add here.

Mark Weintraub

And then Bob, when you're – you mentioned, you said something about developing for Amazon, when related to the SIOC conversation, and I just – was that a Packaging Corp specific comment? Was that an industry comment and if that's a Packaging Corp specific comment, can you provide any more color on what we were supposed to kind of take away from that that mentioned?

Bob Mundy

Mark what I would say is I would say that we are on the Amazon team to help develop SIOC and help work on that and help define what that is and help meet the objectives that Amazon has. So we're actively involved both with Amazon and with our direct customers as well as some prospects and developing that SIOC program. So I'm making a comment regarding PCA. And, obviously, this is an industry initiative as well.

Mark Weintraub

Okay, great. And then just for this year capital spending, to the first nine months it's running about 264. I guess it seems to me unless you're going to spend a whole lot of money in the fourth quarter, you're probably going to come in lighter than what I had previously anticipated. Any update on what your CapEx for 2019 is likely to come out at?

Mark Kowlzan

Yeah, Mark says good observation. We called through the July call probably would be a little over 400 million in the summer period, we're able to reassess some opportunities and we shifted gears. That's basically how the Wallula projects came about. And so that gave us the opportunity to pull back on some of the capital, so we're going to be lighter than the original estimate, probably not over 400, but somewhere below that, but again, we're shifting gears on some of these opportunities. But I think it's worth calling out that in PCA's tradition we have that ability to step back and reassess what's the right thing to do with our dollars? And again, it was a summertime period of reevaluating what the opportunities looked like what the best opportunities were for us. And so we, we shifted some things around. So it's just a timing issue.

Mark Weintraub

So is it that we'd expect that the spend to flow into next year or is it – or maybe a bit more color? Are there other options that are under consideration potentially that obviously you can't speak to necessarily, but that can play into it? Or I guess the third alternative would can't speak to necessarily, but that can play into it? Or I guess the third alternative would be if you were and I think it's unlikely, but if you were less confident on where your cash flows, your cash flow generation on a go forward basis any help you can give us well with?

Mark Kowlzan

Well, without giving you the exact capital number. The Board approved in August two big projects at Wallula mill, one being the OCC project and the other being a new wood yard project. And so that spend, although not all of it next year, some of it will roll over into 2021. But a good portion of the spend will start next year on these two big projects at Wallula, but those are two high return projects. So again, we reserve the right to be able to move the capital up and down, but within a range of somewhere that we've been and that we're comfortable with. Part of what we're doing is we are making sure that all these projects that we do that we are doing the engineering; we're managing the projects ourselves and we are maintaining take control of these project executions. And so that gives us the optimum return.

Mark Weintraub

Okay, thanks so much.

Mark Kowlzan

Okay, next question, please.

Operator

Your next question comes from the line of Steve Chercover with D.A. Davidson.

Steve Chercover

Thanks. Good morning, everyone.

Mark Kowlzan

Good morning.

Steve Chercover

Until the end of 2017 you guys were pretty voracious acquires of converting capacity. But since Sacramento, you've kind of taken your foot off the gas, and I'm just wondering has anything changed philosophically? Or is it perhaps the valuation perspective?

Mark Kowlzan

Let me comment on that. And then Tom can add to that. Part of it's the opportunities that exist and what you're paying for that opportunity. So again, we're pretty judicious in how we evaluate those opportunities and pretty particular about the opportunities we would be attracted to. Tom?

Tom Hassfurther

I would just add that we've been incredibly disciplined in our acquisition strategy. It's been a – it's just been a very specific approach. The opportunities are less today as the – especially as the independent market has shrunk so dramatically. So are there a few opportunities out there? Yes, we explore every opportunity that we think makes sense. We just haven't found any – that fit that absolutely fit our criteria that we're looking for. So it's still a very important part of our strategy and we'll continue to look and explore every opportunity and those that make sense we'll move forward on. That's the best I can say.

Steve Chercover

Okay, thanks. And just a quick follow on I guess on ecommerce which is still growing maybe not as fast and SIOC is an interesting development. But as people try and diminish the overall packaging, we've seen plastic poaches kind of reemerge and I don't think that's very environmentally friendly at all. Do you guys have any capabilities or do you foresee any benefits of migration towards craft paper or craft sacks?

Tom Hassfurther

We're not obviously in the craft sack business. But I think there are corrugated opportunities that are coming about as a result of consumers really moving away from plastics, understanding what that does to the environment. And in many cases, we've got a lot of ecommerce and we talk about Amazon all the time with regard to ecommerce, but virtually everybody who manufactures anything and sells through a retail environment is in virtually everybody who manufactures anything and sells through a retail environment is in some form of ecommerce today. And they're all saying the same thing. And that is that many of the consumers don't want to receive their products either in plastic pouches or some other form of plastic container and even in the SIOC program there's a lot of discussion about taking plastic out of the primary package. So I think your premise is correct and I think there are opportunities for the corrugated industry going forward regarding this potential opportunity in ecommerce.

Steve Chercover

Great, thanks for taking my questions.

Mark Kowlzan

Thank you, next question.

Operator

Your next question comes from the line of Adam Josephson with Adam KeyBanc.

Adam Josephson

Good morning. Thanks, everyone for taking my questions. I appreciate it. Tom, you commented in respond to a question in the last call about the trend of – the quarter starting out quite strong and then slowing toward the end of the quarter. And it seemed like 3Q is much the same. I think he said in July Europe 5.8% in the first couple weeks and for the full quarter Europe a little under 2%. Can you just reiterate why you think you're saying these patterns? And do you expect 4Q to be similar to what you've seen over the past however many quarters along those lines?

Tom Hassfurther

Adam, it's impossible to predict exactly what's going to happen with our 18,000 plus customers. But I think the trend is because our customers are keeping their inventory so low and in check that in the quarter, they – beginning of the quarter, they replenish the inventories to some extent. And by the end of the quarter they perhaps are running them down because as you know the economy is such that it's quite unpredictable. It's not robust, if you will. And I think our customers are managing their cash, their inventories, everything very close to the west. And so do I expect the same thing to happen in the fourth quarter? Well, the fourth quarter is pretty – it's a little more predictable in terms of holidays and all the other things that occur starting Thanksgiving and rolling into Christmas. So I would be surprised if the level stayed at this level, but I still think the fourth quarter will be pretty solid.

Adam Josephson

And just to be clear on the third quarter, did you see the same sort of thing that did trend slow toward the very end?

Tom Hassfurther

Yes, it slowed down somewhat towards the end. Yes.

Adam Josephson

Okay, and then thanks Tom. And just Bob one on the bridge for 4Q, I know you mentioned maintenance would be a $0.06 drag and obviously you're guiding to $0.22 overall, so that leaves 16. Can you roughly talk about the other factors, lower prices, lower volume, weaker mix, higher costs? Can you just give us a rough sense of what each of those – you expect each of those to be?

Bob Mundy

Well, and obviously, those are, those are the categories that we pointed out. But we never have given specific numbers for those different buckets. So just have to go with our comments for now.

Adam Josephson

Okay, and then I think you said on the next call, you'll talk about what maintenance will be by quarter. It sounds like 1Q will be a particularly heavy maintenance quarter. Is that the right way to think about it?

Bob Mundy

Well, I'll just say that we do have our – as we said in our I think in our earnings release, we have our three largest containable mills with annual outages in the first quarter. So that does point to a lot of work going on then.

Adam Josephson

Yeah. Thank you.

Mark Kowlzan

Thank you. Next question, please.

Operator

[Operator Instructions] Your next question comes from the line of Chip Dillon with Vertical.

Chip Dillon

Hey, thanks for taking my follow up. I just want to make sure I have this straight. You all are putting in some OCC capability at Wallula and I know there's another organization trying to raise money to build a recycle mill in Utah and you all I think have the most box converting presence in that state. Would the Wallula mill pretty much take care of all the recycle needs you would have for that for your box plants if they need it a new recycle board in Utah.

Mark Kowlzan

Yeah, Chip, as we were analyzing this project opportunity, again, we have looked at from the Intermountain Region all the way up to the Pacific Coast, all of our supply opportunities and so we feel confident we've got discussions ongoing and, in some cases, locked in with where the supply will come from. So we're very confident and again the project is ongoing and we're pushing ahead, full speed with getting this executed for next year.

Chip Dillon

Okay, and then just quickly also, no one, I believe is asked about the white paper business and $48 million in one quarter was I think your best performance and one of the best you've had since the Boise deal six years ago. And was there anything unusual in the third quarter whether it was just super good performance or is this sort of a decent baseline to think about as we go ahead and obviously, we factor in maintenance, we factor in price and volumes from here?

Mark Kowlzan

Well, keep in mind we did not have an outage in third quarter this year. And again, there was – the seasonal volume was there. But again, a part of it is just it's a, I'm going to use the word it's a tiny little business for us. It's the two mills the Jackson mill and the I Falls mill and we've got this great nationwide distribution capability. So we've got a very good customer base. And the logistics capability is very valuable to that proposition. And so if you can understand that we will have outages scheduled for next year. At some point in time during this quarter, you'll have these big puts and takes of outage cost impacts but net and net it remains a good business for us. Bob, you want to say anything?

Bob Mundy

No, I agree. It's just the cost structure and I think there's – it's just – they continue to do an outstanding job of just managing the cost Chip and turning as many costs as possible into variable type costs as opposed to fixed and things like that. And it just continues to – they continue to do just an outstanding job.

Chip Dillon

And lastly, on volumes, I mean, there's been a lot of moving pieces with the imports up, but a lot of capacity removed and one competitor actually leaving the market. As you look into 2020 and 2021. Do you see anything, any step functions in the demand side or should it continue to be hopefully flattish or maybe just decline slightly or do you see something different than that?

Bob Mundy

Well, if you read the index and information what the trade is saying, obviously, they predict the continuing market demand destruction over time. But yeah, we've been dealing with that for better part of a few decades now. So we just have that ability to manage that. Our volume will run to the market demand. And that's about all I can really say. We have the ability to flex that capability a little bit and we also – again, it allows us to the move within the customer base we choose to be with him.

Chip Dillon

Okay, thank you very much.

Bob Mundy

Okay.

Mark Kowlzan

Next question.

Operator

Your next question comes from the line of Mark Wilde with Bank of Montreal.

Mark Wilde

Hey Mark, I wanted to just come around at the cash balance, which is about three quarters of a billion dollars right now, would you be comfortable kind of continuing to build cash for at least the next two or three quarters?

Mark Kowlzan

I'm not going to talk about too far out. We're comfortable where we are right now. We'll use some of the words we've used this year in terms of – we still are living in uncertain times. We feel it's very prudent for us right now to remain very conservative on how we treat that cash. It gives us utmost optionality in how we take advantage of that cash. And I said this on the July call with every dollar of cash sitting on hand is not being wasted. And so we reserve the right to allow that to continue on for the time being. But it gives us tremendous opportunities in the future to create shareholder value as we have done many years over.

Mark Wilde

Yeah, look, Mark, you've been great capital allocators over time. I think everybody can see that. I'm just kind of curious. It's a big position. I mean, this is obviously more cash than you need to buy a couple of box plants. So can you give us some sense of sort of what types of situations might be interesting and whether there's been any change in the types of things you're willing to consider? Historically, you said you didn't want to go offshore, you didn't want to go to Mexico; you didn't want to go to Europe, any change in those positions.

Mark Kowlzan

No changes in that position of being offshore. We are American based and we will continue to be American based. Again, I just have to believe we're going into an election year next year, we have a lot of uncertainty in the world around us and so this cash gives us tremendous opportunity, no matter what happens in the future.

Mark Wilde

Okay, that's fair. Again, I think if you look at your track record over the last 20 years, it speaks pretty clearly. I'll turn it over.

Mark Kowlzan

Okay, I think we've got time for at least one more question.

Operator

Your next question comes from the line of Gabe Hajde with Wells Fargo.

Gabe Hajde

Thanks for taking the follow up. I'll try to make it brief. In the press release and I think in prepared comments, you talked about running to demand, but also trying to build some inventory in anticipation of maintenance next year. Is there anything specific you want us to take away from that?

Mark Kowlzan

No, again, just as we look at the outages next year and if we assume a certain demand which you have to build a model, whether or not that's what happens in the world. But if we assume, we're going to take these outages next year, and what the implication is on the tons that we're taking down for the first quarter, you have to – and also, you're dealing with winter weather phenomena, which is a big uncertainty throughout the country and what that can do to transportation. So you certainly have to have somewhat of an increased inventory to supply the demand and the box plants while you're taking these mills down. So we're just saying that there's some number that we're going to move up from the end of the third quarter and get a little bit more comfortable as we end December and go into January. We're not going to call that number output, but it will be so much higher than we ended 3Q.

Gabe Hajde

Thank you, Mark. Good luck.

Mark Kowlzan

Okay, thank you. Again we got time for one more question.

Operator

Your final question comes from the line of George Staphos with Bank of America.

George Staphos

Hi, everyone. Thanks for fitting me in. I'll be quick. Just a quick question on ecommerce one more time, Mark and Tom I mean to the extent that you're working on more SIOC projects, perhaps right sizing products for customers given dimensional weight protocol, are there any important elements that you're working on, on the converting side, anything that you're doing perhaps on printing, maybe digital, as you're trying to further your penetration or share what you do for the customer there? And then if you could update us on your views, again relatedly on white top line or whether you need to build any capability to a large degree in house or not? Thanks, guys, and good luck in the quarter.

Mark Kowlzan

Mark Kowlzan

Let me take the white top question first and then Tom can finish the rest of question. Currently we do have the capability if we had to, we could produce white top, but it's not economical for us to do that and so we will not be pursuing that as you would expect. Tom?

Tom Hassfurther

George, just real quick on ecom, obviously, I'm not going to go into any details about what we're planning to do other than to just say, you know, we explore all of the alternatives. We explore what's best for our customers, what we think are best solutions in the marketplace and we'll continue to do so.

George Staphos

Okay, thanks, guys. Have a good one.

Mark Kowlzan

Okay, thank you. Vetenia that wraps up our call today and I'd like to thank everybody for joining us and look forward to talking with you in January as we'll give you the full year and fourth quarter rapport. Have a nice day.

Operator

This does conclude today's conference call. Thank you for your participation. You may now disconnect.