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Packaging Corp. of America Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Yes. [Operator Instructions]. Our first question comes from Mark Wilde of Deutsche Bank. You may begin.

Mark Wilde - Deutsche Bank

Good morning, Paul.

Paul T. Stecko - Chairman and Chief Executive Officer

Good morning, Mark.

Mark Wilde - Deutsche Bank

Is it possible when we look at these costs to get some sense of how much of this is mill costs versus how much costs you're really seeing over in Bill Sweeney's box business?

Paul T. Stecko - Chairman and Chief Executive Officer

That's a good question, and the answer? it would... the answer in the past would have been it's the vast majority in the mill system and that's now moved there is a majority in the mill system, but not a vast majority. In other words, the price to operate in box plants has also increased appreciably, driven by energy primarily because box plants burn basically natural gas or oil, they cannot burn fuel, they don't have the luxury of burning black liquor, etcetera. Secondly, some of the other materials like starches have gone up appreciably. Wax is off the charts in terms of price increases. So it might have moved and I don't have the numbers in front of me. It might have been 90, 10 at one point, it's probably 60%, 40% now, in that type of range when you look at the price increases across those two.

Mark Wilde - Deutsche Bank

Okay. So would you anticipate that with this price increase you can actually get some box margin back to recover some of those box plant costs?

Paul T. Stecko - Chairman and Chief Executive Officer

We would hope certainly to improve our margins as a result of this price increase and? because as you aptly put, not only do we [inaudible] inflation in the mills, the box plants are now a major contributor also to inflation. And so, that is why from our perspective this box price increase is so important. We've got the make-up ground in two places.

Mark Wilde - Deutsche Bank

Okay, just one other question. The bio-refinery up at Filer City, is that applicable to other mills in your system? And if it is, would the economics be as compelling as they seem to be on this one?

Paul T. Stecko - Chairman and Chief Executive Officer

Well, let me just say that due to the proprietary nature of our technology and the obligation that we have to protect both the intellectual property that we've developed as well as the process know-how involved, I am fairly limited in discussing specific technological details or implications of this project going forward at this time. But down the road, I think that's something I could address. Today, I simply want to report that this refinery concept that we've developed at Filer City has been up a couple of months. It's now up to 75% of capacity. It is doing everything we thought it would do. It has validated what our savings assumptions would be to date, and we're pretty happy with the results. But into the specifics of how it works or what we are going to with it, it's premature to talk about that.

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