



Unpacking Growth in Cardboard Boxes

The plain cardboard delivery box could hold a lot of growth opportunity for investors—but selecting the right companies is critical. Demand for corrugated boxes, housing everything from smartphones to sweaters, is growing each year, as more consumers want their online purchases delivered directly to their doorsteps, says T. Rowe Price investment professional Jon Hussey, who covers the paper and forest products industry. The numbers seem to indicate that the box industry should plan to expand operations. Indeed, Jon indicates that e-commerce growth is driving increased demand for boxes in what had been a relatively flat market over the last decade. To determine which companies are keeping pace with the demand, Jon has visited some of the smaller independent containerboard companies, where he meets with owners, managers, and employees. He sees that the industry is undergoing a different and important evolution that wasn't apparent from looking at a spreadsheet.

Going beyond the numbers reveals the full story

At T. Rowe Price, our investment approach is to go beyond the numbers when evaluating which companies offer the best future investment potential. By meeting with executives and employees firsthand, we can ask the right questions to get a deeper understanding of where a company stands and where it could go in the future. This rigorous research strategy is integral to Jon's analysis for the



Talking with

Jon Hussey

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corrugated box industry. "You can pick up on things when you go out in the field that you just can't get in the office," says Jon. "A lot of what I look for and learn on site balances against the ideas the data suggest." Passing observations that one could only see during a site visit, like how many cars are in company parking lots, can offer meaningful indicators of a company's health.

Field research yields deeper insight

Not long ago, Jon had dinner with a few independent box companies that are unaffiliated with the larger, integrated box companies. "I discovered a lot of nuances that are often hard to quantify. For example, I learned some of the actual decision makers in the box businesses weren't sure whether their families were going to continue in the business and that they were only interested in maintaining the status quo. Others said there were geographic or other barriers that weren't apparent when I was doing research in my office. The numbers told a different story."

When Jon combined his numerical data with his on-site research—the quantitative

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and the qualitative sides—it helped him to understand why now may not be the right time to expect some of the corrugated box producers to expand their operations. In essence, he wasn't merely learning which companies to invest in, but which companies to avoid.

Positioning for change

As e-commerce continues to drive demand for delivery boxes, Jon is keeping watch on the industry and key companies so he can respond quickly to take advantage of industry fluctuations and, when necessary,

adjust his thinking to get ahead of change for his clients. Jon thinks the box industry features potential long-term benefits to investors, which include growing shareholder returns and increased exposure to the growing e-commerce industry. When he looks at the cardboard box, he sees more than just a plain brown wrapper in which goods are shipped. He thinks that demand could also grow as retailers consider making boxes more specialized over time, just as producers of retail bags do now to draw attention to store products.

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