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BMS - Q1 2017 Bemis Company Inc Earnings Call

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OVERVIEW:

Co. reported 1Q17 results. Expects 2017 adjusted EPS to be $2.50-2.60.

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PRESENTATION

Operator

Good day, and welcome to the Bemis First Quarter 2017 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Erin Winters, Director of Investor Relations. Please go ahead, ma'am.

Erin M. Winters *- Bemis Company, Inc. - Director of IR*

Thank you. Good morning, everyone. Welcome to our first quarter 2017 conference call. Today is April 27, 2017. After today's call, a replay will be available on our website, bemis.com, under the Investor Relations section. Joining me for this call today are Bemis Company's President and Chief Executive Officer, Bill Austen; our Senior Vice President and Chief Financial Officer, Mike Clauer; and our Vice President and Chief Accounting Officer, Jerry Krempa.

Following Bill and Mike's comments on our business and outlook, we'll answer any questions you have. (Operator Instructions) At this time, I'll direct you to our website, bemis.com, under the Investor Relations tab, where you will find our press release and supplemental schedules.

On today's call, we will also discuss non-GAAP financial measures as we talk about our performance. Reconciliations of these non-GAAP measures to GAAP measures that we consider most comparable can be found in the press release and supplemental schedules on our website.

And finally, a reminder that statements regarding future performance of the company made during this call are forward-looking and are therefore subject to certain risks and uncertainties. Actual results may differ materially from historical, expected or projected results due to a variety of factors. Please refer to Bemis Company's regular SEC filings, including the most recently filed Form 10-K to review these factors.

Now I'll turn the call over to Bill.

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Thank you, Erin, and good morning, everyone. We are disappointed with our results this quarter, which were driven by both external and internal factors impacting our U.S. Packaging business, specifically lower-than-expected unit volumes and poor operational execution. We are focused on increasing efficiency and accountability across our organization, and are targeting specific areas that we know we can improve. We are confident that our efforts and actions will address our challenges and enable Bemis to deliver enhanced value over the long term.

Let me start by describing what's happened, and then I'll move to the more important topic of what we're doing to course correct. There are 2 key issues we're facing in the U.S.: volume call downs from several core customers as a result of softness in their businesses, and disappointing operational execution.

Some perspective on the volume call downs: heading into 2017, we added manufacturing costs and resources predicated on forecasts provided to us by our core big CPG customer base. During March, our customers started calling down their volume outlooks for the balance of the year as their business volumes continued to decline. We had ramped up our workforce and resources for these customers, and it is us who bears the impact of a call down in customer volume. To avoid this repeating in the future, I have decided that our U.S. Packaging team will adjust our footprint and cost structure to align with flat to down volume outlook instead of a positive outlook.

Next, some perspective on our disappointing operational execution in our U.S. business. Coming into 2017, we planned an aggressive manufacturing cost takeout program. These incremental takeouts focused on elements of costs such as waste reductions, productivity and material usage and substitutions. We have struggled to deliver on these plans. Waste is high in certain areas. We have had pockets of unplanned downtime. And we didn't gain traction on the material usage and substitutions to the degree we had planned.

The impact of these 2 issues on the P&L is considerable as reflected in our new adjusted EPS guidance range of $2.50 to $2.60 for the full year. This call down considers lower volume and the associated operational impact as well as a realistic assessment of our U.S. operational and cost takeout abilities in the near term.

Turning next to what we're doing to course correct our U.S. business. First, new leadership. while we didn't expect the current quarter miss, we did begin to recognize last year that our U.S. business wasn't changing at the pace we needed it to. During 2016, we started a search for a new President of our U.S. Packaging business. And in late February, Fred Stephan joined Bemis company. Fred is an outstanding addition to our leadership team. And I am already impressed with his fresh insights, his drive for results and his practical approach. Within just a few weeks, Fred has begun to simplify our U.S. business and start aggressively working on basic operational blocking and tackling. With Fred's oversight, we have launched plant profit teams at each of our facilities in the U.S. to foster sound cross-functional business decisions to drive action and improved profitability. Fred is a change agent, and we are working closely together to get our U.S. business back on track.

Next, human capital. We continue to carefully assess the talent and capabilities across our U.S. organization to ensure that we have the right people and skill sets in place to meet the demands of our business. We are taking the appropriate actions responsibly and respectfully.

Earlier this week, we streamlined the reporting structure of our sales force in the U.S., which will now report directly to Fred. By eliminating an additional layer in the reporting hierarchy, Fred will have direct oversight over those who most closely and directly interface with our U.S. customers. We are confident this will enable us to more quickly recognize, understand and rectify any deficiencies in our sales organization. We are intently focused on increasing accountability and accelerating decision-making as we drive change through the entire U.S. organization.

Lastly, cost structure. We are assessing all options to align our business to the current environment to position Bemis for long-term success and to improve earnings. We are evaluating manufacturing and capacity, footprint rationalization, SG&A reductions, R&D spend and effectiveness, and direct and indirect manufacturing spend. Any activity across any function that is deemed non-value-add will be discontinued. The scope of our review is broad. No stone will be left unturned. We have already started taking action. Hourly labor that was ramped up based on forecasts from our customers has been removed. Discretionary spend has been stopped. Hiring freezes have been enacted.

These 3 actions have been considered in our guidance. You can anticipate upcoming announcements with details on our plant and capacity rationalizations that will benefit 2018. We are committed to establishing a cost structure that's reflective of the U.S. environment we operate in today.

I'll turn the call over to Mike now to cover performance in our Global Packaging segment and details on the financials, and then, I'll come back to wrap up.

Michael B. Clauer - *Bemis Company, Inc. - CFO and SVP*

Thanks, Bill. We recognize our current performance is not acceptable. Our sense of urgency and intensity is at the highest level I have experienced in my time at Bemis. We are using this disappointment as a catalyst to accelerate the change necessary at our company. I will start today by discussing the financial details of our U.S. business, followed by commentary on our global business, total company metrics and then the outlook.

U.S. Packaging compared to the prior year first quarter revenue was down 1.8%. Unit volumes were down 1%. And the remaining decline was driven by contractually negotiated price decreases on high technology products, partially offset by higher input costs that we pass along to our customers.

U.S. Packaging operating profit of $83.5 million this quarter was down from $101.7 million last year, primarily due to the impact of contractually negotiated prices on high technology products, unit volume declines and the associated operational cost structure. Compared to our first quarter plan, 2/3 of the miss relates to volume and associated inefficiencies, 1/3 of the miss relates to cost takeouts and operating performance.

Here is my perspective. The way our 2017 U.S. plan was built, it assumed that we could overcome price headwinds related to negotiations with our processed protein customers through various initiatives. It was the right decision to protect our high-margin business for the long term through these negotiations. And those negotiations also included incremental business wins that will start in the back half of '17.

Where the miss started to enter the picture was on existing volumes with our current customer base. We do as well as our customers do. If they don't sell products, we don't sell packaging for that product. Our customers have faced volume challenges for a long while. And it's time that we recognize that and take actions to align our business with this environment in the U.S. We did the opposite coming into '17. We ramped up our operating structure based on forecasts provided to us by our customers. However, those volumes did not materialize, and that hurt our profits.

On top of this, we are simply not delivering cost takeouts to planned levels to offset headwinds. It is on us to take action. We've enacted hiring and discretionary spending freezes. And we have reduced hourly labor that was ramped up in anticipation for our customers' original forecast. We will aggressively continue to pursue options to align our business to the current environment.

Moving to Global Packaging. Compared to the prior year, first quarter sales were up 12.7%. Approximately half this increase was driven by the SteriPack acquisition that we closed April 30 of last year. Currency increased sales by 4.2%. Remaining organic sales growth of -- in Global Packaging of 2.4% was driven by unit volume growth of 3% over the prior year, partially offset by mix.

Looking at unit volumes compared to the prior year from a regional perspective. Units in our Latin America business were flat, on track with our expectations given the economic environment. Units in both our European business and our global health care packaging business were down low single digits. And units in our Asia Pacific business were up double-digits, in line with our growth plans for high-technology packaging in the region.

Global Packaging operating profit increased to $27.2 million over last year's $16.3 million. Currency increased operating profits by $1.2 million over the prior first quarter. A lot of details building the remaining improvement, but the key points are: operational fixes in Latin America over first quarter of last year, efficiency improvements at our Oshkosh health care packaging facility, and the initial impact of expected benefits from our restructuring program in Latin America.

Summarizing the results of our Global Packaging segment this quarter, we are improving and overall results are in line with our expectations. Of note, we actually performed above our expectations at our Oshkosh health care facility in the quarter. Operations at that facility are now running to our efficiency expectations.

Now on to consolidated Bemis results. Total SG&A expense for the first quarter was $94.6 million, down from $99.4 million last year. This reduction was due primarily to our pay for performance practices and continued strong cost controls.

Operating cash flow for the first quarter totaled $94.5 million compared to $52.6 million last year. Approximately half the improvement was driven by continued efforts to extend accounts payable terms, which we expected during 2017. Working capital as a percentage of sales was 15% at March 31, a solid improvement from 16.7% 1 year ago.

During the first quarter, we repurchased 1 million shares for $48.9 million. We remain committed to returning free cash flow to our shareholders over the long term through dividends and share repurchases.

Turning to guidance. We are lowering our adjusted EPS range to $2.50 to $2.60 from the previous $2.85 to $3 fully unaccounted for the U.S. business. Before bridging this, I will discuss the volume assumptions in our new guidance range.

You will recall that for the full year, we had originally anticipated between 1% and 2% unit volume increases in the U.S. during 2017. As Bill mentioned, we are resetting expectations, and we will start to run our U.S. business for the balance of 2017 with the internal assumption that our volumes (inaudible) down 1% to 2%. We value our base of large CPG food customers, but we will not staff our plants for growth, given that our customers have called down volumes in conjunction with continued declines in processed foods.

Next, to bridge our previous EPS guidance range to our new range of $2.50 to $2.60 for the full year '17. About 2/3 of the decrease in EPS guidance reflects our new volume outlook for U.S. Packaging. Beyond the base margin dollars associated with lower volume, we have also considered the inefficiencies directly associated with the volume call down, as it is challenging to take out manufacturing conversion costs short term prior to the completing a plant equipment rationalization. The remaining 1/3 of the decrease in EPS guidance relates to operational execution in the U.S. We have reassessed the pace of our original cost takeout plan for 2017, reflecting current performance and upcoming challenges. For example, one of the challenges we are facing is the ERP system implementation at 3 of our largest facilities in Wisconsin during April and the coming months.

As background, coming into 2017, we have had a great track record of successful ERP implementations at over half our U.S. facilities. We knew the implementation of this 3-plant network would be challenging, and we planned for that. However, as we begun implementation in April, we are finding it even more challenging than anticipated. Our full year -- our new full year guidance assumes we will incur $5 million to $8 million impact from the implementation as we crawl out during the second quarter. To be clear, the ERP implementation did not affect our first quarter results.

Regarding the balance of 2017, we anticipate that our profit performance in the U.S. will get worse before it gets better, sequentially, as a result of these incremental impacts from our ERP implementation. As we head into the second half of the year, we expect profit margins to improve sequentially as we get better traction in operations. Outlook provided does include the hiring and discretionary spending freezes as well as the reduction of the hourly labor that was ramped up in anticipation of our customers' original forecast. The outlook provided does not include any cost or benefits associated with the cost reduction program that we will finalize and announce during the second quarter.

Turning to cash flow guidance. Our new guidance range of $415 million to $455 million reflects our revised earnings expectations. We still anticipate working capital to show improvement for the full year 2017. And where we perform within the guidance range will depend on timing and further traction of various working capital initiatives.

Our current financial performance in our U.S. segment is completely unacceptable. we will use this platform to drive real change in the way our company acts and operates. We will create a lean, nimble U.S. business to match the demands of the packaged foods environment, and position us for long-term success.

With that, I'll turn the call back to Bill for wrap-up.

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Thanks, Mike. We encountered some significant challenges in our U.S. business this quarter, but have identified 3 key areas: leadership, human capital and cost structure, where we can drive change across our organization. The entire management team and I are committed to transforming our U.S. operations and positioning Bemis to deliver enhanced value to our shareholders.

Our path is clear. I remain extremely confident in the long-term success of Bemis. What gives me that confidence? I've already seen the change start to permeate through parts of our company. Health care packaging and Latin America are prime examples. We brought in new leadership in (inaudible) and Carlos Santa Cruz, and they and their teams are driving change, fostering new ways of thinking, taking accountability to new levels, bringing in new people and changing the financial performance of these businesses.

We will continue to drive this across the entire organization, the way we think, the way we act, the way we perform. More than ever, we have urgency and intensity to improve. We continue to move our high-end technologies around the world to create growth and develop new markets, specifically in Latin America and Asia. We have the technologies, products and capabilities to drive this effort further and faster in the long term, and we continue to look for opportunities and new markets that will provide long-term growth for Bemis.

With that, I'll turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Debbie Jones with Deutsche Bank.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

This is Kyle White, actually, filling in for Debbie. I wanted to talk about the operational issues. It sounds like you said 1/3 of the miss was due to performance, 2/3 was due to volumes? So I just want to confirm that. And then, what exactly was occurred this quarter? You talked a little bit about ERP, but that sounds like that's more forward-looking.

Michael B. Clauer - *Bemis Company, Inc. - CFO and SVP*

Yes, I did say that about 2/3 of the miss in Q1 is directly related to volume, and then the associated inefficiencies in manufacturing. And 1/3 was not meeting our cost takeout objectives.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

So the 1/3, can you give in a little bit more detail on the 1/3 related to operational? What specifically and what you're going to do to kind of fix that going forward.

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Sure. As we came into the year, the U.S. business had put in place aggressive cost takeout projects, goals and objectives. Whether it had to do with waste, material substitutions, material down-gauging, product redesigns. Very aggressive plan, and they didn't get traction within the first quarter. That's -- just simply put, they did not get traction on those goals and objectives. And it was also a function of the volume coming down. Because some of those cost takeout programs are also associated with an increase in ramp-up in volume. So just poor traction in the operation to get cost takeout projects put in place.

Operator

We'll now move on to our next question from Anthony Pettinari with Citi.

Anthony James Pettinari - *Citigroup Inc, Research Division - VP and Paper, Packaging and Forest Products Analyst*

On CapEx, it sounds like you're keeping the CapEx view unchanged for the year. At the Analyst Day, you had given kind of 2018, 2019 projections for CapEx that I think were around $200 million, with vast majority of that being discretionary. If you're now kind of recalibrating your footprint and readjusting expectations for flat to down volumes, would you reconsider that CapEx guide, especially in the out years? How does this kind of change in the view of the marketplace change, the capital that you're going to spend this year and maybe in the next couple of years?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Yes. Good question, Anthony. As both Mike and I said in our prepared remarks, our total focus right now is on fixing the U.S. Packaging business. And as I said in my remarks, everything is under evaluation. Everything is under evaluation, including CapEx going forward as we go out into the 2018 and 2019 time frame. But right now, our focus and our intensity is on fixing the U.S., and we'll address the go-forward CapEx plan as we get closer to 2018.

Anthony James Pettinari - *Citigroup Inc, Research Division - VP and Paper, Packaging and Forest Products Analyst*

Okay. That's helpful. And then, just in terms of the large customers changing or reducing their production plans, I understand you may be limited in what you can say. But is there a certain number of customers you're talking about? Or are there specific food categories that were significantly worse than expected? I'm just asking because the Nielsen data and some of these volumes have been fairly poor for a number of years. So I'm just wondering what it was around the quarter, or what you're seeing in the marketplace, that was really different this quarter than what we've seen in the last couple of years.

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Yes. Good question, again, Anthony. You've all read and seen a lot of the articles recently in the past week to 2 weeks in a lot of the trade journals and/or some of the newspapers about how the large CPG branded companies in the U.S. were surprised and/or disappointed and had unexpected volume declines that were not anticipated in the Q1 period of this year. It's across the entire big CPG-branded category base that we have seen volume call downs, and volumes not at the levels that we were told we would get forecast for in Q1. It's across health, hygiene, personal care, confection, just the protein. Every category of all the big CPGs that we serve, whether it's infant care to feminine care to carbonated soft drinks. It was across the spectrum. And as you've read and seen our customers, it was a surprise, and they were -- they unexpectedly saw their volumes down in the U.S.

Operator

We'll now move on to our next question from Scott Gaffner with Barclays.

Scott Louis Gaffner - *Barclays PLC, Research Division - Director and Senior Analyst*

Bill, if I look back, I think it was 2013 going into 2014, you completed a relatively large facility consolidation and savings program in the U.S. Is there anything, when you look back at that today, that maybe limited your flexibility to deal with volume declines here, or maybe something that wasn't done at that point in time? Can you sort of give us some details on that?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Scott, I don't see anything that we would have done differently back then that is impacting things today. We made the right moves several years ago with that facility consolidation effort post the Alcan acquisition. And no, nothing that we would have done today would be any different.

Scott Louis Gaffner - *Barclays PLC, Research Division - Director and Senior Analyst*

Okay. And if I look at the volume shortfall, I assume -- it sounded like, from your commentary, it was some from your largest customers where maybe you're a preferred supplier. Is there anything that you could work into the contract, so that you get more of a heads up as to when they're going to start slowing down their volume needs in the future as part of the contracts?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Scott, it's a good question. Could we work something into the contract? I think that it has to do with the fact that we need to get better commercially, not necessarily from a contract perspective, but from a communications perspective and intensity perspective and get to the right individuals in the customer's organization that knows where their volumes are headed.

Operator

We will now take our next question from Jason Freuchtel with SunTrust.

Jason Alexander Freuchtel - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Yes, I believe you mentioned that Fred Stephan has a simple and practical approach to the U.S. packaging business. Can you provide a little more detail in terms of what he's already done to execute in the business that's different? And maybe how and why your business operated differently in the past?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Yes. Fred's approach is quite simple. He came in and just looked at all of the initiatives, all of the things that were taking place in -- within the U.S. Packaging organization, and boiled it down to 3 things. There are 3 things we're going to work on, and that's it. Let's forget about all of the noise around the fringe and work on these 3 things. And that's what he's -- that's the approach he's taken to the organization. That's the approach he's going to take forward, and that's what he and I are going to work on jointly as we turn the U.S. business around. Simplification and getting the right resources in the right place.

Jason Alexander Freuchtel - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Okay. Great. And then, I think you also referenced that you're going to continue to potentially look for acquisitions, but in the near term, your focus is really on fixing the U.S. Packaging business. Should -- does that imply that maybe acquisitions are on the back burner in the near term, and maybe that's something for the end of '17 or '18?

Michael B. Clauer - *Bemis Company, Inc. - CFO and SVP*

Jason, nothing's really changed from an M&A perspective. Clearly at the moment, I supported Bill and he had a lot of time being invested in supporting the turnaround of the U.S. operations. We've said before that our primary focus has been global. And as you've seen over the last couple of years, we did an acquisition in Brazil in the health care space. So we will always take a look at things. But clearly from a U.S perspective at this point in time, we've got to focus on getting the U.S. business turned around. If something interesting presents itself that makes a lot of sense to Bemis and can be run as a standalone for a period of time, we'd consider it. But at this point, we're all focused on fixing U.S. Packaging.

Operator

We'll now move on to our next question from Mark Wilde with BMO Capital.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

I wonder if we could come back to this mention that you made of pricing kind of concessions on some of the high-value products. You've been talking about this for at least a couple of quarters now. Was there anything incremental in the first quarter on that count?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Nothing incremental in Q1, Mark.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

Okay. And do you think, Bill, just kind of related to this -- is this really just a function of the overall market demand being lower? Or are you losing share? I know that there is at least one competitor just up north of you who's been adding capacity. So I'm just trying to get a sense of how much of this is just the market, and how much of this is kind of competitive dynamics within the market.

Michael B. Clauer - *Bemis Company, Inc. - CFO and SVP*

It's the market, Mark. We haven't seen any significant loss of share that took place in Q1, or in Q4 of last year for that matter. So it's a market call down for us.

Operator

We'll now take our next question from Ghansham Panjabi with Baird.

Ghansham Panjabi - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

So Bill, it seems like your customers are finally starting to capitulate on volume weakness persisting, and what seems inevitable is that they'll have to strip out even more cost along the supply chain. You guys are trying to take out costs by your own optimization plan. But without incremental consolidation of your own, do you think that you'll be able to actually keep those savings with that dynamic in mind?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Yes. Yes I do, Ghansham. Again, we've got a lot of talented people that figure out how to redesign, remanufacture, take cost out, lightweight, down-gauge. We might have to rebalance our effort. And when that rebalancing, what I'm talking about is our rebalancing in our R&D organization where we have got, let's say, overweight towards the development of new products for customers that may or may not get traction versus the rebalance toward how do we take cost out, how do we improve our processes and use those technical resources to do that, versus the heavily weighting toward new product development.

Ghansham Panjabi - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And then, in terms of the optimization efforts, I'm sorry, if I missed this. But did you call out any sort of parameters to think about cash costs? And also what the time line would be implementing these initiatives, both in terms of actually shutting down plants, and then, also, the cash outflows?

Michael B. Clauer - *Bemis Company, Inc. - CFO and SVP*

Ghansham, what we called out in the press release and our comments are, we are committed to complete that evaluation in Q2 and report it externally. So at this point, we have not given a cost or a benefit outlook.

Operator

We will now take our next question from Adam Josephson with KeyBanc.

Adam Jesse Josephson - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Bill, just back to the volume issue, the company's had no volume growth for quite a long time. Your customers have not had volume growth for quite a long time. This is the case under Henry's leadership. It's the case under your leadership. Your customers have been seeing it for eons seemingly. I just don't understand why you would have been expecting 1% to 2% volume growth this year, given what you've seen over the last 5 to 10 years. I appreciate that your customers were saying they were going to see some inflection, but why would you have thought that?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Adam, we're going to face reality right now that our customers aren't going to grow, that they continue to struggle. we had been given forecasts from them about growth. we had been given product specifications that they were going to grow with. And it never materialized. So we're telling the U.S. organization to stop. We're not going to face into that any longer. We're going to face -- we're going to size the business for flat to down. And that's how we're going to do this going forward. And that's what we're telling them to do regardless of what our customers are saying that they are going to bring in. Our customers have been focused on cost out, plant consolidations, plant shutdowns. And we're now going to get real with all that and bring our volume and our capacities and our utilizations down.

Adam Jesse Josephson - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Okay, just a related question, Bill. I think, late last year, you talked about having hired a consultant. I think earlier on the call, you talked about looking for a new head of U.S. Packaging last fall, last winter, whatever it was. And it seems like these things were happening simultaneously around the same time. So can you just help us understand what exactly was going on with the consultant and looking for a new head? It's just a bit confusing. And I'm just trying to understand what exactly has been going on there.

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Yes. Adam, if you recall, third quarter, we brought in a consultant to help us with our commercialization effort. It was a quick 6-week, 7-week program. We got that finished and moved on. We started the search for the head of U.S. Packaging about the June time frame of last year. Because it takes that long to find someone to come in and run a business like that. So it took us -- it takes 6 months, and it took us 6 months to do that. The 2 are completely not related.

Operator

We'll now take our next question from Chris Manuel with Wells Fargo.

Christopher D. Manuel - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Wanted to understand what's so different with the scope of what you're doing now is centered on the U.S. operations. What's so different with the international operations? You still put in a new ERP system there. Other than -- I mean, the only thing that I could see that's markedly different is the fact that volume still are growing there. So aside from the volume growth issue, what's managed so differently internationally versus domestically?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Chris, we changed some leadership in our international business over the course of the last 12 to 18 months. And when you do that, it immediately changes the culture. It changes the way the organizational thinks. We brought in people from outside the industry to come in and help run those businesses. It changes the way they look at the business, the way they approach customers, the way that they look at our ways to add value. And they get those businesses' cultures moving in the direction that we need them to move. That's the -- the short of it, is that we put in some new leadership. They brought in some new talent. they brought in some new ways of thinking. They brought in new ideas. And they energized the organization, both in health care and both in our Latin American business. And in Asia Pacific quite frankly, that's a growing organization. And that's all new blood and new ways of doing things right from the get-go. So Asia has got great traction on culture change. Latin America has got great traction on culture change. And our health care business has got great traction on health care change -- on culture change. With Fred coming in, we're going to drive that culture change in North America much faster and get out of our legacy ways of doing things, and thinking about things.

Christopher D. Manuel - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Okay. That's helpful My follow-up question is new product development, things of that nature. So I get that the whole pond that we're swimming in may be slowly shrinking. But the component of adding new products and doing new work with customers, customer activity is still good, i.e., I'm going to make up an example. I mean, maybe it's smoked turkey hotdogs. That's not going to add to a category. It's just going to change out of existing hotdogs that are sold smaller. But are you still doing new activity? Can you, maybe, somehow characterize to us what new business and other activity is? Are you still picking up new business? It's just the existing business is shrinking? Or how should I think about that?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

That is exactly the situation, Chris. When we -- and we continue to use the innovation center for customer innovations and customer ideations. It's continuing to be leveraged by our customer base. We are attracting smaller customers, as we talked about, in the big middle. These smaller upstart customers are coming in. we're working with them. We're developing new products for them. But let's face it, when you start up a new product with a small customer, it's a small order, 1 million, 2 million, 1.5 million. And when you get a call down from one of the big branded accounts, it's a multimillion-dollar call down. So the new business does not offset entirely the call down that you get. But we are continuing to develop new products. We continue to have the innovation engine moving forward. But we're going to rebalance some of that right now as we go forward. We're going to rebalance it more towards helping take cost out within the U.S. Packaging organization. But we won't stop innovating on the other side.

Operator

We'll now move on to our next question from George Staphos with Bank of America Merrill Lynch.

George Leon Staphos - *BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research*

I guess I had 2 kind of top-down types of questions. First of all if the call down effort from your customers began it sounded like in earnest in March, which then triggered all the internal activity occurring at Bemis, do you think you really have enough time to get all of your review and analysis and study of costs and benefits and actions done by the end of the quarter that we're currently in? And the reason I say that is, this is an important move by the company ultimately to get right. The related question, which I'll get to and kind of drives this first one, is since 2015, and recognizing it's a tough environment, you all have a much tougher job than we have here just moving numbers around on a spreadsheet. But it's been a narrative where things don't quite go as well as you would have expected. The volume wasn't necessarily there in '15. Brazil surprised you last year. You had to bring in a consultant on to commercialize new products. So what -- if we look at that, has been sort of the overarching theme Bill? Is it the culture you're trying to change to make more responsive? What's been driving that narrative? And therefore, do you have enough time to get it all done by the end of the quarter?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Yes. Thanks for your question, George. You hit the nail on the head. It's the culture. We're steeped in tradition, and it takes -- it's hard to move the culture. And as I explained in an earlier answer, we've moved it in Latin America. We've moved it in Asia Pacific. We've moved it in health care. We're now going to move it. We're using this Q1 issue and the reality of our large CPG and brand customers calling -- continuing to call volume down to drive that culture change in North America. Whereas before, it was just legacy. That's at the heart of what we're changing as we go forward. It's to change the culture, to create the urgency. It's not that this too will pass. We are using this as our opportunity to get embedded with our U.S. Packaging teammates and drive culture change that really gets focused on the intensity of how quickly we can move the organization and how quickly we can take the costs out. Now to that point on the question, we've started this work already. We started this work in April, starting to look at, okay, how can we start to bring down the cost structure? We feel we'll get a vast majority of it done in Q2, and we will be able to report out on what our plans are going to be as we leave Q2.

Operator

We'll take our next question from Philip Ng with Jefferies.

Unidentified Analyst

This is [Zao Tataron] for Phil. So your focus has shifted significantly over the past couple of years, initially, being more focused on mix improvement technology, then, recap and now, apparently, to more cost cutting. And with the value of hindsight, can you talk about where your prior strategies fell short of your expectation? Whether there's still some benefit to be had from things like recap? And what gives you confidence you'll be able to execute better on the restructuring phase of the business rather than the growth initiatives the past couple of years?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Yes. The recap strategy, is still an excellent point in our strategy. We continue to execute on that, and that continues to bring us value, in our shareholders' value. Innovation, pushing innovation around the world, that's how we're growing our higher-margin products in both Asia and in Latin America. We move those technologies from North America and from Europe into those emerging worlds where those technologies don't exist. And that's at the core of what we're doing to improve profitability in both Asia and in Latin America. The next piece comes to cost reductions, completely driven by volume call downs in the U.S. and a footprint that we have some assets that are over 90% to 95% utilized from a capacity perspective, and some that are down at the 70% range. So we need to consolidate some of those assets that are in the lower part of the capacity utilization range. It's just the ongoing evolution of how the business is going to run. We need to be quick, and we need to get on it and start to get that work done. We're not going to sit on our hands. We're going to get these things done.

Unidentified Analyst

Great. And then, can you talk a bit about Fred's background as a manager in the insulation business, his experience as a cost cutter or change agent? What led you to the decision that he was right person to turn around U.S. Packaging, especially considering his prior business was more of a growth business, whereas it seems like you're coming to the conclusion that U.S. Packaging is not so much of a volume grower. And also, his prior business in U.S. insulation, they recently had some share gains through adding incapacity. And can you talk about how that impacts?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Yes. Fred actually has a 20-year career with General Electric, where he ran several businesses at General Electric that were say, in more of the commodity space. And he grew the top line, grew the bottom line in those businesses, went to Johns Manville and did the exact same thing in the face of the housing downturn in the late 2000s, grew the top line, grew the bottom line in all of the businesses that he has been in. It's about being simple, taking out the clutter and moving the business toward the goal of both growth and profitability improvement. And he's done that time in and time out.

Operator

We'll now take our question from Arun Viswanathan with RBC Capital Markets.

Arun S. Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

Just a little bit more of a longer-term strategy question. I appreciate that you guys are repositioning the business towards flat to down volumes in U.S. Packaging. How should we think about the earnings power of the business in that scenario? I guess in prior years, you've been able to achieve 10% earnings growth by increasing your exposure to Latin America and some other growing markets, health care and what not. And then also deploying capital towards buybacks. So how should we look at your business from a longer-term perspective, understanding that you're going to take some charges in '17 on restructuring? Do you expect earnings growth in future years to come through?

Michael B. Clauer - *Bemis Company, Inc. - CFO and SVP*

Arun, at this point in time, we're -- we're really focused on just getting the U.S. fixed. We don't -- we're not looking at '18 yet at this point in time. Clearly, we are still committed to grow this business over the long term. We will continue to use our free cash flow, as we always have, to pay a dividend and buy back stock. As I mentioned earlier, acquisition growth is still important to us and primarily in our global business. But at this point in time, we really are going to try to -- are focused on getting the U.S. fixed, get it back on track. And then we'll come back later in the year and talk about the future.

Arun S. Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And so on that note, then, are there other tactics you can you use to increase your exposure to growing markets? Are you looking at increasing acquisitions in Asia or Latin America or other areas that you mentioned, health care in the past? How large can that grow in your business and potentially offset some of this structural weakness?

Michael B. Clauer - *Bemis Company, Inc. - CFO and SVP*

Well, Arun, as you guys know, we don't typically comment on acquisition activity. But I'll just reiterate again that we, at this point in time, we still feel it's very important to be an investment-grade company. We look at acquisitions in a point that we could absorb it without putting that at risk. And we do, as most of you know, we did bring a very talented individual in last year in the fourth quarter to kind of really get us a lot more focused with a lot more discipline and rigor around what's in the market, what's coming to market or what we should actually own.

Operator

(Operator Instructions) We'll now take our next question from Brian Maguire with Goldman Sachs.

Kia Pourkiani-Allah-Abad - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is actually Kia Pourkiani sitting in for Brian. I guess, the first question I had is piggybacking off an earlier question on the asset recapitalization program. I'm wondering if you think that the program had any impact on some of the current recent issues, just in terms of how you're aligned with your customers? And then, if you have any kind of preliminary thoughts on how much of a focus asset recapitalization will be going forward, that would be helpful.

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

Yes. The current asset recapitalization program didn't have any effect on this current call down. It was not affected by any of that. Those assets that we put in to recapitalize older pieces of equipment are some of those pieces that are now in the 90-plus-percent utilization range, because we had the volume already to run across them. And we will continue to focus on taking out older pieces of equipment and recapitalizing where we can gain productivity, efficiency and drive margins. We're going to continue to do that. That will not stop.

Kia Pourkiani-Allah-Abad - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Great. And then, just a quick second one. I can appreciate that you're very early on in the process, but do have any sense of how much capacity you think we'll need to come out of the U.S. Packaging business going forward?

William F. Austen - *Bemis Company, Inc. - CEO, President and Director*

That's not something that we would comment on at this time. We'll do that in Q2.

Operator

And that concludes the question-and-answer session for today's call. I would now like to turn the conference back over to Ms. Erin Winters for any additional or closing remarks.

Erin M. Winters - *Bemis Company, Inc. - Director of IR*

Great. Thank you. Thank you, everyone, for joining us today. This concludes our conference call.

Operator

Thank you. And that does conclude today's conference. Thank you all for your participation.