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BMS - Q4 2016 Bemis Company Inc Earnings Call

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OVERVIEW:

Co. reported 4Q16 adjusted EPS of $0.67. Expects 2017 adjusted EPS to be $2.85-3.00.

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Mike Clauer *Bemis Company Inc. - SVP & CFO*

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Mark Wilde *BMO Capital Markets - Analyst*

Anthony Pettinari *Citigroup - Analyst*

Brian Maguire *Goldman Sachs - Analyst*

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PRESENTATION

Operator

Good day and welcome to the Bemis Company fourth quarter 2016 earnings conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Erin Winters, Director of Investor Relations. Please go ahead.

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

Thank you. Good morning, everyone. Welcome to our fourth quarter 2016 conference call. Today is January 26, 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 will answer any questions you have. However in order to allow everyone the opportunity to participate, we do ask that you limit yourself to one question at a time with a related follow-up and then fall back into the queue for any additional questions.

At this time, I will direct you to our website Bemis.com under the Investor Relations tab where you will find our press release and supplemental schedules. In Mike's discussion of the financials, he will specifically be referring to pages 3 and 4 of the supplementals.

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.

Finally, a reminder that statements regarding future performance of the Company made during the 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 risk factors.

Now I will turn the call over to Bill.

Bill Austen - *Bemis Company Inc. - President & CEO*

Thank you, Erin, and good morning, everyone. As I reflect on 2016, we made progress. Most importantly, we truly helped our customers win with new product innovations and improved quality and service. We continued to improve toward our long-term financial objectives.

Looking at the full year, we achieved record adjusted earnings per share of $2.69, an 8% increase over last year at on a currency-neutral basis. We increased operating profit return on sales at our US packaging segment to 15.3%, a 100 basis point increase over the prior year and putting us in the range of our long-term goal of 15% to 18% in this segment. This improvement was fueled primarily by the success of our asset recapitalization program.

We generated $437 million of operating cash flow. We acquired SteriPack in April, a great acquisition, and in addition to our growing healthcare packaging business. We invested $208 million in capital to expand and improve our business, positioning us well for the long term, and we returned value to shareholders through our 33rd annual dividend increase and through the repurchase of 3 million shares of stock.

We continued implementing our strategy of accelerating growth, focusing innovation, and continuously improving all we do to deliver strong financial performance. That said, 2016 had some operational issues, particularly in our global business. We have and will continue to remedy these, and I am confident that we will show improvement in 2017.

I will turn the call over to Mike now to discuss details of our 2016 financial performance and 2017 guidance. Then I will come back to the call to discuss my view of key priorities as we entered 2017. Mike?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

Thanks, Bill, and good morning.

We reported adjusted earnings of $0.67 per share for the fourth quarter and $2.69 for the full year of 2016, and 11.7% increase over the prior fourth quarter and a 7.8% increase over the prior year on a constant currency basis. Total Company gross margins for the full year at 21.16% were roughly in line with the prior year. This reflects the benefits of our asset recapitalization program, offset by operational issues in our global business during the year.

I will comment next on each reportable segment, followed by overall Company performance and then wrap up with guidance for 2017. First, U.S. Packaging. Following page 3 of the supplemental schedules, starting first with Q4.

Sales dollars in our US segment declined 3.6% in the quarter. Unit volumes were up 1% in the quarter. We delivered on all expected new or incremental business this quarter, so I'm satisfied that our commercialization process is being rectified to deliver our long-term growth plans. While volume could have been better, fourth quarters can be unpredictable because of varying shipment patterns driven by individual customer's year-end needs.

Looking at full-year net sales in the US, dollars declined 4.6% compared to the prior year. Volumes were up nearly 1% for the full year. Of the remaining decline in the full-year net sales for U.S. Packaging, about half related to lower resident prices that are passed through which is neutral to profit and the other half to mix driven by the success of our asset recapitalization program.

U.S. Packaging operating profit return on sales for 2016 was 15.3%, compared to 14.3% the prior year into our long-term range target of 15% to 18% in the US. This improvement was driven primarily by efficiencies from our asset recapitalization program.

Moving to our Global Packaging segment and page 4 of the supplemental schedules, I will focus on the full year here. Net sales were up 4.5%. Currency translation reduced sales by 10.7%, driven by currencies in Latin America and Europe that devalued.

The April acquisition of SteriPack contributed a 7.3% increase to net sales. Excluding the impact of currency and acquisitions, our Global business delivered nice organic growth of 7.9% in 2016. Driven primarily by positive sales price and mix, along with increased unit volumes of 1%.

Some regional details on Global volumes. Full-year unit volumes were down 1% in Latin America. a function of the prolonged economic downturn. Up strong mid-single digits in Asia in our healthcare packaging business, and down low-single digits in Europe.

Global Packaging operating profit return on sales for 2016 was 8.2% compared to 8.8% the prior year. Which was driven by Q1 operational issues in Latin America which have been corrected, and also by the slower price of bringing our expanded Oshkosh healthcare facility up to speed.

We have made progress throughout the year, and by the fourth quarter our margin profile increased to 9.4% as compared to 8.6% the prior Q4. Reflecting the benefits of improved price mix from sales of more sophisticated packages. Currency translation negatively impacted operating profit in 2016 by $8.3 million or about $0.06 of the total Company's earnings per share.

Now onto consolidated Bemis. Total Bemis Company SG&A expense for the full year was $392 million, down from $420 million last year. This reduction was due primarily to our pay-for-performance practices, along with currency and strong cost controls. I anticipate SG&A as a percentage of sales to be consistent in 2017 with 2016 which is in line with our long-term target for SG&A dollars.

Looking next at adjusted return on invested capital. At December 31, ROIC was 10.6% compared to 10.5 % last year. Current-year ROIC would be a couple tenths higher if not for the expected near-term impact of related to acquisitions. We continued to expect this mixture to improve of the long term toward our goal of being in the upper quartile of our peer group.

Operating cash flow for the year totaled $437.4 million, in line with our recent guidance. Restructuring impacted cash flow by $8 million in 2016. For the full year, total working capital was flat.

We did make further progress on payables in 2016, but I was disappointed by inventory at year end. That said, we ended the year within our target range for primary working capital percentage of sales at 15.8%.

During 2016, we took a fresh look at our capital allocation strategy, and our Board also increased the share repurchase authorization in February by an additional 20 million shares. We intend to maintain investment-grade and prioritize capital spending for organic growth and efficiency improvements, and we're committed to returning free cash flow to our shareholders over the long-term horizon through dividend and share repurchases.

During the year, we repurchased 3 million shares in line with our commitment. You can continue to expect us to buy back shares to the extent an acquisition isn't eminent, as was the case in Q2 this year when we purchased SteriPack.

Turning to 2017 guidance. We have established an adjusted EPS range for 2017 of $2.85 to $3. Our guidance assumes foreign currencies at the current rates. With this assumption, we have actually accounted for a $0.02 per share headwind from currency in our 2017 guidance versus 2016 actual.

Next, I will discuss a few specific items that we have considered in our EPS guidance range. First, the benefit of organic volume growth. In our US business, we have assumed 1% to 2% unit volume growth. In our global business, we have assumed 3% overall unit volume growth which is comprised of mid-single-digit growth in Asia and healthcare, low single-digit growth in Europe, and flat volumes in Latin America given the continuing tough economic environment.

Second, margin expansion. The midpoint of our EPS range assumes that US margin's percent is roughly in line with 2016, and that global margin percent progresses towards our long-term target. Bill will provide additional commentary on the segment outlook.

Third, the EPS benefit of continued share repurchase. As we've said before, our free cash flow belongs to our shareholders. If an acquisition isn't eminent, we will not delever the Company, we will return our cash to shareholders.

Fourth, the benefit of the synergies from our restructuring program in Latin America. Our EPS guidance includes $0.05 benefit per share in 2017 from implemented synergies.

We have closed two of the four identified plants as of December, and the final two plants will close mid-2017. This is on pace to our original plan that called for half the total program savings to reflect positively in the P&L, in line with our original Emplal acquisition objective. As you recall, the other half of the restructuring planned savings are intended to offset headwinds from the impact of the economic environment in Latin America.

Fifth, interest expense. Our EPS guidance includes $0.05 per share headwind from interest. About two-thirds is a result of the year-over-year comparisons related to the bond we issued in September, and the remainder is a result of generally higher interest rates following the forward curve.

Finally, income tax rate. I expect 2017's tax rate to be approximately 32.5%, which includes the impact of the new accounting standard for stock-based compensation.

Where we are within our EPS range of $2.85 to $3 will depend on further movement of currencies, new product introductions, onboarding new business awards, and how our end markets perform relative to the outlook. We have built this plan with consistent earnings growth each quarter of 2017.

Turning to capital expenditures guidance for 2017. We expect to spend $200 million, of this about $60 million is for environmental health and safety at our plants around the world. That leaves approximately $140 million, which we target for growth projects and asset recapitalization.

Finally, we have established 2017 guidance for cash from operations in the range of $440 million to $480 million. This includes a $15 million impact in 2017 from our restructuring program in Latin America.

Regarding primary working capital, we previously committed to take out $140 million towards our targeted 14% to 16% of sales. We realized $110 million of that in 2015. We are targeting an additional $30 million to $50 million of working capital improvement in 2017, primarily from payables and inventory. I anticipate normal seasonality and cash flow throughout the year, with cash from operations lighter in the first quarter and then building from there.

In summary, I remain confident in our business and in our ability to further improve financial performance to create long-term shareholder value. With that, I will turn the call back to Bill for his comments on 2017.

Bill Austen - *Bemis Company Inc. - President & CEO*

Thanks, Mike.

As I think about the progress we've made and also about the stability and longevity of our business, I remain confident in our continued improvement and our ability to perform well over the long term. Our US business has seen much success in the past two years.

We've expanded margins approximately 200 basis points, and increased operating profit dollars almost $25 million. Our business in this region covers a broad spectrum of products and we have great position, particularly in high-technology packaging.

During 2016, we continued implementing our pricing analytics initiative that helps our sales and marketing teams make good commercial decisions based on data instead of gut instinct. This allows us after inputting product spec and market data to have actionable information at our fingertips, which allows us to make better strategic commercial decisions.

When initiating this project, our sense was that we would primarily discover areas where we were below market, and would arm us with the data to surgically raise prices. While there are many examples of this, there were also instances identified by the analytics, particularly in processed proteins where the data showed that we were beyond the market, therefore making us vulnerable.

During 2016, we used this data in negotiations with a variety of customers to proactively protect good business for the long term, and to gain new incremental business. Considering the output of these negotiations, the midpoint of our guidance range assumes U.S. Packaging margin percent in 2017 to be roughly in line with 2016.

In the US, we will continue our asset recapitalization program which has provided meaningful improvement to date as it will into the future. Because of this program, we are able to pursue growth in less differentiated products that formerly we would have overlooked given our cost structure with the old inefficient equipment.

We will continue to invest in new converting equipment that meets or exceeds our 15% ROIC hurdle rate. These continued improvements will help us return to margin expansion in the US in 2018.

Turning to the Global business. As Mike mentioned, we will see nice improvement in 2017 as compared to last year. We're making good progress in our restructuring program in Latin America. This plan not only helps our cost structure during the cut tough economic environment, but it positions us well for the long term.

We're also making great progress in leveraging our technologies globally. The success of our innovation engine in the US allows us to quickly capitalize on increasing package sophistication in our global business. We have and will continue to benefit from sharing our technologies globally, and increasing package sophistication in Latin America and Asia.

To propel this initiative further and faster, we recently launched a formal global leveraging team led by the experience of Dan Rokjer, Vice President of Global Business Development, and embraced by the entire organization. We strongly believe that we have a clear competitive advantage, and can meet or exceed our growth objectives by fully leveraging our global technology platforms.

A key enabler to top-line growth is our ability to accelerate global collaboration within our business. This formal effort aligns three strategic full-time individuals who will support our global growth strategy.

I am confident as we begin 2017, as we're focused on our customers, and when we help our customers win, we win. We continue to evolve toward a high-performance culture. We have high expectations of ourselves.

We are focused on execution. Execution is front and center in 2017. All areas of the business, every person, every function, every day. We will continue to pursue earnings growth to create long-term sustainable shareholder value.

With that, I will turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Scott Gaffner, Barclays.

Scott Gaffner - *Barclays Capital - Analyst*

Good morning, Bill, good morning, Mike.

Bill Austen - *Bemis Company Inc. - President & CEO*

Good morning, Scott.

Scott Gaffner - *Barclays Capital - Analyst*

Mike, I wanted to talk a little bit about free cash flow and the shift in working capital. You said that -- it sounded like your customers were managing their own working capital or their own cash flow in the fourth quarter, and maybe that flowed down a little bit to you or was this more of the payment terms issue? Can you talk about that in the fourth quarter, and what gives you confidence that we get it back in 2017?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

First of all, on our own cash from operations. What I'm positive and happy about is that we -- it wasn't a source of cash, excuse me, a use of cash. So we've put the discipline in place and we're really converting our cash pretty well.

What I was disappointed in to be completely transparent, I thought we would be in the range of $450 million to $455 million at the end of the year. And where we saw about the deficiencies was about half of that was just in payables, where we just quite did not get the terms done that we wanted. The other half was just around the world, a little bit extra inventory.

The confidence I have next year is just the continued focus on this. The plans are in place. The initiatives are being hit on right now as we speak, as most of you are aware with the investment we're making in the new year our P platform in North America that's -- we've talked about it in the past that that will start as we implement the system and get completed will drive inventory down as we get into late 2017 and into 2018.

so my confidence is that we have plans, and I've seen them. I've sat down with the organization, and I'm very comfortable at this point that they are committed to deliver.

Scott Gaffner - *Barclays Capital - Analyst*

All right. And when you look at the capital allocation for 2017, I think you said obviously the cash belongs to the shareholders. Do you have any share buyback included in the guidance today?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

We do, I do. We assume we're not going to delever. So if you can figure out that by taking cash from ops we've given you CapEx, you can calculate dividend and there will be additional borrowing associated with not delevering if we do grow our EBITDA and then you can back into it.

And I think consistently with what you saw this year, we buy 1 million shares a quarter unless there is an eminent acquisition like SteriPack in Q2. That's the same thing that happened in 2015 when we bought 3.3 million shares in the quarter we didn't buy was Q4 when we bought Emplal.

Operator

George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Hello, everyone, thanks for the details and congratulations on the year. My questions are around on margin. I just wanted to make sure that I had heard correctly.

First question, I think you said margin in 2017 should be in aggregate comparable with 2016, even though it sounds like Global Packaging will be up. Bill, you'd said that U.S. Packaging would be roughly in line, but if I do the math it would suggest that maybe it's going to be a little bit below last year. So if you could confirm that and provide some details around that.

And then the second question I had on operations. You had mentioned that you are in the process of remedying the commercial elements of your business, the new product introductions that you are doing.

I just wanted to clear up whether you are now -- you feel confident with that process or it's still developing in Brazil, the restructuring, and it sounds like it's ongoing. I wanted to see where you are in terms of having closed that out. Thank you.

Bill Austen - *Bemis Company Inc. - President & CEO*

Sure, George. This is Bill.

George Staphos - *BofA Merrill Lynch - Analyst*

Hello, Bill.

Bill Austen - *Bemis Company Inc. - President & CEO*

On the margin, what I had said was that U.S. Packaging margins would be comparable to 2016 and Global margins would be up in 2017. Your second part of that question on the commercialization piece, sorry. We are confident that that is behind us and we've moved on.

The point there is that if we looked at the new business at commercialized, the new business meaning new products that commercialized in Q4, we are right on track with what we had anticipated. We feel that process is fixed moving forward and it's behind us.

Operator

Mark Wilde, BMO Capital Markets.

Mark Wilde - *BMO Capital Markets - Analyst*

Morning, Bill. Good morning, Erin and Mike. I wondered, Bill, if you and Mike could just help on a year-over-year basis, help us think about some of the changes that we're are likely to see in 2017.

The ones that I'm focused on, how much of a reduction is the drag from the issues in Latin America and the issues up at Oshkosh? How much year-to-the benefit is there from SteriPack? How much benefit is there year to year from the recap program plus Latin American restructuring, and then what do you pick up from just organic business growth?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

I can start with Latin America. We indicated we've got $0.05 related to restructuring initiatives. I can tell you Q1 we would not repeat the performance we had last year in Q1, so that's anticipated that it was fixed and we will be back at what we would consider a normal operating.

I don't recall the number right off my head of what that is. SteriPack is about $0.01, and from an integration perspective we continue to integrate. We will see some synergies coming in the later part of the year as we qualify the film that was being purchased from outside of Bemis is now being qualified to run inside of Bemis.

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

You could expect on organic growth, Mark, that the EPS impact to that if you sum up the U.S. and Global is going to be high-single digit EPS type range. Did we cover all of the items?

Mark Wilde - *BMO Capital Markets - Analyst*

Yes, I think that's most of them. I just wondered as follow on, can you guys talk about whether you have seen any acceleration or deceleration in business over the last say three months?

Bill Austen - *Bemis Company Inc. - President & CEO*

Mark, I will take that. I would not say there's a acceleration or deceleration. I will talk about Q4 and U.S. Packaging for a moment.

We were up about 1%, and that's on top of up 2% in Q4 of 2015 and that's from a volume perspective. We felt good about that. We commercialized the new products we wanted -- we needed to commercialize.

There was some weakness in end markets in let's call it health, hygiene, towel, tissue over wrap, that piece of the market. But I think that's just normal Q4 customers managing their inventories and their promotions that they have in retail. But I would say from my perspective as we exit 2016 and move into 2017 that we're building a little bit of momentum within the business in U.S.

Operator

Anthony Pettinari, Citi.

Anthony Pettinari - *Citigroup - Analyst*

Good afternoon. Going back to the Analyst Day, I think there was a view that price or pricing analytics could contribute maybe around 20% of the margin expansion that you're ultimately targeting. It sounds like early findings from pricing analytics are maybe contributing to more flattish margins as you protect some business.

Does this recalibrate how you think about the potential benefits of pricing analytics maybe in 2018 or 2019? Or how do you think about the value of the program going forward given the results might have been a little bit surprising at the end of the year in 2016?

Bill Austen - *Bemis Company Inc. - President & CEO*

Yes, Anthony, you raise a good point. The way our initial sense with pricing analytics was we would be able to strategically use it, and you always look at the upside, you're always looking for the upside. So we would strategically use it to raise prices that were low.

And if you look -- as we've looked at it and gotten into the details of the analytics, we can look across market segments, product segments, SKUs, to determine how our overall portfolio is put together in any specific segment or at any specific account. Now to use that that way, it gives you a much more strategic focus and not just a tactical focus of the analytics.

That's what our teams have done throughout 2016. They used it very strategically to say okay, how are we positioned across an entire segment and where do we need to adjust so that we can protect, lock up, change terms, different materials, whatever it happens to be.

But it's much more strategic now than we ever thought it was going to be or that we had imagined it could be versus the tactical piece of the tool and use it to raise the low prices. So yes, to your point, it's become more strategic than it is tactical.

Anthony Pettinari - *Citigroup - Analyst*

Okay, that's helpful. And following up on the 2017 guidance, I think in the US you guided to 1% to 2% organic growth and I guess that's a little bit lower than the 2% growth in the -- at the analyst today if I'm comparing the right things. Is there any reason that you are maybe at the lower end or the below that long-term target? Is that continued conservatism in a tough processed foods market, or are there specific categories where you are seeing weakness or any kind of color there would be helpful?

Bill Austen - *Bemis Company Inc. - President & CEO*

Anthony, what we had projected at Analyst Day was would we be 2% ahead of food. So if we take a look at 2016 for instance, we finished the year about 1% up. You can look at different data, you can talk to different customers, you can track processed food volumes and most of them were negative, more than 1% or 2%

We see that our customers, the data we look at for 2017 says possibly plus 1%. Personally from my perspective, I don't think it's going to be that robust I think maybe it's going to be flat. We don't necessarily need all those end markets to grow a big rates to get the 1% to 2% growth that we are projecting for 2017 in U.S. Packaging.

We have the business in hand. We have the accounts, one, we use pricing analytics to lock up some of those accounts for the long term. We don't have to worry about that piece of the business.

Commercialization issues are behind us. We've moved on from that. Now it's time for us to execute and make 2017 happen the way the business teams are planning it.

Operator

Brian Maguire, Goldman Sachs.

Brian Maguire - *Goldman Sachs - Analyst*

Good morning. I just had a question following up on the outlook for U.S. Packaging in 2017. It sounds like with the EBIDTA margin being flat, your guiding for generally flat EBIT growth, and it's sounded like that pricing was going to be a negative component in there based on the analytics you did.

Just wondering if it's a case where you think that you maybe raised price too aggressively in some markets the last couple of years and you're retrenching a bit now? Or does it seem like it was more of a case where the end markets got a little bit softer and there's been a little bit more competition and pricing erosion in those markets?

Bill Austen - *Bemis Company Inc. - President & CEO*

What we looked at there, and as I said in my script, this is primarily in the processed protein segment. We've had business in this area for many, many years and have had exceptional kinds of prices in there. We wanted to make sure that we maintained it and locked it up for the future, that's what we did.

So we negotiated not just price, there's other things that go into this. Terms, material substitutions, requalification of a different product. So the net net is that our margins are going to be flat in 2017 in U.S. Packaging.

Brian Maguire - *Goldman Sachs - Analyst*

Okay, great. I appreciate that. Then a follow up on the volume outlook, I know it's a bit of an acceleration from the trends recently. Is some of that renegotiation work contributing to that, and do you expect some of the commercialization improvement activities to lead to a little bit of a bounce back as some of that business comes through?

Bill Austen - *Bemis Company Inc. - President & CEO*

Yes.

Brian Maguire - *Goldman Sachs - Analyst*

Great. Thanks very much.

Operator

Ghansham Panjabi, Baird.

Ghansham Panjabi - *Robert W. Baird & Company, Inc. - Analyst*

Good morning. It's Ghansham.

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

Hey, Ghansham.

Bill Austen - *Bemis Company Inc. - President & CEO*

Hello, Ghansham.

Ghansham Panjabi - *Robert W. Baird & Company, Inc. - Analyst*

Bill, just to help us reset expectations or calibrate your performance. In the context of your own volume profile in 2016 the way you've defines it, what do you think your relevant markets actually grew in 2016 in the US, Latin America and Europe?

Bill Austen - *Bemis Company Inc. - President & CEO*

Ghansham, great question. I don't think our markets grew in the US. I don't think the markets grew in LatAm.

Europe was probably flat, Asia-Pacific we had strong single-digit growth rates in Asia-Pacific. I think the markets that we are growing in Asia-Pacific are really because we're transferring technology from the US to Europe, and we are creating new packaging styles for the Asian market which are new there. So it's hard to say what the markets grew in Asia-Pacific.

But we feel pretty good what we've done in Asia-Pacific, strong fourth quarter in Asia-Pacific. Mid-single to upper digit -- upper single-digit growth rates in healthcare. We're probably growing a little bit better than the healthcare market might be for our type of packaging, only because we were working through a backlog from the Oshkosh issue that we had.

Just to point out on Oshkosh, I will say this now since I'm on it. The metrics that we track to see how our performances there throughput waste, scrap, on-time deliveries are all on track per what we said at the end of third quarter. So we feel good about the execution that's taking place in our Oshkosh healthcare facility.

Ghansham Panjabi - *Robert W. Baird & Company, Inc. - Analyst*

As my second question, since your last conference call, there's been a broad increase in raw material prices across almost every single substrate. First off, what are you modeling for inflation, not just raw materials but just general inflation, wages et cetera? Then as we think about your specific margin targets for 2018 that you outlined for U.S. Packaging being up, how does that factor into your thinking for the margin threshold for that year?

Bill Austen - *Bemis Company Inc. - President & CEO*

From an inflation perspective, we modeled in 3%. Raw materials we've passed through, so we don't spend much time with that. We pass it through quickly.

The last point you had their George -- Ghansham, I'm sorry. I'm thinking through the answer here and trying to come up with what that last question was that you had.

Ghansham Panjabi - *Robert W. Baird & Company, Inc. - Analyst*

Well I had a couple more, Ghansham, in the US we use 4% inflation on utilities, 2.5% freight. We've assumed our benefit plans will cost us about a 5% increase, and then in the global markets we -- I think in Brazil we used inflation of -- I've got the numbers here. We used economic data provided by the economist in country.

Brazil, 6.5% inflation, Argentina 20%, Mexico 2%, China we've assumed 4% inflation. So we really try to tie ourselves to the local markets. We use the GDP outlooks, and then in the case of Brazil I think they are looking at plus 1%. We were assuming down 1%, just because we're not quite comfortable yet that that is improving. Does that help your question?

Bill Austen - *Bemis Company Inc. - President & CEO*

Ghansham?

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

Yes, he's good. Next question, operator.

Operator

Jason Freuchtel, SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Good morning.

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

Good morning, Jason.

Bill Austen - *Bemis Company Inc. - President & CEO*

Hello, Jason.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

I think you referenced that there was some volatility in your order patterns in the US business, maybe in the health hygiene over wrap business. Does that imply that that volume is pushed out into 1Q 2017, and could that provide a little bit of upside to your estimates?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

We would not know. All we're saying is -- and Q4 is always challenging because get orders and commitments in the quarter for the quarter, and if they change their production schedules or when they're going to close their plants down and cancel or delay orders. So I would not think about -- I don't think of it as it just shifts. There's too many other variables.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. Secondarily, you've managed your general corporate expenses lower over the course of 2016. Should we expect those costs will increase with your inflation expectations you just laid out, or are there any other opportunities to potentially manage those costs down over the course of the year?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

First of all, I said in the comments that I think what you should do is model as a percentage of sales consistent year to year. And we do use an overall assumption of about 3%, and then we target our SG&A organizations to look for areas and opportunities to try to hold those costs constant.

I think one of the drivers year over year is going to be, as we mentioned, our pay for performance. If we don't perform as we didn't in 2016 on our short-term incentive plans globally take a hit, and when we come to a new year we start with the assumption that we are going to achieve our targets for 2017.

Operator

Arun Viswanathan, RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets - Analyst*

I wanted to go back to a couple things you mentioned earlier in the call. You said that the $2.85 to $3 range will depend on FX, new products, business onboarding and end markets. I wanted to dive into the end market discussion, maybe you can help us understand what you're assuming your own growth would be in some of your areas such as the big middle or medical and so on?

Bill Austen - *Bemis Company Inc. - President & CEO*

Sure. We don't necessarily model out growth in any one area segment like the big middle. What we do is we looked at U.S. Packaging and we're -- as we said in Mike's comments, 1% to 2% there.

On the Global side of the business, we look at -- if you boil it down LatAm flat, low-single digits in Europe and mid-single digits in Asia in healthcare. Those are the metrics we've used in the plan to model out.

And just follow on to that, end markets in US We've looked at data, we've talked to customers, there is a lot of talk that US end markets would be plus 1%. I'm not necessarily that robust and think that it will be zero to 1%, but I don't think 1% is a given.

Arun Viswanathan - *RBC Capital Markets - Analyst*

That's helpful. Then as a follow up, the $2.85 to $3 range appears to be a little bit greater than usual. Is that a fair characterization? And maybe you can give me a little bit of confidence around some of those factors, the volatility, i.e., are the new products already booked, is new business onboarding, your really confident in that in those markets or are those factors?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

Historically, our Company always gives a $0.15 range around $0.075 on both sides of the midpoint. Clearly the items I mentioned, currencies, I have no idea.

New product introductions, we have pretty good visibility into that but a lot of the challenge on the new product is end market acceptance and the pace of acceptance. And that doesn't mean it's not going to happen, but just it means how quickly does it get the traction and get the pull at retail.

Onboarding new awards, I'm pretty comfortable. We've rectified our issues. We've reengineered for a better term that commercialization process.

But not all the time those issues are ours. There are occasions when a new plant is starting up for a customer and it's either delayed or they're having some start up issues. So I think the things that are completely in our control we feel pretty good about. And then Bill just commented on how the end market has performed, we're going to assume about flat and I hope everybody else is right and they're up 1%.

Operator

(Operator Instructions)

Chris Manuel, Wells Fargo.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Good morning, guys. Thanks for taking the question. Sort of a difficult question to answer, and I'm sure it's going to be a much more difficult to or ask and it's going to be more difficult to answer.

But what I'm trying to get a sense of is as you look across the end markets and subs that you serve principally here in the US, processed foods obviously have been struggling for a while. And seemingly the onslaught of a push to more less processed or more fresh or natural foods isn't changing.

How do you think about your business mix and your waning of new business, and what you're doing with either smaller or off brand natural food or non-processed foodstuff? Or is this -- and really to tie it all together, is this a situation where your portfolio seems to be pretty heavily weighted towards the Krafts, the P&Gs and that et cetera, and that perhaps growth targets are a bit challenging for the next two, three, four, five years is really what I'm trying to get at?

Bill Austen - *Bemis Company Inc. - President & CEO*

Thanks for this question, Chris. This is at he heart of what we're doing at Bemis Company in North America. We're moving the portfolio to more of the big middle in the flexible packaging space, and we're being able to do that through the asset recapitalization program.

When you heard me talk about the data analytics and the pricing analytics that we use, that was primarily looking at segments across the processed meat area which we all know have been under pressure. So we locked that business up for the long term. The recap efforts that we have allow us to go into the big middle of the flexible packaging space which is not necessarily focused at processed foods.

While processed foods is a part of that, so are non-food applications for customers that Bemis Company may not have served in the past because we were so wedded to food. So as we move the portfolio, to your point, we move the mix away from the food, the processed side, lock up the processed meat side with what we use the data analytics for, we now have the ability to grow volume because we're taking on new share from new accounts and new customers.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Interesting, okay. A follow-up question, and Ghansham touched on this earlier. Inflation does seem to be really working its way through, and thank you for the color on what you're using in there.

I appreciate that you need to use productivity to offset chunks of it, but how do you go out or how do your contracts handle inflation? Do you have pass throughs or elements for some of those, whether it's freight, energy, labor, et cetera? But how can you go out, and across most of your business, I guess you probably don't, and recapture inflation, can you do general price increases from time to time?

Bill Austen - *Bemis Company Inc. - President & CEO*

Chris, that's more prevalent in places outside of the US where inflation has been much higher, say Argentina and Brazil. In the US, it has not been very prevalent over the years. We use cost out material science, product substitution and productivity to help offset those increases in inflation.

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

That we can't pass through, Chris.

Operator

Chip Dillon, Vertical Research.

Chip Dillon - *Vertical Research Partners - Analyst*

Good morning. Question has to do with the restructuring. You mentioned that the cost that you were to bear in 2017 would be around $15 million.

And I suppose as we look beyond the -- these last two closures in mid-2017, would it be your expectation looking out that you're done with restructuring for now? There's been a lot of transformation in the past few years of the (inaudible) since the business, do you think you'll make it through 2018, let's say without any major restructuring moves being necessary?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

First of all just to be really clear, that restructuring number is the cash associated with the charges taken in 2016. I'm never going to say we're not going to have additional restructurings. I think every business is constantly looking at ways to improve their cost structure.

I have no opinions today that there might be an acquisition that would lead to some restructuring associated with it. So I can't say never. But as I sit here today, I'm not aware of anything eminent that -- I think the big one we did was in the Latin America one last year.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay, understood. And then looking at the CapEx, you mentioned $140 million for growth initiatives. If you could just talk a little bit about when you think those -- what they are and when do you think they start actually pay off on the bottom line?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

Its growth and recapitalization initiatives. And those of you that we've spent some time with, our capital projects generally have a 12 to 18 month delivery. So from the time we make the commitment on the capital to commercialization could be 12 to 18 months.

Recap projects since we already have the business, once those are installed, those returns hit almost immediately. And growth projects are a function of you're going to always add capacity ahead of -- you're adding capacity based on your customers and your forecast of how that product is going to accelerate over a period of time. So those returns don't quite happen as quickly as a recap.

Operator

Phil Ng, Jefferies.

Phil Ng - *Jefferies LLC - Analyst*

Hey, guys. You mentioned you're looking to protect the business in the US and expect flash margins this year. Does this cap your margin profile in the US longer term and the targets you've set forth at the Analyst Day, is that still realistic?

Bill Austen - *Bemis Company Inc. - President & CEO*

Yes, Phil. That -- we've locked in that volume over the next 3 to 5 years and the asset recapitalization is really what's driving and fueling our growth in margins, as well as new product innovations that are being launched in the US. So no, our margin expectations are not capped.

Phil Ng - *Jefferies LLC - Analyst*

(Multiple speakers) in 2018 or 2019.

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

Yes, we see 15% to 18% is a very achievable objective.

Phil Ng - *Jefferies LLC - Analyst*

Okay, that's helpful. And shifting gears to your Global Packaging business, volumes have been pretty flat in the back half. What's driving the acceleration you're expecting for 2017? Is that driven by some of the operational issues behind you or regaining share following some pretty sizable price hikes you've implemented this past year? Thanks.

Bill Austen - *Bemis Company Inc. - President & CEO*

On the Global side, Phil, it's really the slow comeback of Latin America, primarily Brazil. They've been down, the end markets have been down, GDP has been negative 3.8%. Next year it's forecast to be plus 1%.

That drives consumption. We don't think it's going to be 1%, we are looking at zero to flat in LatAm next year. But that drives consumption, that drives our volume growth back in that region.

Operator

Debbie Jones, Deutsche Bank.

Kyle White - *Deutsche Bank - Analyst*

Good morning. It's Kyle White filling in for Debbie. I wanted to focus on inorganic growth.

You laid out the 2?% CAGE target at the Analyst Day a while back. I'm just getting your thoughts on if you think that's still a viable target given transaction and multiple expansion that we've seen. And in order to get that target, are you expecting more smaller deals to get to it or a transformational deal?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

I will answer that. It's still a realistic goal. It still is our objective to do some acquisitions.

We're going to continue the -- how we've approached it thus far is that we identify the type of companies we want to add to the portfolio. They typically tend to be family type businesses, and then we start working on creating the relationship and helping understand their succession plans. And in the case of both Emplal and SteriPack, those are prime examples of where we got things taken care of and they weren't in a process.

I don't want to say we don't look at things in processes, as most of you are aware, second half of 2016 was a pretty robust period of time with assets coming up for sale. We took a look at a lot of them, none of them fit but we're going to continue focusing on bolt-ons. At this point in time, honestly we're not really thinking transformational, but if something of interest came along we would not not look at it.

Kyle White - *Deutsche Bank - Analyst*

Thanks, that's helpful. Second question is just more a point of clarity. Mike I think you said $0.05 benefit from LatAm, I believe that's just -- this is the question, I believe that's just the lapping of the headwind that you had in 2016 and not necessarily inclusive of benefits from the restructuring.

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

The $0.05 is only the synergies associated with the restructuring. We would expect that the problems we had in Q1 that we corrected in Q2 that we're rolling over those, so those would be positive. And that was about $0.03.

Kyle White - *Deutsche Bank - Analyst*

That makes sense. Thanks, I'll turn it over.

Operator

George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Hello, guys. I had a few more questions. The last two here. And I appreciate your patience with this question on US margins is up there with no good deed goes unpunished, you gave a lot of details so it brings out more questions.

So if I think about your U.S. Packaging business and why margins will ultimately trend up in 2018 and 2019. On the one hand, you said you've locked up your processed meat business and contracts. Presumably that came at a price, and it's also a business that seems to be, from what you've said, seeing somewhat unchallenged end-market conditions.

You're growing in the big middle through your recap program, and that's good for return on capital for sure. But would tend to have a lower mix I would think in margin than call it processed proteins. So what is actually going to lead to better margins starting in 2018 and 2019 in the U.S. Packaging business?

The related question and then I will turn it over. And I think and some of the other folks tried to touch on this as well.

You invented in many ways the processed meat packaging business a number of years ago, Curwood did, and you're running a commercial enterprise. So it's a good thing in a way that your pricing was as high because it was generating margin and return.

So the fact that you use your analytics to strategically lower pricing and lock up volume, is a driven by your competition beginning to catch up, or are you worried more about other substrates entering the market? I would not expect that that's the case. Or is it really more just a function, hey look, the demand picture is a little bit more challenged and we would like to lock up that volume here right now and that's where the action -- that's what drove the action? Thank you, guys.

Bill Austen - *Bemis Company Inc. - President & CEO*

George, I will answer the second half of that first, okay? We have invented a lot of the processed meat specifications and developed that whole category, if you will. We've had that business for very long time.

It's a very good business, it's always going to be a good business. But the analytics now gave us the ability to look across a portfolio of not just processed meat, but other specifications within a portfolio for a customer. And said, this is a good portfolio, where we vulnerable?

Because let's face it, people will come in with a me too that may or may not meet the performance characteristics, but they will damage the market price for that specification, and we wanted to take that off the table. So yes, we locked up the business, we looked at it across the portfolio, but it's not just price. There's terms, there's materials, there's product substitutions, there are other things that go into that decision not just price.

Next piece. On the margins, what gives us comfort that we can continue to grow margins in 2018 and 2019. It's the asset recapitalization program, and the fact that things that are converting from glass and cans to flexibles is in that big middle. Those are new pieces of business, new volume, new specs with good margins associated with those.

Asset recapitalization allows us to lower our cost position in our plants in the United States. And if we push more volume across those plants with lower costs, what happens?

We get better absorption, and we make money on the manufacturing side of the equation not just the sell side of the equation. Sp we are very comfortable with the model we have in place, lowering costs, locking up high-margin business for the next few years so it won't be attacked, and expanding in the big middle outside of food into non-food categories which allows us to continue to drive margins forward.

Operator

Frederick Searby, Dunbar.

Frederick Searby - *Dunbar Investment Partners - Analyst*

Thank you for the question. A question on Latin America with restructuring. We are at the bottom of the worst recession Brazil has pretty much as ever seen, most severe.

What gives you confidence that we won't see a big pickup in 2018 or even in the back half of 2017 and you will have to add capacity in the medium term or more quickly than you thought? And with the plant closings, what's the capacity utilization you're running at now, and so how much room do you -- scope do you have for growth if things indeed rebound?

Bill Austen - *Bemis Company Inc. - President & CEO*

Right. The restructuring didn't remove capacity from the rigid side of the equation. We put our volume into facilities that had open capacity and much more efficient and effective capacity than we had within one of our old legacy plants.

So it's really given us the ability to drive productivity in the short term, and also pick up the business, pick up the volume, as consumption begins to accelerate. So we try to manage it in the short term, but we really looked at it over the long term to say okay, how can we continue to drive the business forward with this new (multiple speakers).

Frederick Searby - *Dunbar Investment Partners - Analyst*

What is capacity utilization right now?

Bill Austen - *Bemis Company Inc. - President & CEO*

It would vary. But if you look at the rigid business, we are probably at about a 75% capacity utilization. And in our flexibles business, we are probably somewhere around the same level, 70% to 75%.

Frederick Searby - *Dunbar Investment Partners - Analyst*

Okay. Thank you.

Bill Austen - *Bemis Company Inc. - President & CEO*

You're welcome.

Operator

Jason Freuchtel, SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Thanks. I just had a couple follow ups. How dramatic could your end-market exposure change as you find new opportunities through your pricing analytic strategy, and would you anticipate it to change over the next couple years?

Bill Austen - *Bemis Company Inc. - President & CEO*

Jason, I'm not sure I quite understand the question, but how could our exposure to end markets change. We are trying to change that exposure now. And as I said earlier, we've always been a big player in the food space and we are trying to take our technologies and our capacities into the non-food areas proactively, so that we change that dynamic ourselves and don't wait for the market to change it on us.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Right. That's exactly what I was asking. And could you see a large shift in that business in one year, or would it take multiple years to see a material change in your end-market exposure?

Bill Austen - *Bemis Company Inc. - President & CEO*

That won't happen overnight Jason. It's a thoughtful planned out way to get there. And it isn't going to be a step change, it will be a ramp.

Operator

Chris Manuel, Wells Fargo.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Hello, guys, just one quick one here because I know we're late in the call. When you guys had laid out objectives through 2019, one of the key pieces of that was targeting $750 million or so of revenue in acquisitions. As we sit today, we are about halfway through the process. And I think you guys have in round numbers $100 million, $150 million or so a targeted revenue that you've already done.

Where are you at in the process is really what I'm trying to understand? And in particular, I think earlier you mentioned near-term input from related acquisition costs or something like that and a discussion of why SG&A was up. Where are you at in the process of finding things, how does the market look to you and what did you mean by that question earlier I think in regards to SG&A?

Mike Clauer - *Bemis Company Inc. - SVP & CFO*

First, I will answer the last question. I didn't make it any reference to acquisitions and SG&A. So I don't know what that might have been.

As far as M&A, we still think it's a healthy environment. And as we commented at the end of Q3, we did add Jim Ward, our new Vice President of Business Development to our team. And what Jim really brings, he came from a consumer packaging company-- excuse me, consumer products company, and part of that a nice career in investment banking.

Jim's really brought an incredible -- been an incredible addition to our team, and I think it's going to be a step change in us looking at more acquisitions. And we clearly fully intend to deliver the 3% inorganic objective that we laid out back in 2015.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Thank you.

Operator

George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks, I promise that's it and I will make it quick, guys. Thanks for the Q&A. One, what were the learnings from the consultants project on commercializing new products in a few thoughts?

And then I was not clear, perhaps you mentioned it and if you did I missed it. Of the operating issues last year, and I want to say they were somewhere in the $0.10 to $0.12 range, correct that number if it's wrong, how much in your guidance this year are you clawing back? Thank you and good luck in the quarter.

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

George, I will take the last one first. On operating issues, you're correct, it was roughly $0.10 here 2016. You would expect for full-year 2017 for that to be about $0.06 better, that's LatAm in Q1 and a portion of the healthcare improvement. Bill, I will turn it to you for learnings from the -- .

Bill Austen - *Bemis Company Inc. - President & CEO*

A good fit of learnings that came in quick. Tactical, work with our team, developed a plan going forward, implemented a plan very quickly. And essentially, George, the learning was that we had a process that was more, and these are my words, ad hoc than it was scientific or process oriented.

We assigned accountabilities. We assigned a much tighter screen on the front end of those projects that needed to be commercialized. We backed data up to get information earlier in the process and not hand it off.

And when I say we assigned accountabilities, we put an owner onto those projects so that they take it from start to finish and get it through the funnel. To bill the materials, shop floor, to out the door. So good project, quick and we saw the results benefit us in Q4.

Operator

Thank you. And it appears there are no further questions at this time.

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

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

Operator

Thank you. This does conclude the teleconference for today. We appreciate your participation. You may disconnect at any time.