THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

BMS - Q2 2017 Bemis Company Inc Earnings Call

EVENT DATE/TIME: JULY 27, 2017 / 2:00PM GMT

OVERVIEW:

Co. reported 2Q17 results. Expects 2017 adjusted EPS to be $2.35-2.50.

CORPORATE PARTICIPANTS

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

Michael B. Clauer *Bemis Company, Inc. - Senior VP & CFO*

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

CONFERENCE CALL PARTICIPANTS

Alexander Gerhard Hutter *Jefferies LLC, Research Division - Equity Associate*

Anojja Aditi Shah *BMO Capital Markets Equity Research - Associate*

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

Edlain S. Rodriguez *UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals*

Gautam Narayan *RBC Capital Markets, LLC, Research Division - Associate VP*

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

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

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

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

Salvator Tiano

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

Victoria Elizabeth Madsen *BofA Merrill Lynch, Research Division - Research Analyst*

PRESENTATION

Operator

Good day, and welcome to the Bemis Second Quarter 2017 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, ma'am.

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

Thank you. Good morning, everyone. Welcome to our second quarter 2017 conference call. Today is July 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 will 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'll 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.

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. - President, CEO & Director*

Thank you, Erin, and good morning, everyone. Our earnings this quarter were less than expected, fully on account of the sharp contraction in the Brazilian marketplace. I'll discuss this in a bit, but first, I'll step back and provide my perspective on where we are in our long-term journey.

A couple of years ago, we set out to change Bemis Company to accelerate it from a company with great technology, customers and position to one that also performs well operationally and financially. We made progress on many financial metrics. Along the way, there have been bumps in the road, some of them self-inflicted and some due to external factors. We are focused on fixing the things within our control and in some cases, that meant bringing in new talent to lead within our organization and towards the next level.

Externally-driven challenges such as volume levels with our U.S. CPG customers and the recent incremental impact of economic environment in Latin America take more than 90 or 180 days to turn around, but we are absolutely committed to work through these challenges and position the company for long-term success.

To say that we are disappointed in our financial results this year would be an understatement. But the challenges we are facing and the determination to overcome them have become the catalyst to make tough, smart decisions that will ultimately benefit the business in the long term.

Next I'll describe the situation in Brazil then my perspective on our U.S. business, followed by Mike who will cover financials and then I'll wrap up. We have a great business in Latin America. 15 plants across Brazil, Argentina and Mexico. We have a strong position serving local and multinational customers with the flexible and rigid plastic packaging for food, beverage, personal care, oral care, household cleaning and health care needs.

Long term, this region is right for our technology as we have the unique ability to leverage our global know-how to increase the sophistication of packaging on store shelves to provide quality, safety, shelf life extension and consumer appeal for a wide range of products, which ultimately helps our customers succeed.

Shorter term, with Brazil in recession the last few years, consumers, and therefore, our customers have felt some pain. Our business has fared better than others in the region, given that we provide packaging for the things that people need and use every day. Coming into 2017, the environment started to stabilize and economists were predicting GDP growth. We saw and felt that stability from our customers, and therefore, anticipated volumes in our business to be flat in 2017.

First quarter proved just that for us, stability and flat volumes, which was a good sign as compared to the last couple of years where we saw volumes down low single digit. During May, the latest political uncertainty started to incrementally affect the country. Unemployment has reached astounding levels, and we have started to see a significant reduction in pull from our customers.

During Q2, unit volumes in our Latin America business were down 10%, a level of decline we have never seen. We also continued to see our customers respond to consumer choices for lower mix product. Yogurt is a prime example. As consumers' wallets are stretched even further in this economic environment, they are choosing simpler, cheaper options in the grocery store. While we make both the simple style package for yogurt as well as the high-end premade cups, our margin profile of the simple style package is far less. This concept of mixing down is even more prevalent with today's economic pressures in Brazil.

As we began sorting through the trajectory of the impact of the Brazilian economy, it has now become clear that the balance of 2017 will also be challenging. We are working as aggressively as possible to take out incremental variable and fixed costs from our business, but it is difficult to meet our original profit plans in this region in the face of the extreme declines and lower mix of product driven by the economic environment.

Our customers in the region have made it clear that they are just trying to bridge to better days ahead in 2018. Although the current economy in Brazil is tough, we will continue to be well positioned when the environment improves. We have the right market position, products, asset and customers in this region.

Turning to my perspective on the progress in our U.S. business. While our earnings profile is not currently what we would like it to be, our results this quarter were in line with our expectations coming into the second quarter. During the last quarter, our teams have put much time, energy and effort into analyzing options and formulating plans to take fixed costs out of the business in order to align with the demands of our U.S. CPG customer base. Our teams in the U.S. are working to simplify the business, but there is still much work to be done. Through this effort, we will create an efficient, agile business that is positioned for long-term success.

I'll turn things over to Mike now, and then I'll come back to wrap up.

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

Thanks, Bill, and good morning. Today, I will start by discussing the financial details of our segments and total company metrics followed by a review of our recently announced cost savings plan, and finally, I will wrap up with the outlook.

U.S. Packaging segment. Compared to the prior year, second quarter revenue was down 1.4%. Unit volumes were up 1% primarily in the big middle categories. The net sales decline was driven by mix of products sold and contractual selling price reductions previously negotiated with some customers to secure business for the long term.

U.S. Packaging operating profit of $80.1 million this quarter was down from $103.5 million last year due to the mix of products sold, the impact of previously negotiated contractual selling price reductions and the inefficiencies related to a challenging ERP implementation at one of our plants in Wisconsin.

Regarding that facility, it is now stabilized on the new ERP system. During the second quarter, we worked hard to meet customer requests. Although, as anticipated, we expended $5 million on expedited freight and inefficient run sizes and sequencing to get there. With the go-live issues of the new system now behind us, the plant is doing a good job of working down the backlog of open orders and is also concentrating on more efficiently managing the production schedule and optimizing production runs. While we are not happy with profit levels in the U.S. Packaging, our results this quarter were in line with our lowered expectations discussed during our April earnings call.

Turning to Global Packaging. Compared to the prior year, second quarter sales were flat. The SteriPack acquisition that was closed April 30 of 2016 drove an increase of 1.6%. The currency impact was nominal. The remaining bridge to total sales was driven by a 3% decrease in unit volumes, partially offset by selling price and mix.

Regarding unit volumes. Our business in Latin America saw a 10% decline, partially offset by net growth in Asia, Europe and health care. Global Packaging operating profit of $17.7 million this quarter compared to last year's $28.1 million. Currencies decreased operating profits by $600,000. 3/4 of the remaining operating profit this quarter was a result of unit volumes being down in Latin America and the rest related to mix of products sold.

Now on to consolidated Bemis results. Total company SG&A expense for the second quarter was $97.6 million, down from $100.4 million last year. The reduction was due primarily to our pay-for-performance practice and continued strong cost controls.

Operating cash flow was strong again at $106 million during the quarter as compared to $100.4 million last year. Looking at the first half of this year, cash from ops was up almost $50 million, driven by continued efforts to extend accounts payable terms. Primary working capital as a percentage of sales was 14.3% at June 30, the lowest in years and solid improvement from the 17.4% 1 year ago.

Turning to details on our cost savings plans. During June, we announced the plan targeted at $55 million to $60 million of annual run rate savings when fully implemented. As expected, net of this benefit is in our current quarter results. We anticipate 5% to 10% of savings in the back half of '17, 50% to 60% of the savings in 2018 and the remainder in 2019.

In our June announcement, we defined approximately $30 million of total savings from 2 plant closures and the reduction of 300 administrative positions. We will define the remainder of the savings externally during our October earnings call, at which time our comprehensive review will be complete as related to the 2017 cost savings plan.

Related to the plant closures, one will begin this year and the other will begin in 2018. Work performed at these 2 plants will be transferred to other Bemis locations. Clearly, the goal of these closures is to take out fixed costs. We continue to analyze additional opportunities to rationalize our footprint and will be complete by -- this work by October earnings.

Related to the 300 administrative positions. From a geographic perspective, approximately 2/3 of the positions are in the U.S. and the remaining are primarily in Latin America. Our targeted plan assume that these reductions will take place over the next few years.

Related to the $30 million in savings from the cost savings plan that we have shared thus far, there will be a $35 million of restructuring expense, of which $24 million is cash. About 2/3 of that restructuring expense was recorded in the second quarter. The remainder will be recorded in future quarters. As for the cash, less than $5 million will impact 2017, about $15 million will impact 2018 and the small remainder will flow into 2019. We will consider these amounts in our cash flow guidance and call out the amounts for clarity as we move forward.

As I mentioned, we will define the remainder of the savings that build towards the total $55 million to $60 million target externally during our October earnings call. But some simple categories by which to think about the remaining opportunities are plant footprint. As mentioned in June, we continue to evaluate opportunities to consolidate additional facilities to reduce overall fixed operating expenses and process efficiencies and continued diligence and overhead costs. We are reviewing fixed cost at all levels of the organization.

In some cases, such as our global business services or shared services effort, we are pulling forward plans to accelerate those benefits of streamlining back-office activities. In other cases, process and efficiencies simply means changing the way we operate. For example, warehousing and transportation. There are ways to streamline our cost structure, yet still provide the right level of timing and services and deliveries. We're assessing all options to align our business to the current environment to improve earnings and to position Bemis for long-term success.

Turning to guidance. We are lowering our adjusted EPS range $2.35 to $2.50 from a previous $2.50 to $2.60 as a result of the recent market contractions in Brazil. But looking at the full year, approximately 3/4 of the guidance decrease relates to the impact of unit volume declines in Latin America and the remainder relates to the impact of mix, as Bill mentioned. We anticipate that our third and fourth quarters will see some of the same volume challenges as the second quarter. But from a profit perspective, we will improve sequentially as our efforts to reduce variable cost in Latin America start to take hold.

Also a reminder that the fourth quarter is the start of Brazilian summer and our busier season in the region. We'll reap performance in this guidance will depend primarily on consumption in Brazil and our ability to reduce variable cost. Our outlook does include the initial benefits associated with the restructuring and cost savings plans.

Turning to cash flow guidance. Our new guidance range of $400 million to $425 million reflects our lowered earnings expectations, partly offset by improvements to date in working capital. We still anticipate working capital to show improvements for the full year 2017, and where we perform within the casual guidance range will depend on earnings performance for the balance of the year.

Turning to CapEx guidance. We anticipate 2017 spend of $185 million to $200 million, down from our original plan of $200 million. In our business, asset purchases tend to have a 12- to 18-month lead time so much of our spending is in flight for 2017. However, we are critically analyzing all capital spend and are targeting to trim, to the extent possible, as compared to our prior plans. We also continue to evaluate future spending levels as part of our comprehensive business review.

In summary, we are more than disappointed with our current earnings profile and performance. We are taking actions through our restructuring and cost savings plan to align our business to the environment we are operating in to create a lean, nimble business that is positioned for long-term success. We will continue to use this platform to drive real change in the way our company acts and operates.

With that, I will turn the call back to Bill for wrap up.

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

Thanks, Mike. We have encountered some significant challenges in our U.S. and Latin American businesses this year, but we are using this as an opportunity to drive change across our organization. As Mike outlined, we are taking actions to improve our cost structure.

Beyond these near-term activities, there are 2 additional areas we are focused on to help drive the long-term success of Bemis Company. One, our culture. We've been working on transitioning ourselves to a results-oriented organization. My view is that we have made progress. However, when it comes to the pace of change proliferating through our organization, I am admittedly impatient because I know we can move faster. It doesn't mean we aren't moving, we just need to step up the pace with increased consistency and accountability.

Two, our go-to-market efforts. In the U.S., we will continue to serve and highly value our large CPG customers. Beyond that, we need to pursue the pockets of growth that are available in the U.S. market, whether that be small to midsize customers, nonfood categories or trends such as organic or fresh. We have recognized this need in the past. The difference today is that we are analyzing options that would further allow us to deliberately organize our resources to pursue these pockets of growth. We have invested in the right equipment through our asset recapitalization program that provides new, quick-change printing presses and splitters to serve small runs well. But we also need the business mindset that recognizes the value of hunting, winning and serving smaller-sized customers and orders. We are approaching this work in a very thoughtful manner, and I anticipate that we will define a path forward as we come into 2018.

The entire management team and I are confident that our efforts and actions will address our challenges. We have the determination and the intensity to improve and are committed to transforming our business and positioning Bemis to deliver enhanced value to our shareholders over the long term.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Scott Gaffner from Barclays.

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

My first question is really around the June 30 announcement. When I look back at it, I mean, obviously, you mentioned Brazil is being a little bit of a weaker spot at that point in time. But why not go ahead and preannounce, at that point in time, given the weakness that you were seeing?

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

Scott, we had a nice first quarter in Brazil. Okay, all of Latin America. We saw stable environment. We saw volumes stable. We had hit our expectations through Q1. We saw weakness in the very tail end of June, and you have to think through how our customers react in -- our customers that react with retail. They have to figure out what the heck is going on. So we didn't necessarily see these call downs or this future call down going forward into the third and fourth quarter until we were through the month of June. I actually went to Brazil in the last week of June and met with several local and multinational customers to try to understand what they were seeing. And at that time, not that they all use the same words, but they all pointed in the same direction. We have got to bridge to 2018. So we actually had some large customers apologize for the fact that their back half of the year was going to be weaker than the front half of the year. So we were not in a position at that time. We saw weakness in some pull from customers, but at that point, we didn't have visibility to what the back half of the year was going to look like.

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

Okay. And just to follow up on CapEx. When I look at the 2017 CapEx figure, it came down slightly. But if I go back to the first -- the beginning of the year, I mean, you said the $140 million of growth CapEx at the beginning of the year. So I guess, I would have expected a little bit more of a pullback on CapEx given the growth isn't coming through as expected in 2017. And then maybe you could take that a little bit forward. What are your thoughts on the go forward CapEx? You mentioned a couple of times in some releases that you were going to evaluate that. What does that mean exactly?

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

Scott, first of all, the $140 million that we referred to was growth and recap. So I just want to remind you that there was a lot of recapitalization in there, which we still -- it would generally give us the type of returns, if not better than we expect. As far as go forward, we're still working through that. But clearly, with our performance, we are going to look for every possible way in the future to lower our spending. But we're not in a point to make -- have an opinion yet on what we'd like to help you.

Operator

And we will take our next question from Brian Maguire from Goldman Sachs.

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

This is actually Kia Pourkiani, sitting in for Brian. I had a question on the cash from operations guidance. I know you called out the $5 million of restructuring, but am I right in assuming that the rest of that was just driven by the lower earnings outlook?

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

That is correct.

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

Got it. And then just on Brazil as a whole, I guess I'm a little bit surprised by the magnitude and the sharpness of the demand dropoff. Could you give us any kind of incremental color on what type of customers or if there were any specific product categories where the demand declines were significant?

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

Yes. This is Bill. We have very large positions in Brazil across both flexibles and rigid packaging. The large call downs, the consumption drops came across some of the more luxury items, if you will. And when I talk luxury items, I'm talking about ice cream, high-end yogurt, things of those nature. Flexibles business did not see the same type of consumption drop as we saw across some of those other categories, primarily in ice cream and in yogurt.

Operator

And we will take our next question from Anojja Shah from BMO Capital Markets.

Anojja Aditi Shah - *BMO Capital Markets Equity Research - Associate*

Staying with this Brazil theme, I know there was recently a restructuring there where you closed 4 plants. Has this -- what happened in the second quarter, has it made you revisit your thoughts there about further restructuring? And then also along those lines, what makes you confident that in 2018, volumes might go back to prior levels?

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

Yes. The restructuring was all about productivity, taking fixed costs down, and where we are right now is we have a very sound and solid footprint of manufacturing across Brazil. We have it where we want it. And the cost reductions now will be more in the variable side of things as we get through this bump in the road that the Brazilian economy, the lack of consumption in some of those higher-end products. Again, as we said in my comment, there's also a mixed variation here so that as some of the brand -- not brands, but categories value down to a lower margin mixed product. We have got to continue to serve those markets. As I said, we have very large positions across the Brazil marketplace. And we don't see further plant consolidations, but we will obviously look for other ways to bring down variable costs and fixed cost in those areas where it's doable.

Anojja Aditi Shah - *BMO Capital Markets Equity Research - Associate*

Okay. And I just wanted to talk about health care for a second. Maybe that was a bright spot in the quarter. Can you just give a little color on how that performed?

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

Health care is performing well. The issues that we've had in 2016 are completely behind us. Our service levels are at all-time highs. Our quality is extremely -- doing extremely well. Our output is actually very well. Health care is back on track and doing well within the business. And we will continue to invest and push that business to increase their profitability, increase their productivity and move that business ahead. And the SteriPack acquisition that we made to completely be integrated, and that is doing very well as well.

Operator

And we will take our next question from Ghansham Panjabi from Baird.

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

Can you, first, give us specifically the cadence of volumes during the quarter in Brazil for the last 3 months? And then what about thus far in July? And given your previous restructuring in the region, Bill, I think you announced that plan 2Q of '16 where you shut 4 plants down. Did that have any impact in your sales or was that not the case?

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

No. That was not the case, Ghansham, the latter part of that question. The back half of the year we see that volumes, as Mike mentioned, will be similar to the front half of the year for Brazil. We don't see where that -- we'll see it ramp through -- begin to ramp up at the tail end of Q3 and continue to ramp through Q4 because, as Mike said, that's the start of the Brazilian summer, and we are hearing from customers that they are going to be pushing promotions and doing things to try to drive that volume back up again. But we'll see light demand as we go through Q3 and then we'll see demand come back up in Q4.

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

Sorry, Bill, just to clarify. I wanted the monthly cadence for 2Q specifically in Brazil.

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

I don't currently have that, but it was pretty much flat through the quarter. And as we got to the tail end of the quarter, we saw huge -- we saw orders dropped, consumption dropped significantly.

Operator

And we'll take our next question from Phil Ng from Jefferies.

Alexander Gerhard Hutter - *Jefferies LLC, Research Division - Equity Associate*

This is Alex Hutter, on for Phil. I guess just dovetailing on Ghansham's question. Do you think you saw an impact of some destocking in Brazil as well with your customers' volumes down 10%? Was there potentially some share loss or is 10% kind of the normalized number?

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

I would tell you that there was a destocking that took place. If you talk to the customer base, understand how they pushed product into the market. There was probably some destocking that is taking place, and it was not an issue of share loss for us within the quarter in Brazil.

Alexander Gerhard Hutter - *Jefferies LLC, Research Division - Equity Associate*

Great. And then can you just give a little bit more color on how you plan to source the remaining unidentified portion of the cost savings plan? I know you're going to give more color in October, but is it more towards -- geared towards plant savings or more towards SG&A? And then how should we think about the SG&A savings from a segment perspective? Do they fall in the segments or on the corporate line?

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

First of all, I would think of them more falling into the various segments. And I want to be really clear, when we announced $55 million to $60 million, we already had the projects identified. We only announced the ones we are comfortable that we had finalized the execution and implementation plan. So we do have those projects identified, and all we're going to be doing over the next few months is finalizing the implementation plans. And I don't want you to leave thinking that if something is already done, we're not doing it. We just kind of made the decision to kind of button everything up. And then as we come into the Q3 earnings cycle, we'll be able to finish the restructuring, give you a lot more color on the cost savings and how to think about it.

Operator

And we will take our next question from Edlain Rodriguez from UBS.

Edlain S. Rodriguez - *UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals*

Bill, one quick one. So last quarter, the issue was in the U.S. This quarter, it's in Brazil. But how confident are you that there isn't another (inaudible) someplace else unexpectedly?

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

It's a very good question. And I can tell you that we have, and I say we, my leadership team, including the presidents and P&L leaders within this company, have been over this back half forecast once, twice, 3x, 4x. And we have a high degree of confidence that those things that are within our control, we have under control. But again, I don't control the Brazilian economy. I don't control consumption in anywhere across Latin America. So those things that are within our control, we're on top of. Those things outside of our control, we will continue to deal with as quickly as possible.

Edlain S. Rodriguez - *UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals*

Okay. Another one on share buyback, I guess, there was none this quarter. What should we be expecting going forward? And how committed are you to another 4 million shares a year unless there's M&A and so forth?

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

Nothing's changed with our capital allocation process. The reason there was no repurchases in Q2 is because we were busy evaluating and finalizing some of our restructuring and how much would be used for cash. Our investment grade rating and our leverage target of 2.5 is important to us, that's why it didn't happen in Q2. But to reiterate, if there are no acquisitions imminent and we can stay comfortable within our leverage profile, we would return those shares -- that money to the shareholders via dividend and repurchases.

Operator

And we will take the next question from Arun Viswanathan from RBC.

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

Understanding there's some uncertainty out there, maybe you can just update us on maybe kind of a medium-term look on volume growth expectations in both U.S. Packaging and Global Packaging. Are you still looking at U.S. as kind of a flat or should it be higher, given that you've locked in some volume commitments? And then for Global, do you expect to see positive growth over the next, say, 12 to 24 months?

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

Yes. Back half of 2017, we'll see some slight increases in volumes in the U.S. And in the Global business, we'll see a back half of the year that's similar to the first half on volumes.

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

And any thoughts on kind of stabilization beyond that?

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

We're focused, right now, on cost takeouts. But we're putting a lot of thought and effort into Latin America as we -- this quarter as we kind of really understand what the economic outlook is for the region. But we're not in a point yet to really talk about '18 and beyond.

Operator

And we'll take our next question from Kyle White from Deutsche Bank.

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

I want to focus on U.S. Packaging. Volumes up 1%, it's a pretty good positive there. And then also the ERP implementation, sounds like it went well. I think you called it out as a $5 million headwind relative to a $5 million to $8 million guidance headwind. So I'm kind of curious why the quarter wasn't better than your expectations?

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

Yes. The issue around the Q1 was volume in U.S. Packaging up 1%. You expect volume -- profit to be better related to mix. We're seeing nice volume gains in the big middle, which is what our strategy has been to bring in business in the big middle, which is outside of the CPGs and to go after smaller, shorter runs from customers. And that has to do with their whole recapitalization program that we put in place. So we are starting to get wins in that area, and we still have that headwind that we had to overcome in -- with the ERP implementation. That is behind us now as Mike said in his remarks. We -- the plant has done a nice job getting the issues behind us. Now they have to deal with working their backlog down as we go through Q3 and Q4.

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

And then just to clarify, in the ERP, are any of the returns or savings you're expecting from that, are they in your sort of cost reduction $55 million to $60 million target? Or is it a separate kind of bucket?

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

When -- yes, when we are complete with the implementation, which we still have a handful of plants to go, that will be completed kind of Q2, Q3 of next year, there would be some cost takeouts associated with that when it's complete. And it would be in our program management office that we're targeting to take out SG&A.

Operator

And we will take our next question from George Staphos from Bank of America Merrill Lynch.

Victoria Elizabeth Madsen - *BofA Merrill Lynch, Research Division - Research Analyst*

This is actually Victoria Madsen, sitting in for George. So first of all, going back to U.S. Packaging, in regards to the roughly $20 million drop in EBIT, how much of that was due to pricing or the impact of contractual renegotiation?

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

We haven't called that number out, Victoria. But I can tell you from a bucket perspective, the way to think on a year-over-year basis, U.S. Packaging for Q2, the decline in profit, you have the SAP expenditures that we noted related to expedited freight and inefficiencies. You also have mix. Those are kind of the 2 other bigger items that helped make up that decline.

Victoria Elizabeth Madsen - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. And then going back to the restructuring program, why are you only targeting $5 million in cash outlays for the year? And does that suggest anything regarding the process of restructuring and kind of the future cadence of benefit?

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

I think, at this point, we're just -- and the way we look at these projects flowing, we would use about $5 million at this point in time. Clearly, a plant closure is going to be heavier on noncash type activities other than severances in the workforce. I think it's just really, today, it's the way we -- it's flowing. And one comment I will make to the extent we can accelerate anything, we'll accelerate it. And as I made the comment on cash flow is as we do that, we'll be as transparent as possible to highlight the changes being made to our outlook on cash flow for that.

Operator

And we will take our next question from Jason Freuchtel from SunTrust.

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

I believe, last year, you indicated your Brazilian operations were a little slow to react to some margin demand shift. Was there a slow reaction to the demand decline in Brazil during second quarter?

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

No, not at all.

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

Okay. Perfect. And can you expand on the options you're analyzing to capture a larger share of the small niche consumer products volume growth? When could you see some action on these options? And fundamentally, how is the interaction between those customers different relative to the large consumer product companies?

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

Yes. Jason, we're doing this work right now and I'm not in a position to announce what it is or give a lot of color around what it is the teams are looking at. But it's about speed, okay. It's about quoting quicker, responding quicker. They are shorter runs so you don't have a long run of a campaign on equipment, so you need assets focused at being able to get orders on and off of the equipment quicker. That has been a lot of what our recapitalization efforts have focused on, but we need to have the organizational alignment and people wrapped around it so that we can attack those markets in the marketplace, bring the business in and get it out the door. That's part of the big middle that we've talked about for the last few years, and we've seen wins in those areas now. So it's just putting some more organizational horsepower behind it to get it moving, and we'll be in a position to talk about that more in 2018.

Operator

(Operator Instructions) We'll take our next one from Chip Dillon from Vertical.

Salvator Tiano

This is Salvator Tiano, filling in for Chip. I have a couple of questions. Firstly, a little bit on the cash flow. Yes, we saw that working capital is actually benefiting you this first half of the year. So firstly, how sustainable is this? How should we see that playing out for the remaining of the year? And also, did you take into account any changes in working capital expectations when you revised the free cash -- the operating cash flow guidance for 2017?

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

I think, yes, to a lot of your questions. We do, when we looked at cash flow, we looked at the working capital requirement of the business. Number two, we made a lot of progress last year and well, actually, we've made a lot of progress in '15, '16 continuing in this year. I think the biggest driver first half of '17 has been continued DPO, days payable outstanding, increasing those. I think we're probably at a point now where we've achieved our objectives and we're going to hold those going forward. I look at AR and I think we've done a great job with accounts receivable, and I don't see that DSO changing at all. And then our big area of continued focus in the future is going to be inventory. We have not made -- we candidly have not made a lot of progress globally on inventory, but a lot of that reduction is going to be tied to the completion of implementing our common ERP platform, including supply chain management, et cetera, which we really think, as we get into '18 and '19, are some nice additional opportunities.

Salvator Tiano

Okay. It makes sense. Just clarify on the working -- on the operating cash flow. Did you take into account any changes in working capital on the guidance?

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

Yes, absolutely. Our business normally -- our softest quarter is generally Q4, so we tend to always see some nice operating cash coming out of working capital because it's just a slowdown -- the seasonality and the slowdown of the business, primarily in the U.S.

Operator

And we will take our next question from Tom Narayan from RBC.

Gautam Narayan - *RBC Capital Markets, LLC, Research Division - Associate VP*

This is actually a follow-up on Victoria's question on U.S. Packaging volumes -- sorry, pricing. I was wondering, when you think about the pricing, how much of that targeting of kind of lower price items that previously were ignored, how much of that is pushing the volumes in U.S. Packaging? I know there's SAP cost in there, you guys called -- Erin called that out, but just thinking about what's happening industry-wide, what you guys called out last quarter in U.S. Packaging volumes, how much of a benefit are you seeing there from the kind of lower pricing in there from focusing on different types of products?

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

I think I will answer it the best way. When we used the term mix, some of our protein packaging has some of the higher margins it's because of the shelf life. As we move into the big middle, those are still attractive margin profiles. However, we historically looked at it as low margin, but when Bill took over as CEO and he really focused the organization on the recap, we started seeing improved margin in those areas. But I'll go back to say that if you sell one thing of bacon and 2 things of baby food, that would have a negative mix even though it's positive on EBITDA dollars. Does that help you?

Gautam Narayan - *RBC Capital Markets, LLC, Research Division - Associate VP*

Yes, yes. I guess, you guys called out before the kind of 15% margins long term in the U.S. and higher in global. Do you know when you think you could -- that could potentially happen? Is that still the target for you guys?

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

Right now, our focus is on getting the cost structure right in U.S. Packaging, so we haven't put pen to paper on that in recent history. In global, I will tell you that the 10-plus percent goal absolutely continues to be doable and achievable. So a bump in the road right now in Brazil is external. It is all about consumption. When consumption comes back, and it will, our business is extremely strong in that region. It will continue to be strong in that region and what we're doing just makes it even stronger, and it helps leverage margins even greater. So 10-plus percent in global is absolutely achievable and doable.

Operator

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

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

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