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PRESENTATION

Operator

Good day, and welcome to the Bemis Third 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.

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

Thank you. Good morning, everyone. Welcome to our third quarter 2017 conference call. Today is October 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. (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.

And finally, a reminder that statements regarding future performance of the company made during this call are forward-looking and are therefore subject to certain risks and uncertainties. Actual results may differ materially from historical, expected or projected results due to a variety of factors. Please refer to Bemis Company's regular SEC filings, including the most recently filed Form 10-K to review these risk 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 improved sequentially, primarily on account of improving operational performance in our U.S. business and variable cost reductions in Brazil. Mike will review the financials in more detail, but I'll start by discussing the progress we are making to align our business and cost structure for long-term success.

During September, we announced the final details of our $65 million restructuring and cost savings plan. We are executing this plan to align our fixed manufacturing and administrative cost structures to the current environment and to position our business well for the long term. Our comprehensive and thorough review of the business led to a decision to close 4 plants, reduce 500 administrative positions, consolidate office bases and reduce a variety of other operational and administrative expenses.

We have established and staffed an enterprise project management office, which reports to me to enhance accountability and ensure results are delivered on time. Our restructuring and cost savings plan is front and center, and we are focused on delivering its benefits. In addition to the actions we are taking to align our cost structure, we're also deeply involved in work to position our resources for long-term strength and growth. Internally, we call this all-encompassing work, agility.

I'll turn it over to Mike to cover financials now, and I'll come back to share my perspective on how agility is moving Bemis forward.

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

Thanks, Bill, and good morning. Today, I will start by discussing the financial details of the quarter followed by a review of our cost savings plan, and then I will close with outlook.

U.S. Packaging segment. Compared to prior year, third quarter revenue was up 2.2%, driven by unit volume increases of 2%, primarily in the big middle categories. U.S. Packaging operating profit of $99.6 million this quarter was down from $100.8 million last year, due in part to the impact of previously negotiated contractual selling price reductions and partially offset by manufacturing efficiencies and the benefits of increased unit volumes.

Our U.S. operations ran well during the third quarter, with low waste and high throughput, which was particularly beneficial given the nice volume growth we pushed through our plants this quarter. As compared to the second quarter, increased profits in the third quarter were due to strong operational and manufacturing efficiencies during the current quarter, stabilizations at one of our facilities in Wisconsin where we had ERP go-live struggles during the second quarter and lower business incentives related to the customers who were unable to make their commitments for new business volume.

Turning to Global Packaging. Compared to the prior year, third quarter sales were down 2.3%. Currency impact was nominal until -- unit volumes were flat and mix continued to trend down to less expensive packaging alternatives in Latin America. Regarding unit volumes, our business in Latin America saw a 7% decline, in line with our expectations given the economic environment, partially offset by net growth in Asia, Europe and health care.

Global Packaging operating profits of $24.6 million this quarter compared to last year's $36.2 million. Lower profit was driven by the continued challenging economic environment in Brazil that is putting pressure on unit volumes and mix of products sold. As compared to the second quarter, profits improved in Global Packaging as expected due primarily to the variable cost reductions enacted in Brazil in response to economic environment.

Now on to the consolidated Bemis results. Operating cash flow was slightly less than my expectations during the third quarter at $99 million. As anticipated, restructuring was small use of cash during the quarter, about $3 million from the 2017 plan and another $3 million from the 2016 plan as we closed out the final plants in Latin America that were initiated last year.

Primary working capital as a percentage of sales was 15.2% at September 30, slightly improved from 15.5% 1 year ago. During the third quarter, we repurchased 1.2 million shares for a total of $54.9 million. We remain committed to maintaining a strong balance sheet and returning free cash flow to our shareholders.

Briefly turning to our restructuring and cost savings plans. During September, we announced final details of our 2017 plan and increased our targeted pretax savings to $65 million when fully implemented. There are a variety of projects underway. We are closing 4 plants for savings of approximately $17 million. Work performed at these facilities will be transferred to other Bemis locations.

We are consolidating certain administrative offices in the U.S. and Latin America for savings of approximately $5 million. We are reducing a total of 500 administrative positions for a savings of approximately $35 million. From a geographic perspective, approximately 3/4 of these positions are in the U.S. and the remaining are primarily in Latin America. And finally, we are reducing other fixed operational administrative costs for a savings of approximately $8 million. Examples include optimizing costs related to travel and external warehouses.

Related to the 2017 plan, total pretax costs will be between $100 million and $125 million, of which $70 million to $80 million is cash. As to the cash, approximately $10 million will impact 2017, about $40 million will impact '18 and the remainder will fall into 2019.

Turning to guidance. We are reducing the top end of our adjusted EPS range to $2.35 to $2.40 from a previous $2.35 to $2.50, primarily on account of lower unit volumes in the U.S. and also on account of hurricane-related impacts. As to the U.S. volumes during the fourth quarter, which make up about 2/3 of our guidance change, we have aligned ourselves to our customers' expectations and their ability to scale up new business.

As to the hurricane, which makes up about 1/3 of our guidance change, the primary impact of our U.S. -- of us related to global increases in raw material prices. To be clear, we expect to establish pass-through mechanisms in the U.S. to work as normal and therefore, limit the volatility in earnings.

However, in Latin America specifically, we will experience a raw material headwind during the fourth quarter due to the current economic environment, which has made passing through the increased input costs more challenging. And to a lesser degree on the hurricane impact, we anticipate fourth quarter earnings will be hurt by a small amount from lower production levels at our health care packaging facility in Puerto Rico due to the aftermath of the storms.

While we are able to run production from generators at our plant, our business at that facility is aligned with our customers in the region. So we anticipate that the fourth quarter production levels at our Puerto Rico facility will be low while our customers sort through their own local needs. Our outlook does include the initial benefits associated with restructuring cost savings as well as minor benefit from the acquisition of Evadix that we plan to complete during the fourth quarter.

Turning to cash flow guidance. We are maintaining our guidance range of $400 million to $425 million and still anticipate working capital to show improvement for the full year 2017. This outlook includes approximately $30 million of cash expenditures related to the restructuring plans. $20 million of this was for the 2016 plan to close 4 plants in Latin America and the remaining $10 million for initial steps taken in 2017 plan.

Turning to the CapEx guidance. We still anticipate 2017 spend of $185 million to $200 million. We continue to evaluate further spending levels as part of our comprehensive business review.

In summary, we've made progress during the third quarter. We continue to take 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 well positioned for the long term. 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.

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

Thanks, Mike. Agility. It involves moving quickly and easily. I view it as a mindset. During the last couple of months, we have spent time analyzing and urgently pursuing all options for improvement. We have thoughtfully considered many perspectives.

Our financial results. While profitable and strong in cash flow, they are not satisfactory, nor do they meet our expectations.

Our customers. They have told us that we are an innovation leader and problem solver. We provide them with value-added products to help them succeed, and they support the steps that we are taking to enhance our quality and service and provide them more fit-for-purpose solutions.

Our employees and leaders. They recently completed an employee engagement survey. The result? They want to win. They want to be more competitive. They want to serve our customers better. And most significant in my mind, employees overwhelmingly indicated that they are willing to give extra effort to help our company succeed. I applaud our employees for being engaged in taking action.

We recognize that our business model requires enhancement and change. We have shaped a 3-pronged approach to agility: fix, strengthen and grow. High level, fix involves near-term profitability improvements, and strengthen and grow create the foundation for continued success of the company.

Specifically with regard to fixing our business, our cost savings plan clearly defines a path forward in terms of appropriately aligning our cost structure. We are executing on this plan with clear direction and speed.

With regard to strengthening our business, our approach involves simplifying and better managing our product portfolio and organizational structure, rebalancing our R&D efforts to focus on manufacturing improvements such as waste reduction and leveraging the investments we've made in new converting equipment.

With regard to growing our business, we are developing plans to more deliberately pursue the pockets of growth in our market such as small to midsize customers and consumer and industrial applications. To be clear, we are -- we highly value our existing base of large CPG customers, which create the backbone for our business. These customers provide us large volumes and will always be part of our mix.

However, as consumer preferences have shifted, the work we are doing to deliberately align portions of our production asset base and our people around small to midsize customers and nonfood applications will allow us to more deeply penetrate some pockets of growth that historically our business model has not focused on.

I don't anticipate growth from this overnight, but the plans we are developing position Bemis very well for the long term. As I reflect over the last couple of years, we've driven change and made progress. We've taken out more than $125 million of working capital and implemented the right processes to hold it. We've established the framework to return free cash flow to shareholders, resulting in over $700 million of value returned through dividends and share repurchase. We've completed and implemented 2 strategic acquisitions in Emplal and SteriPack, and we've welcomed new leaders to our Latin American, health care and U.S. businesses. We've driven change and we will continue to drive change in the future.

We are taking actions to improve our cost structure and align our business strategically to be successful in a changing environment. The entire management team and I are confident that our efforts and actions will provide improvement. We have great people, great customers and great products from which to build future success. We are determined, intense and committed to transforming our business and positioning Bemis to provide a sound investment for our shareholders over the long term.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Brian Maguire with Goldman Sachs.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Just a couple of questions on a favorite topic, Latin America. I'm a little surprised on the comments about not being able to pass through some of the resin movements. And I thought most of that was kind of contractually driven. Just wondering if that's not the case and maybe it's more market-driven and less contractual than I thought. Or is it a case where you're actually just having trouble enforcing the contracts due to the environment down there?

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

Yes, Brian, a good question. Yes, just to give you an overview of LatAm, volume down 10%, Q2; down 7%, Q3, which was in line with what we had expected and anticipated and we had planned for. Hurricane impact, very significant in early October, particularly in 1 resin -- 1 material that we use for our rigid business where we have a very high share content of customers' portfolio. It's a very strained, if you will, resin environment there on this particular resin in that there is primarily 1 supplier only. They pushed through a very large increase. And while we do have contractual pass-throughs, it's the amount of increase in an environment, yes, where there is inflation but the inflation rate has come down significantly. And the market demand, the consumer pull for products, as you can see, is down but still better than it was in Q2. So there's just a huge pushback from the customer base in taking this large increase in raw material. We and the team down there are every day in front of the customers pushing forward on this price increase and these price increases. But it's particularly regarding 1 resin that's used in our rigid business. But the environment has not changed. Inflation is, yes, it has come down some so it makes it that much more difficult to push that through.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And so it sounds like this might be a little different than the normal sort of just lagged impact that you have, which would maybe be a 1-quarter impact that could extend into 2018 if this particular resin price stays at these levels and you continue to get customer pushback? Or are you maybe expecting the resin -- this particular resin price to fall in the end of this year or early '18?

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

Brian, this is Mike. We're -- about half our contracts in Latin America are contractual pass-throughs. The others aren't. What we're attempting to do is not only pass through early on contracts as an exception, and once it recovers, we would give them back that price. And then on the rest of the business, we are going after price increases. It's just, as Bill mentioned, it's just a little bit more challenging, but I think it's important to remember that we are also trying to get price increases outside of the normal pass-through.

Operator

And we'll take our next question from Scott Gaffner with Barclays.

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

I just wanted to -- Mike, you said something in your prepared remarks, and I just want to make sure I heard it correctly. And I thought it had something to do with U.S. volumes and the contribution margin from the volume or the volume leverage in the quarter. Obviously, the margins are still down, and a lot of that is because of pricing, I think, from the actions you took at the beginning of the year. So if I look at EBITDA margins in U.S. Packaging, it looks like they were down about 60 bps year-over-year. What's the year-over-year impact of pricing? And did I hear that right on the volume leverage?

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

The volume leverage was a comment, Scott, more having to do with manufacturing that as they start operating better and they get the volume in, we just see enhanced profits in the business. But your comment is absolutely correct that we still have some pressures year-over-year from the contractual reduction in selling price.

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

Okay. When you lowered those prices, you did your pricing analysis, I think part of it was to generate some new business as well. And Bill, you mentioned some of that hadn't come through. Is that -- are those 2 related? Or are they just similar comments that you mentioned today?

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

Yes, Scott. As Mike mentioned in his remarks, we had 2% volume growth in Q3. That was -- some of that was from the contractual commitments that we received from customers. And if you look at what -- the drop in volume in Q4, it's because some of those customers that contractually committed to volume increases were not -- are not able to get that business to us in Q4. So our volume is down in Q4 for that reason as well as the seasonality of a normal Q4 is always lower, where volumes are softer and weaker. And it also has to do with we're talking and aligning with our customers around what their Q4 volumes are going to look like. And that's all a function of where the holidays fall, what plants they're going to shut down, what plants they're going to run. So we don't get some of that contractual commitment in Q4 that we had anticipated. So some of it is just customers realigning their process schedules. Others are we have not received some of the contractual commitments of volume that they had committed to.

Operator

(Operator Instructions) And we'll take our next question from Chris Manuel with Wells Fargo.

Christopher David Manuel - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

I just wondered if I can back up a little bit to kind of the restructuring and the different elements of the plan just to help me calibrate some stuff. What's a base we start from? So I appreciate that you're going to have -- you talked about $65 million of EBITDA. When I look back around -- sorry, $65 million of profit improvement, and kind of if I start from, I don't know, let's say, start EBITDA or op income. When I look at 2016, you did about $600 million of EBITDA. If I look at trailing 3 quarters from when you started the process, 1Q or 2Q of '16 through 1Q, it's about $600 million. I'm guessing that's the base, but could you maybe kind of give me a sense, Bill, Mike, where we're starting from?

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

Well, Scott, what we did is we kind of took a hard look at Q1 of '17 and annualized it, which we're probably in the zip code of what you just commented on.

Christopher David Manuel - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. So either $130 million -- it's Chris, by the way. That kind of puts me about $550 million as a base if I annualize 1Q. I mean, I'm just -- I'm not trying to be difficult, but it's an important element to understand success if we have a sense of where we kind of start and finish from.

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

It would put you at $550 million, Chris.

Christopher David Manuel - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. So $550 million is the base. Okay. Second question is it looks like -- you talked about some of the softness and things in Brazil and some of the regions down there, but you commented other regions were up, Europe, Asia, I'm guessing Mexico as well. And you even did an acquisition over in Europe. Can you maybe give us a sense of what you are seeing in other regions? Is -- the issues are that you're having all seem to be related within those regions, and performance there seems to be good. So maybe can you give us a sense as to how customer adoption, volumes and things are tracking in some of the other regions, even anecdotally?

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

Sure. Sure Chris. This is Bill. Look, let's start with the health care business. Health care is performing well. The issue that we have in health care right now is just the Puerto Rico environment. And if you're not familiar with our business in Puerto Rico, it's a 3-building site. One of the third buildings, which is a thermoforming facility, was completely destroyed. The other 2 buildings are fine. Employees came back to work. Fortunately, all of our employees are in good shape. They immediately started showing up. We can run those other 2 buildings on generator, which we are doing. We are providing November, December volumes to customers in Puerto Rico that are giving us demand triggers. So health care continues to perform well. They performed well through this downturn. And we have moved the thermoforming equipment already out of Puerto Rico back to the United States, so we can fulfill orders to customers with that equipment from the U.S. So doing well in the health care business. Bemis Europe, tough economic environment, okay? There is some growth but there has been raw material increases, particularly in nylon that impacts the high content in our product base -- in our product mix in Europe. So we are pushing through the nylon increases as fast as we can. And in a stable environment but it is extremely competitive in Europe. We're seeing nice growth in the U.K., Spain and Italy. And we've gotten some new wins in high-barrier materials as well as high-barrier shrink films. If you look at the CapEx that we've put into Europe over the past 12 to 18 months, we've installed a new press. That new press is up and running in one of our facilities in the U.K. Very nice improvement coming out of that asset. If you move on to Asia Pacific, third quarter revenue was up mid- to high single digits. Good growth in China, Malaysia and Australia, New Zealand. Launched some new products into the electronics market for some new protection films in Asia Pacific. We've talked about Latin America and primarily talked about Brazil. But if you talk about some of the other areas like Argentina and Mexico, Mexico has got probably the most stable environment right now. And we are doing well in transforming the business from what would be commodity-type products to more higher-value products via one of the 7-layer assets we installed in Mexico over the last 12 months. If you go to Argentina, Argentina's economy is now doing better than it has been in the past. Inflation is still high. The CapEx investments that we made a few years ago, 12 to 18 months ago in Argentina, are now starting to drive productivity. And as you look at that economy now becoming open, we made the right moves by putting in newer, more productive assets in that region, taking out the older assets. When it was a closed market, we were able to serve customers with very old assets. But now that it's an open market, competition comes in from everywhere, and we sort of kind of got ahead of that with the asset recapitalization program we put into Argentina. We've talked about Brazil already. From a -- if you just think back on where Brazil was, let's say, 2 years ago, through the plant consolidation effort that we've put into Brazil, we used to have 4 rigid facilities in Brazil. We now have 3, and we can crank that volume through those 3 facilities. So as the economy starts to turn and we see volume increases, we will be very well positioned to generate improving profitability in that region with the rigid business. If you look at our -- one of our film businesses down there, primarily shrink films. We used to have 2 facilities manufacturing shrink film. We now have 1. The second facility will be completely closed out by the end of December of this year. So as the economy begins to turn, we'll be very well positioned from a productivity perspective to increase our margins in that region because we're taking that fixed cost out. So that's kind of a walk around the world, Chris. That's where we are. Things are moving ahead but the company is totally focused on this agility project and how we're taking costs out in the near term and how we're positioning ourselves for the long term.

Operator

We'll take our next question from Mark Wilde with BMO Capital.

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

Bill, I just want to come back to this fourth quarter volume weakness in North America. As I've listened to you guys over the last year or so, it sounded like you made that tradeoff late last year, early this year, where you gave up some price to pick up incremental volume from some of the -- those customers. We looked like we were seeing some of that in the third quarter. Now you're saying we're kind of -- we're going to be flat to negative in the fourth quarter. Do you view this as like a 1-quarter event? Is there still the -- these volume commitments rolling in, and it's just a matter of timing? Or is some of this business just not going to materialize?

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

Mark, these contracts are in place, okay? We anticipate receiving this volume. But some customers have not been able to, let's say, transition out for whatever reasons that might exist from some of their existing suppliers. We're receiving some of the volumes. We're not -- they're not transitioning all of it yet across all the customer base, but these contacts are in place and they're just going to roll forward.

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

But can you help us just think about sort of what we should expect, Bill, as we move through next year in terms of cadencing on this? Because I think a lot of us had assumed that we'd start to see some momentum here in the second half of the year, and that, that momentum would actually pick up as we move through next year.

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

Mark, we'll be talking about that in our January call as we give '18 guidance.

Operator

And we'll take our next question from Anthony Pettinari with Citi.

Bryan Burgmeier

This is actually Bryan Burgmeier sitting in for Anthony. Looks like over the last 5 years, Bemis has made some really good progress on the corporate expense line, and that came in below our estimates again today. I was just wondering if you have any thoughts on that trajectory as we begin to model 2018 a little more detail and as your restructuring program starts to kick in?

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

This is Mike. Agility and the cost takeouts are not only going to affect the U.S. Packaging and Global, but they will have impact on the corporate unallocated line that you're making reference to. So I would expect to hold where we're at and to see continued declines.

Bryan Burgmeier

That's helpful. And then in terms of 4Q with U.S. Packaging margins, margins held up pretty well in the quarter. And then in 4Q, you're going to have lower volumes but you're going to have the restructuring savings. Do you have any preliminary thoughts on how margins could shape up in the fourth quarter for that segment?

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

As Bill mentioned earlier, Q4 is one of our -- is probably our lowest volume quarter. So on a year-over-year perspective, margins would just naturally decline. I think some of the improvements we saw in the quarter related to manufacturing efficiencies will hold. However, you have to think through sequentially the volume down. We will take out cooling labor as we normally do to respond to that, but we still have a big fixed cost that just gets under-absorbed during that quarter traditionally.

Operator

And we'll take our next question from Ghansham Panjabi with Baird.

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

So first up, Bill, on your comments, you also target smaller food customers and also some of the nonfood categories. How are you specifically changing your manufacturing footprint to be able to adapt towards this in light of the plant closures that you're orchestrating at current.

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

Yes, Ghansham. When we talked over the last couple of years about the investments that we've put into the North American and other businesses as well, most recently Europe, to recapitalize some of the older presses, laminators, splitters that we have in the business that don't -- that did not have the ability for quick change, shorter run, higher speed, lower waste types of assets. So that's what we've been putting into the business. Over the last few years, with our asset recapitalization program, it's now making the deliberate move, the deliberate shift in the way and what business we schedule and plan on those pieces of equipment. So as we move to the smaller and shorter -- smaller to midsize customers, their volumes are not necessarily as large and as long of a run or a campaign on a press or on a laminator. So we need to deliberately move the shorter run business from these smaller and midsize customers onto that equipment. We have $0.5 billion of this business today already, okay? We have $500 million of what we would call shorter run, quicker change type of business from smaller customers. So it's not that we don't do this already. The key here is it's a deliberate shift in not just how you run the asset, but in how you staff it, plan it and crew it and get it -- get the mindset of the folks that actually run that business to think about getting it on and getting it off quickly.

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

Okay. Then as a follow-up, if you kind of step back and think about the supply chain and customer consolidation that we've seen over the years in food and consumer products, how do you sort of feel about your scale at current relative to that dynamic? Do you see the need for further consolidation in Flexible Packaging? And also, how do you think about your capabilities at current to be able to drive some of that consolidation?

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

Ghansham, this is -- we are evaluating as we do this shift, as Bill mentioned. It's not only a shift in how we operate, it's a shift in how we go to market. And as Bill mentioned, we got $0.5 billion of business already. We're going to be a lot more deliberate in changing the go-to-market side of this, which is a simplified product offering, a sales force that approaches customers a lot differently. And I would say that we would not -- I would not ignore the fact that we might need to acquire some of these capabilities in the U.S.

Operator

We'll take our next question from Edlain Rodriguez with UBS.

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

Just one follow-up on that, trying to penetrate the smaller customers. Is the sales force -- I mean, does it need to be incentivized differently from what's going on right now? And also like how long do you think this process will take? Are we talking about like 1 year, 2 years or longer than that?

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

Yes, good question. We have thought about this, and we have brought on some of these different type of sales people. And yes, the incentive plans are different, and they are comped differently than someone who might be on a national account. So yes, that is true. And as we look at it, it's a 12- to 18-month process to bring people in and start to see progress. We've already brought people in. We've already seen progress in these -- amongst these accounts, these small to midsize accounts, which we would call our regional-type accounts. And you may not sell direct -- you may not sell directly to the account but you sell it through a third party, which is a co-packer. And we have quite a bit of good business coming through the co-packer channel already and quite a few SKUs within this co-packer channel, which would be private label. And that's where a lot of the small to midsize accounts reside. So it is a different philosophy, it is a different approach, and we are already in motion on it.

Operator

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

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

Just a question on U.S. Packaging to start off. The improvement that you saw sequentially, was that -- would you say that any of that is related to any stabilization in center of the aisle? Or do you think trends still there are deteriorating?

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

I don't have any data to support whether it's center of the aisle, but it -- we saw volume increases in what we would call the big middle part of the portfolio, which means some of it would be this (inaudible)

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

Sorry. And then on the margin side, there was a nice recovery in U.S. Packaging as well. I think earlier, you had said that it would take a little bit longer to get back to that 15% level. So maybe just to understand what you guys think if margins are stabilized back here at normal levels and if that's kind of what you're expecting for next year. And then similarly, on Global, you're below your targets there. So how does that kind of play out into the future?

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

Well, as I said a little earlier just as it relates to Q4, sequentially with the volume way down, margins will decline from Q3 sequentially but should continue to show some improvements over prior years, adjusted for some of the things we talked about with the pricing decisions that were made last year. I think the $65 million cost takeout is going to show continued improvements in our margin profiles in both U.S. Packaging and Global as we go into next year.

Operator

We'll take our next question from Debbie Jones with Deutsche Bank.

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

It's actually Kyle White filling in for Debbie. I wanted to go back to Latin America. Sounded like volumes got a little better, considering last quarter had the large drop-off at the end. Just wondering if that's true as the quarter progressed. And are you seeing any type of increase in optimism in terms of the economic environment there as we head into 2018?

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

Yes, good call-out. Q2 volumes were down 10%. Q3 was down 7%, but that was in line with what we had expected. So yes, we did see a little bit of an improvement there. Is there optimism in Brazil is your question. There is some optimism around the fact that business leaders down there are believing that the politics and the economy are becoming bifurcated. Where they used to be tied, they now feel that they see a separation of the 2, which is good. They don't see a large pickup as they go into 2018. They see stability, and they see probably more so in 2019 things improving as the election of the new president takes place in October of 2018. But they do see that there is some stabilization. There isn't a lot of growth, but there is a breadth of stability. But I wouldn't necessarily say people are jumping up and down with optimism.

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

And then next question is just I understand that you guys probably don't comment on market speculation. But I'm just curious your thoughts on the concept of potentially merging with another large packaging company in terms of it being a strategic opportunity for Bemis? Or do you think that's more of a distraction from your cost reduction efforts and the EBITDA savings you can generate from that?

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

Yes, we wouldn't speculate on whatever rumors might be out there as no one else would either. But as we said and I said in my prepared remarks, project -- or not even project, but agility is front and center for Bemis Company. We are focused down through the organization on executing this cost out plan and driving profitable growth and profitability improvements through this effort.

Operator

We'll take our next question from Adam Josephson with KeyBanc.

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

Mike, just one for you and then one for Bill. Mike, you bought some stock in 3Q, not in 2Q. The average share price wasn't much different in 3Q versus 2Q. So just wondering about why the timing of these buybacks.

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

To be honest with you, part of the Q2 was the fact that we were working through the restructuring program. And I was trying to get my arms around what my potential cash needs are going to be. Once we kind of finalize that, it puts me in a position to put another repurchasing plan in place.

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

Okay. And Bill, just one on the savings program. And if you go back to last year, obviously, you've announced the restructuring program in Latin America. You're going to get annualized savings of $16 million from that, I think, by 2018. And just given the downturn in Brazil, it's been hard to see those savings this year. And then similarly, if you go back to beginning of 2012, the company announced a major restructuring program. It was hard to see the savings from that because of volume pressure, price pressure, resin inflation, et cetera. So how would you have us assess the success or lack thereof of this latest program, given that with the previous 2 programs, we have not seen any EBITDA improvement from those savings efforts?

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

Right. Let's look at Latin America. Latin America, we received -- we did what we said we were going to do on the synergies. We did what we said we were going to do with plant closures on time, actually pulled some of them ahead. As that economy turns and consumption moves back into the marketplace again and market demand is there, we will get increased benefits out of Latin America. Let's talk about what we're doing in U.S. -- in United States and across of the entire company with agility. What's different is we've actually put in an organizational structure around an enterprise-wide project management office. We have work streams down through the company across the globe that are tracked weekly. We measure them. We monitor them. We get -- we have project management offices in each of the P&Ls that respond back. We have leaders in charge. We have teams in place, and we measure and monitor it on a go-forward basis. That's a much different approach than we have ever had at Bemis Company before. We're trying to put in the rigor and the intensity so that we will get these savings.

Operator

We'll take our next question from Lars Kjellberg with Crédit Suisse.

Lars F. Kjellberg - *Crédit Suisse AG, Research Division - Research Analyst*

I just wanted to come back to the small and midsize focus and how to reconcile that with what seems to be slightly more complex organization in terms of sales force, production, et cetera, with a downsizing of admin and streamlining of off capacity. If you can put some color on how we can sort of combine the 2 a bit more complex and yet are going to be simpler.

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

Actually, Lars, it's a good question. But if you look at -- we have a very good cross-section of the product portfolio that we don't have to apply different specs. We don't have to apply technology leaders. We don't have to create something new. We can take a spec we have and bring it to a small to midsize customer to provide them with a packaging solution. So it's less complex from that perspective. We do this today across the U.S. landscape. We have regional accounts. We have small accounts. We sell to co-packers already. We have product going into Amazon, Whole Foods, Joe's, ALDI, Great Valu, Target brands, all of these what we would think of as private labels, we sell into that today using the spec portfolios that we have created for the larger CPG customers. So it's not as complex as you might think. It's selling what you have and using a fit-for-purpose solution to attack a small to midsize customer and solve their problem with a fit-for-purpose solution.

Lars F. Kjellberg - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. So if we think about it, it's just, I guess, going to be somewhat lower margin business but a volume business, if you can confirm that? And then the second point, how big of your wallet is this today? And what -- when you're thinking about this, call it, 3 years out, how big an exposure would you think you'd have to the small and midsize customers?

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

The profile of -- we have $0.5 billion roughly in this space today, Lars, in North America. And the margin profile is higher than it would be for some of the larger accounts. So it's good business. Our model in the past had not really focused on it because we wanted these long runners, large volumes to run across the asset base. This is good business we're going after. We're going to attack it. It will take a good 12 to 18 months to start to gain more traction, but there is a lot of work being done behind it, and it's a function of getting more salespeople on the street and bringing the business in.

Operator

We'll take our next question from George Staphos with Bank of America Merrill Lynch.

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

Bill, I wanted to ask a question around the contracts in North America. And look, we already know there's no such thing really as a take-or-pay contract in the packaging business. But on the one hand, you have these contractual commitments, that's how you termed it, that supposedly your customers would have abided by. And I'm still not clear what it was that has not allowed them to hold up their end of the bargain. It doesn't sound like it's just their own volume at retail, it sounds like they're not able to extract themselves from their contracts. And if you could provide some color there, that would be great. And then I had a follow-on, and then I've got a couple of other questions when I come back in queue as well.

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

George, when we -- a lot of these contracts were renewed last year. Part of the pricing was tied to delivering new goods. And the new goods were very specifically designed. They're not innovation. It's nothing new. It sits with other suppliers. And we had laid out time lines with our customers. Our customers, in some cases, just underestimated how quickly they can do the shift. They did tie the contracts expiring with other suppliers. So I'm just going to leave you with that -- this is not that they're not trying and they're not reneging on their agreements. It's just that the pace of how quickly it's shifting to us. Another way to think about it is real simple, I have an example. This year, they're supposed to give us 1, next year 2, and the third year, 3. They just are struggling getting 1, but the contract still holds to next year is 2.

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

Okay, fair enough. Now the other question I had, it was my interpretation, maybe incorrectly so, that the new contracts and the pricing resets roll around more high-barrier products. If that was true, maybe I'm off in terms of the premise of that part of the question, I'm curious why the volume pickup that you've seen -- you saw in the third quarter was seemingly more in the big middle as opposed to some of the higher end? Has the higher end volume been showing up as you would have expected, maybe aside from these contractual issues?

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

George, it was -- this is Bill. It's for a cross-section of products, some high barriers, some big middle. Some of the high barrier has shifted. Some of the big middle has shifted over to us. It's a mixed bag across the portfolio.

Operator

We'll take our next question from Jason Freuchtel with SunTrust.

THOMSON REUTERS

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

What has been the primary change in the competitive environment in the last couple of quarters that has motivated Bemis to really attempt to expand in the smaller-niche consumer product companies segment? Has it been driven by a view that the large consumer products companies are languishing and may not recover? Or is it that you're just now becoming more opportunistic for growth?

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

Jason, this is Bill. It's a combination of both. Some of the larger CPG companies are losing share to some of these smaller to midsize companies. We've done a lot of work on this. And if you look at over the last few years, the share that has shifted from, let's say, the large CPGs to the middle to small-sized customers is about $21 billion. And that's -- that business that we have fit-for-purpose solutions for, we have to go get it. And it's really nothing around the competitive nature of our business. Our business is competitive. It will always be competitive. But there's pockets of growth that exist for solutions we already have in the portfolio that we need to go and get.

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

Okay. And then, I guess, my second question. Have you experienced any initial reactions from your current customer base in regards to restructuring initiatives? Have they expressed any concerns about the production or delivery of their products as you consolidate your footprint?

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

No, we have not.

Operator

We'll take our next question from Chip Dillon with Vertical Research.

Salvator Tiano - *Vertical Research Partners, LLC - Analyst*

This is Salvador Tiano filling in for Chip. So just clarify a couple of things on the Brazilian and U.S. contracts. So firstly, on the U.S., you're giving these price concessions. And as you said, some of the customers have trouble shifting volumes in Q4. So how should we think about the pricing, first of all, specifically both in Q4 for them and going forward every time they fail to shift the required volumes? Should we be seeing kind of potentially lower volumes and then uptick in price versus our existing assumptions?

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

I think the way to look about it, and this is not a general statement about all new goods, some of the new -- some of the price downs were tied not to the total portfolio, but however, to get a portion of it they had to deliver the new goods. So that's how you should think about it. But I want you to remember, next -- as we come into '18, those contracts are still in place. And as they deliver the new goods, which I fully expect them to do it, there will -- those same incentives will go back into play to benefit the customer but we do get the new volume.

Salvator Tiano - *Vertical Research Partners, LLC - Analyst*

Okay. So it's based on new volume to be allocated to you. So I guess, if they -- if you don't get eventually, you will essentially assign higher price right, next year?

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

That is correct.

Salvator Tiano - *Vertical Research Partners, LLC - Analyst*

Okay. To clarify also the situation in Brazil with the contractual pass-throughs, you mentioned you have the contracts in place but it's kind of a little bit hard to actually enforce the price increases. And one of the main reasons was that inflation in the country is going down. And just help us understand a little bit why -- resin inflation is kind of a very discrete item, especially in packaging, and Brazil has a very high labor inflation, for example. So how or why are we getting pushback by inflation in Brazil generally moving lower when you have a very specific item affecting plastic packaging companies that is increasing your cost? Shouldn't that be essentially -- your price should go up regardless of what happens to other inflation items in the country?

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

The short of it is that the -- our customer base doesn't see that they can push it onto the consumer any longer because inflation is coming down. When inflation was at higher levels, it was easier for our customer base to push inflation plus through to the marketplace. We have about 50% of the business under contract in Brazil. And we are pushing these price increases to contracted customers as well as non-contracted customers through -- across the customer base. So it's just getting harder and harder. There's a point of fatigue within the customer base. So inflation fatigue, if you will, and pushing price increases upon them. So it's just getting harder and harder.

Operator

We'll take our next question from Mark Wilde with BMO Capital.

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

Bill, I'd like to just kind of come back on sort of potential avenues for kind of growth here in North America. One would be kind of the topic of pouches, how big your pouch business is and how much growth you see there? And then the other would be just as we're seeing kind of more of the grocery market move to direct to the consumer marketing, what your suite of products are that play into that?

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

Yes, it's a great question, Mark. We would look at the -- there's a pouch -- the pouches are in different areas, right, so you get dry goods and you've got liquid goods. So in liquid, our liquid business is really growing quite nicely, and that's all primarily wrapped around pouches. That's doing very well. And that is not just on store shelves, but that's through the e-commerce channel as well because cans and jars don't necessarily make it easy to ship via e-commerce. So the pouch business, the liquid business is doing well. If you look at our portfolio of, let's start to call it, private label kinds of things, business that has come up just within the last 12 months or so, we've got a very broad number of SKUs that are going to Amazon, Trader Joe's, ALDI, as I said earlier, Target, Kroger. And we work with Amazon. We've been working with their packaging engineers to help them see ways to do business differently via e-commerce and what the packaging solution needs to be. Liquid detergents, dry goods, you're talking about granola, powder detergent, there's a shift taking place in Latin America going away from blow-molded bottles and cardboard boxes to standup pouches for powder detergent. It does play to one of our strengths, and that's part of this whole evolution toward middle to small-size customers where we can help them get into a pouch or into a flexible, I should say, quicker. Because we already have the fit-for-purpose solution via the big guys, we can bring it to the small guys.

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

And how big is this business for you right now? And how rapidly do you see that overall pouch business growing for you?

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

Mark, I don't have the specific around specifically pouches. I don't have that data for you.

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

We sell mostly rollstock and then...

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

It gets converted to a pouch.

Operator

We'll take our next question from George Staphos with Bank of America Merrill Lynch.

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

I want to talk about the new customer opportunity, the small or midsize customers you're saying are $0.5 billion or so in size right now. And I forget, one of the other analysts asked a similar question I just want to dig into a little bit more. Typically, if you're offering more of a standardized product portfolio, it sounds like you're offering fewer SKUs. You're selling to co-packers. That's typically, given our experience, tougher, not more margin accretive business. So if you could help me understand why you think that's the case, especially since you have to optimize some of your production to fit that quicker changeover -- more frequently changed over business. And when you answer -- when we're thinking about the margins, it really -- it's higher margin but it'll be higher margin when you ultimately do the retooling, Bill. And then I had a follow-on.

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

No, I -- Ghansham, it's Bill. George, sorry. It's higher margin today, okay? It's good, healthy business at higher margins in our portfolio today. So that's the extrapolation that we take as we go forward.

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

Okay. And the other question, and not to beat on the same issue. If we think about the pricing resets and the volume that you ultimately will win that has been coming in, in 2017, have we, more or less, seen the negative effect of the pricing reset as we sit here today, recognizing there'll be perhaps some further, at least from what we would see on this side of the phone, lower margins as that volume comes in? Or is there the potential for pricing to further just lower even beyond the contractual triggers, if you will?

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

George, we've -- so first of all, I think what happened in 2016 was an unusual year, and I think we proactively protected a lot of business. But in return, we got some new business. We always are going to see pricing pressures in the market. And we have historically offset that with productivity initiatives, cost takeout initiatives in packaging, and et cetera. So I'm hopeful that the big reset we saw coming into this year is -- was abnormal and what we'll see is improvements going forward.

Operator

There are no further questions. Ms. Winters, I'd like to call -- to turn the call back to you for any additional or closing remarks.

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

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

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.
