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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

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

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

Bryan Burgmeier

Connor Daniel Robbins *Goldman Sachs Group Inc., Research Division - Research Analyst*

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

Gabrial Shane Hajde *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

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

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

John Andrew Dunigan *Barclays PLC, Research Division - Research Analyst*

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

Michael Arthur Leblanc *KeyBanc Capital Markets Inc., Research Division - Associate*

Molly Baum

Salvator Tiano *Vertical Research Partners, LLC - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Bemis Fourth Quarter 2017 Earnings Call. As a reminder, today's call is being recorded.

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

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

Thank you. Good morning, everyone, and welcome to our fourth quarter 2017 conference call. Today is February 1, 2018. 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 vice -- 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 will find our press release and supplemental schedules.

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

And finally, a reminder that statements regarding future performance of the company made during this call are forward-looking and 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. 2017 was a pivot year for us as we implemented Agility. We are enacting change that positions Bemis Company for enduring success. We are making progress as reflected in adjusted operating profit that was up nearly $35 million in the second half of 2017 as compared to the first half of the year. Our fourth quarter results were at the high end of our most recent guidance, and we are confident that we will continue to deliver our planned improvements in 2018.

During 2017, we launched Agility to fix, strengthen and grow our business. Our approach was comprehensive as we engaged respected partners, we considered a wide variety of alternatives, we set a high bar of expectations, we implemented our project management office to ensure the highest level of discipline and accountability for long-term success, and our team is engaged and committed to delivering improvement.

Before discussing that further, I'll turn the call over to Mike to discuss details of our 2017 financial performance and 2018 guidance. Mike?

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

Thanks, Bill, and good morning. Today, I will start by discussing the financial details of 2017, and then I will close with 2018 outlook. Full year 2017 adjusted earnings per share at $2.39 was at the high end of our most recent guidance. While the fourth quarter tends to be seasonally slower, our plants operated well and we controlled cost.

Before discussing segment and total company results, I will discuss a few unique items that we recorded during the fourth quarter of 2017. First, the goodwill impairment. We previously disclosed that we were conducting an interim impairment analysis of our Latin America business, and during the fourth quarter, we recorded a noncash charge of $196.6 million pretax related to goodwill in Latin America. This reflects a full impairment of goodwill in Latin America and was driven by our lower profit performance due to decline in the economic environment in Brazil in 2017 and the related forecasted slower economic recovery in our point-in-time analysis. To be clear, while the current economic environment in the region is challenging, we have confidence in our business, our market position and the long-term opportunities for Bemis Latin America.

Second, the pension settlement. In 2017, we initiated a program to offer certain retired participants in frozen U.S. retirement plans the opportunity to receive their benefits early as a lump sum. As a result, during the fourth quarter, we recorded a noncash pension settlement charge of $10.1 million pretax. This program offering was prudent as it helps reduce plan risk and future cost of insurance paid for by the plan. Our pension plan remains well funded.

Third, the impact of U.S. tax reform. During the fourth quarter, we've recorded a noncash tax benefit of $67.2 million as a result of the recent U.S. tax reform passed in December. The majority of this benefit related to the revaluation of deferred tax liabilities under the new law.

Also in the fourth quarter, we realigned our reportable segments, moving from 2 segments in U.S. Packaging and Global Packaging into 3 segments in U.S., Latin America and rest of world. U.S. Packaging remains unchanged. Latin America Packaging includes all of our food and nonfood packaging operations located in Mexico, Argentina and Brazil. Rest of World Packaging includes all of our food and nonfood packing operations in Europe and Asia as well as our medical packaging operations in the U.S., Europe and Asia. This new reporting structure complies with technical accounting rules for segment reporting and also provides a more detailed look at what we previously called our global business segment. For comparative purposes, historical sales and operating profit for the 3 segments is available in the press release. Further detail is also on Pages 10 and 11 of the supplemental schedules on our website.

Moving to operational results for 2017. U.S. Packaging segment. Specific to the fourth quarter, our U.S. business performed well. Unit volumes were flat as compared to the prior fourth quarter, which was better than we had planned. Our operations ran well, and we managed cost appropriately. Looking at full year 2017 net sales, dollars were flat as compared to prior year, which reflects unit volumes up nearly 1%, offset by mix of products sold, which were driven by continued success of the big middle category. U.S. Packaging operating profits of $352.5 million in 2017 was down from $400 million last year, reflecting mix of products sold, the impact of previously negotiated contractual selling price reductions and inefficiencies related to the ERP system implementation at one of our plants during the second quarter.

Turning to Latin America Packaging. Fourth quarter sales were down 0.6% as compared to the prior year, most of which related to currency impact. Unit volumes were flat compared to the fourth quarter, prices were up and mix continued to trend down to less expensive packaging alternatives. For the full year 2017, sales were up 1.2% as compared to the prior year. This was driven by the benefit of currencies and increased prices, partially offset by mix of products sold and a 4% decrease in unit volumes, which were primarily driven by the economic conditions in Brazil.

Latin America operating profit trended down during the fourth quarter and full year as compared to last year, driven by the continued challenging economic environment in Brazil that is putting pressure on unit volumes and mix of products sold. Fourth quarter profit performance in our Latin America business was in line with our expectations. We have reduced both variable and fixed costs in our Latin America business, which has driven profit improvements since the low point during the second quarter of 2017. Conditions are stabilizing in Brazil, and we expect improving profitability in '18 and beyond from the actions we have taken.

Turning to the Rest of World Packaging. Fourth quarter sales were up 3% as compared to the prior year. Currency was up 4%, the acquisition of Evadix added 0.5%, unit volumes were up 8% and prices were up, all partially offset by mix of products sold driven by the strength of sales in Asia.

For the full year 2017, sales were up 4.2% as compared to the prior year. Currency resulted in a 1.7% decrease for the full year. Unit volumes were up 6%, and selling prices were also up. The acquisitions of SteriPack and Evadix contributed a 3.7% increase in sales for the full year 2017 as compared to the prior year. All this was partially offset by a decrease in mix driven by the strength of sales in Asia. Rest of world operating profit trended down during the fourth quarter and full year as compared to last year, driven primarily by rising raw material input prices in Europe and mix of products sold.

Now on to consolidated Bemis results. Total Bemis Company SG&A expense for the year was $380 million, down from $392 million last year. The reduction was due primarily to our pay-for-performance practices and strong cost controls. Operating cash flow of $379 million in 2017 compared to $437 million in the prior year. Adjusted for restructuring-related cash costs, operating cash flow was $404 million in '17 compared to $446 million in the prior year. Working capital increased cash flow by $15.5 million this year, and the remaining difference was driven by lower profits in 2017.

Specific to the fourth quarter, cash flow was less than expected by approximately $30 million as a result of not reducing inventories to the degree we anticipated during the quarter. The 2 primary drivers were an inventory build in our health care business to get ahead of a planned equipment shutdown in the first quarter and an inventory build related to onboarding a sizable new fresh red meat customer in the U.S.

Primary working capital as a percentage of sales was $14.6 million at December 31, an improvement from 15.8% 1 year ago and within our targeted range of 14% to 16%. Capital expenditures for 2017 totaled $189 million, in line with our expectations. During 2017, we repurchased 2.2 million shares for a total of $103.8 million. We remain committed to maintaining a strong balance sheet and returning free cash flow to our shareholders.

Turning to 2018 guidance. We have established an adjusted EPS range for 2018 of $2.75 to $2.90, which includes a $0.31 benefit at the midpoint related to the U.S. tax reform.

Next, I will discuss some assumptions that have -- we have considered in our earning guidance. First, our guidance includes $35 million benefit from Agility. This is primarily driven by the actions we have taken through the restructuring program. We anticipate the majority of this benefit to be reflected in the second through the fourth quarters. Second, our guidance assumes a 24% tax rate in 2018, which is the result of the recently passed U.S. tax reform.

Third, our guidance assumes our customers deliver their forecasted levels of new business to earn their optimal business incentive. A reminder of the background on this topic. Coming into 2017, we locked up multiyear agreements with a variety of our customers. One of our large customers did not deliver the anticipated levels of new business per this agreement during 2017, so appropriately, the associated rebate was not earned in 2017. The contract is still in place so our customer will have the opportunity to earn the full business incentive this year if they deliver the new bids they committed to transition to us. If the optimal level of incentive is reached, this will create a year-over-year delta of approximately $20 million.

Fourth, our guidance assumes normal execution of our capital allocation policy. We will continue to return free cash flow to our shareholders through dividends and share repurchases, assuming an acquisition is not imminent.

Fifth, our guidance accounts for normal inflation in 2018. Specifically on SG&A, you should anticipate a modest increase. While we have some Agility savings here, clearly, we have inflation at 2% to 3% globally, and we are reinstating a pay-for-performance level reflective of improving profits in 2018. Sixth, interest expense. Our EPS guide includes an increase of $7 million, resulting primarily from generally higher interest rates following the forward curve. And last, our guidance accounts for business wins and losses known as a result of the long-term nature of our customer agreements.

Coming into 2018, there is a specific meaningful piece of business in the big middle that we were unable to contractually resecure in the U.S. The business relates to infant care packaging produced at our Shelbyville, Tennessee facility. Our customer, whose end market is an ultracompetitive space, is embarking on several plant closures within their network and has decided to transition this business away from our facility. Our analysis showed that our assets at this facility could not be redeployed and deliver a meaningful return. We are therefore closing our facility in Shelbyville, Tennessee in 2018. The base profit related to this infant care business was approximately $6 million annually, and we will under-absorb fixed costs during the fourth quarter as we ramp down production in advance of the full closure of the facility this summer. To be clear, this facility is not 1 of the 4 we had announced this past September.

Our 2018 plan includes a variety of contractual wins that offset the profit impact of this loss. These wins (inaudible) are smaller in size and range across all of our end markets, with particular strength in liquid and protein applications. Bill will discuss these when I turn the call back to him.

As to unit volumes in 2018, for our U.S. business, we are not providing specific guidance due to the unique nature of the business loss I just discussed. This piece of business in the big middle contributes greater unit volume than it does sales dollars or profit. As we move throughout the year and report units on a quarterly basis as required, you will see that our U.S. unit volumes will print down but the weight of that number is not a good indicator of revenue or profit dollars.

In Latin America, our view is that 2018 volumes will be relatively flat as compared to the full year 2017 as the economic environment is stabilizing but still not recovering to the degree that is expected in the future. In the rest of world, our view is that 2018 volumes will be up single digits for the full year, with strength in health care in Europe and some decline in Asia driven by a customer who wants a second source of supply.

Turning to capital expenditure guidance for 2018. We expect to spend between $150 million and $160 million. Of this, about $55 million is for the environmental, health and safety at our plants around the world and approximately $100 million is targeted for select growth projects and asset recapitalization projects that meet or exceed our 15% ROIC hurdle. And finally, we have established 2018 guidance for cash from operations in the range of $420 million to $440 million. This includes approximately $50 million of restructuring and related cash costs in 2018.

Regarding working capital, we are targeting $20 million to $40 million of working capital improvement in 2018, primarily from inventory improvement. As part of our Agility initiative, we have established specific inventory goals in the U.S., with quarterly metrics and actions to achieve the planned results. I anticipate normal seasonality in cash flow throughout the year, with cash from operations later in the first quarter and then building from there.

Where we are in our EPS range of $2.75 to $2.90 will depend on further movement of currencies, onboarding of new business awards, the pace of Agility growth initiatives and how our customers' end markets perform. As to earnings cadence through 2018, I anticipate the first quarter to be the lightest as seasonality plays in. On a year-over-year basis, also recall that the further decline in the economic environment in Brazil did not occur until Q2 last year but the business incentive I mentioned earlier will be a comp and that we will not absorb fixed costs as well in our U.S. business during the first quarter as we shut down our facility in Shelbyville, Tennessee. It is logical to think about the total company first quarter earnings in line with the first quarter of '17.

As to remainder of the year, similar to our normal pattern, the third quarter of 2018 is planned as our strongest quarter of the year, in part to seasonality and in part to the traction we are making through Agility. As to the segment review of 2018 plan as compared to 2017, U.S. Packaging, we have planned for profit dollars and margin percents to be roughly in line with full year 2017. Latin America Packaging, we have planned for increased profit dollars and margin increases of more than 100 basis points in this segment as the net benefit of Agility fixed cost reduction and variable cost improvements flow through. In the rest of the world, we have planned for increased profit dollars and margins in the high single digits, with the opportunity to cross into double digits, primarily driven by growth in our health care business.

In summary, we have made progress throughout the second half of 2017. We continue to take action 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. As we head into 2018, we are focused on executing our plan to create long-term shareholder value.

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

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

Thanks, Mike. During the last couple of years, we've made progress in positioning Bemis for continued success. We've established new leadership in our Latin American, health care and U.S. businesses who are driving the change in the people and processes to improve profitability.

We've taken out $140 million of working capital and implemented the right processes to hold it. We've invested in our asset recapitalization program that allows us to pursue markets that are growing. We've established a framework to return free cash flow to shareholders, resulting in over $700 million of value returned through dividends and share repurchase. We've added Emplal, SteriPack and Evadix to our global portfolio, each positioning us well for the long term in their respective markets. And through Agility, we are creating a cost-effective and more disciplined structure that is positioned to capture growth.

Looking at 2018. We will deliver the financial improvement plan we've laid out, but equally as important, we are also setting the stage for a profitable growing company in the years to come. Agility, fix, strengthen and grow is what drives that. High-level fix involves near-term profitability improvement, and strengthen and grow create the foundation for continued success. At its core, Agility is about working differently to quickly and confidently respond to changes in the market and make the internal changes needed to drive growth for Bemis.

There are a variety of work streams underway that lay the foundation for growth and long-term value creation. First, I'll start by discussing the framework we have established. We have identified 10 areas of focus. The range -- these range in topic from best-in-class quality and service that exceeds our customers' expectations to managing our product portfolio and organizational structure, to targeting growth through short-run business. Each of these key areas has a fully vetted work stream that defines the deliverable and lays out the road map for success. Each work stream is owned by a specific leader within our business who has a full support team assigned to the area of focus.

As to accountability framework, our project management office reports to me and is responsible for ensuring each milestone is delivered on time and on budget. We have made real progress within many of these work streams.

With regard to fix, we are executing our cost reduction plans, and we will see a $35 million benefit in 2018 from optimizing manufacturing capacity and from reducing our SG&A cost structure through actions such as consolidating office space, reducing 262 administrative positions and eliminating our aviation cost center. With regard to supporting the strengthen aspect of Agility, we have bolstered our North American operations by bringing in new talent in the last 6 months for over a dozen critical roles in operations, supply chain, capacity planning and quality.

With regard to grow, we are laying a foundation in our U.S. business to deliberately pursue pockets of growth through the creation of what we call "agile lane", which aligns our people, processes and assets to excel in short-run business that exists at large customers, small customers and medium-sized customers. We have established customer service representatives to support this business. We are actively in the market with a streamlined set of specifications or what we call core specs. We have a quick quoting procedure in place, and we have established certain manufacturing assets as dedicated to servicing short-sized runs. As we become simpler, quicker and easier to work with, we are able to more deeply penetrate pockets of growth such as short run business and nonfood applications that historically our U.S. business model had not focused on.

Through Agility, we are taking actions to improve our cost structure and align our business strategically to be successful in a changing environment and for the long term. As we come into 2018, we are focused on delivering the opportunities in front of us. While we do have some headwinds, as Mike mentioned, we have also won some great pieces of business that we -- will help offset. A few examples of the new business we brought in for 2018: $10 million award for individual-size creamer cup, $25 million award for fresh red meat packaging, a $20 million award for consumer and industrial packaging, a $9 million award for laminated cosmetic tubes in Latin America and a $10 million award won with core specs at a large customer.

We continue to innovate, and we continue to press on new business. Our business has a solid foundation to build from, a world-class customer base, a dedicated workforce that is committed to improving, a comprehensive and innovative product portfolio and a good position in the markets we serve. During 2018, we are taking actions to build on the strong foundation to create value for our shareholders over the long term. We are committed and determined to improve and to regain credibility. We will execute this plan in 2018.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And first, from Baird, we have Ghansham Panjabi.

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

So it sounds like, obviously, there's several puts and takes on volumes for U.S. Packaging in '18. Is -- just to clarify, is the business loss in infant care a function of the customer consolidating suppliers or just sort of realigning their own footprint that, that impacted a dedicated plant on your end?

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

A combination of both, Ghansham. They're consolidating suppliers due to the fact that they're shrinking the size of their footprint.

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

So did you -- were you able to rebid for that business that you just lost out on? Or...

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

We couldn't be competitive enough, Ghansham, so...

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

Okay, fair enough. And then just a second question. Bill, you had mentioned the pilot that you have for your short-run businesses. Can you sort of expand on that? Do you envision each of your plants, over time, to build those capabilities? And also, is the short-run process something that you should think about for some of the international businesses that you have as well?

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

Yes. Ghansham, we will be looking to -- as we get through this pilot in this 1 -- in 2 segments that we're in right now, we'll look to put it into other segments, and that may cascade to other plants. And if you look at some of the international businesses that we have, it is short-run business already. They don't have necessarily the large campaigns that the North American business has had over the years. But to answer the question on the front end, yes, we will look to put pilots and agile lanes across the plants if it's appropriate.

Operator

And moving on, our next question comes from Brian Maguire with Goldman Sachs.

Connor Daniel Robbins - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is actually Connor Robbins sitting in for Brian Maguire. I just had 2 questions, if I could, the first one relating to just kind of pursuing various pockets of growth. I know you guys mentioned this a few times in the press release and on the call. I was wondering if I could get a little more color on where exactly those pockets of growth are, if they're in certain end markets or just nonfood categories.

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

Yes, good question. So if you were to look at large food and beverage customers, large food and beverage customers have short-run business. Our model over the years has always been to go after the long-run business there and not necessarily be focused on the short run. If you do the analytics of large food and bev customers, there's about a $2.2 billion opportunity for short-run types of business at large food and bev customers. If you bring that down to small- to medium-sized customers, the opportunity exists for about $3.2 billion of market, if you will, that exists at the middle- to small-sized customers for short run. So the analytics we've done, we've peeled that back and said, "Okay, where do we play?" We play across those segments with those customers. But to really focus on short runs, we wanted to shrink down the spec portfolio because you can't have a wide cross-section of specs to focus on short runs. That's why we got to the core spec. So we've dialed our large spec portfolio down. The core specs -- those core specs focus on short-run business that -- which are the pockets of growth. And then one further spot is the nonfood, which we might call commercial and industrial. The market opportunity there would be about a $1.1 billion size, and again, it's using those core set of specifications that we have inside of our larger spec book.

Connor Daniel Robbins - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay, that's very helpful. And then one more, if I could. Just looking at kind of your CapEx guidance, a little bit lower from the 2017 year. And I was just kind of wondering if I could get a little more color on that as well. I think you guys were trying to do some more asset recapitalization. And given the [coded] depreciation that -- benefit that you should get from the new tax law, I guess, could you help me understand why that might be a little bit lower than 2017's?

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

Yes. We've put in some healthy capital investments over the last few years, and we're going to absorb those growth -- those pieces of growth capital that we've put in as we go through '18 and '19. We're going to continue on the recapitalization aspect of our CapEx program, but it's really just dialing back on the growth because we've put in growth assets that we now have to absorb.

Operator

Our next question will come from Scott Gaffner with Barclays.

John Andrew Dunigan - *Barclays PLC, Research Division - Research Analyst*

This is actually John Dunigan on for Scott. Just to build on that CapEx question. Would you consider the $150 million to $160 million a more normalized rate going forward or just that you're absorbing those -- that CapEx spend from prior years that we could see that increasing going forward?

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

I think you can think about the $150 million to $160 million in the near term and then stretching it out a little further, maybe $150 million to $180 million.

John Andrew Dunigan - *Barclays PLC, Research Division - Research Analyst*

Okay. And then I heard that the -- I think it was Mike saying that the volumes in Brazil are expected to be flat in 2018 and up single digits in the rest of world. But I missed the -- I guess, either the U.S. expectation on demand in 2018, and I don't think it was mentioned kind of where demand was in January across the segments.

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

I made the comment specifically to the U.S., was that -- because of the loss of the infant care product that was a lot of units of volume but it's very light on revenue, it's not the right barometer of how we look at it. So what we'd said is, as we proceed through the year, we'll -- and we're required to report volumes, we will discuss that specifically adjusting for infant care. But I would think about revenue kind of flattish in U.S. Packaging.

Operator

Moving on, from Citi, we have Anthony Pettinari.

Bryan Burgmeier

This is actually Bryan Burgmeier sitting in for Anthony. Looking at the old Global Packaging segment, and you have a long-term target, it was 10% EBIT margins. Understanding there's still some work to be done with the 2 new segments, do you expect them to kind of approach the same level of 10% longer term? Or have expectations been recalibrated a little bit?

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

I think the way I look at it is the 10% is -- getting to the 10% and exceeding it is still the right way to think about it. As I mentioned, rest of world at the midpoint of our guidance is going to be high single digits, with the possibility of popping over 10% this year. And then in Latin America, I made the comment that -- think about at least 100 basis point improvement in that region.

Bryan Burgmeier

Okay. And then you talked about some of the new business wins. I was wondering if you can characterize the margin profile. Are those mostly in the big middle that you guys are trying to go after? Are those kind of in line with Bemis' margins currently?

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

Yes. Some of those wins are in the big middle, and some of the wins are in -- would be in the top of the triangle in the higher-margin protein. Obviously, the fresh red meat, the creamer cup award is for a proprietary material called Evolution, which has got higher margin profiles. And the cosmetic tubes in Latin America would have a higher margin profile.

Operator

Our next question is from Arun Viswanathan with RBC Capital Markets.

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

Maybe I can just get an idea of how you're looking at that agile lane opportunity. How much of your business do you think you can kind of move into that area? And what's the timing on kind of the cadence of how that flows through?

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

Right now, we're running a pilot, right? So we're being very measured on this pilot. We're making sure that we can execute on it and that we can deliver. And we'll run another pilot as we go into the second quarter in another segment. So we're being very measured and thoughtful on that right now. We have not mapped out the cadence to what that's going to look like.

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

Okay. And you also mentioned that you are considering M&A or you would only return capital if there are no M&A opportunities. What are you seeing on that side? And again, is there any kind of timing that you'd expect to consummate any transactions?

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

Hey, Arun, it's Mike. You're aware we don't really comment on anything specific. But we are very active as far as evaluating -- exploring areas for growth, as Bill talked about. These small run -- short-run businesses, if something interesting comes along that's particularly good at that, we would look at an asset like that as a way to accelerate our initiatives.

Operator

Moving on, we have Kyle White with Deutsche Bank.

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

I'm just curious about your thoughts on the pricing environment in the U.S. in the post-tax reform world. And maybe we've already seen a little evidence of this with the infant care customer you called out. But are you seeing it become more competitive, with some companies potentially using savings to kind of invest in price and lower pricing?

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

I can't specifically address that relative to the tax environment. But we're in a very competitive environment in packaging, and it's going to continue to stay that way, whether we have tax reform or not.

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

That's right. I was just curious if you've seen it kind of increase. I also wanted to do a double check. I'm not sure if Mike said this in the prepared remarks, but for U.S. Packaging, did you say that profit dollars are expected to be flat year-over-year in 2018? Just wanted to make sure I didn't hear that wrong. And if that's the case, can we get some of the puts and takes? Because I would imagine that most of the restructuring savings would flow through this segment, but some color on that.

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

My comment was that you should be thinking margin percents would be flat '17 to '18 for U.S. Packaging. And then just kind of further on, I mean, I think your assumption is -- yes, I would think about approximately 70% of the Agility savings are in our U.S. business, which would also -- would include corporate, and the remainder is primarily in Latin America.

Operator

Our next question is from Edlain Rodriguez with UBS.

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

A quick one on Brazil. Maybe you said it and I missed it. Like what was volume in 4Q? Because volume was down 10% in second quarter, 7% in 3Q. Like what was it in 4Q? And also, can you remind us like how big is Brazil in the Latin American segment?

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

I didn't hear your second question, but let me answer your first question real quick. Unit volumes were flat in Q4 in Latin America, and for the year, they were down 4%. And if you could repeat your second part of that question.

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

Yes. If you could remind us again like how big is Brazil in the Latin American segment now.

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

Well, it's probably, what, well over half, probably 60%.

Operator

And next, from KeyBanc, we have Adam Josephson.

Michael Arthur Leblanc - *KeyBanc Capital Markets Inc., Research Division - Associate*

This is actually Michael Leblanc sitting in for Adam. With regard to your cash flow guidance, can you just talk about what you expect in terms of that cash tax benefit in 2018 and, relatedly, what your cash tax rate will be in 2018 versus where you were in '17?

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

Yes, I could talk. If you just kind of think about it, reform in and of itself is about a $30 million savings. However, we have improved profitability in our 2018 guide, so the actual year-over-year cash savings -- dollar savings is about $10 million.

Operator

Next, from SunTrust, we have Jason Freuchtel.

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

I believe, in the past, you indicated that through your asset recapitalization efforts, they allowed for quicker changeovers and shorter runs. What percentage of your assets would you characterize currently have those capabilities that could support smaller to midsized customers? And where are the greatest opportunities?

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

Yes. Jason, I'm going to make an estimate here for you. It's probably 10% to 20% of our assets would be in the quicker changeover, shorter runs, and the opportunity there is really on the printing side. That's where the opportunity exists to drive that productivity.

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

Okay. And I guess, just following up on that one. What -- I guess, relatively speaking, what percent of your total assets are currently dedicated to the printing space?

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

Jason, I wouldn't even wager a guess on that. Probably somewhere around 40% if you look at what we've got from a filmmaking perspective around the world. I'm trying to give you a global number here, so it's probably somewhere in the 40% range.

Operator

Our next question comes from Chris Manuel with Wells Fargo Securities.

Gabrial Shane Hajde - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

This is actually Gabe Hajde sitting in for Chris. Two quick ones, I'm hoping. One is, Mike, can you clarify the volume rebate discussion? It sounded like, if I heard you right, that they did not hit in 2017 but you do anticipate that they hit the volume requirement in '18. And if that, in fact, does happen, that would result in a $20 million headwind. Again, I'm assuming that's a volume rebate.

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

That is correct. And just to kind of think about it, the rebate's over the entire business, not just -- but it's earned as a result of delivering the new business. So the way we've guided and the way we've developed our plan is that we will get the new business and we will pay the award, which didn't happen in 2017. But going into '18, that's how we've planned. So you're correct.

Gabrial Shane Hajde - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. So -- and I mean, if I take the 70% of the $35 million in savings, those are sort of offset, and then the other varying factors for the year would be how volumes perform, manufacturing and stuff like that, inflation. Would those kind of be the different buckets for what profit would do? Okay. And then if you can provide a little bit of clarity, maybe try to size up for us the business, I think you mentioned, in Asia. Was that related to the Foshan acquisition, that customer dual sourcing? And again, how big that might be?

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

It's one large customer that we've had -- we've done 100% of their requirements, and they have made the decision they need a secondary supplier for a small percentage of their business. But I'm not going to really comment on the size at all. The comment is really it kind of probably offset. So if you think about Asia, the GDP is 6%-ish and we'll probably be flat in the region to give you some color.

Operator

Next, from Vertical Research, we have Chip Dillon.

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

This is Salvator Tiano filling in for Chip. So a couple of questions. The first one is in rest of the world, in organic growth. I've seen your slides that volumes were up 8%. Selling price were up. Yet, mix led to a 1.5% decline. So I was wondering, can you give me some color as to what happened? What were these big downgrades that essentially offset probably what was single-digit selling and volume growth?

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

I think -- the way to think about it is, in Asia, the margin profile is still -- is very different than it would be in Europe or in healthcare because food safety standards are emerging in that region of the world. So if Asia is growing faster than healthcare and Europe, it would have negative mix on our business.

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

Okay. Makes sense. And the other thing I want to ask is -- Q3, you essentially bought back quite a few shares, and Q4, my understanding is you didn't purchase any back. Just wondering, what was your thought process in making that decision?

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

Our thought process was really we're very cognizant of our investment-grade rating. And -- but we are starting to use cash for some restructuring and just felt that we didn't want to go above the 2.5 to 2.7x.

Operator

Our next question comes from Anojja Shah with BMO Capital Markets.

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

I wanted to go back to Brazil. We're seeing signs of pickup in other packaging markets in Brazil. Like I think the cardboard box volumes came out today. They were up 4% to 5%. Why do you think your experience there is different and you haven't seen a pickup yet?

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

What we're saying is we're seeing stable volumes in Latin America. Our customers are -- we're stable with our customers, and our rigid business is in good shape. Our flexibles business is in good shape. We have a good position in both. We have high shares with those customers. And we are just being steady as she goes with Brazil.

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

Okay. And then switching over to share repurchases. Any thoughts on the future cadence of that [20 million] authorization? I think you probably have about 18 million shares left. How should we think about that?

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

Well, how I would think about it like for '18 specifically, our capital allocation policy says we will return free cash flow to our shareholders through dividends and share repurchases. If you think about the midpoint of our guide next year, free cash flow after dividends would be about $160 million to $170 million of cash. That would be used to repurchase shares if there was no acquisition imminent. But to reiterate, we are -- our philosophy is not to lever up but accelerate that buyback. We'll return it as the year progresses.

Operator

Moving on, from Bank of America Merrill Lynch, we have George Staphos.

Molly Baum

So this is Molly Baum sitting in for George. I know you had mentioned a bit about mix, and we noticed that it was down in the U.S. as well. Could you give a little bit more color just on the negative mix in U.S. Packaging and what was going on there?

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

The way we think about it is as we grow what we call the big middle categories, their margin profile, although it be good, is not the same margin profile as our protein packaging. So it's -- the inverse side of it is still EBITDA dollar growth, which is what's important to us.

Operator

Next, from Barclays, we'll move back to the line of Scott Gaffner.

John Andrew Dunigan - *Barclays PLC, Research Division - Research Analyst*

It's still John Dunigan. I just -- I had 2 questions. One, in the guidance, there was the $50 million of cash restructuring. But is this the remainder of the $75 million to $85 million? Or should we expect more of the cash restructuring cost in 2019?

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

It's a pretty good chunk of it, but there will still be some additional in '19.

John Andrew Dunigan - *Barclays PLC, Research Division - Research Analyst*

Okay. And then thinking about some of the headwinds in 2018, a lot of packaging companies have talked about freight inflation being a particular concern. Could you give the breakout between truck and rail transportation costs, if you expect to see kind of a large headwind going into 2018 with those and if any of those get contractually passed through?

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

First of all, I think in -- I'll talk in the U.S. Very little of our shipments to our customers is done by rail. It's primarily by truck, and that has been -- the increase in rates has been contemplated in our guidance. And as you're fully aware, most of our raw materials come in on rail. So we've contemplated that in our guidance.

Operator

Next, we'll move to a follow-up from Edlain Rodriguez with UBS.

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

A quick one on raw materials. I mean, I think, last quarter, you've mentioned like the challenges you had in Brazil in passing through higher costs. Like are you seeing the same issue? Like has that abated somewhat, given that volume is picking up somewhat?

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

Yes. We haven't seen a recent issue with raw materials in Brazil. It was the hurricane-related issue back in late third or early Q4 where raw materials spiked in Brazil.

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

Okay. And similarly, in Europe, I mean, I think you kind of mentioned that there was some rise in prices there, in rest of the world. But are you able to automatically pass all those costs? Or is there something else going on there?

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

The European market's very -- is not the same as the U.S. market. So over there, you really have very few passthrough mechanisms, by definition. And in our particular case, in 2017, it was a pretty big run up in nylon, which is something we use in our film, and it's just something -- it was hard to recover it. We've recovered some of it as the year progressed, but we're not able to get all of it recovered.

Operator

Our next question comes from Jason Freuchtel with SunTrust.

THOMSON REUTERS

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

First, it looked like your R&D expense declined slightly in the fourth quarter. Do you plan on dialing back on your R&D efforts as you work through your restructuring efforts? Or could you actually increase your R&D efforts to support and win additional higher-margin business?

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

Yes. Jason, what we've done with R&D is we've done some rebalancing with -- of our R&D resources and applied some of those R&D engineers into the operation to help drive some of the Agility charters that relate to productivity and cost out. And we continue to have a very robust product pipeline of new products and new applications for customers that are being rolled out.

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

Okay. And then secondarily, what drove the higher other income in 4Q '17? And do you expect that to persist into 2018?

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

Jason, that was primarily by a sale of a piece of property. So in 2018, you can think about that line in total being roughly the average of the last couple of years.

Operator

Moving on, from Vertical Research, we'll hear from the line of Chip Dillon again.

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

So just wanted to ask a little bit of a bigger picture. Excluding the tax rate, the EPS guidance implies some growth, in the low $2.50s from almost $2.40 right now. But essentially, everything is from the restructuring savings. So how are you thinking longer term, in 2019 or even 2020, about operating profitability increasing through growth again? Because, 2018, there is growth even net of tax but it is solely due to restructuring savings.

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

Yes. Right now, we are focused on the 10 work streams in Agility, of which there are growth charters. That is what we call them. Work stream is -- would be a charter and they are -- that are focused on growth, as I mentioned earlier, in the short-run business, that large food and bev, medium and small food and bev, and commercial and industrial. And they gain traction as we go through '18, and we start to see more of that growth as we get into '19 and beyond.

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

Perfect. And just a minor item here on foreign earnings. Is there any guidance you can provide if you will pay any cash tax for the repatriation? And what would be the schedule over the next few years?

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

It's about $10 million over the next few years.

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

$10 million per year or $10 million in total?

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

Total, total. And that's been contemplated in the tax rate.

Operator

And ladies and gentlemen, at this time, we have no further questions from the audience. I would like to turn the floor back to Erin Winters for just any additional or closing remarks.

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

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

Operator

Once again, ladies and gentlemen, that does conclude today's program. Thank you for participating. You may now disconnect.