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BMS - Q1 2018 Bemis Company Inc Earnings Call

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OVERVIEW:

Co. reported 1Q18 results. Expects 2018 adjusted EPS to be $2.75-2.90.

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PRESENTATION

Operator

Good day, and welcome to the Bemis First Quarter 2018 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the call 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 first quarter 2018 conference call. Today is October 26, (sic) [April 26], 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 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 Investor Relations tab, where you'll find the 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.

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

Now, I'll turn the call over to Bill.

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

Thank you, Erin, and good morning, everyone. We delivered a solid start to 2018. Our financial performance exceeded our internal plan for the quarter, driven by Agility savings and improving operations.

Through Agility, change is taking place. We are driving new levels of discipline and rigor into our business, and we are holding ourselves accountable through our project management office. The Agility mindset: fix, strengthen and grow Bemis, is becoming part of our everyday actions. We are meeting the milestones we set for all Agility work streams.

2 of the 4 plant consolidations are now complete and the associated business has been absorbed at other facilities. We have implemented travel-related cost reductions, including the elimination of our aviation call center. We have reduced more than 300 administrative positions, we are exiting leased office spaces and utilizing existing facilities, and we are implementing a variety of other cost reductions to align our business with the environment we are in and to position our business well for the long run.

Our teams are stepping up to the challenge to improve our business in accelerated ways. For example, we delivered ahead of our first quarter Agility savings plan by moving up the time line for the elimination of certain administrative positions. Our teams are energized and taking action to drive value for the long term. We continue to expect $35 million of Agility-related savings in 2018 that contribute to the total planned savings of $65 million by the end of 2019.

Turning to financial performance in our segments. Our U.S. business delivered a solid quarter. Compared to last year, operating profit increased nearly $4 million, a step in the right direction. Agility is improving operations provided net benefit to the bottom line.

Our plants ran well again this quarter. Costs were managed well at our Shelbyville, Tennessee facility during the initial ramp-down of production of the infant care business. We also did a great job of managing our capacity in Shelbyville by temporarily balancing another plant's production need, a great example of how our teams in the U.S. are embodying the Agility mindset are working differently to quickly and confidently respond to changes.

Our Latin America business delivered on plan for the quarter. Compared to last year, sales and profits were down, a result of the incrementally challenging economic environment in Brazil that started during the second quarter of last year. We continue to view the environment for our business in Brazil as stabilizing. We are executing our planned cost reductions in the region, and our business will be well positioned as the economic environment improves.

Our rest of world business delivered a strong quarter. Compared to last year, operating profit increased approximately $3 million, driven by performance in our global health care business. We saw strong organic growth in our health care business, and we leveraged that volume operationally to deliver high-quality end service to our customers and to benefit our bottom line.

I'll turn the call over to Mike now to review our financials, and then I'll come back for a wrap-up.

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

Thanks, Bill, and good morning. Today, I will discuss the financial details of our segments and total company, followed by comments on the balance of 2018.

U.S. Packaging segment. During the first quarter, our U.S. business performed well and delivered improved [mix] compared to 1 year ago. Sales dollars were up 2.6% compared to the prior year, reflecting higher selling prices, partially offset by unit volume decline of 1%, directionally in line with our expectations.

Excluding the impact of the initial ramp-down of our Shelbyville, Tennessee facility, unit volumes for the U.S. segment would have been flat. U.S. Packaging operating profit of $87.2 million increased from $83.5 million last year, driven by the benefits of Agility and improving operations, partially offset by volume, freight cost and incentives committed to our customers. Our operations ran well and we managed cost appropriately.

Turning to Latin America Packaging. First quarter sales were down 4.8% as compared to the prior year, almost entirely from the currency impact. Selling prices were up high single digits, offset by unit volumes down 8%, driven by economic conditions in Brazil as we had anticipated. Recall that the incremental decline in the economy started during the second quarter of 2017, so our current quarter compares to a much different environment last year.

Latin America operating profit was down during the first quarter compared to last year as a result of lower volumes driven by the challenging economic environment in Brazil. First quarter profits improved sequentially versus the fourth quarter of 2017 as a result of the variable cost actions we have taken in the region. First quarter performance was in line with our expectations and on pace to achieve our full year improvement targets in the region.

Turning to Rest of the World Packaging. First quarter sales were up 13.9% compared to the prior year. Currency impacted it 8.8%. The acquisition of Evadix added 1.1%, leaving organic growth at 4%. Unit volumes were up 12%, with volume growth in Europe and Asia and global health care businesses. Volume benefit was partially offset by price and mix, given particular strength of sales in Asia.

Rest of World Packaging operating profit increased to $16.5 million as compared to $13.6 million the prior first quarter. This improvement was driven by our health care packaging business where volumes grew and operations ran well.

Now on to consolidated Bemis results. Total company SG&A expense for the first quarter was $96.9 million as compared to $96 million in the prior first quarter. Excluding the impact of currency, SG&A expense was down slightly compared to last year.

We should continue to anticipate full year 2018 SG&A expense to increase modestly. While we have Agility savings here, we also have inflation of 2% to 3% globally as well as the impact of exceeding annual pay for performance targets in our 2018 plan.

Total company research and development expense was $10 million compared to $12.5 million in the prior year. The decrease was driven by certain administrative positions that were eliminated through Agility, some rebalancing of resources to operations and the timing of projects. We anticipate full year 2018 R&D to be in line with last year. Interest expense was $18.9 million compared to $16 million last year, a result of increased rates.

Income taxes for the first quarter was 23.8% as compared to 31.2% the prior year, driven primarily by lower rates due to the U.S. tax reform. Operating cash flow of $54.3 million this quarter compared to $94.5 million the prior year. Restructuring and related cash costs were $9 million this quarter and $6 million 1 year ago.

The primary change in operating cash flow versus 1 year ago relates to the benefit of the extended payable terms during the first quarter of last year. You may recall that we aggressively went after improving [DTO] in 2015, and the last round of improvement came through in 2017, and recently have maintained these terms with suppliers. We did see inventory days come down slightly since year-end, directionally in line with our plans for 2018.

Primary working capital as a percentage of sales was 15.7% at March 31, within our target range of 14% to 16%. Capital expenditures for the first quarter totaled $46.2 million. We continue to anticipate full year CapEx between $150 million to $160 million.

During the first quarter, we did not repurchase any shares. We are cognizant of our leverage metrics, and we will not delever -- we will not lever up to buy shares. We will continue to return free cash flow to our shareholders in line with our capital allocation policy.

Turning to comments on 2018 guidance. We maintain our adjusted EPS range for 2018 of $2.75 to $2.90. We had a good start to 2018 as compared to our internal plan, but we do have incremental headwinds of interest expense as rates on variable debt have risen between 20 and 50 basis points since our original planning period. For the full year, we continue to expect $35 million of Agility savings at both the bottom and top end of our EPS range.

We also maintain our full year cash from operations guidance in the range of $420 million to $440 million. As a reminder, this includes approximately $50 million of restructuring and related cash costs in 2018. We continue to expect working capital improvement of $20 million to $40 million in 2018 primarily related to improvements in inventory.

In summary, we are making progress through Agility. We continue to take actions to align our business in the environment we are operating in and create a lean, nimble business that is well positioned for the long term.

I will now turn the call back to Bill.

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

In summary, our first quarter performance demonstrates progress. I'm encouraged by our actions and results. We improved operationally, we advanced Agility, we maintained pace with our new business awards and, most importantly, we delivered on our commitments.

With respect to Agility, our progress goes beyond creating an effective cost structure. I'm particularly encouraged by the actions and the efforts related to the fix and to the strengthen and grow aspects of Agility that position our business strategically to be successful.

The actions we are taking today bolster our foundation to deliver higher levels of quality and service and to capture growth, particularly in short-run business at large, medium and small size customers. Our pilot of agile lane is underway with our people, assets, processes and products aligned to service short-run business.

Turning to guidance. As Mike mentioned, we are maintaining our 2018 guide. We delivered a good start to our 2018 plan and have positive actions underway, but we are also taking into account headwinds from recent interest rate increases, and we will closely monitor currency and freight rates throughout the remainder of the year.

We continue to enact change that positions Bemis for enduring success. We are building on our strong foundation of a world-class customer base, a dedicated workforce, a comprehensive and innovative product portfolio and good positions in the markets we serve to be successful. We are confident that we will continue to deliver our planned improvements in 2018 that creates value for shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come 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 had kind of a shorter-term question to start and then a longer-term bigger-picture question. In terms of the volume growth, clearly, we understand that Shelbyville was an effect on volume for U.S. Packaging. Bill, I was wondering, when should we expect to see the benefits of strength and then grow from Agility actually lead to better volume overall for this segment? I know it's hard to parse this to a day or a week or a month, but should we start to see this benefit your volumes in the second half, in the second quarter, in 2019? How would you have us think about that? That's question one. Question two is more on return on capital and the business and how you manage capital structure over time to get a higher return on equity.

The last decade-plus, returns have been relatively flat. Despite M&A, both divestitures and acquisitions that you've employed, EBITDA has been very stable. So does that not suggest perhaps using capital structure more aggressively to try to get a higher return ultimately to your shareholders?

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

Yes. George, on the first part of your question, the strengthen and grow piece. As we said on the last call, we started to pilot the short-run agile lane in early Q1, and we piloted it in the meat segment. We just started the second pilot 1 week or 2 ago in the tea segment. And what we've put in our plan for this year, as we've said, was $25 million of new business in short runs at the high end of our guide for 2018. So what we've put into the plan is the initial piloting, how do we ramp it through the business and then how do we ramp it up externally. So we've got $25 million of new business in our plan for 2018 at the high end of the guide.

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

And as to your question on accelerated return on investment, return on capital, George, I think it's always been our intent. I think the progress we're making on Agility is all -- we fully intend it to enhance and create shareholder value at a quicker pace. We are still -- we're not walking away from M&A. We're looking at anything that would accelerate our ability to do what Bill mentioned as the short runs. And we're going to continue the very disciplined CapEx expectations of our business units.

Operator

And our next question will come from Anthony Pettinari with Citi.

Bryan Nicholas Burgmeier - *Citigroup Inc, Research Division - Associate*

This is actually Bryan Burgmeier sitting in for Anthony. During the quarter, you guys announced the creation of a finance and strategy committee. Just wondering if you can provide any color in terms of the scope or the timing or really what kind of activities the committee will be tasked with.

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

Yes. The committee was -- is really put in place to formalize the activities that have been conducted at the full board level, not unlike why you have an audit committee or a compensation committee. It's to, more specifically, then look at corporate finance, development and M&A.

Bryan Nicholas Burgmeier - *Citigroup Inc, Research Division - Associate*

Got it. Got it. That's helpful. And then in terms of inflation in the quarter, can you guys quantify the impact of fray aluminum or labor? And are you still anticipating kind of 2% to 3% range globally that you highlighted on the last call?

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

Inflation during the quarter? It's -- I mean, globally, it's probably 2% to 3%. And I think our objectives and I think you see it the way we ran our business this quarter, as we were able to offset that with productivity initiatives and the improvement in our EBITDA and OP, is really driven by Agility cost saves.

Operator

And we will now move to Edlain Rodriguez with UBS.

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

Just one quick one. Can you talk about the dynamics of pricing? Because we keep reading in the papers how many of your customers are not able to pass through costs to their own customers. Is this making for like a difficult conversation with your customers? Like how are you approaching pricing?

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

Right. Well, we have contracts in place with the vast majority of our customers. So we -- that business is under contract, it's not priced daily, weekly, monthly on that kind of a basis. In North America, the lion's share of the business, 80-plus percent, is under contract. So we don't see that impacts on a short-term basis.

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

So even longer term, I mean, is there like a risk that your customers would try to change the terms of the contract because if they're having trouble passing it through, they're going to get squeezed, and I would assume that it's bad to squeeze the suppliers. Like any concerns there at all?

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

We've -- clearly, last year, part of our performance was the fact that we had to -- we had given some concessions and we weren't able to offset it with other cost-outs. That's a normal part of our business process. As contracts come up for renewal, customers are expecting lower input. And that's part of our strategy is we are constantly working on light-weighting, down-gauging and other initiatives, recognizing that, that's an expectation with our customers.

Operator

And our next question will come from Ghansham Panjabi with Baird.

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

I guess, back to U.S. Packaging and the volume decline of 1% during the first quarter. Did that fully reflect the lost share in infant care or will that will lost be more pronounced on a quarterly basis as the year unfolds?

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

It will be more pronounced as the year unfolds, Ghansham.

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

It ramped down in Q1.

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

It ramped down in Q1, okay. And then last quarter, you noted the conditions in Brazil were stabilizing, with profitability set to improve in '18. Can you update us on that view? I mean, volumes were down 8% in the first quarter, basically flat in 4Q. Is that a comp issue, loss of share? What's going on there?

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

Yes, Ghansham, that's a comp issue. We are right on track with what our internal plan was for Brazil in Q1. And as we said, we would sequentially get better from a profitability perspective, and that also is right on pace with our internal plan.

Operator

And we will now hear from Arun Viswanathan with RBC Capital Markets.

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

So a question on the margins. Looks like you've made some decent progress through Agility in U.S. Packaging. Are more of the gains -- should we expect continued gains in U.S. Packaging as we go forward? And if not, what kind of impact on global margins should we expect?

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

You will see continued gains in margins as Agility continues to gain more and more speed throughout the business. You'll see that both in the U.S. Packaging and on the Global Packaging side of the business.

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

In Latin America.

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

In Latin America as well.

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

Is there like a rough split, sorry, on the cost savings between the segments that you disclosed?

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

The majority of the cost savings and Agility efforts are in North America.

Operator

(Operator Instructions) We will now move to Chip Dillon with Vertical Research.

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

This is Salvator Tiano filling in for Chip. Firstly -- first question will be, can you just break down in Latin America the growth -- the volume growth you saw on Brazil versus the remaining countries? I think Brazil should be the majority but not everything over there. So I guess, it was worse than the 8% you saw in the region.

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

Brazil is the majority of what is contained in Latin America, and we don't -- we won't break volumes down subregionally within Latin America.

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

Okay. Understood. And my follow-up is in rest of the world, can you give us some more color about volume growth, specifically what you saw in health care and what you saw in Asia Pacific? I think you mentioned that the majority was in health care. But the sales -- the price and the mix drag was very pronounced implying, I think, that a lot of the volume growth actually came from low-priced Asia products.

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

The majority of the rest of world would be health care. And we had volume growth in health care global, so health care is part of the Asia Pacific piece. So you've got growth in health care, you've got growth in Europe and you have growth in Asia Pacific as well.

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

I think our comment regarding margin is you're correct, it would have been stronger growth in food and specialty package applications in Asia, which just carry lower margins.

Operator

And we will now move to Gabe Hajde with Wells Fargo Securities.

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

I'm going to try to tie together a couple of comments that you guys have made thus far. Mike, you made reference to customers -- customer dialogue, customer conversations being a little bit difficult and then sort of coming in the table expecting a little bit of a price or a way to keep their costs flat, your customers meaning. I know you guys are working on Agility right now, but is there a plan in place or some sort of thought process around embedding an ongoing continuous improvement program that delivers some level of cost savings on an annual basis to offset that, if you do have to sort of give back price on a go-forward basis?

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

Yes, maybe it didn't come across or it hasn't been quite explained to the detail that you needed, Gabe. We put a project management office in place. We have -- Agility is kind of the all umbrella on fix, strengthen and grow. And then there's work streams underneath that umbrella, one of which is lean and productivity. And when Mike said we rebalanced some of our R&D costs into operations, we've actually rebalanced the effort of R&D somewhat back into operations so that we are continuously driving process improvement as well as cost-outs, as well as light-weighting, as well as redefining and relooking at specifications to continually take cost out of the operations. So yes, it's well underway. And as part of what we saw in Q1, Q3, Q1 -- Q4, I should say, of '17, was gains in productivity from lean, gains in cost, fixed cost down from Agility, and that's now being embedded into every region's operating rhythm.

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

Okay. That's helpful. And then one -- I don't want to necessarily get into the accounting of it, but Mike, did I understand you correctly that -- well, 2-part question. How are things progressing, I guess, with some of your key customers in terms of volumes and more specifically tracking towards rebates? And I think I heard you say you're sort of accruing for that, assuming that they're going to hit that bar or threshold sometime during the year. Can you confirm that?

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

That would be a correct statement that we accrue or we expense these rebates or incentives based upon the full year plan and what the customers' commitments are. And at this point, everything is on target for them to achieve the full year growth objectives for us.

Operator

We will now move to Mark Wilde with BMO Capital Markets.

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

It's Anojja Shah for Mark. I just wanted to go back to Brazil for a second. We're getting some mixed signals from a lot of the packaging companies this quarter. We have one company that had volumes up 30%, we had some other companies that are seeing strength. What do you think it is about your specific products or market segment that is making you have such a different experience in Brazil?

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

Yes, for us, it's the consumer and the consumer demand. I don't know what other packaging folks have said, but our product goes directly into the hands of consumers. And so consumption begins to pick up and that's really driven by unemployment, if you will, that's how we view it. As unemployment comes down, people go back to work, they have more money to spend on products at the grocery store, our consumption goes up of our products. So we have very high customer shares in Brazil. So as their business begins to ramp up, we will ramp up with them. But we're seeing exactly what we have we thought we would see, a stable environment going forward in Brazil, increasing profitability going forward throughout Brazil.

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

And just to clarify, you have sequential improvement built in for the rest of 2018 in Brazil?

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

We do.

Operator

And our next question will come from Debbie Jones with Deutsche Bank.

Deborah Anne Jones - *Deutsche Bank AG, Research Division - Director*

Mike, I wanted to ask you, you made some comments about not repurchasing shares, being mindful of leverage. I realize we're in a rising rate environment here, but your leverage really isn't that high compared to a lot of your peers. So I just wanted to see if you have any updated thoughts on how you want to manage your leverage over the next couple of years, and anything incremental on share repurchase, if we should expect them to resume at some point.

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

Our capital allocation policy and philosophy still intends to maintain an investment grade, which says 2.5x is probably where you want to be. You can push that with the right acquisition and then delever quickly. So the philosophy is still not to kind to change the balance sheet, mindful of the leverage. So if you look at Q1, between operating cash flow and CapEx, there just really wasn't any cash really left to meaningfully buy back stock. But as we progress through the year, our cash flows gets stronger seasonally. And if there's not an acquisition, we will use our free cash flow to the shareholders.

Deborah Anne Jones - *Deutsche Bank AG, Research Division - Director*

Okay. That's helpful. And then you talked a lot about pluses and minuses of volumes the last couple of quarters. But would you be able to speak to -- what are you most optimistic about within your portfolio driving volume growth for Bemis over the next year or 2?

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

Yes, it's really the piece of Agility that's about growth. It's the short-run business and the agile lane. We're very early on -- very early into that process, but we're starting to see what that might frame up as, as we go forward. And it's very encouraging. We're hiring more sales people. We're hiring some inside people so that we can really go after this over the course of the next several quarters and years, because that's where we see the growth. And it's not just in customers that we don't currently have in our portfolio, but it's from customers that we have in the portfolio that have got short-run business. And the agile lane is perfectly situated to attack that.

Operator

(Operator Instructions) We will now go to a follow-up from George Staphos with Bank of America Merrill Lynch.

Molly Rose Baum - *BofA Merrill Lynch, Research Division - Research Analyst*

This is actually Molly Baum sitting in for George, he had to drop off for another earnings call. Just one quick follow-up and just going back to Brazil. So you mentioned sequential improvement in volumes. And if I recall, in 4Q, you had mentioned your volume expectation for the full year was flat. So are you expecting volume or positive volumes 2Q through 4Q? If you can just provide a little more color on that, that'd be great. Yes.

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

Yes, that's correct. We see volumes flat for 2018, okay, versus 2017. So we're down in Q1. But it's a full quarter game, right? You just can't look at Q1 and say, "Okay, it's going to be like that for the rest of the year." Our plan is laid out so that we will have flat volumes throughout 2018.

Operator

And the next question will come from Scott Gaffner with Barclays.

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

This is John on for Scott. So I know you talked about Agility a lot already. I was actually kind of surprised that the $8 million of savings this quarter, and that might be partially driven by what, Bill, you had mentioned in the beginning of the call, about the moving up and timing of some of the elimination of administrative positions. But how should we think of the progress in savings throughout the rest of the year, maybe broken out by the U.S. and by LatAm is, one, a little bit later in 2018 or has been moved up? And with the $8 million already generated in 1Q, could that $35 million of savings be a little bit conservative or maybe just a pull-through from some of the savings you'd expect in 2019?

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

Well, that's what we said, is that -- John, is that we accelerated, we pulled forward to get more into Q1. So we're -- as we said, $35 million at the low end and the high end of our guide. We are tracking to that pace. We're going to continue to push and drive hard. The teams are all doing that. The majority of that savings is in North America. And we'll continue to run this through the project management office and drive that rigor back down into the organization.

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

Okay. I appreciate that. And since the closing of the 2 facilities that are now complete, what does the capacity utilization of Bemis' facilities look like now? And has there been any change to how you're thinking of improving the utilization rate across the business?

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

Yes, the latter half of that is it's all about this whole effort around productivity and this whole effort around lean. It opens up capacity, coupled with the recapitalized assets that we've put in place over the last few years, continues to drive productivity and gains and upsides to capacities. So we have the ability to grow. We have the ability to continue to drive productivity, and that's what Agility and the lean work stream is all about.

Operator

And with no further questions in the queue, I'd like to turn the call back over to management for 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

And once again, that does conclude our call for today. Thank you for your participation. You may now disconnect.