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BMS - Q2 2018 Bemis Company Inc Earnings Call

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OVERVIEW:

Co. reported 2Q18 results. Expects 2018 adjusted EPS to be $2.75-2.85.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Bemis Second Quarter 2018 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 second quarter 2018 conference call. Today is July 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'll 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 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 filing, 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 strong second quarter, in line with our expectations. Earnings per share increased more than 40% versus 1 year ago, and we saw strong operating profit improvement in all of our reportable segments totaling $20 million. Our teams are advancing Agility according to plan and are finding ways to continuously improve all areas of our business, including operations, planning and back-office work. The Agility mindset to fix, strengthen and grow Bemis is continuing to permeate our thinking and actions.

Before walking around the globe on financial performance, I'll take a minute to talk about one of Bemis' most valuable assets, our people. Over the past few years, we have driven and experienced much change. We have new leadership in our U.S., Latin American and health-care businesses, and those leaders are bolstering their teams by infusing new talent where needed and by providing new opportunities for high-performing employees to expand influence and all of this while driving out cost and laying the foundation for long-term growth.

Change of this magnitude and breadth can be taxing on our organization and its people, but our employees have risen to the challenge, and not just with actions but also with positivity and pride in their work. Bemis was recently named one of Forbes' Best Large Employers in America. This honor is awarded to companies whose anonymously surveyed employees would recommend their employer to family and friends.

So what makes Bemis one of the best employers in America? Our people, who are making the right decisions and are contributing to our improvement both in the near term and long term. Specifically, throughout the past year, our organization has made decisions in taking out cost that many companies would describe as difficult. But those decisions have been thoughtful and have been carried out with the utmost respect in line with our core values. Having been through much change recently, to receive this honor from Forbes now is a true indication of the strong sense of loyalty, dedication, energy and pride our employees have in Bemis, and I thank them.

Turning to performance in our segment this quarter. Our U.S. business delivered strong improvement with operating profit up nearly $10 million compared to last year. Agility and improving operations benefited the bottom line. In Latin America, we improved operating profit by $6 million compared to last year in light of headwinds from currency translation and the nationwide truck driver strike in Brazil.

Regarding the strike, we did feel pressure on sales during May. During the strike, our teams did an outstanding job of managing our business. Cross-functional meetings were held twice daily to manage raw material availability, costs and production schedules in line with our customers' requests. In some cases, we temporarily shut down machines or plants, and in other cases, we were able to keep critical lines running, a massive amount of coordination, time and effort on behalf of our team in Brazil.

To get through those challenges with nearly a $0.01 hurt to EPS demonstrates how nimble, accountable and resourceful our teams have become. During June, demand returned and we continue to view the environment for our business in Brazil as stabilizing. We will continue to deliver our variable and fixed cost reductions that we initiated a year ago, given the economic environment [in] Brazil. And our business will be well positioned as the economic environment improves.

Our Rest of World business delivered another strong quarter. Compared to last year, operating profit increased nearly $4 million, driven by health-care packaging. We again saw strong organic growth in health care and leveraged that volume operationally to deliver high-quality service to our customers and to the benefit of the bottom line.

I'll turn the call over to Mike now for a review of the financials, and I'll come back to 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 second quarter, our U.S. business performed well and delivered improvement compared to 1 year ago. Sales dollars were up 3.4% compared to the prior year, reflecting higher sales prices, partially offset by unit volume decline of 1%, directionally in line with our expectations.

Excluding the impact of the infant-care business at our Shelbyville, Tennessee, facility, unit volume for the U.S. segment would have been flat. U.S. Packaging operating profit of $89.9 million increased from $80.1 million last year, driven by the benefits of Agility, improving operations, including improvement related to the plant that struggled with an ERP system implementation 1 year ago, partially offset by freight cost.

Volume did not have an impact on profits during the quarter as we were able to offset the infant-care business at Shelbyville, Tennessee, with new business wins at good margin levels. Our operations ran well and we managed cost appropriately.

Turning to Latin America. Second quarter sales were down 7.3% as compared to the prior year, driven by a 16.1% decrease from currency translation as the Brazil real and the Argentine peso devalued. Remaining organic growth of 8.8% was driven by increased selling prices and mix versus 1 year ago, partially offset by unit volumes down 2%, driven by the impact of the truck driver strike in Brazil. Without this impact, volumes in Latin America Packaging would have been up low single digits.

Latin America operating profit of $9 million increased from $2.9 million last year. Currency translation hurt profits by $1.5 million, leaving an operational improvement of $7.6 million during the quarter, which was driven by the planned variable and fixed cost reductions implemented due to the challenging economic environment in Brazil, partially offset by the volume and absorption impact of the nationwide truck driver strike.

Turning to the rest of the world. Second quarter sales were up 6.3% compared to the prior year. Currency translation increased sales 4.8%. The acquisition of Evadix added 1%, leaving organic growth just under 1%. Unit volumes were up 1% with volume growth in our global health-care business and in Asia offset by volume declines in Europe due to timing of customer shipments.

Rest of World operating profits increased to $18.7 million as compared to $14.8 million the prior second 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 of $96.8 million for the second quarter decreased approximately $2 million compared to the prior year. While we have some Agility savings here, we also have inflation of 2.3% globally as we -- as well as the impact of achieving any of the pay-for-performance targets in our 2018 plan.

Total company research and development expense was $9.4 million compared to $11.1 million the prior year. This 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 $18.7 million compared to $16 million last year due to increased rates.

Income tax for the second quarter was 23.1% as compared to 31.9% the prior year, driven primarily by lower rates due to U.S. tax reform. Operating cash flow of $106.5 million this quarter was in line with the prior year. Restructuring and related cash costs were $14 million this quarter and $4 million 1 year ago. Primary working capital as a percentage of sales was 14.9% at June 30, within our targeted range of 14% to 16%.

Turning to comments on 2018 guidance. We reduced the high end of our adjusted EPS range for 2018 by $0.05, reflecting the impact of currency translation in Brazil and Argentina. We've assumed current rates remain throughout the balance of the year. Our new guidance range of $2.75 to $2.85 contains many of the same assumptions we shared at the beginning of the year.

We continue to expect both Latin America and Rest of World segment to deliver 100 basis points of profit improvement for the full year. We continue to expect Agility benefits of $35 million at both the top and bottom of our range. We continue to expect headwinds for reinstating pay for performance and customer incentives. As shared last quarter, interest expense is entered as a headwind for the year that is accounted for in our guidance range.

Where we are within the range will depend on a few factors: number one, currency and the macroeconomic environment in Brazil and Argentina; number two, share repurchase; number three, input costs, such as freight, labor and utilities and our ability to offset them; the -- number four, the transition of a unique piece of business in Brazil, specifically, during the 2005 acquisition of Dixie Toga, we gained a folded-box business for packaging laundry detergent in Brazil. This business was run on fully depreciated equipment that was highly efficient, given the 30-plus years our team spent perfecting both the product and the process.

Our customer has decided to transition their format away from boxes to flexible pouches. Typically, transitioning to flexible benefits us, given that we don't have the incumbent format. However, in this case, the impact of our customer moving to our flexible pouch format actually hurts us both on the revenue and profit lines due to mix versus the box format. This may impact earnings up to $0.03 per share in the second half of the year depending on how quickly our customer starts pulling run-rate levels of new flexible pouches.

We are revising our full year cash flow from operations guidance to the range of $410 million to $430 million, a $15 million reduction at the midpoint when comparing to our previous range of $420 million to $450 million. The reduction -- this reduction reflects the impact of currency and lower outlook for working capital improvements as the pace of inventory reductions have been revised versus expectations coming into 2018.

The revised cash flow guidance assumes working capital improvement of $10 million to $30 million compared to our original expectations of $20 million to $40 million in 2018. Expected restructuring and related cash costs are included in our guidance and remain unchanged for 2018 at $50 million. We continue to expect capital expenditures in the range of $150 million to $160 million for 2018.

We updated our generally accepted accounting principles tax-rate guidance to approximately 23% for 2018. I will mention that, for the purpose of giving guidance, we provided tax rate in whole numbers, but in our forecast detail, the actual change is closer to 0.5%, which I view as minimal. There are no particular [topics] that drive this small change rather than just details that have been refined as the year is now half over.

As we head to the back half of 2018, we are focused on delivering our operating plans and finding ways to continue to improve and drive value while we're creating lean, nimble businesses well positioned for the long term. I will now turn the call back to Bill.

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

Thanks, Mike. In summary, our second quarter and first half performance demonstrate progress. I continue to be encouraged by our actions to improve operationally, to lay the foundation for long-term growth and to deliver our earnings commitments.

Regarding Agility, our progress goes beyond creating an effective cost structure. The strengthen and grow aspects of Agility position our business strategically to drive value for the long term. We continue to focus on delivering higher levels of quality and service across our entire business. And we continue to lay the foundation to penetrate short-run business at large-, medium- and small-size customers through agile lane, which aligns our people, assets, processes and products to serve the pockets of growth in North America.

As of July, we've hired 14 new sales reps. These hunters are incentivized to pursue and win the new business targets we have developed. We have received positive feedback on our core spec product portfolio from our initial customer outreach. We have received positive feedback on our ability to service this new business and also to be a partner to these customers. And we have won a handful of awards for short-run packaging at both new and existing customers and are on track to reaching our target of $25 million in revenue during 2018.

In summary, we are making progress to improve Bemis today and for the future. Our improving financials are an indication that we are on the right path. We are serving our customers better through improved quality and service. We are extending our sales reach to more short-run business through agile lane. We are finding ways to continuously improve operational effectiveness and efficiency. And through all of this, we are laying a strong foundation for long-term net growth.

We have a dedicated workforce, a world-class customer base, a comprehensive and innovative product portfolio and good positions in the markets we serve. And we are confident that we will continue to deliver our planned improvements in 2018 that creates value for shareholders and that position our business for the future. With that, I'll turn the call over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll go first to Scott Gaffner with Barclays.

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

When we look at the U.S. Packaging business, margins there were better than we expected, so was operating profit. But didn't sound like, from your comments -- I mean, it sounded strong and you're making a lot of progress on Agility, but it didn't necessarily sound as if it was ahead of your expectation. Can you talk a little bit about that? I know you don't give quarterly guidance, but how did 2Q in U.S. Packaging sort of compare to what you expected -- what you thought coming into the quarter.

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

Yes, Scott, right on track. We've identified $35 million of benefit from Agility in 2018, and we are right on path to do that. We're -- all the work streams are on track. They're on pace. They're doing just what they had anticipated they would do, and we feel good about the progress that we're making there in Agility. Our volumes were a bit better in Q2 than we had thought going in because we are getting some traction from this short-run business that we're bringing in, primarily at existing customer base, right. As we've talked in the past, it's easier to get business from customers you already have so we're targeting share-of-wallet gains on the short-run side of the operation. So made some good progress there in the quarter as well as with these 14 new people that we brought onboard. They're out there making progress, albeit they haven't been onboard long. Some of them come from other companies that have connections and contacts at what would be some of the smaller size customers, so we've been able to open the door to some of these smaller customers and actually, through the agile lane process, get product in their hands quickly, trial it quickly and then get some fairly quick wins on the short side of business from new customers. So that was a help in Q2 that we did not anticipate.

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

Okay. And Mike, one quick one on the working capital improvement. Are you saying, is it interest rates going up that's causing a little bit of the slowdown in the planned inventory reductions? Or is there something else going on with the customer base? Or is [it higher] resin prices?

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

No, it's really more -- we have developed specific actions to go after primarily work in progress. And I feel really good that we've developed strong plans and actions. We know what we got to get done. It's just the pace is a little bit slower than we're anticipating. I want to be clear. We're not giving up at all on the total objective of the program. It's just how much we'll see in '18 versus in '19.

Operator

We'll go next to Anthony Pettinari with Citi.

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

This is actually Bryan Burgmeier sitting in for Anthony. Rising freight costs have been a bit of a theme in 2Q earnings so far. What impact did that have on your U.S. Packaging results? And do you have any costs left to recover in the back half of the year?

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

As far as your question on freight, primarily in the U.S., it was a couple million dollars headwind that we faced, and we will continue to see that as we go through the remainder of the year, but be certain that's included in our guidance.

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

Got you. And then in terms of Latin America, it seems like it's been a little bit better down there. How would you characterize mix as we get into the back half of the year? Do you find customers are still trading down for cheaper alternatives? Or has that largely played out now?

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

That's largely played out. Our mix will be consistent in the back half of the year to what it's traditionally been.

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

Excluding the folding box.

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

Yes.

Operator

We'll go next to George Staphos of Bank of America.

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

This is actually Molly Baum sitting in for George. So just kind of going back to Agility, my first question is can you just quickly review how the sources of the Agility gains are going to change over the next few quarters?

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

There would be no change to the sources of the Agility gains. The work streams are all in place and running, and we'll continue to get gains out of those work streams as we grow across. Maybe there'll be a little bit more coming from the global side of the business as the work streams offshore kick in, but it's all the same work streams. We're not changing that.

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

Okay, great. And my second question, we've said in past research that it's typically easier to fix than it is to grow. While you saw some nice progress for the short runs, at what point do you think you can kind of safely project the sustained moderate growth for Bemis?

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

Well, I think we got to step back and look at the customer base that we serve. We serve 27 of the top global CPGs primarily in North America. If you look at where those CPGs have been over the last few years, down 3 -- down low single digits to down mid-single digits, our volumes have maintained in and around the 0 line, if you will, maybe down 1, up 1, 0, down 1, up 1, up 1. So if you go through that, [we've] continuing to find growth at these CPGs because this year we're up at -- 19 of our top 25 CPG accounts, we have plusses on, which tells us that we're finding the growth in the pockets where their SKUs are growing, not necessarily the headlines that you read about some of these CPGs. So we're finding those pockets of growth with technologies that we've deployed with some of the new sales tools and core products that we've deployed, we're finding growth in those areas. So we're outpacing our customers' growth rates, so we're just going to continue down that road and on that path.

Operator

We'll go next to Ghansham Panjabi with Baird.

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

I guess, first off on U.S. Packaging. Just to clarify, did the second quarter fully encapsulate the full extent of the volume loss at infant care? And can you just sort of update us what your view on volumes for the segment during the back half of '18 in context of the new volume that you secured?

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

Yes, Ghansham. The second quarter fully reflected the loss of the infant-care business. So as Bill mentioned, our volumes in general were a little better than we had anticipated, to end up flattish.

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

And is that a consequence of the end markets themselves having improved? Or is it a consequence of the new business that you gained?

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

Ghansham, it's -- we look at it and say it's a function of the new business pickups that we gained in the short-run side of the business and primarily from existing customers, as I said. So we're getting traction there.

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

Got it. And then Bill, just your thoughts on the current war on plastics in the media, et cetera. What are your customers coming back to you with in terms of their requirements, whether it's using recycled content of resin or decontenting resin as it is? Just your perspective there. Maybe some of the opportunities that you see that could actually benefit you with new capabilities, et cetera.

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

Yes, Ghansham, it's a great question. So we just launched in Q2 a product line that we call Encore. Encore is a recyclable material, mono material, if you will, that can be used for flexible standup pouches. We're getting a lot of inquiries and a lot of draw, if you will, pull from customers about that product line and the capabilities of that material. A little bit further out, it would be a Gen 2 of that material that we have not launched yet. We still have some work to do there. But we are getting a lot of inquiries for it. We're getting a lot of thoughts of how can you deploy this. How can we use this within our product portfolio? From the standpoint of the single-use plastics, some of the things that we do and now I'm going to talk -- switch gears here to Europe for a second, some -- we're very heavily weighted in the high-barrier packaging in Europe for protein. And that has not yet come -- the single-use plastic has not been an attack on the protein side of the equation yet because you need barrier properties to maintain the shelflife of that material. But in Europe, we do have a product line that is a -- couples up with a fiberboard line -- fiberboard box to create barrier properties for takeaway type foods and cook-at-home foods. So there is a lot of push. There's a lot of pull. And our R&D guys are continuing to invest time there to develop the next-generation films.

Operator

We'll go next to Edlain Rodriguez with UBS.

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

Just one quick one on resins. And again, you've been aggressive in raising prices to -- have you finally been able to catch up with cost there? And what does the price cost gap look like? Now have you completely closed that yet?

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

As you know, the way we think about it, on average, we have a 90-day pass-through. And then when you take into -- contemplate inventory levels, we don't view this as a [bigger hurt] when resin's going up or a big help when it's going down. So resin's been relatively stable for the last few months. So I would surmise that we've kind of -- we're getting close to being everything pass-through.

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

Yes, makes sense. And my other question is on share repurchase, like what should we expect in the second half of the year? For the first half, you didn't get to do any share buyback. So what does the second half look like and what does it depend on?

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

I'll just restate kind of our philosophy that we return free cash flow to our shareholders in the form of dividends and share repurchases. And you need to contemplate also cash being spent for restructuring. And our desire to stay investment grade is really important to us, so we're kind of cognizant of our leverage levels when we look at things.

Operator

We'll go next to Arun Viswanathan with RBC Capital Markets.

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

Just a quick question on the second half guidance. So I just wanted to understand the tax implications. So it looks like that may be a couple pennies benefit versus your prior outlook. And then, I guess Agility also helps you with that. Would you say -- you went through the swing factors. That was helpful. But I guess, would you kind of characterize overall performance as benefiting more from the cost saves or your volume growth in both U.S. Packaging outside of Shelbyville and health care? Maybe just give us an overview of that.

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

Yes, I'll start with the tax rate. As I tried to get across, we do things in halves when we guide. We do it wholes when we guide. It's about $0.01, if even that, the rest of the year the change in our tax rate. As far as kind of first half of the year, I think more of the improvements have come out of the Agility cost-outs, but also, we've seen some pretty significant improvement in plant operations, specifically in North America, that have done a really good job of offsetting other type of headwinds, freight, utility costs going up, just labor rates are going up, benefit costs, et cetera. So things are going really well is the way I would think about it. I would consider the second half is going to be somewhat the same. We're going to continue to benefit from what is another $18 million of Agility savings, and we would expect the productivity gains and momentum going on in the U.S. will continue.

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

Great. And as a quick follow-up, as you look out over time, will Agility in this current restructuring program address your footprint overall? Or you think you'd have to take further measures there to address the different types of growth within your business?

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

I think at this point, the way we are looking at it, Agility will continue in this organization. It's not just a fix. It's a strengthen and grow. It's become a mindset. It's becoming a way of doing business. And I think for the foreseeable future, we believe we have the right assets in place to meet the upcoming demands of what we hope is very successful growth in this short-run business category.

Operator

We'll go next to Chip Dillon with Vertical Research.

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

It's Salvator Tiano sitting in for Chip. So my first question is on the rest of the world business. I think the volumes decelerated quite sharply, and it seems, from the mix impact, that's from Asia. So can you give us a little bit some more color on what is going on in that part of the business?

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

Sure, Salvador. When we looked at that Q1 you're referencing, we had some pretty high volumes in Asia, double digit, which was called out of the ordinary, and those returned to single-digit type levels in Q2. So I think on the whole, our Q2 performance in Rest of World was roughly on par with what we'd expect. What did continue in Rest of World was strong growth in our health-care business, so that's both on the revenue line, and obviously, there's great operating profit help there as well.

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

Okay, great. And my second question is on CapEx. As we are kind of past the midpoint of the year, what are kind of your expectations directionally for CapEx, especially since you seem to be winning some more short-run business? So could we see a slight pickup in that as you try to accommodate new business?

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

Salvador, no, we're right on track to spend our -- what we had guided to spend. We're not going to go beyond that. We put in some capital over the last few years, if you recall, for the recap program. We're now absorbing that new capital into our portfolio. So no, we don't see any increase in our CapEx guidance.

Operator

We'll go next to Daniel Rizzo with Jefferies.

Daniel Dalton Rizzo - *Jefferies LLC, Research Division - Equity Analyst*

Just a quick question on Agility. As you kind of implement that and change things, is that leading to or has it led to high employee turnover? And is that kind of slowing things down at all?

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

No, not at all. Obviously, we have had some reductions in our employee base. And just the fact that we were awarded from Forbes the Best Large Employer in America award this year just kind of tells us that leadership's doing the right thing. Leadership is engaged. The employees are engaged. There -- we're leveraging that. People are doing the right thing. So the messaging that our leadership has out in the business right now is really clear that Agility is not just about fix. It's about strengthen and grow, and that's where we have to have people head is towards strengthen and grow, and that's what we're starting to see come through in the business.

Daniel Dalton Rizzo - *Jefferies LLC, Research Division - Equity Analyst*

And then health care seems to be -- is a growth area for you guys. Is there a way you can kind of position yourself better where you can kind of capitalize on the opportunities there? That hasn't been really addressed yet or something that you can do?

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

The piece there that we look constantly for are acquisitions, okay, outside of the normal pipeline. And we have a very robust pipeline because, if you think about how this business layers in, there's somewhere between a 24- to a 36-month validation period for new devices or new pieces of medical business to come home to roost, if you will. So you've got to have a strong pipeline that layers in over the course of multiple years. We're seeing the benefits of a strong pipeline, and we look for the -- we look for acquisitions in this space. But quite frankly, they're very hard to find because they're usually embedded inside of another large packaging company, and they're not readily cargo-able, if you will. You can't pull them out to try to acquire them. So you really rely on a strong pipeline.

Operator

We'll go next to Anojja Shah with BMO Capital Markets.

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

I just wanted to go back to U.S. volumes or North America volumes. I know you said flat, part of your Shelbyville issue, flat volumes were within your expectations. But we're looking at how plastic packaging is growing. You're gaining more short-run business. We probably would've expected it a little higher than flat. So what are we missing there? Is there some sort of lag when you get the short-run business? Just some more color there would be great.

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

Well, yes, first of all, there is a lag when you secure new business. There is some qualifications depending on the customer, not dissimilar from medical but not quite as long. But there is shelflife tests, et cetera. So I think where our revenue is really in line with what we're expecting and (inaudible).

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

We're up with 14 of the -- 19 of the top 25 customers in the U.S. Our volumes are up with them. The commercialization period does take a little while. Onboarding takes a little while. We feel good about where we are. And the fact that we've added 14 new commercial people in the field to go attack the pockets of growth that exist at new customers, we feel good about what we're doing. The team in North America's doing a nice job there.

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

Okay. And then along those lines then, can you give some idea about your expectations for volumes in the rest of this year in the U.S.?

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

I would consider -- for the U.S., I would consider pacing what we've seen in Q1 and Q2. We still have the Shelbyville, Tennessee, volumes for the rest of the year leaving and -- yes.

Operator

We'll go next to 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. Just wanted to come back to the freight environment and some of the resin input costs you guys are seeing. Wonder if you can provide a little more color on how your contractual mechanisms work. Obviously, you guys passed through your resin costs pretty well over there. To what extent can you pass through those input costs through contracts or the most of you thought you guys try to recover those?

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

Our contracts primarily passed through the raw materials, i.e., the different types of resins, et cetera. So what we would attempt to do when the contract renews is see if we can get something going on with freight. Not in all cases do we pay the freight. It's kind of a mixed bag across the board of who pays the freight in our pricing. But I think that answers your question. We would not normally pass through freight or labor increases. We try to attack that with other productivity initiatives.

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

Okay. Got you, that's helpful. And then another note with kind of the FX environment. Obviously, in your Latin America segments, I know you have a pretty big headwind. I think it was 16%-or-so. I was just wondering if you can give any sort of sensitivity analysis for the movements in that environment.

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

They'll move that, Connor. I think the thing that we did call out is that, for the full year, roughly a $0.05 impact on EPS. And that's primarily from the rates in Latin America, both the real and the Argentine peso.

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

Those are translation rates. The business is of itself in local currencies doing -- is doing what they said they would do. So it's just a matter of translation.

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

Translation. [Not] transaction.

Operator

And we'll go back to George Staphos with Bank of America.

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

Sorry. Joined the call late so you might have answered these questions previously. Apologies in advance if you did. I guess, the first question I had, when we look at the implied guidance for the back half of the year, using the midpoint of your range in the release, it would imply earnings roughly around $1.50 for the second half, which is pretty much I think where consensus is. Would we expect, because of Agility and the fact that you're still gaining momentum there, mean that the fourth quarter is a little bit heavier than the third quarter proportionally? Traditionally, third quarter is a heavier quarter. How would you have us think about that and some of the key factors that ultimately drive your end result over 3Q and 4Q? That's question #1. Question #2, there has been changes at the board level of the company over the last 6 months. Has your, Bill, the day-to-day running of the business changed at all? Or is it pretty much the same? How has the input from the board impacted the way the company is proceeding on a going-forward basis? And by the way, congratulations on the quarter as well. I forgot to mention that earlier.

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

Thanks, George. I'll -- the back half of the question first. The day-to-day running of the company is the same, okay. Everyone is aligned. We want to continue to improve operationally. We want to continue to improve our operations globally. And we want to continue to do what's in the best interest of shareholders. So everyone is completely aligned, and that's how we've run the company. That's how we ran it before. That's how we run it today. So there's really been no change there. On the other part of the question Q3, Q4, traditionally, seasonality, Q3 is always larger than Q4, and that's how the plan rolls out in the back half of this year. Q3 is again our seasonally highest quarter, traditionally our highest quarter, and it is higher this year as it has been in all the past years.

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

Would be.

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

Yes.

Operator

(Operator Instructions) And we'll go back to George Staphos.

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

One last one from me. I didn't want to overdo it with the 2-question limit. Bill again, you've been in the seat for a few years now. Maybe this has come up earlier in the call. If it has, again, apologies in advance. How has the culture within your organization changed, would you say, in terms of accomplishing what you and Mike kind of set out as the course for the organization? And I know the standard response for (inaudible) it's fine and getting better, but if you can give some particular instances where the culture is now really driving performance. Some for-instance would be helpful there.

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

Thanks, George. Yes, the culture change, the culture drum never stops, right. We embarked on this to change the culture of Bemis some years ago to create a high-performing culture. And I think we're starting to get really good traction there now. It took a lot of hard work, but it also took -- we had to change out some of the leadership to get there. And as that leadership changes out, they bring in new leaders and they bring people from the bottom of the organization, they're the high performers. They bring them up into the organization. And that's what takes a little while. And once it gets started, I don't want to say it snowballs, but it continues to feed upon itself and move forward and move the company forward, which we've been able to do. And I think we're seeing that now with Agility. We're also seeing that with the fact that Forbes named us as one of the Best Large Employers in America this past year. So I think we're doing really -- a good job in that area. The leadership is completely engaged around that and continuing to push and drive the -- our results and our performance.

Operator

And there are no further questions in queue. I'd like to turn the conference back over to Ms. Winters for any additional or closing remarks.

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

Great, thanks. Thanks, everyone, for joining us today. This concludes our conference call.

Operator

That does conclude today's presentation. Thank you for your participation. You may now disconnect.