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PRESENTATION

Operator

Today, ladies and gentlemen, and thank you for standing by. Welcome to the Berry Plastics Earnings Conference Call. At this time all participants are a listen-only mode. Later we will conduct a question and answer session and instructions will follow at that time. (Operator Instructions). As a remainder this conference call is being recorded. I would now like to introduce your host for today's presentation Mr. Dustin Stilwell. Sir, please begin.

Dustin Stilwell - *Berry Plastics - Director, Head of IR*

Good morning, everyone. Thank you for joining us and welcome to Berry Plastics second quarter fiscal 2015 earnings call. Throughout this call we will refer to the second fiscal quarter as the March 2015 quarter. Joining me today from the Company we have our Chairman and Chief Executive Officer, Jon Rich and our Chief Financial Officer, Mark Miles.

During this call, we will be discussing some non-GAAP financial measures including operating EBITDA, adjusted EBITDA and adjusted free cash flow. The most directly comparable GAAP financial measures and their reconciliation of the differences between the GAAP and non-GAAP financial measures are available in our earnings release in our public filings.

An archived audio replay of this will be available on the Company's website. We would like to make it clear that certain statements made today may be forward-looking statements.

These forward-looking statements are made based upon management's expectations and beliefs concerning future events impacting the Company, and therefore involve a number of uncertainties and risks, including but not limited to those described in the Company's annual report on Form 10-K and other filings with the SEC; therefore the actual results of the operations or financial condition of the Company could differ materially from those expressed or implied in the forward-looking statements.

Now, I would like to turn the call over to Berry's Chairman and CEO, Jon Rich

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Jon Rich - *Berry Plastics - Chairman, CEO*

Thank you, Dustin. Good morning everyone and thank you for joining us. Today we'll review our financial performance for the March, 2015 ending quarter, provide an update on the overall market and business conditions we're seeing, and give you an update on our guidance for the remainder of our 2015 fiscal year. First, reviewing our March ending quarterly financial results, revenue increased by 1% over the prior year quarter to $1.224 billion generating operating EBITDA of $210 million, both records for any March quarter in the Company's history.

Operating EBITDA improved by $19 million for 10% over the same prior year quarter, primarily as a result of lower raw material costs, improved operational productivity and cost savings from our previously announced restructuring activities, contributions and synergies from recent acquisitions and positive impact from the general price increases implemented in 2014, all partially offset by weak customer demand. All four of our reporting segments increased operating EBITDA in the March quarter over the prior year. Operating EBITDA margins increased to 17.2% in the quarter compared to 15.8% in the same prior year period.

For the March, 2015 quarter, adjusted net income per diluted share was $0.42 with adjusted pre cash flow for the quarter and the full last year of $71 million and $304 million, respectively. Mark will provide more details under our financial results, momentarily. The strong results that Berry delivered in the quarter were enabled by lower raw material costs for plastic resin in response to dramatically lower oil price that is began moving down in October, 2014. Through the March quarter, polyethylene has declined 18% from the October, 2014 peak price, while polyethylene has moved lower nearly 26%.

For the second consecutive quarter we experienced a positive relationship on a year-over-year basis between selling prices and raw material costs. While oil prices remain low, they are up nearly 25% from the bottom established in the middle of March. Simultaneously, our resin suppliers have taken the opportunity to expand margins during this period of falling prices. For the March ending quarter, we continued to realize the benefits from our 2014 restructuring plan and our ongoing efforts to lower our costs through improved operational productivity.

During the quarter, we recognized another $5 million from our 2014 restructuring plan leaving with us approximately $10 million to be recognized in the second half of fiscal 2015. Next, I would like to comment on what we're seeing regarding volumes and demand for packaged goods. Our business continued to experience soft overall demand during the first three months of 2015, similar to the trends we have now seen for several quarters. On a pro forma basis for acquisitions, pounds sold were 3% lower in the March quarter versus the priority year.

As we've stated in previous calls, we typically experience about a 0.5 % to 1% reduction in volume per year due to light weighting and product redesign, which ultimately provides benefits to our customers and to Berry. Our volume in the quarter mirrored what many of our customers have described in their conference calls, and additionally there was undoubtedly some inventory destocking in anticipation of lower costs due to resin reductions.

In aggregate, we believe we're maintaining our share in the marketplace. And now I'll turn the call over to Marc who will review Berry's financial results in more detail, and then I'll come back to provide an update on our strategies, new products and discuss our view on the second half of fiscal 2015. Mark?

Mark Miles - *Berry Plastics - CFO*

Thank you, John and good morning, everyone. Net sales for the quarter were $1.224 billion compared to $1.210 billion for the March, 2014 quarter. This 1% increase was primarily attributed to revenue from our acquisitions of the healthcare containers and closures business purchased from Rexam in June, 2014, partially offset by weak demand and a 1% negative impact from changes in currency exchange rates.

Combined net sales in our two rigid divisions increased by 3% when compared to the March, 2014 quarter. The addition of the US portion of the healthcare containers and closures business purchased from Rexam contributed 7% to rigid sales, which was partially offset by a 3% reduction in base volumes from weak demand, and a 1% reduction in selling prices due to the pass through of lower resin costs.

Combined net sales for our flexible businesses, consisting of our engineered materials and flexible packaging segments, were essentially flat versus the prior year quarter. The flexible businesses achieved revenue increases of 5% from the acquisition of Rexam's healthcare containers and closures operations outside the United States and a 1% increase in net selling price.

These increases were offset by soft customer demand of approximately 4% on the base business, and a 2% negative impact from changes in currency exchange rates. Operating EBITDA was $210 million for the March, 2015 quarter compared to $191 million in the prior year quarter.

This $19 million or 10% increase in operating EBITDA included a recovery in the relationship between selling prices and raw material costs of $15 million, net cost reductions and improved productivity and manufacturing of $9 million, as well as the earnings realized from recent acquisitions.

These contributions were partially offset by the base volume weakness just mentioned, a negative impact from currency exchange rates and increased investment in SG&A costs in the base business to drive future organic growth. All four reportable segments achieved higher operating EBITDA in the March, 2015 ended quarter over the prior year quarter.

Specifically, combined operating EBITDA in our rigid divisions was up 6% in the quarter over the same period in 2014. This increase can be attributed to the positive relationship between selling prices and raw material costs, productivity improvements and cost reduction actions taken, along with the addition of the US portion of Rexam's healthcare containers and closures business, partially offset by weak demand. Combined operating EBITDA for our two flexible segments increased 15% in the quarter over the prior year period, primarily as a result of improvements in manufacturing efficiencies and cost reduction actions.

Contributions from businesses acquired in the last 12 months and the positive relationship of net selling prices to raw material costs, partially offset by base sales volume weakness, a negative impact on currency exchange rates and increased investments in SG&A costs in the base business to drive future organic growth. We are pleased to report that the operating EBITDA margins for our flexible packaging segment improved to 14%. An increase of 2.9 margin points from the March, 2014 quarter of 11.1%, which is consistent with our previously communicated plan to improve margins in this segment.

On the cost side, resin prices have an overall average of approximately a two-month lag to pass through our balance sheet to the our income statement. As such, our March-ended quarter was primarily impacted by resin prices from November through January. Average November, 2014 through January, 2015 resin prices per pound as reported by published indices for polyethylene were essentially flat versus the prior year period, and polypropylene prices were approximately 9% lower than the prior year period.

We estimate that the year-over-year impact on our income statement related to the contractual pass-through of resin costs was a favorable $8 million for the quarter. This $8 million impact is included in the overall $15 million improvement of net selling price versus raw material costs relationship I noted earlier. Looking forward to the June quarter, average February, 2015 through April, 2015 resin price per pound, as reported by published indices for polyethylene and polypropylene, were down approximately 15% to 20% over the comparable prior year period. As a result, we believe that this relationship on our contractual business will continue to be favorable in the June, 2015 quarter.

Interest expense for the March, 2015 quarter was $52 million, which included $2 million of non-cash interest expense compared to the prior year of $57 million. As a reminder, Berry has additional opportunities to further reduce interest expense through free cash flow generation applied to debt reduction, as well as the potential refinancing an hour 9.75% second priority notes, which become callable in January 2016. To provide some more detail around the refinancing opportunity, the redemption price today on the 9.75% second priority notes would be a premium of approximately $90 million in addition to the accused interest.

In the current market environment, we estimate that refinancing these notes would provide annual interest expense savings in excess of $30 million. We will continue to monitor the markets and will take actions when and if appropriate. Adjusted free cash flow, defined as cash from operations less net spending on property plant and equipment, and payments made under the tax receivable agreement in the March, 2015 quarter was $71 million, bringing the Company's last four quarters adjusted free cash flow to $304 million.

Adjusted free cash flow for the quarter improved $60 million over the prior year quarter as a result of improved earnings and prudent capital spending. Going forward we will continue to focus on maximizing free cash flow alongside investing for future growth. This concludes my financial review and now I'll turn it back to Jon

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Jon Rich - *Berry Plastics - Chairman, CEO*

Thank you, Mark. As we have said during prior conference calls, we continue to focus on our four key strategic initiatives of first, reducing our debt leverage; second driving organic growth; third, expanding internationally and fourth, continuing to execute value-accretive acquisitions that have historically brought us success.

Our top priority remains reducing our debt leverage to a goal of a two to four times multiple of adjusted EBITDA. Our plan for fiscal 2015 is to achieve our annual goal of a half turn reduction in leverage. Through the first two quarters of fiscal 2015, we have reduced our leverage by two-tenths of a turn to a quarter end level of 4.4 times. On the innovation front, we continue to make progress with our commercial introductions of Versalite insulated cups.

We are very excited to have nationally well-known brands such as Dunkin' Donuts, 7-Eleven and Subway using Versalite cups, along with several other regional customers. In addition to already commercial customers, the pipeline of others who are now testing or who have expressed interest in tests continues to grow. With the recent decision to ban expanded polystyrene in New York City, the commercial interest in Versalite technology has certainly escalated. Specifically, in New York, we are working to help customers meet in July, 2015 timing of the new regulations in New York City.

To date, the majority of our customers for Versalite cups switched from expanded polystyrene, commonly known as EPS, in response to regulatory requirements or to meet sustainability objectives despite the slightly higher costs they incurred. As we look forward to building higher demand for Versalite in the future, significant opportunities continue to exist by targeting customers who are currently using premium paper cups where a Versalite cup offers greatly improved performance, graphics and recyclability at a very competitive price.

At the end of 2014, we introduced the first major new seal and barricade product. The all-plastic oval-shaped package is being used for dips marketed by PepsiCo under the name Tostitos Diptizers. The product was launched in time for the football playoffs and consumer response in the quarter exceed our initial estimates. Frito continues to support Diptizers with a TV advertising campaign. We also still anticipate entering, together with a major customer, the attractive market for pet foods with a new seal barricade package.

The current timing for the launch is January, 2016. In March of this year, Berry received and installed the first production equipment for our new line of cubic non-round packages that will be marketed with iconic high definition graphics. This new line of packages addresses the growing demand from retailers for packages that will stack more efficiently on shelves, improving stocking levels and increasing utilization of fixed retail assets.

Berry's proprietary technology will allow customers to meet retailer's expectations without the high costs associated with in-mold or other labels processes. It will also facilitate lower working capital and give customers the option to easily and quickly change graphics and messages to consumers. We expect to be commercial with cubic packages before the end of the year. Berry Plastics recently introduced an exclusive partnership with Home Depot, a high performance heavy duty adhesive tape product under the IRONFORCE brand.

IRONFORCE is designed to deliver premium quality products servicing the needs of both contractors, as well as the do-it-yourself consumer. By positioning the product in the plumbing aisle, IRONFORCE is designed to capture new share of consumer spend and grow the overall category space. As we look ahead to the June ending quarter and the remainder of the year, we should continue to realize the benefit from lower resin costs and volumes should improve sequentially consistent with the normal seasonality of our business.

As you recall during our November 21, 2014, conference call, we provided fiscal 2015 adjusted free cash flow guidance of approximately $320 million. This estimate assumes flat plastic resin costs and flat sales volume assumptions. Our capital investment plan for fiscal 2015 was approximately $230 million. With half the year behind us, we are increasing our adjusted free cash flow guidance for fiscal 2015 by almost 10% to $350 million.

This guidance assumes we'll have a source of cash from working capital of approximately $25 million as a result of lower raw material costs, and a $10 million reduction in our capital investment plan down to $220 million as a result of our decision to defer capital expenditures. Cash interest and other cash costs will remain unchanged at $205 million and $50 million, respectively. In making this adjustment to our guidance, we have taken a conservative perspective to the range of outcomes we have estimated for the final half of fiscal 2015.

We will further review and communicate any changes to our guidance at the conference call following the June ending quarter. Finally, Berry will continue to take the necessary proactive steps to remain competitive and a leader in the plastics packaging space through a relentless focus on building and strengthening our competitive advantages.

I am confident that the people at Berry will continue to drive our results and achieve our goals. I thank you for your continued interest in Berry Plastics and now we're ready to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Due to the number of questions (inaudible) we please ask that you please limit yourself to one question and one follow-up. If you have any additional questions, you may get back into the queue. (Operator Instructions). Our first question or comment comes from the line of Ghansham Panjabi from Baird. Your line is open.

Ghansham Panjabi - *Robert W. Baird & Co. - Analyst*

Hey, guys. Good morning. You know, first off on the inventory correction you referenced, Jon, was that in any particular market from your customer standpoint? How much do you think it cost you in terms of volumes for the second quarter and does that mean that volumes are rebounding now apart from just a normal seasonality in April. Thanks.

Jon Rich - *Berry Plastics - Chairman, CEO*

I think -- so as always, it's difficult for us to see specific transparency to inventory levels at most of our direct customers. The feedback that we've got through our distribution channel customers suggests that they were certainly waiting to take advantage of lower raw material costs as resin prices fell through the period. I, unfortunately, can't give you a specific analytical number as to what that contribution was to the total, but based on our conversations with distributors, we felt it was a meaningful part of the demand profile in the March ending quarter.

Ghansham Panjabi - *Robert W. Baird & Co. - Analyst*

And in terms of April?

Jon Rich - *Berry Plastics - Chairman, CEO*

April, again, I think what we're seeing there is as I stated, normal increase in demand as we see every year based on seasonality, but I wouldn't say that we've seen any significant change due to changes in consumer behavior.

Ghansham Panjabi - *Robert W. Baird & Co. - Analyst*

Okay. And then if you are -- just to clarify, so you're assuming flat resin costs for the back half of the year relative to where the March quarter ended. Is that sort of your internal expectation, or are you just saying that you don't know what's going to happen and that's basically your assumption for guidance? Thanks so much.

Jon Rich - *Berry Plastics - Chairman, CEO*

Yes. Ghansham, I think, as always, we don't have a very clear crystal ball to forecasting where oil prices and resin prices are going to go so as a matter of standard practice we take that approach

Ghansham Panjabi - *Robert W. Baird & Co. - Analyst*

Okay. Thanks for clarifying.

Operator

Thank you. Our next question, or comment comes from the line of Scott Gaffner from Barclays. Your line is open

Scott Gaffner - *Barclays Capital - Analyst*

Thank you. good morning. Jon, I just wanted to follow up on the guidance. In your prepared commentary you said you were taking a conservative view for the second half of the year. I was just hoping maybe you could flesh that out a little bit. Is it around volumes you're taking a conservative view, around lower raw material prices or maybe on the cost side? Anything you could help us think about?

Jon Rich - *Berry Plastics - Chairman, CEO*

I think as we stated, our volume assumptions have been flat volume throughout the year. We continue to use that in our modeling. I think the conservatism continues to come in terms of where we think our cost structure will be and also the progress we can make in working capital. Perhaps, Mark, you have something to add to that.

Mark Miles - *Berry Plastics - CFO*

Yes. No. Scott, I think the -- that's exactly right Jon said. Probably the impact of lower resin costs on our working capital could ultimately be more significant than the $25 million we have noted in the forecast

Scott Gaffner - *Barclays Capital - Analyst*

Okay. Anything on the working capital? Any other leverage you can pull other than just having the lower resin come through?

Jon Rich - *Berry Plastics - Chairman, CEO*

Yes. I mean we're continuing looking at ways to reduce our working capital. I wouldn't say there's a step function change. I think we manage it fairly effectively as a Company but we are an always looking to make improvements, certainly.

Scott Gaffner - *Barclays Capital - Analyst*

Okay. Thank you.

Operator

Thank you. Our next question or comment comes from the line of George Staphos from Bank of America. Your line is open.

Alex Wong - *BofA Merrill Lynch - Analyst*

Hi. good morning. This is actually Alex Wong sitting in for George. First question on Versalite, can you discuss, you know, and update us on the rollout with one of the well-known customers you referenced in your prepared remarks, and also update us on the potential qualification for the new second machine vendor?

Jon Rich - *Berry Plastics - Chairman, CEO*

So, again, two things. Obviously we're very pleased with the business relationships that we have with several new customers for Versalite that we mentioned. Demand and interest in Versalite products continues to grow and so we're very pleased with the progress that's being made there. The second important thing that happened in the quarter was that we did complete the technical qualifications for other capital equipment suppliers. With that completion, it gives the company the flexibility to add capacity in larger [tronchs, and so we will proceed as we normally proceed with all other customers and products and try to add capacity in line with demand as we see the orders coming. So that's an important step for us to have the ability to be more flexible in our capacity planning.

Alex Wong - *BofA Merrill Lynch - Analyst*

I appreciate that. At this point are you able to update us on the guidance of the one sell per quarter capacity and then just as a tied on --I'm switching gears, there's been an announce the on the trade press about a recent closure by a competitor in recycled foam plastic cups. Just wanted to see if there were any potential implications for Berry. Thanks very much.

Jon Rich - *Berry Plastics - Chairman, CEO*

With regards the capacity we now have the ability to add capacity in larger [tronches, I said before, and so we will have the flexibility to add capacity more nearly to reflect near-term changes in customer demand. And with regards to competitive products, I'll only say that there are a lot of people out there who make and sell products for the insulated cup market, and we're very excited about how much Versalite performs across the spectrum of insulated performance, graphics demonstration of the customer's brand and the ease with which Versalite can be recycled.

Operator

Thank you. Our next question or comment comes from the line of Alex Ovshey from Goldman Sachs. Your line is open

Alex Ovshey - *Goldman Sachs - Analyst*

Thank you. Good morning, everyone. I wanted to ask a question on resin to start with. So you talked about in the June quarter having an impact, positive impact, on the contractual business from the flow through of low resin. What about in a non contractual business, how do you see the June quarter playing out?

Mark Miles - *Berry Plastics - CFO*

I think Alex, I mean that will be largely driven by market factors. As you know the bulk of our resin pounds purchased about three quarters is attached to contractual arrangements on the pass through and as we, you know, stated in the prepared remarks, that relationship will continue to be favorable in June. I would say in relative to the minority portion it will be driven by market factors, but overall we did have a favorable relationship of $15 million, you know, in the March quarter so it was positive on both accounts.

Alex Ovshey - *Goldman Sachs - Analyst*

Okay. Got it, Mark. And just two questions on Versalite. So you talked about Dunkin' and Subway, and so where are they in terms of the process of qualifying and using Versalite? Are they still in the test being mold or can we say that they now have been converted to more longer term customers? And just a follow on. Is there any way to really be able to re-quantify what New York City banning foam would mean for Versalite demand over time?

Jon Rich - *Berry Plastics - Chairman, CEO*

With regards to are your first question, Dunkin', 711 and Subway and several other important regional customers are all now fully qualified commercial customers, so they're past the testing phase. And there's a pipeline of other customers following behind, and as they become commercially qualified, and we pass the testing, we'll comment on them. With regards to the demand profile and the growth perspective of Versalite, as I've done in the past, I'm going to leave that to our individual customers to talk about their specific plans, and again we continue to be very pleased with the business relationships that we have with all of them

Alex Ovshey - *Goldman Sachs - Analyst*

Okay. Thanks, Jon. Appreciate it.

Operator

Thank you. Our next question or comment comes from the line of George Lividas from BMO Capital Markets. Your line is open.

George Lividas - *BMO Capital Markets - Analyst*

Good morning. I was wondering if you could talk a little bit about the reduction to your CapEx target for the year. Given some of the news around Versalite we might have expected this to potentially go higher even.

Jon Rich - *Berry Plastics - Chairman, CEO*

Yes. Happy to. The announced reductions have nothing to do with the investments in Versalite. When we think about the overall demand for food package products that we've seen in the first two fiscal quarters of the year, wherein our operating plan, we had assumed that that would be flat for the prior year, in the first two fiscal quarters, we've had negative demand as reported by Nielsen survey and many others. We simply adjusted our CapEx for the fiscal year to reflect that drop in demand in the first half of the year, and if we see an increase, we will take steps appropriately and communicate those as we see them.

George Lividas - *BMO Capital Markets - Analyst*

Okay. Thank you.

Operator

Thank you. Our next question or comment comes from the line of Al Kabili from Macquarrie

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Al Kabili - *Macquarrie Capital - Analyst*

Hi. Thanks. Good morning. I guess Jon, on the volume trends in the rigid business, were there any categories that were notably better or worse than the Company average?

Jon Rich - *Berry Plastics - Chairman, CEO*

Well, we certainly saw a significant improvement in healthcare in the quarter. I think that's probably consistent with the flu and cold season that occurred over the winter. We saw some improvements in personal care. There are pockets of places like some of our spirits customers and so forth. So we certainly have categories and specific customers that are growing. Because of the breadth and scale of Berry, overall, we tend to look like the market in total.

Al Kabili - *Macquarrie Capital - Analyst*

Yes. Understood. Okay. And along those lines I think you had mentioned the season that you are seeing the normal seasonal, you know, pickup in April. The outlook, you know, you're thinking kind of flattish volumes, you know, and the outlook year-on-year. We were down a little bit year-on-year kind of the first half of the fiscal year so that -- either that implies, you know, you do see underlying trends getting a little bit better or maybe the comps, you know, just getting a little bit easier, I was wondering if you could just help us parse through that.

Jon Rich - *Berry Plastics - Chairman, CEO*

I think it's a combination of both of those two factors, so we always see volumes increase in the June quarter. A lot of that's driven by our restaurant service businesses where you see you see a pickup in demand in the spring and summer, and again we would describe the volume in the first two fiscal quarters as being softer than we had anticipated for a lot of reasons that people, other people have discussed. We still anticipate some modest improvement in consumer demand as they continue to see lower gasoline prices, unemployment drops and so forth.

Al Kabili - *Macquarrie Capital - Analyst*

Okay. And final follow on to that --

Jon Rich - *Berry Plastics - Chairman, CEO*

(Inaudible) recovery, but we think it should return to something better than the first half.

Al Kabili - *Macquarrie Capital - Analyst*

Okay. Okay. Thanks for that. And final - and the follow on to that is, and understanding product cycles, you know, can be long, but with the lower resin prices, are you seeing any increased inquiry for substitution to plastics from other substrates?

Mark Miles - *Berry Plastics - CFO*

Good morning, Al. It's Mark. Yes. We certainly have seen modest pickup in people interested in plastic resin as you mentioned converting from other substrates such as glass and paper.

Al Kabili - *Macquarrie Capital - Analyst*

Okay. Good. Thanks. Good luck.

Operator

Thank you. Our next question or comment comes from the line of Chris Manuel from Wells Fargo. Your line is open.

Unidentified Participant - *Wells Fargo Securities - Analyst*

Good morning, gentlemen. This is actually Gabe. One question on Versalite. Jon, can you remind us how many lines you anticipate to have up and running? I seem to remember $1 billion or $1.2 billion by the end of the calendar year. How many lines that Madisonville, Kentucky facility can hold, and then what time of investment might be necessary to move on to the next scale if another big customer signs up?

Jon Rich - *Berry Plastics - Chairman, CEO*

Yes, and I think you have the correct number. We've quoted a $1 billion to a $1.2 billion cups at the end of the year. A cell can produce 300 million cups and we've said before that that investment is about $17 million.

Unidentified Participant - *Wells Fargo Securities - Analyst*

And how many --?

Jon Rich - *Berry Plastics - Chairman, CEO*

With regards to the footprint at Madisonville, so the first phase of the building is now full, we're currently evaluating whether to expand there, but we're also communicating and having dialogues with our customers about making sure that we put capacity that's in a geographically near location to our customer's distribution centers. So we're evaluating that as we speak.

Unidentified Participant - *Wells Fargo Securities - Analyst*

Okay. And then one sort of bigger picture question. I mean if the weakness in the grocery store continues, the first part of that question I guess is do you see some sort of demographic impact or maybe folks eating out more, and does that hurt or hem your business more or less and maybe it's a generational thing or something like that. What type of adjustment would that necessitate in your business in terms of restructuring? I will mean with you give us a sense there?

Jon Rich - *Berry Plastics - Chairman, CEO*

Again what we've seen is again as reported by several others but, you know, commonly tracked in the Nielsen survey, we've seen certain grocery categories have the been weak for several quarters in a row now. I would say that Berry plays in both the grocery channels and the food service channel, so we participate in both. I would say that we have a larger impact to the grocery channel than food service. There has been a slow and continuous trend towards people eating out more. There's also been a continuous trend towards people looking at healthy food choices. We recognize all of those. We have a very strong marketing and R & D function here at Berry and we're making sure that we're focused on both growing categories and growing customers, and we'll take the appropriate steps as those changes continue to exist. I still believe the major factor continues to be the fact that the consumer is still struggling through the recovery, even though unemployment rates have come down and now they're getting the benefit of lower gasoline prices. There's also just a lot of items pulling on customers' pocketbooks like that didn't have in the past like electronics costs and so forth. So there's just a lot pulling on the consumer's pocketbook and we haven't seen the recovery that we fully need yet.

Unidentified Participant - *Wells Fargo Securities - Analyst*

Thank you, gentlemen. I'll hop back in.

Operator

Thank you. Our next question or comment comes from the line of Debbie Jones from Deutsche Bank. Your line is open.

Debbie Jones - *Deutsche Bank - Analyst*

Good morning. You mentioned some of the new product development aside from Versalite that will roll through such as cubics and IRONFORCE. Should we expect this to improve volumes for Berry or will this cannibalize some of your existing volume with the possibility of the higher margin contributions?

Jon Rich - *Berry Plastics - Chairman, CEO*

It will certainly lead to higher margin contributions as we target 20% plus margins on new products. With regards to the net growth, again, we're very excited about our new product growth, but we also need to see the demand for the base business come back to something that looks like more like GDP rates. With simply thinking about the scale of Berry, while our innovation contributions continue to grow, we certainly need our base business to stabilize as well.

Debbie Jones - *Deutsche Bank - Analyst*

I guess my second question. You don't normally highlight a lot of kind of the new product development and engineered materials, so I was just wondering if you could talk about what you're most excited about in that business going forward?

Jon Rich - *Berry Plastics - Chairman, CEO*

Our engineered materials business has had several really good performance quarters in a row as has our flexible packaging businesses, so both our flexible businesses continue to do well. In that space, we're very excited about engineered tapes. Berry is one of the leaders in engineered tapes, duct tapes, both for construction, automotive and retail consumers. We also have a very, very nice pipe maintenance business that we call Sealed for Life in that business, and despite lower oil prices we're continuing to see good demand as we look at maintenance projects for water pipelines around the world and so forth. And it is really the most global business that Berry has so within our engineered materials businesses we have a number of very attractive spaces that continue to grow.

Debbie Jones - *Deutsche Bank - Analyst*

Okay. Great. thanks. I'll turn it over.

Operator

Thank you. (Operator Instructions). We have a follow-up question from George Staphos from Bank of America. Your line is open.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks for taking the follow-up. Two quick ones. One just to clarify. You mentioned that Dunkin', 7-Eleven and Subway are now full customers past the testing phase. Is the right way to interpret that these are kind of under long-term contracts similar to your kind of base or other business? And then the second questioning being, you know, as you're evaluating footprint for Versalite and the new lines, is there something unique about setting up these lines in other manufacturing sites or is it pretty easily compatible to be putting new lines elsewhere outside of Kentucky? Thank you.

Jon Rich - *Berry Plastics - Chairman, CEO*

With regards to your first questions, as we do with our other drink cup customers, we typically have longer term contractual relationships with those customers and that's the way we're rolling out the Versalite product. With regards to your second question, Versalite is not a particularly asset-intensive kind of manufacturing process so you can generally relocate manufacturing to standard building sites.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks very much.

Operator

Thank you. Our next question or comment is a follow-up from Mr. Chris Manuel from Wells Fargo. Your line is open.

Chris Manuel - *Wells Fargo Securities - Analyst*

Good morning again, gentlemen. A couple of quick questions for you. First, the Versalite profitability run. I think last quarter you explained how it's still in the process of coming up to speed. When would we start to see that turn in the quarter? I think you mentioned earlier that you've got some more folks qualified now to make machinery and such. Might we start to see that become, you know, an EBIT contributor, a nice EBIT contributor, at the rate we've talked about for new products, 20-ish percent over the next quarter or two? How is that path coming along?

Jon Rich - *Berry Plastics - Chairman, CEO*

As we continue to grow in scale, our cost structure is improving. We're sort of along the path that we had hoped to be on, but I would say that we're not at the target margins that we ultimately will be on as we achieve scale. We kind of look at that on a sell-by-sell basis, and so I would just describe it as we're on track with where we had hoped to be. Still have some room to go, but on a year-over-year basis, it should be a positive contributor.

Chris Manuel - *Wells Fargo Securities - Analyst*

Okay. That's helpful. Last question for Mark. I was looking through some recent filings and wanted to kind of inquire about the status of where everything's at with the SEC discussion and investigations. Has everything been resolved? Is there any other changes you envision regarding financial disclosures with breaking out charges or things, or can you maybe give us the status as to where things are with that? What might or might not change and, you know, make sure that everything is completed as we sit here today?

Mark Miles - *Berry Plastics - CFO*

Sure, Chris. Yes. Our fiscal 2014 10-K and proxy were selected for just a periodic review by the SEC, which is standard protocol. And there were -- we have completed that review, and there will be no significant changes in terms of the format or anything relative to our filings and it is completed.

Chris Manuel - *Wells Fargo Securities - Analyst*

Okay, thank you.

Mark Miles - *Berry Plastics - CFO*

Uh-huh.

Operator

Thank you. Our next question or comment comes from the line of Anthony Pettinari from Citi. Your line is open.

Anthony Pettinari - *Citigroup - Analyst*

Good morning. Apology if this was covered before, but on the cash flow statement you have other non-cash items in the first half of the year was $38 million. I was wondering if you could help parse that out, and if there's any kind of way to think about those non-cash items in the second half of the year.

Mark Miles - *Berry Plastics - CFO*

Let us get back to you on that, okay, so that we give you a complete answer. We'll follow up with you separately, Anthony. Okay?

Anthony Pettinari - *Citigroup - Analyst*

Okay, thank you.

Operator

Thank you, our next question or comment is a follow-up from Alex Ovshey from Goldman Sachs. Your line is open.

Alex Ovshey - *Goldman Sachs - Analyst*

Thanks. Just a quick question on the deck refi. Mark, I think you said that the potential interest expense savings would be $30 million. Can you provide a little more color what that would imply for a range of interest or cost of -- actual cost of debt on a percentage basis? And then would it be fair to assume that you wouldn't need to refi the entire $800 million, given the very robust free cash flow, you know, part of the debt could just be paid down with the cash flow and so the ultimate incremental debt that gets refi be a smaller portion of the $800 million.

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Mark Miles - *Berry Plastics - CFO*

Sure. Yes. So the annual interest expense on the existing notes is $78 million. If you just simplistically say you're to refinance that $800 plus a $100 million for the breakage costs and the new debt issuance costs, so you say you're going to finance $900 million. The market today, you know, would be somewhere in the 5% range. So if you just again take a simplistic view and say you're going to refinance everything with similar-type debt, that would lead you to $45 million of new interest costs, which would give you, you know, a $33 million annual savings. And so the prepared remarks just referenced over $30 million, and you are correct in that you could take part of that and use existing liquidity to even make that savings greater than that. But that was kind of a simplistic way of thinking about it, Alex.

Alex Ovshey - *Goldman Sachs - Analyst*

Thank you for that clarity, Mark.

Mark Miles - *Berry Plastics - CFO*

Yes.

Operator

Thank you. I'm showing no additional audio questions in the queue at this time. I'll turn the conference back over to management for any closing remarks.

Jon Rich - *Berry Plastics - Chairman, CEO*

We certainly thank you for joining us on today's call, and we look forward to talking to you again at the end of the June quarter. Thanks for your continued interest in Berry Plastics.

Mark Miles - *Berry Plastics - CFO*

Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone have a wonderful day.

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