THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

BERY - Q4 2014 Berry Plastics Group Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 21, 2014 / 3:00PM GMT

CORPORATE PARTICIPANTS

Dustin Stilwell *Berry Plastics Group, Inc. - Head of IR*

Jon Rich *Berry Plastics Group, Inc. - Chairman and CEO*

Mark Miles *Berry Plastics Group, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Mehul Dalia *Robert W. Baird & Company, Inc. - Analyst*

Mark Wilde *BMO Capital Markets - Analyst*

George Staphos *BofA Merrill Lynch - Analyst*

Al Kabili *Macquarie Research Equities - Analyst*

Chris Manuel *Wells Fargo Securities, LLC - Analyst*

Debbie Jones *Deutsche Bank - Analyst*

Scott Gaffner *Bsrclays Capital - Analyst*

Alex Ovshey *Goldman Sachs - Analyst*

Bill Hoffmann *RBC Capital Markets - Analyst*

Jason Young *JCK Partners - Analyst*

Cliff Greenberg *Baron Capital - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Berry Plastics earnings call. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference Mr. Dustin Stilwell, Head of Investor Relations. Sir, you may begin.

Dustin Stilwell - *Berry Plastics Group, Inc. - Head of IR*

Thanks, Amanda. Good morning everyone and thank you for joining us and welcome to the Berry Plastics fourth-quarter fiscal 2014 earnings call. Throughout this call, we will refer to the fourth fiscal quarter as the September 2014 quarter.

Joining me today from the Company I have Berry's Chairman and Chief Executive Officer Jon Rich and our Chief Financial Officer Mark Miles. This morning they will review our financial performance for the September 2014 quarter and the 2014 fiscal year, make a few comments on the overall business and our strategies, and provide the Company's outlook for 2015.

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 the reconciliation of the differences between the GAAP and non-GAAP financial measures are available in our earnings release and our public filings. An archived audio replay of this conference will also 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 our operations or financial condition of the Company could differ materially from those expressed or implied in the forward-looking statements.

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

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Thank you, Dustin. Good morning, everyone, and thank you for joining our call today.

First, I would like to comment on a recent change to our Board of Directors. In early October, we announced the appointment of Robert Steele to our Board of Directors. Rob retired from Procter & Gamble as Vice Chairman after serving in a variety of executive leadership positions during his 35-year career with P&G. His in-depth knowledge and experience in global consumer goods is a great complement to the talents and expertise of our existing Board members. We are very excited to have Rob join our Board and we look forward to working with him.

I would also like to extend my exceeded sincere appreciation to Josh Harris who stepped down as a member of our Board of Directors after many years of dedicated service to Berry.

Now turning to our September-ending quarterly financial results, revenue increased by 9% over the prior-year quarter and was a record for any quarter in the Company's history. Operating EBITDA improved by $16 million or 8% over the same quarter in 2013 primarily as a result of improved operational productivity and cost savings from our previously announced restructuring activities along with contributions and synergies from our recent acquisitions.

Operating EBITDA margins for the quarter came in at 16% similar to the same period in 2013. Adjusted free cash flow for the quarter increased by 9% over the prior year quarter to $131 million. Mark will provide more details on our quarterly financial results momentarily.

The September quarter concludes Berry's fiscal year, so next let me go over a few highlights for the full fiscal year 2014. First, I am pleased to report that we exceeded our adjusted free cash flow target for fiscal 2014 of $270 million by $32 million achieving a record $302 million for fiscal year. The cash flow results were achieved from higher year-over-year operating EBITDA, significant reductions in working capital despite higher raw material costs, and lower capital expenditures.

With strong free cash flow, I am pleased to report that we recently made a voluntary principle payment on our term loan of $100 million.

Revenue for the full fiscal year grew by 7% to approximately $5 billion and LTM adjusted EBITDA increased to $830 million up 5% from fiscal 2013. Both were record results for any year in the Company's history.

Our debt leverage for the fiscal year ended at 4.6 times net debt-to-EBITDA, a reduction of about a quarter turn in the year.

A highlight for fiscal 2014 was that our flexible packaging business made significant progress towards our stated goal of achieving 15% operating EBITDA margins. Operating EBITDA margins for flexible packaging increased from 9% in the September 2013 quarter to 13% in the September 2014 quarter. Productivity from cost reductions; improved manufacturing efficiencies; and contributions from new, value-added printed food and personal care products contributed to the margin improvement.

I'm also pleased to report that we reached a milestone in our journey as an independent publicly traded company in fiscal 2014 when the remaining stock in Berry held by private equity investors was sold in the September-ending quarter.

The overall economic and business environment that we faced in the September-ended quarter remained challenged by the same factors that we've been discussing for the past several conference calls. Our results reflected soft consumer and customer demand for packaged food, personal care, and restaurant food service products along with continued increases in cost for freight, energy, employee compensation and benefits, plastic resin and other raw materials.

While overall US GDP rose 3.5% in the third calendar quarter of 2014, nondurable consumer goods were only up 1.1%, and the food component was negative for the third consecutive quarter. The Nielsen survey data for grocery in the quarter was down 1.3% overall versus the prior-year quarter.

Within the Nielsen survey data, certain dairy and dry grocery categories including products such as margarine, cereal, butter, yogurt and soft drinks, where we have a strong presence, declined 2% to 8% in the quarter.

Berry's physical volume in our base businesses on a pound sold basis was down 1% for the quarter compared to the same period in 2013. The data reported in these surveys mirrors what we have heard about consumer demand from our customers in the food, personal care, and restaurant industries as they have reported their quarterly results.

Now, I'll turn the call over to Mark who will review Berry's financial results in more detail and discuss our outlook for fiscal 2015, and then I'll come back to provide an update on our strategies. Mark?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

Thank you, Jon, and good morning, everyone. Net sales for the quarter were $1.31 billion compared to $1.204 billion for the September 2013 quarter. This 9% increase was primarily attributed to a 4% increase in net selling prices linked to the pass through of increased resin cost and 8% from acquisitions completed in the last 12 months of the flexible plastics and film business purchased from graphic packaging, Qingdao P&B in China and the healthcare containers and closures business purchased from Rexam.

The increase in selling prices and revenue from acquired businesses was partially offset by a reduction of price adjusted sales volume of 3%. The difference between the 3% dollar change in the resin pound sold change of 1% that Jon just referenced was primarily due to mix.

Combined net sales in our two rigid divisions increased by 6% compared to the September 2013 quarter principally as a result of the addition of the US portion of the healthcare containers and closures business purchased from Rexam along with a 3% increase in net selling prices due to the pass-through of higher costs partially offset by 3% reduction in price-adjusted base sales volume.

In general, demand for specific products in our rigid businesses that predominantly sell into the food and beverage markets tracked the Nielsen survey data. As discussed in prior calls, in the December quarter of 2013 we entered into new agreements with several existing thermoform drink cup customers where our prior contracts provided exclusivity or very high market share at those accounts. Excluding the impact of those renegotiated agreements, our thermoform drink cup sales volumes improved in the quarter, over the prior-year quarter.

We also experienced continued sluggish demand in several of our container categories during the quarter as a result of weak market demand in products such as margarine, butter, and cream cheese. In the flexible businesses, consisting of our engineered materials and flexible packaging segments, combined net sales in the quarter increased by 13% over the prior year.

This increase was primarily attributed to a 5% increase in net selling prices due to the pass-through of higher raw material costs and revenue from our recent acquisitions of graphic packaging, flexible plastics, and films business, Qingdao P&B, and Rexam's healthcare containers and closures operations outside the United States. Sales volumes in our flexible businesses excluding acquisition activity and selling price changes decreased 2% on a dollar basis over the prior September quarter.

Operating EBITDA was $210 million for the September 2014 quarter compared to $194 million in the prior-year quarter. This $16 million increase in operating EBITDA included net cost reductions and improved productivity and manufacturing and SG&A of $13 million as well as operating EBITDA related to the three acquisitions completed in fiscal 2014. These contributions were partially offset by unfavorable product mix and base volume weakness just discussed primarily within our rigid open top segment.

Combined operating EBITDA in our rigid divisions was flat versus the same quarter in 2013 as a result of productivity improvements and cost-reduction actions taken as well as the addition of the US portion of Rexam's healthcare containers and closures business offset by reduced earnings from the sales volume weakness and renegotiated drink cup agreements within our rigid open top segment just discussed.

Combined operating EBITDA for our two flexible segments increased 22% in the quarter over the prior year period primarily a result of improvements in manufacturing efficiencies and cost reduction actions, as well as the contributions from our recent acquisitions.

Fiscal 2014 net sales close a record of approximately $5 billion compared to $4.6 billion in fiscal 2013. The 7% increase was primarily attributed to a 4% increase in net selling prices due to the pass-through of higher costs and 4% from acquired businesses partially offset by a price-adjusted base sales dollar volume declined 1% primarily related to the items mentioned earlier in the rigid open top segment.

Operating EBITDA for fiscal 2014 of $785 million was a fiscal-year record for Berry. The $10 million improvement over fiscal 2013 can be attributed to cost-reduction actions, the realization of synergies from recent acquisitions, organic growth in certain product categories, and earnings from acquired businesses partially offset by unfavorable product mix, a $26 million under recovery of raw material and freight costs in spite of $178 million of net higher selling prices as compared to fiscal 2013, and volume softness certain product lines.

Interest expense for the September 2014 quarter was $53 million representing a $3 million decrease from the prior-year expense of $56 million. Assuming no change in short-term interest rates or refinancing activity, we estimate fiscal 2015 cash interest expense to be approximately $205 million.

Adjusted free cash flow defined as cash operations less net spending on property, plant, and equipment and payments made under the tax receivable agreement increased 9% to $131 million in September 2014 quarter compared to the September 2013 quarter of $120 million. This brought the Company's fiscal 2014 adjusted free cash flow to $302 million representing a free cash flow yield of more than 10% based on the market capitalization at the end of September 2014 quarter.

Our fiscal 2014 adjusted free cash flow of $302 million was an increase of $64 million or 27% compared to the fiscal 2013 adjusted free cash flow of $238 million. The primary driver of our 12% adjusted free cash flow achievement over our fiscal 2014 target of $270 million was primarily related to improvements in working capital in all major categories in spite of higher raw material costs and reduced capital spending, partially offset by costs associated with our restructuring and recent acquisitions.

Now looking forward, we have targeted our fiscal 2015 adjusted free cash flow after deducting the $39 million tax receivable payment made in October 2014 at approximately $320 million. This estimate assumes no change in plastic resin costs and conservative sales volume assumptions. Additionally our investments in property, plant, and equipment are forecasted to be approximately $230 million for fiscal 2015. I'll remind you that roughly $80 million of our annual capital spending is related to maintaining our facilities and equipment, and the remaining capital will be used to fund growth projects and cost reduction initiatives.

Within our adjusted free cash guidance we are also assuming other cash uses of approximately $50 million related to items such as the completion of our fiscal 2014 cost-reduction initiatives and acquisition integration costs from businesses acquired in fiscal 2014. For clarity, excluding the $50 million, our free cash flow would be $370 million less the tax effect for the $50 million just referenced.

Also as a reminder, the tax receivable agreement payment of $39 million mentioned earlier in the guidance is paid annually in the first fiscal quarter and has been completed for fiscal 2015, and we estimate our fiscal 2015 effective tax rate for income tax purposes at approximately 33%.

This concludes my financial review, and now I will turn it back to Jon.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Thank you, Mark. First, let me make some comments about the actions we are taking in the near term in response to the challenges that we face. As I have said, throughout 2014, we've had increases in costs for freight, electricity, labor and benefits, resin and other raw materials. We went out with price increases in 2014 that were designed to cover the non-resin related cost increases that we were experiencing. As the year has progressed, these costs have continued to increase. While we did achieve improved productivity, the lack of volume leverage in our plants precluded some of the normal productivity we would use offset non-resin cost increases.

As a result, we recently announced another non-resin price increase to our customers in the range of 3% to 5% effective December 1. These increases are applicable to all products including contract customers unless the contracts specifically addresses non-resin related items.

Contractual pricing mechanisms related to the pass-through of resin cost changes remains the same, which covers about 75% of our resin purchases with about a one-month lag net impact on our income statement.

We continue to focus on our four key strategic initiatives in ranked priority of first, reducing our debt leverage; second, driving organic growth; third, expanding internationally; and fourth, continuing to execute value-accretive acquisitions that have brought us historical success.

In fiscal 2014, we continued to reduce our overall leverage ending the year at 4.6 times net debt to adjusted EBITDA. Our leverage came down about a quarter turn less than our goal of a half turn reduction per year. We remain committed to our goal of a half turn reduction per year and leverage until we reach our target of 2 to 4 times. In line with our commitment, as previously mentioned, we made a voluntary principal payment on our term loan of $100 million in November 2014.

On the innovation front, Berry continues to demonstrate its position as the leader in plastics packaging design and innovation. In the September-ending quarter, we introduced packaging for new concept in liquid dispensing which focuses on sustainability and consumer cost savings. The product line is marketed at Walmart and Sam's Clubs under the CleanPath brand using Replenish technology.

Replenish technology employs a reusable spray bottle that can be refilled with concentrate that is packaged in a novel pod container that attaches to the reusable spray bottle. Working closely with the original inventors of Replenish, Berry made the product a mass retail market reality by employing its expertise in low-cost manufacturing and process design.

Replenish packages are being used for products like hand soaps, hand sanitizers, household cleaners, and other consumer products. The Replenish concept is a great example of sustainability and improving environmental impact by significantly reducing packaging volumes. The CleanPath products are available today at thousands of Walmart and Sam's Club stores.

Earlier this month at the PACK EXPO show in Chicago we introduced our line of non-round containers that we call Qubic together with a new approach to decorating Qubic packages we have termed Iconic printing. Qubic and Iconic are designed to help our customers get into the rapidly growing space of rectangular and square containers that help retailers utilize shelf space more efficiently.

Qubic containers with Iconic graphics provide customers with decorations similar to in-mold labels packages but at significantly lower cost and without the need for long lead-times and working capital required for labels. We expect to be commercial with Qubic and Iconic in fiscal 2015.

We continue to make progress with our commercial introductions of Versalite insulated cups and containers. At Dunkin' Donuts, the second phase of consumer testing continues at Dunkin locations in Vermont, Massachusetts, New York, and California. We believe that the consumer experience with Versalite cups remains very positive, similar to feedback from our internal consumer tests. Interest in Versalite technology remains strong as we've now receive inbound interest from over 100 potential Versalite customers. We remain confident that Versalite cups provide superior insulating properties, can represent the customer's brand image with vibrant high definition graphics, and that Versalite is, from a practical perspective, the most readily recyclable disposable hot cup available.

Regarding our outlook for fiscal 2015, as I discussed earlier, our industry and our customers have been challenged during the past two years with soft consumer demand for packaged goods. Historically, packaging has been a GDP-like growth industry in the US and with the recent favorable movements in commodity, grain, and gasoline prices, both of which should benefit working-class consumers, we are hopeful that demand will increase in the coming year.

As I've also discussed, we've implemented a series of price increases to offset rising costs and to reflect the value that our products provide to our customers. These steps, along with our normal productivity and the impact of restructuring programs completed in fiscal 2014, should provide for margin growth 2015.

While oil prices have fallen recently, polyethylene and polypropylene prices increased again in September and October. It's always difficult to predict plastic resin price movements, but recently the reported commodity prices for ethylene and propylene -- the primary inputs the polyethylene and polypropylene -- have fallen precipitously along with oil. Long-term, the announced capital investments in US shale gas and downstream infrastructure for polyethylene and polypropylene should also benefit Berry.

Changes in resin costs typically pass through our inventory over a two month period, so any benefit from falling resin costs will not impact our earnings until the March 2015 quarter at the earliest. Historically, Berry's operating margins have moved inversely to oil price movements.

Finally, Berry will continue to take the necessary proactive steps to remain competitive and a leader in plastics packaging 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 questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ghansham Panjabi.

Mehul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Hi, good morning, it's actually Mehul Dalia sitting in for Ghansham, how are you?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

We're good. Good morning.

Mehul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Great. Can you break out the various components in the other $50 million in cash costs that you detailed?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

Yes, the $50 million, so it includes items I referenced which would include remaining restructuring costs from activities that we initiated in fiscal 2014. We would also have integration costs associated with acquisitions that we completed in fiscal 2014. There would also be some other cash taxes which would be in order of magnitude of $5 million to $10 million and then there's an equal $5 million to $10 million that would be included for cash, pension costs in excess of book expense. Those would be the four categories inside the $50 million.

Mehul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Okay, great. Can you talk about purchasing behaviors by customers in the December quarter so far given that oil collapsed, but resin hasn't moved. Are they delaying purchases?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

You know we have faced an environment now for several quarters, as we've discussed, where consumer and customer demand has been sluggish. So far in the December-ending quarter, trend seem to be continuing along the normal path. So no worse, no better, it seems like a continuation of what we have seen now for several quarters.

Mehul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Okay, great. And one last one -- how is competitive activity across your various businesses. It seems to be very challenging at the moment.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

The packaging industry is diverse, it's always competitive. And at Berry we love to compete, and we think through a combination of innovation and our cost advantages, we are in a good position to compete.

Mehul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Thank you.

Operator

Mark Wilde.

Mark Wilde - *BMO Capital Markets - Analyst*

I wondered, Mark, if you guys could talk a little bit about what's inside the capital program for next year and whether that continues to include a new Versalite line each quarter.

Mark Miles - *Berry Plastics Group, Inc. - CFO*

The $230 million that I referenced for fiscal 2015 includes $80 million that I would coin as maintenance and then the remaining $150 million would be for growth initiatives, cost reductions. And the growth initiatives would certainly include Versalite capital investments which we are continuing to put in. But we haven't provided specific numbers in each of those three categories.

Mark Wilde - *BMO Capital Markets - Analyst*

Is it fair to say though -- your plan had been sort of one Versalite line roughly every quarter. Is that still the plan?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

That's correct.

Mark Wilde - *BMO Capital Markets - Analyst*

And Jon, you talked about those price initiatives that you had announced for December 1. How much of the business would be covered by that?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

It essentially covers all product lines and including contract customers unless the contracts have specific items discussing non-resin related costs (multiple speakers).

Mark Wilde - *BMO Capital Markets - Analyst*

And that's really what I was getting at.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

It covers all products and all lines.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. So what percent of your business would have contracts that deal with the non-resin costs, approximately?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

What we have about 75% of the businesses that's on contracts in total, and I would say that generically the vast majority of them cover resins only. A small fraction has other terms in it [which] we've already just discussed as resin.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And then the last question I had -- just can you talk about the impact that you would be seeing from the following oil costs, oil prices on your freight costs right now?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Well, freight costs, as you know, went up significantly in the first calendar quarter of 2014. They then dropped as we got through that weather period. But have still remains well above the 2013 levels, and we haven't seen that move yet. Of course, there have been reductions in diesel prices and so forth, but just like plastic resin prices we haven't seen them go down yet. And we haven't seen freight costs come down yet either.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. All right, sounds good. I'll turn it over.

Operator

George Staphos.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks for the details. Jon, I was hoping you could, if possible, just give us a quick rundown of physical volume and price-adjusted volume for the quarter for the broader or aggregate, rigid category and similarly for flexible.

And could you maybe spend a couple of words in terms of again, what is the difference -- I know you mentioned it's mix -- but how you are calculating revenue or price-adjusted volume versus the fiscal volume.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

As I commented, total volume for the quarter was down about 1% on physical volume as we track it. And again, there's some parts of our flexible business that we don't measure on pounds but we generally measure consistently pounds across the businesses. Flexible was up about 2% on physical pounds, rigid was down about 3%. Most of the rigid were the items that Mark discussed and that we have talked about over several quarters related to our rigid open top business.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay and on the price adjusted you said physical -- it sounds like it's difficult to measure that. Or can you give us a price adjusted volume for both segments as well?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

Yes, hey George, it's Mark, good morning. Jon referenced the 1% which was pounds sold. The 3% is the dollar impact of that and as John mentioned there are some businesses that aren't measured on a pounds sold basis so that's number one, and those were down year-over-year in the quarter.

Two would be that mix certainly can impact it, so to the extent of business that has a higher dollar price per pound would impact the dollars versus the pounds, that would be the second category.

In terms of your last question, they were roughly the same in terms of the two segments. Rigid was 3% if my memory is right, and I believe the flexible businesses were down 2%.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay.

Mark Miles - *Berry Plastics Group, Inc. - CFO*

On a dollar basis.

George Staphos - *BofA Merrill Lynch - Analyst*

Yes, I'm with you, thanks for the primer on that. At this juncture, I mean obviously you've given free cash flow guidance so you feel relatively comfortable with what you know for 2015 fiscal. But are there any large contract renewals and/or price adjustments we have to be wary of as would have been the case for the thermoformed cup business a year ago? In other words, are there any holes we've got to try to fill in in the model or that you need to fill in with your volume or pricing or other for fiscal 2015 at this juncture that you know of?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Sure, given the scale of Berry you can appreciate that we constantly have contracts that are up for renewal but none of them are significant in terms of the scale of items that we had last year.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay, my last question and I will turn it over. As far as the Dunkin rollout is going can you share any additional color in terms of why you feel from what you're hearing or from your own trade data why the product is resonating with the customer and why hopefully there's a good outlook for further trial and ultimately adoption by the Dunkin franchisees. Thanks.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

I would say that the experience and the feedback we are getting from consumers at Dunkin is very similar to the feedback that we had in our own test programs and from the feedback we're getting from other customers that we have for Versalite. So customers have a very positive view on Versalite cups from a performance standpoint.

I would just say that trial at Dunkin has a timeframe I think they've discussed that in terms of running through the end of the year and I think it would be premature for me to make any comments about what they're going to do. Dunkin is a great customer of ours, and we look forward to working with them.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay, but the next mile marker should be end of year and therefore your next earnings call should have a little bit more color on that. Would that be fair?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

That's consistent with what they have stated, but, again, it's largely in their hands and I will (multiple speakers) them.

George Staphos - *BofA Merrill Lynch - Analyst*

Understood. Okay, I'll turn it over. I'll be back, thank you.

Operator

Al Kabili.

Al Kabili - *Macquarie Research Equities - Analyst*

Mark, I wondered if you could just update us on this past fiscal quarter. Did that already reflect the bulk of the cost savings from restructuring actions, or is there still a ramp-up that we should start to see more of in the fiscal first quarter and into next year?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

So the annual impact of the restructuring programs we continue to believe is a $27 million impact. $5 million of that was recognized in fiscal 2014 with about $3 million of that impacted in the September quarter. So more than around half, slightly more than half was recognized in the September quarter.

Al Kabili - *Macquarie Research Equities - Analyst*

Okay, and in addition to that, I think there was about $20 million of annual labor savings from some things you've done, and I don't know if you are sort of including it there or if there's some benefit that we should see next year from some of the laborsaving items as well.

Mark Miles - *Berry Plastics Group, Inc. - CFO*

That is fully implemented in the September quarter. On a year-over-year fiscal year basis there will obviously be some impact as it wasn't in the full fiscal year, but from quarterly perspective, it would have been in the -- the full impact would've been in the September quarter.

Al Kabili - *Macquarie Research Equities - Analyst*

Okay, all right. And then secondly, kind of a long this topic but I guess going to the price increases, I think you mentioned roughly $25 million, $26 million of under recovery of [ros] in the fiscal 2014 year. You know with the price actions and assuming the resin outlook stays the way it is, is there any reason why we couldn't get almost all of that back into 2015 assuming resin stays where it's at here?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

I would say that our ability to forecast resin prices historically has been not all that great. So I don't want to go out. Our assumptions as we build the plant and the assumption so we made into the free cash flow guidance that we've given is that it will be net neutral price minus resin movement. Now if for some reason resin prices were to remain low or continue to drop, or oil prices. Historically, we've performed well in that environment, but we just don't have the transparency out beyond the period to give a full-year forecast on that. But again, historically our operating margins have moved inversely to oil price movements.

Al Kabili - *Macquarie Research Equities - Analyst*

Okay, all right. So Jon, just along those lines the net neutral assumption. Is that with the price increases that you just announced? And is there some offsetting factors that we should be thinking about because that would seem pretty conservative given kind of where we are at and the December 1 price increases.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

December 1 price increases as well as the others we announced throughout the year were designed to address non-resin related movements in our cost structure: freight, energy, and non-resin materials and indirects, and so forth. So that's the purpose of those increases. Resin prices move primarily through our pass-through mechanisms and contracts, and about 75% of our business is on contracts. 25% moves with the spot market. We'll price our products appropriately as they meet our customer's needs.

Al Kabili - *Macquarie Research Equities - Analyst*

Okay, I appreciate it, good luck next year. And I'll turn it over. Thanks.

Operator

Chris Manuel.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Congratulations on a strong finish to your year. Couple of questions for you. First, if I could maybe dive a little deeper into the $320 million free cash flow guidance. If I heard you correctly, you are kind of assuming a neutral working capital environment, is that correct?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

Yes, that's correct, Chris.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

And then from a volume perspective, I think you said at continued or at current trends. So is that kind of a flattish or are you assuming that volumes are still maybe a point or two negative, or are you anticipating a point or two positive? How would you couch that element?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

I would characterize it, yes, as flattish.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Okay, that's helpful. And then last question I had was with respect to some of the restructuring elements. What did you spend this year for restructuring?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

The cash restructuring expense was $46 million.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Okay, so there's maybe $4 million. I think the total was supposed to be $50 million, so there's still $4 million of carryforward. Are there further restructuring actions then that -- it sounds like from earlier you talked about $5 million to $10 million in a couple of categories, so presumably there's another $30 million to $40 million for restructuring in 2015. Are there some new actions that you are leaving room for maybe that you haven't announced yet or how should we think about that?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

There's cost associated with remaining costs associated with integrating the three acquisitions that we completed in the year. So a lot of those are related to getting them converted to our IT systems. And those are costs that we'll have ongoing throughout 2015 as we get those businesses fully integrated into Berry.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Okay, that's helpful. Last question is around some of the new business and particularly with Versalite. As you sit today just maybe refresh us, Jon, if you don't mind. How many lines do you have in place today or did at say September 30? And I think you had another one you were still working on here for what's your first fiscal quarter. But where are you at as you sit today with respect to capacity?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

That situation is exactly the same as we discussed in the last conference call. We anticipate having 1 billion cup capacity by the end of this year. We have the capability of adding 300 million cups a quarter. We have been working on improving our productivity and working with various capital equipment vendors. We are making nice progress on that as well and that provide us some ability to hopefully in the future increase that should we have the need to.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Thank you. Good luck, guys.

Operator

Debbie Jones.

Debbie Jones - *Deutsche Bank - Analyst*

I guess on Versalite if we could just talk about the lines you're adding again? Correct me if I'm wrong but I think you said in the past that as you get beyond six you might have to move either to a new building or a new greenfield facility. Can you just talk about that and what the timing on that might be?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

That's still true. We said the original building could hold six cells; four cells with six machines each. We are currently evaluating and have been planning for expansion appropriate with the increases that we're going to need and all of those are still in the works.

Debbie Jones - *Deutsche Bank - Analyst*

Okay, and that would be at the same location where you are currently producing?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

We are evaluating that as one of the options. That's obviously one of the more attractive options, but we are also discussing with our customers trying to minimize logistics cost as we expand the business.

Debbie Jones - *Deutsche Bank - Analyst*

Okay, and then we haven't really talked about it a lot, but can you give us an update on the Barricade NuSeal products, kind of the customer reaction and what you are expecting for 2015?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

That also continues to go well. We've said in the past that we hope to be in the market by the end of this calendar year, and we still expect to hit that goal.

Debbie Jones - *Deutsche Bank - Analyst*

Okay, thanks, Jon.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Coming to a store near you soon.

Debbie Jones - *Deutsche Bank - Analyst*

Okay, great. Thanks.

Operator

Scott Gaffner.

Scott Gaffner - *Bsrclays Capital - Analyst*

Just wanted to dig a little bit deeper on the volume commentary. I think in a prior question you said flattish, but, Jon, I think in your prepared comments you mentioned you had a conservative volume forecast coming into the year. Could you maybe discuss why flattish given some of the trends that you discussed around consumer? Why flattish is conservative as you move into 2015?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

I think it's probably just based on historical perspective more than any. We've faced the past two years, as you're well aware, of negative volumes at grocery as reported by the Nielsen survey. That's an unusual period of time to have negative food volume demand. We don't believe that over a long-term period that it's going to be sustainable. You've got demographics still moving in a positive way.

We think that this recent help to consumers in terms of a little extra money in their pocket from falling gasoline prices and from falling food, grain prices hopefully will return demand more normal level. But until we actually see that happening, we decided to take a conservative approach in our planning, and we're hoping that we end up on the short side of that. But we've taken a conservative approach in terms of planning for next fiscal year.

Scott Gaffner - *Bsrclays Capital - Analyst*

Okay, and then moving over to Versalite again for a minute. You mentioned you had 100 customer inquiries on Versalite. How many units of demand would that represent?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Well, we said in the past that with all the customers that we are currently trialing with that's something like 2 billion units worth of demand. I would caution though that it will take a period of time assuming that that business has successfully landed. And I want to reiterate that those decisions are still held exclusively by our customers. It would take us a period of time to roll that in distribution center by distribution center.

I would also say that we closed some business with new customers in the most recently completed quarters. So Versalite continues to move in a positive direction.

Scott Gaffner - *Bsrclays Capital - Analyst*

Right, I just think the 2 billion units you referenced before that was only on six customers, correct?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Yes.

Scott Gaffner - *Bsrclays Capital - Analyst*

And now you've got 100 customers of inquiry, does that double the 2 billion?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Again, we're trying to carefully balance the ability to serve customers with the invested capacity that we have. And at the same time, we're trying to grow our business as quickly as we can.

Scott Gaffner - *Bsrclays Capital - Analyst*

And as we think about the profitability on Versalite, is there any reason given some of the startup costs coming off -- obviously, you're still rolling out new production sales every quarter. But is there any reason to think you could actually have a positive EBIT contribution from Versalite in 2015?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

It should be positive on a year-over-year basis.

Scott Gaffner - *Bsrclays Capital - Analyst*

And just lastly, you mentioned the inverse relationship between oil prices and your margins historically. Do you have any rule of thumb on that that you can help us out with? $10 decline in a barrel of oil equals 50 basis points of margin, is it?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Not going to go into that level of detail. We went back and looked at the historical relationship between oil and Berry operating margins. And obviously over the period of the history, Berry's businesses have changed quite a bit as we've grown dramatically and as -- so I think it's difficult to just compare apples to apples I would just say generically that there is a clear inverse relationship between the movement of oil prices and Berry's operating margin. The degree of which, of course, is highly dependent on the current mix and product lines of Berry's portfolio.

Scott Gaffner - *Bsrclays Capital - Analyst*

Okay, thank you.

Operator

Alex Ovshey.

Alex Ovshey - *Goldman Sachs - Analyst*

Wanted to come back to the non-resin inflation price increase point. Can you talk about what others in the marketplace may be doing around this initiative? And what is your expectation around how much of the increase you're likely to be able to actually implement?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

I can't comment on what others are doing. I can tell you that when we announce and discuss price increases with our customers, obviously, nobody likes price increases including us. At the same time, our customers are experiencing the same cost factors that we are for freight, energy, indirects, and so forth. They understand the need for it. These costs are going up and we have to be in a position to pass those through.

Alex Ovshey - *Goldman Sachs - Analyst*

Got it, Jon. And then just on the open top business, 2014 was clearly the challenging year and the profitability of that business did take a hit. As we think about 2015 for open top, can you just talk about some of the key puts and takes for that business and where do you see the margin profile potentially in that business over the next couple of years?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

I would say that it was a challenging year for us fiscal 2014, namely for the reasons we discussed on several calls. We're going to get through that on a comp basis. We have a lot of really exciting new product things going on in our open top business. In addition, the lion's share of the restructuring activities that we talked about from a cost standpoint in 2014, many of those were focused on the open top business. And so, we are looking forward all of us, especially our colleagues in our open top business, are looking forward to fiscal 2015.

Alex Ovshey - *Goldman Sachs - Analyst*

Got it, Jon. And just a couple of cleanup questions just for Mark. I think your CapEx for this year came in lower than where you initially said it would be. So I think if you could provide a little bit of color there. And then the tax receivable payment, I think in the last Q, it said it was supposed to be $71 million, and it came down to $39 million now. Would you be able to provide a little color around what's driving that and how to think about that number?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

Sure, you first question on CapEx, I wouldn't say there was anything unusual there, just normal timing. Things moved from fiscal 2014 into fiscal 2015. Nothing unusual.

With respect to the TRA, we did come in less there as a result of a number of factors that I would say predominantly relate to just deductible items for tax purposes that we didn't anticipate last quarter, items that we were able to deduct that we did not anticipate in the last quarter Q.

Alex Ovshey - *Goldman Sachs - Analyst*

Great, thank you very much, Mark. Thanks, Jon.

Operator

Bill Hoffmann.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Jon, we haven't -- you haven't really addressed some of the things like from an acquisition standpoint. Could you just talk a little bit about what you see as the acquisition pipeline and desire to be more or less aggressive in 2015 than you have been this year?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

We never make any assumptions about acquisitions in terms of the plan that we put out, so we assume that it's not included. Again, our top priority is to continue to focus on our balance sheet, to work on deleveraging, to achieve the half turn reduction. So we're working very hard on that. We're always looking for value-added acquisitions. I would say that much like the stock market has risen, the value of assets have also gone up. So I think it's a little more challenging environment perhaps with that regard.

Our four strategic priorities are in the order in which I stated them, and we'll continue to look for accretive value-adding acquisitions. But it is the fourth of our four strategic priorities.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Okay, thanks. Just a couple questions for Mark. In the $18 million of cost add-back in your EBITDA this year, it's all of that just the normal cost-reduction/integration expenses in the quarter?

Mark Miles - *Berry Plastics Group, Inc. - CFO*

Yes, that's correct.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Okay and with regards to be -- you mentioned in the cup business renegotiated contracts affecting the volumes. I just wasn't quite sure if you gave some indication of what that -- the impact was volumetrically on an overall basis?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

We haven't discussed specifics of that, but I think if you just compare the comps of the open top business, you can get a sense of what the magnitude was.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Okay. Thank you. That's it.

Operator

Jason Young.

Jason Young - *JCK Partners - Analyst*

Thanks for taking the question. Jon, just on NuSeal Barricade now that it's going commercial, can you just give us a little more color on the addressable market size? I know it's a longer selling cycle and a longer testing cycle. But what types of products can that take share from and replace? And just a little more color on that would be great.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

We are very excited about that market. As I have said in the past, the main challenges that because shelf-stable barrier package, you have to get through the testing periods equal to the shelf stability that you are certifying for. Having said that, the market for NuSeal Barricade is bigger than the Versalite market and it's largely a classic substitution of glass, metal, and paper substituting to plastic. And when you do that, the customers get not only cost savings because generally plastic is lower-cost, but you also get improvements in performance and functionality.

We are originally moving into that space in the snack food category, but there are some huge opportunities things like pet foods, baby foods, things like tuna that are in cans and so forth. so it is a real classic material shift from glass, metal, and paper to plastic.

Jason Young - *JCK Partners - Analyst*

That's great. Thanks so much and best of luck with that.

Operator

Cliff Greenberg.

Cliff Greenberg - *Baron Capital - Analyst*

Could you please do the same for [ClearPath] and Replenish and also Qubic and Iconic just explain more with those technologies are, what the initial applications or uses are, and where those stand in the market, and long-term what the opportunities for those new packaging ideas.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

On Replenish and [ClearPath] that was a collaborative effort between the original inventors and Walmart and Sam's Club. I encourage you to go to your local Sam's and Walmart. You'll see the displays there. This is a real focus on sustainability. It also helps Walmart because it reduces the shelf intensity of the product. But instead of throwing a bottle away every time you buy it, you're going to be able to use that bottle over and over again. So it's a great play, really exciting technology.

You know, Cliff, I think we just have to wait. It's on shelves now. We'll have to see what the consumer response was. We have gotten a lot of incoming inquiries from consumer packaged goods companies who are also interested in exploring the same technology. But I think we just have to see what the consumer demand is.

In terms of Qubic and Iconic, that clearly is an opportunity probably not quite as big as Versalite, but it's a big opportunity as retailers go to non-round packages. I think as we discussed with people in the past, the principal solution to that today is in-mold labeled, injection molded packages. And generally they cost about 50% more than the package that they were in originally.

In this challenging volume environment our customers are really looking for a cost-effective solution that will allow them to make this transition from round to non-round without having to absorb the additional costs. We think Qubic and Iconic is a real breakthrough that will allow our customers to achieve that goal.

Cliff Greenberg - *Baron Capital - Analyst*

Cool, are you in market on that yet, Jon, or when do --?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

It should be in market in that in the first half of calendar 2015.

Cliff Greenberg - *Baron Capital - Analyst*

Cool. Okay, thank you.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Mark Wilde.

Mark Wilde - *BMO Capital Markets - Analyst*

Jon, just one follow-up. You had announced some management rotation earlier in the week, and I wondered if you could just give us a little color on that. It's first time I'd seen you do something like that.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

We took Tom Salmon who was prior President of Engineered Materials and Curt Begle who was running our closed top business, and we swapped them in their roles. Both had done an outstanding job. Both businesses have performed extremely well. Both individuals had been in those jobs for a while, so this is just part of the normal leadership development activities that we have at Berry that allow people to get different experiences as they grow in their careers.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay, very good, thanks.

Operator

George Staphos.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks for taking my follow-on. So Jon, the Barricade new product that you should be commercial with in first-half 2015, it sounds like you're focusing on snacks first. Can you provide a little bit more color in terms of what kinds of snacks would be in Barricade. It sounds like it would be may be more of a beverage. And if you can't go there, are you from your knowledge replacing a bottle or a can? And I had a couple of other questions, unrelated.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Replacing a glass application. I'm not going to get too far out in front of my customers, but I'm sure it's a product that you'll enjoy using as you're watching football games on the weekend.

George Staphos - *BofA Merrill Lynch - Analyst*

Understood. Next question, if we look at the growth in EBITDA in the year and we try to allocate that to roughly sized buckets, we know and correct me if I'm misinterpreting anything that cost that was not recovered with pricing was $26 million or so negative headwind. Is it possible to fill in or bridge the rest of the growth in EBITDA roughly between or amongst acquisition, productivity? Clearly volume seemed like it was a negative.

Mark Miles - *Berry Plastics Group, Inc. - CFO*

Sure, hey George, it's Mark. It's actually fairly split between the categories of acquired EBITDA from acquisitions we made, productivity from operations, and then I would say, to a lesser extent, some SG&A savings from synergies from acquisitions. And that was offset by volume weakness.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay, thanks for that color, Mark. Quickly, how's Rexam doing this far. Can you provide some color? And is there any difference between what you're seeing in the US versus non-US operations?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

We are very pleased with that acquisition both in terms of the US side and the international side. On the US side, those businesses we were in the same businesses already, and those businesses are starting to look like Berry's historical businesses.

George Staphos - *BofA Merrill Lynch - Analyst*

Last one, and I'll turn it over. The spring price increase -- and correct me if I'm wrong -- it seemed like you were going out with pricing increases at a time when other companies were also contemplating and going out with their own non-resin price increases. This increase -- is your sense that you were further out in front relative to other packaging companies that might be going out with non-resin increases or do you see more or less similar timing? Thanks, and good luck in the quarter.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Again, we are focused on what Berry needs to do. I'm not going to comment on competitors in any way. We have -- these costs are real, our customers have the cost. They understand why the increase was necessary. As always, no customer likes to get price increases, but we are focused on what Berry needs to do. And again, we're looking to make sure that our products for the value that we ask for the marketplace.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay, thank you, Jon. Thank you, Mark.

Operator

Chris Manuel.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Just actually one follow-up, and it was kind of along the same lines as where George was at what price. If memory serves, the price increase that you went out with sort of midyear last year -- at the time it was supposed to I thought be enough to offset all of your inflationary elements. Just save for the fact that the timing was already maybe two-thirds of the way through your fiscal year. So to understand this current price increase that you're in the market with or going to market with December 1, are there incremental costs that you're anticipating seeing or is it more margin enhancing? How would we think about that?

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

At the time that we went out with the original increases they were designed to offset the cost increases that we understood at the time. As the year progressed, some of those cost increases went up.

I'll give a good example. Berry is principally an electricity user in our energy. We've seen significant increases in electricity. A lot of it due to the proposed announcement on regulations and toll use and so forth. So we're getting significant increases in electricity costs from utilities.

And you can see the same thing in other categories. So it's simply we thought we understood the costs earlier in the year. Those costs continued to go up, and so we had to take the necessary steps.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Okay could you give us a sense as to -- I don't recall what the portion you had asked for back in, I think it was June or July. How size comparison compared to 3% to 5% now, how those are similar or dissimilar in size and maybe how much you did achieve back then?

In particular, I guess from -- the other area I'm thinking about, Jon, is you've had a lot of the big consumer-products companies out talking about how they pushed price the last few years and they are kind of slowing their price push, but now going back looking to take more costs out through the supply chain from a good portion of that being packaging suppliers and things. So I'm just trying to understand how it all fits together.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

In terms of what our customers have been doing, you can look at the Nielsen survey data on packaged goods price and volumes, and you can see that they've been very aggressive in trying to do what we are trying to do, which is cover their cost increases that they've had for grain-related ingredients and so forth. So, our customers are doing what we will have to do, and so I think there's again -- no customer likes to get a price increase. But I think they understand that they've been doing the same thing.

With regards to the magnitudes, again, I think I covered that. They were designed to offset the cost increases as we saw them at the time.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Okay, thank you.

Operator

Thank you. And this does conclude our question-and-answer session. I would like to turn the call back to Jon for any closing remarks.

Jon Rich - *Berry Plastics Group, Inc. - Chairman and CEO*

Thanks. We'd like to thank everybody s for joining our call today, and we look forward to speaking with you again at the next conference call.

Operator

Thank you. Ladies and gentlemen, this does conclude our program. You may all now disconnect. Everyone, have a great day.
