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# EDITED TRANSCRIPT

BERY - Q3 2013 Berry Plastics Group Inc Earnings Conference Call

EVENT DATE/TIME: AUGUST 02, 2013 / 2:00PM GMT



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**Jim Kratochvil** *Berry Plastics Group, Inc. - EVP & CFO*

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Berry Plastics earnings call. At this time, all participants are in a listen-only mode.

(Operator Instructions)

As a reminder, today's conference call is being recorded. I would now like to turn the conference over to your host, Mr. Dustin Stilwell, Head of Investor Relations. Please go ahead.

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### Dustin Stilwell - *Berry Plastics Group, Inc. - IR*

Thanks, Sally. Good morning, everyone, and welcome to Berry Plastics earnings conference call. Joining me from the Company today, I have Jon Rich, our Chairman and CEO; Jim Kratochvil, our CFO; and Mark Miles, our Corporate Controller and Treasurer. During this call, we will be discussing some non-GAAP financial measures, including operating EBITDA and adjusted EBITDA. The most directly comparable GAAP financial measures, and a reconciliation of the differences between the GAAP and non-GAAP financial measures, are available in our public filings. An archived audio replay of this conference will also be available on the Company's website.

During this conference call, we may make forward-looking statements within the meaning of federal securities laws. Forward-looking statements include statements concerning the Company's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, business trends, and other information that is not historical information. Actual results in future periods may differ materially from forward-looking statements made today because of a number of risks and uncertainties, including various economic and competitive factors, the Company's ability to pass through raw material price increases to its customers, its ability to service debt, the availability and cost of plastic resin, the impact of changing environmental laws, changes in the level of Company's capital investment, the results and integration of acquired business, our reliance on unpatented know-how and trade secrets, and the risk set forth in the risk factors cautionary statement regarding forward-looking statements and other sections of our reports filed or furnished with the SEC.



You should not place undue reliance on our forward-looking statements. We undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events, or other changes. Additional important information about the Company's business is set forth in the Company's various filings with the SEC, and the information discussed today should be considered alongside the information contained in those filings.

On today's call, Jon and Jim will provide some detail about the quarter, an overview of our financial performance for our fiscal third-quarter, and before going into Q&A, Jon will provide commentary on our outlook for the September 2013 quarter. With that, I would now like to turn the call over to Jon Rich.

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

Well, thank you, Dustin. Good morning, everyone. Thank you for joining us, and welcome to the Berry Plastics fiscal third-quarter 2013 earnings call. Throughout this call we will refer to the third fiscal quarter as the June 2013 quarter.

As many of you know, on July 17, the Company completed a secondary public offering of shares of Company common stock, owned by Apollo and Graham partners, which further diversified our shareholder base. Public shareholders now own almost two-thirds of the total outstanding equity of Berry Plastics. I want to take this opportunity to welcome new Berry Plastics shareholders to the Company. We thank you for your interest in Berry Plastics and look forward to working with you and all of our shareholders. As always, we welcome investor inquiries regarding Berry, and I encourage you to reach out to Dustin Stilwell, our Head of Investor Relations, with any questions you might have. I'll also remind you that we have scheduled an Investor Day for Tuesday, September 17, here in Evansville, and we look forward to seeing you then.

I am pleased to announce that for the June 2013 quarter, Berry Plastics continued a trend of earnings improvement as operating EBITDA was higher for the 12th consecutive quarter when compared to the same period in the prior year. The June 2013 quarter resulted in a record operating EBITDA for any like quarterly period in Berry's history. The year-over-year improvements in operating EBITDA for the June 2013 quarter were accomplished primarily as a result of productivity, further cost reduction actions taken, better product mix, favorable net selling price to raw material costs, and sourcing savings. These actions allowed us to offset pressure on operating EBITDA in the quarter due to sluggish volume, which came in lower than our expectations, and the impact of lower asset leverage as we reduced finished goods inventory in our thermoform drink cup product lines. Free cash flow for the quarter was in line with our expectations and plan for the full year, despite higher working capital needs as a result of increased resin prices. Debt leverage at quarter end was 4.8, which is sequentially better than the March-ending quarter, and consistent with our strategic plan to continue to reduce our overall leverage.

Now, turning specifically to the quarterly financial performance, we achieved sales of \$1.221 billion and operating EBITDA of \$208 million, while generating \$63 million of adjusted free cash flow in the June 2013 quarter. Operating EBITDA increased almost 5% versus the same prior-year period on sales and volume that were 2% lower than the prior year. Adjusted net income per share for the June 2013 quarter was \$0.35, compared to \$0.22 for the same period in 2012. Operating EBITDA margin, defined by operating EBITDA divided by net sales, was strong for the 2013 quarter at 17%, up from 16% during the same quarter last year. The quarter continued to be pressured by weak customer demand, similar to the trends we have seen in the prior three quarters, and were below our expectations that we communicated in our last conference call.

While Berry does not have visibility to our customers' inventory positions, we believe that some of our customers, especially in distribution channels, have reduced their inventory levels in the first half of 2013 as plastic resin prices have risen significantly since the end of 2012. Also, I will remind you, Berry measures volumes on a pounds basis, and we typically experience about 0.5% reduction in volume per year due to light weighting and product redesign, which ultimately provides a benefit to our customers and to the Company. Given Berry's scale, breadth of product offerings and markets served across all aspects of plastics packaging, I would caution against oversimplifying our volume story. Indeed, many of our product lines saw very nice growth in the June-ending quarter, including bottles, vials, tubes, stretch and shrink films, and flexible personal care films, all where we believe we gained share in the quarter. The volume declines were primarily attributable to three of our product lines -- thermoformed plastic drink cups, consumer retail garbage bags, and printed flexible films.

Now, let me provide a little color to what we saw in the three areas that principally caused our volume declines. By far, the most significant was thermoformed drink cups. Just as a reminder, Berry revolutionized the plastic drink cup market when it invented the polypropylene deep-draw



thermoform process for cups back in the late 1990s. Since we introduced the product in 2001, our business has grown every single quarter, mostly by large, double-digit rates until the first quarter this year. Today, it is one of Berry's largest business segments, and we believe we are the clear market leader in North America.

However, as been discussed by some of our fast food and beverage customers in their current-quarter conference calls, consumer demand for cold drinks was negatively impacted in the first half of 2013. The US had a colder-than-normal winter and spring season this year, after a warmer-than-average same period last year, and this likely led to lower demand for cold drinks. For Berry, we also had some customers where we were the sole supplier of cups, who diversified their supply base, and we have seen some increased competitive pressure. We believe our product performance, quality, and cost position remains the best in the industry. I am pleased to report that volumes in July are stronger, and we continue to identify new channel and product opportunities that we believe will lead to increased future growth.

Retail trash bags, we've taken significant share with our Ruffies-branded product since the recession of 2008 as customers move towards our price-value proposition. This year we have seen some of our competitors take actions to recover volume. But overall, our share gain over the three-year period is still very good. And, finally, in our printed flexibles businesses, we were impacted by the bankruptcy at Hostess, as we were a supplier to their bread business. We were also affected by some operational challenges as we installed upgrades to our printing capabilities.

With regard to raw materials, plastic resin prices overall have risen substantially since the end of 2012. For PET and polyethylene, the rise has been consistent throughout the year, while polypropylene spiked in the first calendar quarter and then came down in the second, but is well above year-ending levels. This increase in resin has occurred, despite our view of weak overall demand, and has been driven by supply constraints and the convergence of West Texas and Brent crude prices above the \$100 level. Berry has continued to effectively shorten our resin pass-through time with customers, and that helped reduce the pressure on our earnings. But the higher cost negatively impacted working capital in the quarter. Experts who forecast resin are calling for flat prices throughout the remainder of the calendar year, but the ability to predict future resin prices has historically not been very accurate.

In April, we completed the acquisition of certain assets from one of our long-standing customers, Bijan Incorporated. As previously mentioned, this will contribute approximately \$25 million in incremental annual sales to Berry. This acquisition was fully integrated on day one, creates a win-win solution for Berry and Bijan, and is exactly the kind of acquisitions we have in mind that is consistent with the strategic initiatives we have been discussing with you. And now I will turn the call over to Jim, who will provide more specific details on Berry's financial results. Jim?

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**Jim Kratochvil** - *Berry Plastics Group, Inc. - EVP & CFO*

Thank you, John. And good morning to everyone. Please make note that, throughout my commentary, when I reference our Rigid business, know that this consists of both our Rigid Open Top and Rigid Closed Top segments. My comments surrounding our Flexible business will include our Engineered Materials and Flexible Packaging segments.

As Jon highlighted, net sales for the quarter were \$1.221 billion, compared to \$1.242 billion for the June 2012 quarter. The decrease was primarily attributed to a volume decline of 2% related to softer economic activity, the year-over-year adverse change in weather affecting our thermoformed drink cup products, reduction in raw material content and volume declines in our printed films, primarily impacted by a customer bankruptcy, partially offset by volume gains in certain of our product lines, such as personal care, stretch film, and bottles. Despite the fact that volumes remained subdued for the quarter throughout most of the packaging sector, our operating EBITDA and earnings performance continued to be strong. Specifically, adjusted net income per share for the June 2013 quarter was \$0.35, compared to \$0.22 for the same period in 2012.

Operating EBITDA was \$208 million for the June 2013 quarter, reflecting an increase of \$9 million, or almost 5%, from the \$199 million in the prior-year quarter. Interest expense during the June 2013 quarter was \$57 million, \$25 million lower than the prior-year expense of \$82 million. This reduction is related to the Company's debt refinancing in February of this year and proceeds used from the IPO to pay off the Company's 11% senior subordinated notes. Berry's overall operating EBITDA margin improved from 16% in the June 2012 quarter to 17% in the June 2013 quarter. Again, this increase reflects continued cost-reduction actions, volume gains in certain of our product lines, sourcing savings, and realized synergies.



Turning to our business segments, in the Rigid business, net sales decreased by 3%, primarily as a result volume declines of thermoformed drink cups mentioned earlier and product realignment to the Flexible business. Operating EBITDA increased 1% overall. The increase was primarily related to a favorable relationship of net selling price to direct material costs, partially offset by a reduction in operational leverage from management's decision to bring down drink cup inventory levels and volume declines during the quarter. Operating EBITDA margin for the Rigid business increased to 20% in the June 2013 quarter, compared to 19% in the June 2012 quarter.

In the Flexible business, net sales were flat year over year. The quarter was impacted positively by net selling price increases, product realignment, volume gains in our stretch and shrink films, and personal care products, along with acquisition volumes offset by soft customer demand, particularly in printed films, as mentioned earlier. Operating EBITDA increased 13% overall. This increase primarily resulted from cost-reduction actions taken, improvements in the relationship of net selling price to raw material costs, and acquisition synergy realization. Operating EBITDA margin for the Flexible business increased to 13% in the June 2013 quarter, compared to 12% in the prior-year quarter.

Looking at adjusted free cash flow, defined as cash from operations less net additions to property, plant, and equipment, in the June 2013 quarter we had positive adjusted free cash flow of \$63 million. This brought the Company's LTM-adjusted free cash flow to \$282 million. Going forward, we will continue to focus intently on maximizing free cash flow by closely managing the use of working capital alongside investing for future growth. Our investments in property, plant, and equipment are forecasted to be approximately \$230 million for fiscal 2013, with much of the funding used for new growth initiatives, international expansion, and new product launches. As always, we will continue to review the best avenues to reduce future cash interest expense, enhance shareholder value, and improve the Company's free cash flow position.

Our net debt at the end of June 2013 quarter was \$3.917 billion, compared to \$4.54 billion at the end of the June 2012 quarter. Our current 4.8 times leverage is 1 times less than in the same prior-year quarter as the result of continued focus on one of our principal strategies to reduce leverage to the 2 to 4 times range by maximizing our generation of free cash flow and improving earnings. Berry maintains more than ample liquidity, which is enhanced by businesses that generate substantial free cash flow. At the end of the June 2013 quarter, the Company had cash on hand of \$25 million, an unused borrowing capacity of \$539 million, providing a significant amount of liquidity totaling \$564 million. As a reminder, the Company has no material financial maintenance covenants associated with our debt facilities.

This concludes my financial review of the June 2013 quarter. At this time, I would like to turn it back to Jon.

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

Well, thank you, Jim. As I have mentioned on past calls, our strategic goals remain the same. We will continue to de-lever our balance sheet while growing organically with innovative new products, investing in international regions with high GDP growth rates, and continuing to execute on share-accretive acquisitions. Berry continues to significantly invest in creating innovative and differentiated new products for our customers. We continue to increase our investments in R&D and marketing and have recently expanded our corporate innovation team in order to accelerate the development of breakthrough technologies.

Many of the new packaging concepts that we are developing are at the interface of traditional rigid and flexible designs. Berry's strength in both areas uniquely positions us to take advantage of this new emerging field within the plastics-packaging space. We continue to be very excited about our new Versalite product line. This new, revolutionary solution for packages that provide thermal management incorporates a new material concept, together with new plastics-packaging manufacturing technologies to keep things both hot or cold. As mentioned previously, we intend to have our first commercial sales of Versalite during the September quarter. We are currently initiating trials with several well-known regional and nationally branded retailers who we believe, in total, have a served-market potential of over 3 billion cups in the segments we are targeting for Versalite.

In addition, we are planning a significant public marketing and advertising launch during the September quarter. Our current capacity of 300 million units will expand to 600 million units as the second production cell arrives and is installed. Our intentions are to add approximately 300 million units of capacity each quarter following. The Versalite material is made entirely of polypropylene, and thus, the Versalite cup will be, from a practical perspective, one of the most recyclable disposable cups in the US. We have recently teamed up with Preserve, a leading producer of



sustainable consumer goods, with focus on creating closed-loop products using recycled plastic. This partnership will focus on enhancing the awareness of the recyclability of #5 polypropylene plastic, and of Preserve's Gimme 5 program.

Preserve's Gimme 5 program is a consumer-powered recycling program that provides expanded recycling options for #5 plastics. Through the Company's Gimme 5 program, individuals have two ways to take part in #5 plastics recycling -- place their #5 plastic in specified recycling bins at participating retail locations or send it directly to Preserve. In turn, Preserve collects the #5 plastic, sorts it, cleans it, tests it, recycles it, and turns it into new Preserve products. Much of our innovation and growth conversation tend to focus on Versalite and new seal barricade products. But our pipeline of innovation is robust. Everyday products, such as the new French's Marinade Injector and McCormick's Spice Bottles, are just a couple of our most recent examples of our constant progress and relationship with our customers to create and manufacture products that will set them apart on store shelves. This focus on consumer-friendly, usable products will catapult our customers' success and drive innovation, as it has done over the past 45 years.

On the international front, Berry initiated the first important investment in our facility in Sorocaba, Brazil, consistent with our overseas growth goals. This capital project for specialty injection-molded closures will support several of our existing global multi-national customers. Now, I'd like to share some comments about our view of the upcoming September quarter. At the beginning of calendar year 2013, we had planned for volumes in the March-ending quarter to be modestly improved, while we anticipated that the following three quarters would show more substantial improving demand, similar to many who forecasted the overall US GDP. As we have discussed today, the June-ending quarter fell short of that plan.

Looking now at the remainder of the calendar year, we have modestly reduced our volume expectations for the next two quarters. We are forecasting the September-ending quarterly revenue to be positive and up slightly from last year, with the December-ending quarter to be better, in the range of 2% to 3% year-over-year growth. On a comparison basis, the September 2013 quarter will also have another challenge as resin prices fell substantially last year, and this year prices are forecasted as flat. Our September 2012 quarter was aided by an approximate \$11 million favorable tailwind related to resin lag, and we are forecasting a headwind for the September 2013 quarter of \$2 million, yielding a \$13 million overall earnings hurdle we must overcome. With the volume in resin challenges, we are further intensifying our cost-out actions, as we said we would, with new programs that include material and conversion efficiencies, sourcing savings, and other cost reductions. Taking into consideration the lower volume forecasts and resin headwinds, as well as our new cost-savings initiatives, we still anticipate a modest increase in our operating EBITDA in the September 2013 quarter versus the prior year.

Berry remains focused on our key initiatives, and we'll continue to relay our progress to you in upcoming quarters. Despite the ongoing weak economic environment, we are confident that Berry's ability to differentiate ourselves and offer value-creating innovation to our customers will enable us to grow. As always, I'm confident that the people at Berry will continue to drive our results and achieve our goals as they always have. I thank you for your continued interest in Berry Plastics, and now we are ready to answer your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator instructions)

Our first question comes from Ghansham Panjabi of Robert W. Baird. Please go ahead.

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**Ghansham Panjabi** - *Robert W. Baird & Company, Inc. - Analyst*

Hey, guys, good morning. You mentioned that there will be a significant marketing campaign, Jon, ahead of the Versalite rollout at the end of the September quarter. Can you help us quantify the impact for us?



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

Financially?

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**Ghansham Panjabi** - *Robert W. Baird & Company, Inc. - Analyst*

Yes.

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

In terms of the incremental costs?

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**Ghansham Panjabi** - *Robert W. Baird & Company, Inc. - Analyst*

Yes.

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

Again, I think those have been baked into our plan and are baked into the estimate that I gave you for the 2013 September quarter. And so, I think they are the appropriate thing for us to do, consistent with the plan we've had all along for Versalite.

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**Ghansham Panjabi** - *Robert W. Baird & Company, Inc. - Analyst*

Would it be sort of --?

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

They are baked into my estimate for what I think will happen in the September-ending quarter.

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**Ghansham Panjabi** - *Robert W. Baird & Company, Inc. - Analyst*

So, sort of a mid-single-digits million-dollar-type range? I'm just trying to compare it apples to apples, I guess.

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

I think it's going to be in the low-single-digit million number.

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**Ghansham Panjabi** - *Robert W. Baird & Company, Inc. - Analyst*

Okay. That's helpful. And then, you give us some parameters to think about for Versalite in terms of the capacity addition. Can you also talk about how the learning curve is proceeding from a manufacturing perspective, sort of spoilage rates, and also, how your labor force is being ramped up in front of that anticipated growth?



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

You know, we're building a new factory in Madisonville, Kentucky. That equipment's being installed. We've hired and recruited the skilled people that we need there, and we continue to recruit the remainder of the operations people we're going to need. We are trialing with several customers, very pleased with those results so far. Obviously, with any new manufacturing process and new product, there's a number of learnings that you gain there, all of which help improve your ability to produce a high-quality product. But none of those learnings are going to cause any impact on the schedule with the process.

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**Ghansham Panjabi** - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Got it. Thanks so much. Good luck with that.

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

Thanks. Yes, we're excited about that.

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**Operator**

Our next question comes from Alex Ovshey of Goldman Sachs. Please go ahead.

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**Alex Ovshey** - *Goldman Sachs - Analyst*

Thank you. Good morning, everyone.

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

Good morning, Alex.

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**Alex Ovshey** - *Goldman Sachs - Analyst*

Jon, the cold cups business -- you talked about weather impacting the volume trend in the June quarter. As we've started the September quarter, July seems like a much better weather month. Have you seen any recovery in the volume trend here and to start the September quarter?

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

Yes. Again, I think as I commented earlier, July volumes for drink cups are better. We are anticipating better volumes here in the September-ending quarter, but it's not yet transparent whether we can recover the gap that got created in the first two calendar quarters.

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**Alex Ovshey** - *Goldman Sachs - Analyst*

Okay. Thanks, Jon. And on the Versalite business, I appreciate the color there on the volume ramp and the marketing opportunity that you see there. Any incremental color you can give us on the financial impact, and how we should think about the potential benefit with the revenue line and profitability line here as you begin to ramp and sell the product over next 12 to 18 months?

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

The way I would think about that is we are talking to customers about offering product to them at a similar price to the kinds of cups that they use today, but they will get a greatly enhanced product. And the margins for that should be similar to our Rigid product business.

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**Alex Ovshey** - *Goldman Sachs - Analyst*

Got it, Jon. Thanks for that. And just a last quick one from me. You talked about broader volumes for the Company, not really showing too much improvement here in the back half of the calendar year. Is that more based on conservatism on your end, given we haven't seen much of an uptick? Or is that also based on conversations you're having with the customer base and what they are saying they think their end demand will be like?

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

There's a lot of people who forecast future economic growth, and they're a lot smarter than I am, so I won't tell you that my crystal ball is that great. As we put the plan together this year, we kind of looked at the consensus average of what people thought the US GDP growth would be for this year, and people generally thought that was going to be in the 2%, 2.5% kind of range. Obviously, the results for the second calendar quarter got reported this week, and while they were sequentially improved from the revised downward number of the first quarter, I would say that those numbers are well below what we had hoped at the beginning of the year. So now we are just sort of moving with the consensus, I think, for the second half of the year, which should be sequentially better. But again, I don't think it will be enough to offset the weakness in the first half.

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**Alex Ovshey** - *Goldman Sachs - Analyst*

Got it. Thanks, Jon.

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**Operator**

Our next question comes from Mark Wilde of Deutsche Bank. Please go ahead.

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**Mark Wilde** - *Deutsche Bank - Analyst*

Good morning. Just back to the Rigid Open Top and the drink cups, you were down about \$17 million year over year. Approximately how much of that would have been the drink cups?

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**Jim Kratochvil** - *Berry Plastics Group, Inc. - EVP & CFO*

A large portion.

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

Yes. The lion's share of that.

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**Mark Wilde** - *Deutsche Bank - Analyst*

Okay. And --

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

By far, the single biggest challenge we had in the quarter.

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**Mark Wilde** - *Deutsche Bank - Analyst*

Yes. All right. I'm just curious, Jon or Jim, I think historically, Berry's volumes had grown ahead of GDP, and it seems like over the last few quarters here, the volumes have really been lagging GDP. Have you come through periods like this before, and what do you expect going forward?

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

Mind you that, starting in 2010, we undertook a strategic endeavor to shed chronically low profit segments, especially in our Flexibles business.

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**Mark Wilde** - *Deutsche Bank - Analyst*

Right.

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

So that carried through to the end of last year. And much of what was happening -- but I won't deny that the first two quarters of this year -- again, most of that activity was done last year and the first two quarters of this year are slower than we had hoped.

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**Mark Wilde** - *Deutsche Bank - Analyst*

Yes. Okay. All right, that's it for me. Thanks, Jon.

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

Thanks.

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**Operator**

Our next question comes from Joe Stivaletti of Goldman Sachs. Please go ahead.

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**Joe Stivaletti** - *Goldman Sachs - Analyst*

Hi, good morning. I just wanted to follow up a little bit on the thermoforming cup business. You talked a little bit about increased competition and buyers wanting to diversify. I just wondered if you could maybe put that in a little bit better perspective just so we could understand the magnitude of those trends. And you seem comfortable that you're going to get back to a growth mode in that business. So, obviously, you feel that those aren't trends you cannot overcome. But I just wondered if you could talk a little bit more about what's going there and your outlook.

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

There were three -- as I discussed earlier, three factors which impacted the volume decline. One was the weather. One was the fact that, as Berry has grown so rapidly in this space, we had a number of customers who became quite large where we were sole source. And third was, we've seen some pressure from competitors here as the economy has remained weak. I would say the contributions of all of those were about the same.



**Joe Stivaletti** - *Goldman Sachs - Analyst*

But do you feel that, that's -- is that a continuing trend, where you think that the buyers are going to be diversifying their supplier sources, or do you think that's --?

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

I think there's a couple of factors. One is I think, obviously, the weather is the weather. I think, as we've discussed, that it's getting better. With regards to -- obviously, where we have very large or sole-source position with customers that we become a target. But also there's still a huge number of opportunities to convert paper and other non-plastic substrates to plastic, and that piece is actually much bigger. So I think as we get more aggressive, to continue to drive those conversions, we will get back on the growth track. And with regards to just competition in the marketplace, look, we love to compete, and we will be out there competing hard every quarter to make sure we hold and gain our share.

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**Joe Stivaletti** - *Goldman Sachs - Analyst*

Okay, great. And the second question was just about, on the resin front, resin versus price. You talked about making progress on that front in terms of shortening your lags. Can you update us on that in terms of how much progress you're making and are you sort of where you want to be? You think there's more to do? I just wanted to get an update there because I know that's been a big initiative.

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**Jim Kratochvil** - *Berry Plastics Group, Inc. - EVP & CFO*

This is Jim. I'll respond to that. We have made significant progress, and if you look at where we are in terms of the lag actually compared to the prior year, we are actually about \$5 million better in terms of our lag versus the prior year -- so, overall, in terms of the net impact change. So, we feel like we've done a good job with that, and we are continuing to be very careful as we look at new contracts and new businesses.

But resin does have an impact in terms of working capital to us -- continues to have that. That would be the biggest impact today. It's been negative, whereas the prior year, so we've had to work hard to overcome that. And in our cash will be -- cash flow will be impacted, depending on changes in the resin market as we look forward through the rest of the year, either positive or negative.

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**Joe Stivaletti** - *Goldman Sachs - Analyst*

Thank you.

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**Operator**

Our next question comes from Al Kabili of Macquarie. Please go ahead.

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**Al Kabili** - *Macquarie Research Equities - Analyst*

Hi, thanks. Yes, good morning. I guess, first is just a clarification on the September quarter outlook, and you highlighted expectations of higher year-on-year revenue growth. Can we -- how are you thinking about volumes because you did have the lower resin prices last year that sort of helps the comp on revenues. So how are you thinking about volumes year on year in the September quarter?

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

I'm assuming that sales revenues and physical volumes are the same.

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**Al Kabili** - *Macquarie Research Equities - Analyst*

Okay. That's helpful. All right. And then, the second question, Jon, is the bad weather. Did that have any impact on the closures business at all? Because there are a lot of beverage end markets there, obviously, as well. And, sequentially, to the degree that it did, what are we seeing in July?

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

We typically look at closures and divide it between specialty closures and then more core closures, which would go on to drink bottles and so forth. We saw the same pressure on the core side of our closures business, but the specialty side offset it. So it didn't have a net effect, but we thought clearly this trend with drink problems, cold drink, we saw the same phenomenon in drink cups that we saw in our closures business. But Berry's closures business is much larger on the specialty side than it is on the kind of core, CSC side. So the net effect was smaller there.

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**Al Kabili** - *Macquarie Research Equities - Analyst*

Okay. That's helpful. All right. Last question is just to the degree volumes are -- continue to remain kind of soft or sluggish, what do you think the opportunity is to accelerate cost savings from the current run rate? Is there any flexibility there?

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

We are already accelerating our cost-savings programs. And, obviously, with the pressures that I discussed for the September-ending quarter, the only way that we can achieve the result that we discussed is some contributions of incremental costs. The other thing we need to do is to get our new product pipeline to the end as fast as we can so that these exciting new innovation products start impacting our top line. Versalite will start here at the end of this year but won't really become more meaningful until next year.

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**Al Kabili** - *Macquarie Research Equities - Analyst*

Okay, great. Thank you.

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**Operator**

Our next question comes from Chris Manuel of Wells Fargo. Please go ahead.

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

Good morning, gentlemen. A couple of questions for you. First, if I could circle back to this deep-draw thermoform drink cup business for a second. This is quite a departure, maybe, from where we've been over the last couple of years and the last couple of quarters. I mean, it's the first negative quarter, and I recognize you've identified three factors, but of the three factors that have, as you pointed out, equally contributed to the -- or you suggested equally contributed to the decline, two of the three, with the exception being the weather one, are issues that likely will persist or won't continue into the future.

So I guess the departure I'm referring to, on a go-forward basis, are you now suggesting that this deep-draw thermoformed business is potentially a negative volume segment for you for the foreseeable future? Could you maybe give us a little color as to what --



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

Look, I don't believe that at all.

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

Okay.

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

Perhaps a little extra color on deep-draw thermoform cups. Look, remember in 2012, our business was growing at a robust rate. Very robust. In fact, we were starting to reach the ceiling of our capacity towards the middle of last year. And we were contemplating a decision to having to put in another major piece of capital equipment. That's a big decision. You know that process. And so, we decided to try to defer that capital investment to see where the market was. That perhaps led to some of the decisions around our competitive situation.

The second thing that it did though, more importantly, was we made a decision to -- because that business is very seasonal, we made a decision to build a lot of inventory in the winter, anticipating increased demand again this year. And so, this factor of being at the sort of top of our capacity constraints led to some of the decisions we made. Obviously, in the current market environment, we'll reassess that again. But I don't believe at all that we have reached the ability to continue to convert customers and other substrates to plastic, and I believe that we'll get back on top of that. And, at some point, we'll have to face the capital decision. But obviously in current market, it's not immediate. Does that help?

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

That's actually very, very helpful. Okay. That's very helpful. Let me -- one follow-up question I want to ask with respect to the Versalite, and that's appreciating their sort of what comes first, the chicken or the egg scenario. If you're in a position where you're adding a cell per quarter, so you're investing \$15 million a quarter and adding incremental capability. You mentioned that these customers have 3-ish billion units of served need. At what point do you, in a similar-type scenario, do you have to throttle back what you want to add before you are able to announce or have contracts in place? I guess my question is, as you sit today with the capacity you've got -- one cell in place, another coming on stream -- do you have contracts in place? And, at what point in time do you feel that -- or can you share that with us, I should say first?

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

Look, so we're in the trialing phase now. That's going very well. I think perhaps I'll ask Jim to comment -- the best sort of yardstick we have here is that we've been through this before with our thermoform drink cup business, mostly with many of the same customers. So I'll ask Jim to comment on how that phased in, and I suspect that Versalite will be much the same.

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**Jim Kratochvil** - *Berry Plastics Group, Inc. - EVP & CFO*

Yes, as we grow our thermoform business, customers first have to trial and understand the functionality of the product and the acceptance within the stores. And within the thermoform business, it was customer by customer. It was test by test. It was region by region and DC by DC. So it's a business where product validation is important. To start with, we feel comfortable that we have a very good product, and it's in the process of being validated.

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

I'll just remind you of one more thing. The big difference is the served industry market for the Versalite-type cups is much larger than the market we had -- the potential we had for thermoform drink cups. So it's a much bigger served market.

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

That's helpful. Thank you.

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**Operator**

Our next question comes from Anthony Pettinari of Citigroup. Please go ahead.

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**Anthony Pettinari** - *Citigroup - Analyst*

Good morning. Apologies if I missed this in the earlier comments, but could you share the volume trends that you saw in Engineered Materials and Flexible Packaging during the quarter? And then you gave your kind of volume guidance for the current quarter. Is there any real difference between Rigid and Engineered Materials and Flexible Packaging with respect to your volume outlook for the upcoming quarter?

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**Jim Kratochvil** - *Berry Plastics Group, Inc. - EVP & CFO*

In terms of Engineered Materials, we had some good news items, and we had some idea about some products that continue to be a little bit soft. Overall, we felt pretty good about Engineered Materials. There was a re-class of a product from the Open Top business to the Engineered Materials that was a relative -- our home and party business. It was more appropriately moved there. So that helped us as well. But this is an area of the business that -- Engineered Materials business is a business that we feel very good about because the core products in there have continued to perform very well from an EBITDA standpoint and have contributed nicely to the business. It may be just obvious from the math, but in order to have the forecast that we have for the September quarter, the sequential improvement needs to be larger in the Rigid business than Flexible. And that is, so far in the quarter, the way it's laying out.

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**Anthony Pettinari** - *Citigroup - Analyst*

Right. And then just a question on Barricade, NuSeal, understanding this product family is a little farther off. Can you give us any update on how you're thinking those products may come into market or any initial conversations you are having with existing customers?

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

That also tends to be -- it's very exciting. The key difference there is that we have to get through the testing cycles to ensure the food stability for the period of time that it has to be shelf stable. So there I think you'll likely see us move into the snack category first, and then later into products that are either in glass or metal. And that's the way it's progressing.

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**Anthony Pettinari** - *Citigroup - Analyst*

So when you think about timing of maybe customer trials, would that be --?



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

They are ongoing as we speak. I think you're looking at the revenues -- again, the revenues will build in there, probably starting late this year or beginning of next year.

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**Anthony Pettinari** - *Citigroup - Analyst*

Okay, that's helpful. I'll turn it over.

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**Operator**

Our next question comes from Mark Wilde of Deutsche Bank. Please go ahead.

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**Mark Wilde** - *Deutsche Bank - Analyst*

Yes, just one more Versalite question. I'm just curious, Jon. It sounds like you're going to really go after, whether it's fast food restaurants, coffee shops, things like that, rather than moving some of these cups just through more of a generic food service channel. Is that correct?

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

Actually we have a very defined strategy that goes in three phases. The first phase is retailers of hot drinks and some cold drinks, both Tier 1, Tier 2. Tier 1 being the people you know. Tier 2, you know those as well. But don't forget about convenience marts and truck stops and those sorts of things. So that's Phase 1. Phase 2 is more designed to go through distribution. So there you think of things like sports franchises, offices, hotels, people that have brands, theme parks, and so forth. That generally goes through distribution. And then as we build the Versalite brand name and build consumer awareness around the great performance that this product has, then we will look at direct-to-retail channels like big boxes and grocers. By then, customers will be so excited about the fact that they don't burn their hands anymore when they get a cup of coffee, that it should go well.

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**Mark Wilde** - *Deutsche Bank - Analyst*

Okay. And a while back, Jon, you were talking about potentially one of your key equipment suppliers actually ramping up their capability to provide you with new lines more rapidly. Can you update us there?

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

Yes, look, they're entertaining that, but I want to be cautious that we have not discussed any expanded commercial relationships between our companies. But they're considering an expansion of their capacity and, I think as -- and they hopefully are seeing the potential that's being created by this exciting new product. So, as they finalize that decision, we'll have more to say about it, but they are considering an expansion.

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**Mark Wilde** - *Deutsche Bank - Analyst*

Okay. And, just to be clear, you've talked a couple of times now about this project down in Brazil. Is that actually in production right now, or are you just putting in the facility?

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

Again, on a scale basis, it's smaller, but it should start contributing to revenues in the first calendar quarter of next year.

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**Mark Wilde** - *Deutsche Bank - Analyst*

Okay. Well, we'll look forward to hearing more about that. Thank you.

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**Operator**

(Operator instructions)

Our next question comes from Glenn Primack of One Primary. Please go ahead.

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**Glenn Primack** - *PEAK6 Investments - Analyst*

That's PEAK6. (laughter) Just a quick one, again. Versalite, I guess it's a hot topic, pun intended. (laughter) The customers there -- is part of their interest and demand driven by simply the sustainability aspect and easy -- you can recycle it very easily relative to what they might have in place today?

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

I think the primary driver is a greatly enhanced consumer experience. Right? So the consumer -- I'm always amused watching people carry a cup of coffee. They've got their fingers sort of on the top and the bottom of the cup, or they are afraid to grab onto it. So I think it's a greatly enhanced consumer experience -- is the primary driver. The second driver is, look, our customers are going to be able to deliver that experience to consumers without having to add substantially to their costs. And the facilitator that allows all of this to work is that the product needs to be recyclable.

And so, I think that's the way we view it. Recycling is an absolutely key -- it's a facilitator. We don't want these products to accumulate in the environment or to be an eyesore, so we are working very hard on that. But I think the number one driver is going to be a greatly enhanced consumer experience.

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**Glenn Primack** - *PEAK6 Investments - Analyst*

Okay. Some of those Tier 1 and Tier 2s are yet to have a solution on the hot cup that's sustainable and green.

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

The important thing here is we are really focused on recycle and reuse. And so that's why we're working with Preserve, and that's why we are excited about the Gimme 5 program.

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**Glenn Primack** - *PEAK6 Investments - Analyst*

Okay. Great. Looking forward to the Analyst Day.

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

Great.

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**Operator**

And I'm showing no further questions at this time.

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

Again, let me wrap up the today's call by thanking all of you for your interest in Berry Plastics, and we look forward to talking with you again at the end of the September-ending quarter. And seeing many of you here in Evansville for our Investor Days. Thanks, everybody.

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**Operator**

Ladies and gentlemen, this does conclude today's conference. You may all disconnect and have a wonderful day.

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