Berry's 4th Quarter and Fiscal Year 2024 Earnings Transcript

Please view these remarks in conjunction with our Q4 2024 earnings release and Q4 2024 supplemental presentation that can be found on our website at www.berryglobal.com under the Investors section, or via the following link: https://ir.berryglobal.com/

Cautionary statement

As referenced on slide 2 and 3 in our investor presentation certain non-GAAP financial measures will be referenced. These measures are reconciled to the most directly comparable GAAP financial measures in our earnings press release and presentation, which were made public earlier this morning. Additionally, we make forward looking statements that are subject to risks and uncertainties. Actual results or outcomes may differ materially from those that may be expressed or implied in our forward-looking statements. Some factors that could cause the results or outcomes to differ are in the company's latest 10-K, our other SEC filings and our news releases.

Chief Executive Officer, Kevin Kwilinski

Our key takeaways for today are on **slide 5**. This is a significant quarter for Berry on many fronts – but mainly because in early November, we finalized the spin/merger transaction of our Health, Hygiene Nonwoven and films business ('HHNF') business with Glatfelter. This marks an important milestone in Berry's transition to becoming a streamlined and focused provider of consumer packaging which I will talk more about momentarily. I am excited about the future and the opportunity to help customers around the world address their toughest challenges.

As we move forward, we will deliver enhanced value to our shareholders by remaining laser-focused on three key objectives:

- Accelerate organic growth;
- Increase margins from improved operations; and
- Continue to deleverage.

I am pleased to note that we made tangible progress against all three of these objectives in the fourth quarter. Our team delivered strong financial results, driven by solid performance by our underlying businesses, strong execution and organic volume growth. This led us to achieve our guidance targets for fiscal 2024 of adjusted earnings per share and free cash flow. We also achieved our leverage goal of 3.5 times, the lowest in the Company's history, and within our long-term targeted leverage range. We delivered substantial cash flows – as reflected in our core business results in fiscal 2024 and with more to come in fiscal 2025 as we continue to make progress in portfolio optimization. This performance and the strength of our underlying business model have given our Board the confidence to raise our quarterly dividend by approximately 13% on top of a 10% increase last year.

Our proactive measures to reposition our portfolio to higher growth consumer markets and reduce our cost structure enabled the Company to outperform in a weaker than normal macro demand environment. The resilience of our go-forward business model is one of the key benefits of our post-spin structure, and we will continue to operate with agility as we navigate current market dynamics to deliver long-term sustainable growth.

We have a lot of conviction in the strength of our underlying businesses, our customer value proposition, and our execution capabilities. The go-forward Berry is differentiated by our strong spotlight on customer-focused service and our comprehensive product portfolio. The implementation of lean manufacturing makes us incredibly nimble to flex up or down as demand fluctuates.

We look forward to building upon our momentum heading into fiscal 2025. In '25, we expect earnings performance to continue to improve, with volume growth in the low single digits. We also intend to continue to reduce debt, which Mark will highlight in more detail.

Turning to what we call “the new Berry” on **slide 6**. Berry is now a leading pure-play supplier of sustainable global packaging solutions. By focusing on fast-moving consumer goods, we aim to achieve more predictable earnings growth and cash generation, enhancing the stability and resilience of our business. We are the #1 or #2 manufacturer in approximately 75% of the markets we serve. With a more focused portfolio, we believe we can drive significant value for all stakeholders while delivering sustainable packaging solutions at scale worldwide. Our three remaining segments deliver strong profit margins and returns, and we will continue to increase our consumer-facing products within each segment.

Looking at **slide 7,** our strategic investments, particularly in key end markets like healthcare, personal care/beauty, and foodservice, are positioning us for long-term sustainable growth. These markets offer higher growth and higher margins, enhancing the mix for our overall portfolio. Moreover, we are passionate about innovation and sustainability, utilizing our product design leadership to continuously develop products that meet our customers' needs and expectations. Our European leadership around sustainability gives us a global growth platform for innovative, sustainable-focused products. Our goal is to use these targeted investments to support growth in our stable, non-cyclical, consumer-focused markets from 70% of our portfolio today to more than 80% over the long-term.

On **slide 8,** you can see our pro forma fiscal 2024 EBITDA, excluding HHNF, is $1.765 billion. Notably, we have grown EBITDA every year since 2021, even before transitioning to our new model. With a more streamlined and aligned portfolio, our three remaining segments will generate solid profit margins and returns, allowing our management teams to be fully focused on driving long-term growth. Our emphasis on faster-growing markets, combined with favorable product characteristics, ensures consistency and stability in our earnings. The proceeds from HHNF transaction, along with others in various stages of development, will accelerate our goal of improving our leverage profile and further enhance value for all stakeholders.

Moving to **slide 9,** we made significant progress on our customer excellence and lean transformation initiatives as we saw 20% plus monthly throughput improvements continue in our pilot facility, initiated three additional focus facilities, including one in Europe, and added additional lean experts to our central team in order to speed our transition. I expect that we will see our lean transformation extended to over 50% of our sites by the end of fiscal 2025. This focused effort on eliminating the sources of variation in our processes will lead to increased wallet share within our consumer packaging markets, open 20% plus capacity on existing assets, and reduce our conversion costs on a go forward basis. Additionally, we have a strong focus on enhancing the customer experience and will be making meaningful investments in ERP support systems, CRM systems and machine monitoring technology to reduce SG&A costs and expand margins longer-term. The capital investments are expected to cost around $250 million delivering savings of $100 million by the end of fiscal 2028.

On **slide 10**, while we have a new focus and a more streamlined product portfolio, Berry's near-term objectives are unchanged and I am happy to report we are delivering against these priorities. We are driving organic volume growth, progressing in both customer excellence and lean transformation while reducing our leverage and optimizing our portfolio all to create long-term shareholder value.

One of Berry's key strengths is our stable, consistent and growing cash flow. Coupled with the expected proceeds from our portfolio optimization initiative, we will have the flexibility to continue reducing leverage while also directing capital to the most value-maximizing opportunities. Over the past 3 years we have returned over $1.7 billion to shareholders while increasing our dividend in 2023 and 2024 by 10% and 13%, respectively.

Chief Financial Officer, Mark Miles

Financial result highlights are shown on **slide 11.** Our quarterly results were generally aligned with our expectations. We made strong progress in improving our product portfolio to drive organic volume as demonstrated in the second half of fiscal 2024 as we outlined in our call a year ago. Additionally, we improved our manufacturing cost structure in addition to providing enhanced quality and service to our customers by moving business to more efficient manufacturing assets and facilities. As volumes and demand continue to improve, we anticipate an incremental earnings benefit from more efficient assets.

We continue to face challenges posed by softer global market demand due to inflation. However, our strategic actions and focused approach are effectively mitigating these headwinds. This quarter, revenue increased by 3%, driven by both organic volume growth and higher selling prices. Operating EBITDA and adjusted earnings per share were both similar to last year as volume growth and cost reductions were offset by timing of raw material pass throughs and increased performance-based compensation. For the full year, we delivered our 12th consecutive year of record adjusted earnings per share.

Slide 12 shows our quarterly performance by each of our four operating segments. The segment review will focus on the year-over-year changes for fiscal Q4.

Starting with our Consumer Packaging International division, revenue was up 2% with 1% organic volume growth and higher selling prices with our European industrial markets showing some modest recovery compared to the prior year. Operating EBITDA increased by 1% compared to the same quarter last year, thanks to our structural cost reduction initiatives and positive organic volume growth. We continue to invest in our sustainability leadership and are expanding our presence in healthcare packaging, pharmaceutical devices, and multi-component dispensing systems, which we expect will enhance our organic growth with above average margins. At the end of the fiscal quarter, we re-aligned our resources within this segment to accelerate organic growth and innovation deployment across regions.

On **slide 13,** revenue in our Consumer Packaging North America division increased by 5%, primarily driven by 3% organic volume growth. This growth was broad based across many markets, including food, beverage, personal care, home care, and industrial. Operating EBITDA demonstrated solid performance, increasing by 2% compared to the same quarter last year. This growth was primarily driven by our cost reduction efforts and a 3% organic volume increase. Our teams have effectively navigated a weaker demand environment caused by inflation, achieving share gains from our integrated model from product design, manufacturing of tooling, and distribution with close proximity to customer facilities. Notably, we've seen numerous substrate conversions from paper, foam, glass, and metal to plastics. Our ongoing efforts include integrating more circular materials, offering sustainable solutions, and enhancing the end-consumer experience.

And on **slide 14,** revenue in our Flexibles division increased by 2% primarily driven by 1% organic volume growth and higher selling prices. The organic volume increase was led by our North America consumer films business and some recovery in European industrial markets. While overall industrial markets are still behind pre-Covid levels, we continue to see recovery across our markets. Operating EBITDA for the quarter decreased by $8 million compared to the prior year quarter from timing of raw material pass throughs including a timing lag tailwind in the prior year quarter partially offset by positive volume growth and structural cost reductions.

On **slide 15,** revenue in our Health, Hygiene, and Specialties division increased by 4% compared to the prior year. This result was driven by the pass-through of higher selling prices and with mixed overall volume demand. Operating EBITDA for the quarter decreased by $5 million compared to the prior year quarter, primarily attributed to negative product mix partially offset by our cost reduction initiatives. As we mentioned earlier, the majority of this segment has been spun and merged with Glatfelter. This newly formed Company, Magnera, is a global leader in the specialty materials industry. We want to thank our team for all their hard work and accomplishments and wish them the best as they begin their journey as a newly traded public company. The retained business of $380 million of revenue has been transitioned and is being operated by our Flexibles team. Historical results will be moved to the Flexibles segment going forward for comparison purposes.

Our consistent cash flows have enabled us to deliver substantial returns to our shareholders, underscoring our company's core strength and value. This financial stability allows us to invest in our businesses to drive organic volume growth, enhance efficiency, and simultaneously distribute capital to our shareholders. As shown on **slide 16**, our steadfast capital allocation strategy is rooted in returns and encompasses ongoing investments in growing markets, strategic portfolio management, debt repayment, share buybacks, and an increasing quarterly cash dividend. As Kevin mentioned, we are excited for the close of the HHNF transaction. Capitalizing on our robust and reliable cash flows, we further strengthened our solid balance sheet in fiscal 2024 with over $850 million of free cash flow providing a $600 million reduction in debt. As a reminder, due to the seasonality of our business, the timing of working capital and cash flows, our leverage will see its standard increase in the December quarter and subsequently decline as the fiscal year progresses. We expect further debt reduction in fiscal 2025 as we continue our path to an investment grade corporate credit rating, to be in-line with our investment grade rated first priority secured debt.

We believe we are well-positioned for continued value creation. Our strong cash flows have allowed us the flexibility to drive returns for our shareholders. As demonstrated on **slide 17,** Berry has reduced net debt by nearly $4 billion since mid-2019, along with nearly $2 billion returned to shareholders through both share repurchases and dividends over that past three years. By the end of fiscal 2025, we expect that we will have returned an impressive $6.1 billion of cumulative net debt reduction and capital returns since fiscal 2020.

As you can see on **slide 18,** Berry's track record of delivering strong results across various key financial metrics, including revenue, earnings, and free cash flow, underscores our consistent growth, and is a testament to the effective implementation of our strategies. We remain committed to enhancing long-term value for all stakeholders by maintaining a reliable and balanced portfolio. This consistency has withstood numerous economic cycles and since our last notable acquisition of RPC in 2019, we have generated free cash annually, ranging from $850 million and $1 billion. Furthermore, from an earnings standpoint, our annual adjusted EPS CAGR of 16%, from 2015 to 2024, significantly surpasses the peer average adjusted EPS CAGR of 7%. This achievement further solidifies our leading position in the industry.

Chief Executive Officer, Kevin Kwilinski

On **slide 19,** we expect to generate between $6.10 to $6.60 of adjusted earnings per share, comparable to fiscal year '24 of approximately $6.00 per share, which would deliver a 5% increase, at the midpoint, versus the '24 comparable earnings per share. Given the modest seasonality in the business, we expect earnings to be moderately stronger in the second half of the fiscal year, similar to fiscal 2024. As demonstrated in the second half of fiscal 2024, we expect volumes to be up low-single digits in fiscal 2025. Additionally, we expect free cash flow to be in the range of $600 million to $700 million, assuming cash from operations of $1.125 to $1.225 billion less capital expenditures of $525 million. Expected capital expenditures in 2025 are modestly higher than normal as we are investing additional capital and human resources into our information systems. We expect this investment will drive cost efficiencies and improve integration activities in Europe. Additionally, these IT systems will also support our new customer experience model leading to faster organic growth. These programs will drive over $100 million in annual incremental EBITDA that will begin with $40 million in fiscal 2026 accelerating to full run rate by the end of fiscal 2028. Furthermore, and in line with our focus on driving long-term shareholder value, in fiscal 2025, we expect to prioritize repayment of debt, to drive our leverage to the mid-point of our long-term target, along with further opportunistic share repurchases. Lastly, it's worth noting again that our Board of Directors, in recognition of our business's resiliency, strong financial health, and confidence in Berry's future, has approved a nearly 13% increase in our quarterly cash dividend on top of a 10% increase last year, resulting in a new annualized rate of $1.24 per share.

As shown on **slide 20,** Berry has a proven track record of meeting and often exceeding our objectives. Our long-term goals highlight the reliability and stability of our model, aiming for EBITDA growth of 4-6%, adjusted EPS growth of 7-12%, and total shareholder returns of 10-15%. We anticipate our dividend to grow annually and we expect, over time, to drive our leverage to the middle of our long-term target.

In summary, we are extremely enthusiastic with Berry's transition to becoming a streamlined and focused provider of consumer packaging. As we move forward, we will deliver enhanced value to our shareholders by pursuing three key strategic objectives: accelerating organic growth, increasing margins from improved operations, and deleveraging. We will continue to operate with agility as we navigate current market dynamics to deliver long-term sustainable growth. Additionally, we have taken steps to enhance our valuation multiple by strengthening our robust balance sheet, driving our leverage lower, and returning significant cash to shareholders. These initiatives, along with our strong cash generation, support our ability to drive strong returns for shareholders.

I want to close the with a thank you to our Berry employees around the world. All of whom demonstrated tremendous focus in fiscal 2024. Their hard work and dedication enabled us to finish the year strong and hit our guidance targets, and I want to publicly recognize their amazing efforts.