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PRESENTATION

Operator

Good day ladies and gentlemen, and thank you for standing by. Welcome to the Berry Plastics earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions). As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's presentation, Mr. Dustin Stilwell. Sir, please begin.

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

Good morning everyone. Thank you for joining us and welcome to Berry's first-quarter fiscal 2016 earnings call. Throughout this call, we will refer to the first fiscal quarter as the December 2015 quarter.

Joining me today from the Company I have Berry's Chairman and Chief Executive Officer Jon Rich, and Chief Financial Officer Mark Miles.

During this call, we will be discussing some non-GAAP financial measures, including operating EBITDA, adjusted EBITDA, and adjusted free cash flow. The most directly comparable GAAP financial measures and the reconciliation of the differences between the GAAP and non-GAAP financial measures are available in our earnings release and our public filings. Additionally, all data referenced today has been conformed to match our new organizational segment structure.

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 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, CEO*

Thank you Dustin. Good morning, everyone, and thank you for joining us.

This morning, we will review our overall quarterly financial performance, discuss the results of our three operating segments, provide our perspective on overall market conditions, and update everyone on our synergy expectations and integration progress with Avintiv as well as update our outlook for fiscal 2016.

To begin with, we had a very good start to our fiscal year. There was a significant amount of activity during the quarter as we closed on the acquisition of Avintiv on October 1, and embarked on the execution of integrating the business and achieving our synergy goals.

Additionally, as we described on our last earnings call, we reorganized the Company into three market-facing divisions to align us with our customers, provide improved service, drive future growth, and to facilitate the cost-saving synergies. While driving these changes, all three of our operating divisions had outstanding performance with increases in EBITDA and operating margins. The significantly improved earnings and volume growth in key product categories that we achieved in the quarter are a validation of the strategic rationale for the acquisition of Avintiv and a testament to the focus on execution by everyone at Berry.

Turning to our financial results for the December 2015 quarter, revenue came in at a quarterly record of \$1.612 billion. Operating EBITDA increased by 15% and was \$37 million higher than the prior-year period on a combined basis to a quarterly record of \$276 million. I'm also pleased to report operating EBITDA margins were 17.1% compared to 13.9% on a combined basis a year ago. These results were driven by improved volumes, lower raw material and sourcing costs, operational productivity and the realization of synergies. Mark will provide more detail on our financial results momentarily.

For today's discussion, it's important to note that the December 2015 ending quarter contained more shipping days compared to Berry's prior-year period as a result of where holidays fell in the calendar, along with an additional week in the December 2015 fiscal quarter. When Mark and I discuss volumes today, we will utilize average volumes per shipping day versus the prior year as the metric. Excluding these adjustments, on a reported basis for example, quarterly volumes in Consumer Packaging and Engineered Materials were up 4% and 6% respectively. On a normalized basis, total Berry volumes were flat versus the prior-year periods, which represents a modest improvement over the past several quarters. As a reminder, Berry measures physical volumes by pounds of plastic resin sold and we typically experiences 0.5% to 1% annual reduction in resin pound volumes due to light weighting and product redesign.

On a normalized basis, the health and hygiene portion of our HH&S divisions that include product areas such as components for medical masks and gowns and for disposable diapers grew globally 2% year-over-year with strong demand in North America and Europe. Volumes in the specialties portion of HH&S that include product for construction, agricultural, and industrial filtration were lower due to soft demand in South America and Europe, although volumes in specialties grew in North America by 3%.

Normalized volumes in our Engineered Materials business grew about 2% in the quarter with strong year-over-year growth in institutional can liners, stretch film and tapes.

Consumer Packaging normalized volumes were 1% lower than the same period in 2014. Overall consumer demand for packaged food products in the quarter was soft again as indicated by the Nielsen Food Survey that reported a 0.3% reduction in scanner data year-over-year for our overlapping food and nonfood categories.



While our total growth within Consumer Packaging for this period was in line with consumer demand, growing product segments outnumbered decliners. For example, volumes in containers, tubes, drink cups and prescription vials all grew in the quarter.

With regard to raw material costs, let me start by stating the obvious. Low oil prices are good for Berry. Historically, there has been a very tight correlation between oil prices and the cost of our key raw materials polyethylene and polypropylene.

As Mark will detail, in the quarter, we had significantly lower raw material costs on a year-over-year basis. During the quarter, oil fluctuated between \$40 and \$50 per barrel. And since the beginning of 2016, oil prices have fallen again dramatically, which could provide additional benefit to Berry if these conditions persist.

Within the polyethylene and polypropylene markets, there are specifics of each product that will also likely impact Berry. For example, large capacity expansions in polyethylene are anticipated coming online in North America that should benefit us, and recent price increases for polypropylene in North America may cause some near-term pressure. Overall, we continue to believe that the current trends in global oil and resin markets will advantage Berry.

Now I'll turn the call over to Mark who will review Berry's financial results in more detail, and then I'll come back to provide an update on our Avintiv acquisition as well as our outlook for the balance of fiscal 2016. Mark?

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

Thank you, Jon, and good morning everyone. As Jon previously mentioned, Berry posted record net sales for the quarter of \$1.612 billion. This \$392 million or 32% increase over the prior year of \$1.220 billion can be primarily attributed to the acquisition of Avintiv that closed on October 1, 2015.

Pro forma for the Avintiv transaction net sales for the prior year December quarter were \$1.719 billion. The 6% decrease from the prior year pro forma net sales is primarily attributed to a 5% decrease in net selling prices due to the pass-through of lower raw material costs and the 3% unfavorable impact from currency translation.

Net sales in our Consumer Packaging division decreased by 4% when compared to the prior-year period. The decrease was primarily attributed to an 8% reduction in net selling prices due to the pass-through of lower plastic resin costs, partially offset by a 4% increase in organic sales volumes.

As Jon noted earlier, base pounds sold on a normalized basis were down 1% with growth in many product categories such as drink cups, dairy containers and custom food and beverage films, offset by continued sluggish demand in certain markets.

Net sales for our Engineered Materials division decreased by 3% compared to the prior-year quarter. The decrease was primarily attributed to the 6% reduction in net selling prices due to the pass-through of lower raw material costs and a 2% unfavorable impact from currency translation, partially offset by a 6% increase in base volumes. Plastic resin pounds sold were almost 2% higher on a normalized basis, primarily from stronger demand in institutional can liners and specialty film products.

Net sales for our Health, Hygiene & Specialties division were \$564 million compared to pro forma net sales of \$628 million in the December 2014 quarter. The 10% decrease can be primarily attributed to an 8% unfavorable impact from currency translation. Normalized resin pounds sold were flat for the division although, as Jon mentioned, normalized volumes in our health and hygiene products increased 2%.

Now, from an earnings perspective, operating EBITDA margins increased to 17.1% in the quarter compared to an operating EBITDA margin of 13.9% in the same prior-year period on a combined basis. Operating EBITDA for Berry was a quarterly record of \$276 million for the December 2015 quarter compared to the combined Berry and Avintiv operating EBITDA of \$239 million in the prior-year period. This \$37 million or 15% increase in operating EBITDA included a product mix improvement along with a recovery in the relationship between net selling prices and direct raw material and freight costs of \$32 million, which included a favorable contractual ag benefit of approximately \$7 million and contributions from synergies.

In addition, net productivity improvements in manufacturing provided a year-over-year benefit of \$10 million. These positive contributions were partially offset by an unfavorable impact of \$3 million for translation of foreign currency due to the stronger US dollar on a year-over-year basis.

We are pleased to report that all three divisions recorded operating EBITDA margins in excess of 16% in the quarter. The Consumer Packaging division recorded \$116 million of operating EBITDA, representing an increase of 6% versus the prior-year quarter. This increase can be attributed to a recovery in the relationship between selling prices and raw material and freight costs along with net productivity improvements in manufacturing.

Operating EBITDA for our Engineered Materials division came in at \$65 million compared to \$55 million in the prior-year period. Margins increased by 350 basis points to 18% primarily related to product mix improvement and a recovery in the relationship between selling prices and raw material costs, base volume increases, net productivity improvements in manufacturing along with cost savings and SG&A.

Our HH&S division saw operating EBITDA of \$95 million in the quarter compared to \$79 million on a combined basis in the prior-year quarter. Margins increased by 480 basis points to 16.8%, primarily related to recovery in the relationship between selling prices and raw material costs, net productivity improvements in manufacturing and the realization of cost synergies.

Overall, operating income increased by \$18 million or 26% over the December 2014 quarter. This increase can be attributed to the items previously discussed that drove operating EBITDA improvements as well as disciplined, return-driven capital spending.

Adjusted operating income increased by \$46 million or 46% as the current period included \$31 million of Avintiv acquisition related charges of which \$7 million was a non-cash purchase accounting entry to record inventory at fair value.

As we further review the income statement for the December 2015 quarter, interest expense was \$75 million, compared to the prior-year expense of \$53 million. This \$22 million increase is primarily a result of borrowings associated with the purchase of Avintiv at the beginning of the quarter.

In alignment with our strategy to reduce debt, the Company made a voluntary term loan principal payment of \$50 million in the December quarter. Additionally, last week, we made another voluntary term loan principal payment of \$100 million.

Our expected cash interest expense for fiscal year 2016 remains at approximately \$270 million, which assumes we continue to utilize our free cash flow to reduce our debt throughout the year.

As a reminder, the Company has a pre-IPO tax receivable agreement. Under this arrangement, the Company remits 85% of its usage of pre-IPO NOLs to shareholders of record immediately prior to our IPO.

From a cash flow perspective, the Company is essentially a cash taxpayer with a 15% discount. Assuming no changes in tax regulations, we project that this will be the situation for the next two to four years. After utilization of the pre-IPO NOLs covered by the agreement, we will then use up the approximate \$400 million of federal NOLs included in the Avintiv acquisition, which will result in a period of no federal tax liability for Berry as we utilize those NOLs.

During the quarter, we made our annual payment under the tax receivable agreement, which was \$57 million. This payment is made once per year in the first fiscal quarter and therefore no further payments are due under this agreement for the remainder of fiscal 2016. We continue to estimate our fiscal 2016 effective tax rate for income statement purposes at approximately 32%.

Closing out the income statement discussion, for the quarter, Berry recorded adjusted net income per diluted share of \$0.35, representing an increase of approximately 30% from the prior-year period of \$0.27.

The current quarter included \$0.07 of estimated step-up depreciation and amortization expense from the Avintiv acquisition. Excluding this estimated step-up in D&A, our adjusted net income per diluted share for the quarter was \$0.42.

Adjusted free cash flow, defined as cash from operations less net spending on property, plant, and equipment and payments made under the tax receivable agreement, in the December 2015 quarter was \$45 million compared to \$36 million in the December 2014 period. The current quarter included \$30 million of nonrecurring cash uses associated with acquisition of Avintiv. Excluding these items, adjusted free cash flow was \$75 million or approximately 108% over the prior-year quarter.

The Company generated \$191 million of cash flow from operations in the December 2015 quarter compared to \$100 million in the prior-year period in spite of the \$30 million of nonrecurring cash uses associated with the acquisition of Avintiv in the quarter.

Our trailing 12-months adjusted free cash flow totals \$445 million. Using the stock price at the end of last week, the \$445 million LTM of adjusted free cash flow represents \$3.56 per diluted share of adjusted free cash flow, resulting in over a 12% free cash flow yield.

This concludes my financial review. Now I'll turn it back to Jon.

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

Thank you Mark. As we have said during prior conference calls, we continue to focus on our key strategic initiatives of reducing our debt to EBITDA ratio, driving organic growth, expanding internationally, and continuing to be disciplined while executing value accretive acquisitions that historically brought us success.

Our top priority is debt reduction and the deleveraging of our balance sheet. Our target has been to reside in a 3 to 4 times ratio net debt to adjusted EBITDA. At the announcement of the purchase of Avintiv, the ratio was 5.2 times on a pro forma basis. And I am pleased to report that, in just six months, we have reduced this ratio by 3/10 of a turn to a quarter-end level of 4.9 times.

Consistent with our stated goals to delever our balance sheet, Berry has voluntarily contributed \$150 million to early debt retirement since the start of the fiscal year in October 2015. Our plan for fiscal 2016 is to achieve a 0.5 turn or more reduction in leverage through free cash flow and earnings growth. We have a track record of generating substantial free cash flow and expect to do so again this year.

Behind leverage reduction, the other three strategic objectives of the Company are all growth-focused -- grow organically through innovation, grow internationally where demographics and middle-class expansion drive higher GDP rates, and grow through strategic and opportunistic acquisitions that enhance our capabilities. The transformational acquisition of Avintiv and subsequent reorganization of Berry into three market facing divisions are strategic enablers in all three targeted areas for growth. While it's only been a few short months since the acquisition of Avintiv, and even less time since the organizational realignment, the initial report card so far has exceeded our expectations.

We continue to believe that our HH&S division will meet the 2% growth target we outlined in the last call. The recent decision in China to allow families to have more than one child will benefit us. Even in Latin America, where GDP growth rates are currently in recession mode, we are seeing continued growth in health and hygiene markets.

With regards to the synergy benefits we anticipated from the Avintiv acquisition and Company reorganization, I am pleased to report that these actions are on track and exceeding our initial estimates. When we initially announced the Avintiv acquisition, we communicated a goal of \$50 million in expected cost synergies. Today, we are increasing that expectation to \$65 million and continue to believe that we will find further advantages as we proceed. If that's the case, we will announce it in future conference calls. As we have stated, these cost synergies are expected to be generated primarily from our combined purchasing power, savings and operations, and elimination of redundancy in SG&A costs.

Our Engineered Materials business is off to a stronger start than we initially predicted. Primary drivers for growth have been favorable raw material costs, increased activity in the industrial markets, and share gains in core film products. We are also experiencing positive sales momentum from our new high-end stretch film and recent product launches such as IRONFORCE branded tapes, which are exclusively available at the Home Depot.



For Consumer Packaging, domestic demand for packaged food goods and traffic at restaurants remains soft, even with improvements in unemployment and consumers receiving the benefit of lower gasoline costs. Despite this, as I described earlier, we grew the majority of our product lines in the quarter.

We continue to believe that full fiscal year volume in Consumer Packaging will be flat for the year with recent trends showing a very modest improvement. Also, we believe the addition of Avintiv's larger and stronger international business structures will enhance our ability to profitably grow our packaging businesses overseas. That work is underway, particularly with our existing multinational customers, but it will take some time to really impact our financial results.

With regards to guidance for the remainder of fiscal 2016, at the last conference call, we communicated full-year operating EBITDA and adjusted free cash goals of \$1.160 billion and \$475 million respectively. Given the strong start, we are increasing our operating EBITDA guidance for the full 2016 fiscal year by \$20 million to \$1.180 billion.

We anticipate \$20 million of additional cash costs in fiscal 2016 associated with the integration and achievement of the incremental cost synergies identified in the quarter. As a result, our annual free cash flow guidance remains at \$475 million, which is approximately \$3.80 per diluted share and a yield of nearly 13%.

In fiscal 2016, we continue to expect 2% overall sales volume growth. However, for the purposes of our fiscal 2016 guidance, we continue to utilize a more conservative assumption of flat overall volumes.

The \$475 million of adjusted free cash flow includes \$817 million of cash flow from operations, less \$285 million of capital spending and the \$57 million payment under our tax receivable agreement. As a reminder, approximately \$110 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. The estimate also assumes flat working capital with no change in plastic resin costs and constant currency rates.

Finally, Berry will continue to take the necessary proactive steps to remain competitive and a leader in the markets where we participate 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. And now we are ready to answer your questions.

QUESTIONS AND ANSWERS

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

(Operator Instructions). George Staphos, Bank of America Merrill Lynch.

Alex Wong - *BofA Merrill Lynch - Analyst*

It's actually Alex Wong sitting in for George. Thanks for all the details. The first question is on the volume outlook. It sounds like trends in product lines such as containers, tubes and drink cups, you're seeing some improved trends there. Could you provide a little more color or what you're hearing from your customers? On a related note, as we look out for volumes, what do you think are some upside or downside risks, whether it may be softness in Latin America or elsewhere?



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

I would say again that I think your assessment is correct. I'd say, in Consumer Packaging, we are seeing very modest but real improvements in demand across most of our product lines. That's encouraging. The health and hygiene segments that were part of the HH&S business that we acquired from Avintiv, generally stronger growth consistent with the strategy that we communicated when we acquired the business of balancing our portfolio between health, hygiene, and medical products and food products. I would say, in general, we are not seeing any economic slowdown as we hear about when people talk about the markets.

Alex Wong - *BofA Merrill Lynch - Analyst*

Okay, thank you. And as a follow-up, just on the free cash flow guidance, with the EBITDA guidance going up \$20 million but free cash flow staying the same, is that a function of restructuring cash, or can you just provide what the difference is there, please?

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

It's Mark. We increased our EBITDA, you're correct, by \$20 million, our guidance there, but we also increased our cash needs associated with the integration of Avintiv for the year by about the same amount, by \$20 million, which resulted in the same \$475 million of adjusted free cash for the year. So we identified more synergies but we also have more costs expected to achieve those synergies.

Operator

Ghansham Panjabi, Robert W. Baird.

Matt Krueger - *Robert W. Baird & Company, Inc. - Analyst*

This is actually Matt Krueger sitting in for Ghansham. How are you guys doing today?

First off, can you quantify the benefit from lower raw material costs during the quarter, just in terms of maybe a percentage of the margin expansion? And then what are your expectations for margin expansion if the raw material environment kind of stays the same, where it's at right now?

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

Sure. With respect to the benefit we received in the quarter with respect to raw material, just as a reminder, about 3/4 of our business moves based on published indices with resin, so it's just a lag. And that benefit was \$7 million in the quarter. In the prior year, it was actually unfavorable by \$2 million, so the year-over-year change was about a \$10 million change on that benefit. And I'll refer to Jon on the second part of that question.

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

I would just say that obviously our ability to forward forecast where revenue resin prices are going to go is not very transparent. As I said in my remarks, historically those costs do correlate with oil prices. With oil prices going down, that might suggest some future favorability, and if that's the case, they would likely enhance our operating margin for the reasons that Mark just discussed with the ratio of contract to noncontract customers.

Matt Krueger - *Robert W. Baird & Company, Inc. - Analyst*

Okay. That's helpful. And then given the Avintiv acquisition has made Berry a much more global business, can you parse out Avintiv's volumes by region for the quarter? And then how consistent is the volume performance during the first quarter of 2016 with kind of your expectations for the remainder of the year?



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

I would say we don't typically give out the regional information, but I can give you trends. I would say that volumes in North America have been very good, Europe and Asia up. And if there is a region where we are seeing some pressure, it's in Latin America. I think we are all aware of the economic challenges that are going on there. But I would break it out between health and hygiene and specialties. The health and hygiene piece, particularly our sales into diaper fabricators and so forth, continues to be good. Some pressure on the specialty side there related more to construction than industrial agricultural.

Matt Krueger - *Robert W. Baird & Company, Inc. - Analyst*

Okay. That's helpful. That's it for me. Thanks.

Operator

Anojja Shah, BMO Capital.

Anojja Shah - *BMO Capital Markets - Analyst*

I just wanted to get a sense of how you guys are thinking about M&A right now, given the turmoil in the markets, and maybe some more attractive valuations. Would you specifically rule out M&A over the next 12 to 18 months, or are you sort of open to it? Thanks.

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

We stated our priorities during the call. Again, we continue to remain focused on our top priority of deleveraging our balance sheet. But within our other strategic goals, one is to continue to look at value accretive acquisitions. I would say that our emphasis is in that order.

I'm not going to comment on the nature of the M&A markets other than to say the large volatility that you see in the markets in general are I'm sure causing some uncertainties in the M&A markets. And we continue to follow that. But our priorities are as we stated.

Anojja Shah - *BMO Capital Markets - Analyst*

Okay, great. Thank you.

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

I want to be clear. Look, I'm not specifically ruling out any actions, but we are going to execute on the priorities as I have stated.

Anojja Shah - *BMO Capital Markets - Analyst*

That's helpful. Thank you. And then a competitor recently announced plans for a new US nonwovens line aimed at the specialty wipes market. Are you guys in that market currently? And if so, can you just describe the market dynamics?

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

We are one of the largest providers of specialty wipes, and that market continues to grow. There is a tremendous advantage for customers to improve obviously the quality and effectiveness of the sanitation in their businesses, and so we are very excited about that market and it continues to grow.

Anojja Shah - *BMO Capital Markets - Analyst*

Okay. Great. That's it for me. Thank you.

Operator

Chris Manuel, Wells Fargo.

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

Good morning gentlemen, and congratulations on a strong start to your fiscal year.

I want to circle back to Avintiv for one second. Was there any -- two questions actually along the lines of volumes, but specifically wanted to focus on the Avintiv for one second. You did raise the synergy assumption I think you'd said \$65 million. Can you maybe give us a sense as to where that's coming from and timing for that? I am guessing it's outside of this fiscal year. It's probably coming in a little further out as you get into stuff. But just a sense as to is that part of the \$20 million raise in EBITDA target or not?

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

Obviously, that's a key part of the increase in our EBITDA target. A portion of that will fall through in the fiscal year, probably consistent with how we discussed the \$50 million initially dropping through. And those savings are coming in the areas I discussed, which are procurement, SG&A and operations effectiveness.

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

Okay. That's helpful. And then if we could maybe go into a little more into some of the volume stuff, was the trajectory much different through the quarter? With the Avintiv piece in particular, was it relatively consistent? I think you said up 2% as an average. But was it relatively consistent as you looked at the different geographies, or are you seeing anything different in some of the regions, given a lot of the strife in emerging markets we are seeing?

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

I'll remind you of the discussion we had. Of course on a monthly basis, there were differences between the years and the number of shipping days with the added days being mostly in December. If you adjust for that, I would say that we saw a trend of modestly improving demand throughout the quarter, and that seems to be continuing.

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

Okay. That's helpful. And was Avintiv different geographically? We've had a lot of issues or concerns in Latin America and China and the different pieces of the world. Is there anything that -- some regions doing better, some doing worse, than unusual to you?



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

North America was very strong, very pleased with the business in North America, and Europe was good. Latin America was strong in health and hygiene, but weaker in specialties, as I discussed before. And in Asia, we had a good quarter but we had -- we are anticipating that to improve as we've won some incremental business here throughout the year.

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

Okay, thank you much. And I apologize. We have a couple calls going on, so I apologize if you answered a few of those.

Operator

Debbie Jones, Deutsche Bank.

Debbie Jones - *Deutsche Bank - Analyst*

Good morning. I was hoping to talk about -- you mentioned some positive volume trajectories in your consumer business. Just kind of what specific categories are driving that? And then the categories that aren't performing very well, can you just address and what the issues are there?

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

I would say we are particularly pleased with increased consumer demand for dairy products. You can see that in the consumer trends. That has helped our container business as well as some new customers that we've won on the container side. So, I would say dairy is an improving area.

If I had to point a segment, we continue to look at bottles and closures as you think about CSD and so forth. I would say that that is still soft but, relative to past quarters, perhaps improved slightly as you heard from some of those customers as they reported their results this week.

Debbie Jones - *Deutsche Bank - Analyst*

Okay, so there's no kind of like specific underperforming categories in that segment?

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

Our trends look like consumer demand. I would say that we are very strong in the areas I discussed, and if we had a softer area, it was in bottles and closures for the reasons I discussed. But I would say that they are relatively improving. The rate at which they were worsening is declining.

Debbie Jones - *Deutsche Bank - Analyst*

Okay. Thank you. And I guess second question on Avintiv synergies. Thank you for the additional information there. I'm just curious though. As you kind of get hands around the business, what would you be most optimistic about looking ahead in terms of where additional opportunities would be, whether it be on procurement, SG&A or kind of revenue synergies that you've talked about in the past?



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

First of all, a tremendous amount of credit goes to both the Berry and Avintiv teams. They have done a fantastic job. I give credit to everybody involved. Integration has gone as well as we could have hoped. We are rapidly achieving the cost synergies that we discussed.

And if there is an area that I am particularly excited about, it's the opportunity to take the two product technologies from Berry and Avintiv, combine them together and come up with exciting new offerings for customers. That work is underway.

The other thing I'm very excited about is the stronger international capabilities that we acquired with Avintiv. I discussed that.

And so the speed at which Berry and Avintiv people came together and I would say the culture of the two companies was quite similar to begin with. That was extremely gratifying, great work by everybody. And now we have an opportunity to grow, so we will see how that works out.

Debbie Jones - *Deutsche Bank - Analyst*

Thanks. I'll turn it over.

Operator

Arun Viswanatan, RBC Capital.

Arun Viswanatan - *RBC Capital Markets - Analyst*

Thanks guys. Good morning. I was just curious. What are your customers telling you on their own demand outlook? Has there been any kind of improvement given lower oil prices, or is there any relationship there?

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

I would say, as I said before, we are seeing very modest but measurable improvements in demand. The root cause of that would only be a speculation by me, but obviously you see unemployment rates coming down; you see wage rates growing some. Consumers are obviously getting the benefit of lower gasoline prices. They have been extremely slow to spend that money, but perhaps we are starting to see the beginning of a trend there. And our volumes basically reflect the sentiment that we are hearing from our customers.

Arun Viswanatan - *RBC Capital Markets - Analyst*

Great. Then another question I had was just on polypropylene capacity. There's been a couple years of underinvestment there over the last five or seven years or so. There's a lot of propylene now that's coming online with PDH units. Do you see growth in polypropylene capacity over the next couple of years, and is that necessary for your own supply?

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

I think, for us, of course we look at all of the resins, polypropylene and polyethylene, on a global basis now. So Berry being much larger globally, we've expanded our capabilities to source material in the most cost-effective manner around the globe.

I would say, on a global basis, propylene is not short. Regionally, in North America, I anticipate that there will be some capacity additions put online as the return on those investments appear attractive to the people that have to make them. So, we would suspect that that's becoming more attractive, but we will have to wait and see.



Arun Viswanatan - RBC Capital Markets - Analyst

Great. Thank you.

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

I want to emphasize we are not seeing any shortages in work. We are having good -- we are executing well on our global sourcing strategy.

Arun Viswanatan - RBC Capital Markets - Analyst

Thanks.

Operator

Danny Moran, Macquarie.

Danny Moran - Macquarie Research - Analyst

Good morning. Congrats on the quarter. Just another one on Avintiv. You mentioned that it's on track and exceeding initial estimates. Was this purely on a synergy basis, or can you tell us, organic, Avintiv is tracking a bit better than your expectations?

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

I would say, organically, Avintiv is tracking as we had estimated during the diligence, so I think it performed as we had estimated. I think the cost synergies and the outstanding work between the two sides to achieve those faster and in larger amounts is what's driving the difference.

Danny Moran - Macquarie Research - Analyst

Okay, got it. And then just given the moves we've seen in resin, can you tell us what your EBITDA assumptions are for price costs this year? Any change from when you introduced fiscal 2016 guidance in fiscal 4Q?

Mark Miles - Berry Plastics Group, Inc. - CFO

We don't generally comment on that from a forward-looking position. As I said in the call, we generally estimate that resin is going to be flat on a year-over-year basis. That's still the assumption in our guidance. Obviously, oil prices have dropped, but we still have to see what's going to happen with resin prices here. And I think, as we complete a couple more quarters, the transparency of that for the full fiscal year will become more apparent. And at that time, if it's a change from the flat forecast, we will comment on it.

Danny Moran - Macquarie Research - Analyst

Okay. Got it. Good luck on the rest of the year. Thanks.

Operator

(Operator Instructions). Bill Hoffmann, RBC Capital.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Good morning. I wonder if you could talk a little bit more about the HH&S segment, specifically the specialties. How much of that segment is in the specialties? And also, as we look at the March quarter here, have you seen any change in those trends? You were talking about softness in the December quarter. I just wonder if there's any change in trend in the March quarter.

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

Good morning. It's good to hear from you. I would say that typically the specialties is the smallest piece of the HH&S division, and it's largely in construction, agricultural and industrial segments. Their volumes in North America were quite good, as I said, but the main pressure came in Latin America, I think mostly related to the overall economic slowdown there which did not impact the health and hygiene piece to the degree it did the specialty piece.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Okay, thank you. And then just with regards to the capital spend, could you give us a little more detail on your thoughts? How much of that is incremental, how much of that is synergy savings, etc.?

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

Sure. Our capital budget for the year, the expectation is \$285 million. About a little over \$100 million of that is related to just maintenance, maintaining our facilities and equipment in top condition. The remaining capital was allocated towards cost reduction and growth projects, and they are reviewed on a case-by-case basis as presented to our internal capital committee.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Okay. Thank you. And then Jon, I just wonder if you could talk a little bit about some of the cross-selling opportunities that were originally talked about and identified. Any thoughts on quantification at this point, when you start to be able to get some of these opportunities?

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

We haven't talked about that mathematically, and I'm happy to do so in the future as that starts to become more realized. But to give you an example, Berry, before the acquisition of Avintiv, we were providing back-sheet infant diaper applications. Avintiv obviously is much more components. And so as we work with our customers there, those customers are excited about the concept of pre-assembly so they can reduce their conversion costs. They are also excited about incremental technologies. It's a very competitive space and it will allow them to differentiate themselves in a very tough marketplace. We are getting tremendous input from all of those customers about the range of things that we can do for them now that we couldn't do before. So I think, as those come to fruition, Bill, we will talk about them more in future calls.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Mostly 2017 and beyond, I would assume?

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

I think so, yes.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Okay. Thank you.

Operator

We have a follow-up from George Staphos, Bank of America Merrill Lynch.

George Staphos - *BofA Merrill Lynch - Analyst*

Good morning. Sorry, doing dueling conference calls today, and I apologize if you already answered these questions. But congratulations on the year and the start to fiscal 2016.

I guess my question, if I understand correctly, you've increased your synergy target to some degree. Where were you able to find incremental benefits that hadn't been in your initial plan? And it seems like you are spending more to get those. Is the return on these synergies as good as what you had initially projected, or kind of the first batch of synergies related to Avintiv? That's broad question number one.

Question number two, can you comment to what you are seeing in Avintiv's end markets, key end markets, as we are entering fiscal second quarter? Any particularly good or particularly weak spots, whether it's diapers in Latin America or what have you? If you could provide some color on some of the key products and end markets. Thank you.

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

I think, on the first question, the incremental synergies are largely coming from operational improvements and from further reductions in SG&A and corporate costs. Because of that, there's more restructuring costs associated with those, as we discussed in the call.

I think, in terms of the market for the HH&S division, or Avintiv in general, continue to be very pleased with the health and hygiene portion, North America very strong, Europe good. Asia will improve here as we go through the year because we've won a significant amount of new business in the quarter. So I feel good about that.

And the health and hygiene part of Latin America is still good, despite the very weak economies there. I would say that if we had softness, it was in the specialties part, which encompasses, George, products like filtration, house wrap, agriculture, and so forth. Those I think are more near-term sensitive to local economies, and we are weaker in Latin America for sure and somewhat soft in Europe as well.

George Staphos - *BofA Merrill Lynch - Analyst*

Thank you Jon.

Operator

Showing no additional questions at this time, I'd like to turn it back over to management for any closing remarks.

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

We certainly appreciate your interest in Berry Plastics. Thanks for joining the call today, and we look forward to talking with you at the end of the next quarter.



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

Thanks everybody.

Operator

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

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