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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Berry Plastics earnings conference call.

(Operator Instructions)

As a reminder, today's conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Mr. Dustin Stilwell, Head of Investor Relations. Sir you may begin.

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

Thanks, Mary. Good morning and welcome, everyone, to Berry Plastics' earnings conference call. Joining me from the Company today I have Jon Rich, our Chairman and Chief Executive Officer; Jim Kratochvil, our Chief Financial Officer; and Mark Miles, our Corporate Controller and Treasurer.

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 a reconciliation of the differences between the GAAP and non-GAAP financial measures are available in our earnings release and our public filings. An archived audio replay of this conference will also be available on the Company's website.

During this conference call, 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 our Form 10-K and other filings with the SEC. Therefore, the actual results of our operations and financial condition of the Company could differ materially from those expressed or implied in the forward-looking statements. On today's call, Jon and Jim will provide some detail about the current quarter,



an overview of our financial performance for our fourth fiscal quarter and 2013 fiscal year, and, before going into Q&A, provide some commentary on our outlook and plans for the 2014 fiscal year.

With that I would now like to turn the call over to Jon Rich.

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

Thank you, Dustin. Good morning, everyone. Thank you for joining us and welcome to the Berry Plastics fiscal fourth-quarter 2013 earnings call. Throughout this call we will refer to the fourth fiscal quarter as the September 2013 quarter. This morning we'll review our financial performance for the September 2013 quarter and the 2013 fiscal year, make a few comments on the overall business, and discuss the Company's outlook for 2014.

Before going through our normal review of the quarter, I want to comment on two recent changes regarding our Board and management team. In September, we announced the appointment of Ron Rolfe to our Board of Directors. His vast legal experience and his prior board assignments will be an asset to Berry. We would also like to thank Steve Graham of Graham Partners for his seven years of dedicated service to Berry as a member of our Board of Directors.

On Monday of this week, we announced that Jim Kratochvil, our CFO for the past 28 years, has decided to retire at the end of the year. As our Head of Finance since 1985, Jim helped lead the growth of our Company from \$20 million in net sales to over \$4.6 billion in fiscal 2013. During his tenure he has worked with five different CEOs. On behalf of the Board of Directors and the entire Berry team, I want to thank Jim for his outstanding and dedicated service to the Company. I will personally miss the advice and counsel he has provided to me during the past three years. For our investors, analysts and followers of Berry over the years, you've gotten to know Jim well and understand what he has meant to the Company. I'm sure all of you join me in wishing Jim, his wife Jane, their eight children and 10 grandchildren great joy and many more years of happiness as Jim begins his well-deserved retirement journey.

In conjunction with Jim's retirement, our Board of Directors elected the Company's long-time Treasurer and Controller Mark Miles to be our next CFO. We're very fortunate to have a financial executive with the leadership and skills that Mark brings to this role. His treasury, controller and public accounting experience, his extensive knowledge and understanding of Berry's business, and his strong leadership of our IPO and secondary offerings demonstrate that Mark is well prepared to help lead the Company's continued growth. Mark has worked closely with Jim during his 15-year career at Berry, which will support a seamless transition as we move into 2014. Mark's challenge will be to continue Jim's track record of growth for the Company. Congratulations, Mark.

And now let me turn it over briefly to Jim and then to Mark.

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

Thank you, Jon. I would like to take a moment to thank both our equity and bond investors for your support of Berry and myself these many years. It has been a tremendous privilege to spend most of my professional career with outstanding people, not only within Berry, but also with our customers, our vendors and our investors, who have all been important to me, but also vital to driving success for this great Company. I have complete confidence in Mark Miles as my successor and I suspect the transition to Mark will be extremely smooth. Let me turn it over to Mark for his comments.

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

Thanks, Jim. First, I want to congratulate Jim and his family on his well-deserved retirement, and thank Jim for his many contributions to Berry and me personally. I've been very fortunate to work alongside Jim as part of the management team since the Company had annual revenue of just over \$200 million. I look forward to working closely with Jon and our current and future investors to enhance shareholder value. And I'll turn it back to you, Jon.

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

Thanks, Jim and Mark. Now turning specifically to our quarterly and annual financial performance, we achieved sales of \$1.204 billion and operating EBITDA of \$194 million, while generating \$120 million of adjusted free cash flow in the September 2013 quarter. Our operating EBITDA decreased approximately 8% versus the same prior-year period on flat sales. Physical volumes were approximately 1% lower than the prior-year quarter. Adjusted net income per share for the September 2013 quarter was \$0.33 compared to \$0.34 for the same period in 2012. Full fiscal 2013 revenue came in at \$4.6 billion compared to \$4.8 billion last year. Operating EBITDA for fiscal 2013 was \$775 million compared to \$771 million in fiscal 2012. Jim will provide more details on our financial results momentarily.

As I commented at our September 17 Analyst Day, we faced several headwinds in the September 2013 ending quarter, especially when compared to the same period in 2012. By far the biggest challenge we had in the quarter was a significant increase in plastic resin costs, especially for polypropylene, versus last year. Costs for polyolefins were almost 20% higher than the September 2012 quarter. Berry has continued to effectively shorten our resin pass through time with customers, which helps reduce the pressure on earnings. However, prolonged higher resin costs did negatively impact operating EBITDA and working capital in the current quarter.

The September quarter continued to be pressured by soft consumer and customer demand, similar to the trends we have seen throughout 2013 and the back half of 2012. As I mentioned, physical volume in the quarter was down approximately 1% versus the same quarter in 2012. And while this was sequentially better than what we saw in the March and June ending quarters, it was below our forecast. Also, I'll remind you, Berry measures volume on a pounds basis and we typically experience about 0.5% to 1% reduction in volume per year due to lightweighting and product redesign, which ultimately provides a benefit to both our customers and to Berry.

The lower year-over-year volume weaknesses created a headwind in our EBITDA versus the September 2012 quarter. Volumes in our flexible businesses were stronger than the rigid businesses where thermoformed drink cups continued to lag the levels we achieved in 2012. The Nielsen food packaging survey showed that aggregate demand for packaged goods weakened slightly in the September ending quarter versus the first half of 2013. And our segments generally mirrored these results.

As we have throughout the year, and in the September ending quarter we took aggressive actions to reduce costs and improve productivity. Berry's total labor count on a same asset basis was reduced by 330 in the quarter, and we've had a further reduction of 110 people in October. The cost reductions were in operations and in SG&A. The improvements in productivity and lower overall conversion in SG&A costs, while not sufficient to overcome higher resin prices, did contribute to earnings in the September 2013 quarter versus the prior year.

As we have discussed in past conference calls, we continually evaluate our product and business portfolio to insure that we are dedicating resources to those product lines that are a best strategic fit for Berry Plastics. Consistent with that assessment, in late September, we sold our institutional foodservice kits and catering business to WNA, a division of Waddington Group Inc. The June LTM sales for the kits and catering business were approximately \$26 million. The assets were operating in the Company's Engineered Materials segment. Additionally, we completed the acquisition of Graphic Packaging's flexible plastics and film business in the first fiscal quarter of 2014. As previously mentioned, we expect this business to contribute approximately \$100 million in incremental annual net sales to Berry. The acquired business will be operated in the Flexible Packaging segment. We expect the acquisition to be fully integrated in fiscal 2014 and be net deleveraging post synergy realization within a year.

Now I'll turn the call over to Jim who will provide more specific details on Berry's financial results. And then come back and provide more detail on the actions Berry is taking. Jim?

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

Thank you, Jon, and good morning, 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 John highlighted, adjusted net income per share for the September 2013 quarter was \$0.33 compared to \$0.34 in the same period in 2012. Net sales for the quarter were \$1.204 billion, which is the same as the September 2012 quarter. Net sales for the September quarter were impacted negatively by a sales volume decline of 2%, primarily related to softer economic activity and the reduction in raw material content, offset by higher selling prices due to increased raw material costs. Operating EBITDA was \$194 million for the September 2013 quarter, reflecting a decrease of \$18 million, or 8%, from the \$212 million reported in the prior-year quarter. This decrease in operating EBITDA is primarily comprised of, first, an approximate \$18 million unfavorable impact related to the relationship of selling prices and raw material costs, of which \$14 million was related to the pass-through timing of our resin escalator/de-escalator contracts. Second, \$6 million from sales volume decline related to softer consumer spending and overall sluggish economic activity. And, third, a \$2 million unfavorable earnings impact from reducing finished goods inventory levels, partially offset by reduced SG&A costs of approximately \$8 million. As a reminder the September 2012 quarter results were favorably impacted by \$11 million related to the pass through timing of our resin escalator/de-escalator contract.

Turning to our business segments, in the Rigid business, net sales decreased by 3%, primarily as a result of a reduction in sales volumes and product realignment, partially offset by net selling price increases. The volume weakness is linked to our beverage cups and closure product lines, primarily as a result of weakness in carbonated soft drink demand. Operating EBITDA decreased by 14% overall for the Rigid divisions. This decrease was primarily attributed to a negative relationship of net selling price to direct material costs that were driven by the timing lag on resin contractual pass-through mechanisms, reduction in sales volumes, and reduced operating leverage as a result of our initiative to reduce finished goods inventory levels, partially offset by reduced SG&A costs.

In the Flexible business, net sales increased by 4%, primarily as a result of net selling price increases due to higher raw material costs and product realignment, partially offset by softer volumes. Operating EBITDA increased 2% overall. This increase is primarily attributed to cost reduction actions, partially offset by a negative relationship of net selling price to raw material cost.

Fiscal 2013 revenue came in at \$4.6 billion compared to \$4.8 billion in fiscal 2012. This decrease is primarily attributed to lower selling prices of 1%, and a sales volume decline of 2% related to soft customer demand, year-over-year adverse change in weather, and reductions in raw material content, partially offset by acquisition volumes related to Stopaq and Prime Level label, and sales volume gains in certain of our product lines. Operating EBITDA for fiscal 2013 was \$775 million compared to \$771 million in fiscal 2012. The 1% increase versus prior year is attributed to cost reduction actions taken throughout the year, the realization of business integration synergies, acquisition volume, positive relationship of net selling price to raw material costs, and certain product line volume increases, partially offset by volume softness in certain other product lines.

Interest expense during the September 2013 quarter was \$56 million, \$25 million lower than the prior year expense of \$81 million. This reduction is primarily related to the Company's debt refinancing in February of this year and proceeds from the IPO used to retire the Company's 11% senior subordinated notes. I would like to point out, if favorable markets exist, Berry has additional opportunities to lower interest expense through refinancing two pieces of higher coupon debt in our 9.5% and 9.75% second priority senior notes. The 9.5% notes become callable in May 2014 and the 9.75% notes become callable in January 2016. Assuming no change in short-term interest rates and no refinancing activity, we estimate fiscal 2014 cash interest to be approximately \$215 million.

Berry maintains more than ample liquidity, which is enhanced by businesses that generate substantial free cash flow. At the end of fiscal 2013, the Company had cash on hand of \$142 million, and unused borrowing capacity of \$531 million providing a significant amount of liquidity totaling \$673 million. As a reminder, the Company has no material financial maintenance covenants associated with our debt facilities. 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 fiscal 2013 was \$3.804 billion. Our current leverage, defined as net debt divided by adjusted EBITDA, which is at 4.8 times, is 0.7 times lower than our leverage at the end of fiscal 2012. And is a result of the IPO and continued focus on one of our principal strategies to reduce leverage by maximizing our generation of free cash flow and improving earnings. We feel confident that we will be able to generate the needed free cash flow to reduce our net debt in addition to growing our EBITDA to meet this goal.

Looking at adjusted free cash flow, defined as cash from operations less net additions to property, plant and equipment, in the September 2013 quarter, we had positive adjusted free cash flow of \$120 million. This brought the Company's fiscal 2013 adjusted free cash flow to \$243 million,



representing \$2.04 per diluted share, for a free cash flow yield of over 10% based on the market capitalization at fiscal year end. Going forward, we will continue to focus intently on maximizing free cash flow, alongside investing for future growth.

Now looking forward we estimate our fiscal 2014 adjusted free cash flow, after deducting the \$32 million tax receivable payment, to be approximately \$270 million. This estimate assumes flat pricing in plastic resin costs, and benefits in costs from our restructuring program initiatives that will be discussed later in the call. Our investments in property, plant and equipment are forecast to be approximately \$230 million for fiscal 2014. Roughly \$70 million of our annual capital spending is related to maintaining the good operating condition of our facilities and equipment, with the remaining dollars used to fund new growth initiatives, international expansion, and cost reduction initiatives. The tax receivable agreement payment, which is paid annually in the first fiscal quarter, was \$32 million for fiscal 2014.

This concludes my financial review of the September 2013 quarter and full fiscal year. At this time I'd like to turn it back to Jon.

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

Thank you, Jim. As we progress throughout 2013, the primary challenge Berry and our industry has faced is sluggish consumer demand for non-durable packaged goods, a condition that has persisted now over the past six quarters. Factors such as the slow rate of improvement in unemployment and stagnant wage rates have been identified by economists as contributing causes of the slow overall recovery from the recession. Economists generally overestimated the rate of GDP growth in 2012 and 2013. And it is difficult to see the catalyst that will drive significant improvements in economic growth rates for 2014. As such, we are building a plan based on the assumption that the economic growth rates will be similar to the current condition. In addition, we're being more conservative in our volume assumptions for our base businesses.

At the same time, we remain confident that maintaining focus on our four key strategic initiatives, which include: first, continuing to generate significant free cash while reducing our debt leverage; second, growing our business internationally where inherent GDP growth rates will be much higher than in the US; third, executing on value-adding acquisitions like the Graphic Packaging acquisition; and, fourth, investing in what we believe is the industry's most innovative new product pipeline, including breakthrough products like Versalite, will ultimately allow Berry to achieve above industry average sales and earnings growth rates and drive future shareholder value. As we approach 2014, we face, on the one hand, a continuation of the economic conditions that have impacted our base business this year, and on the other, we are transitioning to capture the positive impact of executing our four point strategic plan.

As we have discussed in other conference calls, Berry is taking actions in light of the weak economic activity to aggressively reduce our cost structure and align our base assets to demand. Today I want to detail some of those plans. Over the course of 2014, we are evaluating the closure and consolidation of five Berry factories. Three of those have been announced, including an Engineered Materials plant in Houston, Texas, a Flexible Packaging plant in Kent, Washington, and a Rigid Open Top plant in Alsip, Illinois. We will announce the others as the plans are finalized. Overall, we expect that these five facility closures and consolidations will generate approximately \$27 million in annual operating savings when fully implemented. We expect savings of \$9 million in fiscal 2014 that will begin to be realized in the March 2014 quarter. Full implementation is expected to be completed by the end of fiscal 2014, with the remaining \$18 million to be realized in fiscal 2015. The cash cost of the program is estimated at \$50 million, of which we estimate that \$13 million will be capital expenditures. These steps will result in an additional reduction in labor of about 200 people. We will continue to provide updates relating to the restructuring program throughout fiscal 2014.

In addition to these plant closures, Berry will continue to take steps to increase our asset utilization rates, reduce conversion costs, improve material efficiencies, leverage our sourcing and purchasing scale, and optimize our SG&A costs. As part of our 2014 plan, while the overall level of capital expenditures should remain similar to this year, we will increase investments consistent with our strategic goals, while reducing levels in our traditional base businesses.

Now let me quickly provide you an update on Versalite. As mentioned during our Investor Day, we had the first commercial sales during the September quarter. Subway was the first customer to trial Versalite for larger-sized cold cups typically used for iced tea. Additionally, a large convenience store customer has been market testing our hot cups for coffee applications. Commercial interest in Versalite remains high. And we are conducting additional customer market trials for both hot and cold cup applications. The feedback we are getting from these commercial trials mirrors what we learned in our own customer market test, confirming that consumers overwhelmingly prefer the performance in Versalite in



keeping drinks hot or cold. Amongst the learning from the trials is that some customers are looking for a broader profile of SKU offerings than we originally intended. And we are incorporating that into our investment plan.

I know that investors are interested in our progress towards commercial introduction of Versalite, so let me remind you of that process. The first step involves test market introduction with specific customers and specific limited geographies. We incorporate the learnings from those tests into the second step which is expansion to broader geographic store markets. The commercial introduction then generally goes by individual distribution centers, which eventually results in nationwide sales. While I know all of you are interested in which customers we are working with, for competitive reasons we are going to refrain from commenting until we further complete this process.

For now, we remain constrained only by our ability to install capacity and ship cups to customers. Versalite capacity additions continue at our Madisonville, Kentucky plant. Versalite production is done in manufacturing cells with each cell having the capacity to produce about 300 million cups. As stated before, our intentions are to add one cell each quarter or 1.2 billion units of capacity annually. The second cell is expected to be completed in the March 2014 quarter. Based on the feedback we are getting from customers, interest in Versalite remains very strong. Consistent with the plans we have been communicating to you about capacity additions, Berry placed an order for our third Versalite manufacturing cell in the September 2013 ending quarter. Overall, we remain on track with our introduction of Versalite and we are pleased with the progress.

Finally, after a year as a public company, Berry remains focused on our key strategies discussed earlier. Despite tough economic challenges, Berry has taken many necessary proactive steps to remain competitive and a leader in plastics packaging. Our enhanced focus on operational efficiencies and cost reduction actions pave the way for growth and success for Berry in the future. I'm confident that the people at Berry will continue to drive our results and achieve our goals, as they always have. Thank you for your continued interest in Berry Plastics. Now we're ready to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Al Kabili from Macquarie.

Al Kabili - Macquarie Research Equities - Analyst

Hello, thanks, and good morning. And just want to congratulate Mark on the upcoming new role. And, Jim, happy retirement to you. The first question is just on the free cash flow outlook. If you could also help us with how you're thinking about working capital and cash taxes.

Mark Miles - Berry Plastics Group, Inc. - Corporation Controller & Treasurer

Al, it's Mark. Thanks again for the congratulations. With respect to the taxes, the TRA payment was \$32 million. And it was made in the first fiscal quarter of 2014. With respect to working capital, we've assumed a flat resin environment for fiscal 2014.

Al Kabili - Macquarie Research Equities - Analyst

Okay. So, does that imply you're also thinking flattish working capital for 2014? And on the cash taxes, is there any initial thought on 2014 cash taxes?



Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

I'll go backwards. Other than a de minimis amount of international taxes, that will be our fiscal 2014 cash tax payment.

Al Kabili - *Macquarie Research Equities - Analyst*

Got it. Just the receivable agreement for the state taxes are also going to be pretty low?

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

Yes, our state tax and international are de minimis, less than \$10 million for the full fiscal year. And with respect to working capital, as we head into fiscal 2014, we're in pretty good shape from a working capital standpoint. So the only activity would be just what's driven from change in volume. So, to the extent volume is up a little bit, we'll obviously have a slight increase in working capital.

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

And Al we can't predict resin.

Al Kabili - *Macquarie Research Equities - Analyst*

Fair enough, okay. And then I think, Jon, you made some comments on volumes and cautionary comments there that it's still a challenging economic backdrop, and you've adjusted for that in your plan. Is there just any thoughts or any color you can give us on what your plan does assume for volumes in 2014?

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

It's been difficult to predict the upturn in consumer demand for non-durable goods. We're going to bake into our base plan the consensus opinion on GDP growth rates for next year in the US. And then we think we'll be able to augment on top of that some gains due to the execution on our strategic plan.

Al Kabili - *Macquarie Research Equities - Analyst*

Okay. This year your volumes were down. So if GDP stays the same as what it was this year, it sounds like you think you'd have better volume performance just from some of the new strategic plans that you've got? Am I hearing that right or would we expect volumes to be still down?

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

Yes, Al, I think on a comparison basis, we don't anticipate that next year will be the same magnitude of decline in thermoformed drink cups. So we think that will return to something that looks more like GDP growth rates. And then we'll augment that with some positive impact of our strategic plan.

Al Kabili - *Macquarie Research Equities - Analyst*

Okay, thanks. And then last question is just on pricing pressure. You mentioned that in previous calls, and I was just wondering, what you're seeing on the pricing front in terms of competitive pricing.

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

As I mentioned, we've gone through several quarters in a row of sluggish consumer demand. That weakness on the volume side has led to more competition in the marketplace for the volume that's available. But I think Jim walked through the bridge of our earnings in the September ending quarter 2013 versus 2012. And the impact of price there was much lower than the impact we saw on resin costs and volume impact.

Al Kabili - *Macquarie Research Equities - Analyst*

Okay, great. Good luck the rest of the year, and thanks again.

Operator

George Staphos from Bank of America.

Alex Wong - *BofA Merrill Lynch - Analyst*

Hello, good morning. It's actually Alex Wong sitting in for George. Congratulations, Jim, on your retirement. And congratulations, Mark, on your new role. First question, what should we assume for pension funding and cash restructuring in fiscal '14? And at this juncture what guidance can the Company provide on EBITDA and EPS?

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

Alex, it's Mark. With respect to pension, our annual pension cash cost in excess of the P&L expense is just under \$10 million. And I apologize, there was a second -- what was your second piece? The third piece was on EBITDA and EPS. We're not providing specific guidance on either of those.

Alex Wong - *BofA Merrill Lynch - Analyst*

Okay. And just on cash restructuring?

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

Cash restructuring, yes. The cash restructuring program that was described is about \$50 million. \$13 million of that is capital and included in the \$213 million annual capital guidance that we provided. \$230 million -- sorry, \$230 million -- so the \$13 million of CapEx in the restructuring program is included in the \$230 million annual CapEx guidance. The balance of \$37 million would be what you would need to pick up for other cash costs.

Alex Wong - *BofA Merrill Lynch - Analyst*

Okay, I appreciate that. And then, next, what impact was felt in volume from the discussion we've been hearing about on the banning of large-sized soft drinks? Maybe if you could discuss what you may be hearing from customers, as well.

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

I don't know the specific example that you're citing but we really haven't seen any impact of that. I would say that the overall weakness that we've seen in thermoformed drink cups is more economic-driven. And I'll also remind you that 2012 was an extremely strong year so the comp was more difficult. But I would say that, while we're watching everything that we see and read in the news, that item hasn't impacted us.

Alex Wong - *BofA Merrill Lynch - Analyst*

Okay. And then just lastly, just looking at your Flexible margins this quarter, under 1%, why should investors have confidence that you can generate returns in line with other Flexible Packaging companies? And maybe if you can discuss, when you've analyzed the business, what are some of the key issues that maybe you can give some color on?

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

I would say that we continue to make progress in our Flexible Packaging business. We are excited about that space because it is the fastest growing segment of all the packaging spaces, driven by the advantages you get from lower costs in form and function. We do really like the opportunity to create new products at the interface of rigid and flexible technologies. We have taken steps, we do have some exciting products there. We're also improving our cost structure. We've made some capital investments to upgrade some of our equipment there

The acquisition that we did with Graphic Packaging will have synergies that will improve not only that business but will roll over to the entire business. And so we remain confident in the plan that we have to improve margins in Flexible Packaging. We think we're pretty good at it and don't see any reason why we shouldn't be competitive with the industry.

Alex Wong - *BofA Merrill Lynch - Analyst*

Thanks very much. Good luck in fiscal '14.

Operator

Ghansham Panjabi from Robert W. Baird.

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

Hello, guys. Good morning, and congrats from our end, as well. Just a clarification question, if I could start off. The \$270 million of free cash flow, it sounds like it includes the \$13 million of capital spend for restructuring. Does it also include the \$37 million of cash restructuring?

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

Yes. Both are included.

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

Okay, great, that's helpful. And then, Mark, I know you're not giving guidance for EBITDA on an operating basis, but it sounds like you're assuming flat resin prices year-over-year. So, does that mean that price costs will be commensurately positive in fiscal year 2014 on a year-over-year basis?

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

I don't think it would be -- overall for the full fiscal year, it wasn't a meaningful number, so I don't think for fiscal '14 we're anticipating a meaningful number there, as well. It would be pretty similar.



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

But on a quarterly basis, as you model 2014, it would impact 3Q next year, right?

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

There would be some movements between quarter with respect to timing lag. Although I would say, as you think about the quarters overall, they're not materially different. Maybe slightly higher earnings in the back half of the fiscal year, mostly driven by the actions around the restructuring program.

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

Okay. And then maybe a question for you, Jon. A couple of your large potential customers for Versalite announced plans over the last few weeks to go towards a thicker paper cup essentially. Do you sense any change in customer appetite for plastic cups, for whatever reason, including the customers' view on -- perceived consumers' view on sustainability or whatever it is?

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

I would say that every customer who has had an opportunity to sample and test Versalite cups with consumers have been extremely pleased with the feedback that they've gotten. And I would also just remind you that Versalite will be, in a practical sense, the most readily recycled disposable cup in the industry because it's made 100% of Number 5 polypropylene. The number of communities that have Number 5 recycling now has gone up towards the 70% number. And so we remain very excited and confident in the plan. And I would just say that we have very large existing business relationships with most of the customers out there that are using disposable cups. And I feel very good about the progress we're making on Versalite.

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

Okay, good stuff. Thanks so much.

Operator

Gabe Hajde from Wells Fargo Securities.

Gabe Hajde - *Wells Fargo Securities - Analyst*

Good morning. Congrats to Mark, and Jim as well. First question, do you anticipate giving up or ceding any business, culling efforts again, as a part of the restructuring? Or is this simply moving production around to maximize profit?

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

We are working, and have been working, extremely close with our customers in terms of communicating with them what our plans are. Most of our customers are -- I would say all of our customers -- are very supportive of the actions that we're taking. They understand why we're doing it and anticipate that we will continue to supply them as we always have. The restructuring plan is not part of any product realignment activity. It's simply a -- efficiency and asset utilization exercise.

Gabe Hajde - Wells Fargo Securities - Analyst

Okay. And can you talk about at any time in the past when you guys have embarked upon such a sizeable realignment and how successful that was or when it was?

Jim Kratochvil - Berry Plastics Group, Inc. - CFO

Yes, we have done this type of operation many times in the history of the Company. Probably the most recent one we did was when we integrated the Rexam facilities and we, for example, just in that division we moved over 100 machines to many different locations. So the Company is very familiar with how to execute on this type of restructuring program, and have been able to do this successfully throughout our history.

Gabe Hajde - Wells Fargo Securities - Analyst

Okay. And one last one, a bigger picture question, I think, going through the diligence process and thinking about plastic as being a faster growing substrate. Can you maybe, Jon, talk about anything that comes to mind other than sluggish economic activity that is causing volumes to be flat to even slowly declining over the past 2 years?

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

I believe the number one contributor continues to be just the pressure that consumers have in terms of disposable income. If you think about just the growth of wages, particularly, and if you think about the pressures that consumers are under, they have actually deferred a lot of durable goods purchases for a number of years as the recovery has gone on.

And people are getting in a position where they are going to have to buy a car, they're going to have to buy some durable goods but their net disposable income hasn't changed. And so they are putting pressure on the non-durable goods side to try to make all the ends meet. I still believe that this is a phenomenon that will change, and that we will see a rebound back to more normal spending on non-durable goods. And we look forward to that. I'm quite sure that since we're taking a conservative approach to this year maybe that will be the light that will turn the overall economic activity up.

Gabe Hajde - Wells Fargo Securities - Analyst

Okay, thank you, good luck.

Operator

Scott Gaffner from Barclays.

Scott Gaffner - Barclays Capital - Analyst

Good morning. Congratulations, Jim and Mark. Jon, you mentioned before repeat of the GDP trends in 2014, similar to what we saw in 2013. I just was wondering, what are you seeing so far in November? Have things improved at all versus the September quarter?

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

Again, I would say that what we have seen is that there have been stops and starts in consumer demand. We certainly saw this in the September ending quarter where July was a very strong month, and then we saw some softness in August and September maybe related to the fact that the consumer was scared as they shut down the government and so forth.



I will say that October so far is the best month we have seen on a year-over-year basis. October has been a strong month. I will just remind everyone that from a comparison basis, you had Hurricane Sandy in October of 2012. So, on a comp basis, it was an easier month. But demand (technical difficulty) in October. But I would also caution everybody that the normal cycle of demand weakens considerably in the holiday season of November and December. So, October was a very good month but I don't want to carry that forward into any speculation on how the total quarter will end up.

Scott Gaffner - *Barclays Capital - Analyst*

Understood, I can appreciate that. Just switching over to Versalite for a minute, a couple of questions here. One, you mentioned that Subway and this midwestern convenience store were still in test. What's the process to move from commercial test to full-scale sales? And then, second on Versalite, you mentioned alternative SKUs. Are you talking alternative drink cup SKUs or are these different products outside of drink cups even?

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

With regards to the trials that we are running, the process is the one I described in my prepared remarks. It goes through a couple of steps to get feedback from customers, broader tests, broader geographies, and so forth. As we run those tests, some customers have expressed interest in matching more closely the existing SKU portfolio that they have in their stores. And so we have worked cooperatively with them to make sure that those sizes -- in that case, I'm talking specifically about drink cups.

But, at the same time, we are working with a number of other customers who are looking at non drink cup applications. And as we have said all along, we view Versalite as a packaging technology for thermal management, not just a drink cup business per se. And we have installed some equipment to serve some of those markets.

Scott Gaffner - *Barclays Capital - Analyst*

Thank you.

Operator

Anthony Pettinari from Citigroup.

Anthony Pettinari - *Citigroup - Analyst*

Good morning. And best wishes to Jim, and congratulations to Mark on the new role. In Rigid Open Top, I was wondering, is it possible to quantify how much beverage cup volumes were down for the year? And when you look at that business, obviously you've had resin headwinds, pretty bad weather, and a weak consumer in 2013. But are you seeing any change in competitive behavior or maybe competitor capacity adds in beverage cups that might be a challenge in 2014? Or can you give any color on the competitive dynamics in that business?

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

We don't typically comment on volumes in subsegments, so I'm not going to start that today. But drink cup volume, as we have been discussing all year, has been under some pressure. I would say the bigger problem on Open-Top margins is that's the business where we consume the most polypropylene in terms of the material we use. And that's where we've had the biggest chunk of the lag in polypropylene resin. I would say that's a bigger factor than the volume issue.



In terms of the competitive dynamics, it's always a pretty competitive space. I wouldn't say that we've seen anything materially different than the normal conditions. And I'm not going to comment on competitive activity in terms of capacity adds and so forth. But I would say industry-wide, no significant changes in installed capacity.

Anthony Pettinari - Citigroup - Analyst

Okay, that's helpful. And turning maybe to M&A, you've given your target debt range of 2 to 4 times, and deleveraging of maybe 0.5 turn a year. If there were complementary assets out there that were maybe of the larger size, would you look at going -- staying beyond that 4 times leverage level? And if so, what are the circumstances that you would -- or what are the criteria that you would use to maybe look at a larger acquisition?

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

First, let me reiterate that we're committed to the four-point strategic plan that I outlaid, and don't have any potential at the moment to deviate from that. I'm not going to engage in the hypothetical in terms of -- could I imagine a situation where we might come to our investor pool and communicate an opportunity that would cause us to rethink that. I wouldn't do that in advance. I'm not aware of anything like that at the moment and so we are committed to our strategy and we're going to stick to it.

Anthony Pettinari - Citigroup - Analyst

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

Operator

Mark Wilde from Deutsche Bank.

Mark Wilde - Deutsche Bank - Analyst

Good morning. You've made nice head way this year in terms of the margins in Engineered Materials. I'm just curious about whether you see further upside in Engineered Materials. And then maybe you could just remind us in the Flexible area what the target for margins would be over the next 2 or 3 years.

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

Yes. Really, really proud of what that team has been able to accomplish this year. I will just tell you as a matter of principle I expect all of our operating businesses to improve on a year-over-year basis, and Engineered Materials is no different from that. Really, we've done a good job across the board there. We got some benefit in our tapes business, specifically where we participate a little more in automotive and housing. We've had nice increases there.

But also on our core films business we've done an extremely good job. I think we've taken some share there. And we've also mixed up, as we've focused more on the value-added portions of our core films business. As you'll recall, a couple years ago we strategically withdrew from the more commoditized parts of that space. That turned out to be a good decision. And that team has done a very good job. And I expect that we will continue to make improvement next year.

Mark Wilde - Deutsche Bank - Analyst

And then just margins in the Flexible business, Jon?



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

Look, our goal all along is to continue to try to push our entire Flexible portfolio to the 15% margin range. And when we get there, we'll see what the next platform is. We're getting real close there on the Engineered Materials side. I think we've got opportunities to continue to drive margins on Flexible Packaging.

Mark Wilde - *Deutsche Bank - Analyst*

Okay, that's helpful. Good luck in the coming year.

Operator

Bill Hoffmann from RBC Capital Markets.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Thanks. And congrats, Jim and Mark, as well. Jon, just on the acquisition theory, as well here, as you look forward, just given the slow growth here domestically, any thoughts of shifting to the international piece of the portfolio?

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

I would say that we are moving down the strategy that we have as we've communicated as part of our four-point plan. Two points of that -- one is we want to grow internationally, especially in Latin America and Asia. We've discussed that before. Other things, we're looking for a value-adding acquisitions both domestically and overseas. So, when we can find opportunities that are consistent with those two strategies we'll execute on them.

Bill Hoffmann - *RBC Capital Markets - Analyst*

The real question is, are you pushing more there, this year coming up, or is it the same pace that you've been going at?

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

We have a very capable M&A organization and we push them hard every day.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Okay, thank you. And then just with regards to looking into next year from a planning standpoint, inventory management, could you just talk a little bit about your plans for next year's season?

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

Yes. As we ended fiscal 2013, Bill, our inventory, we feel like, is in pretty good position overall for the Company. Obviously on a daily basis we're continuing to manage our inventory levels and look to continue to optimize our inventory, as well as our service to our customers. But I wouldn't expect over the course of the next year any material movement in our inventory levels.

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

The only thing that's out there is, relative to the things we're doing with the various plants we're shutting down, we'll have to build inventories at times to make sure we protect our customers from any disruption or outage relative to transferring business. So, there will be some of that in and out through the year but that would be short term relative to those programs.

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

And net-net, Bill, after those are completed, we're typically a little bit lower, actually, after we get through those processes.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Right, okay. Thank you.

Operator

George Staphos from Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Hello, it's George Staphos. Sorry I joined the call late. Congratulations to everyone on their new roles. You're leaving the CFO position in good hands with Mark. And I apologize if this question has been asked already. The question really is for Jim. Jim, obviously in the time that we've known you, you clearly have seemed to enjoy talking about Berry Plastics, and were thoroughly involved in the business. And realizing that you have been with Berry a very long time, that was also true a year ago and 2 years ago. So, if I could ask, what considerations do you have as you're now retiring? What ultimately, to the extent that you can comment, what prompted that decision?

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

Sure. For 28 years, I have been able to miss numbers of opportunities with my children and with my wife. I've had to travel a tremendous amount. And, at this point in time, I have the -- basically I promised my wife that I would spend some more time with her versus what I have done for the last 28 years. So even though I love the Company, it's a tremendous Company, I want to spend time with my 10 grandkids before they're grown. Quite frankly, I have some work I want to do with my church. I have some missionary work that I want to do, that I've never been able to do. So, this is a time in my life that I think, while I'm still healthy, I can be able to do it.

But I have tremendous respect for the Company and I don't have a lack of passion for it. And the other thing was it's the perfect time because Mark is so capable to be able to handle this, the Company is in good shape. And I felt very strongly that I wanted to leave on a very positive note.

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

George, this is Jon. You know Evansville. It's not a large place. And I got a hunch Jim as a shareholder will continue to find his way to the office if he has advice for us.

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

I'm looking forward to calling in on conference calls and asking questions. (laughter)



George Staphos - *BofA Merrill Lynch - Analyst*

Will you allow him on the call, that's the question. (laughter)

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

I told Dustin I was going to introduce myself as George Staphos.

George Staphos - *BofA Merrill Lynch - Analyst*

Well, that would get you barred right away. (laughter) In any event, Jim, I appreciate your thoughts there, and your candor. And best of luck to you and your family.

The other question I have for you, we appreciate the free cash flow guidance, and that's helpful. But many of your other peer companies also provide some other parameters around guidance, whether it's EBITDA or earnings. And, look, all of us on this conference call on both sides of the phone have been doing this a long time, realizing there are no guarantees in life. So I'm wondering why at least not provide some parameters around EBITDA guidance so that at least we can know what assumptions or thought process with maybe a little bit more granularity that you have as you look out to 2014. Thanks. And good luck in the upcoming quarter and year.

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

Thanks, George. It's Mark. We'll continue to hear the advice of our investors and analysts but this is the direction that we've decided for the upcoming fiscal year.

George Staphos - *BofA Merrill Lynch - Analyst*

I appreciate that, Mark. Is there a reason why you don't want to give more guidance at this juncture? Recognizing that's your decision and we respect that.

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

Look, we feel like this is an appropriate measure for Berry. Free cash is something that is important to our investors and so we're driving to free cash flow. Again, we'll continue to evaluate the metrics. We feel like we've given quite a bit of the guidance, to be honest, with respect to the details of the free cash flow.

George Staphos - *BofA Merrill Lynch - Analyst*

Yes, understood.

Mark Miles - *Berry Plastics Group, Inc. - Corporation Controller & Treasurer*

So, anyway, appreciate the feedback though, George.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay, thanks very much.

Operator

Mark Wilde from Deutsche Bank.

Mark Wilde - *Deutsche Bank - Analyst*

Thanks. Just one follow-on on Versalite. I'm just curious, are there customers that you can't get at right now because your capacity is still quite limited, that could open up if we look 3 or 4 years down the line when you've got a bigger base to work off of?

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

I would say that right now, we are working with as many customers in terms of trials as we have the capacity to do those trials. There's a queue of people who are waiting, and understand the situation that we're in. As we expand our capacity we look forward to expanding our customer base. But as I have said, today we're just constrained by our ability to add capacity and ship cups out to customers.

Mark Wilde - *Deutsche Bank - Analyst*

And, Jon, I think in the past you've said that there's some potential that maybe you could increase the rate at which you add lines. That maybe some of your machinery vendors were going to be themselves investing more capital. Can you just update us on that? Could you foresee over the next 12 months increasing the pace at which you add capacity?

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

Those conversations are ongoing but I don't want to make a specific -- I'm going to let my vendors make a statement about that because I don't want to get ahead of them in terms of their commitments. I'll also say on the customer side -- back to your first question -- we are being very diligent to make sure that whatever customers we work with, that we're going to be in a position to supply their needs. And what we don't want to do is get into a situation where we've made commitments to customers and then we're not going to be in a position to be a reliable supplier to them. So, we're taking those steps. It's a chicken-and-egg problem. But we're very cautious about over committing to customers and then leaving them in the lurch.

Mark Wilde - *Deutsche Bank - Analyst*

Just one follow-on on that. Most of the national chains that you're dealing with, if they want to roll this out, they want to roll it out nationally rather than just regionally, is that correct?

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

Usually what the step is that you go distribution center by distribution center. It would be unusual for us to just be able to add a block of capacity so big that we could hit the entire nation. And we have this experience in hand because we did the same thing with thermoformed drink cups so we know how this works. It will go distribution by distribution center. And, look, our customers are very excited. At the end of the day, this is all about enhancing the consumer's experience. So our customers are working very collaboratively with us to get these cups into people's hands.

Mark Wilde - *Deutsche Bank - Analyst*

Okay, that's helpful. Thanks, Jon.

Operator

Thank you. I show no further questions and would like to turn the conference back to Management for closing remarks.

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

Again, as always, I would like to thank you for your interest in Berry Plastics. And we look forward to talking to you at the end of the second fiscal quarter. Thanks, everybody.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. And you may all disconnect at this time.

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