BEMIS CO INC
Form 10-Q
October 26, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2018

Commission File Number 1-5277

BEMIS COMPANY, INC.
(Exact name of registrant as specified in its charter)

Missouri	43-0178130
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2301 Industrial Drive	
Neenah, Wisconsin	54956
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (920) 527-5000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o

Non-accelerated filer o Smaller reporting company o

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company. YES o NO x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. As of October 24, 2018, the registrant had 91,016,975 shares of Common Stock, $0.10 par value, issued and outstanding.

Forward-Looking Statements

Unless otherwise indicated, references to "Bemis Company," the "Company," "we," "our," and "us" in this Quarterly Report on Form 10-Q refer to Bemis Company, Inc. and its consolidated subsidiaries.

This Quarterly Report contains certain estimates, predictions, and other “forward-looking statements” (as defined in the Private Securities Litigation Reform Act of 1995, and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended). Forward-looking statements are generally identified with the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “target,” “may,” “wil “project,” “should,” “continue,” “outlook,” “approximately,” “would,” “could,” or the negative thereof or other similar express or discussion of future goals or aspirations, which are predictions of or indicate future events and trends and which do not relate to historical matters. Such statements are based on information available to management as of the time of such statements and relate to, among other things, expectations of the business environment in which we operate, projections of future performance (financial and otherwise), including those of acquired companies, perceived opportunities in the market and statements regarding our strategy and vision. Forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may cause actual results, performance, or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Factors that could cause actual results to differ from those expected include, but are not limited to:

- Our pending merger with Amcor, including uncertainties as to timing of completion, the risk that the merger may not be completed in a timely manner or at all and the risk that our shareholders cannot be certain of the value of the consideration they will receive.
- The ability of our foreign operations to maintain working efficiencies, as well as properly adjust to continuing changes in global politics, legislation, and economic conditions;
- A failure to realize the full potential of our restructuring activities;
- Changes in the competitive conditions within our markets, as well as changes in the demand for our goods;
- Changes in the value of our goodwill and other intangible assets;
- Our ability to retain and build upon the relationships and sales of our key customers;
- The potential loss of business or increased costs due to customer or vendor consolidation;
- The costs, availability, and terms of acquiring our raw materials (particularly for polymer resins and adhesives), as well as our ability to pass any price changes on to our customers;
- Changes in import and export regulation that could subject us to liability or impair our ability to compete in international markets;
- Variances in key exchange rates that could affect the translation of the financial statements of our foreign entities;
- Our ability to effectively implement and update our global enterprise resource planning ("ERP") systems;
- Our ability to realize the benefits of our acquisitions and divestitures, and whether we are able to properly integrate those businesses we have acquired;
- Fluctuations in interest rates and our borrowing costs, along with other key financial variables;
- A potential failure in our information technology infrastructure or applications and their ability to protect our key functions from cyber-crime and other malicious content;
- Changes in our credit rating;
- Unexpected outcomes in our current and future administrative and litigation proceedings;
- Changes in governmental regulations, particularly in the areas of environmental, health and safety matters, fiscal incentives, and foreign investment;
- Our ability to effectively introduce new products into the market and to protect or retain our intellectual property rights;
- Changes in our ability to attract and retain high performance employees; and

- Our ability to manage all costs and the funded status associated with our pension plans.

These and other risks, uncertainties, and assumptions identified from time to time in our filings with the Securities and Exchange Commission, including without limitation, those described under Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 and our quarterly reports on Form 10-Q, including the risk factors highlighted in Item 1A of this quarterly report could cause actual future results to differ materially from those projected in the forward-looking statements. In addition, actual future results could differ materially from those projected in the forward-looking statements as a result of changes in the assumptions used in making such forward-looking statements.

You should read this Quarterly Report and the documents that we reference in this Quarterly Report and have filed as exhibits to this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
BEMIS COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)
(in millions, except per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	$1,026.4	$1,035.1	$3,087.1	$3,042.6
Cost of products sold (1)	821.4	827.1	2,482.4	2,450.2
Gross profit	205.0	208.0	604.7	592.4
Operating expenses:				
Selling, general, and administrative expenses (1)	90.9	95.9	284.6	290.5
Research and development costs	9.3	10.0	28.7	33.6
Restructuring and other costs	16.1	12.9	50.5	41.1
Other operating income	(4.4)	(7.8)	(11.4)	(13.9)
Operating income	93.1	97.0	252.3	241.1
Interest expense	18.9	16.7	56.5	48.7
Other non-operating income (1)	(0.5)	(1.7)	(2.1)	(5.0)
Income before income taxes	74.7	82.0	197.9	197.4
Income tax provision	17.2	26.4	46.1	62.7
Net income	$57.5	$55.6	$151.8	$134.7
Basic earnings per share	$0.63	$0.61	$1.66	$1.47
Diluted earnings per share	$0.63	$0.61	$1.66	$1.46
Cash dividends paid per share	$0.31	$0.30	$0.93	$0.90

(1) Prior year information has been recast to reflect the adoption of pension accounting changes during the first quarter of 2018 and conform to current year presentation. Refer to Note 3 - New Accounting Guidance for further details.

See accompanying notes to condensed consolidated financial statements.

BEMIS COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)
(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$57.5	$55.6	$151.8	$134.7
Other comprehensive income (loss):				
Translation adjustments	(17.9)	31.7	(98.1)	57.6
Pension and other postretirement liability adjustments, net of tax (a)	2.9	2.2	9.0	6.6
Other comprehensive income (loss)	(15.0)	33.9	(89.1)	64.2
Total comprehensive income (loss)	$42.5	$89.5	$62.7	$198.9
(a) Tax benefit related to pension and other postretirement liability adjustments	$1.1	$1.4	$3.1	$4.1

See accompanying notes to condensed consolidated financial statements.

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BEMIS COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)
(in millions)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$62.3	$71.1
Trade receivables	483.1	448.7
Inventories	627.7	620.2
Prepaid expenses and other current assets	86.1	97.1
Total current assets	1,259.2	1,237.1
Property and equipment, net	1,253.7	1,318.1
Goodwill	846.3	852.7
Other intangible assets, net	125.5	142.3
Deferred charges and other assets	119.7	149.7
Total other long-term assets	1,091.5	1,144.7
TOTAL ASSETS	$3,604.4	$3,699.9
LIABILITIES		
Current portion of long-term debt	$1.7	$5.0
Short-term borrowings	10.9	16.0
Accounts payable	513.4	477.2
Employee-related liabilities	98.3	73.1
Accrued income and other taxes	29.6	30.5
Other current liabilities	51.6	64.3
Total current liabilities	705.5	666.1
Long-term debt, less current portion	1,431.4	1,542.4
Deferred taxes	161.3	153.5
Other liabilities and deferred credits	118.9	136.7
Total liabilities	2,417.1	2,498.7
Commitments and contingencies (See Note 14)		
EQUITY		
Common stock issued (129.3 and 129.1 shares, respectively)	12.9	12.9
Capital in excess of par value	599.3	590.4
Retained earnings	2,391.1	2,324.8
Accumulated other comprehensive loss	(483.6)	(394.5)
Common stock held in treasury (38.3 shares at cost)	(1,332.4)	(1,332.4)
Total equity	1,187.3	1,201.2

TOTAL LIABILITIES AND EQUITY	$3,604.4	$3,699.9

See accompanying notes to condensed consolidated financial statements.

BEMIS COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
(in millions)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	$151.8	$134.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	126.5	127.5
Share-based compensation	14.6	13.0
Deferred income taxes	8.8	5.4
Income of unconsolidated affiliated company	(1.9)	(2.3)
Cash dividends received from unconsolidated affiliated company	2.7	—
Net loss on disposal of property and equipment	1.9	4.8
Changes in working capital, excluding effect of currency	(9.5)	8.2
Changes in other assets and liabilities	8.2	8.2
Net cash provided by operating activities	303.1	299.5
Cash flows from investing activities		
Additions to property and equipment	(113.0)	(143.0)
Business acquisitions and adjustments, net of cash acquired	—	(3.9)
Proceeds from sale of property and equipment	1.8	6.5
Net cash used in investing activities	(111.2)	(140.4)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	—	2.2
Repayment of long-term debt	(3.8)	—
Net repayment of commercial paper	(99.5)	1.0
Net repayment of short-term debt	(4.3)	(0.4)
Cash dividends paid to shareholders	(85.6)	(84.0)
Common stock purchased for the treasury	—	(103.8)
Stock incentive programs and related tax withholdings	(5.7)	(8.5)
Net cash used in financing activities	(198.9)	(193.5)
Effect of exchange rates on cash and cash equivalents	(1.8)	4.9
Net decrease in cash and cash equivalents	(8.8)	(29.5)
Cash and cash equivalents balance at beginning of year	71.1	74.2
Cash and cash equivalents balance at end of period	$62.3	$44.7

See accompanying notes to condensed consolidated financial statements.

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BEMIS COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(Unaudited)
(in millions)

	Common Stock	Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock Held In Treasury	Total
Balance at December 31, 2016	$ 12.9	$ 581.5	$ 2,341.7	$ (447.8)	$ (1,228.6)	$ 1,259.7
Net income			134.7			134.7
Other comprehensive income				64.2		64.2
Cash dividends declared on common stock			(83.4)			(83.4)
Stock incentive programs and related tax withholdings (0.3 shares)		(8.5)				(8.5)
Share-based compensation		13.0				13.0
Purchase of 2.2 shares of common stock for the treasury					(103.8)	(103.8)
Balance at September 30, 2017	$ 12.9	$ 586.0	$ 2,393.0	$ (383.6)	$ (1,332.4)	$ 1,275.9
Balance at December 31, 2017	$ 12.9	$ 590.4	$ 2,324.8	$ (394.5)	$ (1,332.4)	$ 1,201.2
Net income			151.8			151.8
Other comprehensive income				(89.1)		(89.1)
Cash dividends declared on common stock			(85.5)			(85.5)
Stock incentive programs and related tax withholdings (0.2 shares)		(5.7)				(5.7)
Share-based compensation		14.6				14.6
Balance at September 30, 2018	$ 12.9	$ 599.3	$ 2,391.1	$ (483.6)	$ (1,332.4)	$ 1,187.3

See accompanying notes to condensed consolidated financial statements.

BEMIS COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Bemis Company, Inc. (the "Company") in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations. It is management's opinion, however, that all material adjustments (consisting of normal recurring accruals) have been made which are necessary for a fair statement of its financial position, results of operations and cash flows. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Definitive Transaction Agreement with Amcor

On August 6, 2018, the Company announced that its Board of Directors, along with the Board of Directors of Amcor Limited ("Amcor"), unanimously approved a definitive agreement (the "Agreement") under which Bemis will combine with Amcor in an all-stock combination ("the Transaction").

The Transaction will be effected at a fixed exchange ratio of 5.1 Amcor shares for each share of the Company, resulting in Amcor and Bemis shareholders owning approximately 71% and 29% of the combined company, respectively. Closing of the Transaction is conditional upon the receipt of regulatory approvals, approval by both Amcor and Bemis shareholders, and satisfaction of other customary conditions. Subject to the satisfaction of the conditions to closing, the Transaction is targeted to close in the first quarter of calendar year 2019.

The Agreement contains certain termination rights for both Bemis and Amcor, including if the Transaction is not completed on or before August 6, 2019, subject in certain circumstances to extension to February 6, 2020 if necessary to secure certain regulatory approvals. The Agreement provides that Bemis will pay a $130 million termination fee to Amcor if, among other things, Bemis terminates the Agreement to enter into a superior proposal or if the Agreement is terminated following Bemis's Board of Directors changing its recommendation or failing to publicly affirm the board recommendation after receipt of a competing proposal. The Agreement also provides that Amcor will pay a $130 million termination fee to Bemis under similar circumstances.

In the third quarter of 2018, in connection with the Transaction, the Company incurred pre-tax expenses of approximately $10.0 million related to professional fees which are recorded in Restructuring and other costs in the condensed consolidated statement of income.

Note 2 — Significant Policies Update - Revenue Recognition

The Company's significant accounting policies are detailed in Note 2 — Significant Accounting Policies of its Annual Report on Form 10-K for the year ended December 31, 2017. Significant changes to the accounting policies as a result of adopting the new revenue recognition guidance on January 1, 2018 are discussed below.

The Company generates revenue by providing its customers with flexible and rigid plastic packaging serving a variety of markets including food, consumer products and healthcare end markets. The Company enters into a variety of agreements with customers, including quality agreements, pricing agreements and master supply agreements which outline the terms under which the Company does business with a specific customer. The Company also sells to some customers solely based on purchase orders. The Company has concluded for the vast majority of its revenues, that its contracts with customers are either a purchase order or the combination of a purchase order with a master supply agreement. All revenue recognized in the income statement is considered to be revenue from contracts with customers.

The Company typically satisfies the obligation to provide packaging to customers at a point in time upon shipment when control is transferred to customers. Revenue is recognized net of allowances for returns and customer claims and any taxes collected from customers, which are subsequently remitted to governmental authorities. The Company does not have contract assets or contract liabilities. The Company disaggregates revenue based on geography. Disaggregation of revenue is presented in Note 15 - Segments of Business.

Significant Judgments

Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The Company identified potential performance obligations in its customer master supply agreements and determined that none of them are capable of being distinct as the customer can only benefit from the supplied packaging. Therefore, the Company has concluded that it has one performance obligation to supply packaging to customers.

The Company may provide variable consideration in several forms which are determined through its agreements with customers. The Company can offer prompt payment discounts, sales rebates or other incentive payments to customers. Sales rebates and other incentive payments are typically awarded upon achievement of certain performance metrics, including volume. The Company accounts for variable consideration using the most likely amount method. The Company utilizes forecasted sales data and rebate percentages specific to each customer agreement and updates its judgment of the amounts to which the customer is entitled each period.

The Company enters into long term agreements with certain customers, under which it is obligated to make various up-front payments for which it expects to receive a benefit in excess of the cost over the term of the contract. These up-front payments are deferred and reflected in prepaid expenses and other current assets or deferred charges and other assets on its consolidated balance sheet. Contract incentives are typically recognized as a reduction to revenue over the term of the customer agreement.

Practical Expedients

The Company sells primarily through its direct sales force. Any external sales commissions are expensed when incurred because the amortization period would be one year or less. External sales commission expense is included in selling, general and administrative expense on its consolidated statement of income.

The Company accounts for shipping and handling activities as fulfillment costs. Accordingly, shipping and handling costs are classified as a component of cost of products sold while amounts billed to customers are classified as a component of net sales.

The Company excluded from the measurement of the transaction price all taxes assessed by a government authority that are both imposed on and concurrent with a specific revenue producing transaction and collected from the customer, including sales taxes, value added taxes, excise taxes and use taxes. Accordingly, the tax amounts are not included in net sales.

The Company will not adjust the promised consideration for the time value of money for contracts where the difference between the time of payment and performance is one year or less.

Note 3 — New Accounting Guidance

Recently Adopted Accounting Standards

In August 2018, the Financial Accounting Standards Board ("FASB") issued guidance that aligns the requirements for capitalizing cloud computing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement that is a service contract is not affected by the guidance. The guidance was adopted by the Company in the third quarter of 2018 using prospective application and did not have a material impact on our financial statements.

In March 2017, the FASB issued guidance that will change how employers that sponsor defined benefit pension and other postretirement benefit plans present the cost of the benefits in the income statement. Under the new guidance, employers will present only the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Employers will present the other components separately from the line item that includes the service cost and outside of any subtotal of operating income. Other components of net periodic benefit cost are presented in other non-operating income on the condensed consolidated statement of income. The guidance was adopted by the Company in the first quarter of 2018, using the practical expedient permitting the use of the amounts disclosed in pension and other postretirement benefit plan notes as the estimation basis for the presentation of the prior comparative periods.

The income statement reclassifications are summarized as follows:

	Three Months Ended September 30, 2017		
(in millions)	As reported	Reclassification	As reclassified
Income statement:			
Cost of products sold	$827.4	$ (0.3)	$ 827.1
Selling, general, and administrative expenses	94.6	1.3	95.9
Other non-operating income	(0.7)	(1.0)	(1.7)

	Nine Months Ended September 30, 2017		
(in millions)	As reported	Reclassification	As reclassified
Income statement:			
Cost of products sold	$2,451.1	$ (0.9)	$ 2,450.2
Selling, general, and administrative expenses	286.8	3.7	290.5