

BEMIS CO INC
Form 10-Q
May 10, 2010

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 March 31, 2010

Commission File Number 1-5277

BEMIS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of
incorporation or organization)

One Neenah Center
4th Floor, P.O. Box 669
Neenah, Wisconsin
(Address of principal executive offices)

43-0178130
(I.R.S. Employer
Identification No.)

54957-0669
(Zip Code)

Registrant's telephone number, including area code: **(920) 727-4100**

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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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 3, 2010, the registrant had 109,064,126 shares of Common Stock, \$.10 par value, issued and outstanding.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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The unaudited consolidated financial statements and related footnotes, enclosed as Exhibit 19 to this Form 10-Q (the Consolidated Financial Statements), are incorporated by reference into this Item 1. In the opinion of management, the financial statements reflect all adjustments necessary for a fair presentation of the financial position and the results of operations as of and for the three months ended March 31, 2010.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Three Months Ended March 31, 2010

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Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

Three-month review of results (dollars in millions)	2010		March 31, 2009	
Net sales	\$ 1,021.7	100.0%	\$ 843.4	100.0%
Cost of products sold	835.9	81.8	679.4	80.6
Gross profit	185.8	18.2	164.0	19.4
Selling, general, and administrative expenses	107.0	10.5	88.8	10.5
Other (income) expense, net	29.1	2.8	16.6	2.0
Income from continuing operations before income taxes	49.7	4.9	58.6	6.9
Provision for income taxes	17.9	1.8	21.3	2.5
Income from continuing operations	31.8	3.1	37.3	4.4
Income from discontinued operations, net of tax	0.7	0.1		
Net income	32.4	3.2	37.3	4.4
Less: net income attributable to noncontrolling interests	1.7	0.2	0.6	0.0
Net income attributable to Bemis Company, Inc.	\$ 30.8	3.0%	\$ 36.7	4.4%
Effective income tax rate		36.0%		36.3%

Overview

Bemis Company, Inc. (the Company) is a leading global manufacturer of flexible packaging and pressure sensitive materials supplying a variety of markets. Approximately 70 percent of our total company net sales are to customers in the food industry. Sales of our flexible packaging products are widely diversified among food categories and can be found in nearly every aisle of the grocery store. Our emphasis on supplying packaging to the food industry has historically provided a more stable market environment for our flexible packaging business segment, which accounted for approximately 86 percent of our net sales in the first quarter of 2010. The remaining 14 percent of net sales is from our pressure sensitive materials business segment which, while diversified in end use products, is less focused on food industry applications and more exposed to economically sensitive end markets such as advertising, housing, and automotive.

Market Conditions

The markets into which our products are sold are highly competitive. Our leading flexible packaging market positions in North and South America reflect our focus on expanding our offering of value-added, proprietary products. We also manufacture products that are less unique but for which our technical know-how and economies of scale offer us a competitive advantage. The primary raw materials for our business segments are polymer resins, films, paper, ink, adhesives, aluminum and chemicals.

The cost of polymer resins, the primary raw materials used in our flexible packaging business segment, increased during the first quarter of 2010. This compares to an environment of rapid and steep cost decreases during the first half of 2009. Our early 2009 operating performance benefited from a temporary margin increase as raw material costs decreased ahead of contractual selling price adjustments. During the first quarter of 2010, the increase in resin costs had a negative impact on operating margins as our material costs increased ahead of our contractual selling price adjustments to reflect the change in input costs.

Acquisition of Alcan Packaging Food Americas

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On March 1, 2010, Bemis completed its acquisition of the Food Americas operations of Alcan Packaging, a business unit of Rio Tinto plc. Under the terms of the \$1.2 billion transaction, Bemis acquired 23 Food Americas flexible packaging facilities in the United States, Canada, Mexico, Brazil, Argentina, and New Zealand, which recorded 2009 net sales totaling \$1.4 billion. These facilities produce flexible packaging principally for the food and beverage industries and augment Bemis' product offerings and technological capabilities. The majority of the financing for this transaction was completed during the third quarter of 2009 through the issuance of \$800.0 million of public bonds and 8.2 million common shares issued in a secondary public stock offering. The remaining cash purchase price was financed in the commercial paper market at the time of closing.

Under the terms of an order signed by the U.S. District Court for the District of Columbia on February 25, 2010, a portion of the acquired business must be divested, which includes two facilities, located in Menasha, Wisconsin and Tulsa, Oklahoma. This portion of the business is related specifically to sales of flexible packaging for retail natural cheese products and shrink bag packaging for fresh beef, veal, lamb, and pork products. The 2009 annual net sales associated with the business to be sold were approximately \$156 million. Operating results associated with this business to be sold have been classified as discontinued operations.

Results of Operations First Quarter 2010

Consolidated Overview

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(in millions, except per share amounts)	2010		2009	
Net sales	\$	1,021.7	\$	843.4
Net income attributable to Bemis Company, Inc.		30.8		36.7
Diluted earnings per share		0.28		0.36

Net sales for the first quarter ended March 31, 2010 increased by 21.1 percent. Acquisitions completed during the last 12 months increased net sales by an estimated 17 percent. Currency effects increased net sales by 4.8 percent compared to the same quarter of 2009.

Diluted earnings per share for the first quarter of 2010 included an \$0.08 charge for acquisition-related legal, accounting and other professional fees and a \$0.07 charge associated with purchase accounting adjustments for inventory and order backlog. In addition, the pre-closing impact of the July 2009 financing of the Food Americas acquisition reduced first quarter diluted earnings by \$0.06 per share. Results from discontinued operations were \$0.01 per share for the first quarter of 2010. These discontinued operations were acquired on March 1, 2010 as part of the Food Americas acquisition. Diluted earnings per share for the first quarter of 2009 included a \$0.02 per share charge related to severance costs associated with workforce reductions and \$0.05 per share charge for acquisition-related fees.

Flexible Packaging Business Segment

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(dollars in millions)	2010		2009	
Net sales	\$	881.4	\$	715.2
Operating profit (See Note 15 to the Consolidated Financial Statements)		93.9		91.4
Operating profit as a percentage of net sales		10.7%		12.8%

Net sales for our flexible packaging business segment increased 23.2 percent in the first quarter of 2010. Currency effects increased net sales by 5.2 percent during the current quarter, and acquisitions completed during the last 12 months increased net sales by an estimated 20 percent. Generally higher unit sales volumes were more than offset by lower net price and mix in the first quarter of 2010. Increased volumes in the Americas reflect continued sales momentum in value added products in addition to higher demand in more economically sensitive markets such as packaging for industrial and display films.

Operating profit for the first quarter of 2010 included a charge of \$12.0 million related to purchase accounting charges for inventory and order backlog related to the Food Americas acquisition. Such acquisition-related inventory charges are expected to continue into the second quarter, until inventory acquired has been sold in the ordinary course of business. In addition to the purchase accounting charges, operating profit reflects the impact of increasing raw material costs in 2010, partially offset by the benefit of broad-based cost improvement programs. Results for the first quarter of 2009 benefited from an environment of declining raw material costs, partially offset by \$1.1 million of severance charges associated with workforce reduction events intended to adjust workforce levels to better match market demands for certain product lines.

Pressure Sensitive Materials Business Segment

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(dollars in millions)	2010		2009	
Net sales	\$	140.3	\$	128.2
Operating profit (See Note 15 to the Consolidated Financial Statements)		6.6		(1.9)
Operating profit as a percentage of net sales		4.7%		(1.5)%

First quarter 2010 net sales for our pressure sensitive materials business segment increased 9.4 percent from the first quarter of 2009. Currency effects increased net sales by 3.0 percent. Net sales increased in all product lines in the first quarter of 2010, driven primarily by higher unit sales volumes as market demand improved.

Operating profit as a percent of net sales increased in the first quarter of 2010 from the first quarter of 2009 reflecting improved unit sales volumes combined with diligent cost management. In the first quarter of 2009, operating profit included a \$2.6 million charge for severance related to workforce reduction events intended to adjust workforce levels to better match current market demands. Performance in this business segment was negatively impacted in the first quarter of 2009 by substantially lower market demand in all product lines.

Consolidated Gross Profit

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(dollars in millions)

	2010		2009	
Gross profit	\$	185.8	\$	164.0
Gross profit as a percentage of net sales		18.2%		19.4%

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Gross profit for the first quarter of 2010 included a charge of \$12.0 million related to purchase accounting charges for inventory and order backlog. Such acquisition-related inventory charges are expected to continue into the second quarter, until inventory acquired has been sold in the ordinary course of business.

Consolidated Selling, General and Administrative Expenses

(dollars in millions)	2010		2009	
Selling, general and administrative expenses (SG&A)	\$	107.0	\$	88.8
SG&A as a percentage of net sales		10.5%		10.5%

Selling, general and administrative expenses as a percent of net sales for the first quarter of 2010 were consistent with 2009. The increase in spending in this category reflects the additional costs associated with the Food Americas acquisition and increased pension costs in the first quarter of 2010.

Other (Income) Expense, net

(dollars in millions)	2010		2009	
Research and development (R&D)	\$	5.6	\$	6.0
R&D as a percentage of net sales		0.5%		0.7%
Interest expense	\$	18.1	\$	6.0
Effective interest rate		5.2%		3.7%
Other operating (income) expense, net	\$	8.4	\$	5.3
Other non-operating (income) expense, net	\$	(3.0)	\$	(0.7)
Income taxes	\$	17.9	\$	21.3
Effective tax rate		36.0%		36.3%

Interest Expense

Interest expense increased in the first quarter of 2010 compared to the first quarter of 2009 due primarily to the July 2009 issuance of \$800 million of long term bonds as financing for the Food Americas acquisition.