

BERRY GLOBAL GROUP INC  
Form 10-Q  
May 03, 2017

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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 April 1, 2017  
Commission File Number 001-35672

BERRY GLOBAL GROUP, INC.

A Delaware corporation      101 Oakley Street, Evansville, Indiana, 47710      IRS employer identification number  
(812) 424-2904      20-5234618

BERRY PLASTICS GROUP, INC.  
(former name or former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

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 such shorter period that the registrant was required to file such reports), and (2) have 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, accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See 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      Accelerated filer      Non-accelerated filer      Smaller reporting company      Emerging growth company

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 7(a)(2)(B) of the Securities Act. Yes    No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).  
Yes    No

Class      Outstanding at May 3, 2017

Common Stock, \$.01 par value per share 129.5 million shares

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to our financial condition, results of operations and business and our expectations or beliefs concerning future events. The forward-looking statements include, in particular, statements about our plans, strategies and prospects under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." These statements contain words such as "believes," "expects," "may," "will," "should," "would," "could," "seeks," "approximately," "intends," "plans," "estimates," "outlook," "anticipates" or "looking forward" or similar expressions that relate to our strategy, plans, intentions, or expectations. All statements we make relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results or to our expectations regarding future industry trends are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this Form 10-Q.

Readers should carefully review the factors discussed in our most recent Form 10-K in the section titled "Risk Factors" and other risk factors identified from time to time in our periodic filings with the Securities and Exchange Commission.

Berry Global Group, Inc.  
Form 10-Q Index  
For Quarterly Period Ended April 1, 2017

|   | Page No.  |
|---|-----------|
| Part I. Financial Information   |           |
| Item 1. Financial Statements:   |           |
| Consolidated Statements of Income and Comprehensive Income                                    | <u>4</u>  |
| Consolidated Balance Sheets   | <u>5</u>  |
| Consolidated Statements of Cash Flows   | <u>6</u>  |
| Notes to Consolidated Financial Statements  | <u>7</u>  |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>19</u> |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk                            | <u>26</u> |
| Item 4. Controls and Procedures   | <u>27</u> |
| Part II. Other Information  |           |
| Item 1. Legal Proceedings   | <u>28</u> |
| Item 1A. Risk Factors   | <u>28</u> |
| Item 6. Exhibits  | <u>29</u> |
| Signature   | <u>30</u> |

Part I. Financial Information

## Item 1. Financial Statements

Berry Global Group, Inc.  
 Consolidated Statements of Income  
 (Unaudited)  
 (in millions of dollars, except per share amounts)

|                                      | Quarterly<br>Period Ended |                     | Two Quarterly<br>Periods Ended |                     |
|--------------------------------------|---------------------------|---------------------|--------------------------------|---------------------|
|                                      | April<br>1,<br>2017       | April<br>2,<br>2016 | April<br>1,<br>2017            | April<br>2,<br>2016 |
| Net sales                            | \$1,806                   | \$1,614             | \$3,308                        | \$3,226             |
| Costs and expenses:                  |                           |                     |                                |                     |
| Cost of goods sold                   | 1,453                     | 1,269               | 2,659                          | 2,589               |
| Selling, general and administrative  | 132                       | 138                 | 245                            | 292                 |
| Amortization of intangibles          | 40                        | 35                  | 73                             | 71                  |
| Restructuring and impairment charges | 6                         | 7                   | 10                             | 23                  |
| Operating income                     | 175                       | 165                 | 321                            | 251                 |
| Other (income) expense, net          | 20                        | (7 )                | 19                             | (3 )                |
| Interest expense, net                | 67                        | 74                  | 135                            | 149                 |
| Income before income taxes           | 88                        | 98                  | 167                            | 105                 |
| Income tax expense                   | 16                        | 39                  | 44                             | 42                  |
| Consolidated net income              | \$72                      | \$59                | \$123                          | \$63                |
| Net income per share:                |                           |                     |                                |                     |
| Basic                                | \$0.56                    | \$0.49              | \$0.98                         | \$0.52              |
| Diluted                              | 0.54                      | 0.47                | 0.94                           | 0.51                |
| Outstanding weighted-average shares: |                           |                     |                                |                     |
| Basic                                | 127.7                     | 120.5               | 124.9                          | 120.3               |
| Diluted                              | 133.2                     | 124.4               | 130.7                          | 124.0               |

Berry Global Group, Inc.  
 Consolidated Statements of Comprehensive Income  
 (Unaudited)  
 (in millions of dollars)

|  | Quarterly<br>Period<br>Ended |                     | Two<br>Quarterly<br>Periods<br>Ended |                     |
|--|------------------------------|---------------------|--------------------------------------|---------------------|
|  | April<br>1,<br>2017          | April<br>2,<br>2016 | April<br>1,<br>2017                  | April<br>2,<br>2016 |
| Consolidated net income                                  | \$72                         | \$59                | \$123                                | \$63                |
| Currency translation                                     | 21                           | 84                  | (24 )                                | 55                  |
| Defined benefit pension and retiree health benefit plans | 13                           | —                   | 13                                   | —                   |
| Interest rate hedges                                     | 15                           | (19 )               | 33                                   | (15 )               |

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|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Provision for income taxes related to other comprehensive income items | (6 )  | 7     | (13 ) | 6     |
| Other comprehensive income, net of tax                                 | 43    | 72    | 9     | 46    |
| Comprehensive income   | \$115 | \$131 | \$132 | \$109 |

See notes to consolidated financial statements.

4

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Berry Global Group, Inc.  
Consolidated Balance Sheets  
(in millions of dollars)

|  | April 1,<br>2017<br>(Unaudited) | October<br>1, 2016 |
|--|---------------------------------|--------------------|
| <b>Assets</b>  |                                 |                    |
| Current assets:  |                                 |                    |
| Cash and cash equivalents  | \$ 293                          | \$ 323             |
| Accounts receivable (less allowance of \$13 and \$8, respectively) | 799                             | 704                |
| Inventories:   |                                 |                    |
| Finished goods   | 475                             | 397                |
| Raw materials and supplies   | 327                             | 263                |
|  | 802                             | 660                |
| Prepaid expenses and other current assets                          | 102                             | 105                |
| Total current assets   | 1,996                           | 1,792              |
| Property, plant, and equipment, net                                | 2,392                           | 2,224              |
| Goodwill and intangible assets, net                                | 4,102                           | 3,606              |
| Other assets   | 51                              | 31                 |
| Total assets   | \$ 8,541                        | \$ 7,653           |
| <b>Liabilities</b>   |                                 |                    |
| Current liabilities:   |                                 |                    |
| Accounts payable   | \$ 578                          | \$ 539             |
| Accrued expenses and other current liabilities                     | 494                             | 449                |
| Current portion of long-term debt                                  | 36                              | 43                 |
| Total current liabilities  | 1,108                           | 1,031              |
| Long-term debt, less current portion                               | 6,012                           | 5,712              |
| Deferred income taxes  | 404                             | 272                |
| Other long-term liabilities  | 315                             | 417                |
| Total liabilities  | 7,839                           | 7,432              |
| <b>Stockholders' equity</b>  |                                 |                    |
| Common stock (129.5 and 122.0 million shares issued, respectively) | 1                               | 1                  |
| Additional paid-in capital   | 798                             | 449                |
| Non-controlling interest   | 3                               | 3                  |
| Accumulated equity (deficit)                                       | 39                              | (84 )              |
| Accumulated other comprehensive loss                               | (139 )                          | (148 )             |
| Total stockholders' equity   | 702                             | 221                |
| Total liabilities and stockholders' equity                         | \$ 8,541                        | \$ 7,653           |

See notes to consolidated financial statements.

Berry Global Group, Inc.  
 Consolidated Statements of Cash Flows  
 (Unaudited)  
 (in millions of dollars)

|   | Two Quarterly<br>Periods Ended<br>April |                  |
|---|---|------------------|
|   | 1,<br>2017                              | April 2,<br>2016 |
| Cash Flows from Operating Activities:                               |   |                  |
| Net income  | \$ 123                                  | \$ 63            |
| Adjustments to reconcile net cash provided by operating activities: |   |                  |
| Depreciation  | 178                                     | 199              |
| Amortization of intangibles   | 73                                      | 71               |
| Non-cash interest expense   | 4                                       | 5                |
| Deferred income tax   | 12                                      | 21               |
| Stock compensation expense  | 11                                      | 14               |
| Other non-cash operating activities, net                            | 24                                      | 6                |
| Changes in working capital  | (90 )                                   | (19 )            |
| Changes in other assets and liabilities                             | (2 )                                    | 1                |
| Net cash from operating activities                                  | 333                                     | 361              |
| Cash Flows from Investing Activities:                               |   |                  |
| Additions to property, plant and equipment                          | (135)                                   | (173 )           |
| Proceeds from sale of assets  | 4                                       | 4                |
| Acquisition of business, net of cash acquired                       | (458)                                   | (2,283)          |
| Other investing activities, net                                     | (1 )                                    | —                |
| Net cash from investing activities                                  | (590)                                   | (2,452)          |
| Cash Flows from Financing Activities:                               |   |                  |
| Proceeds from long-term borrowings                                  | 595                                     | 2,490            |
| Repayments on long-term borrowings                                  | (317)                                   | (267 )           |
| Proceeds from issuance of common stock                              | 15                                      | 11               |
| Payment of tax receivable agreement                                 | (60 )                                   | (57 )            |
| Debt financing costs  | (4 )                                    | (37 )            |
| Purchase of non-controlling interest                                | —                                       | (66 )            |
| Net cash from financing activities                                  | 229                                     | 2,074            |
| Effect of exchange rate changes on cash                             | (2 )                                    | 1                |
| Net change in cash  | (30 )                                   | (16 )            |
| Cash and cash equivalents at beginning of period                    | 323                                     | 228              |
| Cash and cash equivalents at end of period                          | \$293                                   | \$212            |

See notes to consolidated financial statements.



Berry Global Group, Inc.  
Notes to Consolidated Financial Statements  
(Unaudited)  
(tables in millions of dollars, except per share data)

## 1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Berry Global Group, Inc. ("the Company," "we," or "Berry") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included, and all subsequent events up to the time of the filing have been evaluated. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's most recent Form 10-K filed with the Securities and Exchange Commission.

Effective April 13, 2017, the Company changed its name from Berry Plastics Group, Inc. to Berry Global Group, Inc. The new name is reflected throughout this Form 10-Q. Common Shares of the Company stock continue to be traded on the New York Stock Exchange under the symbol BERY. In addition, Berry Plastics Corporation, a wholly owned subsidiary, has changed its name to Berry Global, Inc.

## 2. Recently Issued Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates to the FASB's Accounting Standards Codification. During fiscal 2017, with the exception of the below, there have been no developments to the recently adopted accounting pronouncements from those disclosed in the Company's 2016 Annual Report on Form 10-K that are considered to have a material impact on our unaudited consolidated financial statements.

### Goodwill

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, Step 2, which was previously used to compute the implied fair value of goodwill, was eliminated. This update requires an entity to perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment will be recognized in the amount by which a reporting unit's carrying amount exceeds its fair value. The loss recognized will not exceed the total amount of goodwill allocated to that reporting unit. The new guidance is effective for interim and annual periods beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption is permitted. The Company does not expect a significant impact as a result of this change. We will adopt this guidance for our fiscal 2017 goodwill testing.

### Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires employers to report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. If

a separate line item is used to present the other components of net benefit cost, then the line item used in the income statement to present the other components of net benefit cost must be disclosed. The new guidance is effective for interim and annual periods beginning after December 15, 2017 and should be applied on a retrospective basis. Early adoption is permitted. The Company is currently evaluating the impact of this guidance.

### 3. Acquisitions

#### AEP Industries Inc.

In January 2017, the Company acquired AEP Industries Inc. ("AEP") for a purchase price of \$786 million, net of cash acquired. A portion of the purchase price consisted of issuing 6.5 million of Berry common shares which were valued at \$328 million at the time of closing. AEP manufactures and markets an extensive and diverse line of polyethylene and polyvinyl chloride flexible plastic packaging products with consumer, industrial, and agricultural applications. The acquired business is operated in our Engineered Materials segment. To finance the purchase, the Company entered into an incremental assumption agreement to increase the commitments under the Company's existing term loan credit agreement by \$500 million due 2024.

7

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The acquisition has been accounted for under the purchase method of accounting, and accordingly, the purchase price has been allocated to the identifiable assets and liabilities based on preliminary fair values at the acquisition date. The results of AEP have been included in the consolidated results of the Company since the date of the acquisition. The Company has not finalized the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed. The Company has recognized Goodwill on this transaction primarily as a result of expected cost synergies, and does not expect Goodwill to be deductible for tax purposes. The following table summarizes the preliminary allocation of purchase price and the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

|  |        |
|--|--------|
| Working capital (a)                    | \$ 129 |
| Property and equipment                 | 222    |
| Intangible assets                      | 269    |
| Goodwill                               | 307    |
| Historical AEP debt assumed            | (7 )   |
| Other assets and long-term liabilities | (134)  |

(a) Includes a \$5 million step up of inventory to fair value

Unaudited pro forma net sales were \$1.9 billion and \$3.6 billion for the quarterly period and two quarterly periods ended April 1, 2017, respectively, and \$1.9 billion and \$3.8 billion for the quarterly period and two quarterly periods ended April 2, 2016, respectively. Unaudited pro forma net income was \$74 million and \$125 million for the quarterly period and two quarterly periods ended April 1, 2017, respectively, and \$70 million and \$73 million for the quarterly period and two quarterly periods ended April 2, 2016, respectively. The unaudited pro forma net sales and net income assume that the AEP acquisition had occurred as of the beginning of the period.

#### AVINTIV Inc.

In October 2015, the Company acquired 100% of the capital stock of AVINTIV Inc. ("Avintiv") for a purchase price of \$2.26 billion, net of cash acquired. Avintiv was one of the world's leading developers, producers, and marketers of nonwoven specialty materials used in hygiene, infection prevention, personal care, industrial, construction, and filtration applications. To finance the purchase, the Company issued \$400 million aggregate principal amount of 6.0% second priority senior secured notes due 2022 and entered into an incremental assumption agreement to increase the commitments under the Company's existing term loan credit agreement by \$2.1 billion due 2022. The results of Avintiv have been included in the consolidated results of the Company since the date of acquisition.

#### 4. Accounts Receivable Factoring Agreements

A number of the Company's foreign subsidiaries have entered into factoring agreements to sell certain receivables to unrelated third-party financial institutions. The Company accounts for these transactions in accordance with ASC 860, "Transfers and Servicing" ("ASC 860"). ASC 860 allows for the ownership transfer of accounts receivable to qualify for sale treatment when the appropriate criteria is met, which permits the Company to present the balances sold under the program to be excluded from Accounts receivable, net on the Consolidated Balance Sheets.

Receivables are considered sold when (i) they are transferred beyond the reach of the Company and its creditors, (ii) the purchaser has the right to pledge or exchange the receivables, and (iii) the Company has surrendered control over the transferred receivables. In addition, the Company provides no other forms of continued financial support to the purchaser of the receivables once the receivables are sold. The table below summarizes the total amount of accounts receivable on the Consolidated Balance Sheets:

|  | April | October |
|--|-------|---------|
|  | 1,    | 1,      |
|  | 2017  | 2016    |
| Trade receivables sold to financial institutions | \$ 26 | \$ 23   |

|  |       |       |
|--|-------|-------|
| Net amounts advanced from financial institutions | (24 ) | (18 ) |
| Amounts due from financial institutions          | \$ 2  | \$ 5  |

In addition to the programs described above, the Company has a U.S. based program where certain U.S. based receivables are sold to unrelated third-party financial institutions. There were no amounts outstanding from the financial institutions related to U.S. based programs at April 1, 2017. The fees associated with transfer of receivables for all programs were not material for any of the periods presented.

#### 5. Restructuring and Impairment Charges

The Company incurred restructuring costs related to severance, asset impairment, and facility exit costs. The tables below set forth the significant components of the restructuring charges recognized, by segment:

8

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|                               | Quarterly<br>Period<br>Ended<br>April |            | Two<br>Quarterly<br>Periods<br>Ended<br>April |            |
|-------------------------------|---------------------------------------|------------|---|------------|
|                               | 1,<br>2017                            | 2,<br>2016 | 1,<br>2017                                    | 2,<br>2016 |
| Consumer Packaging            | \$ 2                                  | \$ 2       | \$ 4  | \$ 5       |
| Health, Hygiene & Specialties | 2                                     | 4          | 4   | 16         |
| Engineered Materials          | 2                                     | 1          | 2   | 2          |
| Consolidated                  | \$ 6                                  | \$ 7       | \$ 10   | \$ 23      |

The table below sets forth the activity with respect to the restructuring accrual at April 1, 2017:

|                            | Severance<br>and<br>termination<br>benefits | Facilities<br>exit<br>costs<br>and<br>other |  | Non-cash<br>charges | Total |
|----------------------------|---|---|--|---------------------|-------|
|                            |   |   |  |                     |       |
| Balance at October 1, 2016 | \$ 7  | \$ 6  |  | \$ —                | \$ 13 |
| Charges                    | 7   | 3   |  |                     | 10    |
| Non-cash asset impairment  | —   | —   |  |                     | —     |
| Cash payments              | (9 )  | (4 )  |  |                     | (13 ) |
| Balance at April 1, 2017   | \$ 5  | \$ 5  |  | \$ —                | \$ 10 |

#### 6. Accrued Expenses, Other Current Liabilities and Other Long-Term Liabilities

The following table sets forth the totals included in Accrued expenses and other current liabilities on the Consolidated Balance Sheets:

|  | April<br>1,<br>2017 | October<br>1, 2016 |
|--|---------------------|--------------------|
| Employee compensation, payroll and other | \$ 122              | \$ 152             |
| Interest                                 | 36                  | 53                 |
| Rebates                                  | 50                  | 54                 |
| Restructuring                            | 10                  | 13                 |
| Accrued taxes                            | 65                  | 40                 |
| Tax receivable agreement obligation      | 103                 | 60                 |
| Accrued operating expenses               | 108                 | 77                 |
|  | \$ 494              | \$ 449             |

The following table sets forth the totals included in Other long-term liabilities on the Consolidated Balance Sheets:

|                               | April<br>1,<br>2017 | October<br>1, 2016 |
|-------------------------------|---------------------|--------------------|
| Lease retirement obligation   | \$ 36               | \$ 34              |
| Sale-lease back deferred gain | 25                  | 26                 |
| Pension liability             | 85                  | 88                 |

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|                                     |       |        |
|-------------------------------------|-------|--------|
| Deferred purchase price             | 44    | 41     |
| Tax receivable agreement obligation | 20    | 114    |
| Interest rate swaps                 | 35    | 45     |
| Other                               | 70    | 69     |
|                                     | \$315 | \$ 417 |

The Company made \$60 million of payments related to the income tax receivable agreement ("TRA") in the December 31, 2016 quarter, of which Apollo Global Management, LLC received \$48 million. The TRA provides for an annual payment to TRA holders at 85% of the amount of cash savings, if any, in U.S. federal, foreign, state and local income tax that are actually realized as a result of the utilization of our net operating losses attributable to periods prior to the initial public offering.

## 7. Long-Term Debt

Long-term debt consists of the following:

|   | <u>Maturity Date</u> | April<br>1,<br>2017 | October<br>1,<br>2016 |
|---|----------------------|---------------------|-----------------------|
| Term loan                                   | February 2020        | \$1,148             | \$1,351               |
| Term loan                                   | January 2021         | 814                 | 814                   |
| Term loan                                   | October 2022         | 1,795               | 1,895                 |
| Term loan                                   | January 2024         | 500                 | —                     |
| Revolving line of credit                    | May 2020             | 100                 | —                     |
| 5 1/8% Second Priority Senior Secured Notes | July 2023            | 700                 | 700                   |
| 5 1/2% Second Priority Senior Secured Notes | May 2022             | 500                 | 500                   |
| 6% Second Priority Senior Secured Notes     | October 2022         | 400                 | 400                   |
| Debt discounts and deferred fees            |                      | (55 )               | (58 )                 |
| Capital leases and other                    | Various              | 146                 | 153                   |
| Total long-term debt                        |                      | 6,048               | 5,755                 |
| Current portion of long-term debt           |                      | (36 )               | (43 )                 |
| Long-term debt, less current portion        |                      | \$6,012             | \$5,712               |

The Company was in compliance with all covenants as of April 1, 2017.

Debt discounts and deferred financing fees are presented net of Long-term debt, less the current portion on the Consolidated Balance Sheets and are amortized to Interest expense through maturity.

## Term Loans

In January 2017, the Company entered into an incremental assumption agreement to increase the commitments under the existing term loan credit agreement by \$500 million in order to finance the AEP acquisition. The incremental assumption agreement provided for the \$500 million incremental term loan to bear interest at LIBOR plus 2.50% per annum with no LIBOR floor, to mature in January 2024 and to be subject to customary amortization. During the quarter the Company executed an amendment to lower the interest rates under certain of the term loans. The term loans maturing in October 2022 now bear interest at LIBOR plus 2.50% with no LIBOR floor. The term loans maturing in February 2020 and January 2021 now bear interest at LIBOR plus 2.25% with no LIBOR floor. During fiscal 2017, the Company has made \$317 million of repayments on long-term borrowings using existing liquidity and the revolving line of credit.

As a result of the current year prepayments and modifications, the Company recorded a \$2 million loss on debt extinguishment in Other (income) expense, net, reflecting the write-off of deferred financing fees and debt discounts, net of amortization associated with the portion of the debt that was considered extinguished. Additionally, the Company recognized \$9 million of debt discounts and deferred financing fees related to the incremental assumption agreements and amendments.

## 8. Financial Instruments and Fair Value Measurements

In the normal course of business, the Company is exposed to certain risks arising from business operations and economic factors. The Company may use derivative financial instruments to help manage market risk and reduce the exposure to fluctuations in interest rates and foreign currencies. These financial instruments are not used for trading or other speculative purposes.

The Company designates derivative instruments that qualify as hedging instruments, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. To the extent hedging relationships are found to be effective, which is evaluated quarterly, changes in the fair value of the derivatives are offset by changes in the fair value of the related hedged item and recorded to Accumulated other comprehensive loss.

The Company records the changes in the fair value of derivatives that are not designated as hedging instruments to the Consolidated Statements of Income.

#### Foreign Currency Forward Contracts

The primary purpose of the Company's foreign currency hedging activities is to manage the potential changes in value associated with the changes in foreign currencies on future foreign cash movements for certain jurisdictions. The changes in fair value of these derivative contracts are recognized in Other (income) expense, net on the Consolidated Statements of Income and are largely offset by the remeasurement of the underlying intercompany loan. When valuing foreign currency forward contracts the Company utilizes Level 2 (significant observable inputs) fair value measurements. These contracts are typically entered into and settled within the given quarterly reporting period.



## Interest Rate Swaps - Cash Flow Hedges

The primary purpose of our interest rate swaps is to manage cash flow variability associated with our outstanding variable rate term loan debt. At inception these contracts are designed as effective cash flow hedges. When valuing interest rate swaps we utilize derivative Level 2 (significant observable inputs) fair value measurements. For interest rate swaps that are designated and qualify as cash flow hedges, the effective portion of the gain or loss is reported as a component of Accumulated other comprehensive loss.

Cash flow hedge accounting is discontinued when it is determined that an interest rate swap no longer qualifies as an effective hedge. When cash flow hedge accounting is de-designated, the swap is subject to the mark-to-market method of accounting prospectively. Changes in the mark-to-market fair value of the de-designated instrument are recorded to the Consolidated Statements of Income. Unrealized gains and losses that were previously deferred in Accumulated other comprehensive loss are amortized to Interest expense over the remaining term of the swap.

## Active Interest Rate Swap Arrangements

In February 2013, the Company entered into a \$1 billion interest rate swap transaction with an effective date of May 2016 and expiration in May 2019. In June 2013, the Company elected to settle this derivative instrument and received \$16 million as a result of this settlement. The offset is included in Accumulated other comprehensive loss and is being amortized to Interest expense from May 2016 through May 2019, the original term of the swap agreement.

In March 2014, the Company entered into a \$1 billion interest rate swap transaction with an effective date of February 2016 and expiration in February 2019. In February 2017, in conjunction with the term loan modifications, the Company discontinued hedge accounting. Previously unrealized losses in Accumulated other comprehensive loss are being amortized to Interest expense through February 2019, the original term of the swap. In order to offset the impact of future fair value changes of the March 2014 de-designated swap, the Company entered into a mirrored offsetting swap in February 2017 and has not designated it as a hedge.

In September 2015, the Company entered into a \$1 billion interest rate swap transaction with an effective date of December 2015 and expiration in June 2019. In February 2017, in conjunction with the term loan modifications, the Company entered into an agreement to modify the terms of the original swap on a prospective basis. At that time, the Company de-designated the hedge and has re-designated the modified swap as an effective cash flow hedge. The amount included in Accumulated other comprehensive loss at the date of de-designation is being amortized to Interest expense through June 2019, the original term of the swap. The modified agreement swaps a one-month variable LIBOR contract for a fixed annual rate of 1.5190% with an effective date in March 2017 and expiration in June 2019.

In January 2017, the Company entered into a \$450 million interest rate swap transaction that swaps a one-month variable LIBOR contract for a fixed annual rate of 2.00%, with an effective date in May 2017 and expiration in May 2022.

In February 2017, the Company entered into a \$1 billion interest rate swap transaction that swaps a one-month variable LIBOR contract for a fixed annual rate of 2.3785% with an effective date in February 2017 and expiration in February 2019.

The Company records the fair value positions of all derivative financial instruments on a net basis by counterparty for which a master netting arrangement is utilized. Balances as of the current period are as follows;

|                                    |  | April   |                 |
|------------------------------------|--|---------|-----------------|
|                                    |  | 1, 2017 | October 1, 2016 |
| Derivatives Instruments            | Hedge Designation Balance Sheet Location |         |                 |
| Foreign currency forward contracts | Not designated Other assets              | \$ 4    | \$ 3            |

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|                     |                |                             |    |    |
|---------------------|----------------|-----------------------------|----|----|
| Interest rate swaps | Not designated | Other assets                | 18 | —  |
| Interest rate swaps | Designated     | Other long-term liabilities | 17 | 48 |
| Interest rate swaps | Not designated | Other long-term liabilities | 18 | —  |

The effect of the Company's derivative instruments on the Consolidated Statements of Income is as follows:

|                                    |                               | Quarterly |        | Two       |           |
|------------------------------------|-------------------------------|-----------|--------|-----------|-----------|
|                                    |                               | Period    | Period | Quarterly | Quarterly |
|                                    |                               | Ended     | Ended  | Ended     | Ended     |
|                                    |                               | April     | April  | April     | April     |
|                                    |                               | 1,        | 2,     | 1,        | 2,        |
|                                    |                               | 2017      | 2016   | 2017      | 2016      |
| Derivatives instruments            | Statements of Income Location |           |        |           |           |
| Interest rate swaps                | Interest expense, net         | \$ 3      | \$ 4   | \$ 8      | \$ 4      |
| Foreign currency forward contracts | Other (income) expense, net   | \$ 1      | \$ 7   | \$ 2      | \$ 6      |

The amortization related to unrealized losses in Accumulated other comprehensive loss is expected to be approximately \$7 million in the next 12 months.

## Non-recurring Fair Value Measurements

The Company has certain assets that are measured at fair value on a non-recurring basis when impairment indicators are present. The assets are adjusted to fair value only when the carrying values exceed the fair values. The categorization of the framework used to price the assets is considered Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value. These assets include primarily our definite lived and indefinite lived intangible assets, including Goodwill and our property, plant, and equipment. The Company reviews Goodwill and other indefinite lived assets for impairment as of the first day of the fourth fiscal quarter each year, and more frequently if impairment indicators exist. The Company determined Goodwill and other indefinite lived assets were not impaired in our annual fiscal 2016 assessment. No impairment indicators were identified in the current quarter.

Included in the following table are the major categories of assets measured at fair value on a non-recurring basis as of April 1, 2017 and October 1, 2016, along with the impairment loss recognized on the fair value measurement during the period:

|                                  | As of April 1, 2017 |     |         |         |            |
|----------------------------------|---------------------|-----|---------|---------|------------|
|                                  | Level               |     |         | Total   | Impairment |
|                                  | 1                   | 2   | 3       |         |            |
| Indefinite-lived trademarks      | \$—                 | \$— | \$248   | \$248   | \$ —       |
| Goodwill                         | —                   | —   | 2,706   | 2,706   | —          |
| Definite lived intangible assets | —                   | —   | 1,148   | 1,148   | —          |
| Property, plant, and equipment   | —                   | —   | 2,392   | 2,392   | —          |
| Total                            | \$—                 | \$— | \$6,494 | \$6,494 | \$ —       |

|                                  | As of October 1, 2016 |     |         |         |            |
|----------------------------------|-----------------------|-----|---------|---------|------------|
|                                  | Level                 |     |         | Total   | Impairment |
|                                  | 1                     | 2   | 3       |         |            |
| Indefinite-lived trademarks      | \$—                   | \$— | \$248   | \$248   | \$ —       |
| Goodwill                         | —                     | —   | 2,406   | 2,406   | —          |
| Definite lived intangible assets | —                     | —   | 952     | 952     | —          |
| Property, plant, and equipment   | —                     | —   | 2,224   | 2,224   | 3          |
| Total                            | \$—                   | \$— | \$5,830 | \$5,830 | \$ 3       |

The Company's financial instruments consist primarily of cash and cash equivalents and long-term debt. The fair value of our marketable long-term indebtedness exceeded book value by \$68 million as of April 1, 2017. The Company's long-term debt fair values were determined using Level 2 inputs as other significant observable inputs were not available.

## 9. Income Taxes

The Company's effective tax rate was 18% and 40% for the quarterly period ended April 1, 2017 and April 2, 2016, respectively. Within the quarter, the effective tax rate was favorably impacted primarily by the discrete items related to share based compensation excess tax benefit of 12% and state valuation allowance release of 10%, partially offset by other discrete items.

## 10. Operating Segments

The Company's operations are organized into three operating segments: Consumer Packaging, Health, Hygiene & Specialties, and Engineered Materials. The structure is designed to align us with our customers, provide improved service, and drive future growth in a cost efficient manner. In October 2016, the Company realigned portions of our operating segments in order to leverage geographic management teams and commercial activities. The international

portion of our Retail & Industrial product line was moved from Engineered Materials to the Specialties product line within Health, Hygiene & Specialties, resulting in a \$33 million and \$69 million movement in Net sales in the quarterly and two quarterly periods ended April 2, 2016, respectively. Additionally, to align the newly acquired AEP business with our existing Core Films business, \$78 million and \$156 million of Net sales were moved from Consumer Packaging to Engineered Materials in the quarterly and two quarterly periods ended April 2, 2016, respectively. As result of these organizational realignments, we have recast prior period segment amounts. Selected information by reportable segment is presented in the following tables:

12

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|                                     | Quarterly<br>Period Ended |                     | Two Quarterly<br>Periods Ended |                     |
|-------------------------------------|---------------------------|---------------------|--------------------------------|---------------------|
|                                     | April<br>1,<br>2017       | April<br>2,<br>2016 | April<br>1,<br>2017            | April<br>2,<br>2016 |
| Net sales:                          |                           |                     |                                |                     |
| Consumer Packaging                  | \$589                     | \$610               | \$1,138                        | \$1,214             |
| Health, Hygiene & Specialties       | 597                       | 601                 | 1,167                          | 1,201               |
| Engineered Materials                | 620                       | 403                 | 1,003                          | 811                 |
| Total net sales                     | \$1,806                   | \$1,614             | \$3,308                        | \$3,226             |
| Operating income:                   |                           |                     |                                |                     |
| Consumer Packaging                  | \$56                      | \$59                | \$90                           | \$98                |
| Health, Hygiene & Specialties       | 52                        | 58                  | 111                            | 71                  |
| Engineered Materials                | 67                        | 48                  | 120                            | 82                  |
| Total operating income              | \$175                     | \$165               | \$321                          | \$251               |
| Depreciation and amortization:      |                           |                     |                                |                     |
| Consumer Packaging                  | \$59                      | \$60                | \$118                          | \$122               |
| Health, Hygiene & Specialties       | 46                        | 50                  | 90                             | 105                 |
| Engineered Materials                | 26                        | 21                  | 43                             | 43                  |
| Total depreciation and amortization | \$131                     | \$131               | \$251                          | \$270               |

|                               | April<br>1,<br>2017 |         | October<br>1, 2016 |  |
|-------------------------------|---------------------|---------|--------------------|--|
| Total assets:                 |                     |         |                    |  |
| Consumer Packaging            | \$3,259             | \$3,315 |                    |  |
| Health, Hygiene & Specialties | 3,448               | 3,504   |                    |  |
| Engineered Materials          | 1,834               | 834     |                    |  |
| Total assets                  | \$8,541             | \$7,653 |                    |  |

Selected information by geography is presented in the following tables:

|                 | Quarterly Period<br>Ended |                  | Two Quarterly<br>Periods Ended |                  |
|-----------------|---------------------------|------------------|--------------------------------|------------------|
|                 | April 1,<br>2017          | April 2,<br>2016 | April 1,<br>2017               | April 2,<br>2016 |
| Net sales:      |                           |                  |                                |                  |
| North America   | \$1,500                   | \$1,303          | \$2,704                        | \$2,610          |
| South America   | 81                        | 80               | 161                            | 159              |
| Europe          | 162                       | 174              | 311                            | 339              |
| Asia            | 63                        | 57               | 132                            | 118              |
| Total net sales | \$1,806                   | \$1,614          | \$3,308                        | \$3,226          |

|                    | April<br>1,<br>2017 |         | October<br>1, 2016 |  |
|--------------------|---------------------|---------|--------------------|--|
| Long-lived assets: |                     |         |                    |  |
| North America      | \$5,443             | \$4,724 |                    |  |

|                         |         |         |
|-------------------------|---------|---------|
| South America           | 383     | 386     |
| Europe                  | 434     | 462     |
| Asia                    | 285     | 289     |
| Total Long-lived assets | \$6,545 | \$5,861 |

Selected information by product line is presented in the following tables:

|                               | Quarterly    |       | Two<br>Quarterly |       |
|-------------------------------|--------------|-------|------------------|-------|
|                               | Period Ended |       | Periods<br>Ended |       |
| (in percentages)              | April        | April | April            | April |
|                               | 1,           | 2,    | 1,               | 2,    |
|                               | 2017         | 2016  | 2017             | 2016  |
| Net sales:                    |              |       |                  |       |
| Rigid Open Top                | 40 %         | 41 %  | 41 %             | 41 %  |
| Rigid Closed Top              | 60           | 59    | 59               | 59    |
| Consumer Packaging            | 100%         | 100 % | 100%             | 100 % |
| Health                        | 22 %         | 19 %  | 21 %             | 19 %  |
| Hygiene                       | 43           | 45    | 44               | 45    |
| Specialties                   | 35           | 36    | 35               | 36    |
| Health, Hygiene & Specialties | 100%         | 100 % | 100%             | 100 % |
| Core Films                    | 46 %         | 71 %  | 57 %             | 71 %  |
| Retail & Industrial           | 54           | 29    | 43               | 29    |
| Engineered Materials          | 100%         | 100 % | 100%             | 100 % |

## Goodwill

In connection with the change in reporting segments, the Company reallocated goodwill to the segments under the provisions of ASC 350. The changes in the carrying amount of goodwill by reportable segment are as follows:

|   | Consumer<br>Packaging | Health,<br>&<br>Hygiene<br>Specialties | Engineered<br>Materials | Total   |
|---|-----------------------|--|-------------------------|---------|
| Balance as of October 1, 2016           | \$ 1,520              | \$ 801                                 | \$ 85                   | \$2,406 |
| Segment reorganization                  | (110 )                | 7                                      | 103                     | —       |
| Acquisition, net                        | —                     | —                                      | 307                     | 307     |
| Foreign currency translation adjustment | (1 )                  | (6 )                                   | —                       | (7 )    |
| Balance as of April 1, 2017             | \$ 1,409              | \$ 802                                 | \$ 495                  | \$2,706 |

## 11. Contingencies and Commitments

The Company is party to various legal proceedings in addition to the above involving routine claims which are incidental to its business. Although the Company's legal and financial liability with respect to such proceedings cannot be estimated with certainty, management believes that any ultimate liability would not be material to its financial statements.

The Company has various purchase commitments for raw materials, supplies, and property and equipment incidental to the ordinary conduct of business.

## 12. Basic and Diluted Net Income per Share

Basic net income per share is calculated by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net income per share is computed by dividing the net income attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method and the if-converted method. For purposes of this calculation, stock options are considered to be common stock equivalents and are only included in the calculation of diluted net income per share when their effect is dilutive. Shares excluded from the calculation as the effect of their conversion into shares of our common stock would be antidilutive were 1.1 million for the six months ended April 1, 2017.

The following tables and discussion provide a reconciliation of the numerator and denominator of the basic and diluted net income per share computations.

| (in millions, except per share amounts)                                    | Quarterly<br>Period Ended |                     | Two Quarterly<br>Periods Ended |                     |
|--|---------------------------|---------------------|--------------------------------|---------------------|
|  | April<br>1,<br>2017       | April<br>2,<br>2016 | April<br>1,<br>2017            | April<br>2,<br>2016 |
| Numerator  |                           |                     |                                |                     |
| Consolidated net income  | \$72                      | \$59                | \$123                          | \$63                |
| Denominator  |                           |                     |                                |                     |
| Weighted average common shares outstanding - basic                         | 127.7                     | 120.5               | 124.9                          | 120.3               |
| Dilutive shares  | 5.5                       | 3.9                 | 5.8                            | 3.7                 |
| Weighted average common and common equivalent shares outstanding - diluted | 133.2                     | 124.4               | 130.7                          | 124.0               |

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Per common share income

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | \$0.56 | \$0.49 | \$0.98 | \$0.52 |
| Diluted | \$0.54 | \$0.47 | \$0.94 | \$0.51 |

14

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## 13. Accumulated Other Comprehensive Income (Loss)

The components and activity of Accumulated other comprehensive income (loss) are as follows:

|  | Currency<br>Translation | Defined<br>Benefit<br>Pension<br>and<br>Retiree<br>Health<br>Plans | Interest<br>Rate<br>Swaps<br>Designated<br>as<br>Hedges | Interest<br>Rate<br>Swaps<br>Not<br>Designated<br>as<br>Hedges | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|--|-------------------------|--|---|--|---|
| Balance at October 1, 2016   | \$ (82 )                | \$ (44 )   | \$ (31 )  | \$ 9   | \$ (148 )   |
| De-designated hedges   | —                       | —  | 20  | (20 )  | —   |
| Other comprehensive income (loss) before reclassifications                 | (24 )                   | 13   | 25  | —  | 14  |
| Net amount reclassified from accumulated other comprehensive income (loss) | —                       | —  | 7   | 1  | 8   |
| Provision for income taxes related to other comprehensive income items     | —                       | —  | (12 )   | (1 )   | (13 )   |
| Balance at April 1, 2017   | \$ (106 )               | \$ (31 )   | \$ 9  | \$ (11 )   | \$ (139 )   |

|  | Currency<br>Translation | Defined<br>Benefit<br>Pension<br>and<br>Retiree<br>Health<br>Plans | Interest<br>Rate<br>Swaps<br>Designated<br>as<br>Hedges | Interest<br>Rate<br>Swaps<br>Not<br>Designated<br>as<br>Hedges | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|--|-------------------------|--|---|--|---|
| Balance at September 26, 2015  | \$ (81 )                | \$ (25 )   | \$ (23 )  | \$ 10  | \$ (129 )   |
| Other comprehensive income (loss) before reclassifications                 | 55                      | —  | (19 )   | —  | 36  |
| Net amount reclassified from accumulated other comprehensive income (loss) | —                       | —  | 4   | —  | 4   |
| Provision for income taxes related to other comprehensive income items     | —                       | —  | 6   | —  | 6   |
| Balance at April 2, 2016   | \$ (26 )                | \$ (25 )   | \$ (32 )  | \$ 10  | \$ (83 )  |

## 14. Guarantor and Non-Guarantor Financial Information

Berry Global, Inc. ("Issuer") has notes outstanding which are fully, jointly, severally, and unconditionally guaranteed by its parent, Berry Global Group, Inc. (for purposes of this Note, "Parent") and substantially all of Issuer's domestic subsidiaries. Separate narrative information or financial statements of the guarantor subsidiaries have not been included because they are 100% owned by Parent and the guarantor subsidiaries unconditionally guarantee such debt on a joint and several basis. A guarantee of a guarantor subsidiary of the securities will terminate upon the following customary circumstances: the sale of the capital stock of such guarantor if such sale complies with the indentures, the designation of such guarantor as an unrestricted subsidiary, the defeasance or discharge of the indenture, as a result of the holders of certain other indebtedness foreclosing on a pledge of the shares of a guarantor subsidiary or if such guarantor no longer guarantees certain other indebtedness of the issuer. The guarantees of the guarantor subsidiaries are also limited as necessary to prevent them from constituting a fraudulent conveyance under applicable law and any guarantees guaranteeing subordinated debt are subordinated to certain other of the Company's debts. Parent also

guarantees the Issuer's term loans and revolving credit facilities. The guarantor subsidiaries guarantee our term loans and are co-borrowers under our revolving credit facility. Presented below is condensed consolidating financial information for the Parent, Issuer, guarantor subsidiaries and non-guarantor subsidiaries. The Issuer and guarantor financial information includes all of our domestic operating subsidiaries; our non-guarantor subsidiaries include our foreign subsidiaries, certain immaterial domestic subsidiaries and the unrestricted subsidiaries under the Issuer's indentures. The Parent uses the equity method to account for its ownership in the Issuer in the Condensed Consolidating Supplemental Financial Statements. The Issuer uses the equity method to account for its ownership in the guarantor and non-guarantor subsidiaries. All consolidating entries are included in the eliminations column along with the elimination of intercompany balances.

Condensed Supplemental Consolidated Balance Sheet

|  | April 1, 2017 |         |                           |                                   |              |         |
|--|---------------|---------|---------------------------|-----------------------------------|--------------|---------|
|  | Parent        | Issuer  | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total   |
| Current assets                                       | \$—           | \$77    | \$ 1,191                  | \$ 728                            | \$ —         | \$1,996 |
| Intercompany receivable                              | 462           | 2,730   | —                         | —                                 | (3,192 )     | —       |
| Property, plant, and equipment, net                  | —             | 75      | 1,611                     | 706                               | —            | 2,392   |
| Other assets   | 770           | 5,037   | 4,629                     | 520                               | (6,803 )     | 4,153   |
| Total assets   | \$1,232       | \$7,919 | \$ 7,431                  | \$ 1,954                          | \$ (9,995 )  | \$8,541 |
| Current liabilities                                  | \$106         | \$143   | \$ 581                    | \$ 278                            | \$ —         | \$1,108 |
| Intercompany payable                                 | —             | 67      | 2,973                     | 152                               | (3,192 )     | —       |
| Other long-term liabilities                          | 424           | 6,133   | 107                       | 67                                | —            | 6,731   |
| Stockholders' equity (deficit)                       | 702           | 1,576   | 3,770                     | 1,457                             | (6,803 )     | 702     |
| Total liabilities and stockholders' equity (deficit) | \$1,232       | \$7,919 | \$ 7,431                  | \$ 1,954                          | \$ (9,995 )  | \$8,541 |

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October 1, 2016

|  | Parent Issuer |         | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total     |
|--|---------------|---------|---------------------------|-----------------------------------|--------------|-----------|
| Current assets                                       | \$—           | \$ 161  | \$ 945                    | \$ 686                            | \$ —         | \$ 1,792  |
| Intercompany receivable                              | 364           | 2,797   | —                         | —                                 | (3,161)      | ) —       |
| Property, plant and equipment, net                   | —             | 76      | 1,434                     | 714                               | —            | 2,224     |
| Other assets   | 302           | 4,101   | 4,094                     | 557                               | (5,417)      | ) 3,637   |
| Total assets   | \$666         | \$7,135 | \$ 6,473                  | \$ 1,957                          | \$ (8,578)   | ) \$7,653 |
| Current liabilities                                  | \$60          | \$207   | \$ 480                    | \$ 284                            | \$ —         | \$ 1,031  |
| Intercompany payable                                 | —             | —       | 2,992                     | 169                               | (3,161)      | ) —       |
| Other long-term liabilities                          | 385           | 5,822   | 126                       | 68                                | —            | 6,401     |
| Stockholders' equity (deficit)                       | 221           | 1,106   | 2,875                     | 1,436                             | (5,417)      | ) 221     |
| Total liabilities and stockholders' equity (deficit) | \$666         | \$7,135 | \$ 6,473                  | \$ 1,957                          | \$ (8,578)   | ) \$7,653 |

Condensed Supplemental Consolidated Statements of Income

Quarterly Period Ended April 1, 2017

|                                      | Parent Issuer |        | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total    |
|--------------------------------------|---------------|--------|---------------------------|-----------------------------------|--------------|----------|
| Net sales                            | \$—           | \$ 146 | \$ 1,252                  | \$ 408                            | \$ —         | \$ 1,806 |
| Cost of goods sold                   | —             | 117    | 1,012                     | 324                               | —            | 1,453    |
| Selling, general and administrative  | —             | (11 )  | 87                        | 56                                | —            | 132      |
| Amortization of intangibles          | —             | 1      | 31                        | 8                                 | —            | 40       |
| Restructuring and impairment charges | —             | —      | 6                         | —                                 | —            | 6        |
| Operating income                     | —             | 39     | 116                       | 20                                | —            | 175      |
| Other expense (income), net          | —             | 10     | 2                         | 8                                 | —            | 20       |
| Interest expense, net                | —             | 6      | 46                        | 15                                | —            | 67       |
| Equity in net income of subsidiaries | (88)          | (51 )  | —                         | —                                 | 139          | —        |
| Income (loss) before income taxes    | 88            | 74     | 68                        | (3 )                              | (139 )       | ) 88     |
| Income tax expense (benefit)         | 16            | 2      | —                         | 14                                | (16 )        | ) 16     |
| Consolidated net income (loss)       | \$72          | \$72   | \$ 68                     | \$ (17 )                          | \$ (123 )    | ) \$72   |
| Comprehensive net income (loss)      | \$72          | \$81   | \$ 68                     | \$ 17                             | \$ (123 )    | ) \$115  |

Quarterly Period Ended April 2, 2016

|                                      | Parent Issuer |        | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total    |
|--------------------------------------|---------------|--------|---------------------------|-----------------------------------|--------------|----------|
| Net sales                            | \$—           | \$ 142 | \$ 1,070                  | \$ 402                            | \$ —         | \$ 1,614 |
| Cost of goods sold                   | —             | 110    | 841                       | 318                               | —            | 1,269    |
| Selling, general and administrative  | —             | 27     | 83                        | 28                                | —            | 138      |
| Amortization of intangibles          | —             | 2      | 24                        | 9                                 | —            | 35       |
| Restructuring and impairment charges | —             | —      | 6                         | 1                                 | —            | 7        |
| Operating income                     | —             | 3      | 116                       | 46                                | —            | 165      |
| Other expense (income), net          | —             | 12     | (3 )                      | (16 )                             | —            | (7 )     |
| Interest expense, net                | —             | 9      | 49                        | 16                                | —            | 74       |
| Equity in net income of subsidiaries | (98)          | (104)  | —                         | —                                 | 202          | —        |
| Income (loss) before income taxes    | 98            | 86     | 70                        | 46                                | (202 )       | ) 98     |
| Income tax expense (benefit)         | 39            | 27     | 1                         | 11                                | (39 )        | ) 39     |

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|                                 |      |      |       |        |         |         |
|---------------------------------|------|------|-------|--------|---------|---------|
| Consolidated net income (loss)  | \$59 | \$59 | \$ 69 | \$ 35  | \$ (163 | ) \$59  |
| Comprehensive net income (loss) | \$59 | \$47 | \$ 69 | \$ 119 | \$ (163 | ) \$131 |

16

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## Two Quarterly Periods Ended April 1, 2017

|  |        |        | Non-                      |                           |              |         |
|--|--------|--------|---------------------------|---------------------------|--------------|---------|
|  | Parent | Issuer | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations | Total   |
| Net sales  | \$—    | \$289  | \$ 2,231                  | \$ 788                    | \$ —         | \$3,308 |
| Cost of goods sold                                 | —      | 233    | 1,801                     | 625                       | —            | 2,659   |
| Selling, general and administrative                | —      | 31     | 162                       | 52                        | —            | 245     |
| Amortization of intangibles                        | —      | 3      | 56                        | 14                        | —            | 73      |
| Restructuring and impairment charges               | —      | —      | 10                        | —                         | —            | 10      |
| Operating income                                   | —      | 22     | 202                       | 97                        | —            | 321     |
| Other expense (income), net                        | —      | 14     | 2                         | 3                         | —            | 19      |
| Interest expense, net                              | —      | 12     | 91                        | 32                        | —            | 135     |
| Equity in net income of subsidiaries               | (167)  | (143)  | —                         | —                         | 310          | —       |
| Income (loss) before income taxes                  | 167    | 139    | 109                       | 62                        | (310 )       | 167     |
| Income tax expense (benefit)                       | 44     | 16     | —                         | 28                        | (44 )        | 44      |
| Consolidated net income (loss)                     | \$123  | \$123  | \$ 109                    | \$ 34                     | \$ (266 )    | \$123   |
| Comprehensive net income (loss)                    | \$123  | \$143  | \$ 109                    | \$ 23                     | \$ (266 )    | \$132   |
| <br>Consolidating Statement of Cash Flows          |        |        |                           |                           |              |         |
| Cash Flow from Operating Activities                | \$—    | \$24   | \$ 212                    | \$ 97                     | \$ —         | \$333   |
| Cash Flow from Investing Activities                |        |        |                           |                           |              |         |
| Additions to property, plant, and equipment        | —      | (8 )   | (97 )                     | (30 )                     | —            | (135 )  |
| Proceeds from sale of assets                       | —      | 1      | 3                         | —                         | —            | 4       |
| (Contributions) distributions to/from subsidiaries | (15 )  | (443)  | —                         | —                         | 458          | —       |
| Intercompany advances (repayments)                 | —      | 94     | —                         | —                         | (94 )        | —       |
| Acquisition of business, net of cash acquired      | —      | —      | (458 )                    | —                         | —            | (458 )  |
| Other investing activities, net                    | —      | (1 )   | —                         | —                         | —            | (1 )    |
| Net cash from investing activities                 | (15 )  | (357)  | (552 )                    | (30 )                     | 364          | (590 )  |
| <br>Cash Flow from Financing Activities            |        |        |                           |                           |              |         |
| Proceeds from long-term debt                       | —      | 595    | —                         | —                         | —            | 595     |
| Proceeds from issuance of common stock             | 15     | —      | —                         | —                         | —            | 15      |
| Payment of tax receivable agreement                | (60 )  | —      | —                         | —                         | —            | (60 )   |
| Repayments on long-term borrowings                 | —      | (314)  | (2 )                      | (1 )                      | —            | (317 )  |
| Contribution from Parent                           | —      | —      | 458                       | —                         | (458 )       | —       |
| Debt financing costs                               | —      | (4 )   | —                         | —                         | —            | (4 )    |
| Changes in intercompany balances                   | 60     | —      | (114 )                    | (40 )                     | 94           | —       |
| Net cash from financing activities                 | 15     | 277    | 342                       | (41 )                     | (364 )       | 229     |
| Effect of exchange rate changes on cash            | —      | —      | —                         | (2 )                      | —            | (2 )    |
| Net change in cash                                 | —      | (56 )  | 2                         | 24                        | —            | (30 )   |
| Cash and cash equivalents at beginning of period   | —      | 102    | 5                         | 216                       | —            | 323     |
| Cash and cash equivalents at end of period         | \$—    | \$46   | \$ 7                      | \$ 240                    | \$ —         | \$293   |

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Two Quarterly Periods Ended April 2, 2016

|  |        |         | Non-                      |                           |              |         |
|--|--------|---------|---------------------------|---------------------------|--------------|---------|
|  | Parent | Issuer  | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations | Total   |
| Net sales  | \$—    | \$292   | \$ 2,062                  | \$ 872                    | \$ —         | \$3,226 |
| Cost of goods sold                                 | —      | 233     | 1,656                     | 700                       | —            | 2,589   |
| Selling, general and administrative                | —      | 83      | 158                       | 51                        | —            | 292     |
| Amortization of intangibles                        | —      | 4       | 50                        | 17                        | —            | 71      |
| Restructuring and impairment charges               | —      | —       | 22                        | 1                         | —            | 23      |
| Operating income (loss)                            | —      | (28 )   | 176                       | 103                       | —            | 251     |
| Other expense (income), net                        | —      | 11      | (7 )                      | (7 )                      | —            | (3 )    |
| Interest expense, net                              | —      | 18      | 95                        | 36                        | —            | 149     |
| Equity in net income of subsidiaries               | (105)  | (139 )  | —                         | —                         | 244          | —       |
| Income (loss) before income taxes                  | 105    | 82      | 88                        | 74                        | (244 )       | 105     |
| Income tax expense (benefit)                       | 42     | 19      | 1                         | 22                        | (42 )        | 42      |
| Consolidated net income (loss)                     | \$63   | \$63    | \$ 87                     | \$ 52                     | \$ (202 )    | \$63    |
| Comprehensive net income (loss)                    | \$63   | \$54    | \$ 87                     | \$ 107                    | \$ (202 )    | \$109   |
| <br>Consolidating Statement of Cash Flows          |        |         |                           |                           |              |         |
| Cash Flow from Operating Activities                | \$—    | \$15    | \$ 249                    | \$ 97                     | \$ —         | \$361   |
| Cash Flow from Investing Activities                |        |         |                           |                           |              |         |
| Additions to property, plant, and equipment        | —      | (5 )    | (143 )                    | (25 )                     | —            | (173 )  |
| Proceeds from sale of assets                       | —      | —       | 4                         | —                         | —            | 4       |
| (Contributions) distributions to/from subsidiaries | (11 )  | (2,249) | —                         | —                         | 2,260        | —       |
| Intercompany advances (repayments)                 | —      | (110 )  | —                         | —                         | 110          | —       |
| Acquisition of business, net of cash acquired      | —      | —       | (291 )                    | (1,992 )                  | —            | (2,283) |
| Net cash from investing activities                 | (11 )  | (2,364) | (430 )                    | (2,017 )                  | 2,370        | (2,452) |
| Cash Flow from Financing Activities                |        |         |                           |                           |              |         |
| Proceeds from long-term debt                       | —      | 2,490   | —                         | —                         | —            | 2,490   |
| Repayments on long-term borrowings                 | —      | (243 )  | —                         | (24 )                     | —            | (267 )  |
| Proceeds from issuance of common stock             | 11     | —       | —                         | —                         | —            | 11      |
| Payment of tax receivable agreement                | (57 )  | —       | —                         | —                         | —            | (57 )   |
| Contribution from parent                           | —      | —       | 291                       | 1,969                     | (2,260 )     | —       |
| Debt financing costs                               | —      | (37 )   | —                         | —                         | —            | (37 )   |
| Purchase of non-controlling interest               | —      | —       | (66 )                     | —                         | —            | (66 )   |
| Changes in intercompany balances                   | 57     | —       | (34 )                     | 87                        | (110 )       | —       |
| Net cash from financing activities                 | 11     | 2,210   | 191                       | 2,032                     | (2,370 )     | 2,074   |
| Effect of exchange rate changes on cash            | —      | —       | —                         | 1                         | —            | 1       |
| Net change in cash                                 | —      | (139 )  | 10                        | 113                       | —            | (16 )   |
| Cash and cash equivalents at beginning of period   | —      | 163     | —                         | 65                        | —            | 228     |
| Cash and cash equivalents at end of period         | \$—    | \$24    | \$ 10                     | \$ 178                    | \$ —         | \$212   |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in our most recent Form 10-K in the section titled "Risk Factors" and other risk factors identified from time to time in our periodic filings with the SEC. As a result, our actual results may differ materially from those contained in any forward-looking statements. The forward-looking statements referenced within this report should be read with the explanation of the qualifications and limitations included herein.

The Company's fiscal year is based on fifty-two or fifty-three week periods. Fiscal 2017 is a fifty-two week period and fiscal 2016 was a fifty-three week period.

### Executive Summary

**Business.** The Company's operations are organized into three operating segments: Engineered Materials, Health, Hygiene & Specialties, and Consumer Packaging. The structure is designed to align us with our customers, provide improved service, and drive future growth in a cost efficient manner. The Engineered Materials segment primarily consists of tapes and adhesives, polyethylene based film products, can liners, printed films, and specialty coated, and laminated products. The Health, Hygiene & Specialties segment primarily consists of nonwoven specialty materials used in hygiene, infection prevention, personal care, industrial, construction, filtration applications, and personal care films, as well as pipeline corrosion protection solutions. The Consumer Packaging segment primarily consists of containers, foodservice items, closures, overcaps, bottles, prescription containers, and tubes.

In October 2016, the Company realigned portions of our operating segments in order to leverage geographic management teams and commercial activities. The international portion of our Retail & Industrial product line was moved from Engineered Materials to the Specialties product line within Health, Hygiene & Specialties, resulting in a \$33 million and \$69 million movement in Net sales in the quarterly and two quarterly periods ended April 2, 2016, respectively. Additionally, to align the newly acquired AEP business with our existing Core Films business, \$78 million and \$156 million of Core Films Net sales were moved from Consumer Packaging to Engineered Materials in the quarterly and two quarterly periods ended April 2, 2016, respectively. As result of these organizational realignments, we have recast prior period segment amounts.

**Acquisitions.** Our acquisition strategy is focused on improving our long-term financial performance, enhancing our market positions, and expanding our existing and complementary product offerings. We seek to obtain businesses for attractive post-synergy multiples, creating value for our stockholders from synergy realization, leveraging the acquired products across our customer base, creating new platforms for future growth, and assuming best practices from the businesses we acquire. The Company has included the expected benefits of acquisition integrations and restructuring plans within our unrealized synergies, which are in turn recognized in earnings after an acquisition has been fully integrated or the restructuring plan is completed. While the expected benefits on earnings is estimated at the commencement of each transaction, once the execution of the plan and integration occur, we are generally unable to accurately estimate or track what the ultimate effects have been due to system integrations and movements of activities to multiple facilities. As historical business combinations and restructuring plans have not allowed us to accurately separate realized synergies compared to what was initially identified, we measure the synergy realization based on the overall segment profitability post integration.

### Avintiv Inc.

In October 2015, the Company acquired 100% of the capital stock of AVINTIV Inc. ("Avintiv") for a purchase price of \$2.26 billion, net of cash acquired. Avintiv was one of the world's leading developers, producers, and marketers of nonwoven specialty materials used in hygiene, infection prevention, personal care, industrial, construction, and filtration applications. To finance the purchase, the Company issued \$400 million aggregate principal amount of 6.0% second priority senior secured notes due 2022 and entered into an incremental assumption agreement to increase the

commitments under the Company's existing term loan credit agreement by \$2.1 billion due 2022. The Company expects to realize annual cost synergies of approximately \$80 million related to the Avintiv acquisition with full realization expected in fiscal 2017.

AEP Industries Inc.

In January 2017, the Company acquired AEP Industries Inc. ("AEP") for a purchase price of \$786 million, net of cash acquired. A portion of the purchase price consisted of issuing 6.5 million of Berry common shares which were valued at \$328 million at the time of closing. AEP manufactures and markets an extensive and diverse line of polyethylene and polyvinyl chloride flexible plastic packaging products with consumer, industrial, and agricultural applications. The acquired business is operated in Berry's Engineered Materials segment. To finance the purchase, the Company entered into an incremental assumption agreement to increase the commitments under the Company's existing term loan credit agreement by \$500 million due 2024. The Company expects to realize annual cost synergies of approximately \$70 million from the AEP transaction with full realization expected in fiscal 2018.

19

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Raw Material Trends. Our primary raw material is plastic resin consisting primarily of polypropylene and polyethylene. Plastic resins are subject to price fluctuations, including those arising from supply shortages and changes in the prices of natural gas, crude oil and other petrochemical intermediates from which resins are produced. The three month simple average price per pound, as published by U.S. market indexes, were as follows:

|             | Polyethylene |       |       | Polypropylene |       |       |
|-------------|--------------|-------|-------|---------------|-------|-------|
|             | Butene Film  |       |       |               |       |       |
|             | 2017         | 2016  | 2015  | 2017          | 2016  | 2015  |
| 1st quarter | \$.75        | \$.69 | \$.86 | \$.69         | \$.70 | \$.92 |
| 2nd quarter | .77          | .66   | .75   | .80           | .75   | .73   |
| 3rd quarter | —            | .73   | .76   | —             | .71   | .68   |
| 4th quarter | —            | .75   | .73   | —             | .71   | .66   |

Due to differences in the timing of passing through resin cost changes to our customers on escalator/de-escalator programs, segments are negatively impacted in the short term when plastic resin costs increase and are positively impacted when plastic resin costs decrease. This timing lag in passing through raw material cost changes could affect our results as plastic resin costs fluctuate.

Outlook. The Company is impacted by general economic and industrial growth, plastic resin availability and affordability, and general industrial production. Our business has both geographic and end-market diversity, which reduces the effect of any one of these factors on our overall performance. Our results are affected by our ability to pass through raw material cost changes to our customers, improve manufacturing productivity and adapt to volume changes of our customers. Historically, there has been a very tight correlation between oil prices and the cost of our key raw materials, polyethylene and polypropylene. Overall, we continue to believe that these current trends in global oil and resin markets will be positive for the Company. We continue to believe the fiscal 2017 volume environment in the markets we serve will remain consistent with fiscal 2016 and will be impacted by one less week of operations in fiscal 2017 compared to fiscal 2016. In the near term, inflation and market pressure in South America could temporarily create a headwind for the Company, which we believe will ultimately be offset within the fiscal year by maximizing the synergies from the AEP acquisition. For fiscal 2017, we project cash flow from operations and Adjusted Free Cash Flow of \$925 million and \$550 million, respectively. These estimates assume \$80 million of tax payments, \$60 million of business integration costs, and no impact to working capital. The \$550 million of Adjusted Free Cash Flow includes \$315 million of additions to property, plant and equipment and \$60 million of payments under our tax receivable agreement. For the definition of Adjusted Free Cash Flow and further information related to Adjusted Free Cash Flow as a non-GAAP financial measure, see "Liquidity and Capital Resources."

#### Results of Operations

Comparison of the Quarterly Period Ended April 1, 2017 (the "Quarter") and the Quarterly Period Ended April 2, 2016 (the "Prior Quarter")

Consistent with historical presentation, acquisition (businesses acquired in the last twelve months) net sales and operating income disclosed within this section represent the historical results from acquisitions for the comparable prior year period. The remaining change disclosed represents the changes from the prior period on a combined basis. Business integration expenses consist of restructuring and impairment charges, acquisition related charges, and other business optimization costs.

#### Consolidated Overview

|                  | Quarter | Prior<br>Quarter | \$<br>Change | %<br>Change |   |
|------------------|---------|------------------|--------------|-------------|---|
| Net sales        | \$1,806 | \$1,614          | \$ 192       | 12          | % |
| Operating income | \$175   | \$165            | \$ 10        | 6           | % |

Operating income percentage of net sales 10 % 10 %

Net sales increased by \$192 million from the Prior Quarter primarily attributed to acquisition net sales of \$205 million and selling price increases of \$9 million, partially offset by a negative \$15 million impact from a 1% volume decline and a \$7 million negative impact from foreign currency changes.

The operating income increase of \$10 million from the Prior Quarter was primarily attributed to acquisition operating income of \$19 million, a \$10 million decrease in selling, general and administrative expense, and a \$6 million decrease in depreciation and amortization. These improvements were partially offset by a \$9 million decline in our product mix and price/cost spread, a \$10 million increase in business integration expenses, a negative \$4 million impact from base volume declines, and an unfavorable impact from foreign currency changes. The business integration expenses primarily consisted of a \$5 million AEP purchase accounting inventory step-up and deal costs associated with the AEP transaction.

20

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## Consumer Packaging

|                         | Quarter | Prior<br>Quarter | \$<br>Change | %<br>Change |
|-------------------------|---------|------------------|--------------|-------------|
| Net sales               | \$ 589  | \$ 610           | \$ (21 )     | (3 %)       |
| Operating income        | \$ 56   | \$ 59            | \$ (3 )      | (5 %)       |
| Percentage of net sales | 10 %    | 10 %             |              |             |

Net sales in the Consumer Packaging segment decreased by \$21 million from Prior Quarter primarily attributed to a negative \$20 million impact from a 3% base volume decline, primarily attributed to soft consumer demand in portions of our Rigid Open Top product line.

The operating income decrease of \$3 million from Prior Quarter was primarily attributed to a \$5 million impact from base volume declines, a \$3 million decrease in price/cost spread, and a negative impact from productivity in manufacturing, partially offset by a \$4 million decrease in selling, general and administrative expense and a decrease in business integration expenses.

## Health, Hygiene &amp; Specialties

|                         | Quarter | Prior<br>Quarter | \$<br>Change | %<br>Change |
|-------------------------|---------|------------------|--------------|-------------|
| Net sales               | \$ 597  | \$ 601           | \$ (4 )      | (1 %)       |
| Operating income        | \$ 52   | \$ 58            | \$ (6 )      | (10 %)      |
| Percentage of net sales | 9 %     | 10 %             |              |             |

Net sales in the Health, Hygiene & Specialties segment decreased by \$4 million from Prior Quarter primarily attributed to selling price decreases of \$9 million and a \$6 million unfavorable impact from currency translation, partially offset by a positive \$10 million impact from a 2% base volume improvement.

The operating income decrease of \$6 million from Prior Quarter was primarily attributed to a \$16 million decrease in price/cost spread and an unfavorable impact from foreign currency changes, partially offset by a \$4 million improvement in productivity in manufacturing, a \$4 million decrease in depreciation expense, and a \$2 million impact from the base volume improvement.

## Engineered Materials

|                         | Quarter | Prior<br>Quarter | \$<br>Change | %<br>Change |
|-------------------------|---------|------------------|--------------|-------------|
| Net sales               | \$ 620  | \$ 403           | \$ 217       | 54 %        |
| Operating income        | \$ 67   | \$ 48            | \$ 19        | 40 %        |
| Percentage of net sales | 11 %    | 12 %             |              |             |

Net sales in the Engineered Materials segment increased by \$217 million from Prior Quarter primarily attributed to acquisition net sales of \$205 million and selling price increases of \$18 million, partially offset by slightly lower base volumes.

The operating income increase of \$19 million from Prior Quarter was primarily attributed to acquisition operating income of \$19 million, a \$10 million improvement in our product mix and price/cost spread, and a \$4 million reduction in selling, general and administrative expenses, partially offset by a \$13 million increase in business integration. The business integration expenses primarily consisted of a \$5 million AEP purchase accounting inventory step-up and deal costs associated with the AEP transaction.

## Other (income) expense, net

|  | Quarter | Prior<br>Quarter | \$<br>Change | %<br>Change |
|--|---------|------------------|--------------|-------------|
|  |         |                  |              |             |

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Other (income) expense, net \$ 20 \$ (7 ) \$ 27 386 %

Other (income) expense, net primarily consisted of a \$10 million non-cash defined benefit pension plan settlement and a \$9 million Tax Receivable Agreement valuation adjustment in the Quarter. The Prior Quarter primarily consisted of the favorable impact of transactional foreign currency related to the remeasurement of non-operating intercompany balances.

Interest expense, net

|                       | Prior   | \$      | %             |
|-----------------------|---------|---------|---------------|
|                       | Quarter | Quarter | Change        |
| Interest expense, net | \$ 67   | \$ 74   | \$ (7 ) (9 %) |

The interest expense decrease of \$7 million from Prior Quarter was primarily attributed to reduced interest rates resulting from the fiscal 2017 term loan modifications.

21

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## Income tax expense

|                    | Prior<br>Quarter | \$<br>Change | %<br>Change     |
|--------------------|------------------|--------------|-----------------|
| Income tax expense | \$ 16            | \$ 39        | \$ (23 ) (59 %) |

The income tax expense decrease of \$23 million from the Prior Quarter was primarily attributed to a decrease in the effective tax rate for the Quarter. Within the Quarter, the 18% effective tax rate was favorably impacted by the share based compensation excess tax benefit of 12% and state valuation allowance release of 10%.

## Changes in Comprehensive Income

The \$16 million decline in comprehensive income from Prior Quarter is primarily attributed to a \$63 million decrease in currency translation, partially offset by a \$13 million improvement in net income, a \$21 million increase in interest rate hedges, net of tax, and a \$13 million increase due to a non-cash defined benefit pension plan settlement.

Currency translation gains and losses are primarily related to non-U.S. subsidiaries with a functional currency other than U.S. dollars whereby assets and liabilities are translated from the respective functional currency into U.S. dollars using period-end exchange rates. The change in currency translation in the Quarter was primarily attributed to locations utilizing the euro, British pound sterling, and Brazilian real as the functional currency. As part of the overall risk management, the Company uses derivative instruments to reduce exposure to changes in interest rates attributed to the Company's floating-rate borrowings and records changes to the fair value of these instruments in Accumulated other comprehensive income (loss). The favorable change in fair value of these instruments in the Quarter versus Prior Quarter is primarily attributed to an increase in the forward interest curve between measurement dates.

## Comparison of the Two Quarterly Periods Ended April 1, 2017 (the "YTD") and the Two Quarterly Periods Ended April 2, 2016 (the "Prior YTD")

As a reminder, fiscal 2016 was a fifty-three week period compared to a fifty-two week period in fiscal 2017. The negative impact from the extra days in the Prior YTD period disclosed within this section has been presented on a net basis. Consistent with historical presentation, acquisition (businesses acquired in the last twelve months) net sales and operating income disclosed within this section represent the historical results from acquisitions for the comparable prior year period. The remaining change disclosed represents the changes from the prior period on a combined basis. Business integration expenses consist of restructuring and impairment charges, acquisition related charges, and other business optimization costs.

## Consolidated Overview

|  | YTD     | Prior<br>YTD | \$<br>Change | %<br>Change |
|--|---------|--------------|--------------|-------------|
| Net sales                                | \$3,308 | \$3,226      | \$ 82        | 3 %         |
| Operating income                         | \$321   | \$251        | \$ 70        | 28 %        |
| Operating income percentage of net sales | 10 %    | 8 %          |              |             |

The net sales increase of \$82 million from the Prior YTD was primarily attributed to acquisition net sales of \$205 million and selling price increases of \$3 million, partially offset by a \$98 million negative impact from extra days in the Prior YTD, a \$16 million negative impact from a 1% volume decline, and a \$12 million negative impact from foreign currency changes.

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The operating income increase of \$70 million from the Prior YTD was primarily attributed to a \$30 million decrease in business integration and restructuring expenses, acquisition operating income of \$19 million, a \$19 million decrease in selling, general and administrative expense, and an \$18 million decrease in depreciation and amortization. The decrease in depreciation and amortization was a result of Avintiv purchase accounting adjustments recorded in fiscal 2016. These improvements were partially offset by a \$10 million negative impact from extra days in the Prior YTD, and a \$5 million decline in our product mix and price/cost spread.

Consumer Packaging

|  | YTD     | Prior YTD | \$ Change | % Change |
|--|---------|-----------|-----------|----------|
| Net sales                                | \$1,138 | \$1,214   | \$ (76 )  | (6 %)    |
| Operating income                         | \$90    | \$98      | \$ (8 )   | (8 %)    |
| Operating income percentage of net sales | 8 %     | 8 %       |           |          |

Net sales in the Consumer Packaging segment decreased by \$76 million from Prior YTD primarily attributed to a negative \$43 million impact from extra days in the Prior YTD and a \$38 million negative impact from a 3% base volume decline, partially offset by selling price increases of \$6 million. The volume decline was primarily attributed to soft consumer demand in portions of our Rigid Open Top product line.

The operating income decrease of \$8 million from Prior YTD was primarily attributed to a negative \$8 million impact from base volume decline, a negative \$6 million impact from productivity in manufacturing, a negative \$5 million impact from extra days in the Prior YTD, and a \$3 million decrease in our product mix and price/cost spread, partially offset by an \$8 million decrease in selling, general and administrative expense, and a \$5 million decrease in business integration and restructuring expenses.

Health, Hygiene & Specialties

|  | YTD     | Prior YTD | \$ Change | % Change |
|--|---------|-----------|-----------|----------|
| Net sales                                | \$1,167 | \$1,201   | \$ (34 )  | (3 %)    |
| Operating income                         | \$111   | \$71      | \$ 40     | 56 %     |
| Operating income percentage of net sales | 10 %    | 6 %       |           |          |

Net sales in the Health, Hygiene & Specialties segment decreased by \$34 million from Prior YTD primarily attributed to selling price decreases of \$28 million, a negative \$26 million impact from extra days in the Prior YTD, and a \$12 million unfavorable impact from currency translation, partially offset by a \$31 million impact from a 3% volume improvement.

The operating income increase of \$40 million from Prior YTD was primarily attributed to a \$28 million decrease in business integration and restructuring expenses, a \$12 million decrease in depreciation, an \$8 million improvement in productivity in manufacturing, a \$5 million improvement in base volumes, and a \$5 million decrease in selling, general and administrative expense. These improvements were partially offset by an \$18 million decrease in our product mix and price/cost spread.

Engineered Materials

|  | YTD     | Prior YTD | \$ Change | % Change |
|--|---------|-----------|-----------|----------|
| Net sales                                | \$1,003 | \$811     | \$ 192    | 24 %     |
| Operating income                         | \$120   | \$82      | \$ 38     | 46 %     |
| Operating income percentage of net sales | 12 %    | 10 %      |           |          |

Net sales in the Engineered Materials segment increased by \$192 million from Prior YTD primarily attributed to acquisition net sales of \$205 million, and selling price increases of \$24 million, partially offset by a \$29 million unfavorable impact from extra days in the Prior YTD.

The operating income increase of \$38 million in the Engineered Materials segment from the Prior YTD was primarily attributed to acquisition operating income of \$19 million, a \$16 million improvement in our product mix and price/cost spread, a \$6 million decrease in selling, general and administrative expense, and a \$5 million decrease in depreciation. These improvements were partially offset by a \$4 million negative impact from extra days in the Prior YTD.

Other (income) expense, net

|                             | Prior | \$      | %           |
|-----------------------------|-------|---------|-------------|
|                             | YTD   | YTD     | Change      |
| Other (income) expense, net | \$ 19 | \$ (3 ) | \$ 22 733 % |

Other (income) expense increased by \$22 million from Prior YTD primarily attributed to a \$10 million non-cash defined benefit pension plan settlement and a \$9 million Tax Receivable Agreement valuation adjustment, partially offset by an increase from transactional foreign currency changes related to the remeasurement of non-operating intercompany balances.

Interest expense, net

|                       | Prior  | \$     | %              |
|-----------------------|--------|--------|----------------|
|                       | YTD    | YTD    | Change         |
| Interest expense, net | \$ 135 | \$ 149 | \$ (14 ) (9 %) |

The interest expense decrease of \$14 million from Prior YTD was primarily attributed to reduced interest rates resulting from the fiscal 2017 term loan modifications.

Income tax expense

|                    | Prior | \$    | %        |
|--------------------|-------|-------|----------|
|                    | YTD   | YTD   | Change   |
| Income tax expense | \$ 44 | \$ 42 | \$ 2 5 % |

The income tax expense increase of \$2 million from the Prior YTD was primarily attributed to an increase in Income before income taxes, offset by favorable year-to-date effective tax rate items. Our year-to-date effective tax rate was lower than our statutory rate primarily due to the share based compensation excess tax benefit of 8% and state valuation allowance release of 5%, partially offset by state taxes of 2% and foreign valuation allowance of 3%.

## Changes in Comprehensive Income

The \$23 million improvement in comprehensive income from the Prior YTD was primarily attributed to a \$29 million increase in the fair value of interest rate hedges, net of tax, a \$60 million improvement in net income, and a \$13 million increase due to a non-cash defined benefit pension plan settlement, partially offset by a \$79 million decrease in currency translation. Currency translation gains and losses are primarily related to non-U.S. subsidiaries with a functional currency other than U.S. dollars whereby assets and liabilities are translated from the respective functional currency into U.S. dollars using period-end exchange rates. The change in currency translation in the YTD was primarily attributed to locations utilizing the euro, British pound sterling, and Brazilian real as the functional currency. As part of the overall risk management, the Company uses derivative instruments to reduce exposure to changes in interest rates attributed to the Company's floating-rate borrowings and records changes to the fair value of these instruments in Accumulated other comprehensive income (loss). The favorable change in fair value of these instruments in the YTD versus Prior YTD is primarily attributed to an increase in the forward interest curve between measurement dates.

## Liquidity and Capital Resources

As of the end of the quarter, we had cash and cash equivalents of \$293 million, of which approximately 84% was located outside of the U.S. Our primary sources of cash are the collection of trade receivables generated from the sales of our products and services to our customers and amounts available under our existing lines of credit. Our primary uses of cash are payments for operating expenses, investments in working capital, capital expenditures, interest, taxes, debt obligations, restructuring expenses and other long-term liabilities. Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our senior secured credit facilities, will be adequate to meet our short-term liquidity needs over the next twelve months. We base such belief on historical experience and the funds available under the revolving credit facility. However, we cannot predict our future results of operations and our ability to meet our obligations involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section of our most recent Form 10-K filed with the SEC. In particular, increases in the cost of resin which we are unable to pass through to our customers on a timely basis or significant acquisitions could severely impact our liquidity.

## Senior Secured Credit Facility

We manage our global cash requirements considering (i) available funds among the many subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances. In March 2017, we entered into an agreement to increase our asset-based revolving line of credit that matures in May 2020 by \$100 million to \$750 million. At the end of the Quarter, the Company had \$100 million outstanding on the revolving credit facility. The Company was in compliance with all covenants at the end of the Quarter.

A key financial metric utilized in the calculation of our debt covenants is adjusted EBITDA (defined as "EBITDA" in the Company's debt agreements, but referred herein as Adjusted EBITDA). The following table reconciles (i) our net income to Adjusted EBITDA and (ii) our cash flow from operating activities to Adjusted Free Cash Flow for the four quarters ended April 1, 2017:

|                       |   |
|-----------------------|---|
|                       | April 1,<br>2017<br>Four<br>Quarters<br>Ended |
| Net income            | \$ 296  |
| Income tax expense    | 74  |
| Interest expense, net | 277   |



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|  |          |
|--|----------|
| Other income (expense), net                            | 4        |
| Other non-cash charges <sup>(a)</sup>                  | 34       |
| Restructuring and impairment                           | 19       |
| Business optimization and other expense <sup>(b)</sup> | 20       |
| Depreciation and amortization                          | 506      |
| Acquisition Adjusted EBITDA                            | 91       |
| Unrealized cost savings <sup>(c)</sup>                 | 66       |
| Adjusted EBITDA  | \$ 1,387 |
| Cash flow from operating activities                    | \$ 829   |
| Net additions to property, plant and equipment         | (245 )   |
| Payments of tax receivable agreement                   | (60 )    |
| Adjusted Free Cash Flow                                | \$ 524   |
| Cash flow from investing activities                    | (717 )   |
| Cash flow from financing activities                    | (28 )    |

(a) Includes stock compensation expense of \$17 million and other non-cash charges

(b) Includes business optimization and integration expenses

(c) Primarily consists of unrealized synergies related to the AEP acquisition

Adjusted EBITDA and Adjusted Free Cash Flow, as presented in this document, are supplemental financial measures that are not required by, or presented in accordance with, generally accepted accounting principles in the United States ("GAAP"). Adjusted EBITDA and Adjusted Free Cash Flow are not GAAP financial measures and should not be considered as an alternative to operating income or net income or cash flows from operating activities, in each case determined in accordance with GAAP. Adjusted EBITDA is used by our lenders for debt covenant compliance.

We define "Adjusted Free Cash Flow" as cash flow from operating activities less additions to property, plant and equipment and payments of the tax receivable agreement. We believe Adjusted Free Cash Flow is useful to an investor in evaluating our liquidity because Adjusted Free Cash Flow and similar measures are widely used by investors, securities analysts and other interested parties in our industry to measure a company's liquidity.

These non-GAAP financial measures may be calculated differently by other companies, including other companies in our industry, limiting their usefulness as comparative measures.

#### Tax Receivable Agreement

The Company made \$60 million of payments related to the income tax receivable agreement ("TRA") in the first fiscal quarter of 2017. The \$60 million payment represents the only TRA payment required in fiscal 2017.

#### Cash Flows

Net cash from operating activities decreased \$28 million from the Prior YTD primarily attributed to higher working capital due to timing, partially offset by improved net income before depreciation and amortization.

Net cash from investing activities decreased \$1,862 million from the Prior YTD primarily attributed to the Avintiv acquisition in the Prior YTD and decreased capital expenditures compared to the Prior YTD, partially offset by the acquisition of AEP in the YTD.

Net cash from financing activities decreased \$1,845 million from the Prior YTD primarily attributed to the incremental financing and related costs incurred related to the Avintiv acquisition and the Providência tender offer in the Prior YTD, compared to the incremental financing and related costs incurred for the AEP acquisition in the YTD period.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Interest Rate Sensitivity

We are exposed to market risk from changes in interest rates primarily through our senior secured credit facilities. At April 1, 2017, our senior secured credit facilities are comprised of (i) \$4.3 billion term loans and (ii) a \$750 million revolving credit facility with \$100 million of borrowings outstanding. Borrowings under our senior secured credit facilities bear interest, at our option, at either (1) an alternate base rate or (2) an adjusted LIBOR rate for a one-, two-, three- or six month interest period, or a nine- or twelve-month period, if available to all relevant lenders, in each case, plus an applicable margin. The alternate base rate is the greater of (i) in the case of our term loans, Credit Suisse's prime rate or, in the case of our revolving credit facility, Bank of America's prime rate and (ii) one-half of 1.0% over the weighted average of rates on overnight Federal Funds as published by the Federal Reserve Bank of New York. At April 1, 2017, the LIBOR rate of approximately 1.00% was applicable to the term loans. A 0.25% change in LIBOR would increase our annual interest expense by \$5 million on variable rate term loans.

In February 2013, the Company entered into a \$1 billion interest rate swap transaction with an effective date of May 2016 and expiration in May 2019. In June 2013, the Company elected to settle this derivative instrument and received \$16 million as a result of this settlement. The offset is included in Accumulated other comprehensive loss and is being amortized to Interest expense from May 2016 through May 2019, the original term of the swap agreement.

In March 2014, the Company entered into a \$1 billion interest rate swap transaction with an effective date of February 2016 and expiration in February 2019. In February 2017, in conjunction with the term loan modifications, the Company discontinued hedge accounting. Previously unrealized losses in Accumulated other comprehensive loss are being amortized to Interest expense through February 2019, the original term of the swap. In order to offset the impact of future fair value changes of the March 2014 de-designated swap, the Company entered into a mirrored offsetting swap in February 2017 and has not designated it as a hedge.

In September 2015, the Company entered into a \$1 billion interest rate swap transaction with an effective date of December 2015 and expiration in June 2019. In February 2017, in conjunction with the term loan modifications, the Company entered into an agreement to modify the terms of the original swap on a prospective basis. At this time, the Company de-designated the hedge and has re-designated the modified swap as an effective cash flow hedge. The amount included in Accumulated other comprehensive loss at the date of de-designation is being amortized to Interest expense through June 2019, the original term of the swap. The modified agreement swaps a one-month variable LIBOR contract for a fixed annual rate of 1.5190% with an effective date in March 2017 and expiration in June 2019.

In January 2017, the Company entered into a \$450 million interest rate swap transaction that swaps a one-month variable LIBOR contract for a fixed annual rate of 2.00%, with an effective date in May 2017 and expiration in May 2022.

In February 2017, the Company entered into a \$1 billion interest rate swap transaction that swaps a one-month variable LIBOR contract for a fixed annual rate of 2.3785% with an effective date in February 2017 and expiration in February 2019.

#### Foreign Currency Exchange Rates

As a global company, we face foreign currency risk exposure from fluctuating currency exchange rates, primarily the U.S. dollar against the euro, Brazilian real, British pound sterling, Argentine peso, Chinese yuan, Canadian dollar and Mexican peso. Significant fluctuations in currency rates can have a substantial impact, either positive or negative, on our revenue, cost of sales, and operating expenses. As there is uncertainty in the future movements in foreign exchange rates, significant fluctuations could negatively impact our future consolidated results of operations. Currency translation gains and losses are primarily related to non-U.S. subsidiaries with a functional

currency other than U.S. dollars whereby assets and liabilities are translated from the respective functional currency into U.S. dollars using period-end exchange rates and impact our Comprehensive income. While future consolidated results of operations could be materially impacted by fluctuations in currency rates, we attempt to manage our foreign currency risk on our anticipated cash movements by entering into foreign currency forward contracts to offset potential foreign exchange gains or losses. A 10% change in our foreign currency forward contracts would not result in a material change to our financial statements.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under applicable SEC regulations, management of a reporting company, with the participation of the principal executive officer and principal financial officer, must periodically evaluate the company's "disclosure controls and procedures," which are defined generally as controls and other procedures of a reporting company designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the commission (such as this Form 10-Q) is recorded, processed, summarized, and reported on a timely basis.

As reported in our 2016 Annual Report on Form 10-K, Berry's management concluded that its internal control over financial reporting and its disclosure controls and procedures were not effective as of October 1, 2016. This conclusion was specifically impacted by deficiencies in the design and operating effectiveness related to the timeliness of Berry's annual income tax provision process and the adequacy of written documentation around aspects of its foreign tax provisions resulting primarily from the increased complexity in the legal entity structure following the acquisition of Avintiv. As there were no errors in the accounting or adjustments to the consolidated financial statements as a result of these identified deficiencies, management concluded that there was no impact on Berry's prior or current period consolidated financial statements and that Berry's financial statements were presented fairly in all material respects. Since October 1, 2016, Berry's management has taken remedial actions, and in that regard, has allocated resources internally that we believe will allow us to accelerate the timing of the completion of foreign tax provisions and increase the level of written documentation related to all aspects of the income tax provision.

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures as of April 1, 2017. Because many of the controls in the income tax provision process operate on an annual basis, the assessment of the remediation of the above referenced material weakness will not be fully completed until the Company's fiscal year-end. As a result, management has concluded that our disclosure controls and procedures were not effective as of the last day of the period covered by this report.

(b) Changes in internal controls.

Except as set forth above, there were no changes in our internal control over financial reporting that occurred during the quarter ended April 1, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

### Item 1. Legal Proceedings

There have been no material changes in legal proceedings from the items disclosed in our Form 10-K filed with the Securities and Exchange Commission.

### Item 1A. Risk Factors

Before investing in our securities, it is recommended to carefully consider the risks described in our most recent Form 10-K filed with the SEC, including those under the heading "Risk Factors" and other information contained in this Quarterly Report. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations. There were no material changes in the Company's risk factors since described in our most recent Form 10-K filed with the SEC.

All forward-looking information and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Some of the factors that we believe could affect our results include:

- risks associated with our substantial indebtedness and debt service;
- changes in prices and availability of resin and other raw materials and our ability to pass on changes in raw material prices on a timely basis;
- performance of our business and future operating results;
- risks related to our acquisition strategy and integration of acquired businesses;
- reliance on unpatented know-how and trade secrets;
- increases in the cost of compliance with laws and regulations, including environmental, safety, and production and product laws and regulations;
- risks related to disruptions in the overall economy and the financial markets that may adversely impact our business;
- catastrophic loss of one of our key manufacturing facilities, natural disasters, and other unplanned business interruptions;
- risks of competition, including foreign competition, in our existing and future markets;
- risks related to the market acceptance of our developing technologies and products;
- general business and economic conditions, particularly an economic downturn;
- risks that our restructuring program may entail greater implementation costs or result in lower cost savings than anticipated;
- the ability of our insurance to cover fully our potential exposures; and
- the other factors discussed in our most recent Form 10-K in the section titled "Risk Factors."

We caution readers that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this Form 10-Q may not in fact occur. Accordingly, investors should not place undue reliance on those statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Item Exhibits  
6.

- 3.1 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Berry Plastics Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on March 3, 2017).
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Berry Plastics Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on April 18, 2017).
- 3.3 Amended and Restated Bylaws of Berry Plastics Group, Inc., as amended and restated on March 2, 2017. (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed on March 3, 2017).  
Incremental Assumption Agreement, dated as of January 19, 2017, by and among Berry Plastics Group, Inc., Berry Plastics Corporation and certain of its subsidiaries referenced therein, Credit Suisse AG, Cayman Islands
- 10.1 Branch, as administrative agent for the lenders under the term loan credit agreement referenced therein, Citibank, N.A., as initial Term I lender and Citibank, N.A., as incremental term J lender (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on February 3, 2017).  
Amendment No. 7 to the Amended and Restated Credit Agreement, dated as of March 24, 2017, by and among
- 10.2 Berry Plastics Group, Inc., Berry Plastics Corporation, certain domestic subsidiaries party thereto, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on March 27, 2017).
- 10.3 Employment Agreement of Thomas E. Salmon (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on February 6, 2017).
- 10.4 Offer Letter of Jonathan D. Rich (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on February 6, 2017).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.\*
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.\*
- 32.1 Section 1350 Certification of the Chief Executive Officer.\*
- 32.2 Section 1350 Certification of the Chief Financial Officer.\*
- 101. Interactive Data Files.

\* Filed herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Berry Global Group, Inc.

May 3, 2017 By: /s/ Mark W. Miles  
Mark W. Miles  
Chief Financial Officer