

18-Feb-2021

Neenah, Inc. (NP)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Neenah Q4 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Bill McCarthy, Vice President-Investor Relations. Thank you. Please go ahead, sir.

William B. McCarthy

Vice President-Investor Relations, Neenah, Inc.

Thank you, and welcome to Neenah's fourth quarter 2020 earnings call. A press release covering our financial results was issued yesterday afternoon, so hopefully many of you have had a chance to review that information.

On the call today, you'll be hearing from Julie Schertell, our Chief Executive Officer; and Paul DeSantis, our Chief Financial Officer. Julie and Paul will discuss recent activities and financial results and comment on our outlook as we look ahead in 2021. We'll finish up with a recap of key strategies and initiatives underway to drive long-term value. Following these prepared remarks, we'll open up the call for questions.

Adjusted earnings of \$0.87 per share in the fourth quarter equaled that of prior year. In 2020, GAAP earnings were adjusted to exclude \$6 million of expense, or \$0.28 per share, and included a noncash impairment of a small overseas investment. 2019 fourth quarter adjusted results excluded a net gain of \$1.2 million, or \$0.05 per share, mostly related to a post-retirement plan settlement. Additional details on adjusting items, along with the reconciliation to GAAP figures, can be found in our press release.

Finally, I'll note that our comments today include forward-looking statements. Actual results could differ from these statements due to the risks outlined on our website and in our SEC filings.

With that, I'll turn things over to Julie.

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

Thanks, Bill, and good morning, everyone. The fourth quarter marked the end to an unprecedented and challenging year for everyone. While there was no escaping the impact of the pandemic, I'm pleased with the actions we took to prioritize the health and safety of our employees, maintain substantial liquidity, aggressively reduce cost, and drive demand recovery. This was evidenced in our strong performance as we exited the year, with both segments again delivering sequential improvement in quarterly revenues, operating income, and margins.

In the fourth quarter, adjusted operating income of \$21 million and corresponding earnings per share of \$0.87 both equaled the prior year. Performance was led by our Technical Products segment. With the combination of a strong market demand, new product launches, and efficient manufacturing, Technical Products sales increased an impressive 11% versus 2019, and adjusted operating income of \$18 million reached the highest quarterly level in recent history. Market demand in Fine Paper and Packaging, as expected, has a more extended recovery curve, and we remain on track for this business to recover 90% of its pre-COVID quarterly run rate of \$90 million this year.

Before we talk about 2021 later in the call, I'd be remiss if I didn't note some of the key accomplishments our teams achieved in 2020. Most importantly, with new health and safety protocols put in place, we were able to protect our employees and avoid disruption to our operations and to our customers. We began to implement the Neenah Operating System at our two largest facilities. Utilizing green principles, this system will improve safety, quality customer delivery, and will reduce our cost structure with improved productivity and unlock capacity.

We aggressively reduced cost and working capital, resulting in free cash flow of \$75 million, one of our highest years ever. We quickly developed and commercialized high-performance media for face mask to support COVID relief efforts and meet our customers' needs. We published a corporate sustainability report, highlighting the meaningful progress made over the past five years in reducing our carbon footprint, building a more diverse and inclusive workplace, and maintaining sound governance practices.

We successfully refinanced senior notes that were due this year and replaced them with a more flexible Term Loan B due in 2027. We reinvigorated our innovation efforts and launched a number of new products that will generate incremental revenue for years to come. We maintained a disciplined and active M&A pipeline. We strengthened our executive leadership team, combining new leaders that bring fresh perspective with existing personnel who have deep experience and know-how.

And, lastly, we updated our vision and strategy, providing a clear direction and focus for our organization on key drivers that will add significant value and support expansion into our four targeted growth platforms. With increased capabilities of our teams and strategies and catalysts now in place, we're clearly entering 2021 with momentum and positioning ourselves well for future profitable growth.

I'll talk more about this later in the call, but will now turn things over to Paul to discuss fourth quarter financial results in more detail.

Paul F. DeSantis

Executive Vice President, Chief Financial Officer & Treasurer, Neenah, Inc.

Thank you, Julie. As you heard, both business segments delivered another sequential quarter of improved sales, profits, and margins. Versus the third quarter, sales increased 8%, adjusted operating income was up by more than 30%, and adjusted earnings per share jumped almost 60%. These results were led by our Technical Products segment, which now makes up almost 65% of our total revenue. So, let me start there.

Sales of \$137 million in the quarter were up from quarter three, and more impressively, grew 11% versus last year. The increase was driven primarily by volume growth and helped by currency translation as the stronger euro increased the top line by about \$5 million. These favorable results were partially offset by lower pricing in a few categories such as backings that have price adjusters tied to raw material input costs.

Our filtration business has continued to perform extremely well, and fourth quarter revenues were up almost 30% to a record \$66 million. Transportation, filtration, and media sales grew strongly in Europe and the US, and sales of industrial filters increased by more 20%. Industrial filtration growth was led by gains in products used for evaporative cooling and other similar applications. Quarterly revenues also included about \$4 million of face mask media, which we began selling in 2020.

Outside of filtration, our industrial solutions business also performed well with almost 20% growth in backings, primarily due to increased tape revenue with new products introduced at some of our most strategic customers earlier in the year. Segment adjusted operating income of \$18 million was up from \$10 million in the fourth quarter of 2019, and operating margins also increased from 8% to 13% of sales. Higher income in 2020 resulted from increased sales and production volumes, lower input costs net of selling prices, reduced SG&A spending, and favorable currency translation.

Turning to Fine Paper and Packaging, net sales of \$70 million increased from the prior quarter and, as expected, due to COVID, were below sales in the fourth quarter of 2019. Volume was the largest reason for the shortfall with commercial print accounting for most of this due to reduced demand for print marketing and advertising. Consumer revenues fell impacted by timing of back-to-school sales; while premium packaging revenues increased, led by growth in labels and folding boards. Segment adjusted operating profit was just under \$8 million, up 15% from the third quarter, but below prior year due to lower sales and production volumes and a less favorable mix. These impacts were partially offset by reduced SG&A spending and modest benefits from lower input costs net of selling prices.

As a reminder, we have a history of successfully managing costs in our assets footprint to generate attractive returns and good, steady cash flows that we can invest in growth categories. The commercial print market, while in secular decline, makes up less than half of the segment sales; and our consumer and premium packaging businesses with their stronger growth characteristics efficiently utilize the same asset base. With actions and plans underway, I'm confident we're on the path to recover volume and restore historical mid-teen operating margins.

Next, I'll cover a few corporate items. Consolidated SG&A was \$21.5 million, down almost \$2 million from last year. In 2020, we carefully managed spending, and expenses like travel were severely curtailed. In 2021, with the resumption of more normalized spending, we expect quarterly SG&A of approximately \$25 million with unallocated corporate costs of \$5.5 million. Interest expense was \$3.1 million in the quarter, up from \$2.8 million in 2019. The increase was largely due to higher noncash amortization expense related to refinancing our bonds, plus interest rate differentials on cash and debt as we built up a large cash balance in 2020.

Our income tax rate in the fourth quarter was 15% compared to 19% in the prior year. This 2020 rate included a benefit from a provision of the CARES Act which allowed us to increase the value of certain net operating losses and will generate a cash benefit in 2021. On an ongoing annual basis, we expect our tax rate to be approximately 22%. With \$37 million of cash on hand and no borrowings against our revolver, year-end liquidity was over \$175 million and remains in excellent shape.

Cash generated from operations in the fourth quarter was \$13 million, and while down from the fourth quarter of 2019, it decreased for the right reasons. In 2019, cash flows benefited from a drop in receivables as year-end sales tapered off due to typical seasonality. This was not the case in the fourth quarter of 2020 as customer demand was still rebounding from the impact of COVID earlier in the year. In addition, as noted in our last call, we accelerated \$6 million of retirement plan cash contributions into 2020. In 2021, we expect to return to a more traditional level of cash flow, with increased working capital as we grow sales while maintaining our efficiencies.

Fourth quarter capital spending was \$7 million. This included a project to increase coating capabilities said one of our plants to support growth in release liners. For the full year, capital spending was only \$19 million as we cut or deferred noncritical items. In 2021, we expect to resume more normal spending to around \$35 million.

I'll end with a few additional comments on our near-term outlook. Demand for both business segments should continue to recover with general economic activity. While we won't be back to Q1 2020 pre-COVID levels by the first quarter due to the slower recovery in Fine Paper and less of a seasonal bounce back in Technical Products, we expect to continue delivering modest sequential quarterly gains. The second half of the year should reflect more normal seasonal patterns and will include costs for our annual maintenance downs in the third and fourth quarters.

With the weaker US dollar, recovering global economies, and short-term volatility in supply and demand factors, input prices for fibers, chemicals, and transportation costs have all begun to rise off of Q4 lows. Since many of our fiber contracts have a one quarter lag to market, we'd expect to see the majority of the impact from fiber increases starting in the second quarter.

Our teams are aggressively working to mitigate these higher input costs with pricing and other actions. We're confident that, over time, our pricing will successfully offset cost headwinds, though sometimes this may not happen in the same calendar year. Input costs in 2021 could be more than \$20 million higher than in 2020; however, for the full year, we currently expect volume growth and benefits from our cost and pricing actions to offset this.

One positive outcome of the weaker US dollar is translation of our European operating results. With the euro currently over \$1.20, it's more than \$0.05 above the 2020 average. Each \$0.05 is worth about \$10 million annually of sales and a little less than \$2 million of operating income, or \$0.10 per share.

Finally, I'd note that in 2021, our publishing business will be managed as part of Fine Paper and Packaging. The change enables us to realize SG&A efficiencies since Fine Paper and Packaging has a similar path to market and customer overlap. Publishing is a relatively small category with sales of less than \$30 million and mid-single digit operating margins. So, for building 2021 models, this business should be re-classified from Technical Products into Fine Paper and Packaging.

I'll wrap up as I started by saying our business has delivered another quarter of improving revenues, profits, and margins led by Technical Products and outstanding filtration performance. While the economic environment still has its challenges, demand is recovering in both segments and Neenah remains on a strong financial footing. And

as always, we remain committed to the financial principles we've been known for: maintaining a prudent balance sheet, disciplined capital deployment, and returning cash to shareholders through an attractive dividend.

On that note, I'll turn this back to Julie.

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

Thanks, Paul. Our recent results are demonstrating the success of our strategy and, ultimately, will make Neenah a faster growing, more profitable company. Each of our businesses is on track or ahead at the top line recovery expectations we've communicated. Technical Products exceeded pre-COVID levels in the most recent quarter, and Fine Paper and Packaging is tracking with its targeted pace of recovery.

Going forward, we'll drive profitable organic growth as we build on three core competencies: manufacturing excellence, customer intimacy, and a robust innovation process. The Neenah Operating System will deliver meaningful value and help us further excel operationally to support employees and customers with improved safety, quality, delivery and cost, and unlock latent capacity.

Customer intimacy has always been an ingredient of our success. In Technical Products, our R&D teams work closely with customers to meet their demanding performance and qualification requirements. In Fine Paper and Packaging, our design team collaborates with customers to develop premium products and sustainable solutions that support their brand equity and image.

Our work with customers often includes joint development efforts that draw on our innovation abilities and technical expertise. I mentioned earlier how we continue to strengthen our teams and capabilities. This includes the recent hire of an experienced global head of our innovation process reporting directly to me. With this change, we've realigned our R&D team to leverage their knowledge and skills across Neenah. This will allow us to unlock even greater value with existing and new customers and expand into new markets.

While excited about the future, I'm also pleased with what our teams have done over the past year. In Technical Products, in addition to successfully commercializing high-performance face mask media, we've launched a high efficiency filter media for heavy duty trucks, created new filtration offerings for growing needs like evaporative cooling, provided a unique dissolving label, and extended our digital transfer technology to new and used applications.

In Fine Paper and Packaging, we've launched new planners, journals, and teacher tools for the retail channel, and initiated a number of new products that provide a sustainable and desirable alternative to plastic. As I've mentioned, our focus is on expanding in our four growth platforms: filtration, specialty coatings, custom engineered materials, and premium packaging. Each of these platforms are growing, profitable, and dispensable, and aligned with our manufacturing technologies, our path to market, and material science know-how.

In addition, they benefit from macro trends like a desire for cleaner air, personal health, and environmentally-friendly solutions. These platforms significantly increase our addressable market and will allow us to unlock synergies as we gain scale. We plan to grow in these platforms organically and through M&A. Our M&A pipeline has remained active and focused on a robust set of targets that are strategic fit and meet our required returns. As a result of our strong balance sheet, we're in great shape to act on attractive opportunities that arise.

Let me talk next about our initiatives underway to increase margins. Our businesses have returned to double-digit margins in both segments and Technical Products ended the year with some of their best margins in recent

history. Further improvement will occur as we grow in our targeted markets, supported by innovation efforts that results in higher value and margin-accretive new products and offerings.

The Neenah Operating System will also be an important contributor, with incremental value creation of over \$20 million annually once fully implemented. In our two pilot facilities, employees have embraced this new process, identifying projects and enthusiastically tackling opportunities. I could not be more encouraged by the level of engagement, pride, and results we're achieving. Neenah has always had a strong culture of continuous cost improvement, and I believe that momentum we're seeing is contagious, and our initiatives and success will accelerate as we implement the system in other facilities.

Through the combination of these efforts, we'll increase our organic growth rate with both business segments delivering mid-teen operating margins. However, this wouldn't be possible without the right people doing the right things the right way. I'm fond of saying culture eats strategy for breakfast, and we're fortunate at Neenah to have a culture that always makes safety the top priority, is results-oriented with a strong bias for speed, and is collaborative and inclusive.

We've emerged from a challenging year with a strong financial position, clear road map to accelerate top line growth, and specific catalysts to increase margins. You're seeing the results of our strategies and actions and I'm excited about our future.

I'd now like to open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Jon Tanwanteng from CJS. Your line is open.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Hey. Good morning. Thank you for taking my questions and a very nice quarter.

Paul F. DeSantis

Executive Vice President, Chief Financial Officer & Treasurer, Neenah, Inc.

A

Thanks, Jon.

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

A

Good morning.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Good morning. So, the first one I wanted to ask, I think one of you – maybe Paul, it was you – mentioned that you're expecting to see sequential quarterly gains throughout 2021. Does that include Q1 over Q4; or is that – are you going to see a seasonal downtick as we head into the first quarter? And maybe just talk about trends you're seeing today.

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

A

Yeah. What I would say, Jon, is I wouldn't take Q4 and annualize it, for sure; one of our best quarters ever in Technical Products. So, I would be cautious and that would be a little bit overly ambitious. I'm really pleased with the margin improvement we had in Q4, particularly in Tech Products at 13% and Fine Paper not far behind it with a lot of momentum as we enter 2021. We also know as input costs rise and we'll feel some pressure from that as well as just the normal seasonality and machine downtime. So, over time, we're going to continue to see improving margins and improving profitability. It just may not always be linear because of some of those moving pieces, but I expect both segments to achieve mid-teen margins over time, And Q4 was a nice solid step in that direction.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Got it. Thank you for that color. And then just on the margin, as you look at the yield, \$20 million and the increased input costs. I know you guys have had great history of passing them through, but is it possible to increase margin year-over-year given that amount of headwind as you're looking at it now, or how should we think about the ability grow your operating income and gross margins as we look to this next three or four quarters?

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

A

Sure. We expect to recover raw material inflation just like you said over time. It does vary by business depending on just normal market pricing norm. So in some parts of our business, that happens more quickly than others. We have announced price increases in Fine Paper and Packaging and industrial. In filtration, we negotiate contracts and commitments annually, so we typically get more of a lag. We get that with inflation and with deflation.

We also have some nice fiber pricing lags in our fiber contracts that we have a little bit more time to accelerate and offset with pricing. That helps us manage timing. And probably, most importantly, outside of pricing, we're taking a number of other actions to offset input costs to accelerate our Neenah Operating System, drive continuous cost improvement, pre-build raw material inventory. So all that said, we estimate we'll offset material inflation this year, while at the same time continue to make progress in our growth strategy and initiatives.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Okay. Great. And just one more and I'll jump back in queue. But just given how strongly Tech Products performed in the quarter, like, can we see some more of that strength go into Q1 especially as we look at the auto guys and inventories are still low, or is there more of a hangover coming back that you're seeing? Give us a sense of maybe compared to three months ago, that market is going to be stronger or maybe it's the same as maybe you thought when you last reported.

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

A

I would say, right now, we're seeing – continue to see nice demand and growth both in Europe and in North America. And as a reminder, we have about 30% of our filtration business that is not transportation filtration; it's more industrial filtration. Within transportation filtration, about 75% of that business goes to the aftermarket, and about half of our business goes to heavy-duty vehicles. So, we're really influenced by the economies than we are by new car sales or car inventories. It's really that aftermarket. So, as long as the economies stay strong, we're expecting to see nice continued demand.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Great. Thanks for the reminder, and I'll jump back in.

Q

Operator: Your next question comes from the line of Chris McGinnis from Sidoti & Company. Your line is open.

Christopher P. McGinnis

Analyst, Sidoti & Co. LLC

Good morning. Can you hear me?

Q

Paul F. DeSantis

Executive Vice President, Chief Financial Officer & Treasurer, Neenah, Inc.

Yeah. Good morning.

A

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

Yeah. Good morning.

A

Christopher P. McGinnis

Analyst, Sidoti & Co. LLC

Oh, perfect. Thanks for taking my questions. Nice quarter. Sorry, I'm on a cell phone. I apologize. I just wanted to ask, I guess, just with the improvement around Technical Products, can you just give an update on where Appleton is and maybe the expectations for the year ahead from that facility? Thanks.

Q

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

Sure. Chris, I'd be disappointed if you didn't ask about Appleton [indiscernible] (00:26:41). So, this is what I would say. We had really strong performance in global filtration, as you saw in Q4. And as a reminder, Appleton and North American filtration is a part of that. We also have another filtration facility in North America that helps drive filtration as well. We just haven't probably talked about it overtly. And we really manage this business as a system, just like our other businesses.

A

So, we optimize profits and utilization for our lowest-cost assets first. And in the last year or so, we've unlocked additional capacity in filtration facility in Germany with an environmental investment as well as with the Neenah Operating System implementation. So, we're still on a journey is how I would think about it in filtration. I'm pleased with our recovery from a global filtration standpoint and our innovation launches and our margin has got good momentum, but I would be remiss if I didn't say the qualification process out of Appleton has been lengthy and it has taken more time than we originally anticipated, and we're still experiencing that to a fair degree. So it's a journey.

Christopher P. McGinnis

Analyst, Sidoti & Co. LLC

I apologize for it. I'm not harping out. I was just wondering...

[indiscernible] (00:27:54)

Q

Christopher P. McGinnis

Analyst, Sidoti & Co. LLC

...really strong quarter.

Q

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

We know it's coming.

A

Christopher P. McGinnis

Analyst, Sidoti & Co. LLC

Yeah. Yeah. It was a really good quarter, so congrats on that. And I guess, just, in thinking about 2021 on the top line especially, I guess, just in Fine Paper, how much of the expected recovery of that 90% is maybe the legacy business coming back versus new product introductions? Can you just help us understand that maybe a little bit better? Thanks.

Q

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

Sure. It's more heavily the legacy business coming back, but it's supplemented by new product introductions. We expected and we're still expecting about a 10% [indiscernible] (00:28:35) in Fine Paper. So, that means we'd get to about \$80 million a quarter on average, and we expect to return to that this year, over the course of this year. But the majority of that is our historical business coming back. And the other nice part about Fine Paper that we didn't have always in the past is the diversity of the portfolio. So, the fact that half of Fine Paper is commercial print, which has the greatest pressure on it, the other half is consumer products and its premium packaging.

A

It has some nice growth dynamics, and the team has done a great job of extending beyond traditional paper products with new products like teacher tools, and planners, and journals, and plastic alternatives like gift cards and signage and floor graphics. So, I'm encouraged by where we are in Fine Paper, and it's a strong business that generates a lot of nice cash for us.

Christopher P. McGinnis

Analyst, Sidoti & Co. LLC

Great. And just in terms of you mentioned some sustainable products. Are you going to market a little bit differently given there seems to be a greater focus on the pandemic around sustainability? Can you just maybe talk about how maybe that's changed if at all given the pandemic? Thanks.

Q

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

Sure. I think the go to market approach hasn't necessarily changed as far as our path to market. I think what has changed is our acceleration and focus on innovation. We expect our business to grow at GDP plus, and innovation is a key part of that. And we've achieved that in places like packaging and filtration and backing. But that means that our innovation process have to robust enough to offset some parts of our portfolio that are under secular decline pressures or that are towards the latter part of their life cycle by introducing new margin-accretive products earlier in their life cycle.

A

So, we've really focused on [indiscernible] (00:30:13) our resources to do so, as part of strategy is to increase our organic growth rate and we view innovation as the catalyst for that. And I'm pleased that we – I said in my

prepared remarks, we've recently hired a new global innovation leader that will help us do that as well. So, I think where we're seeing it more from the acceleration of the sustainability is around our innovation efforts and new product introductions.

Christopher P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Great. And just on the new hire, I guess, can you just maybe – the biggest areas of focus, the new person coming in? I didn't – I apologize I'm trying to jump in between two calls, so if I missed any detail earlier...

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

A

No.

Christopher P. McGinnis

Analyst, Sidoti & Co. LLC

Q

[indiscernible] (00:30:59)

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

A

Yeah. The new gentleman has about 15 years of global and industry experience at 3M and Honeywell leading innovation teams and new business development teams, as well as Ranpak. So, as he comes and transitions into Neenah, he just started a little over a week ago. He's primary focus is going to be on how we accelerate a global innovation process and really utilize the skills and know-how and knowledge of our technology team across Neenah.

So, historically, we've been more aligned by category which can work well, but it can also sub optimize across Neenah. So, we might have great technology knowledge around

coatings in a particular category, but we need that in another category, like, we might have it in Tech Products but we need it in Fine Paper as we drive new innovative products, and he's really going to help us ensure we're making the right decisions and accelerate growth across all of Neenah.

Christopher P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Great. I appreciate that. Thanks for taking my questions and good luck in Q1.

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

A

Thank you.

Paul F. DeSantis

Executive Vice President, Chief Financial Officer & Treasurer, Neenah, Inc.

A

Thanks, Chris.

Operator: Your next question comes from the line of Jon Tanwanteng from CJS. Your line is open.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Hi. Yeah. Just wanted to revisit the SG&A commentary for the year. I think you said \$25 million on average per quarter, but I assume just like everyone else, we're still under some sort of COVID restrictions and [indiscernible] (00:32:21) Does that ramp through the year and just comes down to an average of \$25 million? How should we think about it on a quarterly cadence perspective?

Paul F. DeSantis

Executive Vice President, Chief Financial Officer & Treasurer, Neenah, Inc.

A

Yeah. No, Jon, that's good. I think not all of the costs are going to resume immediately, so things like travel and the like; but some of the other costs are going to be a little bit more front-end loaded. So, there may not be tons of volatility between quarter, but, yeah, but certainly on a ramp-up I think would make sense. But I do want to be clear, within this SG&A guidance that we're giving, we are investing behind some of our highest growth potential initiatives. And Julie just talked about innovation, we've got some IT automation going, and those are really to support a lot of our margin-driving and top-line-driving initiatives like the Neenah Operating System. So within that, bounce back of SG&A, you're going to see some focus on really driving value in the organization.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Got it. Thank you. And then, there was a due diligence line in the quarter. Just wondering if that's foreshadowing any movement in M&A? And just tell us about what's out there in terms of the pipeline and valuation and attractive end markets?

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

A

Sure. I'll take that one, Jon. We have a very active M&A process and we maintained an active pipeline and process throughout 2020. So we're always evaluating opportunities. Sometimes, those work out and sometimes they don't. It's an important part of our strategy. We're focused on the four growth platforms I've mentioned a little bit in the past: so that is filtration; it's custom engineered materials, like composites would be an example; it's specialty coating, something like silicone release where we have an organic investments, and our capital plan would be in an area focus at opportunity; and then premium packaging. So those would be the areas we're focusing on where we can accelerate our growth trajectory, where it's a strong strategic fit, it's accretive, and we get compelling returns.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Great. Thanks, Julie. Just one more thing if I could ask. Do you have a number for how much the premium packaging business grew sequentially year-over-year?

Paul F. DeSantis

Executive Vice President, Chief Financial Officer & Treasurer, Neenah, Inc.

A

Yeah. I think that the premium packaging business was in the mid-single digit in the quarter, in the fourth quarter, when we look at growth.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Got it. Thank you.

Julie A. Schertell

Chief Executive Officer, President & Director, Neenah, Inc.

A

Sure.

Operator: There are no further questions at this time. I turn the call back over to Bill McCarthy for closing remarks.

William B. McCarthy

Vice President-Investor Relations, Neenah, Inc.

Great. Well, I'd like to thank, everyone, for your time and interest today. And as always, please feel free to reach out to me if you have any further questions. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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