

06-May-2021

Neenah, Inc. (NP)

Q1 2021 Earnings Call

CORPORATE PARTICIPANTS

William B. McCarthy

Vice President-Investor Relations, Neenah, Inc.

Julie A. Schertell

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

Paul F. DeSantis

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

OTHER PARTICIPANTS

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Neenah First Quarter 2021 Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] And please be advised that today's conference is being recorded.

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

William B. McCarthy

Vice President-Investor Relations, Neenah, Inc.

Thank you for joining us on Neenah's first quarter 2021 earnings call.

We issued a press release covering financial results yesterday afternoon and hopefully many of you have had a chance to review that information. On the call with me today are Julie Schertell, Chief Executive Officer; and Paul DeSantis, Chief Financial Officer. Julie and Paul will discuss recent activities and results as well as share some thoughts as we look ahead in the year.

As always, actual results could differ from these forward-looking statements due to risks noted on our website and in our SEC filings.

Following our prepared remarks, we'll open the call for questions.

We started the year strongly with adjusted earnings of \$1.04 per share. This excluded \$0.55 for costs primarily related to our acquisition of ITASA. In 2020, adjusted earnings of \$1.12 per share excluded \$0.15 of unusual costs. Complete details on adjusting items along with a reconciliation to GAAP figures can be found in our press release.

As a reminder, results in both years also reflect the reclassification of our publishing grades from Technical Products to Fine Paper and Packaging. Annual sales for this business were around \$25 million last year.

On a personal note, this will be my last earnings call after 17 years with Neenah. I can happily retire now that I hold the company record for the most consecutive earnings calls. Sorry, Bonnie. I've seen our company change dramatically from its origins in pulp and paper, becoming faster-growing and more capital-efficient, while also significantly increasing cash returns to shareholders. I'm excited by the opportunities ahead both for me and for Neenah, and it's been my pleasure to have worked with such a talented group of people through the years.

With that, I'd like to turn things over to Julie.

Julie A. Schertell

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

Thanks, Bill, and good morning, everyone.

Financial results for the first quarter outpaced our plan demonstrating strong momentum and continued demand increases in both of our business segments. Technical Products sales increased 10% over the prior year and our filtration business delivered a quarterly record in both sales and profit. Fine Paper and Packaging revenues grew 8% versus the fourth quarter and have grown sequentially in each of the last three quarters, putting us right on track to achieve or exceed 2021 revenue targets. Consolidated net sales of \$227 million were up 10% from the fourth quarter, though still down slightly versus last year due to the expected slower recovery of Fine Paper and Packaging.

Adjusted operating income of \$26 million was up significantly from \$21 million in the fourth quarter and was just short of last year, while adjusted earnings per share topped \$1 for only the second time in the past 11 quarters. With improving volumes and disciplined cost management, operating margins expanded in both segments to mid-teen levels.

In addition, cash generated from operations of \$21 million was one of our strongest first quarters and up from \$14 million last year. Our strong cash generation and solid balance sheet provide the financial foundation for us to successfully execute our strategies to grow in targeted platforms. This includes the recent acquisition of ITASA, which further expanded our presence in specialty coatings. I'm very excited about the opportunities this new platform brings to Neenah. And we'll talk more about the acquisition later in the call.

As results in the quarter reflect, we're making progress in a number of areas. However, the year has not been without a few challenges with temporary supply chain disruptions and rising input costs, which will impact us more significantly starting in the second quarter. Our teams have responded swiftly to these challenges, working diligently with key suppliers to procure necessary materials and implementing selling price increases. Paul will talk more about this later, but we fully expect to offset the impact of rising input costs over time, just as we have historically demonstrated.

Let me wrap up for now with a few additional accomplishments in the quarter. First and foremost is employee safety. We achieved a meaningful milestone in our safety performance in March as our entire global organization for the first time ever successfully completed a month with zero recordable incidents. This demonstrates the commitment of our employees to safe work practices. Our target is zero incidents and our teams have demonstrated this is achievable.

Next, we continue to expand our presence in key targeted markets. Our filtration business is growing at accelerated rates both in core markets and in newer markets like air and industrial filtration. Examples include our highest performance transportation grades, face mask media, water filtration products and evaporative cooling materials.

Also in Technical Products, our backings business is growing with new tape products and geographic share gains. We're seeing nice traction in performance labels with the recently launched DISPERSA, a dissolvable food label product that provides users added convenience and a more environmentally friendly footprint with zero landfill waste.

In Fine Paper and Packaging, we were recently awarded significant new business with incremental placement at large retailers for our consumer products and new premium packaging business within our targeted verticals of spirits, beauty and technology as customers increasingly value the environmental sustainability of our offerings. Both the new packaging and consumer products business will begin shipping later this year.

We took significant steps forward during the quarter on important environmental, social and governance initiatives. We published our 2021 Corporate Sustainability Report highlighting Neenah's sustainable sourcing practices, reductions we've achieved in our carbon footprint, water and energy usage, and the increased diversity of our board and workforce. Also, I recently joined the CEO Action for Diversity & Inclusion organization and we've introduced employee resource groups, so that employees can connect in new ways. I strongly believe a diverse and inclusive workforce leads to greater performance, growth and opportunities.

In all, I was very pleased with our strong financial performance, the results of our employee safety efforts, early benefits from the Neenah Operating System, and the successful execution of our strategy to grow and expand in targeted new markets including the addition of ITASA. I'll talk more about this and some of our other strategic initiatives later in the call.

But now, Paul will cover first quarter financial results in more detail and share a few thoughts on our outlook for this year.

Paul F. DeSantis

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

Thank you, Julie, and good morning.

Both business segments delivered another sequential quarter of improved sales, earnings and margins. Versus the fourth quarter of 2020, sales were up 10%, adjusted operating income grew 25% and margins reached the mid-teen mark. Our cash generation remains strong and we ended the quarter with liquidity of just under \$200 million. We also closed on ITASA in early April and financed this acquisition with a more favorable Term Loan B.

As you will see later today in our 10-Q, we've modified the way we group our Technical Products categories to better reflect our alignment with ITASA. Filtration, which remains our largest business, will represent over 40% of segment sales. Our release liner and digital transfer business now including ITASA will form the core of a new specialty coating sub segment. Our third grouping is industrial solutions comprised of tape and abrasive backings along with a number of other categories. Specialty coatings and industrial solutions are each expected to represent about 30% of Technical Products sales.

Turning to financial results in the first quarter, Technical Products sales of \$145 million increased 10% from the first quarter of last year. The volume driven growth was led by filtration which delivered record top and bottom line

performance. Filtration sales grew more than 20% with strength across all end markets. Revenues in the quarter also benefited from a stronger euro, though this was largely offset by lower selling prices in the quarter. Adjusted operating income of \$20 million was up more than 20% from \$16 million in 2020 driven by higher volumes, continued spending discipline, good manufacturing performance, and favorable foreign currency translation.

Turning to Fine Paper and Packaging, quarterly sales were \$82 million and have continued to increase sequentially with sales up 8% from the fourth quarter of 2020 as demand recovers. Revenues were still short of last year primarily due to lower volumes, especially in commercial print used for advertising and marketing, which has been hardest hit. Adjusted operating income of \$13 million in the first quarter of 2021 was down from the exceptionally strong \$17 million in the first quarter of 2020 primarily due to lower sales and production volumes and a less favorable mix. Partly offsetting this were benefits from lower costs including SG&A.

We also regrouped our product categories in Fine Paper and Packaging. Our faster-growing premium packaging and consumer products now make up almost half of segment revenues and will help improve the growth trajectory. Commercial print, which includes publishing, makes up the other half of revenues.

I'll turn to a few corporate items. SG&A expense was \$24 million in the first quarter of 2021, down from \$27 million in the prior year as a result of actions we've taken to manage spending and reduce costs. Unallocated corporate costs after adjusting for onetime items related mostly to the ITASA acquisition were \$6.2 million and in line with the prior year. In 2021, excluding ITASA, we expect quarterly SG&A to average approximately \$25 million with unallocated corporate costs of about \$5.5 million. We're in the process of completing purchase accounting and mapping ITASA P&L line items to US GAAP. We'll provide further details on this later in the year.

With the upsizing of our Term Loan B from \$200 million to \$450 million, we negotiated more favorable terms including a reduction in the variable interest rate from 5% to 3.5%. Quarterly interest expense is now expected to be approximately \$4.7 million which includes \$1.2 million of non-cash amortization expense.

Our effective income tax rate was 21% in both the first quarter of 2021 and the first quarter of 2020. ITASA carries a blended tax rate in the mid-20s. So our tax rate may rise over time, but a rate of 22% should still be in the ballpark for this year. Cash taxes continue to be about two-thirds of our book rate primarily as a result of utilizing prior period R&D credits.

Cash provided from operations of \$20.7 million in the first quarter of 2021 increased from \$14.2 million in the first quarter of 2020 as a result of lower working capital requirements. Capital spending of \$4.8 million in the first quarter of 2021 was consistent with the prior year and we expect full year spending to be around \$35 million.

Our balance sheet remains in great shape. Following the acquisition, projected debt-to-EBITDA is around 3 times and with cash of \$41 million and nothing drawn on our revolver, we continue to have plenty of liquidity.

I'll wrap up with a few additional comments on our outlook. Clearly, an encouraging sign has been the strengthening demand we're seeing in both segments. We just had a very strong quarter evidencing the traction of our strategy that's beginning to show. As we look ahead, we expect Technical Products to resume a more typical seasonality with sales softening as the year progresses. Both segments will also have our usual costs for annual maintenance downs in the third and fourth quarters.

Like many companies, we are facing a rapid escalation in input costs affecting prices for fibers, chemicals and transportation. Because our manufacturing formulations in Technical Products utilize a significant amount of

polymers and other chemicals as well as fiber, the impact of rising input costs on this segment will be larger and about twice that of Fine Paper and Packaging.

To be clear, Neenah has historically been able to recoup raw material price increases and I expect this time to be no different. In our February call, I indicated that input costs this year could be more than \$20 million higher than in 2020 and that we would more than offset that through our pricing actions, volume growth and cost reduction efforts. Since that time, fiber and chemical price forecasts have increased and now we project the impact to be north of \$30 million this year, an unprecedented amount in this short period of time. As such, we are and have been quickly taking additional actions to offset this incremental impact. Consequently, I still believe that with our strong Q1 performance and these additional actions, we'll offset the impact of higher input costs this year.

While I feel good about our prospects for the full year with contractual timing delays in many of our fiber contracts and annual pricing for some customer contracts, we'll see a significant cost impact beginning in the second quarter. Compared to the first quarter, the impact of higher input costs in the second quarter of 2021 net of our actions is likely to be around \$7 million. The impact should begin to moderate from there as contractual selling price adjusters and additional actions take effect. Ultimately, we expect to recover input cost increases with pricing as we have historically, as additional contracts are reset, price adjusters fully take effect, and our direct pricing actions are completed.

Let me turn to a few financial highlights of ITASA. ITASA has annual sales of about \$140 million or approximately \$35 million per quarter, with a mid-teen EBITDA margin. Since we're still in the process of finalizing purchase accounting, I won't comment on US GAAP numbers but would note that while our organic businesses carry a depreciation and amortization rate of about 3% to 4% of sales, this percentage for acquisitions can be double that due to reflecting the fair value of intangibles and other assets. We expect the transaction to be immediately accretive to earnings and to deliver attractive returns on our investment.

Having been at Neenah for a year, I've been pleased with our clear strategic direction to drive profitable growth and with the talent and can-do attitude in place to execute these strategies and all enabled by our strong financial position. Neenah remains committed to disciplined financial principles including an attractive return to shareholders.

And on that note, I'll turn it back to Julie.

Julie A. Schertell

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

Thanks, Paul.

I'll wrap up with some comments on our strategy and the actions we're taking to execute it. I've mentioned that we're focused on extending our presence in growing markets both organically and through M&A. We've identified four target growth platforms; filtration, specialty coatings, engineered materials and premium packaging. These platforms are made up of large, growing, profitable and defensible markets that align with our manufacturing technologies, leverage our material science expertise and share common customers and paths to market. The recent acquisition of ITASA is just one example of how we're building out these growth platforms.

ITASA is a leading manufacturer in the multi-billion dollar global release liner market, providing us a new large addressable market opportunity. Release liners are used in a diverse set of end use categories such as labels, hygiene, tape, industrial, medical and composites making ITASA well-positioned to capture growth in multiple

avenues. ITASA is also well-positioned geographically with a strong market presence and state-of-the-art technology.

Historically, the release liner market has been resilient throughout economic cycles. Going forward, the market's anticipated growth is supported by several key macro trends such as the growing demand for medical and hygiene supplies, increased labeling and shipping and light weighting of products through the use of composites. ITASA has demonstrated a strong track record of growth and margin expansion with historical growth of around 8% annually.

Strategically, this acquisition provides a meaningful foundation in release liners from which we can build upon both organically and through future acquisitions. With overlapping customers and end markets as well as complementary technologies and supply chains, we're excited about how this new platform integrates with our core business.

One of the most compelling aspects of this transaction is the talent and leadership team of ITASA. I'm very encouraged by our early integration efforts and the potential value we'll create together as one team. Integration is well underway and we anticipate about \$4 million [ph] end-of-curve (00:20:14) synergies coming both from commercial and cost opportunities.

For Neenah as a whole, we're targeting to deliver average top line growth of around 5% annually with a faster bottom line growth rate as our margins continue to expand. M&A will continue to be a key component of our strategy combined with a number of catalysts in place to drive organic growth. Let me talk about some of these next.

From a top line perspective with investments in resources biased toward our four growth platform, we expect to accelerate our organic growth rate with an improving portfolio mix. In filtration, we've seen strong results across all end markets. While transportation filtration remains very strong, our air, water and industrial filtration business is growing in double digits and represents a large market opportunity. We'll continue to invest to extend our technologies and expand our presence in these complementary filtration markets.

I've talked about the opportunities we have in specialty coatings with ITASA and with our digital transfer business. Our third platform, engineered materials, utilizes some of our most specialized material technologies in growing markets. This business is growing double digits top line and bottom line with future growth supported by recent investments that will increase our capacity. While our growth will come disproportionately from Technical Products, which is now 70% of Neenah, we're also successfully growing in premium packaging and consumer products. I mentioned earlier a few of these recent successes that are driving growth in these areas.

Finally, I'd note that all four of our targeted growth platforms benefit from favorable macro trends like the need for improved air and water quality, an aging population, and a growing preference for sustainable products. Innovation is also a key catalyst that will add to our growth rate. While always a part of our focus, I'm encouraged by the direction we're heading under our new global head of innovation. We've aligned our R&D teams to leverage their knowledge and skills across Neenah and are tapping into employees and customers for input, insight, and ideas. This will allow us to identify and act more quickly on opportunities to unlock even greater value with existing and new customers and end markets. And I expect our pace of development to continue to increase over time.

Turning next to margins, we expect both segments ultimately to achieve sustainable mid-teen EBIT margins. Margins will benefit from an improving and diversified mix as our faster growing and more advanced products

tend to be the most profitable, as our performance this quarter demonstrates. And our innovation efforts will also be pointed to these higher margin products and markets.

So Neenah Operating System is another way we'll continue to drive meaningful and sustainable margin improvement. As a reminder, this global manufacturing initiative is based on lean principles. And we've recently begun implementation at two of our largest facilities. Thus far, results have exceeded our expectations and ultimately, we expect to unlock \$20 million of value annually and support our employees and customers with improved safety, quality, delivery and cost.

As I said in our last call, none of this would be possible without the right people. I'm pleased with our talent and with the culture that makes safety the top priority, is results oriented with a strong bias for speed and is collaborative and inclusive.

We started off the year strong with our growth in margin engines delivering ahead of expectations. In the near term, we are facing inflationary headwinds, and we're taking actions to overcome these just as we have historically. We have a strategy with clear catalysts and initiatives underway that will create long-term value and continue Neenah's transformation into a faster-growing, more profitable specialty materials company.

Before we open the line for questions, I'd like to thank Bill McCarthy who has been our Investor Relations leader from the start and with over 66 quarters of earnings call experience with Neenah. In addition to IR, Bill has been involved in multiple areas in Neenah, and we have valued and benefited from his expertise, guidance, and advice internally and externally.

On our next call, we'll introduce Kyle Anderson who will be taking over the IR function and his contact information is on our website. Kyle has a deep and broad experience with Neenah, and I'm confident he will also be highly effective in this role.

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

QUESTION AND ANSWER SECTION

Julie A. Schertell

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

Hi. This is Julie and Paul. I don't know if we have a bad connection, but if you can hear us, ask questions. We're here and available to answer.

A

Q

Yeah. Hi. Can you hear me?

Julie A. Schertell

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

Yeah.

A

Paul F. DeSantis

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

Yeah.

A

Q

Yeah. Sorry, I don't know, never got – what happened here. It's [ph] Pete Lucas (00:26:30) at CJS for Jon.

Julie A. Schertell

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

Okay.

A

Paul F. DeSantis

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

Oh, hey, [ph] Pete (00:26:33).

A

Julie A. Schertell

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

Hi, [ph] Pete (00:26:34).

A

Q

How are you? Congrats on the quarter.

Julie A. Schertell

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

Thank you.

A

Q

You answered a lot of the questions and appreciate that. I just wondered if you could talk a little bit how demand is trending in April and May and if you've seen any surprises either positive or negative on the demand side.

Julie A. Schertell

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

A

I would say we're continuing. It's a little bit different by segment. We don't give formal guidance obviously but we're continue to see recovery in Fine Paper and Packaging just as we expected more so in the consumer product side and packaging and still a little bit lagging on commercial print. And then Tech Products have really recovered from any impact from COVID. And it's continuing strong demand just as we saw in the first quarter.

Q

Great. And in terms of filtration, usually you negotiate those prices at year end. Do you think you'll be able to pull that forward given the current environment?

Julie A. Schertell

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

A

That is the question of the day. The team in both segments have announced and implemented pricing, and you're exactly right. The ones that have a little bit more of a lag for us typically are in filtration because we have annual agreements. We're in a pretty unprecedented environment, and so we're working closely with customers during this time to see what different approaches we may use. But the pricing we've announced, we've pulled through, it's in effect. It's delivering value just as we expected. And over time, there might be some timing differences here. We have a history of recovering input costs. We're expecting the same thing with these input cost escalations.

The other thing I would tell you is because it's so condensed and so fast in this year, we're really focused on how we close that gap not just with pricing but with incremental volume, with an improved mix in the growth platforms we've talked about, with cost reduction efforts, with our Neenah Operating System efforts as well as pricing.

Q

Great. And then I guess last one for me, sticking with filtration, given that you're having a record quarter, are you starting to fill up the Appleton capacity now?

Julie A. Schertell

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

A

Our filtration business is strong across all of the categories in which we compete. Transportation filtration, water, air filtration, evaporative cooling, industrial air. So really strong demand signals that we're getting. We've talked about in the past we don't manage by asset as much as we do the system. So we do make trade-offs. Really excited and thrilled with the margins and demand in that business. But I would tell you, as far as our North American transportation filtration business, it is not yet delivering on where we expect, and it is still a drag on our financials. So record performance, but it's not really being driven out of our North American transportation filtration.

Q

Very helpful. Thank you very much.

Julie A. Schertell

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

A

Sure.

Hi, Chris. We can see your name on the screen, but I don't know if you can hear us.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Hi. Can you hear me?

Julie A. Schertell

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

A

I can.

Paul F. DeSantis

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

A

Now we can.

Julie A. Schertell

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

A

We can.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Oh, sorry. This is a long day. But I didn't get prompted, so I apologize.

Julie A. Schertell

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

A

No problem.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

First, congratulations on a strong start to the year. Bill, thanks for all the help and good luck in retirement. I'm going to miss you.

I guess, just to start with the demand trends around filtration. So, Julie was just talking about it. How much of that is maybe pent-up demand or versus maybe change in the market? And can you just – has COVID changed the market to a higher growth rate in some of those end markets that you're working with [indiscernible] (00:30:38)? Thanks.

Julie A. Schertell

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

A

Well, I think, there's some great macro trends particularly in areas like water filtration and air filtration, indoor air pollution control, indoor air quality. So, those macro trends are, I think, maybe escalated coming out of COVID just because there's a heightened awareness in all of the population.

As far as transportation filtration, we're not seeing a significant amount that's pent-up inventory or pent-up demand at this point. It continues to recover and has recovered nicely. There's also a small amount of facemask in there that we didn't have last year. We're doing about \$4 million a quarter of facemask. And so it's small in total. What it does though is really provide another avenue and entry into indoor air quality, air pollution control, industrial air and cemented Neenah as a strong provider technically in that market.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

And I guess, just as a follow-up on that, in the – you talked about those expansion of market. Are you already started into that or that in the future, I guess, can you just – I know that you just brought those online last year?

Julie A. Schertell

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

A

Yeah.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

So can you just explain how you're approaching that? Thanks.

Julie A. Schertell

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

A

Sure. So the easiest [indiscernible] (00:32:00) new markets is never easy, but the easiest place to do it is where you have customer overlap. So that's where we started where we have customer overlap and path to market overlap. And so, where we provide transportation filtration historically, many of those same customers are also buying indoor air quality filtration media or air pollution control or industrial air type of media. So that's where we started. We've continued to see nice demand and we're continuing to bias our resources and investments into more of those focal areas.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Great. And I probably should have started with this. I missed some of the call, and I have a number of earnings today, so I apologize if there's any overlap with my [indiscernible] (00:32:41). But I guess, just thinking about maybe last quarter, what you said about sequential improvement, do you still expect that for the businesses for the remainder of the year or is the issues around raw materials possibly impact that any demand trends? Are you worried about that with the escalating raw material prices?

Julie A. Schertell

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

A

So you're asking about demand sequential improvements or bottom line?

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Yeah. Yeah. No, top line but I guess just because of the rising input prices, have you seen any changes with your demand environment because of those price increases? Does that make sense?

Julie A. Schertell

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

A

The short answer is no. We're not seeing that impact demand. What I would tell you is Tech Products has pretty much recovered. You could see that in Q4 and Q1 from a demand standpoint. We expected to return to some of our normal seasonality which typically starts more front end loaded and gets a little bit softer particularly in Europe in the summertime. I would expect that impact products demand and Fine Paper and Packaging which is where we had intended to message continual sequential improvement, we're continuing to see that business come back. It's just that a more lag timeline because it's really driven by some things like advertising that comes back a little bit slower. But we're really seeing that come back continuing throughout the year and a nice improvement in 50% of that segment which is now consumer products and packaging and not solely dependent on commercial print which is more lagging in the recovery.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

And is that with – just on the packaging side, is that – are you benefiting from the e-commerce push? And I guess are you growing with new customers [indiscernible] (00:34:30) just talk a little bit about that growth.

Julie A. Schertell

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

A

Sure. Both in the packaging and in consumer products, which are really where we have stronger market dynamics, we've had some really nice recent wins. Some of it is related to e-commerce. A lot of it is related to sustainability, environmental sustainability and our customers' bias toward that and that's continued to accelerate. So, both in consumer products, we've been awarded new business that will start shipping significant new business or I wouldn't mention it, that'll start shipping in the latter half of this year. And then we've been awarded nice new business in our packaging area as well primarily in the technology, beauty and spirit verticals. And that is driven by – some of that is driven by dot-com particularly everybody on the Amazon.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

And then just around ITASA, can you just talk a little bit about – and I know you just closed on it, but the integration there? And I guess, how does it strengthen your go-to market strategy? Can you just discuss a little bit more of the benefits from the acquisition? Thanks.

Julie A. Schertell

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

A

Sure. So, ITASA, we are in the process of early integration. It's going really well. As we talk about our growth platforms, one of those growth platforms is specialty coating. We do a lot of coating and saturation at Neenah, so the technology overlap, chemistry overlap, how we go to market is similar, our supply chain. We have customer overlap. So, some of the benefits as we work through integration, we're expecting about \$4 million of synergies that will ramp and starting in the latter part of this year and be at that run rate by the back half of next year. It's really split between cost benefits in the areas like transportation and warehousing and procurement, as well as

revenue overlap where we have a significant amount of opportunities in North America in particular that Neenah does a lot of business. If you think about our industrial segment, tape and abrasives, that's where we see a lot of common customers between tape and abrasives and release liners.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Great. And I appreciate that. I would get you on Appleton, but somebody already slipped that question, but...

Julie A. Schertell

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

A

You have to get in the queue sooner. Yeah. Fair enough.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Thanks for taking the questions and good luck in Q2.

Julie A. Schertell

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

A

Thank you.

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

William B. McCarthy

Vice President-Investor Relations, Neenah, Inc.

Okay. Thank you for your time today. It's been my pleasure to get to know many of you through the years. And I know I leave you in good hands with Kyle and Paul.

Operator: Ladies and gentlemen, thank you for your participation. This concludes today's conference call. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.