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Neenah, Inc. (NP)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Brent, and I will be your conference operator today. At this time, I would like to welcome everyone to the Neenah Q3 2021 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.
[Operator Instructions]

I would now like to turn the call over to Mr. Kyle Anderson.

Kyle Anderson

Vice President, Corporate Strategy and Investor Relations, Neenah, Inc.

Good morning and thank you for joining us on Neenah's Q3 2021 earnings 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 thoughts on our strategy as we look ahead. We issued a press release covering financial results yesterday afternoon, and hopefully, many of you have had a chance to review that information. As always, actual results could differ from forward-looking statements due to risks noted on our website and in our SEC filings. Following our prepared remarks, we will open the call up for questions. In the third quarter, we continued our top line growth momentum with net sales up 40% over last year. Adjusted earnings were \$0.38 per share, excluding \$0.19 of unusual costs. In Q3 2020, the adjusted earnings per share were \$0.55 and excluded \$0.09 per share of unusual costs. Details of these adjusting items along with the reconciliation to GAAP amounts can be found in our press release.

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

Julie A. Schertell

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

Thanks, Kyle, and good morning, everyone. Before we begin to discuss third quarter results, let me start with employee safety. We continue to make solid progress on this core value of our business. At the end of the third quarter, we had reduced our injury rate by 40% since the start of the year, an all-time record for Neenah. While encouraged by these results, we remain vigilant in our efforts to achieve our target of zero incidents. Turning to business performance. Third quarter results were broadly in line with our expectations. Starting with the top line, demand for our products was extremely strong and we delivered record sales of almost \$270 million, up 40% from last year, and up 22% excluding the Itasa acquisition.

Additionally, Itasa continues to deliver strong performance with September being their third record revenue month since the acquisition. From a bottom-line perspective, margins were challenged by a number of factors. First, as expected and mentioned in our last call, the primary factor was rapidly escalating input costs, which continued to increase throughout the quarter to a greater degree than originally anticipated. Compounding these cost increases were supply chain disruptions and shortages of certain chemicals, leading to operational disruptions and an unfavorable sales mix. Operating labor availability in the United States also impacted our business, driving manufacturing inefficiencies and higher cost.

Lastly, we experienced unforeseen flood damage at our Pennsylvania facility related to Hurricane Ida, impacting results by approximately \$0.06 per share. In the third quarter, the net impact of selling prices and raw material costs reduced operating margin by over 300-basis points, and EPS by over \$0.35 per share versus the prior year. To this point, input costs have continued to increase at a rate faster than the resulting benefits of our pricing actions. However, we expect to see further improvement and recovery in Q4 and 2022. We are clearly on a path to recover these input costs as Neenah has historically done. To address these challenges, we are taking a number of actions. First, multiple price increases have been implemented in all businesses, as well as incremental energy and fuel surcharges.

To address the impact of chemical availability, our R&D team has worked closely with customers to qualify alternate products to meet market needs. Over the last few months, we have reformulated over \$200 million of annual sales, demonstrating the agility and material science know-how we have at Neenah and a key value we bring to our customers. Additionally, we've streamlined our product portfolio to simplify operations and improve our cost position, including over a 30% reduction of grades in our Fine Paper and Packaging business. This unlocks capacity, improves our cost structure, and ensures we provide a premium level of service our customers expect from Neenah.

We are also working to improve our operating labor challenges by implementing a broad range of initiatives to attract and retain top talent, including referral fees and additional incentives. So while it's clearly a challenging environment, I'm encouraged with our swift actions and execution to drive margin improvement into Q4 and 2022, while at the same time working closely with our customers to meet their needs. Before we move on to financials, I want to take a moment to recognize Bill Cook, the Chair of our board of directors, who recently received the NACD Public Company Director of the Year award. This is quite an honor, and we are grateful to Bill for his guidance and service to Neenah. Under Bill's leadership, we have strengthened our corporate governance and increased our board diversity with 50% of our board identifying as women or underrepresented minorities. Congratulations, Bill, well deserved.

With that, I'll turn it over to Paul to cover financials. Then, I'll wrap up with some comments on our strategy later in the call.

Paul F. DeSantis

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

Thanks, Julie. Let's dive right into our discussion of price and input costs for the third quarter. Our actions have resulted in price increases each month of the quarter as our initiatives take hold. The overall impact of that pricing acceleration for the third quarter was \$8 million over 2020. We expect these pricing actions will gain momentum in the fourth quarter and into next year. In terms of input cost increases, during the third quarter we saw input costs rise even higher than our expectations to about \$17 million over the prior year, of which we were able to offset about half directly with our pricing initiatives. For the fourth quarter, we're expecting an input cost increase of over \$20 million versus 2020. We expect to recover about two-thirds in the fourth quarter through our accelerated pricing initiatives. We're now expecting an over \$40 million increase of input costs for the full year of 2021 versus last year.

As we've said, we expect to fully offset the raw material cost increases through 2022 with our pricing actions. Julie mentioned the unfavorable mix. Overall, the mix effect for the quarter was an unfavorable \$4.5 million contributing to the unfavorable mix with the supply constraints. Let me share some thoughts about what we're seeing in today's input markets. Fiber prices have peaked globally, and in some regions have started to give back some of the gains, though Europe has yet to fall from the peak. And while the rate of decline in North America has slowed, it remains well above highs from previous cycles. Chemical input prices rose in the third quarter on strong demand. Supply is beginning to recover from natural disasters and unplanned outages, while pricing of some basic chemicals is starting to show signs of leveling off as we start the fourth quarter.

A number of materials remain in tight supply, causing availability issues, and historically high prices have yet to curb demand. We expect this market turbulence will continue into 2022. Energy has risen dramatically through the third quarter and remains very volatile globally, with the most significant impacts to our business being seen in Europe. And lastly, the challenging global shipping market continues as congestion at many ports adds cost pressures. US transportation market remains tight with national spot rates recently reaching the highest level of the year. Diesel prices have been climbing, hitting their highest levels at the end of the third quarter. It looks like those transportation cost pressures and availability issues will also last into 2022. In regards to Appleton, the facility was closed at the end of the quarter. Recall, we expect this action to save us approximately \$78 million a year beginning in the fourth quarter of 2021.

Here's a quick review of the third quarter financial statements. Consolidated sales reached \$268 million, up \$77 million from last year's comparable quarter. Itasa accounted for \$36 million of sales in the quarter. We saw very strong growth in a number of areas including filtration, packaging and industrials. Adjusted earnings were \$12.7 million compared to \$15.9 million in last year's third quarter. The primary driver of the variance was the favorable pricing of \$8 million, offset by input cost increases of \$17 million, netting an unfavorable \$9 million, or as Julie mentioned, a 300-basis point impact on margins or about \$0.35 a share. We were able to offset most of that gap through favorable volume and fixed cost absorption, as well as the impact of the Itasa acquisition. Consistent with our discussion last quarter, we expect to see margins begin to improve from here as those pricing actions, robust volume and other efficiency initiatives begin to offset the input cost increases and availability issues.

Technical Products sales were \$173 million, up 46% from 2020 and up 15% excluding Itasa. Adjusted earnings were \$10.8 million, down from \$13.3 million last year, reflecting the impact of raw material cost increases along with labor and raw material availability. Technical Products is bearing the brunt of the input cost increases, and is most impacted by timing with filtration annual pricing taking effect January 1st. Fine Paper and Packaging sales were \$95 million, up 32% from last year's level and above our original expectations of recovery, reflecting the strength of the packaging and consumer business. Adjusted earnings were \$6.6 million from the quarter, up from last year's \$6 million, with pricing offsetting about 75% of the input cost increases. We expect to fully offset the input cost increase with pricing initiatives during the fourth quarter in this segment.

Turning to the balance sheet and cash flows, liquidity remains strong. While year-to-date cash flow from operations of \$40 million was down from the \$80 million recorded for the first nine months of last year, the difference was primarily due to working capital, reflecting the strong top line. Trailing 12-month adjusted EBITDA reached \$122 million as of September 30th, compared to the \$101 million we recorded last calendar year as we see the benefits of our continued growth and the impact of the Itasa acquisition. As a result of the strong EBITDA growth and free cash flow, adjusted net leverage was 3.4 times at quarter end, and is expected to drop a bit by year-end absent any other actions. Working capital from higher input costs will continue to moderate cash flow through the end of the year, and availability issues will pressure mix and efficiencies.

Year-to-date CapEx was \$19 million versus \$12 million last year. We're expecting CapEx to end up in the low-to-mid \$30 million range as safety, growth and cost reduction initiatives are implemented in Q4. In addition to returning cash to shareholders through our strong dividend, during the quarter, we bought back 71,000 shares for \$3.4 million at an average price of \$47.85 per share. Additionally, the board has authorized a \$0.02 annual increase to the dividend beginning in the fourth quarter. Our dividend remains critically important, and we're pleased to have raised the dividend every year for the last 11 years. SG&A was \$26.1 million versus \$19.1 million last year. Itasa accounted for about \$4 million of the increase. The remainder was a result of cost reduction initiatives executed in 2020.

While we typically expect our full-year normalized tax rate to come in around the low-to-mid 20% as a percentage of pre-tax income, the 2021 full year rate is expected to be near 20% when considering the magnified benefit of research credits in the current year. Our effective income tax rate was 48% of pre-tax book income in the third quarter of 2021 as compared to 23% in the third quarter of last year. This increase resulted primarily from the effects of nonrecurring items relating to the closure of the Appleton facility. Looking forward, we had expected cost to stabilize in Q4. However, recent increases in energy, particularly in Europe, and stubbornly high chemical costs globally are now expected to continue through the fourth quarter with volatility and availability issues lingering into next year.

As Julie mentioned, our teams are working to offset these input costs with additional pricing initiatives, surcharges, and cost reduction actions. So for the fourth quarter, our seasonally weakest quarter, we now expect the impact of input costs to be over \$20 million above last year, of which we expect to offset about two-thirds directly with our pricing initiatives. In spite of these pressures, because of the increased pricing recovery, we expect the third quarter margin to be the most challenged to the year and expect to see improvement in the fourth quarter. That being said, this is a very volatile year and things are changing quickly and unpredictably. No matter what, we'll continue with our actions to offset the cost and availability issues as we have done historically.

To sum it all up, as the year stands now, we expect input costs for the full year to be up over \$40 million, of which we'll have offset about half directly with pricing. We expect to offset the other half in 2022 as our pricing initiatives, particularly in filtration, take effect.

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

Julie A. Schertell

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

Thanks, Paul. In addition to addressing our actions driving the business today, I want to discuss how we are also focused on executing for the future. Core to our strategy is growth, and we continue to leverage our assets and technical capabilities, unique material science know-how and unmatched customer relationships to extend our presence in large, growing markets. Our four growth platforms, filtration, specialty coatings, engineered materials, and imaging & packaging provide a strategic framework which guides our investment decisions, organizational

focus and resource allocations. All are positively influenced by large macro trends, such as increased emphasis on health and wellness and a growing preference for sustainable alternatives.

Our products are used in a variety of categories with diverse end use applications, giving us multiple pathways to create value. As evidenced by our strong top line, we are confident we are focused where Neenah has a right to win. As a reminder, we have set all-time record in filtration, packaging and release liners this year, three of our four target growth platforms. I'd like to highlight a few areas of momentum aligned with these growth platforms. First, demand for our filtration products is very strong with top line up year-to-date over 25% from 2020, and 20% from 2019 levels, continuing a trend of record-breaking performance. We are seeing strong demand across all end markets, especially in life science and industrial applications where sales are close to double pre-pandemic levels.

As we continue to extend our high performance media for air, liquid, acoustic and thermal applications, we've introduced two new platforms, NeenahGuard and NeenahPure, which provide the highest level of filtration efficacy available in the market. Leveraging these platforms, we expect to continue to grow and diversify in attractive categories such as building HVAC, gas turbines, gaskets, process fluids and medical testing. Turning to our specialty coatings platform, we're focused on driving record growth in release liners. We are pleased with Itasa's performance and a strong Q3 in line with our investment thesis. Integration is progressing according to plan, and synergy delivery is on track.

Progress continues on our recently announced capital expansion for a new state-of-the-art coder in our Mexico facility, expected to start up in 2023. This investment will support our growth expectation for the business, which historically has been around 8% annually. Lastly, Itasa was awarded the EcoVadis 2021 Gold Medal for Sustainability, an achievement demonstrating our leadership commitment to sustainable manufacturing practices. In engineered materials, we continued our cadence of innovative product introductions, launching two new products this quarter that provides sustainable alternative. First, we recently launched a new recyclable tape product made with sustainable fibers. Unlike plastic-based tape, this product breaks down along with the box during the recycling process, making the product 100% recyclable and unique to the market.

We also expanded our DISPERSA product line of sustainable label, tags and pouches that disperse in water and are used in applications such as food rotation labels and reusable plastic containers. This product extension continues our approach to combine superior functionality and sustainability. Last but not least, we celebrated a record quarter in our packaging business, up almost 20% over pre-pandemic levels, demanding customers appreciate the unique and sustainable packaging solutions Neenah provides, including plastic replacement alternatives for applications and our target verticals of beauty and cosmetics, alcohol, high-end retail and electronics. Evidenced in these examples is solid progress in both M&A and innovation, two key enablers of our strategy. With M&A, we maintain a robust pipeline of targets. We also remain committed to maintaining a healthy balance sheet and strong cash flows.

Innovation is a key part of our strategy. Taking a market back approach, we are leveraging the ideas and insights of our customers, employees and independent research to inform our efforts. We are encouraged by the depth of our pipeline and expect our pace of development to continue to increase over time. Lastly, the Neenah operating system is a consistent framework of principles, practices and tools through which we will continue to drive meaningful and sustainable margin improvement. As a reminder, this global manufacturing initiative is based on lean principles and methodologies. Improvement will be gradual as we execute many specific measurable projects facility by facility. We are pleased with our progress and are on track with our plans. As these initiatives take hold, we expect to see both top and bottom line benefits in the merit of a more diversified mix of specialty products.

In summary, we have focused efforts to drive significant value as we close out this year and launch into 2022, including net pricing actions which we expect will offset the 2021 recovery shortfall of approximately \$20 million; a full year of our Itasa acquisition valued at an additional \$5 million of EBITDA in 2022; closure of our Appleton facility which will generate over \$6 million of incremental EBITDA next year; and focused organic investments, innovation and M&A efforts in our targeted growth platforms. And while we don't expect input costs to decrease dramatically in the near term, we do expect them to begin to stabilize at current levels, and in some cases, retreat throughout 2022. Our goal is to grow the top line by 5% and earnings by 10%, driving EBITDA margins in excess of 15%, while generating investment returns above our cost of capital. Despite the near-term input costs and supply chain pressures, our teams are leaning in to drive the business forward. I'm encouraged by our progress toward these goals and confident we have the right strategy and initiatives in place to deliver.

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 with CJS Securities. Your line is open.

Jonathan E Tanwanteng
Analyst, CJS Securities, Inc.

Q

Hey. Good morning, everybody. Thank you for taking my questions.

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

A

Good morning, Jon.

Julie A. Schertell
Chief Executive Officer, President & Director, Neenah, Inc.

A

Morning, Jon.

Jonathan E Tanwanteng
Analyst, CJS Securities, Inc.

(

Morning. Paul, I was wondering how the sequential input cost increase compare to your forecast, I guess, at the end of last quarter, I think, you'd call it \$7 million. How much more was it than [indiscernible] (25:45)?

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

A

Yeah. We had expected somewhere between \$7 million and \$8 million when we talked about this last time. It came in at \$11 million. So it came in higher than the \$7 million to \$8 million. We had expected some kind of abatement in the rate of escalation in input costs, but they continued right up through the quarter, so that was the difference. I think the good news on that whole thing is that, we were out and we still got half – we had expected

to offset half of the \$7 million to \$8 million with pricing. We ended up offsetting half of the \$11 million with pricing. So we got a better impact, \$11 million impact. We had got a better impact on pricing than we had expected.

Jonathan E Tanwanteng*Analyst, CJS Securities, Inc.*

Q

Okay. Great. Thanks for that color. And if I'm hearing you correctly, I think the closure of the Pennsylvania facility was a \$0.06 impact. You still would have made the consensus numbers even with that headwind had it not been for that flooding [indiscernible] (26:44). Is that right?

Julie A. Schertell*Chief Executive Officer, President & Director, Neenah, Inc.*

A

That's correct, Jon. We didn't close the facility, but it was down because of the hurricane and flooded, and that was about \$0.06 a share impact. So yes, absent that, we were at or slightly ahead of consensus.

Jonathan E Tanwanteng*Analyst, CJS Securities, Inc.*

Q

Okay. Got it. Thanks. That put things in perspective. My second question is, how much do you expect tech products margins to jump when you have your price increase to take effect in Q1, especially those annual contracts that we've been waiting for?

Julie A. Schertell*Chief Executive Officer, President & Director, Neenah, Inc.*

A

We expect both of our businesses to get to mid-teen EBITDA margins or mid-teen margins. And there's a number of areas that we're focused on to do that. You hit it right on the head. Technical Products is where we have the longest delay in pricing because we have annual agreement for filtration. So a lot of that pricing we're seeing next year. The \$20 million that Paul referenced, that's in our Technical Products business. In addition to that, from a margin impact standpoint, we've talked about \$5 million of incremental EBITDA from Itasa that will hit Technical Products an incremental value of \$6 million from the closing of our Appleton facility that will hit Technical Products. So all in, those are \$30 million with the majority of that hitting Technical Products.

Jonathan E Tanwanteng*Analyst, CJS Securities, Inc.*

Q

Okay. Great. And then did I hear you correctly that you expect the paper segment to get to a full recovery of cost increases in Q4 and kind of be at that mid-teens already?

Paul F. DeSantis*Executive Vice President, Chief Financial Officer & Treasurer, Neenah, Inc.*

A

Yeah. So our expectation is that we get to the full pricing recovery in the fourth quarter. We may lag mid-teen margins a little bit because we are seeing availability, mix and labor, the knock-on effect of all that stuff rolling through efficiency. So that may drag the margin down a little bit. So we weren't saying we get to 15% in Fine Paper in the fourth quarter, but we'll be on the path for it.

Jonathan E Tanwanteng*Analyst, CJS Securities, Inc.*

Q

Okay. Great. And one more if I could. You did a lot better than paper than I thought you would. Just can you sustain that sales momentum? Is it more volume or is it price that's driving that strength?

Julie A. Schertell

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

A

It's both, really strong volume in our Fine Paper and Packaging business. And it's a pretty diversified business with about a third of it being in commercial print or the more traditional paper side; a third of it being in packaging which had record performance. And that team has done a great job winning new large pieces of business that then continue over time. And then, about a third of it in consumer products, which has stronger underlying market dynamics than commercial print. So the diversity of it really helps from a sustainability standpoint, and the packaging business growing really helps from a sustainability standpoint. You lock into some of those specifications and then you have those for a fair amount of time.

Jonathan E Tanwanteng

Analyst, CJS Securities, Inc.

Q

Okay. Great. Thanks, guys. I appreciate it.

Julie A. Schertell

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

A

Sure.

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

Paul F. DeSantis

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

A

Hey, Chris.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Good morning. Thanks for taking my questions and nice top line. I guess, just maybe to start with maybe with Itasa, can you just maybe talk about the organic rate? And maybe, are there any maybe notable end markets that you're seeing a lot stronger demand from Itasa?

Julie A. Schertell

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

A

Sure. The Itasa integration is going extremely well. They've had a record revenue in three of the months that we've owned them, and we've only purchased them in April, so a nice continuous improvement. They're ramping up a coder in Mexico, that's ramping up ahead of schedule. They've qualified on new business with new customers, some of those former Itasa customers and some of them former Neenah customers. And so there's nice cross-selling opportunities and the synergies are on track as well. [audio gap] (30:50) very, very strong team, and I couldn't say enough how strong that team is from a leadership standpoint. As far as what's driving it in an end market standpoint, it's a very diverse end markets that they serve, whether that's hygiene, roofing, medical, appliances, tapes, labels, there is a tremendous amount of diversity, which is one of the things we really like about that business. It doesn't see a lot of seasonality or cyclicalities depended on specific end markets. It's really an overall nice, you know, nice trends that they support.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Great. And just within packaging, I think you referenced that was up over 20%. Those new wins, are you able to build on those? I remember you earlier in the year highlighting that growth is going to come. Now, it's here. Have you won more contracts that are just as strong throughout the year? Can you just maybe expand a little bit more on packaging and the rate of growth there?

Julie A. Schertell*Chief Executive Officer, President & Director, Neenah, Inc.*

A

Sure. I love going over that side of our floor in the building because they're always talking about new business and new wins. And you're exactly right. Once you penetrate a large customer or even a vertical, then you're in the door. And you've qualified on one product. You're the incumbent, you get the opportunity for the next project for packaging. I would also tell you that strong macro trend of environmental sustainability is working extremely well for Neenah. We're often the preferred supplier for packaging to plastics or other less environmentally friendly material. And that's really growing nicely as well.

Chris P. McGinnis*Analyst, Sidoti & Co. LLC*

Q

Great. And just within filtration or within TP, can you just talk about maybe new product growth? I know that the filtration segment has changed a little bit. Can you just maybe talk about that rate of growth from new products somehow? Thanks.

Julie A. Schertell*Chief Executive Officer, President & Director, Neenah, Inc.*

A

Sure. I think one of us referenced in our prepared remarks, NeenahGuard and NeenahPure, that's just our branding of some of the new industrial and life science applications that we've launched. When COVID hit and we had the opportunity to support the community with face mask, we knew it was opportunistic from a face mask standpoint, but it helped us penetrate new customers and new markets. So from there, we can grow primarily in air and liquid and process fluids and building HVAC, a lot of those areas that have very strong trends right now. Everybody is looking for a healthier, quieter world in our filtration product to help support that.

Chris P. McGinnis*Analyst, Sidoti & Co. LLC*

Q

Great. And last question, just on, when you talked about the reformulation of that \$200 million in revenue of products, I guess, on an annual basis, [indiscernible] (33:48) this reformulated offering, is that a lower margin? Is it an impact to your margin profile and you think is availability maybe becomes – the product becomes more available, that margin profile should increase? Can you just talk a little bit about that reformulation impact on the business?

Julie A. Schertell*Chief Executive Officer, President & Director, Neenah, Inc.*

A

Yeah. It does not have a significant impact on our margins. What it does for us is it gives us options and it gives our customers options. So one of the ways Neenah wins in the marketplace is our agility and flexibility and our intimacy with our customers and what their needs are. So it's during these times when supplies are tight, when customers really remember how they're treated. The fact that we've been able to reformulate has saved them quite a bit and really created a success for us and for them. But from a margin standpoint, minimal impact.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Okay. Great. Thanks for taking my questions and good luck in Q4.

Julie A. Schertell

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

A

Thanks.

Paul F. DeSantis

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

A

Thanks, Chris.

Operator: Your next question comes from Jon Tanwanteng with CJS Securities. Your line is open.

Jonathan E Tanwanteng

Analyst, CJS Securities, Inc.

Q

Hi. Thanks for taking the follow-up. I just want to clarify something. You said, Julie, you said you expected 5% top-line growth and 10% earnings growth. Was that in reference to 2022 or is that just a long-term goal? And then you also mentioned a 15%-plus EBITDA margin. Again, is that a 2022 goal or was that a run rate or a long-term goal?

Julie A. Schertell

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

A

It's our long-term goal. I mean, right now, we're targeting that 5% top line, 10% bottom line, 15% EBITDA margin, but it's over time, and it'll be by business over time as well.

Jonathan E Tanwanteng

Analyst, CJS Securities, Inc.

Q

Okay. Got it. And you haven't applied any of that to 2022 just in terms of your goals yet?

Paul F. DeSantis

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

A

Well, we haven't given specific guidance on 2022, but we are expecting – we've done a lot of things this year to really position the business. And we're expecting to get that net \$20 million impact on pricing. We're expecting to get the benefit from Itasa. We're expecting to get the benefit from the closure of that facility in Wisconsin. And so all of that's going to roll through in 2022, and so we're expecting to definitely put ourselves on that path. If you go and you look at the first quarter of this year before the world went crazy, or the first quarter of last year before the world went crazy, we had very strong margins in the business. And so as we think about how we go forward, I think all of that combined with the actions we've taken to put us on the path to get to those margin growth and bottom line goals.

Jonathan E Tanwanteng

Analyst, CJS Securities, Inc.

Q

Got it. Thanks, guys.

Julie A. Schertell

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

A

Sure.

Operator: There are no further questions at this time. I will now turn the call back over to Julie Schertell, Chief Executive Officer.

Julie A. Schertell

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

Thanks. Let me wrap up. We've made a lot of decisions and taken many actions to reposition Neenah, and we've made tremendous progress on our targeted growth platforms. We recognize it's still hard to see all of that on the bottom line. So I want to summarize for you. We highlighted in our prepared remarks and in some of our Q&A some of those decisions and actions and how they will impact us. Pricing recovery of \$20 million in 2022, incremental EBITDA from Itasa of \$5 million, an incremental \$6 million from closing the Appleton facility. That's around \$30 million of impact to our bottom line in 2022. There could be some things that break the other way, and the environment is definitely volatile.

But in the short term, to have this kind of upside is significant for Neenah and for our shareholders. Longer term, we have a very focused strategy for growth, four platforms that we'll continue to invest in those platforms. We also announced record performance in three of the four platforms and capital investment to unlock capacity in two of the four platforms this year. So there are clearly identifiable actions we took this year that will drive significant value in the short term and decisions and investments we've made for our continual growth and margin accretion longer term. We're looking forward to updating you on our continued progress next quarter. And we hope to have the opportunity to talk to many of you at the upcoming virtual conference hosted by Baird next Wednesday, November 10th.

Thanks, and have a great day.

Operator: Ladies and gentlemen, this concludes today's call. You may now disconnect.

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