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Neenah, Inc. (NP)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is, Chris, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Neenah Q1 2022 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session. [Operator Instructions] Thank you.

Kyle Anderson, Vice President of Corporate Strategy and Investor Relations, you may begin.

Kyle Anderson

Vice President-Corporate Strategy & Investor Relations, Neenah, Inc.

Good morning, and thank you for joining us on Neenah's Q1 2022 earnings call. With me today are Julie Schertell, Chief Executive Officer; and Paul DeSantis, Chief Financial Officer. Julie and Paul will discuss recent results, as well as share thoughts on our full-year outlook, how we are executing our strategy and our planned merger with SWM.

We issued a press release covering Q1 financial results yesterday afternoon and published its supplemental material to our investor website to assist in better understanding our quarterly results. Following our prepared remarks, we will open up the call for questions. As a reminder, our comments include forward-looking statements. Actual results could differ from these statements due to risks outlined both, on our website and in our SEC filings.

As we get started, a few opening highlights. In the first quarter, we continued our top line growth momentum and set yet another quarterly record with net sales up 25% over last year. Adjusted earnings were \$0.63 per share, excluding \$0.29 of unusual costs, and adjusted EBITDA was \$30.3 million. In Q1 2021, adjusted earnings were \$1.04 per share and excluded \$0.55 of unusual costs with adjusted EBITDA of \$35.7 million. Details of these adjusting items, along with a reconciliation to GAAP amounts, can be found in our earnings release.

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

Julie A. Schertell

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

Thanks, Kyle. And good morning, everyone. I'll start with an overview of our first quarter performance. We were pleased with our results in the first quarter. Compared to Q1 of 2021, total volume was up 17% with Fine Paper and Packaging up 7% and Technical Products up 23%. We delivered sales of almost \$285 million, up 25% from last year. This was our third consecutive quarterly top line record, a clear indication that our growth strategy is gaining traction.

From a bottom line perspective, despite a challenging year-on-year comparison against an exceptionally strong and pre-inflationary Q1 of 2021, I'm pleased with our progress on EBITDA margins as they improved sequentially from Q4 to Q1 from roughly 9% to around 11%. The primary driver of this improvement was continued success in our pricing initiatives. As we all know, the inflationary pressures over the last several quarters have been intense, escalating at an accelerated pace and to record levels.

As discussed on prior calls, we've been aggressively executing on a disciplined pricing strategy to catch up to and offset these unprecedented inflationary costs. We're now beginning to over-recover input cost inflation while input costs are still increasing, demonstrating our pricing actions are working to recover margin and run ahead of inflation in 2022. These benefits will continue throughout the remainder of the year. Favorable sales volume and mix is also significant this quarter, signaling market demand remained very strong and we are unlocking portfolio opportunities with innovation and alternative chemistries to offset some of the supply chain shortages.

While we have supported our customers on supply, our internal operations were impacted by availability of raw materials and labor. At this time, we have successfully addressed operating labor shortages, but remain in the training phase at many sites in North America. There is a learning curve that we expect to continue to improve upon throughout the year.

We're reaffirming our full-year guidance for 2022 of \$135 million to \$145 million of adjusted EBITDA or a 15% to 25% increase versus prior year. As we progress throughout the year, we expect earnings to benefit from several factors. First, we expect our pricing efforts to continue to offset rising input costs. We have announced additional pricing actions that will be effective during the second quarter in response to the continuing escalation of costs.

Second, demand for our products remains very strong. In some cases, we have orders placed into the fourth quarter signaling continued market strength. We are also demonstrating strong progress against our growth drivers, including our most recent acquisition, Itasa, which continues to exceed our expectations and deliver record performance.

Our release liner capacity expansion project is underway and we are pleased with how this will serve as a foundation for growth going forward. With greater availability of inputs, increased stability of labor and continued implementation of our operational excellence program, we expect to see manufacturing performance improved throughout the year.

Lastly, we will continue to drive innovation and launch new products that customers value, that expand our addressable market and that create the opportunity for higher margins. As an example, in April, we launched a new medical packaging solution capable of withstanding all types of sterilization technologies, including radiation. This is significant as single-use medical devices continue to gain popularity due to their ability to lower cost, increase efficiency, and reduce the spread of infection. Our new product allows customers to serve multiple

market needs, is technology agnostic, and provides an alternative to polymer-based packaging. All of these efforts, strong pricing and volume, favorable mix, improving operating performance and new products lead to improved margins throughout the year.

So while it continues to be a challenging environment, I'm very pleased with the actions and results our teams have demonstrated. We are directly addressing the challenges, delivering results and positioning the business for further growth and margin expansion. We're confident in our earnings guidance and our trajectory is on pace. Our strategy is clear and we are demonstrating progress towards both near- and long-term goals.

With that, I'll turn it over to Paul to cover financial results, and then I'll wrap up with some comments on our long-range strategy and the planned merger with SWM.

Paul F. DeSantis

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

Thanks, Julie. As I begin, I would like to highlight a few enhancements to our quarterly results communication. We've streamlined the earnings release to help focus on the relevant items for the quarter, included a new bridge graphic to show the key drivers of adjusted EBITDA and posted a supplement to our investor website. Consolidated sales reached \$285 million, up \$58 million from last year's comparable quarter. Itasa accounted for \$39 million of the increase. Volume, including Itasa, was up 17%, while prices were up another 13%, partially offset by currency and mix of about 5%.

Both segments demonstrated continued volume growth, which excluding Itasa, was up 3%. Adjusted EBITDA was \$30 million, compared to \$25 million in last year's fourth quarter and \$36 million in last year's first quarter. Q1 year-over-year pricing actions were favorable by \$30 million, which were ahead of the input cost increases of \$29 million.

We're expecting that differential to keep increasing over the remainder of the year. It's also interesting to note pricing for all of 2021 was \$19 million, highlighting the momentum we're seeing with our pricing actions. Adjusted EBITDA margins increased by 130 basis points on a sequential basis. This is the second quarter in a row of sequential margin improvement driven by the increased momentum in our pricing actions.

The primary driver of the shortfall in profitability from last year's exceptionally strong first quarter was an unfavorable \$15 million year-over-year variance in operating costs, including higher distribution expense. The input availability issues we've experienced over the last few quarters, combined with labor availability challenges, drove the inefficiencies which results in slower throughput higher waste, more downtime and higher conversion costs.

A few additional things to note, the unfavorability includes costs associated with the January fire in our Brownville, New York facility, which had about a \$2 million impact in the quarter. This compares favorably to the \$3 million we'd originally estimated, thanks to the efforts of the team to work with customers, modify existing inventory and to start up the asset earlier than expected. Distribution costs were \$3 million unfavorable year-over-year, reflecting the challenges in the freight and logistics marketplace. We drove improvement throughout the first quarter in manufacturing costs and expect the unfavorable variances to 2021 to improve and ultimately turn favorable by the end of the year as the actions we've taken in our facilities are showing traction.

There're a couple of important points to be made here in terms of Q1 performance versus 2021 in operating costs. Q1 of 2021's operating performance was the best quarter in the last few years. Although were \$15 million

unfavorable to Q1 of 2021, on a sequential basis from Q4, we're showing improvement and as I said, expect that improvement versus prior year to continue throughout 2022.

Another important point to be made is that we're about on plan with variances to plan primarily from the Brownville fire and distribution process. Lastly, we're beginning to see very slight but noticeable improvements in raw material availability and expect that to continue throughout the year.

Turning to segment results, Technical Product sales were \$186 million, up 28% from 2021 and up 6% excluding Itasa and the facility closure last year. Pricing accounted for growth of 13% and volume was favorable. But mix and foreign exchange were both unfavorable. Adjusted EBITDA was \$20.2 million, down from a very strong \$24.9 million last year, reflecting the impact of raw material availability and the related operating inefficiencies. Technical Product is bearing the brunt of the specialty chemical availability challenges and the related operating inefficiencies. Pricing momentum is very strong, which is expected to drive expanding net price over input cost favorability for the rest of the year.

Fine Paper and Packaging sales were almost \$100 million, up 21% from last year's level, with pricing up 14% and volume up 7%. Adjusted EBITDA was \$14.5 million for the quarter, down slightly from last year's \$15.3 million, reflecting the impact of the availability issues and the Brownville fire. We continued to perform above our original expectations, driven by the strength of the commercial print, packaging and consumer products businesses.

In both segments, we believe we're on track to offset the 2021 unrecovered input costs as well as offset expected 2022 inflationary pressures over the next few quarters. We ended the quarter with liquidity of \$160 million and leverage of 3.9 times. Cash flow from operations was the use of \$2 million driven by working capital increases, reflecting the higher input pricing and selling costs and higher cash tax payments.

CapEx was \$8.3 million versus \$4.8 million last year, primarily driven by spending for our growth initiatives. As we work our way through the year, we expect to increase cash from operations and reduce leverage to around 3 times. From a CapEx perspective, for 2022, we expect to be at 4% to 5% of net sales as we invest for growth. SG&A is up \$6 million over the first quarter of 2021. Most of that increase is the impact of the Itasa business. A secondary driver has increased incentive compensation accruals reflecting the strong start to the year.

For 2022, we anticipate that our full-year normalized tax rates will be in the low- to mid-20s as a percentage of pre-tax income. Our effective tax rate was 21% of pre-tax earnings in the first quarter of both 2022 and 2021. Our effective rate is lower than the statutory rate, primarily as a result of benefits from US R&D tax credits.

Looking ahead, we were very pleased to see pricing offset input costs in the quarter. Additionally, we've seen progress in operation from Q4 2021 to this quarter and sequentially each month throughout the first quarter as our supply chain team's initiatives are addressing the inefficiencies resulting from the availability issues. As a result, as Julie said, we are reaffirming our full-year guidance.

Here are a couple of additional considerations for upcoming quarters. Top line remains robust and demand is strong. We're not yet seeing input costs moderate, particularly with pulp and energy. We've implemented immediate surcharges where necessary to offset those increases. We're also accelerating pricing actions to minimize the timing lag between input cost increases and our pricing. As a result, our pricing mechanisms are working faster than ever before.

In terms of specialty chemicals, costs continue to increase, but at a rate slower than last year. Additionally, many downstream chemicals are still very tight, although we're seeing some progress in availability. We've minimal

direct exposure from the Russia-Ukraine conflict with no access for employees located in those countries and virtually no revenue. We're continuing to address indirect impacts from the conflict, including European energy and logistics disruptions.

Turning to margins, we expect to maintain our recent improvements near term with gradual continued improvement beginning in the back half of the year as we address our operating challenges and execute our pricing actions. Of note, Q2 2022 will look more like Q1 of 2022, while the year-on-year comparisons in the back half of the year are expected to be more favorable versus prior year.

As a headwind to our margin and growth initiatives, the euro is having an unfavorable impact on our US dollar results. For each \$0.01 of appreciation of the US dollar to euro exchange rate, we are impacted by approximately \$650,000 of earnings on an annual basis. Our teams, including operations, R&D, purchasing and sales planning, have responded very constructively to address the availability issues. As a result, we're seeing improvements in operations which we expect to continue throughout 2022.

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

Julie A. Schertell

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

Thanks, Paul. I'm very pleased with how the Neenah team has focused on delivering results and executing as we said we would. During these volatile times, we've been able to aggressively grow our top line with improved pricing, volume and mix, implement new and flexible pricing strategies that are showing early signs of success in offsetting record-level input costs, diversify our portfolio with continued strong growth in air and industrial filtration, release liners and premium packaging, and strengthen our position with customers by leveraging a global supply chain that addresses their local needs, reformulating product chemistries to meet customer demand, and launching new products that expand their addressable markets and provide sustainable alternative solutions. As a result, we're seeing early traction on margin expansion and we're reaffirming our full-year guidance which is supportive of our longer-term goals: 5% top line growth, 10% bottom line growth, and greater than 15% EBITDA margins.

Now, shifting to the announced merger with SWM. This is a transformative inflection point for both Neenah and SWM, and we are extremely excited about the possibilities and the potential of the combined company. Together, we will form a leading global specialty materials company with an improved growth profile, compelling synergies and meaningful scale. We view the merger as an and, not an or, meaning, we will deliver the benefits of executing our combined business plan and we will see incremental growth and value from the planned merger. We think about the benefits of this merger in three key areas: strategy, synergies and scale.

First, we believe the merger accelerates our long-term strategy, will enhance the growth dynamics of our business, and drive attractive margins and cash generation. The combined companies should be well-positioned in diversified and high-growth categories such as filtration, protective films, release liners, healthcare and sustainable packaging. With strong market positions and strong macro trends, what makes this combination even more powerful is that the two companies complement each other but don't overlap.

By bringing together the strengths of our complementary product offerings, technologies and geographies, the combined company will be poised to deliver powerful benefits, including a comprehensive suite of product solutions, an expanded toolbox to deliver innovative answers for our customers' challenges, and a stronger global presence to best serve our customers where they compete. Early feedback from customers is overwhelmingly positive, and we look forward to delivering on our combined promise.

Second element is synergies. The combination presents a compelling and unique opportunity to optimize our organization, enhance margins and drive meaningful value. We are expecting at least \$65 million of incremental EBITDA from initial cost synergies with a potential for more. At any reasonable multiple, this would create hundreds of millions of dollars of shareholder value for the combined company.

These synergies are expected to be unlocked quickly with a run rate at approximately 50% within the first 12 months and achieving the full run rate within 24 to 36 months after close. During the diligence process, we engaged a third party to validate the synergy potential and we are confident in our ability to deliver this value.

Let me provide a bit more detail on the sources of the cost synergies. About half of the synergies will come from reduced SG&A. Bringing two public companies together creates a meaningful opportunity with the largest single source of savings generated by eliminating redundant public company cost. Duplicate costs, such as the C-suite, board of directors, outside agencies and other purchase services are readily known and quickly achievable. Optimizing procurement will also drive a significant source of savings. We buy many similar items, creating an opportunity to concentrate purchases. Lastly, we expect savings in our operations such as vertical integration opportunities, freight and warehousing optimization and other cost efficiencies.

As an upside to the cost synergies, we also expect to capitalize on the industrial logic of the combination to accelerate growth and drive incremental revenue. From cross-selling to geographic expansion to the innovation potential, the sales synergies should be sizable over time. Lastly, the merger will enhance the scale of the combined company. From a commercial standpoint, having a greater presence with customers and suppliers creates opportunities and places us among the leaders in specialty materials.

Additionally, the increased size provides strategic optionality for portfolio management, unlocking the opportunity to reshape the business. Scale also helps from a capital market perspective. As a larger company, the merger presents the opportunity to increase liquidity and trading volumes, broaden index participation, lower our cost of capital and increase shareholder visibility, all of which should lead to value creation for our shareholders. From a financial point of view, the new company is projected to have around \$3 billion of revenue and EBITDA of \$450 million on a pro forma synergized basis.

Each company on its own has a history of strong cash generation. Post-merger, we plan to drive cash to support de-levering the business. On a pro forma basis, the combined company would approach 4 times leverage by the end of the year based on our current earnings guidance. Another priority use of cash is an ongoing commitment to a strong dividend. We've recognized this is important to our investors and we will communicate our new company dividend policy in the weeks following the closing of the transaction.

The key to unlocking value in any transaction is integration and efforts are well underway to plan for a successful launch. We have formed a team of top talent comprised of both Neenah and SWM employees, as well as outside consultants who'll help enhance and accelerate our efforts. We're developing team charters and action plans to ensure a smooth integration, quick synergy realization and a seamless day one for our customers, suppliers and employees.

We've created a transformation office which will report directly to me and be accountable for driving synergies and ensuring a successful integration of the two organizations. Thus far, things are off to a great start and the teams are working exceptionally well together, a testament not only to the talent in both organizations, but the complementary nature of our cultures. These are exciting times. We are better and stronger together. And as we embark on the next stage of each company's journey, the potential is tremendous. Over the next few weeks in

advance of a shareholder meeting by each company, investors will have the chance to review the S-4 registration statement that gives additional information and details to further articulate why we believe this is a compelling transaction. We remain on track with the closing in the second half of 2022, as previously announced.

To conclude, we remain laser-focused on executing our business strategy, managing through a challenging supply chain environment, servicing our customers, and taking the necessary actions to drive growth and margins. As we enter a new era, we are well-positioned to deliver value both near and long term, and we thank you for your continued support of our business.

This is a pivotal time for Neenah. I could not be more proud to be a part of these efforts as we create a stronger future for our customers, our employees and our shareholders.

With that, we will turn the call over to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question today is from Jon Tanwanteng with CJS Securities. Your line is open.

Jon E Tanwanteng

Analyst, CJS Securities, Inc.

Hi. Good morning, everyone. Thanks for taking my question and nice job on pulling back the pricing there.

Paul F. DeSantis

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

Thanks, Jon.

Julie A. Schertell

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

Good morning.

Jon E Tanwanteng

Analyst, CJS Securities, Inc.

My first question is just regarding inflation and logistics. I think what I heard is that you're seeing unit moderation or stability going forward. Is that – could you clarify if that's actually what you're seeing and if there's any places where you're seeing increasing headwinds or risks in your supply chain?

Paul F. DeSantis

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

Yeah. I think, Jon, what we said was we're actually not seeing those things slow down. So in the prepared remarks, we talked about we're seeing the rate of increase in chemicals less than it was before. And we're saying that we really haven't seen pulp and energy slow down like we would have wanted to. I think the comment we were making is that we're really pleased at how quickly we were able to get pricing out there to offset that and start to see that pricing cost turn. So we've sped up our pricing mechanisms with the intention of offsetting changes and increases faster.

Jon E Tanwanteng

Analyst, CJS Securities, Inc.

Q

Okay. Got it. I appreciate that clarification. My second question is, where are you in your utilization today and how much more could you sell if you had more throughput available? I know you have manufacturing efficiency issues that are going on right now. How much more is likely to be freed up as you get through the year and kind of what is the demand on that and beyond that, if any?

Julie A. Schertell

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

A

Sure. It varies by business, as you would imagine. If I think through our businesses, starting with filtration, we've unlocked capacity in our meltblown lines for incremental revenue driven by our operational excellence program, the Neenah Operating System. So we're seeing continued upside there. That's our fastest-growing, highest-margin business. So we have opportunity to continue to grow in meltblown. And we've invested in a new meltblown line, which will be the fourth [indiscernible] (00:29:04) line in our German facility that will be up in early 2024. So we're planning ahead and running ahead of any capacity challenges there.

The second area I would hit on is release liners because that's a business that's growing at – it's historically growing at about 8% a year and we expect to continue to grow at that level. We've got a coater continuing to ramp up in Mexico and again, another investment that we've made that we'll start up in Q3 of 2023 to support that high-single-digit growth in release liner. So we have upside there. Those are two key growth platforms for us.

If I go to our industrials business, it's really about driving margin in industrials more than volume. So while we are somewhat sold out, I'd say in that business, we have the opportunity to continue to drive improved mix and margins and that's the key focus in industrials.

And then in Fine Paper and Packaging, we're pretty tight on capacity. That business rebounded to a greater degree than we expected post-COVID, and the acceleration of that team from a packaging and consumer product standpoint has continued to perform really well. So the opportunity there is again to continue to offset any pressures on the commercial print side with accelerated growth in packaging and consumer products, which the team has done a nice job of.

Jon E Tanwanteng

Analyst, CJS Securities, Inc.

Q

Okay. Great. That's a lot of good detail. I was wondering if you could just give us a little bit more color. You mentioned about portfolio rationalization and optimization in your prepared remarks post the merger. Have you thought about addressing some concerns that we've heard from investors about ESG and being able to meet those internal mandates [indiscernible] (00:30:50)?

Julie A. Schertell

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

A

Sure. I would start with – as we talk about the merger, I'd be remiss if I didn't give a big thank you to Jeff Kramer, the CEO at SWM, and his entire leadership team for their support and collaboration through this early process, so we've had the opportunity to spend time together and discuss many of these questions.

I would tell you, our focus is on driving our growth platforms and accelerating our strategic performance in those areas. We're going to continue to always look for ways to drive value, which includes looking at the opportunity to optimize the portfolio to a higher degree towards growth in margins and what fits and what doesn't fit in that

future. The benefits of scale in this opportunity really gives us more options to make those decisions and changes that we wouldn't have as a standalone company or would be much more challenging as a standalone company. So, as we come together, we'll be focused on portfolio optimization and how we drive to fewer, larger growing business units in the combined company.

Jon E Tanwanteng

Analyst, CJS Securities, Inc.

Okay. Great. And then the last one for me, just at a high level, I mean, you could see this in the news. Recession fears are growing. You're hearing it from a number of pundits and analysts that are out there. I was wondering what your thoughts are on the business and your end markets if rates start to adversely affect demand and kind of what your positioning and thoughts are around that as you head into year-end and beyond.

Julie A. Schertell

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

Yeah. We continue to see really strong demand and I think it's really important that we're looking at volume and not just revenue because of all the pricing activity. So, we've really focused on understanding our volume trends and leading indicators. Volume was up 3% in the quarter, and that's comping a really strong Q1 of 2021. It was up 7% in Fine Paper and Packaging, and that was really driven by packaging and consumer products.

Tech products was up, overall, but it was mixed, as I mentioned, really driven by volume growth in filtration and digital transfer and release liners and focused on margin and industrial solutions. So, where we want more volume, we're definitely seeing that. We are not seeing leading indicators at this point of volume slow down, but we continue to monitor it very closely.

Jon E Tanwanteng

Analyst, CJS Securities, Inc.

Great. Thank you, Julie.

Julie A. Schertell

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

Thank you.

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

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Good morning. Thanks for taking my questions. Nice quarter.

Julie A. Schertell

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

Thank you.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

I apologize – good morning. I apologize if any have been asked. I've already – I jumped on a little late. But Julie, you were just talking about the strength on the packaging side and can you just – is there – are you at the point

where kind of given the new introductions that you would be investing in that business in terms of expanding kind of capacity there?

Julie A. Schertell

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

A

Yeah. Well, we invest in different ways in the business. And so, we have definitely driven bias towards R&D investments in the Fine Paper and Packaging, and I think that's where we're seeing a nice pipeline of opportunities. They've launched a number of new products that continue to gain traction, they have a very healthy pipeline for future opportunities, and it's really a nice part of our business because it is so cost effective and efficient because it operates on the same assets as our consumer products business and as our commercial print business.

The other thing I would mention about packaging, as we think about the future potential, is I believe we'll find opportunistic synergies and revenue synergies in packaging with the SWM merger, whether that's cross-selling, capabilities for lighter weight papers that we need to grow packaging, some of the distribution networks that each company has. I think there is even greater opportunity to leverage that in the future.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Sure. It makes a lot of sense. And just in relation to the merger, have you learned anything new since the public announcement in terms of whether it's customer reaction, or any more details around the synergies of the business that you've somewhat discussed already?

Julie A. Schertell

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

A

Well, I would tell you that customer reaction has been overwhelmingly positive, and it's been across both segments, Fine Paper and Packaging, as well as Technical Products. I was expecting it in Technical Products, but our Fine Paper and Packaging customers have reached out with an understanding of the opportunities for a greater portfolio. So I think that's really exciting for the Fine Paper and Packaging team as well as Technical Products.

On the – have we learned anything more in the synergies? We've announced a \$65 million of hard synergies. We view that as incremental EBITDA opportunity, highly achievable around this building. We refer to them as bankable. Just so it's really clear, we have to go and get those and drive margins. But in addition to that, there's revenue synergies. So there's significant cross-selling opportunities, geographic opportunities, technical capabilities and vertical integration opportunities that we haven't even begun to tap into yet. And as the integration teams have started to form and work together, they're identifying even additional opportunities. So I'm extremely excited about the upside potential.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Q

Great. And maybe just around supply chain challenges that you did talk about, is there a way to maybe size the lost business due to that?

Paul F. DeSantis

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

A

Yeah. That's a tough one for us, Chris, because we've been scrambling for a couple of things. So we've been substituting different kinds of products together for and so you've seen the effect on mix. We were actually pleased to see that we had a favorable impact from mix on the bottom line, which is what we've really been trying to focus on. So from a top line and a capacity perspective, we've been doing what we can to position the business and the assets to respond to what's happening with the demand. But what we're seeing is order backlog is out. It's – we're taking orders out to the back half of the year right now. So from an overall capacity perspective, it's a little tough to estimate how much we are – if – what we're foregoing from the top line and that impact.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Fair enough, fair enough. And then, so are you at parity with the price cost kind of equation at this point given the pricing increases?

Julie A. Schertell

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

Well we – this is a quarter we offset input cost. So we had pricing of \$30 million in the quarter and input cost of \$29 million. So we hit that point of inflection and we expect that to continue through the year, really accelerating and expanding in the back half of the year. Q2 likely looks more similar to Q1, but then, we start to expand more dramatically in Q3 and Q4 and we've announced additional pricing actions into Q2 and Q3 to drive that because we – as Paul mentioned, inflation is still continuing to move upwards.

Chris P. McGinnis

Analyst, Sidoti & Co. LLC

Perfect. No. I appreciate that. Julie, Paul, thanks for the time today and good luck in Q2.

Julie A. Schertell

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

Thank you.

Operator: We have no further questions at this time. I'll turn it over to Kyle Anderson for any closing remarks.

Kyle Anderson

Vice President-Corporate Strategy & Investor Relations, Neenah, Inc.

Thank you for your time today. To recap our call, demand for our products remained strong across our product categories, and we're seeing the results from the execution of our pricing strategy to offset the inflationary pressures and enhance our margins. We continue to make strong progress against our strategic agenda in our near- and long-term goals, including the significant step of our announced strategic merger of equals with SWM. Details of the transaction can be found in the S-4 statement, which was filed yesterday by SWM. We look forward to interacting with many of you at our upcoming investor events, including both the Deutsche Bank and Stifel Conferences in early June.

Thanks, and have a great day.

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

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