Amcor plc

Third Quarter Results 2022

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PRESENTATION

Operator Instructions

Thank you. I would now like to turn the conference over to Tracey Whitehead, Global Head of Investor Relations. Please go ahead.

Tracey Whitehead

Thank you, Operator, and welcome everyone to our March quarter earnings call for Fiscal 2022. Joining today is Ron Delia, Chief Executive Officer, and Michael Casamento, Chief Financial Officer. Before I hand over to them, let me note a few items.

On our website amcor.com under the Investors section, you'll find today's press release and presentation, which will be discussed on the call. Please be aware that we'll discuss non-GAAP financial measures and related reconciliations can be found in the press release and the presentation. Remarks will also include forward-looking statements that are based on management's current views and assumptions.

The second slide in today's presentation lists several factors that could cause future results to differ from current estimates. Please refer to our filings on the SEC website or on our own website for further details.

During the question-and-answer session, we request that participants ask their question and then rejoin the queue for any additional questions.

With that, I'll hand over to Ron.

Ron Delia

Thanks Tracey and thanks everyone for joining Michael and myself today to discuss Amcor's financial performance at the end of the third quarter. We'll begin with some prepared remarks before opening for Q&A.

Since safety is our first and most important value we'll start on Slide 3 with safety as we do in every meeting at Amcor. We believe our ultimate goal of zero injuries is absolutely possible and we continue to make good progress. So far in Fiscal 2022, we reduced the number of injuries across the company by 5% compared to the prior year and more than half of our sites have been injury-free for at least 12 months.

Now, of course this quarter our attention has turned to the tragic and devastating war in the Ukraine. We moved quickly to close our Ukraine site in Kharkiv before the start of the invasion to protect our local team, and we continue to support those co-workers and their families in any way we can, including through direct financial support and by assisting those who've been displaced. All up, we've contributed more than $1 million to vital humanitarian relief efforts.

We also announced our decision to scale down our operations in our three Russian sites and to explore all strategic options for those plants. As always, our path forward will continue to be guided by our values and by our responsibilities to all of our stakeholders. I'd like to publicly thank all of my Amcor colleagues who are contributing from near and far to this challenging and upsetting situation. Your commitment, caring and generosity has been an inspiration.

Turning to our key messages for the quarter on Slide 4. First, the business delivered another strong result with the March quarter representing our strongest period of sales and earnings growth for the fiscal year so far. Second, our teams have continued to demonstrate an exceptional ability to remain focused on managing sales mix and inflation while delivering for our customers. Third, given the strong execution and consistently strong earnings growth through the year, we've raised our guidance for Fiscal 2022 EPS growth. Finally, Amcor has established a strong foundation for growth and value creation over the last several years and we are increasing capital investments in priority segments and geographies as well as in our innovation capabilities.

Turning to the financial highlights on Slide 5, March quarter performance was strong across the board and I'll start with a few highlights. Net sales grew 16% in the third quarter, including more than $450 million of incremental price increases related to the pass-through of higher raw material costs. Excluding this pass-through, organic sales growth was 5% in both the Flexibles and Rigid Packaging segments. Consistent with the first half, we continue to benefit from favorable mix, as well as actions to anticipate and recover higher levels of inflation than we've seen for many years.

This top line growth converted into Adjusted EBIT growth of 9% in the quarter. The Flexibles segment delivered EBIT growth of 10% and, in line with our expectations, Rigid Packaging returned to earnings growth after experiencing a unique set of supply chain challenges in the first half. As you can see on the bottom of the slide this strong March quarter builds on a solid first half, so that on a year-to-date basis, net sales have increased 13%, Adjusted EBIT has increased 6% and adjusted EPS is up 11%.

Our financial profile remains strong, and we continue to increase cash returns to shareholders. We expect to repurchase $600 million of shares this year, which, when combined with our annual dividend, means we anticipate returning around $1.3 billion of cash to shareholders in Fiscal 2022.

Before I hand over to Michael, I want to come back to a slide we presented last quarter which touches on our priority segments. Amcor has a leading position in each of these categories, which collectively generate over $4 billion in annual sales and share a few common features, including large addressable markets, higher-than-average growth rates and significant room for Amcor to grow and differentiate.

By making deliberate choices to focus on these high-value higher-growth categories, over time they represent a higher proportion of our sales mix, contribute to consistent margin expansion and become an increasingly relevant driver of earnings growth for Amcor. We've seen this trend so far this year in both Flexibles and Rigid Packaging, including in the March quarter, and we expect this will continue as we allocate more capital and resources to these segments.

You'll hear more about these mix benefits from Michael, as he provides some more detail on our financial performance.

Michael Casamento

Thanks, Ron. I'll begin with the Flexibles segment on Slide 7. The businesses continue to perform very well through the year, executing to recover higher raw material costs, manage general inflation, improve cost performance and deliver increasing mix benefits. Reported year-to-date sales grew 11% and 14% in the March quarter. This includes significant recoveries of higher raw material costs, which increased to $330 million in the March quarter, representing 13% of growth and $1.3 billion on an annualized basis.

The overall price cost impact has remained a manageable headwind through this inflationary cycle, given the diversity of materials we buy, the multiple regions in which we consume those materials, and the implementation of a range of pricing actions across the business. Excluding this raw material impact, sales grew 3% year-to-date and 5% in the March quarter. As Ron mentioned, this performance reflects our continued focus on managing mix to drive growth, particularly in priority segments like healthcare, pet food, and premium coffee where we have seen mid-single-digit growth year-to-date.

Supply chain disruptions have had a dampening effect on our volumes in certain high-value categories through the year, and in parts of the business, we have taken action to direct constrained materials to their highest value use, which further enhances mix. As a result, year-to-date and March quarter volumes across the Flexibles business were in line with last year.

In terms of earnings, Adjusted EBIT growth of 8% on a year-to-date basis and 10% for the March quarter, reflects strong price/mix benefits and favorable cost performance. Margins also remained strong at 13.1% despite an adverse impact of 140 basis points from the mathematical impact of pass-through pricing for higher raw material costs.

Turning to Rigid Packaging on Slide 8, the key messages today are the underlying demand remains elevated and the business returned to earnings growth in the March quarter, in line with our expectations. Year-to-date sales grew by 19%, which includes favorable pricing to recover higher raw material costs of 14%, and organic sales growth reflects 3% higher volumes and price/mix benefits of 2%.

In North America, year-to-date beverage volumes were up 2%. Hot fill container volumes increased 6% in the March quarter and 2% on a year-to-date basis, which reflects continued growth in key categories like isotonics and juice. Hot fill containers is a high-value priority segment for Amcor where we see significant opportunities to differentiate. Over a multiyear period, our ability to leverage technology, design, and PCR handling capabilities, has enabled us to deliver compound volume growth of 4% and consistently improve mix.

Specialty container volumes improved sequentially in the quarter but remained below last year on a year-to-date basis, with the prior year benefiting from a strong first half in the home and personal care category.

In Latin America, the business delivered strong double-digit volume growth on a year-to-date basis, reflecting strength in Argentina, Mexico, Colombia, and Peru.

In terms of earnings, the North American business was adversely impacted in the first half by inefficiencies and higher costs, resulting from industry-wide supply chain complexity and disruptions, as well as capacity constraints. However, operating conditions and financial performance improved in the March quarter, where the Rigid Packaging business delivered Adjusted EBIT growth of 4%. We expect this improved performance to continue through the balance of Fiscal Year 2022.

Moving to cash on the balance sheet on slide 9, free cash flow in the March quarter was $75 million higher than last year, which was a pleasing outcome in the context of continued raw material inflation. On a year-to-date basis, cash flow of $263 million is below last year, primarily due to unfavorable working capital outflows relating to higher raw material costs, as well as some planned inventory increases across the business. We continue to maintain a strong focus on working capital performance, which is even more critical in an inflationary environment and our rolling working capital to sales ratio remains below 8% and in line with last year.

Notwithstanding current high working capital requirements, we have ample capacity to increase capital investment in strategic growth initiatives. Ron will provide some more color on this shortly, but for Fiscal 2022 we expect capital expenditure will be approximately 15% higher than the prior year, and year-to-date we are tracking in line with that expectation.

Our financial profile remains strong with leverage at 3 times on a trailing 12-month EBITDA basis, which is where we expect to be at this time of the year given the seasonality of cash flows.

We continue to increase our cash returns to shareholders. So far this year we've repurchased $423 million worth of shares and expect this will reach $600 million by year-end, and our quarterly dividend per share of $0.12 is also higher than last year's dividend.

Taking us to the outlook on Slide 10, given our strong March quarter and year-to-date performance, we are raising our outlook for adjusted EPS growth to 9.5% to 11% on a comparable constant currency basis. This represents an EPS guidance range of approximately $0.795 to $0.81 per share on a reported basis, assuming current exchange rates prevail for the balance of the year.

We expect significant free cash flow for the year of approximately $1.1 billion, which includes the adverse impact of higher raw material costs on working capital. It is also important to note our Fiscal 2022 guidance assumes no further earnings from the business in Ukraine in the final quarter and takes into account a range of possible outcomes in Russia.

As a reminder, the four sites in Ukraine and Russia combined represent approximately 2% to 3% of Amcor's annual sales, approximately 4% to 5% of annual EBIT, and approximately US$200 million to US$300 million on the balance sheet.

In summary from me today, the business has delivered another strong result, as we remain focused on driving value by delivering for our customers, managing mix, and recovering general inflation and higher raw material costs. This strong execution gives us the confidence to raise our guidance for the 2022 fiscal year.

With that, I'll hand back to Ron.

Ron Delia

Thanks, Michael. Before turning over to Q&A, I'd like to spend a few minutes on the longer term starting with our investment case on Slide 11.

We've maintained a consistent strategy that's guided how we have evolved our portfolio over the years, so that we are the clear global leader in most of our chosen segments within the primary packaging space for fast-moving consumer goods and healthcare products. We have absolute and relative scale advantages and a strong track record of earnings growth, margin expansion, significant and growing free cash flow of over $1 billion each year and maintain a strong investment-grade balance sheet. That cash flow and balance sheet strength enable us to step up investments for growth to drive increased momentum in the business.

At the same time, we have the capacity to return a significant amount of cash to shareholders in the form of regular share repurchases and a growing dividend, which currently yields around 4% or double the average of the S&P 500.

We continue to see no shortage of high-quality organic growth opportunities across the three areas that we have highlighted in previous quarters, and which are shown on Slide 12. I already mentioned priority segments and Michael's comments highlighted the mix benefits that are an important driver of earnings growth.

We also have a leading and well-diversified emerging markets portfolio, which we expect will grow at mid-single-digit rates over the long term. Innovation is increasingly a clear differentiator and growth driver for Amcor, particularly as it relates to the development of more sustainable packaging, such as the groundbreaking global product platforms shown on this slide, including AmLite, AmSky, and AmFiber.

Slide 13 is a double-click on AmPrima, another example of a global product platform that sets us up as the partner of choice for customers as we work together to meet our mutual sustainability goals. AmPrima is a family of packaging solutions that are designed to be recycled and deliver significant sustainability benefits without compromising critical performance features, including heat resistance, high barrier, transparency and run speed. Over time, we have introduced second and third generations of AmPrima, expanding the number of end market applications, and adding recycled content options for certain products. The material structure is now pre-qualified by the How2Recycle program in the United States. Volume growth is now increasing rapidly, as some of the most recognizable global brands begin to move from qualification and trial into commercialization.

AmPrima is also a great example of a revenue synergy unlocked by the Bemis acquisition. Capacity was first implemented in Oshkosh, Wisconsin with some capacity allocated to other regions to seed demand, and as volume commitments have grown, we've scaled up, adding capacity in Europe and soon in Latin America as well.

Moving to Slide 14 and to dimension the increasing investment we have referred to a few times and to bring it to life with some more examples. We have been stepping up Capex by around 15% per year, including in the current 2022 fiscal year as Michael mentioned, we expect this will take our Capex to sales ratio from the 3% to 4% range historically to 4% to 5% on an ongoing basis. We have a number of projects already underway or nearing completion which will generate attractive returns and drive organic growth going forward and this slide showcases a few examples.

In Brazil and in the United Kingdom, we are adding multilayer film capacity to serve growth in the priority healthcare and meat segments. In Ireland, we are adding new, state-of-the-art thermoforming capabilities to strengthen our leadership position in medical packaging. In Italy, we are adding production capacity for one of our global product platforms, AmLite Heatflex. Since launching this recycle-ready pouch for retortable applications, we have seen significant interest from a long list of customers and the majority of this new capacity is already sold out.

Just a few words on our broader sustainability agenda on Slide 15. Better package design like AmLite and AmPrima, which takes into account the full product lifecycle, is a critical element of responsible packaging, but achieving the type of lasting large-scale impact we envision requires broad cooperation with expert partners from across the value chain.

One way we have been most impactful is by bringing our capabilities to the table as standards are developed to make circularity the norm. Through the Consumer Goods Forum, Amcor recently contributed to the development of principles for advanced recycling technologies, which can play a critical role in reducing the environmental impact of hard-to-recycle plastic waste.

We are also actively contributing to the changes needed in waste management and recycling infrastructure by creating demand. In April, we announced a partnership with ExxonMobil, providing us access to their advanced recycled materials which can be used in healthcare and food packaging applications. We have similar agreements in place with multiple suppliers, and as we increase our use of recycled materials the carbon footprint of our products is also reduced. That reduction, combined with ongoing efforts to make our own operations less energy-intensive sets us up to achieve our Net Zero ambitions which we announced earlier this year.

To summarize on Slide 16, Amcor delivered another strong result with the March quarter representing the strongest period of sales and earnings growth for the year. We continue to manage well through inflation and improvements in our sales mix while delivering for our customers. With strong year-to-date performance and good momentum, we have raised our guidance for Fiscal 2022 EPS growth. Looking over the longer term, we have built a strong foundation for value creation and we are stepping up our investments to drive growth, margin expansion, and long-term value for shareholders.

That concludes our opening remarks. Operator, we'll now open the line for questions.

Operator

Our first question will come from Anthony Pettinari with Citi. Please go ahead.

Bryan Burgmeier

Hi. This is actually Bryan Burgmeier sitting in for Anthony. You raised the EPS guidance, but free cash flow guidance moves towards the lower end of your range. Is that delta driven by working capital impacts from resin costs? Is there anything else that we should be mindful of in regards to your updated free cash flow guidance such as Capex or payables or receivables?

Michael Casamento

I'll take that one. It's Michael here. The bottom line is it's all working capital related, and the reason we are at the lower end of the range there, and still holding to the range, is really around the continued escalation in raw materials that we didn't see at the beginning of the year. Through the year, we have seen that continue. We are holding our working capital to sales ratio, so that's been really pleasing through the year We are managing working capital in a great way to sub 8%, but just from a pure sales revenue increase on an annualized basis, it's going to be in that $1.5 billion range. That just means you've got $120 million impact on working capital outflow from that raw material increase.

Other than that, nothing else of note. Everything else is in line as we expected.

Operator

Our next question will come from Keith Chau of MST. Please go ahead.

Keith Chau

Hi Ron and Michael. Just a question with respect to guidance on the Russian-Ukraine issue. Ron, you mentioned the range of outcomes for what could happen in Russia. Can you give us a bit more detail in that respect? Also, if you could address what some of your peers or at least customers are saying that they would forgo profitability in the region given what's happened. Is that part of the range of outcomes that you're exploring at the moment for Russia? Thank you.

Ron Delia

Yes, just to dimension the Ukrainian position and Russian business, as Michael alluded to, we have got four sites in that region, one in Ukraine and three in Russia. We've got about 1000 people working in those four sites. The Russian and Ukrainian businesses combined generate about 2% to 3% of sales, 4% to 5% of EBIT and, as Michael pointed out, $200 million to $300 million on the balance sheet.

The Ukrainian site has been closed. Obviously, our first priority has been keeping our people safe, as it always would be, you'd expect, and so we closed the site in the Ukraine just before the invasion started and we were able to get our people safely out of that area.

The Russian plants are continuing to operate. We are well aware there's a number of public announcements that customers have made, and I would remind you that our business in Russia is focused exclusively on a very small number of multinational customers, all of whom despite whatever the public announcements have been, continue to operate there. We continue to support them while we explore our own options. Our options range from continuing to run the business to every other possible extreme that you can imagine.

Our tendency and our history has never been to be overly prescriptive about strategic moves like that, so I think we would ask you to wait and see and view our actions more so than anything that we might say in advance.

As far as the guidance impact, clearly, the Ukrainian site is not running; the Russian plants are running at different degrees of utilization and that's all factored into the EPS range that Michael outlined.

Operator

Our next question will come from George Staphos with Bank of America. Please go ahead.

George Staphos

Thanks very much. Hi everyone. Good day. Thanks for the details and congratulations on the quarter. Ron, I was hoping you could talk a little bit about the flexibles business and go through a bit more of the drivers in the quarter.

Overall, I think you said volumes were relatively flat even though it looks like European Flexibles accelerated in the quarter, while North America stayed in a low single-digit range. If I'm correct, what drove the European acceleration? It looks like Asia decelerated to maybe a flat or down, LatAm remained down to even, but the mix was good. Can you say whether that was in fact the case and talk about the drivers in some of the end markets in those regions and countries as well? Thanks very much.

Ron Delia

Yes. I think the business is performing really well. We had 5% organic sales growth across the business on relatively flat volumes and then converted that to 10% EBIT growth across the segment. So, we are really pleased with the profit conversion.

North American business continues to grow. The organic sales growth is mid-single-digits with some volume growth in the low single-digit range. The European business in the quarter had a slightly higher organic sales numbers—still in the mid-single-digits though—on volumes that were modestly down, which I'll come back to. Then the organic sales growth in the two emerging markets businesses was up.

Now, with regard to North America and Europe, we're particularly pleased with the performance of both of those businesses, the two larger businesses in the quarter, and in particular because of their management of mix. Mix, as you know, for a long period of time has been a key driver of profit expansion over many, many years, and it's a function of orienting our portfolio more and more towards higher-value segments and higher-value products, and that's exactly what we have seen in the quarter.

In Europe we saw a trade out of lower-margin products that are more intermediate in nature into other converters, and we used constrained raw materials to support some of our higher-margin segments in pharmaceuticals, medical device packaging, pet food, coffee, and some of the segments that have been focal points for us for many years. That's really the story of the quarter; it was really very much about mix.

Operator

Our next question will come from John Purtell with Macquarie. Please go ahead.

John Purtell

Good day, Ron and Michael. How are you?

Ron Delia

Hi, John.

Michael Casamento

Hi, John.

John Purtell

Just in terms of raw materials and any impacts on demand, you continue to do a good job of recovering higher raw material costs, and I think that's true of the sector as well. A lot of this has been passed on to the customer and now we've got another up-leg in commodities. I'd just be interested in any demand destruction that you're seeing in end markets, and are you concerned about that type of event?

Ron Delia

We are concerned about inflation generally like everyone else. In our space, given that we are exposed to consumer staples and healthcare products, historically we have not seen a high degree of demand elasticity. I think so far, if you take the comments from other public companies through this quarter, there hasn't been very much demand impact from the prices that have been taken across the segments we are exposed to. I think most customers that have reported and have commented on the topic have said that they have seen less demand elasticity than they expected and also less than they have seen historically, and so far we have not seen a demand impact.

Operator

Our next question will come from Adam Samuelson with Goldman Sachs.

Adam Samuelson

Yes. Thank you. Good evening, everyone. I'm maybe hoping to dig a bit more on the mix benefits in the period. Ron, you alluded to prioritizing certain customers in the healthcare segment in particular. How do you think about the durability of those benefits? If raw material availability improves over the next year, do you think there's still net margin benefits from the volume you'd be recapturing, or how do we think about the margin tailwinds or headwinds that might present into Fiscal 2023, because you seemingly had a pretty notable shift in your product mix in the period.

Ron Delia

Adam, it's a good question. If you go back and look over a long period of time at Amcor, the margin expansion period-on-period has been very consistent, and I'm talking about a five- or 10-year view. You'd see consistent margin expansion regardless of the raw material cycle, anywhere from 10 to 30 basis points in a given period when we are in a more steady-state environment absent any major M&A. A big part of that margin expansion story has been the strategy we have had in place for a long time, to constantly optimize the mix, both the product mix, the segment mix and the customer mix. That's been the focal point for our commercial teams for a long period of time and that's going to continue going forward.

As far as where to from here, we don't expect that mix improvement impact to slow. What we do hope is that raw materials become more plentiful and more available, and we can satisfy all of the demand that we have. We are still in an environment where certain materials are constrained and we have still probably forgone volume growth in the low single-digits for lack of raw materials. So, if we look forward, we would hope that that normalizes and the mix improvements will continue as they have for a number of years now.

Operator

Our next question will come from Larry Gandler with Credit Suisse. Please go ahead.

Larry Gandler

Hi. Thanks, guys. My question is on the Capex guidance, Ron. I think you said 3% to 4%—was it 4% to 5% for the foreseeable future. I can understand at the current point you're building quite a few factories there that it's 4% to 5% now. But I'm just wondering, are you thinking that philosophically, the business needs to invest more organically and maybe you can roll into that perhaps the acquisition pipeline for quite some time might be something you're thinking won't be too active.

Ron Delia

We have pointed to the historical range of 3% to 4% of sales and what we have said is to expect that that will be more in the 4% to 5% of sales range going forward, and it's a function of a couple of things. Firstly, the opportunity set is rich. As the portfolio has evolved and a lot of it is through what we picked up in the Bemis acquisition in Flexibles, and as the Rigids portfolio has evolved into the more specialty space, we just have more organic opportunities than we've probably ever had. That's the starting point. When I say good organic opportunities, I mean those where we could deploy capital and generate an attractive return for shareholders. That's the starting point.

Secondly, the business is generating more and more cash flow. It's increasing its cash generation capacity, especially as we come through the integration era, if you will. As we look at alternative uses of that capital, we have, we believe, an ability to balance funding the organic growth that we see, continuing to pursue acquisitions, buying back shares in the absence of acquisitions, and then obviously maintaining a pretty healthy attractive dividend. We just feel like the cash generation is sufficient now to support all of those potential drivers of shareholder returns and the organic growth opportunity set has just never been more robust.

Operator

Our next question will come from Mike Roxland with Truist Securities. Please go ahead.

Mike Roxland

Thanks very much. Hi, Ron, Mike, Tracey. Congrats on the quarter. Just one quick question regarding volume growth. Given the material constraints, which obviously negatively impact the volume, can you comment on any potential reengineering or reformulation of your products to get the necessary finished products or revised these products qualifying to customers? Anything that you pursued or reformulated during the quarter, or have been doing through year-to-date to adjust or to account for this material constraint?

Ron Delia

It's a great question, a great observation, you can rest assured we are doing everything we can to find viable alternatives when materials are constrained. I think that we have an advantage in that we are a large-scale buyer and we are buying materials in multiple regions. The first thing we do when we run into any kind of constraint is we look to source the material from another region. We have been able to tap into our global network and our global footprint to, navigate the situation quite well. But there are times when there is just no material available globally and that's why in parallel we are looking at reformulations wherever possible. Those typically do not happen quickly. I think there's nothing I could point to in the quarter that's material enough, but there is plenty of activity in terms of qualifying alternative materials and looking to reformulate away from materials that have been more prone to outages.

Operator

Our next question will come from Nathan Reilly with UBS. Please go ahead.

Nathan Reilly

Thanks for taking my questions. I'm just interested Ron, how much headroom have you got in terms of your plant capacity utilization at the moment. Obviously, I appreciate you've been somewhat volume-constrained as well recently. But I'm also just curious to understand what type of volume uplift you'd be expecting to see from the increased investment in Capex that you're flagging going forward?

Ron Delia

It's a broad network and the capacity utilization will vary across the business quite dramatically. In the extreme you have our Rigid Packaging business in the beverage space, which has been sold out for a long period of time now, for several quarters, and we are adding capacity there which is just to satisfy the continued elevated demand we see in PET and beverages

In the Flexibles segment, we see very high utilization for the assets that are directed to the more sustainable products that we make, some of the global product platforms that I alluded to in the prepared remarks. But we will be adding capacity and that capacity will help support the volume growth expectations that we have going forward which have traditionally been in the low single-digit range.

Operator

Our next question will come from Ghansham Panjabi with Baird. Please go ahead.

Ghansham Panjabi

Thank you. Good day, everybody. Just as a follow-up to some of the earlier questions maybe you can give us a sense as to which specific raw materials you're still short on and how do you see that evolving over the next couple of quarters? And then just bigger picture, I mean the current environment is obviously extraordinary for the entire supply chain and no one really knows how the consumer is ultimately going to react to all these inflationary inputs and so on. Just curious, Ron, in terms of how you service your customers and how you go to market, is there anything that you notice that's different in terms of what your customers are tasking you with now versus in years past, just given the nature of the current environment? Thank you.

Ron Delia

On the materials that are short, it's been a bit of a whack-a-mole game, to be honest with you. In terms of where we are short, which material in which region in which month or which week, I guess, you could say more often than not it's been some of the specialty materials in Flexibles and Rigids which are additive to the primary material. To a large extent for quite some time now, it's not been the base polymers that we buy, the big commodities like polyethylene or polypropylene. We did have some shortages in PET for a while but those have abated. It's been more the specialty materials that are added to provide barrier or some other property that's required to deliver the full functionality of the package which have really been highly volatile. Aluminum to some extent, would be the other main commodity which at times has been in short supply.

I think, this too shall pass, there's no reason why we should expect indefinite outages, but at the moment it's just been continued volatility.

Operator

Our next question will come from Richard Johnson with Jefferies. Please go ahead.

Richard Johnson

Thanks very much. Ron, my question is on Rigid Plastics. One of your major competitors in the U.S. talks about resin being something over 40% of the cost of sales. Is that the same for you? And probably more pertinently, can you talk please about the 60% of non-raw material cost and provide whatever detail you can on the inflationary pressures in that part of your cost basket please?

Ron Delia

Yes. I'll talk about the COGS in Rigid Packaging and maybe Michael can talk about the inflation we have seen generally, because we have talked a lot about raw materials but inflation more generally is obviously front and center.

The resin component of COGS is actually higher in Rigids than it is in Flexibles. I would have said it's probably in the 60% to 70% range. That is, as you know, a straight pass-through that's linked to the commodity index, either PET or one of the olefins. But as far as general inflation goes, Mike, why don't you comment on what we're seeing?

Michael Casamento

General inflation across the globe, where we are seeing increases is predominantly in energy and freight. It varies by region, but we are seeing inflation there in the range of 15% to 20%, but the point to remember is that those elements of our COGS are quite small low single-digits. We are out in front of that; some of that we can pass through to customers, other parts of that we have got to take price. We are out in front across the globe working our way through that, to recover those increases that we are seeing in general inflation on those two items.

In terms of labor, it has been more supply than labor wage rates for us. We have had disruption in labor, particularly in North America and Europe around COVID and the like, which we have had to deal with, and we have seen some elevated costs over time and other labor costs associated with that. But it's been manageable and we haven't seen the rate increases, although we are expecting some of those to start to come through.

Operator

Our next question will come from Kyle White with Deutsche Bank. Please go ahead.

Kyle White

Thanks for taking the question. I know your exposure to China is relatively limited, but just curious what impact you've seen from the lockdown situation there on your production and demand in that region, and what did you assume in your outlook going forward from that situation?

Ron Delia

China is a big important business for us, about 5% of sales. As a business it's our largest emerging markets business. We operate the Flexible Packaging segment there, Rigid Packaging doesn't participate in China. It's a business that has been growing at a pretty healthy rate for the last several years. First half as well, we had mid-single-digit top and bottom-line growth. It is also a very profitable business. We have a national footprint there with 10 or 11 factories across the country. But importantly, it is essentially a China-for-China business, so we do very little importing or exporting in and out of China.

The third quarter was a little bit slower, I think primarily because we are cycling an incredibly strong third quarter last year, which probably had to do with the timing of Chinese New Year as much as anything else, but our business was flat to modestly down in the third quarter.

April definitely slowed and April I would say is where we started to see some impacts of the lockdowns. Not so much on our operations, but in some of our customers' plants where they weren't able to operate for periods of time, we definitely saw a slowdown in April. Honestly, it's very difficult to tell what May or June portends.

So, our guidance range from an EPS perspective includes a range of outcomes on China, although bear in mind, we are down to two months and we know the outcome for April. So, we feel pretty comfortable with the range and the consideration we have given to the dynamics in China.

Operator

Our next question will come from James Wilson with Jarden Australia. Please go ahead.

James Wilson

Hi, guys. Thanks for taking my question. It's James Wilson standing for Jakob Cakarnis from Jarden. If we back out the $120 million of raw material impacts from your $200 million working capital field over the quarter, beyond seasonality what's giving you confidence that this will unwind in the fourth quarter, especially given that your guidance remains unchanged? Also, just on that, are you able to tell us what this inventory build is occurring more in, Rigids or Flexibles? Thanks, guys.

Michael Casamento

Hi, James. Thanks for the question. I'll take that one. What we have seen year-to-date in working capital is about a $200 million outflow versus prior year and about half of that is price. The other half is building raw material and finished goods. This year particularly, we have been able to build some inventory in the Rigid Packaging space, which we were not able to do last year and that's ahead of the heavy season in Q4, which is typically what we would normally see. We would normally see inventories build leading into Q4, so that's part of it. In addition to that, in the Flexibles space and across the board, we have also conservatively increased inventory, particularly in some of the products we have had shortage of supply on. We would expect that, that component of the inventory increase is going to unwind in Q4 as we cycle through our busiest quarter of the year. That's how we factored that into the full year guidance.

Operator

Next we have a follow-up from George Staphos with Bank of America. Please go ahead.

George Staphos

Hi, guys. Thank you. Thank you very much. Thanks for taking the follow-on, guys. You had talked about increasing your growth investments and you cited regionally where you're putting various products. Ron and Michael, given some of the volatility that we've seen over the last couple of years would that perhaps change where you'll put the next growth investment and high-value investments, or it doesn't really affect where you might put either a coffee line or a high-barrier line or a personal care line? Are you at all raising the required rates of return, given the volatility that we've seen in some of these markets, again either for geopolitical or from macro reasons? Thanks guys and good luck in the quarter.

Ron Delia

Thanks George. It's a really good question. You throw in intellectual property protection into the mix—and we have always had different criteria, or differentiated criteria I should say for where we put capital and differentiated return expectations for any capital project.

The good thing about our business is that the incremental capacity is small as a percentage of the total capital that we'll deploy in a given year. If you can imagine that our capital spend will be $500 million, $550 million, something like that, even a new plant to produce one of the platforms that I've talked about might be in the $20 million, $30 million range. So none of the projects that, I was alluding to earlier—with the exception of the new plant we built in China, which is a little bit more—none of them are a really substantial portion of our overall capital spend in any one year. What that does is creates a portfolio effect across the different investments that we make, which in and of itself is a risk mitigation methodology, if you could think about it that way.

Operator
Our next question will come from Larry Gandler with Credit Suisse. Please go ahead.

Larry Gandler

Hi, Ron. Thanks guys. I'll ask my obligatory ESG question. Ron, the European Union is, I think reviewing the Waste and Packaging Directive, looking to table a new bill into the European Parliament, and I think it's going to involve end producer or end user recycling schemes like container deposit, similar to that, but for flexibles. I'm just wondering if you guys are reviewing that situation and what would those sort of schemes mean for a converter?

Ron Delia

There's a lot of legislation in play in Europe and in the United States and elsewhere in the world. We are across all of it, as you could expect. We provide comments. We are often consulted for perspectives, which we provide, both directly and through the various associations and affiliations that we have.

Generally speaking, we see these regulations as innovation opportunities and ways to further differentiate and add and create value to our customers. In many cases where there is an extended producer responsibility, regime or a plastics tax or something of that nature, there's an eco modulation component, which means the fee that the brand owner—ultimately the consumer—will pay can be reduced if the package or the product overall has a lower environmental footprint. That creates an opportunity for us to add more value to our customers as they deal with these regulations.

Generally speaking, if it is a well-constructed EPR where the industry has some control over the framework and where the funding goes back to the waste management infrastructure, we are supportive. We are certainly not supportive of general revenue raising taxes and things like that, but where well structured frameworks are in place, we are certainly supportive.

Operator

Our next question will come from Andrew Scott with Morgan Stanley. Please go ahead.

Andrew Scott

Thank you. Hi, Ron. Just a question on the flexibles business. You've spoken about targeting or focusing your capacity towards your higher-value customers, which obviously, makes perfect sense. Just interested as we go forward and capacity comes back, do you see all of those customers coming back into the mix, or do you, for want of a better word, see yourselves doing some bottom-slicing, which is something you've done historically very well.

Ron Delia

I think to the extent that we will have better differentiated products then we will be able to capture any portion of the market that we have not been able to satisfy more recently. There is an element of bottom-slicing in the mix outcomes that you have seen, even in the most recent result, albeit out of necessity for lack of raw materials. But I think we are in the business to sell and sell more units rather than less, and at the moment the limiting factor has been raw materials. That will ease. That will ease over time.

Operator

That will conclude today's question-and-answer session. I would now like to turn the call back over to Ron Delia for closing remarks.

Ron Delia

Thank you, Operator. Thanks everyone for joining today and for your interest in Amcor. We have had a strong quarter. We have had a strong first nine months of the fiscal year and have increased our expectations for the run home to the finish. Again, thanks for your interest, and we will speak to you all next quarter.