Amcor plc

First Quarter Fiscal 2023 Results

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MANAGEMENT DISCUSSION SECTION

Tracey Whitehead

Global Head-Investor Relations, Amcor Plc

Thank you, operator, and thank you everyone, for joining Amcor's fiscal 2023 first quarter earnings call. Joining the call today is Ron Delia, Chief Executive Officer; and Michael Casamento, Chief Financial Officer.

Before I hand over, 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 we will discuss on this call. Please be aware that we will also discuss non-GAAP financial measures, and related reconciliations can be found in that 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 be different than current estimates. And reference can be made to Amcor's SEC filings, including our statements on Form 10-K and 10-Q for further details.

Please note that during the question-and-answer session, we request that you limit yourself to a single question and one follow-up and then rejoin the queue if you have any additional questions.

With that, over to you, Ron.

Ron Delia

Chief Executive Officer, Amcor Plc

Okay. Thanks, Tracey. Thanks, everyone, for joining Michael and myself today to discuss Amcor's first quarter financial results for fiscal 2023. We'll begin with some prepared remarks before opening for Q&A.

And I'll start with slide 3, which covers our first and most important value, which is safety. The first quarter showed continued progress on our long-term objective of eliminating injuries across our global operations. Our teams are doing a good job proactively identifying and addressing potential risks, and the results are evident with a further 31% reduction in the number of reported injuries globally compared to last year.

This good work has also led to a solid increase in the number of our sites that have been injury-free for the past 12 months or more, which stood at 63% at the end of the quarter. Our top priority will always be the well-being of our 44,000 global employees and achieving our goal of zero injuries.

Turning to our key messages for today on slide 4. First message to leave you with is the business has delivered another strong quarterly result, highlighting the relative stability of our end markets, our relentless focus on recovering higher raw material costs and staying ahead of inflation, and our proactive approach to driving costs out of the business in a volatile and challenging operating environment. The result was another quarter of strong operating leverage, with 10% growth in adjusted earnings per share on a comparable constant currency basis.

Second, we're confident in our ability to sustain solid organic earnings growth from the underlying business in fiscal 2023. We've reaffirmed our guidance ranges for comparable constant currency EPS growth and free cash flow while updating our reported EPS guidance to reflect further strengthening of the US dollar. We assume the macroeconomic environment will remain challenging. However, our continued focus on sustainability, innovation, and higher-growth, higher value-add segments combined with our proactive approach to managing costs, supports our confidence in delivering against our expectations for the year.

Third, our attention to sustainability is unwavering. We understand our role in supporting the circular economy, and we continue to improve the sustainability profile of our products. Finally, we want to leave you with a good understanding of why we're confident that Amcor's strong, resilient business will drive long-term shareholder value creation.

Moving to some of the first quarter financial highlights on slide 5. We've had a strong start to the year. On a constant currency basis, net sales growth was 15%, which includes approximately $400 million of price increases related to higher raw material costs. Excluding this pass-through impact, organic sales grew 3%. Both the Flexibles and Rigid segments generated price mix benefits, and have done an excellent job recovering general inflation of approximately $75 million as a result of non-material costs increasing at double-digit rates.

Overall volumes were marginally lower, reflecting somewhat softer and variable customer demand through the quarter. As I mentioned earlier, operating leverage was strong with solid top line growth and proactive delivery of cost efficiencies in both businesses, driving EBIT up 9% and adjusted earnings per share up 10%.

We continue to expect to deliver strong cash returns to shareholders this fiscal year through approximately $400 million of share repurchases and a growing dividend, which increased to $12.25 per share this quarter. Our financial profile remains strong with return on average funds employed at 16.5%.

We're pleased with our first quarter financial performance, I'll now turn it over to Michael to cover more of the specifics, including our fiscal 2023 outlook.

Michael Casamento

Chief Financial Officer, Amcor Plc

Thanks, Ron, and hello, everyone.

Turning to our Flexibles segment performance on slide 6. Our Flexibles business had another excellent quarter, with all business units delivering solid organic sales growth while executing well on inflation recovery, cost initiatives and mix management. Net sales were up 6% on a reported basis, which includes recoveries of higher raw material costs of approximately $270 million, representing 10% of quarterly sales growth. The teams have continued to successfully manage the pass-through of higher raw material costs, and as expected, the related price cost impact on earnings for the quarter was relatively neutral.

Excluding the raw material impact, organic revenue growth of 3% was driven by favorable price/mix benefits of approximately 4%, partly offset by lower volumes. Some business units experienced lower demand in certain categories during the quarter. However, our broad market coverage and geographic diversification limited the overall volume impact. Sales across our combined priority segments grew high single digits for the quarter, with healthcare a particular standout delivering strong sales and volume growth across every region.

In our Asian business, overall volumes were higher than the prior year despite lower volumes in China, which was impacted by ongoing COVID-related lockdowns. Adjusted EBIT was up 11% in comparable constant currency terms for the quarter, reflecting overall sales growth, price/mix benefits and outstanding cost performance, including quick actions taken to flex the cost base in regions where the operating environment has been more challenged. Adjusted EBIT margin of 12.7% was comparable to last year, notwithstanding the 130 basis point dilution related to increased sales dollars associated with passing through higher raw material costs.

Turning to Rigid Packaging on slide 7. The key takeaway for Rigids is the business delivered another quarter of solid sales and earnings growth. Reported sales were up 19%, which included the pass-through of higher raw material costs of approximately $130 million or 17% of sales. Excluding this pass-through, organic sales growth of 3% was driven by price/mix benefits of 2% and volume growth of 1%.

In North America, we had positive product mix in the beverage business, with hot fill volumes up 6%, reflecting growth across a range of categories including sports drinks, juices and ready-to-drink teas. From an overall standpoint, beverage volumes were lower than last year, reflecting a decrease in lower value cold fill and preform volumes. In the specialty container business, volumes increased mid-single digits, led by strength in healthcare, dairy and nutrition markets. In Latin America, volumes were up high-single digits with strong performance in key countries such as Argentina, Brazil and Mexico.

Adjusted EBIT increased 7% on a comparable constant currency basis, driven by higher overall volumes, strong inflation recovery, and continued solid operating and cost performance. EBIT margins were 7% and over the past several quarters have been negatively impacted by approximately 250 basis points due to a sharp increase in resin pricing being passed through the sales line and significantly increasing sales dollars as a result.

In terms of the balance sheet on slide 8, we continue to maintain a strong investment grade credit rating which provides us with flexibility to invest for growth and access to lower cost debt markets across key currencies. Leverage at the end of the quarter was three times and right in line with our expectations for this time of year given the seasonality of cash flow. As we highlighted in August, free cash flow was lower than the same quarter last year as we expected. Our cash flow is typically weighted to the second half of the year; and in fiscal 2023, the seasonality will be more pronounced given higher raw material costs and the decision to increase inventory levels through last year to offset some of the volatility created by supply constraints.

We have reaffirmed our full year cash flow guidance, which I'll come back to shortly. Notwithstanding the temporary increase in inventory levels, we remain highly focused on working capital performance, which is particularly critical in this inflationary environment, and we've maintained our 12-month average working capital sales ratio at 8%.

In August, we announced an incremental investment in e-Pac and the purchase of a Flexibles plant in the Czech Republic and funded both of those investments in the September quarter for a total of around $100 million. While we did not repurchase any shares during Q1, we continue to expect to allocate approximately $400 million toward share repurchases in fiscal 2023.

Turning now to Amcor's outlook for fiscal 2023 on slide 9, while we expect market conditions to remain challenging through 2023, we have had a strong start to the year and taking into account the relative stability of our end market exposures and our strong track record of consistent execution, we remain confident in our ability to deliver against the outlook we provided in August.

We have reaffirmed our expectations for organic growth of 5% to 10% from the underlying business and a benefit of approximately 2% from share repurchases while continuing to expect an impact from the following three non-operating items. Firstly, a negative impact of approximately 4% from higher interest expense after tax. Forward curve expectations have continued to move higher and interest expense is now expected to be in the range of

$240 million to $260 million. Net of our expectations for a slightly lower effective tax rate, we continue to expect a 4% headwind to EPS, as we noted in August.

Second, an estimated 2% negative impact from the scale down and sale of our three plants in Russia, which we continue to expect in the second half of the fiscal year. Third, a negative currency translation impact of 5%, which is higher than the 2% we anticipated back in August due to the continued strengthening of the US dollar. As a result of this US dollar strengthening, we are updating our expectations for adjusted EPS on a reported basis to be $0.77 to $0.81 per share.

In terms of cash flow, we continue to expect a seasonally stronger second half and we have reaffirmed our adjusted free cash flow expectations for a range of approximately $1 billion to $1.1 billion. However, the stronger US dollar pushes our current expectation toward the lower end of the range.

So, in summary, for me today, the business has delivered another strong quarter of organic sales and earnings growth as we remain focused on executing for our customers, managing margins, and taking decisive actions to rapidly recover inflation while flexing our cost base. Our ability to successfully balance these priorities supports our confidence in delivering another year of solid underlying growth despite persistent market challenges.

And with that, I'll hand back to Ron.

Ron Delia

Chief Executive Officer, Amcor Plc

Okay. Thanks, Michael. Before we open the call to questions, I'd like to cover some of the drivers that inform how we think about our growth over the longer term and that are relevant for our fiscal 2023 outlook as well.

For several periods, we've highlighted multiple commercially oriented drivers that have enabled us to deliver solid and sustainable organic earnings growth over the last three years. These drivers include opportunities in priority segments, emerging markets, and innovation, and they've not changed. When combined with our ability to deliver continual cost improvements by leveraging our scale advantages and capabilities, these drivers give us the confidence we'll continue to consistently deliver solid organic earnings growth from the underlying business even in the face of continued challenging and evolving macroeconomic conditions.

Our focus on priority segments, including protein, healthcare, premium coffee, pet food, and hot-fill beverages, will continue to be a driver of growth and mix benefits. With more than $4 billion in collective annual sales, we have leading positions in each of these large addressable markets that have been growing at higher than market rates for us historically. Over time, we expect they'll continue to grow at mid-single-digit rates with higher than average margins. As Michael mentioned, healthcare was a particular standout in the first quarter, with strong growth across all regions.

Emerging markets also continue to be a focus for Amcor. We have a large-scale, diversified emerging markets portfolio, which generates annual sales of more than $3 billion, and this is another source of organic growth. Over the long-term, we expect these markets collectively will continue to grow at mid-single-digit rates. In the last quarter, several emerging market countries delivered double-digit earnings growth, including India, Brazil, and Mexico.

Innovation provides a third opportunity for us to drive growth and value, particularly as customers and consumers focus on the critical need for more sustainable, high-performance packaging solutions. Amcor has industry-leading R&D and material science capabilities and expertise. When coupled with our unmatched scale and geographic reach, these capabilities provide unique ongoing opportunities to develop differentiated products to meet the needs of our customers.

For example, we're winning new business by taking fresh protein packaging solutions initially developed by the legacy Bemis business into the Asia Pacific market, including modified atmosphere packaging solutions in China and the Eco-Tite high barrier recyclable films in Australia.

A cross-functional Amcor team also came together to partner with Pfizer to develop packaging for their first commercial batches of PAXLOVID in the US market. Leveraging technology developed by our teams in Europe and our global footprint, we were able to start production lidding and base material at the same time in five Amcor sites across five countries in order to fully meet Pfizer's requirements in one-third of the standard lead time.

Looking ahead, the strategic choices we've made to focus on these organic growth drivers will guide how we prioritize investments back into the business. We see a wide range of attractive growth opportunities across each of these areas, and we're actively investing to sustain the organic growth momentum we've built over several years.

Before closing, a few words on sustainability. Sustainability is fundamental to everything we do and is deeply embedded in Amcor's strategy and risk management framework and the basics start within our own operations. Our 2022 sustainability report will be released in a few weeks and will highlight some of the important progress we have made through the year. This includes reaching a cumulative reduction in greenhouse gas emissions intensity of 35% since the launch of Amcor's EnviroAction Program in 2008. Our critical journey will continue through our commitment to achieve net zero emissions by 2050.

In addition to carbon-related objectives, we maintain robust targets for reducing water and waste and achieved significant milestones during the year. A few weeks ago, we also released our first TCFD report highlighting the important work we're doing to help ensure we make the right decisions on climate and packaging sustainability.

Turning to slide 12, we continue to make progress supporting the development of circular systems through the three pillars of our responsible packaging strategy: innovation, infrastructure, and consumer participation. Today, nearly 100% of our Rigid and specialty carton packaging portfolios are fully recyclable. In our flexible packaging segment, 83% of our product portfolio is designed to be recycled or has a recycle-ready option available for trial.

In fiscal 2022, we used more than 130,000 metric tonnes of PCR, up 30% from the prior year and representing 6% of our total resin usage. we are now building and increasing on our objectives with a new commitment that 30% of our total resin use will be recycled material by 2030. In one example to bring this focus on recycled content to life, we've worked closely with Mondelēz on the recent launch of packaging for several Cadbury Dairy Milk products, incorporating 30% food grade recycled content in both the UK and Australia. This is an important example of how a combination of strong relationships, differentiated capabilities and a global footprint can translate into volume growth and mix benefits for Amcor.

We have also continued to collaborate with others to support the development of recycling infrastructure. On October 12, Amcor was the only packaging company to join 11 brand owners in the Consumer Goods Forum to publicly signal a commitment towards further increasing the use of recycled materials in packaging. Together, we expressed our common interest in purchasing commercial volumes of chemically recycled plastic and our support for the development of credible, safe, and environmentally-sound chemical recycling infrastructure. Our sustainability journey is ongoing, and our long-term strategy is helping to create a responsible packaging industry for the benefit of Amcor and its customers, but crucially for the environment as well.

Turning to slide 13, we've built a strong foundation to deliver growth and value creation, and we have consistently executed well against our strategy. We don't expect to be immune to economic challenges and uncertainties, but we believe we are relatively well-positioned with a defensive consumer staples and healthcare-focused portfolio and multiple drivers of growth and cost productivity. Our consistently strong cash flow provides the ability to reinvest in the business to pursue acquisitions or repurchase shares, and to grow the dividend and positions us well to generate strong and consistent value for shareholders over the long-term.

In summary, on slide 14, despite a continued challenging economic backdrop, we've had a strong start to the financial year. Our consistent execution has enabled us to deliver solid sales growth and excellent operating leverage, resulting in double-digit organic EPS growth. We are confident in our ability to deliver against our outlook for EPS growth and free cash flow which we have reaffirmed today, and we are executing well to deliver long-term value for shareholders, including by making further progress against our sustainability agenda.

And operator, we're ready to open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Ghansham Panjabi from Baird. Your line is open.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Thank you, operator. Good day, everybody.

Ron Delia
Chief Executive Officer, Amcor Plc

A

Hey, Ghansham.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

...Ron, many consumers, staple customers of yours are aggressively raising prices and as a consequence, are reporting weaker volumes along with destocking, which I assume is part of the reason your volumes were sluggish in both segments for the developed markets. How do you see that dynamic evolving as we cycle more fully through into your fiscal year 2023? What are customers sharing with you in terms of their own outlook at this point for next year?

Ron Delia
Chief Executive Officer, Amcor Plc

A

It's a tough environment out there, as you alluded to. We had flat volumes basically across the business and relative to many who have reported, that actually feels like outperformance, believe it or not.

Things definitely slowed down through the quarter. Certainly, through the month of September, things got a bit softer in Europe, in North America in particular. I think it's a function of the two things you mentioned, one is obviously there is a bit of inventory built up in the supply chain in certain segments and I think we will see that come out relatively quickly given that this is fast-moving consumer goods that we are talking about. So, we don't expect that any inventory impacts on volumes will be long-lasting, but I do believe there is some extra inventory in the supply chain.

Then secondly, the cumulative effect of inflation on the consumer, which eventually will lead to some elasticity. I think you're hearing that from brand owners. We are hearing directly from them, and I think they are probably commenting on elasticities maybe being less than expected, but still there is elasticity in many of the categories that we are supplying into.

We have a pretty modest expectation for volumes from here for the rest of the fiscal year. Michael will talk more about that, I'm sure, but our guidance includes a range of outcomes, part of that range is where we end up on volumes.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Terrific, and then in previous quarters, you've called out limitations on certain resins that relates to availability and all sorts of disruptions and force majeures. Can you just give us an update on that dynamic? And some of the volume you've given up in the past as you internalize production and focus on higher mix, is there an opportunity now to go and recapture that share for the rest of your fiscal year?

Ron Delia
Chief Executive Officer, Amcor Plc

A

I think as far as availability goes; the raw material availability picture has improved. I wouldn't say we are completely supplied, but certainly the constraints that we faced through much of fiscal 2022, many of those have abated. We are down to a much shorter list of constrained raw materials. It probably held back sales more modestly on the first quarter than it impacted us in fiscal 2022, but certainly, the situation is improving.

As far as recovery of lost sales, I think in these segments, it's very difficult to expect lost sales to be reclaimed from one period to the next. Again, these are the fast-moving consumer goods and if a sale is missed in one period, it's unlikely the consumer goes back and double purchases in a future quarter. So, I think we've got to look forward at this stage.

Operator: Your next question comes from the line of George Staphos from Bank of America. Your line is open.

George L. Staphos
Analyst, BofA Securities, Inc.

Q

Thanks very much, everybody. Good day. Thanks for the details. Ron, I was thinking with this topic that Ghansham teed up. Can you talk about, to the extent possible, what your customers are saying where they're seeing the most negative effect from inflation on demand? And in particular, what are you seeing in the protein markets lately? You talk broadly, as you normally do, in terms of being a priority area. What are you seeing real-time in terms of that market in the first quarter?

Ron Delia
Chief Executive Officer, Amcor Plc

A

From the first part of your question about where the demand is, the most elastic where we are seeing it soften the most, I would answer the question more geographically than at the segment level. Firstly, I would say our healthcare volumes globally have been very, very strong. So that's the other side of the discussion is that healthcare has remained very robust, particularly pharmaceutical packaging, and that's been true everywhere.

I think as it relates to food, beverage packaging, home and personal care to some extent, where we have seen the most softness has been in the developed markets in Western Europe and in North America. Presumably, that's where inflation is biting the most. We have got at the moment more modest inflation in some of the emerging market countries we participate in. So really, where we have seen the most softness and the increasing softness has been in North America and Western Europe. I would also add China to that list, but we believe that the China softness is primarily a result of the COVID-related lockdowns. We believe that based on the patterns across the global footprint or the national footprint we have in China.

So I'd answer the question from a geographical perspective more than a segment perspective. Then as it relates to protein, protein is a high priority segment for us, without question. It's an attractive segment for a lot of reasons, a lot of innovation in that space, in particular around the films and materials. We had a flattish quarter globally across the protein space. So, that's not what you'd expect and it's not what we have experienced over the last several years. We would expect mid-single-digit – mid- to high single-digit growth in that segment and we are more or less flat for the quarter.

George L. Staphos
Analyst, BofA Securities, Inc.

Q

Thanks, Ron. And my follow-on, just as we peer into the beverage business, you saw very good trends in your higher margin areas, which would be counterintuitive with a consumer being pinched by inflation relative to the lower margin areas which were actually weaker. If you could talk to that, that'd be great. Thanks, and good luck in the quarter.

Ron Delia
Chief Executive Officer, Amcor Plc

A

Thanks, George. It's a good observation and it's a good insight. I would agree with your insight there that generally speaking, the hot-fill space is a space where there are more premium beverages being sold. A lot of that goes to the convenience channel. I think what we are seeing there to some extent is a function of our customer mix. It's a function of new product introductions. Some segments held up pretty well through the quarter as whole, ready-to-drink teas, sports drinks, to some extent, some of the hot-fill juices. But I also think it's 90 days, and in a 90-day period, you have distortions that relate to inventories and different customer performance. So, I'm not sure I would read too much into that other than our hot-fill volumes have continued to grow at attractive rates and that's one of the reasons we have prioritized that segment.

Operator: Your next question comes from the line of Jakob Cakarnis from Jarden Australia. Your line is open.

Jakob Cakarnis
Analyst, Jarden Australia Pty Ltd.

Q

Hi, Ron. Hi, Michael. Michael, can I just get you to give us a sense of where that inventory is at, at the moment in both a unit and value perspective? Just noting obviously, it continues to build alongside inflation. Just want to get a sense of how clean that might be given the volume outlook that was just spoken to.

Michael Casamento
Chief Financial Officer, Amcor Plc

A

Yeah as we said, we were expecting or we had been holding high inventory levels or building high inventory levels as a contingency against the supply constraints that we have been experiencing for the last 12 months. We guided back in August that we didn't expect that to come out of the system in Q1, which it didn't, and we saw cash outflow as a result of that.

As we look forward, we expect into Q2, that things are going to stabilize. Then as we head into H2, we should start to see inventories come off out of the system. It's a combination of both volumes and value. I'd say the split, if I look year-over-year, probably 40% relates to volume and 60% is relating to the higher price's year-on-year.

So, as we look forward to the end of June, part of our cash flow guidance includes a pretty neutral position in terms of working capital year-over-year. So, we are expecting working capital to be relatively flat versus the prior year where we had an outflow of $150 million, and that's largely on the back of that reversal in the inventory side in that helping us guide to that $1 billion to $1.1 billion in cash flow.

Jakob Cakarnis
Analyst, Jarden Australia Pty Ltd.

Q

Thank you both.

Operator: Your next question comes from the line of Keith Chau from MST Marquee. Your line is open.

Keith Chau
Analyst, MST Marquee

Q

Good day, gentlemen. Thanks for taking my question. The first one, either for Ron or Michael, could you be a bit more explicit about the raw materials benefit that you may receive given you're coming off a price cost-like neutral scenario in the first quarter? Just wondering if you could help us quantify what the potential benefit could be for the remainder of the year. And given there could be potential benefits, does that imply the volume outlook is probably for more softness? And again, if you could be more explicit as to what the volume direction is and quantum for the full year, what your expectations are, that would be fantastic. Thank you.

Ron Delia
Chief Executive Officer, Amcor Plc

A

I'll touch on volume and then Michael can talk about the raw material side. I think to be very plain spoken about it, we do expect soft volumes the rest of the year. I think that's the cautious, more conservative approach to take. You can tell by the operating leverage we got in the first quarter, we have been really proactive at going after cost. Cost performance in the operations in both segments was really strong in the first quarter and will continue to be strong. That's because we expect a pretty soft volume environment, which is very consistent with what everyone else in our value chain is experiencing as well. But maybe on the raw material side?

Michael Casamento
Chief Financial Officer, Amcor Plc

A

Yeahso, on the raw material side, Keith, as you know, throughout FY 2022, over the last two years really, we pretty much had a manageable headwind on the price cost lag in recovering raw material. As we exited FY 2022, we were getting to a more neutral position and in Q1, we were relatively neutral as we called out.

As we look forward into Q2, we are expecting a modest tailwind on raw materials and, as you know, we buy a basket of raw materials across the globe and so they can move at different times. But based on what we see today, we would expect some tailwind in Q2 and as we look further out into the year, it's a really volatile environment and difficult to say.

But in terms of our guidance, the 5% to 10% underlying performance, that takes into account a range of factors around the raw material pricing. So, to get to the upper end, that would mean raw materials come off faster and we get a bigger tailwind as we head into the second half. At the lower end of the range, obviously raw materials spike again but we'll see how things turn out as we head into Q3.

Keith Chau
Analyst, MST Marquee

Q

And Michael, can I just quickly follow-on with that? So, you've got inventories, from a volume perspective, quite significantly higher, so 40% of the total uplift. If you are wanting back those inventories going into the balance of the year, what type of operating inefficiencies are we likely to see given you've had a period of efficiency benefit as you've ramped up inventories? Should we expect a margin impact as you wind back those inventories?

Ron Delia
Chief Executive Officer, Amcor Plc

A

Well, a lot of the inventory is raw material inventory.

Michael Casamento
Chief Financial Officer, Amcor Plc

A

Yeah. It's raw material, Keith. So, in that respect, it's going to flow through, get passed through to the customer.

Keith Chau
Analyst, MST Marquee

Q

Understood. Thanks very much.

Operator: Your next question comes from the line of Kyle White from Deutsche Bank. Your line is open.

Kyle White
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks, everyone. Thanks for the question. I wanted to go to the beverage volumes down 3% in North America. I know it may be a little bit difficult to say but do you think that's a function of some of the de-stocking that we've been talking about or is that more longer-lasting volume weakness with customers choosing value over volume and the inflationary pressures impacting consumer demand?

Ron Delia
Chief Executive Officer, Amcor Plc

A

It would be really hard to read anything into the last 90 daysto be honest, Kyle. I think there's been so much volatility and the volumes through the quarter were quite volatile. So there is a bit of destocking in there. I'm sure that when the dust settles, we'll see some shift towards volume over value or towards big packs. I think that's likely if we hit a real soft economic patch. But in the first 90 days, it's a function of inventories in the chain, it's customer mix, it's a number of different factors.

Kyle White
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. And then you touched on it a little bit earlier, but I think the volume challenge in the fast consumer goods space is understood. But can you touch on what you are seeing in the healthcare space more specifically and how that trended through the quarter? Do you anticipate any challenges to volumes here from some of the economic challenges as well as inflationary environment we have?

Ron Delia
Chief Executive Officer, Amcor Plc

A

Healthcare was a real powerhouse for us in the quarter and was very consistent through the quarter. So, we had high single-digit volume growth across the global healthcare business, and that was consistent by month and it was consistent by region, and we would expect that to continue.

You might recall this segment is a mid-single-digit grower for us over a long period of time. We had a little bit of a rough patch during COVID when there were less elective procedures and medical procedures, less prescriptions written, etcetera. I think we are back to roughly where we were pre-COVID, and we would expect that business to continue to grow.

We have put some investments into place, which we have yet to really see the benefits of, but that will also help propel the volumes going forward. We have got a new healthcare plant in Southeast Asia. We have got a extension of a facility in Ireland. There's a number of film assets we have put into that business, and we expect that those will help power the business going forward.

Operator: Your next question comes from the line of Adam Samuelson from Goldman Sachs. Your line is open.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Yes, thanks. Good evening, everyone. I guess I wanted to ask, just to be clear, in the 5% to 10% organic growth EBIT growth for fiscal 2023, what are the assumed volumes in that range? And I guess associated with that, the strong mix and non-resin price that you generated in the Flexibles business in the quarter, just do you see that level of mix potentially persisting through the year especially as raw material availability starts to improve, which I believe had constrained or had been – created a mixed benefit for you because you're prioritizing certain market segments last year? Thank you.

Michael Casamento
Chief Financial Officer, Amcor Plc

A

Yeah. Thanks, Adam, for the question. Look, in terms of our guidance, obviously we've got a range of outcomes in the 5% to 10%. I mean, the base assumption is that volumes are going to be fairly modest. We are not expecting any major volume growth. Clearly, in the first quarter, we were flat and market conditions are pretty tight and tough out there.

Where we are focused is continuing to drive the business to recover inflation and the raw material costs and actively taking cost out of the business, which also supported the result in the quarter, as well as strong mix through continued innovation and mix management driving the focus segments.

So in that 5% to 10%, clearly there is a range of outcomes. If we do better on the volume side in some of the focus segments, then we potentially have better mix and end at the higher end of the range. If you see more recessionary impacts and softer consumer demand that could drive us to the lower end of the range, obviously raw material prices I've touched on earlier can impact as well.

So, inflation is the other big one. We did well in the quarter to recover inflation through price and mix. We are expecting more inflation as we head through the year and expect to recover that, but that's another factor that could drive a range of outcomes in that guidance.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

All right. I'll pass it on. Thank you.

Operator: Your next question comes from the line of Daniel Kang from CLSA. Your line is open.

Daniel Kang
Analyst, CLSA Australia Pty Ltd.

Q

Good morning, all. So just a question on the Russian process, can you talk us through how it's progressing? Noticed that some of your peers have achieved a better outcome than expected.

Ron Delia
Chief Executive Officer, Amcor Plc

A

We are trying to exit in an orderly way. Just for context, we have three factories in Russia. Collectively, they have generated about 2% or 3% of sales over the last several years, about 4% to 5% of EBIT. We announced in August that we're pursuing the sale of those three factories. We said at the time we are going to pursue an orderly exit, meaning that we are going to look to preserve value for shareholders as well. So, we are running, to the extent you could call it, a typical M&A process in that environment, that's what we are doing. There's been a reasonable degree of interest. So, we are still optimistic the process will run its course and complete sometime in the second half of this fiscal year.

Daniel Kang
Analyst, CLSA Australia Pty Ltd.

Q

Great, Ron and the proceeds would just go to debt repayment, I'm presuming?

Ron Delia
Chief Executive Officer, Amcor Plc

A

Yeah, we will deal with that when the time comes. We are repurchasing shares this year. We have spent about $100 million in the first quarter on acquisitions. We will continue to look for further acquisitions. So, we will see where we get to. But as a general rule, we are not of the view that paying down debt is going to be a very value creating use of cash right at the moment, even with interest rates elevated from where they were a year ago.

Operator: Your next question comes from the line of Anthony Pettinari from Citi. Your line is open.

Anthony Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Good afternoon.

Ron Delia
Chief Executive Officer, Amcor Plc

A

Hey, Anthony.

Anthony Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Just following up on Dan's question. Can you talk about ability and willingness to pursue M&A in fiscal 2023 in what's probably going to be a tougher macro environment? You had a peer that announced a large acquisition today. Then, in that context, maybe you can talk a little bit more about ePac.

Ron Delia
Chief Executive Officer, Amcor Plc

A

I'd say the ability and the willingness are both high, but it always takes two to tango in an M&A situation, and we are actively pursuing deals. That's part of our formula and has been for a long time. We think there are good bolt-on opportunities across our portfolio.

What I would say is you can safely assume that anything that's in the market, in the packaging space, or at least in our segments, we are having a look at, and a close look at. So, the appetite is there. The willingness is there. The balance sheet and cash flow are there. We are pretty clear on our strategy in terms of the segments we want to grow in and geographies we want to grow in. So, we like to try to be active.

In some respects, a tough macroeconomic backdrop might not be the worst setting for us. If you go back over a number of years, we have tended to be more active when asset prices were more modest, or at least more in line with long-term trends. We are going to remain disciplined and actually hope that's the case in this cycle.

Just quickly on ePac, it's more of a corporate venturing-type investment. So, we have got a minority stake. We have put some more money into it, but it's still a minority position in a start-up, a relatively new start-up called ePac, which has been around about five or six years. It's a digitally enabled flexible packaging company. They essentially rely on digital printing.

The whole process is digitized, and it's a really exciting opportunity. It's a business that's targeting small and actually micro customers, with quick lead times and a very responsive service model and has been growing really almost by triple digits over the last five or six years. So, we are pretty excited about that business.

Anthony Pettinari Q
Analyst, Citigroup Global Markets, Inc.

Okay. That's very helpful. I'll turn it over.

Ron Delia A
Chief Executive Officer, Amcor Plc

Thank you.

Operator: Your next question comes from the line of Richard Johnson from Jefferies. Your line is open.

Richard Johnson Q
Analyst, Jefferies (Australia) Pty Ltd.

Thanks very much. Just a question on Russia, if I may, please. I noticed you've got a $90-odd million restructuring program related to the sale of the three plants. Just intuitively, that feels like a very high number, and I was just wondering if you could help me understand what's behind it.

Michael Casamento A
Chief Financial Officer, Amcor Plc

That was just the impairments that we took back at June 30 year-end when we noted the asset is held for sale. So, we had to impair the asset to an estimated book valuemarket value, and so that was the adjustment for that one.

Richard Johnson Q
Analyst, Jefferies (Australia) Pty Ltd.

Yeah. But if you break down that $200 million restructuring and impairment, you talk about $62 million and restructuring costs with a further $30 million to go this year? So, it's really that bit I'm trying to understand what that is.

Michael Casamento
Chief Financial Officer, Amcor Plc

A

Part of that was we obviously had to close Ukraine and closed that piece out. Then to relocate part of the business out of Russia, rightsize the footprint in Europe, and also SG&A restructuring to help mitigate the lost earnings from the Russian business. Which we feel we are taking a lot of action on to help recover some of that 4% to 5% in EBIT that we are going to end up losing when we complete the sale.

Richard Johnson
Analyst, Jefferies (Australia) Pty Ltd.

Q

That's helpful. And while you're on the line, just on the interest charge, very helpful guidance you've given, thank you. I'm just trying to get a sense of what that number would be on a constant FX basis?

Michael Casamento
Chief Financial Officer, Amcor Plc

A

It's pretty similar, Richard. It's not a material movement on that front.

Operator: And your next question comes from the line of Mark Wilde from BMO. Your line is open.

Mark Wilde
Analyst, BMO Capital Markets Corp.

Q

Thanks. Michael, along the same lines. What's your breakout, just fixed and floating on the debt?

Michael Casamento
Chief Financial Officer, Amcor Plc

A

The fixed and floating piece at the end of September was 50/50 fixed and floating. Since that time, we have taken some fixed rate swaps, and so today we stand around about 65% fixed versus 35% floating.

Mark Wilde
Analyst, BMO Capital Markets Corp.

Q

Okay. All right. And then, Ron, I'm just curious, what would you say the three biggest challenges are for you at the moment?

Ron Delia
Chief Executive Officer, Amcor Plc

A

I think making sure that the team stay focused on trying to drive growth in the segments that were nominated as areas we want to grow, and at the same time being out there and really aggressively focusing on recovering inflation, I think that's the key. There's one other one I'll come to, but generally speaking, we are trying to do two things at the same time, which you could consider to be contradictory. We are trying to grow the business and generate momentum on the top line, and we feel like we have never had more tools at our disposal to do that, and we are investing more CapEx and more R&D, et cetera, et cetera. But at the same time, we have got to be out front of inflation. So just trying to manage that message internally and managing the balance between those two things is the real challenge.

Then the second thing, is there's just been a lot of exogenous factors out in the operating environment over the last several years, starting with the pandemic and then the supply chain disruptions and then in the parts of the business impacted by the Russia-Ukraine conflict. There's been a lot of different exogenous factors out there. So, just want to make sure people have energy and they are renewed and they are pumped up and fired up to come to work every day. I think that's not an insignificant challenge when there's so many different things being thrown at them, and really have nothing to do with the base business of selling packaging.

Operator: And your next question comes from the line of Larry Gandler from Credit Suisse. Your line is open.

Larry Gandler
Analyst, Credit Suisse (Australia) Ltd.

Q

Hi, guys. Thanks for taking my questions. Just in terms of your cash flow guidance, do you need to take further price increases from here to expand that tailwind of price cost lag?

Michael Casamento
Chief Financial Officer, Amcor Plc

A

We are cycling through a 12-month period. So there will be some further increase in pricing on the raw material side, and we will see how that plays out into the second half. But I would still be expecting some further increase as we roll through the year.

Larry Gandler
Analyst, Credit Suisse (Australia) Ltd.

Q

That's further price increases that you guys take as opposed to cost increases? Just to be clear.

Michael Casamento
Chief Financial Officer, Amcor Plc

A

Yes.

Larry Gandler
Analyst, Credit Suisse (Australia) Ltd.

Q

Yeah. Yeah. Okay. And I don't know, Mike or Ron, if you could just talk to the pet food category maybe in Europe and US, how that played out over the last quarter and maybe recent trends.

Ron Delia
Chief Executive Officer, Amcor Plc

A

It's been a solid segment for us in terms of growth and margin as the pet food segment generally has premiumized or humanized, you hear the two words used to describe that segment. We transitioned over a many number of years from primarily pet food in bulk to essentially almost single-serve pet food in smaller pouches, and we benefited a lot from the increased packaging intensity in that segment. It is increasing sustainability requirements so that sort of packaging in one of our innovation platforms, AmLite, is directed squarely at that segment in partnership with some of our big customers. So, it's a pretty exciting space and there's a lot of innovation brought to the market both by the brand owners and by us as a packaging supplier.

It's been a mid-single-digit sort of growth segment for us. The first quarter, quite frankly, was flat. We are pretty much flat globally. The Russian Eastern European sales were soft. We had some growth offsetting that elsewhere. So, we are more or less flat for the quarter, but we don't see any signs or cause for concern around the secular trends that have made it such an attractive segment going forward.

Operator: Your next question comes from the line of Nathan Reilly from UBS. Your line is open.

Nathan Reilly
Analyst, UBS Securities Australia Ltd.

Q

Hey, Ron. A quick one. Are you achieving any manufacturing efficiencies in the plants as raw material availability starts to improve, some of those supply chain challenges start to stabilize? I'd also appreciate a bit of color on labor just in terms of cost and availability and just an idea of how that's all washing through your organic growth guidance.

Ron Delia
Chief Executive Officer, Amcor Plc

A

It's a good question. We are really pleased with the plant performance. So, firstly, in terms of the availability of the imports. As I noted earlier, the raw material availability has improved. There are still some specialty materials that are in short supply, and I think that's going to continue for a while. But many of the constraints and bottlenecks we were dealing with over the last 12 to 18 months have abated. So, that situation has improved, and generally speaking, the labor availability has improved across the network. Certainly, this time last year or even the earlier part of calendar 2022, we had some real labor challenges, especially in North America and in Europe as COVID spikes rolled through those regions. That seems to be behind us at the moment, and we have not had real labor constraints for some time.

So, from a factor availability or input availability, the plants have been able to run more unencumbered. Then as far as the productivity and the efficiencies, we are really pleased. That's one of the highlights of the first quarter. If you look at our 9% EBIT growth, we would say probably about a third of that came from price and mix, but two-thirds of it came from the cost performance in the plants. So, that's where we got the operating leverage to turn really flat volumes, actually modestly down volumes into 10% EPS growth. So, we are pretty pleased with the way the plants are performing and it's important because we are going to need them going forward.

Nathan Reilly
Analyst, UBS Securities Australia Ltd.

Q

Okay. Thanks for that.

Operator: Your next question comes from the line of Brook Campbell-Crawford from Barrenjoey. Your line is open.

Brook Campbell-Crawford
Analyst, Barrenjoey

Q

Yeah. Thanks for allowing the question. Just to follow up on an earlier comment around the restructuring in Europe. Are you able to confirm, is the plan actually to close plants in Europe going forward or is this provision that was taken, I guess, three months ago now more relating to the closure of Russia and you're not actually planning to close plants in Europe?

Ron Delia
Chief Executive Officer, Amcor Plc
A

To put some context on that, as I said, the Russian business is about 4% to 5% of global EBIT. Within Europe, it's obviously a much higher percentage. So, we are going to sell that business and we are going to lose those earnings. We have got an obligation to try to protect the income statement and generate profit where we can. So, we are going to take some cost out. We are going to rightsize the part of the business that was most directly affected. So, some of that cost is related, as Michael said, to just the transition of winding down operations in the Ukraine and migrating certain business out of the Russian plants that can be repatriated into other plants in the European network. That's part of where that cost is going. There will be some overhead reductions because we will be operating a smaller business, and there may be a plant closure or two to be determined, but we haven't come to that conclusion yet.

Brook Campbell-Crawford
Analyst, Barrenjoey
Q

Okay. Great, great. Thanks. The free cash flow guidance this year is unchanged, but what's the expectations at this point for the cash significant items that, of course, sort of falls outside of that $1 billion to $1.1 billion guidance range?

Michael Casamento
Chief Financial Officer, Amcor Plc
A

Yeah. Look, it's a relatively smaller amount, maybe $20 million to $30 million. It's not significant.

Operator: And your next question comes from the line of John Purtell from Macquarie. Your line is open.

John Purtell
Analyst, Macquarie Securities (Australia) Ltd.
Q

Well, good afternoon, Ron and Michael. How are you?

Ron Delia
Chief Executive Officer, Amcor Plc
A

Hey, John.

Michael Casamento
Chief Financial Officer, Amcor Plc
A

John.

John Purtell
Analyst, Macquarie Securities (Australia) Ltd.
Q

Just picking up on a couple of the recent questions. Coming back to, you mentioned sort of protein volumes were flat in the quarter and pet foods flat as well, and coffee was back a little bit. I appreciate it's only a quarter, but was that destocking driving that flatness, I know you haven't seen or haven't called out a material COVID benefit overall in recent years, but we have seen obviously strong coffee and pet food volumes over the last couple of years. So, is there a little bit of a cycling effect there from that? Just trying to understand that a bit more.

Ron Delia
Chief Executive Officer, Amcor Plc

A

It's really hard to say. The only segment where you would feel like there's more inventory and maybe got a little bit of a bump in hindsight is the coffee space. Our coffee business now is primarily single serve coffee systems, which this is more intuitive, our hypothesis than it is borne out by facts, but intuitively more at-home consumption, more people at home would have driven more at-home consumption of single-served coffee and coffee system sales, pods and the like. So, we may be seeing a little bit of the unwind of that.

But I think the more important thing is that, long term, these segments – the secular tailwinds that relate to greater packaging intensity to provide the consumer the convenience and functionality that they are now used to. So, we continue to be bullish on these segments over the medium to longer term.

John Purtell
Analyst, Macquarie Securities (Australia) Ltd.

Q

Thanks, Ron. In terms of the final question, sorry, I'm going to ask probably two-in-one here. But in terms of if we do see consumers trade down, Amcor's exposure to big brands versus home brands, I mean, historically, you've had a pretty balanced exposure. So, you pick up some home brand spend if that indeed does transition.

The second part is we've talked obviously a lot about sustainability products in recent years. I mean, are we now at a point where you're starting to see those new products really move the needle and make a material contribution to price and mix?

Ron Delia
Chief Executive Officer, Amcor Plc

A

On the private label versus branded mix, our mix looks like the market. You have to get to the segment level, and certain segments have much higher penetration of private label than others, and our mix reflects that. So, I would say there's not a whole lot there in terms of what the impact will be as consumers shift potentially to private label from branded goods.

On the sustainability platforms, we are starting to see some traction. The sales are in the tens of millions of dollars now, which is growing from a little base. So, this is sales of the platforms that we have talked about before, the AmPrima and AmFiber and AmLite, AmSky. So, we are starting to get there. It's just all part of the formula of continually driving mix benefits and margin expansion off the organic volumes of the business.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I will now turn the call back over to Ron Delia for some closing remarks.

Ron Delia
Chief Executive Officer, Amcor Plc

Thanks, operator. Thanks very much for your interest in Amcor today. We feel like we had a good strong start to the fiscal year, and we are maintaining our expectations for the performance of the base business for the rest of fiscal 2023, and we look forward to continuing to provide updates along the way. Thanks very much.

And with that, operator, we'll end the call.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.