Amcor Plc

Amcor Q1 2025 Results

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PRESENTATION:

Operator Hello. Welcome to the Amcor's first quarter 2025 results conference call. (*Operator Instructions*) I would now like to turn the conference over to Tracey Whitehead, Head of Investor Relations. You may begin.

Tracey Whitehead Thanks, Operator. Thank you, everyone, for joining Amcor's fiscal '25 first quarter earnings call. Joining today is Peter Konieczny, Chief Executive Officer; and Michael Casamento, Chief Financial Officer. Let me note a few items before I hand over.

On our website, amcor.com, under the Investors section, you'll find today's press release and presentation, which will be discussed on this call.

Please be aware that we'll also discuss non-GAAP financial measures and related reconciliations can be found in that press release and 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. Reference can be made to Amcor's SEC filings including our statement on Form 10-K and 10-Q for further details. Over to you, P.K.

Peter Konieczny Thank you, Tracey. Thank you to all who have joined us for today's call. I'm pleased to report that our business continues to build on the momentum we've delivered since the beginning of the calendar year with another quarter of solid financial performance to kick off fiscal 2025. Our results are aligned with the expectations we set out in August and give us the confidence to reaffirm our guidance today.

We start, as always, with safety on Slide 3. The safety and well-being of our people is a value deeply embedded in Amcor's culture, and I'm incredibly proud of our collective commitment to safety. We continue to achieve industry-leading performance with another 13% reduction in injuries compared to the same quarter last year and 73% of our sites remaining injury-free for more than a year.

Before we turn to the first quarter, I'd like to take a few minutes to talk about the strategic actions we are taking to evolve into an even stronger company. Amcor is an outstanding company with a strong values-based culture, highly talented people and significant growth potential. We have a strategy that remains relevant to our business and does not require a revolutionary change.

I begin my tenure as CEO with a good understanding of where Amcor is today and with a strong and clear vision of where Amcor will be in the future. I just covered what will always be our number one priority, safety. Our commitment here will never change and the health and safety of our team members comes before anything else. The unrelenting focus we have to safety has been rewarded with industry-leading metrics and performance, as I just shared, which is an excellent example of what Amcor can achieve when we're focused and aligned on our priorities.

Second only to safety is the customer, as seen on Slide 4. I believe we have an excellent opportunity to become an even stronger company by accelerating our volume-driven organic growth through an unwavering focus on our customers, on sustainability, and on our portfolio. With our customers, we have two clear immediate opportunities. The first touches on our culture, talent and organization. We will instill a stronger growth-oriented and customer-first mindset across Amcor.

One of the first changes I made as CEO was appointing Fred Stephan, previously President of Flexibles North America to the newly created Chief Operating Officer role. One of Fred's most important responsibilities is to ensure we fully leverage our scale and capabilities across the global flexible packaging businesses.

Setting the organization up in this way means we remove regional silos and we ensure best practices are shared and deployed across the organization. We facilitate access to our entire product catalog anywhere in the world, and we drive efficiency across our manufacturing operations and equipment network.

By redirecting operational responsibilities and reporting lines, this new structure also serves to elevate and enhance the role of our global management team to focus on strategic, bigger picture choices including those designed to further accelerate organic growth and shareholder returns. The second opportunity we have to win with our customers and accelerate our growth lies in ensuring all our teams have the growth capabilities, tools and processes to operationalize growth and accelerate volumes while we maintain margin quality.

I believe we can be better when it comes to service quality, speed to market as well as building comprehensive pipelines of growth opportunities, which are managed rigorously to drive top line growth. For the last several months, we have allocated additional time and resources to expand on our commercial excellence framework and to make sure we get the basics right 100% of the time.

In addition, we are leveraging our global network of innovation centers to get even closer to our customers and develop the next generation of packaging solutions that meet their needs to preserve protect and promote their products in a way that supports circularity for the industry, which brings me to sustainability.

We have the opportunity to raise our sustainability profile and be an even stronger advocate in support of the best packaging solutions for consumers and customers to eliminate waste, lower carbon footprint and increase recycling rates while preserving functionality. Selling sustainable packaging solutions benefits the planet while driving value for shareholders, and I'm confident we can increase the pace of our efforts to support packaging portfolio transition for our customers with good economic stewardship.

In order to demonstrate our commitment to sustainability leadership, I elevated our own focus, appointing Dave Clark to the newly created role of Chief Sustainability Officer. Many of you will know Dave has been instrumental in advancing our sustainability agenda for many years, and we continue to make excellent progress, which is detailed in our 2024 sustainability report launched earlier this month.

I've also tasked our teams to leverage the early wins we are having with paper to drive more growth from our innovative fiber-based offerings.

And finally, portfolio. We will drive accelerated growth by capitalizing on the opportunity to further orient our mix towards faster-growing higher-margin categories. We have been focusing on the priority categories of healthcare, meat, pet care and premium coffee, which we have also supplemented with value-accretive acquisitions.

I believe we can further accelerate organic growth by adding two additional areas, dairy and liquid applications. Both have significant global growth opportunities. My confidence in the ability to generate higher levels of organic volume growth consistently, and stronger returns for our shareholders is underpinned by Amcor's proven ability to focus, execute and deliver as we have demonstrated with safety.

Turning to Slide 5. This focus will move us towards becoming the company Amcor will be known as in the future and my vision for Amcor.

First, Amcor will be known as a sustainability champion. Amcor's purpose is grounded in safely and efficiently bringing essential food and medicine to people around the world through our innovative packaging solutions. We do this with a commitment to the planet, contributing to significantly limiting food waste, decarbonizing our products and developing packaging solutions that ultimately eliminate packaging waste in the environment. This is what inspires and motivates us to continue driving differentiation and value for our customers, employees, and shareholders.

It is this combination of unique capabilities and a clear purpose that sets Amcor up to be the sustainability partner of choice for our customers and drive the next generation of growth through circularity and decarbonization in a way no other company can.

Second is market leadership. Our unmatched scale, global reach and the breadth of our sustainable packaging solutions and service offerings position Amcor to win as a critical supply partner to global, regional, national and local customers. We will continue to build and expand on these strengths to help ensure Amcor becomes the go-to packaging solutions provider in our categories of choice for customers across the globe.

Third, my vision is that Amcor will be well known for delivering consistent organic growth. As I've just covered, I see a clear opportunity to deliver higher levels of profitable volume-driven organic growth creating an even stronger company and unlocking value for our stakeholders.

Fourth, as an investment, Amcor will be known globally for its highly compelling financial profile with consistent performance against our model of delivering 10% to 15% of annual value creation for shareholders.

We expect to continue to generate significant free cash flow, maintain our investment-grade balance sheet and execute against our capital allocation strategy, which does not change. I'm excited with my vision for Amcor's future and with the priorities we have set geared toward accelerating growth.

As reflected in our Q1 volume performance, we are already starting to see some initial green shoots as a result of our efforts to date. There are many more opportunities ahead, and we will continue to be agile and evolve into an even stronger company.

Now turning to the quarter on Slide 6. I'm pleased we delivered another quarter of volume growth with a trajectory improving for the third consecutive quarter. This also contributed to earnings growth in line with our expectations, and as mentioned, the solid start to the year has given us confidence to reaffirm our full year guidance today.

We're very optimistic on the demand trends we are seeing in the market, and we expect our volumes will continue to grow through the year. I'll now turn the call over to Michael to cover the results and outlook in more detail - Michael.

Michael Casamento Thank you, P.K., and thanks to everyone joining us today. Starting with Slide 7 and a summary of our Q1 financial results.

Our fiscal 2025 year is off to a very good start with broad-based improving customer demand across many end markets. Our teams continue to position Amcor to win with our customers, which resulted in our third consecutive quarter of sequential improvement in volumes.

Overall volumes for the fiscal first quarter were up approximately 2% compared with 1% in Q4. As expected and called out in August, volumes remained weak in healthcare in North American beverage, which unfavorably impacted overall company volumes by approximately 2%.

So across the balance of the business, overall volumes increased by 4% over the September quarter. Price/mix had an unfavorable impact on sales of approximately 3% primarily driven by continued destocking in higher-margin healthcare categories as expected, and as noted on our August earnings call.

First quarter adjusted earnings per share was in line with our expectations, coming in at 16.2 cents per share, which represents growth of 5% on a comparable constant currency basis. Adjusted EBIT grew by 3% compared with last year, and our teams continue to proactively manage costs helping drive operating leverage across the business. This resulted in another quarter of margin improvement with adjusted EBIT margin increasing by 50 basis points to 10.9%.

Moving to our flexibles segment on Slide 8. Q1 volumes were up 3% compared with last year and improved modestly on a sequential basis, reflecting broad-based growth across most geographies and end markets. Net sales decreased by 1% on a comparable constant currency basis as widespread volume growth across the flexibles business was offset by unfavorable price/mix of approximately 4%, again primarily related to lower healthcare sales.

As anticipated and discussed on last quarter's call destocking in healthcare continued in North America and Europe in pharmaceuticals, and this resulted in a headwind of approximately 2% to overall segment volumes. We expect this destocking to abate by the end of calendar 2024. Across the balance of our flexibles portfolio, volumes were up approximately 5%, reflecting solid customer demand across all regions and in many product categories.

In North America and Europe, first quarter demand continued to improve for the second consecutive quarter. Volumes were up low to mid-single digits in both regions despite the negative impact of healthcare destocking.

In emerging markets, our Asia Pacific and Latin American businesses also continued to deliver good volume growth at low to mid-single-digit rates, supported by solid demand in China, India, Brazil and Peru.

From a product category standpoint, meat, dairy, liquids and ready meals all delivered mid-single-digit growth and single-serve coffee was up. In healthcare, medical returned to modest growth, however pharma volumes were down low-double-digits compared with last year.

Adjusted EBIT for the quarter of $329 million grew by 3% over last year on a comparable constant currency basis. Higher volumes, combined with strong cost performance led to another quarter of margin expansion, with adjusted EBIT margins up 40 basis points to 12.9%.

Turning to rigid packaging on Slide 9. The rigid business continues to advance its performance and the trajectory of overall segment volumes improved for the third consecutive quarter. The business delivered another quarter of earnings growth despite a 4% decline in overall volumes compared with last year.

As expected, this was primarily driven by continued soft consumer and customer demand in the North American beverage business. Net sales were down 4% on a comparable constant currency basis, with price/mix relatively flat.

In North America, beverage volumes were down high-single-digits, consistent with our volume performance in the previous quarter despite a modest negative impact from the temporary closure of a couple of plants in the Southern Eastern United States toward the end of the quarter to help ensure our people remained safe from the impacts of Hurricane Helene.

As anticipated entering the quarter, consumer demand remained muted in Amcor's key end markets and customer mix remained unfavorable.

Latin American volumes were lower than last year, reflecting weaker customer demand in Argentina and Colombia, which was partly offset by growth in Mexico and the Caribbean. The specialty containers business delivered good growth in the dairy and nutrition categories with volumes down in healthcare due to destocking.

From an earnings perspective, the business delivered another quarter of growth and margin expansion through an ongoing focus on cost reduction and productivity measures. Adjusted EBIT of $62 million in Q1 was up 2% on a comparable constant currency basis, with EBIT margin increasing by 60 basis points to 7.7%.

As announced earlier today we reached an agreement to sell our 50% interest in the Bericap North America closures business to our joint venture partner for $122 million, which we will use to reduce debt. Although we've had a long and respectful relationship with Bericap over the past 27 years, at this juncture, we have chosen to unwind the joint venture due to a differing view on near-term capital requirements and resulting returns.

While Amcor continues to operate in the closure space, and it remains a category of interest, we are committed to maintaining our disciplined approach to capital allocation.

Moving to cash on the balance sheet on Slide 10. Consistent with historical quarterly phasing, Q1 was a quarter of cash usage. Compared with last year, CapEx increased to support a number of important projects that will continue to drive our sustainability, innovation, and growth agendas.

Additionally, we increased raw material inventories to ensure we are ready to service improving volume trends. Leverage was a little higher than we were anticipating, given the impact of higher inventories and secondly, due to stronger euro spot rates toward the end of the quarter, which negatively impacted debt and subsequent leverage by 0.1x, which has since unwound.

We expect leverage to reduce through the fiscal year and anticipate an improvement in the second quarter with an end point below prior year December, and we remain confident in meeting our expectation to exit fiscal 2025 with leverage at 3x or lower.

During the quarter, we returned approximately $180 million in cash to shareholders through our quarterly dividend, and our Board has also increased the quarterly dividend per share by 2% to 12.75 cents per share.

That brings me to the outlook on Slide 11.

As P.K. mentioned, based on our good start to fiscal 2025, we are reaffirming our guidance for the fiscal year. For fiscal 2025, we continue to expect adjusted earnings to be in the range of $0.72 to $0.76 per share on a reported basis, representing comparable constant currency growth of 3% to 8%.

Our performance through the first quarter further supports our expectations for strong growth in the underlying business for the year as we continue to build on our volume and earnings momentum.

As we pointed out on our August call it's important to remember that this guidance includes an EPS headwind of approximately 4% related to more normalized levels of incentive compensation based on our expectations for improved annual financial results. Excluding this incentive normalization, we expect growth from the underlying business in the high-single to low-double-digit range.

We continue to assume overall volumes will increase in the low to mid-single-digit range for the year with trading performance through October aligned with these expectations.

Interest expense guidance remains between $290 million and $305 million, with an effective tax rate in the range of 19% to 20%. Looking at our fiscal second quarter, we expect adjusted EPS to be relatively in line with our first quarter performance.

This means fiscal 2025 earnings phasing as outlined on our August earnings call will be broadly aligned with the historical average of approximately 45% of earnings being delivered in the first half of the year and 55% in the second half, with the fourth quarter typically the strongest of the year.

Finally, we're affirming our expectations to generate strong adjusted free cash flow in the range of $900 million to $1 billion for the year, supporting our confidence in exiting the year with the leverage back at 3x or lower, as I noted earlier. We're happy with our start to fiscal 2025 and look forward to the opportunities we have to accelerate our future growth. With that, I'll hand back to P.K.

Peter Konieczny Thank you, Michael. Turning to Slide 12 for a few closing remarks prior to opening the call to questions. I'm pleased with the overall performance trajectory of the business, and I'm excited about the significant opportunities we have ahead of us to enhance our profitable growth profile.

As I noted earlier, we have already taken a number of concrete actions designed to accelerate volume growth, each of which further strengthens our ability to generate attractive, sustainable shareholder returns. Customer demand is improving broadly, and Q1 was another quarter of volume growth with earnings in line with our expectations. We continue to build financial momentum and evolve our strategic focus to unlock value, supporting the reaffirmation of our financial guidance for fiscal 2025. Operator, we're ready to take questions.

Operator (*Operator Instructions*) Your first question comes from the line of Ghansham Panjabi with Baird.

Ghansham Panjabi P.K., first off, congrats on the new role, best wishes in the future.

So I guess in your vision slide specific to the organic growth component. I know it's early in your tenure; you've been in the company for a while, though. Can you share specifics on how exactly you intend to do that in the low growth end markets that both your segments are sort of exposed towards? Do you anticipate any portfolio repositioning that's needed to accomplish that including any divestitures?

Peter Konieczny That's a great question, Ghansham. You're right, I believe that driving a better organic volume growth profile is probably the biggest opportunity the company has. I'll give you a couple of soundbites where I think we need to work to facilitate that.

The first one is really basic, because you want to get the basics right, service quality, you want to be easy to do business with for the customers, which is one thing that we just need to continue to have an eye on. I said in my prepared remarks, we can probably do better on that side, or do even better.

The second one is related to capabilities, we are essentially looking at Amcor's commercial excellence program, which we brand value plus, which has really been focused on driving mix and margins. That was an excellent program for a challenge that we had many years ago, and that was highly successful in delivering returns for us. I think we have an opportunity to expand, but not reinvent the program, to expand the program to also include elements of organic volume growth and initiatives that go in that direction. We have already started doing that.

The other capability side that I would see is just leveraging better, and more, our incredible innovation capabilities. Very simply said, to a certain extent that comes down to just leveraging our product portfolio across the global markets, particularly in flexibles. We have incredible success with certain products that we bring to certain categories in the marketplace. We see opportunities to use those products in other regions, and other markets across the world.

That leverage opportunity, that we want to go after more consistently in the organization, that we've set that really helps us. Then we have an innovation center network that we leverage more going forward because we've invested in it, and we have excellent customer contact already in those innovation centers.

Then very quickly to just round it off, we have our focus segments, and our focus on those categories in terms of them going forward. We probably talk more about protein because we have dairy, healthcare, although that's a bit of a holdback at this point in time, but we're seeing through that. This is a great category that will get back to growth and a couple of others that I can speak more to, and then we have the opportunity on the fiber side.

So, as I'm going through those points, you can see that we're pretty bolted around the initiatives. At the same time, they're broad, and we're setting them up to facilitate organic growth.

That was a long-winded answer to your first question. The second one was, do we see any opportunities to prune the portfolio. I think that's always going to be on the agenda, but I'll tell you right now I feel pretty good about the portfolio that we're working with across flexibles and rigid packaging, so I don't see any immediate need to make any changes there.

Operator The next question comes from the line of John Purtell with Macquarie.

John Purtell Congrats, P.K on the role. Just on Q1 volume growth, just confirming is that sort of broadly where you thought it would be. So obviously your flexible volumes are up 3%, which is the same as what we saw in Q4 but not an acceleration.

Peter Konieczny Yes, John. First off, we're pretty encouraged about the volume performance in the first quarter. If I just take you through that, overall company volume performance, plus 2%, which is 100 basis points up versus the quarter before.

That is broadly in line with what we were expecting. If we put healthcare and North American beverage to the side, which is about 25% of our sales in the first quarter, the balance of the portfolio is up 4%. You specifically referenced Flexibles. Flexibles is up, yes, 3%. That includes healthcare, which is still a bit of a holdback but the rest of the portfolio is up 5%. So we feel pretty good about that.

We feel pretty good because we also understand the healthcare dynamics, and healthcare, as you know breaks out in two subcategories, one is medical and the other is pharma.

On medical, as we have said in prior calls, we are no longer seeing destocking. As a matter of fact, medical is back in growth territory in the first quarter, pretty much as expected the destocking, you can say has come to an end.

What's holding us back now is really just pharma. We have a pretty strong pharma exposure, but pharma started its destocking a little later than medical, by about a quarter. So we're still seeing destocking from pharma. We believe that will roll also partly into the second quarter. But as we leave the second quarter, I think we're going to see that destocking is abating and setting us up for a much better back half of the year. So with that said, I'd say we're feeling pretty good about the volume story in the first quarter.

If I look forward into the second quarter, we're definitely expecting sequential volume improvement in Q2, too. So I'm in a spot where I'm very happy with how the volumes are currently coming back.

Operator The next question is George Staphos with Bank of America.

George Staphos P.K., congratulations. A lot of content here. I'll try to keep it at one question. Can you update us on how some of your newer products in the last few years, AmPrima, AmFiber are doing?

You had called out AmFiber, in particular. I believe there was a comment in the slide deck on AmPrima as well. If you index those or somehow quantify it, what's been the growth in those products? How important are they broadly to the portfolio overall.

Relatedly, as you look out at the packaging packing waste reduction trends, they're off a few years, but nevertheless your customers are going to have to deal with them and you will as well. Are there any things that are looking a little bit more challenging for Amcor's portfolio to manage against maybe the recycle at scale requirements?

How would you have us think about that?

Peter Konieczny Yes. Great question again. I'll try to keep it short, too because there's a lot of content here. Let me go backwards.

First of all, we're acutely aware, obviously of regulatory trends, and that would include the packaging waste regulation in Europe. The general headline around that from our side is we're supportive. We're supportive of such regulation to the extent that it drives the circularity that we need in order to keep plastic waste out of the environment. So the regulation is good, and we are supportive of that.

It is exactly in that context that we're developing product platforms like AmFiber, like AmPrima, and others that are essentially developed in order to comply with such regulation. What they all have in common is that these products are more sustainable and they're recyclable.

You asked me to talk a little bit more about fiber also. Fiber in the context of what I just said, fits in perfectly because it is another sustainable packaging substrate which has one advantage at this point in time, it is recyclable at scale today.

Whereas for plastic, we're building within the concept of circularity, recyclability, but it requires more investment into infrastructure and so on and so forth. Fiber is already there. Therefore, the substrate fiber appeals to customers and consumers at this point in time.

Now I will tell you that we need to keep in mind that fiber is a natural substrate and it's porous. It's full of holes, which is against the requirements that we have when we think about primary packaging, which is, to a large extent, about creating barrier properties in order to protect the food stuff that's inside. Therefore, fiber will always have a limited range of applications across the board of what we're serving today. But where it fits, it is a responsible packaging substrate. As a company that is a responsible packaging company, we proactively explore the opportunities on that end. Therefore, we have developed the platform of AmFiber, a product that we have is the performance paper product, which actually differentiates us really well because we've been able to introduce barrier properties which makes that solution really attractive to certain applications.

The same essentially is true for AmPrima. It's a plastic-based product, but it's a recyclable plastic-based product, which therefore, is finding good pickup in the marketplace. AmPrima is at a pretty sizable base at this point in time, and it continues to grow. The fiber substrate is growing, but off a smaller base.

We see more growth opportunities going forward in line with, first of all, our growth aspirations, but secondly, also with the responsibility that we feel for more sustainable structures.

Operator Next is James Wilson with Jarden Australia.

James Wilson Just on the Bericap unwind of the joint venture, are you able to talk us through, A, what the strategic rationale behind unwinding that joint venture was and also the implications that, will then have for Rigids earnings going forward as well please?

Peter Konieczny Yes, James, happy to do so, and I'll take the first part of your question, and then I hand it to Michael to talk about the earnings implications. The first thing that I will say is we continue to be attracted to the closure space and we actually continue to operate in closures.

We have a metal-based closures range that is very much focused on wine and spirits. We also have closures in the specialty containers business on the rigid side. If you add all that business together, you will end up with a top line between $200 million and $300 million. I think that's a pretty sizable exposure still. So strategically, no change in positioning to the closure space.

Now, why then sell off top line in a period where you want to grow and with the business you're strategically interested in. When something like this happens in a joint venture environment, it's typically because you have differences with your joint venture partner about the development of the business going forward. That's exactly what happened here.

We weren't comfortable with the views of our partner with regards to the amount of capital that the partner perceived to be necessary to develop the business going forward and the time it took to get returns that were attractive to us. We sat together with the partner and then internally, and we thought about what to do. The fact is that our businesses are competing for capital.

We have a capital allocation model in the company, we felt we have other opportunities across the business where we can put the capital to work at better returns in a shorter period of time. That was essentially the reason and the strategic background to the divestment and it really just demonstrates that we're very disciplined around our capital allocation model.

Michael Casamento Yes. Thanks, P.K. And James, just to dimensionalize it for you. On an annual basis, we consolidate the revenue and earnings of the joint venture. Sales-wise, about $180 million to $190 million on an annual basis.

So remembering this divestment will close at the end of December. So it's really a half year impact for FY 2025. From an EBIT standpoint, about $19 million, which both sit in the Rigid Packaging segment. From a net income perspective at an Amcor level, the group level, after taking out the minority interest, it's about an $8 million net income on an annualized basis.

So again you've got to take half of that for FY 2025 and obviously with the proceeds going to reduce net debt, we are going to see some interest benefit from that. So when you put the two of those together actually for FY 2025 and ongoing the impact at the net income line is very minor.

Peter Konieczny I just want to round off that comment because I don't know who's dialed in here, maybe even our joint venture partners dialed in.

I just want to say it's been a very, very respectful relationship over many years and very amicable wind-up of the joint venture. I know that the business will do well going forward, and it's good that the business again has clear direction.

Operator Next is Mike Roxland with Truist Securities.

Michael Roxland I'll just echo what everybody said for P.K., congrats on the role. My question is regarding your algorithm in terms of annual margin improvement. Historically, Amcor targeted 20 to 30 basis points of this improvement, but over the last few years, and I think even destocking, you developed a leaner cost structure.

So given this cost structure is leaner, and even some of those costs just slowly come back, would it be fair to say that the algorithm at least in the near term has shifted higher?

So maybe the 20 to 30 basis points of margin improvement could be 30 to 40 for the next year or two as you slowly add back cost to the business.

Michael Casamento I'll start on that one, Mike. I think your observations are correct in the near term. I mean obviously the last couple of years, there's been a bit of a disconnect, particularly when you think about raw materials going through the top line, inflation going through the top line, then the impact of lower volumes, the cost-out agenda.

So if you go back over time for Amcor over a long period of time, that 20 to 30 basis point algorithm works for us. It's been pretty consistent, but it can vary and fluctuate over the cycle.

As we look forward, we still feel pretty confident around that algorithm. We are consistently driving efficiency through the business, managing our cost base really tightly, and we can flex the cost base on volume demand. It's not linear necessarily. So if cost comes down, volumes come off, we can pull the cost down. It doesn't necessarily go back up at the same rate.

I think as we look over a long period of time, the mix management, the portfolio really drive that consistency through and P.K. touched on some of the new product innovation, the sustainable structures. They all have different margin profiles as we look forward. So from where I sit, I think it's still a good algorithm from where we are. We stand by that as we look forward. But it will vary from time to time depending on the cycle we're in.

Operator Next is Daniel Kang with CLSA.

Daniel Kang Congrats again to P.K. Just a question on the addition of dairy and liquids into the focus categories. Can you just talk us through the opportunity here where you see Amcor currently sits in these categories and your realistic sort of medium-term targets?

Peter Konieczny So yes, Daniel, happy to do that. The most important thing is that in dairy and also in liquids, we have a very strong position in North America. That's on the back of differentiated product solutions that go into these two segments. Now dairy is what dairy says, right?

It’s hard cheese, soft cheese, could go up to yogurt. So it’s a whole dairy space. Liquids is one that may be a little less obvious, and we always struggle internally how to define that best. It’s essentially packaging solutions for what we call pumpable food. So you would have sauces in there, like ketchup, mayo, all kinds of different other sauces, you would have pureed food like applesauce and you would also have some beverage applications in pouches, for example.

Now that just explains the category in both, and we have a very strong position in North America. We have just come out the quarter where we have seen solid mid-single-digit growth in those categories. We believe that one of the big opportunities that we have before we get like super complex and sophisticated around developing new products and so on and so forth, is just simply leveraging the products that we bring to market successfully in North America, across the global reach that we have in Flexibles. That’s, first and foremost, what we want to do. So it’s a product leverage challenge.

Of course there’s also going to be additional innovation that we bring to these categories. But in the short term, I think it’s product leverage. That’s something that we can do better going forward. In order to calibrate also, we have annual revenues in those categories somewhere between $800 million and $1 billion in each one. So it’s big.

We are well positioned. We have good products, and we have markets that will have an opportunity to adopt those products and we have an opportunity to create some revenues on that basis. We’re excited about that, and this is where we’re coming from.

Operator Next is Sam Seow with Citi.

Sam Seow Just a quick one on net debt. You’re obviously growing volumes and earnings, but when I look at your net debt, 3.5x, it’s actually higher than 3.3x last year at this time.

So just wondering at a high level if you can unpack that cash drag in particular the working capital and how we should think about that cash conversion as volumes and inventories kind of meet with it.

Michael Casamento Yes. Thanks Sam, it’s a good question. I agree. Firstly, with leverage at 3x, we would say that’s the peak. It’s a little higher than we would expect to see in Q1. It’s for a couple of reasons.

Firstly, as I mentioned in my remarks, we saw some spike in spot FX rates for the euro that were higher than we were expecting at the end of the September quarter, which have since come back, and that had an impact on just the calculation, 0.1x on leverage for the quarter. And as I said, that’s unwound since then.

Secondly, we did build additional inventory, particularly of raw materials in the quarter. This was really on the back of a couple of things. Firstly, we are seeing strong demand signals and P.K. touched on a little particularly in Q2. We've seen over the last three quarters sequential improvement in volume, and that demand signal continues into Q2. We really don't want to miss any opportunity to service our customers on that basis.

So the teams have been out there and increasing inventory, probably a little more conservative, but also the other thing that we have seen is a little bit of supply chain disruption and some tremors in the market, particularly around port strikes, a little bit of impact coming out of the Middle East as well.

So it was pretty reasonable for the teams to take a little bit of a conservative view on there just to make sure we've got the right inventory in place, and the raw materials there to be able to convert as we work our way through the stronger demand.

So if you put those two things aside, leverage would have been at 3.3x, pretty well aligned with prior year and about right where we would have expected it to be for this time of year.

But that said, it's higher than we like. And as we look forward, we've got a clear plan to work it down. We reaffirmed the full year cash flow guidance today that $900 million to $1 billion and we have confidence in that, particularly as we work our way through the inventories and we see the higher volumes come through. Obviously we're also paying down debt with the Bericap proceeds.

So the disposal proceeds, which come in December, so we are going to see leverage come down through the year, and it's actually going to start in Q2. We expect leverage will be lower than it was in prior year Q2. We'll see the improvement there. Then as we have really strong confidence in the balance of the year to come back to 3x or below as we exit the year in June 2025.

Operator Next is Brook Campbell-Crawford with Barrenjoey.

Brook Campbell-Crawford Just with respect to this focus on stronger organic growth. Previously the business has always talked about low single-digit top line growth organically?

What's the new target for this if you can provide a bit of a range of what you're thinking about?

And I guess I'm more focused beyond the near term, given I guess volumes in Flexibles are still 6% below pre-Covid level. So once you kind of catch up on that period of underperformance, what do you think the steady state sort of medium-term top line should be.

Peter Konieczny Yes. Thanks, Brook. There's a lot of questions there. I got to be a little conservative here and I'm going to shy away from giving you a number and a target going forward. What I will tell you is that I think we can do definitely better than the expectations that we spelled out before Covid.

As we walked into Covid, everything else that we've seen since then, I think it's been pretty volatile and you could call out market dislocation for many different reasons. But we're working ourselves out of it as we have seen with the volume performance over the last three quarters and also as Michael just confirmed again the demand signal into Q2 of this fiscal year. So I would probably leave that there and just simply say we can do better.

We can do better consistently as we go forward and that's the target. So stay close and we'll demonstrate to you what we can do with the business.

On your second part, when you compare our current volume levels to what it was pre-Covid, you're right that we haven't fully caught up in terms of volumes today versus what it was pre-Covid. On the other hand, I'll tell you, it's not so simple to just spread that across the different categories that we serve. It's much more of a complex picture. In some cases, we're actually full and sold out.

In some cases, we do have some capacity to absorb additional growth, and we're acutely aware of that. We are obviously more interested in selling open capacity now than selling capacity that requires more investment. But where it does and where we have good opportunities, we're also not held back or constrained in any way to make investments into the business. So that's the way we're looking at it.

But altogether, we're feeling good about the initiatives that we started to drive growth to higher levels going forward, and that would really be the target that I set out to the organization.

Operator Next is Cameron McDonald with E&P.

Cameron McDonald Just some questions on the financials, if I can, please.

So if I look at the adjusted EBITDA number in the back of the slides, can you just -- Michael, can you just explain what the $13 million impact is across the restructuring and in other. The note sort of refers to Russia, but I'd be surprised if Russia was impacting the first quarter of this year from a restructuring cost perspective?

Michael Casamento Yes, Cameron, that's just the program that we put in place to take some cost out of the business and restructure in certain parts as a result of disposing the Russian business to try and offset part of the disposed earnings.

So we announced the program eight months ago or so, and we've been working our way through that. We've announced seven plant closures, four plant restructures. In total, we were looking to spend, cash-wise, about $170 million.

We're most of the way through that program now and we're still seeing just a little bit of cost come through, but you're also seeing the benefits of that program come through.

We said that we would deliver about a $50 million annualized benefit in FY 2024, we got $35 million of that. We've got a further $5 million or so in Q1, 2025.

So we're well on track to deliver those benefits for that program, and it's pretty much done by the end of calendar 2024.

Operator Your next question is from Nathan Reilly of UBS.

Nathan Reilly Just in relation to the underlying group volume growth of 4%, excluding healthcare and beverage, relative to some of the European and U.S, Canada data, that volume growth looks quite solid.

So I'm just wondering if you can give us a little bit of an update just in terms of how you're seeing the state of the consumer across your key end markets in both the U.S. and Europe, please?

Peter Konieczny Yes, Nathan, first of all, I agree. I also believe that the number is actually pretty solid. And here's how we're thinking about this.

If you pull it apart into the different components, if you look at the consumer, I think the consumer is at best flat, if not a little down, and that's very consistent with what we've said in prior calls. We're not expecting a lot of help from the consumer going forward either.

So we're not going to bank on the consumer spending behavior becoming more positive going forward. The thing that we're seeing is that the customers are performing better. We talked about that in the prior calls also in the context of two things really.

One is many customers are trying to find a better balance between price and volumes. That also translates into promotional activities, and we're benefiting from that. What we also group in the customer performance piece is just simply the fact that destocking is over.

I can say that now with a little more conviction, destocking is over, except for the one category that we have decided to break out for this conversation because you introduced it like that. Let's put healthcare in North American Beverages aside for a moment.

Then the final point that we look at is how are we faring in the market that we're seeing. That comes down to our ability to gain share. Now after the fourth quarter, I would have said something along the lines of it's not material, but we see some green shoots.

Now as I'm sitting here after the first quarter, I would say it's a little bit, so the momentum is increasing, and I'm still trying to be very bolted around all that and not to get ahead of myself. Let's get another quarter under our belt and see if and how the volumes develop and what the drivers are once we're getting out of Q2. But we feel pretty good about it.

If your question also was break it out between North America and Europe, I'd say it's pretty much the same between the two and the way we look at that so that's pretty much the best answer that I can give you.

Operator Our last question comes from George at Bank of America.

George Staphos It's a two-part where the first has nothing to do with the second part.

So the first question is your volume growth actually has been relatively in line or actually a bit better than what we've seen out of other consumer packaging markets the last few quarters and yet you are working on your innovation and really trying to drive greater speed to market. All companies try to improve, we get that. Was there a trigger for you in terms of what sort of drove that, we need to do an even better job of getting innovation to the goal line? Were there some lost sales? Or were there some opportunities? What drove that realization?

Then the second question I had for you really is, can you remind us when do you expect rigid to inflect higher from a profit standpoint and when from a volume standpoint?

Peter Konieczny Yes, George, that's really two questions. And as you said, they're not related. Yes, exactly. So okay lets go backwards.

So first of all, on the ARP, so rigid packaging. We've been speaking a lot about the volumes. But what I haven't said yet is and what you will see when you go through the numbers is that the business has returned to earnings growth over the last couple of quarters, actually, since the beginning of this calendar year, they've come back with earnings growth. Which means that despite the environment that they're operating in, they are able to adjust their cost structures and their capacities to a level where they are turning out better profitability, which is something that we appreciate, the team is doing a great job.

At the same time, we're all sitting here and waiting for the market to give us a bit more tailwind. When that comes on the back of the efficiency that we've now created in the business, we'll see better improvement and better numbers, definitely better numbers, and we're looking for those.

So we can't wait for that to happen on the profit side and also on the top line side. Now you're asking me when is that going to happen? That really depends on the consumer. The consumer is still held back on the categories that we serve. It is a very discretionary category mix that we're serving with the isotonics, with the ready-to-drink tea, the juices, there's different ways of hydration.

While inflation may have come down, the consumer is just shocked by the prices on the shelf. That's how we currently explain the consumer behavior. So that needs to turn around, that will get us better volumes and then we'll see definitely better top line and bottom line on the rigid side. So that is my answer to that part of the question.

The other -- the first part was, I think geared towards innovation and you're asking how to understand the questions we need to gear up on innovation. Let me just first of all, maybe correct the perception. I never wanted to say that we are behind in our capabilities on innovation. We're not. I think we are one of the leading companies in our space with our innovation capabilities. I'm not just saying that because I feel that, I'm saying that on the back of the feedback that we get from our customers.

They're very impressed with what we can do and I take the opportunity on this call for those of my team that are actually listening in, in the innovation space. You guys are doing a great job, congratulations, but of course we want more.

We have made investments in the innovation centers across the world, and we have invested in one in China. The latest one has just opened the doors a couple of months ago in Belgium in Europe, and we have a couple of satellites.

We just want to see the returns. I want to see the returns on that investment, and we're seeing that. Customers are coming in -- we have a great process that we call CATALYST, where we sit down with the customers, so we do innovation, and we shock and amaze them with the things that we can do.

So that's one, and the other one is really just around the leverage piece. It is part of the innovation. I'm not asking to do some rocket science here, which I think our people can do. What I'm saying right now is take the products that are successful in one market and help introduce them in other markets where we have demand for the same products. It's as simple as that. That's product leverage, and we have great opportunities to do that.

So those were the two comments that I was trying to make on the innovation side, and I hope that's a little more clear.

Operator This concludes our question and answer session. I will turn the call back to P.K. for closing remarks.

Peter Konieczny Yes, thanks for the interest in the company and for dialing in, great questions. I mean you're essentially asking the questions that we're asking ourselves here. I just want to say one more time, we feel pretty good about where we're at, particularly with the volumes coming back. That's really important for us. As we see that trickle through, we'll definitely see that also translate to the bottom line, and we're looking at a solid year, so at this point in time, we are fully reaffirming our guidance for the full year, and we feel we're in a good spot. Thank you very much.

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