Amcor plc

First Half Results 2022

5.30pm EST February 1, 2022 / 9.30am AEDT February 2, 2022

CORPORATE PARTICIPANTS

Tracey Whitehead, *Global Head of Investor Relations*

Ron Delia, *Chief Executive Officer*

Michael Casamento, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Ghansham Panjabi, *Robert W. Baird & Co.*

Anthony Pettinari, *Citi*

Jacob Cakarnis, *Jarden Australia*

Larry Gandler, *Credit Suisse*

Mark Wilde, *BMO Capital Markets*

George Staphos, *Bank of America Merrill Lynch*

Nathan Reilly, *UBS*

Kyle White, *Deutsche Bank*

John Purtell, *Macquarie Group*

Salvator Tiano, *Seaport Research Partners*

Adam Samuelson, *Goldman Sachs*

Keith Chau, *MST Marquee*

Scott Ryall, *Rimor Equity Research*

Richard Johnson, *Jefferies*

Brook Campbell-Crawford, *Barrenjoey*

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PRESENTATION

Operator Instructions

Tracey Whitehead

Thank you, Operator, and welcome, everyone, to Amcor's First Half Earnings Call for Fiscal 2022.

Joining the call today is Ron Delia, Chief Executive Officer, and Michael Casamento, Chief Financial Officer.

At this time, I'll direct you to our website, amcor.com, under the Investors section, where you'll find our press release and presentation, which will be discussed on the call today.

We'll also discuss non-GAAP financial measures and related reconciliations can be found in the press release and presentation on our website.

Also, a reminder that the call today includes some forward-looking statements, which remain subject to certain risks and uncertainties. Please refer to Amcor's SEC filings, including our statements on Form 10-K and 10-Q, to review factors that could cause actual results to differ from what we are discussing today.

During the question-and-answer session, once again we request that participants limit their questions to a maximum of two and then rejoin the queue for any follow-ups.

With that, I'll turn over to Ron.

Ron Delia

Thanks, Tracey, and thanks, everyone, for joining Michael and myself today to discuss Amcor's Fiscal 2022 First Half Results.

We'll begin with some prepared remarks, before opening the line for Q&A.
Starting with safety, which is where we start every meeting at Amcor. It's the first and most important of our values, and keeping every one of our 46,000 employees around the world safe and healthy is our highest priority.

In the last six months, we reduced the number of injuries across the Company by 10%, compared to the prior year, and 58% of our sites have remained injury-free for at least 12 months. Our teams have continued to make good progress on safety despite the complex environment, and we're proud of their focus, dedication and performance. However, our ultimate goal is no injuries, so there's more for us to do.

We have four key messages today on Slide 4.

First, we delivered a solid result through the first half and we can confidently reaffirm our full year guidance. While we continue to navigate through the challenging and dynamic operating conditions affecting the entire industry, our teams are executing and performing exceptionally well. We continue to prioritize our customers, and our scale and operational agility have enabled us to service demand and drive growth in priority segments, while also recovering higher input costs at the same time.

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We've also increased cash returns to shareholders, which is our second key message. We now expect to return more than $1.3 billion of cash in Fiscal 2022, through dividends and share repurchases.

Third, we've built a strong foundation over the last several years and we're focused now on investing for long-term growth, with an emphasis on priority segments and geographies and our innovation capabilities.

Finally, for many years, we've made great progress against a broad range of sustainability goals, and we're raising our ambitions again with a commitment to achieve net-zero greenhouse gas emissions by 2050.

Turning to the financial highlights on Slide 5, we delivered double-digit net sales growth, which includes approximately $650 million of price increases. We remain incredibly proud of our teams and in the tools and capabilities we've developed over many years that enable us to continue recovering increasing costs, in an environment characterized by broader inflation than we have seen for some time.

Excluding this pass-through impact, organic sales grew 2% on the back of higher volumes and favorable mix. All segments and every geographic region contributed to organic sales growth, and volume growth accelerated in the second quarter in both our Flexibles and Rigid Packaging businesses.

The Flexibles segment had a particularly strong quarter, generating high-single-digit earnings growth, and margins remained strong.

In Rigid Packaging, our results for the half year were in line with our expectations. The business continued to experience a particularly challenging environment in North America, which resulted in operating inefficiencies and higher costs, although we are encouraged by a number of favorable trends we've seen through the half, and earnings improved as we exited the second quarter.

EPS increased 9% for the half, our financial profile remains strong and cash returns to shareholders are significantly higher. We've repurchased almost $300 million of shares in the first half, and we expect to repurchase a total of $600 million through Fiscal 2022, which is $200 million higher than we anticipated last quarter. Combined with dividends, this means we anticipate returning more than $1.3 billion of cash to shareholders for the Fiscal 2022 year.

With that, I'll hand over to Michael for some further detail on the financial performance.

Michael Casamento

Thanks, Ron. Hello, everyone.

Turning to Slide 6, and beginning with Flexibles. The business performed very well through the half year, as our teams demonstrated impressive focus when it comes to recovering higher input costs and managing operating performance, whilst delivering growth in higher value priority segments.

Reported sales growth of 10% for the half includes recovery of approximately $480 million of higher raw material costs, or 10% growth, compared with last year, and in the December quarter, recoveries reached almost $1.1 billion on an annualized basis.

Consistent with the outcome in the first quarter, and as expected, the overall price/cost impact in the first half was unfavorable, but remains manageable, given the diversity of materials we buy, the multiple regions in which we consume those materials, and the implementation of a broad range of pricing actions. As a result, margins have remained strong at 12.9%, despite higher raw material costs and related pricing

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recovery. That's $480 million through the half, but top line recovery alone had an unfavorable impact on margins of 130 basis points. Excluding this raw material impact, revenue growth of 2% was driven by favorable mix across the business and reflects our long-term strategy of optimizing performance through the delivery of consistent growth in priority segments, including healthcare, coffee and pet food.

Notwithstanding the dampening effect on volumes that supply chain disruptions had during the period in some categories, including healthcare and protein products, overall volumes across the business were in line with the first half last year and we saw low-single-digit volume growth in the December quarter.

In terms of earnings, Adjusted EBIT was up 7% for the half year and reflects growth in high value segments and strong operating cost performance.

Turning to the Rigid Packaging business, on Slide 7, reported sales grew by 17% in the half, including 13% related to the pass-through of higher raw material costs. Excluding the raw material recovery, the business delivered year-to-date sales growth of 4% against a strong period of double-digit growth last year, and this included a 3% increase in volumes, as well as a 1% price mix benefit.

In North America, underlying demand in the beverage business remained strong and year-to-date volumes were 3% ahead of the same period last year, accelerating to 6% in the December quarter, and building on 13% growth delivered in the second quarter last year. Hot-fill container volumes were broadly in line with the second quarter last year, notwithstanding we are cycling growth of almost 30% in the prior year. We have seen good volume growth in isotonics, as well as iced tea categories, where customer demand for 100% recycled PET bottles has been strong. Specialty container volumes were lower against the prior year, which also benefited from higher volumes in the home and personal care category.

In Latin America, the business delivered double-digit volume growth, reflecting strength in Argentina, Mexico and Colombia, and earnings were higher.

From an earnings perspective, the business in North America was adversely impacted, as we expected, by inefficiencies and higher costs resulting from industry wide supply chain complexity and disruptions. As Ron mentioned, earnings performance improved as we exited the second quarter, and this was helped by a number of positive trends, including better availability of PET resins and new capacity coming online, which also supported our ability to build some additional inventories ahead of the peak summer season.

Although the operating environment is likely to remain dynamic and somewhat complex, we anticipate conditions will continue to improve and earnings for the Rigid Packaging segment are expected to grow in the second half, compared with the same period last year.

Moving to cash and the balance sheet, on Slide 8, first, as a reminder, our cash flow is seasonally weaker in the first half of the fiscal year, and this year we delivered cash flow within our range of expectations for the half, particularly in light of a higher cost environment. First half cash flow was below last year, and this mainly reflects the timing impact of higher raw material costs on working capital across the business, along with planned inventory increases. We continue to maintain a strong focus on working capital performance, which is even more critical in an inflationary environment, and our rolling working capital to sales ratio remains below 8% and in line with last year.

As planned, capital expenditure is tracking higher than last year, as we have stepped up organic investments in priority segments and geographies. Amcor's balance sheet remains strong, with leverage at 2.9 times on a trailing 12-month EBITDA basis, which is where we would expect to be at this time of the year, given seasonality of cash flows.

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Cash returns to shareholders in the first half were almost 50% higher than last year, and we increased our quarterly dividend per share and repurchased a greater amount of shares. As Ron mentioned earlier, we now expect to allocate a total of $600 million towards share repurchases in the 2022 fiscal year, which includes the additional $200 million announced today.

Taking us to the outlook, on Slide 9. The business delivered a solid result for the half, in line with our expectations, and the outlook for our business remains positive. This enables us to do two things today.

First, reaffirm the 2022 guidance we outlined in August and November, where we continue to expect adjusted EPS growth of 7% to 11% on a comparable constant currency basis, which represents an EPS guidance range of approximately $0.79 to $0.81 per share on a reported basis, assuming current exchange rates prevail for the balance of the year, and we continue to expect free cash flow in a range of $1.1 billion to $1.2 billion.

Secondly, our positive outlook leaves us well positioned to increase our share repurchases by $200 million in Fiscal 2022, as previously mentioned. It's important to note the majority of these additional repurchases are expected to take place in the fourth quarter, and due to the limited impact this will have on the weighted average number of shares outstanding in Fiscal 2022, there is not expected to be any real benefit to EPS growth until Fiscal 2023.

With that, I'll hand it back to Ron.

Ron Delia

Okay, thanks, Michael.

Before closing and turning it over to Q&A, just a few minutes on the longer term, starting with our investment case on Slide 10. We've maintained a consistent strategy for several years now that's guided how we've evolved our portfolio and developed our capabilities and, as a result, Amcor is better positioned strategically than ever before, with a stronger foundation for growth and shareholder value creation.

We've managed the portfolio so that we are now the global leader in most of our chosen segments within the primary packaging space for fast-moving consumer goods and healthcare products. We have absolute and relative scale advantages and a strong track record of performance. That track record relates to our consistent earnings growth and margin expansion, and the significant free cash flow we generate every year. With a strong balance sheet, we are able to use that cash flow to step up investments for growth, including in Fiscal 2022, where we expect capex will be about 15% higher than last year, and we can see that leading to increasing momentum across the business. At the same time, we're also returning a significant amount of cash to shareholders in the form of regular share repurchases and a growing dividend.

Now, organic growth has always been a key driver of our overall financial performance and we are actively investing in several areas, highlighted on Slide 11, that will continue to drive long-term growth.

First, we're strategically focused on the most attractive segments, and this guides how we prioritize investments back into the business. We'll talk more about these segments in a minute.

Second, we continue to see tremendous opportunities to invest and extend our competitive advantages in emerging markets. We already have a leading emerging markets portfolio that generates roughly $3 billion in annual sales, and we see no shortage of growth opportunities in these markets, where we expect mid-single-digit growth and good profitability over the long term.

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Third, innovation and our world-class R&D capabilities remain a clear differentiator for Amcor. Innovation will increasingly contribute to organic growth going forward, as we partner with customers to develop more sustainable and high-performance solutions for their specific needs and those of their consumers.

Slide 12 takes a closer look at some of those higher growth priority segments. These attractive segments are expected to represent an increasing percentage of our sales mix and contribute to consistent margin expansion. Amcor has a leading position in each of these categories, which, collectively, generate over $4 billion in annual sales today, and which share a few common features.

First, these are large addressable markets, each well over $1 billion, and the growth rates are all higher than the average across broader consumer markets; meaning, there's significant room to grow. There are also many opportunities to differentiate across these categories, given the need for higher performance features, such as barrier, heat resistance and resealability, which, in turn, drives higher margins.

In order to fully capitalize on the great potential, we're increasingly allocating capital toward these segments. In healthcare, we're investing to add capacity and capability in Europe and Asia. In this quarter, we celebrated the opening of a state-of-the-art medical packaging facility in Singapore to service accelerating demand in the Asia-Pacific region. We recently began ramping up production on new assets in the coffee segment, and we're adding hot-fill capacity in our Rigid Packaging business in North America, given the sold-out environment and positive growth outlook. Over time, we expect mid-single-digit growth in these segments, which will drive continued sales mix improvement and sustainable margin expansion.

Moving to Slide 13, sustainability is increasingly embedded in everything we do, and we continue to believe this represents our greatest opportunity for growth and differentiation. We also continue to believe responsible packaging is the answer to addressing concerns around packaging waste, and by "responsible packaging," we mean the combination of packaging design, waste management infrastructure and consumer participation.

Amcor recently commissioned a global survey, which enabled us to hear directly from 12,000 consumers around the world and provided some powerful insights. Among them, recyclability is considered by far the most important environmental attribute of packaging, more important than which material is used or whether the package is reusable. Three-quarters of respondents indicated they would like to recycle more, and more than two-thirds said they're willing to pay more for a product with a package that's recyclable.

Our package design efforts have always had the consumer front and center, and we're making great progress innovating against those consumer needs. Across our own portfolio, over 95% of our Rigid and Specialty Carton packaging is recyclable today, but our most significant progress over the last two years has been in our Flexible Packaging segment, where multiple materials are often required to deliver the required functionality. Today, 76% of our Flexible Packaging portfolio has a recycle-ready alternative, and this represents substantial progress from 56% just two years ago.

An important contributor to this progress has been the launch and commercialization of new product platforms, such as AmLite, AmPrima and AmSky, and last week we announced AmFiber, a new platform of performance paper packaging. These technology platforms will be leveraged across our global footprint, across multiple categories and for multiple customers, to provide the more sustainable and high-performing packaging consumers are looking for and to drive growth and margin expansion for Amcor.

Responsible packaging is a critical element of our sustainability agenda, but every company's environmental footprint goes beyond the products it makes. To lead the way and reach our own ambitious

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goals, we launched Amcor's EnviroAction Program in 2008, and since then we've reduced the environmental impact of our operations by continuously exploring new and more impactful ways to reduce emissions, waste and water at every location. The value created for our customers and the environment through our work on a range of ESG initiatives has been recognized by several independent organizations, and Amcor's continuing to demonstrate industry leadership.

Last week, we increased our ambitions again by committing to achieve net-zero greenhouse gas emissions by 2050, with near- and long-term targets aligned with the science-based targets initiative. We're excited to step up our ambitions to further reduce the carbon footprint of our products and operations, and to support our customers as they strive to meet their own goals for functional, high-performance packaging with the lowest possible environmental impact.

Finally, on Slide 15, to summarize, Amcor delivered a solid result through the first half, as we continue to perform well through challenging and dynamic operating conditions, and we've confidently reaffirmed our full year guidance. We've also increased cash returns to shareholders and expect to return more than $1.3 billion in Fiscal 2022 with dividends and share repurchases. Looking over the longer term, we've built a strong foundation for growth and value creation over the last several years, we're investing to capture that growth, and we're building on our sustainability progress as we use science-based targets to define our journey to net-zero emissions.

With that, Operator, we'll open the line for questions.

Operator

Your first question comes from Ghansham Panjabi with Baird. Your line is now open.

Ghansham Panjabi

Yes, thanks. Good day, everybody. For my first question, just the comments that you had in your press release about volumes being lower in certain categories, like cheese, coffee, frozen food, and then up in healthcare. I mean, you kind of stepped back, Ron. Is that just a function of mean reversion relative to pre-COVID levels, and maybe you could just talk about what's actually going on in the end markets in terms of demand, as consumers in different regions, such as the U.S. and Europe, navigate extremely high inflation relative to the previous baseline in terms of purchasing patterns.

Ron Delia

First, thanks for the question. I'm not sure it's mean reversion. I think we've been back to the more normal trading patterns now for at least five or six quarters. I think what we're seeing there is a good recovery in healthcare, which has been going on now for a couple of quarters in medical, and in the second quarter we started to see better pharmaceutical volumes. So, we had high-single-digit growth across the businesses in healthcare. That one is, I'd say, more of return to normal trading conditions.

As far as the food categories go, the only thing I would point out that's exogenous is some supply shortages we have on key inputs. We're still leaving some money on the table with sales that we can't realize and an order book that we can't completely fulfill, because we've got some materials that are just not as available as we'd like. That's the only thing I could point to. Otherwise, I think what you're seeing in the quarter at the segment level is the ebbs and flows that happen over any 90-day period.

Ghansham Panjabi

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Got it, and then for my second question, there is obviously, an enormous amount of beverage can capacity being added in North America, which will start to hit this year in particular. Have you looked at your Rigids business and looked at your backlogs, your share of new product introductions, that the beverage customers may be introducing, etc? How do you see that dynamic playing out for Amcor's Rigids business?

Ron Delia

Well, firstly, the demand in that business is super-strong, and that's the big driver of the profit. The shortfall that we've had so far in the first half is that we are just over-sold, and in the second quarter we had volume growth of 6%, which comes on a year-on-year comp which was quite strong a year ago. So, the demand is really, really strong, would be the first point. We're adding capacity, as we've talked about, to try to alleviate some of the bottleneck.

The second thing is that we've never seen the plastic container really in direct competition with the metal can, because we see different distribution channels. You see PET primarily through the cold chain and through convenience stores, and more single-serve, and you see the can, historically, through big-box retail and 12- and 24-packs. So, we've not really seen competition in iced teas or sports drinks or hot-fill juices. When we talk to our customers, and we're as busy as ever on new product introductions, they're not really talking about the trade-off between one format or the other. It's more the format that's best aligned to their segment needs and their segment goals. Cans have been growing quite rapidly, capacity has been added for several years now. It hasn't slowed our volume growth, really, at all.

Ghansham Panjabi

Thank you, thanks so much.

Operator

Your next question comes from the line of Anthony Pettinari with Citi. Your line is now open.

Anthony Pettinari

Hello, good evening. Ron, on Rigids, given the supply chain issues and some availability issues that you've seen, would you anticipate getting back to a normal level of profitability? Is that by the end of fiscal 3Q or the end of the fiscal year? I'm just trying to understand what your full year guidance assumes on that front. As you look back on the first half, understanding maybe you can't do this, but in terms of the total EBIT impact of these disruptions, is there any way to put a finer point around that on the Rigids side?

Ron Delia

Yes, look, good question. I mean, firstly, the first question in terms of the outlook, the business has been improving, profitability has been improving through the first half, and it continues to improve as we go into the third quarter. What we said today is that we expect profit growth in the second half versus the second half last year. The pace of that is going to depend on a number of factors. We're not calling out specific guidance for the third quarter. I do expect, as we get towards the back end of this fiscal year, which is May/June period, we are in a new high season, I'd like to think that we are going to exit this year at a more normal level of profitability.

The reason I say that is there's a number of things that are working in our favor here.

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Firstly, demand remains strong, and it always starts with that. To Ghansham's question, demand has remained very robust, particularly in the beverage space. So, that's the first thing.

Secondly, we've been increasing capacity, and we've been adding incremental capacity throughout the last couple of quarters almost on a monthly basis, so we're going to end up adding around 5% to 10% capacity in the hot-fill network.

Then, thirdly, we're entering the third quarter with inventory, and with a reasonable amount of inventory, which is where you would typically expect us to be at the start of the third quarter. It's a seasonal business and you need to enter January/February with inventory. Last year, we didn't have any, and so that led to a bit of a ripple effect that we're still working our way out of.

Those are the reasons why we feel pretty optimistic about the second half, and the pace will be determined by just how quickly we can bring capacity onstream and our availability of inputs.

As far as the second question about the drivers of the profit impact, it's really hard to parse them out. There are three things going on there. One is demand just really outstripping supply at a rapid pace. That's led to inefficiencies in a sold-out environment, trying to service every last bottle of demand has led to just inefficiencies in the system. The second thing is we do have inflation and we are out recovering. You can see the price impacts in the sales line. Then, the third thing is just the performance in the business, and as managers you're always trying to isolate how much of it is performance in the business. We think it's actually been quite good. But, it's very hard to piece out the quantitative impact of those three different drivers.

Anthony Pettinari

Okay, that's very helpful. Then, just switching gears, on the AmFiber platform, can you give any more details there in terms of, is there any sort of incremental capex investments, maybe percentage of your volumes that might be fiber-based either now or in the future, and then is this targeting existing customers that are asking for maybe a paper option, or is it going to cannibalize existing sales, are you going after totally new customers, new categories, just any details there?

Ron Delia

Yes, look, it's rejuvenating categories which historically have not been at the highest level of priority. Confectionary is an important category, in volume terms, for us. This is a differentiated product that we're going to start launching in that particular segment. That just changes our outlook on the attractiveness of that space and the profitability.

Firstly, what is it? It's a paper-based platform that really threads the needle between the issues that pure paper solutions have, which is that there's no barrier, or coated paper, which tends to result in much lower fiber recovery and, therefore, at times is not recyclable. The AmFiber platform threads the needle between those two extremes. So, there'll be barrier properties. The product runs on the customer filling lines at generally the same speed, so there's no productivity discount that the customer has to wear. So, we're really excited about it. We're going to roll it out globally. I wouldn't expect any material change in capex, specifically related to this platform, but we are investing behind these platforms, generally, and these growth segments. We've alluded to that several times. So, we'll continue to deploy capital against the growth opportunity.

Anthony Pettinari

Okay, that's helpful. I'll turn it over.

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Operator

Your next question comes from the line of Jacob Cakarnis with Jarden, Australia. Your line is now open.

Jacob Cakarnis

Hi, Ron. Hi, Michael. I just wanted to get a better understanding of the working capital build. I know you mentioned that some of that does relate to some of the price increases that you're seeing across the raw materials. I just wondered how much of it is anticipatory, as well, just so as to avoid some of the supply chain issues that you mentioned that the Company was facing in the second quarter.

Michael Casamento

Hi, Jacob, thanks for the call. I can take that one. It's Michael here. Yes, as we outlined in the release, we've seen an outflow of working capital higher than the prior year, and, really, the key driver of that is raw material, both the raw material inflation and the timing of that flowing through the business. Then, in addition to that, in the second quarter particularly, we were able to take some planned inventory increases both in the Rigids and Flexibles business. Ron alluded to that on the Rigid space, versus last year, where we weren't able to increase inventory at all. Whereas this year, on Rigids, we are entering the third quarter and have been able to increase inventory, which you'll see that flush through the system in the second half. On the Flexibles side, we've seen some increases on a quarterly basis, to ensure we've got supply, and that again is going to flow through in the second half, which is why we're confident around the cash flow projection of the business in H2 and for the full year.

Jacob Cakarnis

Thanks, Michael, and then just the second part, maybe one for Ron. The first quarter, you did mention that you expected the resin supply, as it relates to the Rigids business, to improve into the second half. Is that still the case? Is there anything that you're seeing on the horizon that would bring that resin availability into question?

Ron Delia

No, not anything that threatens the supply, and I would say we did see a modest improvement through the quarter. That's one of the reasons for our more positive outlook in the second half, is that resin is generally more available. We're not all the way back to 100% supply, we're still at less than 100% of what we would like to source, but we are in a much better position now than we were three months ago.

Operator

Your next question comes from the line of Larry Gandler with Credit Suisse. Your line is now open.

Larry Gandler

Thanks, guys, for taking my question. I'd like to ask a question, or two, on sustainability. Ron, it looks like you're very well through your major sustainability goal of 100% recyclability by 2025, with only Flexibles now at 75% coverage. Is it time to start looking towards the next milestone? I see you've put the greenhouse gas emission target out. I am interested in that, so let me just interject with a question on that one. I think most of your emissions are Scope 3, so the question becomes would you guys invest

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collaboratively with your supply partners to reduce greenhouse emissions, and are there opportunities for doing that? Then, the other area I wanted to ask about was not only GHG emissions, but waste management. How do you articulate and establish goals, like you've done for recyclability, for waste management infrastructure, which is one of your objectives, as well?

Ron Delia

Yes, let me take the questions in order, Larry. Firstly, on the greenhouse gas emissions, this is the next logical step in our evolution and our journey. We've been on the greenhouse gas reduction path for over 15 years now. Back in 2008, we set our first public targets to reduce greenhouse gas intensity by 60%, and we're well on our way to doing that. That was a 2030 goal, and every few years we set a new benchmark for each of the areas of our action program, greenhouse gases, waste and water. So, that's where we are at. We are at a moment in time where it's time to rethink our objectives, and also speak in the same language as others. The science-based targets initiative has helped bring some standardization, in a sense, to the way companies talk about their greenhouse gas profile, and so we're jumping onboard that, with that initiative, and we'll set some near-term targets over the next 24 months as we work with that group to validate and qualify our targets, and report on what those targets are on the pathway to net-zero by 2050.

As far as the waste management part of the equation, firstly, you're right, we're making fantastic progress on the packaging design aspect of responsible packaging, and we're going to, without question, get to 100% of the portfolio with a recycle-ready option by 2025. We've no doubt about that at all. The take-up and the interest in demand from customers has never been stronger. That just continues to intensify. Many of them have the exact same goals.

The waste management piece of the equation is also one that we can influence, but not alone, and that's where some of the alliances that we're in, some of the work that we're doing with the Alliance to End Plastic Waste, some of the work with the Consumer Goods Forum, the Minderoo Foundation, Sea The Future initiative, it's going to take partnerships. I think, ultimately, what we want to see is that our packaging is not just designed to be recycled, but it actually is recycled. We know, and we cited today, this consumer research that we've done, that consumers want to recycle more, they would gladly recycle more if the infrastructure was more available, and so we all have a role to play, including government, and Amcor and our suppliers and customers, to make that happen, but that will not be Amcor alone.

Larry Gandler

Yes, Ron, that's why I focused on those two areas, because, unlike recyclability, these two things are out of your control and may require investments, much more significant capital investments than the recyclability objective. Your Scope 3 emissions are your biggest part of your emissions. My question is should you guys be paying dividends and buying back shares at the level you are if the next sort of sustainability objectives are going to be capital-intensive and require partnerships? That Alliance to End Plastic Waste, they talked about $1.5 billion of capital commitments by 2024. Their 2019 accounts, they did $8 million with subsidies. Maybe there's an invoice coming for some $200 million of infrastructure capital that's going to hit your desk, I don't know, but it sounds like you guys may need to put a stake in the ground in terms of the investment levels to reach those other objectives.

Ron Delia

Well, look, I'm not anticipating that we're going to put real meaningful capital in that part of the value chain. I mean, we are investing in pilots and we're happy to help fund pilots that are proof of concepts, and we're also happy to supply demand in the form of offtake agreements. We've got lots of pilots underway with a number of our suppliers on chemically recycled material, etc. But, look, waste

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management, it's not a narrow exercise, right? The waste management is a very local activity and it's usually collecting all sorts of materials, some of which are packaging after it's been used, but only a portion.

I fully agree with the notion that it's going to take a lot of money to get the waste management infrastructure around the world where it needs to be. I'm just not sure that, as a converter, it's the best use of our shareholders' capital.

Larry Gandler

Yes, I know, it's definitely a debatable question, but, okay, let's just move on to the next one, Ron. Just quickly, acquisitions, we haven't seen much from Amcor since Bemis. I'm just wondering if what you're seeing in terms of deals, is it businesses that don't really align or are the prices too high?

Ron Delia

Yes, it's a good question. I mean, firstly, we would like to be active. We clearly have a history of being acquisitive and a reasonably good track record of generating value out of acquisitions, and we would like to continue to do that. We will continue to do that. We're constantly in the deal flow. If there's a deal in our space that you're reading about, then you can rest assured that we've had a look at it.

I think there's a couple of things going on. It's only, probably, the last nine months or so, or six to nine months, where we've really been able to say that we've bedded down Bemis. Now, remember, that was the largest acquisition the Company has ever done, by a factor of three, and we were laser-focused on making that a success for the first two,two-and-half years, which is pretty much just bringing us to the last couple of quarters. I think that's well and truly behind us now and we certainly have the capacity to take something else on.

I think, at the same time, we've got asset prices that are quite elevated, and we've got businesses that are particularly difficult to do due diligence on right now. Increasingly, that will dissipate. The complexity that I'm referring to relates to the top line impacts that COVID has had on different businesses and it's very difficult to assess that.

It's a challenging period, we're going to remain really disciplined, but we'll be active and we'll get back on the acquisition bandwagon here sometime soon.

Operator

Your next question comes from the line of Mark Wilde with BMO. Your line is now open.

Mark Wilde

Good evening, Ron. Good evening, Mike.

Ron Delia

Hi, Mark.

Mark Wilde

For the first question, Ron, I just want to confirm where we are at in terms of the recovery in the medical device packaging area. I know Bemis have put a lot of money into a new facility up in Oshkosh. It

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sounded like, with the drop-off in elective surgeries, that business was running well short of capacity. Can you just update us?

Ron Delia

Yes, medical device packaging is as a good segment as we're participating in and we've seen a steady improvement over the first half of this fiscal year. I would say that demand is not all the way back, but most of the way there, and the demand is driven by elective procedures, surgeries and the like. Demand has mostly recovered from its lows during the COVID period. There's also some resins that we use in that business which have been in short supply, so that's also held us back a little bit. We are probably two-thirds to three-quarters of the way back to the baseline that you'd expect in that business. But, this is a very profitable part of the business, a lot of differentiation and innovation and IP. It's a business that historically has grown at least mid-single-digit rates. Now, in the first half, we've actually seen that, but we also realize that there's more to be had there.

Mark Wilde

Okay, and then the second one I had is another follow-on around M&A. A long-time entrepreneur in the premium carton market has a new private equity vehicle, so in my mind, it raises a question about how you would assess the options around your carton business? It's a smaller piece of Amcor, overall. If somebody was out there looking for premium folding carton assets, you've got them. How would you have us think about how you assess that business?

Ron Delia

Well, the cartons business, it's between 7% and 8% of our sales today, but it's an important piece of our offering, and I think even the AmFiber platform today, that we've talked about, speaks to the importance that we place on having a diversified substrate mix. It's a business that is a highly cash-generative business and it has a clear leadership position in its markets, so it's a pretty important part of the portfolio. I mean, that said, we're economic rationalists, but there's no desire to make any kind of big shift in the portfolio at this particular point in time.

Mark Wilde

Okay, fair enough. I'll turn it over.

Operator

Your next question comes from the line of George Staphos with Bank of America. Your line is now open.

George Staphos

Hi, and thanks for taking my question. Good evening, everybody, good day. I guess, first of all, I'm not surprised about what you found from your study, Ron, in terms of recyclability being most important for the consumer, and translating that into recycling will be key from here. I guess I had an operating question and then a follow-on bigger picture question.

In Rigids, you've had these operating issue and inefficiencies that, through no fault of your own, have taken away performance from where it otherwise would have been. What options do you have as contracts come up for renewal. What desire do you have for maybe building in additional clauses to your contracts to capture some of those inefficiencies, when they're not in your control and you're doing what you can to service the customer.

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Relatedly, within Flexibles, on operations, with the volume accelerating in the quarter versus 1Q, and certainly all the pricing action that you're seeing, I would have expected maybe a bit more dollar traction and EBIT in the quarter. That's neither here nor there, but if there's a way that you could quantify if inefficiencies in Flexibles maybe cost you some performance in 2Q, recognizing you're very happy with the performance. If there's a way that you could quantify that, that would be great.

Ron Delia

Yes, I'll take the Rigids question and Michael can comment on Flexibles and the raw materials impact there.

In Rigids, the contracts are quite robust. Ultimately, you always have to make a choice. At the level of demand that we've seen in that business, and you run into this periodically, you're sold out. When you're sold out, then the costs to produce the marginal unit are almost infinite, right? So, you end up in this conundrum. Even with what we would say are pretty watertight contracts, that have served us well over the years, and have been quite fair, I think, with the customer, as well, you end up in a situation where you probably would make more money if you didn't take the last order, but we're in this for the long haul and we've got customer relationships that date back decades and we expect to maintain for decades into the future, so you have to wear it a little bit. I would imagine that the customers are also wearing it, and we know this for a fact, they've got their own disruptions from trying to service their own peak demand. I'm not sure that there's a contract mechanism to capture the uniqueness of the environment that we've just faced. I think the answer to it is to get out in front in terms of inventory build when you have a seasonal business, like we have, and to just make sure that we're keeping abreast of the capacity needs and adding capacity on a regular basis, which is what we're doing.

Maybe Michael can comment on the Flexibles profit impact and profit leverage.

Michael Casamento

Yes, sure. Thanks, Ron. In the Flexibles space, we closed the half out, EBIT grew 7%, pretty consistent growth over both quarters, some improvement in volume in Q2, as you mentioned. We're still cycling some pretty high raw material costs. In the half, we recovered $480 million in the top line, which is about 10%. That said, there was still some price/cost lag, which is manageable, but it is still a negative on the business. As we look forward, we'd expect that that starts to ease as we head into the second half and it should abate somewhat. So, really, that's the key difference on the Flexibles side. We're still seeing really good performance in the priority high value segments, that Ron touched on earlier, and margins, overall, have held really strong at 12.9%. If you take that top line recovery on the raw material out, margins would have been 130 basis points higher, and, in fact, 70 basis points ahead of prior year. So, overall, we feel pretty good about where the Flexibles business is at and, particularly, that recovery on the raw material and how that looks moving forward.

George Staphos

I appreciate the thoughts there. A quick one just in terms of increasing the value return, I don't think anyone's complaining, but considering that you only maintained your guidance—and, again, you're having a very solid year, it's in line with expectations—what prompted your ability to raise the value return, recognizing it happened at the end of the year? Thanks, guys, and good luck the rest of the way.

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Michael Casamento

Yes, as we've said, we've got a really, really strong balance sheet right now. The cash flows are solid, and the second half looks pretty strong on that front, as well, so we've got flexibility in the system. We announced a $400 million buyback in August. Based on where we sit today, we can announce a further $200 million, and that's what we've done. We still have flexibility in there, so if M&A transactions come along, we can do that, as well. But, the underlying performance of the business is strong and enabled us to announce that further buyback.

George Staphos

Thanks, Mike, that's what I was getting at. Good luck in the quarter. Bye-bye now.

Ron Delia

Thanks, George.

Operator

Your next question comes from the line of Nathan Reilly with UBS. Your line is now open.

Nathan Reilly

Hi, Ron. Just a quick question but it's a question I've asked before, over the last couple of years, just around Bemis. I know that the focus over the last couple of years has been on the integration of that business and, obviously, delivering the cost synergies, but now that the heavy lifting's been done on that front, is your focus now able to shift to start realizing some of the potential revenue synergies from that acquisition, and I'm also curious to what extent is that related to, potentially, the growth that you're targeting in these priority Flexibles segments?

Ron Delia

Yes, I think the short answer is yes. I mean, I'd like to believe that we've been extracting commercial benefits from day one and different ways of managing mix and managing raw material passthrough, and the way the capabilities that I think Amcor brings to the table, I think have been accruing benefits over the legacy Bemis portfolio from the beginning. But, as far as it relates to growth, no question, the organization is now orienting itself towards generating a bit more growth. We've got a number of tools at our disposal to do that.

I think you're seeing evidence already of things that you could label revenue synergies. If we look at some of these new product platforms, that we've spoken about, in some respects, those are examples of revenue synergies. The AmLite platform, which is our recyclable pouch for human food or pet food is an example of an innovation that Amcor had developed which will be leveraged over the legacy Bemis footprint. Going the other way, the AmPrima platform, which is again recycle-ready, all-polyolefin structure, is a legacy Bemis platform that we're leveraging around the world on the legacy Amcor footprint. So, I think you're seeing examples already, and there's a lot more sort of smaller examples, where we've supplemented capacity from out of the region. We've seeded some of the healthcare growth in Asia from some of the legacy Bemis assets, that someone asked us about earlier.

So, the short answer, Nathan, is yes, the agenda is evolving, but I think we're also seeing some benefits in real time here, and probably have been for the last couple of years.

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Nathan Reilly

Got it, and a follow-up question just on the volume growth, 1% across the group this half. Notwithstanding the supply chain constraints and challenges, and raw material challenges you've been facing, what sort of volume do you think was left on the table because of those issues?

Ron Delia

I would say another percent or two. I'd say it's the delta between long-term average of low-single-digit growth, which is a couple of percentage points, and where we were. I think it's as straightforward as that. This is a business that prioritizes mix. The mix is the thing that we're constantly trying to optimize, and when you do that, sometimes you don't satisfy every last order. So, I'd say it's a couple of percentage points.

Nathan Reilly

Yes, got it, understood. Thanks for taking my questions.

Operator

Your next question comes from the line of Kyle White with Deutsche Bank. Your line is now open.

Kyle White

Hey, thanks, appreciate it. On M&A, you've integrated Bemis, which was a large transformational acquisition, as you mentioned, but would you have the appetite and willingness to complete another large transformational deal in the near term, and maybe increase your resin buying skill, if such a deal were to come to market, or would you be looking at bolt-on deals for specific technologies or end markets, rather than just scale?

Ron Delia

I would probably say that we would not be doing something just for scale. I'd love to—and the Company has shown over the years that it's thrived and really rallied around big transactions. Going back, obviously Bemis, the Alcan transaction we did about 10 years ago, these have been company-defining transactions that have really seen us get to new levels. So, we'd love to be able to find something like that. But, the target set is what it is and it's the competition that we're dealing with in the market every day, and that means most of the deals, like 90-plus percent of the opportunity space out there, are going to be what you'd probably characterize as bolt-ons. So, it's going to be strategy first and scale second. We wouldn't do something just to get bigger.

Kyle White

Got it, and then on Latin America, it seems like volumes are up nicely in that region. Are you seeing any impact from the slowdown in the macro-economy in Brazil or the rise of COVID cases in that region?

Ron Delia

Latin America has been a tale of a couple of different stories for us. In the Rigids segment, we had a fantastic half, with double-digit volume growth and really good earnings growth. In the Flexibles space, we were exposed to some other categories. We were exposed to home and personal care, for example,

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which had a really strong year one year ago, and so volumes were actually a little bit behind in the Flexibles space. So, it's been a bit mixed. I think some of the segments in food and personal care have been a little bit more impacted by the macro-environment and some of the COVID impacts, whereas the beverage space, we've not had those impacts. So, it's a bit mixed. Still an important region for the Company. It's a set of businesses we've been in for a long time and we're confident in the long-term outlook, but it's a bit mixed at the moment.

Kyle White

Thank you, appreciate it, Ron.

Ron Delia

Thanks.

Operator

Your next question comes from the line of John Purtell with Macquarie. Your line is now open.

John Purtell

Good day, Ron and Michael, how are you?

Ron Delia

Good, John, thanks. How are you?

John Purtell

Not too bad, thank you. Just the first one, on the Flexibles side, appreciate it's only a 90-day period, but there was a slightly less incremental earnings uptick in the second quarter versus the sequential first quarter than what we've seen historically. It looked like there was a bit of adverse FX in there. But, was there a slightly larger—I know you haven't called it out as a material item, but was there a slightly larger earnings drag from raw mats in the second quarter versus the first, or anything else to call out there?

Michael Casamento

Hi, John, it's Michael, I can take that one. Look, overall, it was a pretty consistent performance quarter-on-quarter. it's a 90-day period, there's some minor puts and takes. In terms of the raw material price/cost, that remains pretty consistent, as the lag overall was pretty consistent and manageable, as I said earlier. So, really, it's a 90-day period, but it's been pretty consistent. We got 7% for the half, we had 8% in the first quarter, 6% EBIT growth in the second quarter, so nothing really to call out on that front.

John Purtell

Okay, and just the second one, I'm just interested in what you're seeing on raw materials. You've made some comments there on supply chain and Rigids improving, but just in terms of raw materials, are you expecting any relief there in the second half? I think U.S. resin prices have come back a bit, but you've also announced up to a 15% price rise effective January.

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Michael Casamento

On the raw materials side, you're right, it's a little bit mixed across the globe. As we exited the second quarter, we did start to see some easing in North America and Latin America on certain input types , but then Asia and Europe, you're still seeing some increases there. So, as we look forward, I'd say it's reasonably balanced and stable as we look ahead, but there's some mix differences across raw material inputs and geographies. Overall, we see things reasonably stable and perhaps coming off slightly in Q4, but we'll see where we go with that.

John Purtell

Got it, thank you.

Operator

Your next question comes from the line of Salvator Tiano from Seaport Research Partners. Your line is now open.

Salvator Tiano

Yes, hi, Ron. Thanks for taking my questions. I want to come back a little bit on the fiber packaging that you're investing in. Firstly, if you can talk a little bit about your plastics versus fiber, especially because certain) plastics are better, or can be better from a recyclability standpoint, and generally you're not—you mentioned you're not really seeing any substitution, or at least on a big scale, in favor of paper. So, has your view changed and are you seeing bigger threats to plastics in some regions?

Ron Delia

We see a big opportunity here, there's a sweet spot in the fiber-based or paper-based flexible area that we think we have a good solution for, so somewhere between pure paper solutions, which typically have less functionality and no barrier, or coated paper, which typically have lower fiber recovery and therefore, at times, might not be recyclable. We think we've come up with a better mousetrap that splits the difference, so to speak, and provides a paper-based solution for anyone who wants one, and there are certain categories where there are paper solutions out there now. Confectionary would be one of them, and we've got some paper in confectionary, and have for a long period of time. So, this is more of a product-based opportunity that we see than anything else. We continue to believe that plastic-based flexible packaging quite often is the best environmental solution to satisfy all the different criteria that our customers have and consumers have. So, there's no philosophical change, other than an opportunity to deliver to the market an innovation that we think is unique.

Salvator Tiano

Great. So, essentially, it's more of an offensive move rather than defensive here.

Ron Delia

Yes.

Salvator Tiano

The other question is again regarding the fiber packaging option. Can you remind us a little bit, excluding obviously folding carton tobacco, which is kind of a different category, what paper-converting businesses

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do you have, in which regions, and how important would M&A be to expand your new innovations in fiber packaging?

Ron Delia

In the Flexibles perimeter, not including cartons, we have a big foil-based business and we have a reasonable business that has got paper in the structure, and those are both global. We have paper-based structures in medical packaging. We have paper solutions in protein. We have a platform called SkinNova, which is a combination of a laminate that peels off and a paper-based tray for meat. We have another called Paperly. So, we've always had paper solutions. It's not the largest part of our portfolio, but paper and foil, collectively, would be probably 20% of our Flexibles portfolio.

Salvator Tiano

Great, and just on M&A, would that be an important strategy to expand here?

Ron Delia

I'm not sure that M&A is really the answer here. I think that growth in this space largely comes from innovations and I think we've got capability. There are probably good ideas out there that we don't have, that we could access, maybe, in a commercial sense, but I'm not sure that we'd be thinking about any sort of material M&A against this trend.

Salvator Tiano

Okay, great. Thank you very much.

Operator

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

Adam Samuelson

Yes, thank you. A lot of ground has been covered this evening, so I'll ask just one question on the demand side, and it really speaks to what you're hearing from your packaging and CPG customers around demand elasticity. Given all the inflation that they're absorbing and that's being passed on to the consumer, are you seeing any signs that the consumer can't take it anymore, in terms of price increases, and you're seeing that impact specific categories or shifts into value, or things that would have an impact on your volume and your mix as you look out over the course of calendar 2022?

Ron Delia

Yes, it's a good question, I think it's on everyone's mind. Firstly, I would contextualize by just reminding you that in most categories that we're participating in the package is a very small part of the overall cost of goods that our brand and our customers or our healthcare customers are bringing to market, so it's not the most material driver of their income statement, generally.

Adam Samuelson

Ron, I would just speak there. I'm not trying to imply that it's your price increases that are driving it. I think it's broader inflation, probably, broadly.

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Ron Delia

No, I get that, I just wanted to make that contextual point, but that said, from the conversations we've had with customers—and also, their public commentary through this earnings season, and probably even the last one—they're not seeing the elasticity that they may have historically had modeled and anticipated. At this point in time, price increases seem to be going through. Demand seems to be sustained across the categories that we're exposed to.

Adam Samuelson

Okay, that's all really helpful. I'll pass it on. Thank you.

Operator

Your next question comes from the line of Keith Chau with MST Marquee. Your line is now open.

Keith Chau

Hi, Ron. Hi. Michael. First question, Ron, just following up on John's question earlier on price/cost and completing that discussion point. Price/cost was upside down in the quarter and raw materials have now flattened off. You've got price increases in the mix now. Do you expect price/cost to come out neutral in the third quarter and potentially right-side up in the fourth quarter? Can you give us a bit more clarity on that?

Michael Casamento

Yes, I can take that one, Keith. It's Michael here. Yes, look, as we said, in the first half, the price/cost lag was unfavorable, but manageable. As we said earlier, the raw materials appear as though, on balance, they're starting to stabilize as we head into Q3, and we also see that the price/cost lag should ease as we head into Q3, and perhaps get closer to neutral. Then, as we look forward into Q4, let's see what happens with the raw material pricing, but at this stage, if raw materials do ease as the indices forecast would suggest, then, perhaps that's a slight positive recovery in the fourth quarter, but let's wait and see what happens on that front.

Keith Chau

Just to be clear, you're not expecting the price/cost issue to get worse as the year progresses, it should be a delta on the second derivative.

Michael Casamento

Correct.

Keith Chau

Okay, excellent. Then, secondly, on cash flow, I know we've talked a lot about working capital unwinding, but the quantum of cash flow into the second half of the year is 90% of your target. I think in the last couple of years it's been around 75% of target that you'd need to deliver in the second half. So, will it purely just be the factors that you've called out, working capital unwind and slight improvement on capacity, to generate more cash flows that would drive that outcome, or are there any other factors that we should be considering outside of that?

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Michael Casamento

No, you have pretty well covered it, Keith. As you know, cash flow is definitely seasonally weighted to the second half of the year, particularly Q4, and in the first half of this year, versus last year, we did see some unfavorable impacts, particularly, in working capital and inventory. We're expecting that to unwind in the second half, and with the higher earnings, they are the two key elements that will see us deliver within that range, and we feel pretty confident around that just based on past experience. If you look at the cash flow in the second half of last year, then take into account some of the unfavorable working capital impacts we had in the first half, and reversing, then, it seems a pretty consistent view in terms of the second half delivery on the cash flow, so we feel pretty confident around that.

Operator

Your next question comes from the line of Scott Ryall with Rimor Equity Research. Your line is now open.

Scott Ryall

Hi, there. Thank you very much. Could you give us an update around your targets for using recycled material in your packaging, please, just where you are up to on that?

Ron Delia

We have a target of 10% recycled content by 2025, and we're making great progress. Predominantly, the use of recycled content at the moment is in our Rigid packaging business. We've gone from 5% in that business in 2019 to over 10% last year. This year, we will be well over 15%. In terms of actual tons or pounds of material, that number is doubling just about every 18 months, so we are making really good progress. Then, in parallel, we're pretty excited about some of the applications in Flexibles, as well as some of the projects that we're working on in chemical recycling, to get that number up even further.

Scott Ryall

Okay, and are you seeing any difference in the pricing of recycled materials versus virgin?

Ron Delia

Absolutely. Yes.

Scott Ryall

Can you comment on the pricing of raw materials versus virgin?

Ron Delia

They are at a premium in Rigid packaging, which is the primary user of recycled PET in our business. The premium now for recycled PET is between 40% and 50%. That number ebbs and flows, but it's as much demand-driven right now as it is supply and cost-driven.

Scott Ryall

Okay, thank you very much, that's all I had.

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Operator

Your next question comes from the line of Richard Johnson with Jefferies. Your line is now open.

Richard Johnson

Thanks very much. Ron, just a couple of quick questions back on Rigids plastics. To what extent do you think that the business is at a strategic disadvantage, and that may explain some of the profit impacts that we're seeing at the moment, and what I mean is that your principal competitors have a far greater onsite presence than you do, and I was just kind of wondering whether that's having an impact.

Ron Delia

I don't think so, Richard. I think no one in this space is having an easy time of it, and you can see that yourself from the results that others have published, so I don't think we are at any disadvantage. I think we have some quite sizeable onsite installations on the beverage side of the business, which is really where it matters the most, and then we have scale from a network perspective and from a procurement perspective. So, I don't think the business is disadvantaged. I think it's just a combination of factors at the moment, starting with demand, which is a good problem to have, which has just conspired to lead to a rough profit outcome for a couple of quarters.

Richard Johnson

Okay. Sort of following on from that, when you think about it strategically, given that pretty much everybody else in that space has moved to an onsite strategy, how do you think about the long-term prospects of that business given that you've gone in the other direction?

Ron Delia

I don't think we've gone in the other direction. I would say, over time, a lot of the capital that's been deployed in the beverage segment of that business has been for onsite installations, but it's not necessarily a panacea. There are times when it makes sense to go onsite and then times when it makes sense for everybody, including the customer, to supply from a different location. I wouldn't say that it's necessarily that one answer or one-size-fits-all for everybody. I think, over time, our network has been more onsite than offsite in terms of our capital deployment, but I don't think that we have any kind of a disadvantage as a result of our footprint.

Operator

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

Brook Campbell-Crawford

Yes, thanks for taking my question. I'd just like to highlight on Slide 13, just the run rate that needs to be redesigned between now and 2025 to be recyclable. Are you able to drive the quarter, roughly, of that portfolio that is remaining to be redesigned? That would be the first question. Then, also, what does profitability look like for that 25% odd of the business now compared to the portion of the portfolio that's already been redesigned to be fully recyclable?

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Ron Delia

The structures that are still to be redesigned are some of the more sophisticated structures out there, you wouldn't be surprised to hear me say that. Quite often they are ones where we have something very different in the market, and some sort of a competitive advantage. That means that the science and the research required is just going to be more difficult and take some more time. There are certain medical segments, or healthcare segments, I should say, some of the protein structures, that we are still working on alternatives for. Those would be some that come to mind, Brook, but, generally speaking, what's left is the harder part of the portfolio, but, on the other hand, some of the more profitable segments that we're participating in, too.

Operator

Ladies and gentlemen, this concludes our question and answer session. I will now turn the call back to Management for closing remarks.

Ron Delia

Thanks, Operator, and thanks, everyone, for joining us today and for your interest in Amcor. We've had a solid first half and our outlook is for a strong finish, as well, and a very strong Fiscal 2022.

So, I think with that, we'll close the call.

Operator

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

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