Amcor plc

Third Quarter Year to Date Results 2021

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PRESENTATION

Tracey Whitehead

Thank you, I'd like to welcome everyone to Amcor's Third Quarter Earnings Call for Fiscal 2021. Joining the call today from Amcor's side is our Chief Executive Officer, Ron Delia, and Chief Financial Officer, Michael Casamento.

At this time, I'll direct your attention to our website amcor.com under the Investors section where you'll find our press release and presentation which we will discuss today. We'll also discuss non-GAAP financial measures and related reconciliations that can be found in those documents on our website.

As a reminder, the call today includes forward-looking comments which remain subject to certain risks and uncertainties. Please refer to our SEC filings to review factors that could cause actual results to differ materially from what we are discussing today.

With that, I'll hand over to Ron.

Ron Delia

Thanks Tracey and thanks everyone for joining us today to discuss Amcor's year-to-date results. Joining me on the line, as Tracey indicated, is Michael Casamento, our Chief Financial Officer, and we'll begin with some prepared remarks and then open the line for Q&A.

Starting with Slide 3, we begin every meeting at Amcor with safety so we'll start today with safety as well. This year our safety performance has been a real highlight. Across Amcor we've reduced the number of injuries by almost 30% in the first nine months of the year and all of our business groups reported fewer injuries with over half of our sites remaining injury-free for the last 12 months or more.

Of course, over the last year we've also been equally focused on keeping our co-workers healthy as well as safe, and as the COVID pandemic continues to present challenges in many countries, maintaining our protocols and our vigilance remains a top priority for our teams around the world who also understand the critical role we play in helping maintain availability of essential healthcare and food products.

Given the continued challenges of navigating the pandemic, we are particularly pleased with our safety performance so far this year and we remain confident that our objective of no injuries is in fact possible.

Our key messages for today are set out on Slide 4. First, our year-to-date financial results have been strong and ahead of expectations, with organic momentum continuing through the year. The March quarter has been our strongest thus far this year, despite the operating environment remaining dynamic and volatile, maybe even moreso over the last few months. Our teams have navigated that volatility by demonstrating an exceptional ability to stay focused on the key business drivers within our control, to respond quickly as conditions change and to execute to deliver results despite the circumstances.

The second message here is that this strong performance translates into higher expectations for the 2021 fiscal year and we have raised our outlook for full-year EPS growth to 14% to 15% on a constant currency basis.

Third, we are actively investing in several growth initiatives which illustrate the range of opportunities we have over the medium term to maintain our momentum.

The strong result, increased guidance, and growth investment examples demonstrate the strength of our investment case, which I'll touch on briefly on Slide 5 before turning to the results in more detail.

The Amcor investment case is set out on Slide 5 and its one we've shared a few times this year. We believe the investment case is as strong as ever and this slide sets out the reasons why, including our global leadership positions, consistent growth from attractive end markets, a strong balance sheet and significant annual cash flow of more than $1 billion and growing to fund growth investments and dividends.

And lastly, momentum has been building, which you can see in our upgraded guidance, and we believe that will continue.

Looking ahead into Fiscal '22, we'd expect EPS growth to benefit from continued organic growth, additional synergies from the Bemis acquisition, a lower share count after the repurchases during FY20 and '21, and the value that will be created from the $300 million to $400 million of free cash flow that will remain after Capex and dividends.

The Amcor investment case has not changed and that's part of the message here today. Despite volatility in our operating environment, and maybe even moreso because of that volatility, the Amcor investment fundamentals remain very attractive and will continue to generate total value of 10% to 15% each year across EPS growth and dividends.

Slide 6 includes the actual outcomes of that investment case over the last decade. Over this period we've always maintained an investment grade capital structure. We've delivered consistent sales and profit growth, including margin expansion organically through multiple economic and commodity cycles, and we've consistently paid out a compelling dividend. That growth and yield has been supported by a best-in-class free cash flow conversion and return on invested capital which have also contributed to strong total returns to shareholders as well.

Organic growth has always been a key driver of our overall financial performance and that will become increasingly evident going forward. Slide 7 highlights three of the key organic growth drivers for Amcor. The starting point on the left is the set of growing end markets we serve around the world. Now, Amcor has substantial positions in several higher growth, higher value-add, more packaging intensive segments like healthcare, protein and premium coffee, or hot fill beverage containers and barrier films. In each of these segments market growth tends to track higher than average and in each one we have differentiated positions—scaled positions, differentiated products and global leverage opportunities.

Second, emerging markets will also continue to be a key source of organic growth for Amcor. We've got a scaled emerging markets portfolio with over $3 billion in annual sales from 27 profitable emerging market businesses where we benefit from leadership positions and differentiated capabilities, and where we have a long history of profitable growth.

Third, growth enabled by innovation, which is an area where we continue to differentiate ourselves from competition and we're investing to extend that lead.

All of our businesses go-to-market with world-class innovation and R&D capabilities which are increasingly valued by our customers as they look for packaging to meet shifting consumer needs around the world, particularly around sustainability, which I'll come back to in a minute.

We're also allocating capital and actively investing for growth in a number of areas and Slide 8 shows two examples. First, the example on the left. Within a few weeks we will expect to begin commissioning a major capacity expansion for one of our aluminum based product segments at a flexible packaging plant in Switzerland. This investment will support the continued high growth of the premium coffee segment and is underwritten by a long-term supply agreement with a key customer. We've made a number of similar investments over the years and several recently, where we have real long-term partnerships with higher growth customers who value the various ways Amcor can help them grow.

In the other example on the right-hand side of the slide, in the last quarter we began construction of a new greenfield plant in China to add capacity to our business in that high growth market where we already maintain a leadership position and healthy financial profile. The new state-of-the-art plant will be the largest in Amcor's China network and will start up by the end of calendar 2022 to support a range of global and local customers, primarily in the food and personal care segments.

In turning to Slide 9, last week we announced a corporate venture type investment in ePac, a relatively new start-up in the flexible packaging space, who has leveraged technology and a unique business model to grow to $100 million in sales in just over four years. As excited as we are to work with ePac, the key point of this slide is to make clear our intentions to do more with regard to open innovation and corporate venturing generally, so that we can complement our internal innovation capabilities with great external ideas from all around the world. We're looking forward to exploring opportunities across new packaging products, processes and business models, and we'll be much more systematic and purposeful in this area.

Moving to Slide 10, it remains very clear to us that our best and most exciting opportunity for growth and differentiation will come from the development of more sustainable packaging. More sustainable packaging means responsible packaging, starting with better package design. And on that dimension, which needs to take into account the full product lifecycle, there is no one better positioned in the industry than Amcor, and we're demonstrating that with a steady stream of new product platforms and launches around the world.

Waste management and consumer participation will be equally important, and both require close collaboration with others across our value chain. Amcor has been actively partnering with others in both areas to drive scalable solutions and real impact, and I'll describe some of the progress we're making on the next slide.

The KitKat example on the left is a great one because it demonstrates the potential for Amcor to use chemically recycled resin in food grade flexible packaging, and it also highlights the level of collaboration that's possible across the full value chain to make it happen, in this case in Australia.

In the middle is AmSky, which is a breakthrough innovation launched by Amcor just last week. Amcor created the world's first recycle-ready thermoform blister packaging by eliminating PVC without compromising functionality or the consumer experience. AmSky is an exciting development which has the potential to transform the sustainability profile of healthcare packaging, particularly for solid dose pharmaceuticals, but it also highlights the potential to eliminate PVC in other packaging segments as well.

The example on the right-hand side of the slide is another one that brings to life the concept of responsible packaging with a real example in practice, in this case in the U.K. The supermarket rollout of this rice product in a recycle-ready microwaveable pouch made with Amcor's HeatFlex technology coincided with a number of U.K. retailers announcing instore trials to collect and recycle flexible packaging. This one demonstrates that responsible packaging design enabled by Amcor can catalyze change and motivate progress on the waste management, and consumer participation requirements as well.

Finally, in March, Amcor also took an Executive Committee role in the Alliance to End Plastic Waste, a group whose mission is fully aligned with our vision for responsible packaging through design, infrastructure, innovation and consumer participation.

Turning now to a summary of our results on Slide 12, the business has delivered strong year-to-date earnings growth with EPS up 16% on a comparable constant currency basis, and of that EPS growth, 7% was organic as overall demand for our products has remained healthy and combined with outstanding execution has resulted in organic growth continuing to build each quarter.

Six percent of the EPS growth comes from incremental Bemis acquisition synergies which have reached $55 million so far this fiscal year. We continue to progress ahead of initial expectations and we're well positioned to deliver at least $180 million of synergies by the end of Fiscal '22. The remaining 3% EPS growth reflects benefits from share repurchases in Fiscal '20 and '21.

Free cash flow and the balance sheet continue to be strong and in line with our expectations, and we've returned more than $850 million so far this year of cash to shareholders through higher dividends and share buybacks.

The key message here is that we're executing very well, building momentum, delivering strong growth and cash returns to shareholders.

With that, I'll hand over to Michael to provide some further detail.

Michael Casamento

Thanks Ron, and hi everyone.

Starting with the Flexible segment on Slide 13, overall sales were 1% higher than the prior year and this was all driven by higher volumes. Demand has remained relatively broad-based with growth in North America, Latin America and the Asia Pacific regions, while Europe was in line with last year.

Through the last nine months we've consistently seen solid growth across a broad range of end markets, including in higher value markets like protein, coffee, cheese and petfood. This has been partly offset by lower healthcare volumes driven by fewer elective surgeries and lower prescription trends which began back in the June quarter of 2020.

Adjusted EBIT has grown 9% in constant currency terms, and margins expanded by 110 basis points, reflecting volume growth, $45 million of cost synergy benefits and strong cost performance and management.

It's worth noting here that increases in raw materials have remained manageable. Given the diversity of the materials we buy and the multiple geographies in which we consume those materials, combined with the strong commercial capabilities that we have built for over a decade as part of the Amcor Way.

The business also continues to extract the financial and strategic benefits from the Bemis acquisition, which is covered on Slide 14. We acquired a high quality, well invested business, which has delivered consistent earnings growth since the date of the acquisition.

In terms of cost synergies, our teams have done a great job of delivering benefits from overhead reduction, procurement and by optimizing our footprint.

Year-to-date, we have delivered $55 million of benefits and we continue to expect this will increase to approximately $70 million for the full year. At the end of Fiscal '21, cumulative benefits will have reached $150 million and we expect to deliver at least $180 million of total synergies by the end of Fiscal '22.

It's also exciting to see examples of collaboration across the regions as we leverage our capabilities and differentiated product offering to support customer growth. For instance, our businesses in China, Australia and Brazil have all secured differentiated packaging for protein and petfood applications from other Amcor regions across the globe. There are many examples like this and more in the pipeline to come through.

Turning to Rigid Packaging on Slide 15, in summary, the business has continued to deliver outstanding results, driven by strong consumer demand. Sales growth included a 4% increase in volume, as well as a 3% price mix benefit, including higher pricing to recover cost inflation in Latin America.

In North America, year-to-date beverage volumes are 7% higher than last year, and hot fill container volumes are up 13%. We have seen another quarter of strong consumer demand for PET packaged beverages, particularly in hot fill categories including juice, ready-to-drink tea and sports drinks. This strong demand has built capacity across our network and reflects higher consumer demand, innovative brand extensions and new product launches and formats.

Year-to-date, specialty container volumes were higher than the prior period with growth in certain categories including spirits, personal care and home planning. And volumes in Latin America were also 2% higher than last year with growth delivered in Brazil, Central America and Argentina.

EBIT growth of 9% reflects higher volumes and favorable mix across the business.

Operator

Pardon the interruption. Mr. Casamento’s line is disconnected

Ron Delia

I’ll pick it up from here. I’ll just pick up from where Michael left off.

EBIT growth in the segment of 9% reflects that higher volume and favorable mix across the business, partially offset by higher labor costs and transportation cost as well.

Rigid containers, it’s rapidly become evident the preference for rigid containers, given their recyclability, light weight, resealability and hygiene profile, as well as having the lowest carbon footprint, and the business has continued to benefit from these trends. We’ve doubled the use of PCR, post-consumer recycled resin, over the last two years, even while navigating the pandemic, and we continue to launch new products made of 100% PCR. In fact, today almost all of our sites in North America are converting PCR along with virgin resin.

We move on to Slide 16, adjusted free cash flow of $360 million was in line with the prior year. However, this includes approximately $50 million of U.S. cash tax payments deferred under the CARES Act in the Q4 of FY20. Excluding that timing variance, adjusted free cash flow is approximately 10% higher than last year, and is in line with our expectations.

Our financial profile is solid. Leverage is at 3 times on a trailing 12-month EBITDA basis, and this is lower than last year and in line with what we’d expect at the end of the March quarter given the seasonality of the cash flows in the business.

With strong annual cash flow and a strong balance sheet, the business has significant capacity to invest as well as to return a substantial amount of cash to shareholders as we have this year already, through our growing dividend and further share repurchases. In fact, in the nine months so far this year we've returned over $850 million to shareholders.

Turning to Slide 17, which is the outlook slide, you'll find the latest view here, which is a revised or an increased outlook for the year. The continued strong performance of the business and the organic momentum that has been building giving us the confidence to raise our 2021 full year guidance. We expect constant currency EPS growth of 14% to 15% for the full year, which is comparable to, and higher than the 10% to 14% guidance provided in February, and includes an unfavorable EPS impact from businesses we've disposed of over the last 12 months of approximately 1%. To be clear, the constant currency EPS growth for this year would have been 15% to 16% had the disposals not occurred.

In terms of cash flow, we continue to expect adjusted free cash flow between US$1 billion and US$1.1 billion.

In closing today, on Slide 18, Amcor has delivered a strong result ahead of expectations and organic momentum has continued. This has translated into higher expectations for the full year and we've raised our outlook for Fiscal '21. We're actively investing in the future and these investments, along with strong execution will enable continued momentum and reinforce our belief that the Amcor investment case has never been stronger.

Operator, with that, we've finished our opening remarks and we're happy to open the line for questions.

Operator Instructions

George Staphos

Hi. Thanks for taking my question. How are you, Ron? Thanks for all the details.

Two questions, both really around volume. I guess first off it seems like every week we get another press release from Amcor—this is a high-class problem—in terms of another new product. Is there a way you could give us some form of a vitality index or some approximation, how much of your sales right now or volumes are coming from products that you hadn't created, produced two years ago, three years ago, whatever timeframe you want to use? That's question number one.

Then question number two, recognizing you prefer to look at things on a year-to-date basis, on a yearly basis, when we do some reverse engineering of the press releases, this quarter versus last quarter it looks like Flexible saw a little bit of a slowdown, volumes might have been flat to slightly down. Can you give us some perspective in terms of what was happening in the third quarter by market and some key products? Thank you.

Ron Delia

Yes. Good questions, George. Look, on the vitality index, it's not a measure that we use pervasively inside the company. I mean, I think what we're really focused on is launching products we can commercialize and will have take-up in the market, and then tracking the sales of each of those, none of which are material to the group, per se. But we think it's important to continue to demonstrate the vitality of our innovation pipeline because ultimately that will contribute to the positive mix and the positive margin that we want to drive in the business. So, the ultimate vitality index for us is the margin expansion that we've generated period after period after period for well over 10 years now. That's the vitality index, because what it says is that each new product that we sell today is a higher margin product than the unit it's replacing from prior periods. That's maybe the roundabout way of answering your first question.

On Q3, we'll talk about Q3. I mean we do tend to focus on the full year to try to orient the conversation to the longer term, but that being said, the third quarter was our strongest quarter of the year on a number of dimensions. We had increasing organic momentum, profit momentum, across both Rigid and Flexibles, and we're really pleased with the execution because the environment in the third quarter, fiscal third quarter for us from an operating perspective was probably as difficult as it's been so far this year.

As it relates to the sales side of things, I think these businesses both, Rigids and Flexibles, will generate low single digit growth over the long term. I think that's roughly where we've been—where we were through six months, but likely where we'll be at the end of the fiscal year. The 90-day period that was Q3 was a little bit softer in Flexibles, particularly because of the weakness, the ongoing weakness in the medical device packaging and pharmaceutical packaging. But more or less, we were consistent with our long-term trends in both businesses for this fiscal year at the low single digits.

George Staphos

Thank you.

Operator

Your next question will come from Ghansham Panjabi of Baird. Please go ahead.

Ghansham Panjabi

Thank you. Hi Ron. Hi everybody.

I guess, Ron, just following up on George's question in terms of the cadence of volumes as we look ahead. Some CPG companies as they've reported have talked about an abrupt shift in terms of volumes as you cycle through tougher comps form a year ago, mobility in certain parts of the world is starting to increase, in North America for example. Can you just give us a real-time pulse as to what you're seeing so far in your 4Q and then how exactly you expect volumes to evolve over the next two to three quarters.

Ron Delia

Good question. Last year at this time we would have been describing pretty much a neutral impact from COVID and that carried through then for the fourth quarter of FY20 and that's pretty much been our experience, and that's because of the geographic diversity of the business. Last year our Q3 would have seen a real strong negative impact in Asia, particularly in China which is a business that generates a lot of growth for us, and we would have seen softness in other parts of the business compensating for some of the better sales in North America in the month of March last year, as an example.

The net-net of all that last year wasn't really much. So as we think about cycling comps this year, including the result that we're reporting today, there is really not much in it in terms of variation period to period related to COVID. That's the perspective that I would offer looking forward as well. Our Q4, as I said to respond to George's question, we'll be back at the end of this fiscal year and we'll be in the low single digits, which is where we expect to be on any given year.

It's not the sexiest answer I could give you, but it's the reality of the diversified portfolio that we're operating.

Ghansham Panjabi

Understood. Then for my second question on raw materials—your favorite question I'm sure—with the reflation dynamics that we saw in the U.S. coming into this year and then Winter Storm Uri, just give us a sense as to how you're navigating pricing in context of just significant cost inflation on the resin side plus logistics, etc., and what's different, if anything, post Bemis in terms of how your commercial guys are tackling higher cost inflation.

Ron Delia

It's a good question. It's obviously a topic, a key topic this period. First thing I would say is that this isn't new. These are commodity cycles that we experience every few years. If we look back over the last 10 years or so, it's probably maybe the third or fourth real pronounced spike that we've seen in our input costs. So it's not new. It's something you deal with periodically, and the way we navigate it is with lots of rigor and lots of precision. I would say that that rigor and that precision improves every time we go through one of these cycles.

I think that whether it's shortening the passthrough lags on contracts, whether it's expanding the coverage of the materials that are subject to rise and fall mechanisms and the like, I just think we get better at it with each year. I can go back to each of those cyclical peaks over the last decade and kind of point to things that we've learned and that we've added to the tool kit, so that the next time the experience is less impactful, and I think that's what we're seeing now. Obviously we're wearing a headwind like everyone else, but it's not material enough to distort the results, and it's certainly not holding back our expectations for the fiscal year.

I think with Bemis, maybe Bemis is a segue into another dimension to this question, which is the diversification of our spend, which only got further enhanced or further diversified with the Bemis acquisition.

Obviously if we take the two business segments, you've got Rigid Packaging which is largely PET based, which operates on a much tighter lag. It's an easier administrative process, if you will, because it's really primarily one material. When we talk about lags, in Amcor's businesses it's primarily in Flexibles. In Flexibles, it's also important to remember that about 60%—maybe I'll say it the other way. About 40% of what we buy in the Flexibles segment is not polymer based; it's aluminum, it's fiber, and it's other things. The spend from a commodity perspective is pretty well diversified.

Then particularly in polymers, the other 60%, that's really split. It's split across four geographic regions and it's split across grades. So the netting of that, the portfolio effect of that, again with the addition of Bemis which is $4 billion out of the $9 billion of sales in that segment, just creates more of a portfolio effect or a dampening or a leveling effect.

I'd say to summarize it, we're better at this and our portfolio is better positioned to withstand these cyclical spikes.

Ghansham Panjabi

Perfect. Thanks, Ron.

Operator

Your next question will come from Richard Johnson of Jefferies. Please go ahead.

Richard Johnson

Thank you very much. Ron, just to continue on with your commentary on raw material price lags, I'm just trying to understand properly what the lag is when you think about what the impact on our revenue line has been of lower raw material prices and it's the same for the group as it is Flexibles. I mean, that's been negative really right through '20 and into '21, and if you assume that nearly all raw materials really started to turn back up midway through last year, it looks like the impact on your revenue lines continued to be negative for nine further months. Is it that simple, or how should we think about the lag?

Ron Delia

Look, I think the way to think about the lag is that in Flexibles it's roughly a quarter. There's probably an average in there that's somewhere between three and four months, but it's close enough. That hasn't really changed over time. With the addition of the Bemis portfolio that part of the equation hasn't really changed much.

I think we have to remember there were times over the last nine or 12 months, I think was the period you referenced, where raw materials also went down in some parts of the world, and so I think it would be very difficult to bridge back the commodity charts with the raw material impact on the revenue line, which is why we just break it out for you.

Our measure of organic sales growth excludes the impact, positive or negative, of commodity prices.

Richard Johnson

Absolutely. Yes, that's obviously been negative for quite some time now. Anyways, that's helpful. Thank you.

Then just secondly, on sustainability, I'd be interested in your view on what's going on in France at the moment. Obviously their single-use plastic legislation passed a big hurdle overnight and I'm particularly interested around what they're thinking about doing at the supermarkets with compulsory refill stations and the like. Is that something we should be worried about longer term?

Ron Delia

No. I think consumer consciousness is rising everywhere and that's a good thing because ultimately we need the consumer to participate, and in countries like France and others in Europe that have various forms of legislation in place, all of that is supportive to the infrastructure funding that's required, whether it's composting infrastructure, recycling infrastructure, etc. None of that is necessarily a bad thing.

I think on the reusable side of things, I'm not sure that's an Amcor issue, per se, particularly in France, but the consumer behavioral shift required for reuse at scale is just not something we've seen anywhere in the world yet. It doesn't mean it won't happen, but I think that's a big ask of the consumer at this stage, quite frankly, when we're trying to get them to recycle or compost.

Richard Johnson

That's very helpful. Thanks, appreciate it.

Ron Delia

Thanks.

Operator

Your next question will come from Anthony Pettinari of Citi. Please go ahead.

Anthony Pettinari

Good afternoon. Ron, when you first gave fiscal '21 guidance last year I think you guided to 5% to 10% EPS growth and the $1 billion to $1.1 billion free cash flow, and you've now raised the EPS guide a couple of times. I think you've basically doubled the original guide at the midpoint in terms of the EPS growth, and the free cash flow is still that $1 billion to $1.1 billion. I understand it's not a huge delta, but is there any kind of working capital impact from resin that maybe you get back in Fiscal '22, or is there something on the Capex side? Just wondering how we should think about you maybe being at the low end of the high end of that free cash flow guide.

Ron Delia

It's a good question. Michael is actually back so we'll let him tackle that one.

Michael Casamento

Yes, hi.

You're quite right the guidance has increased through the year and we're still talking about a cash flow range of $1 billion to $1.1 billion. We think we will be at the upper end of that range, but that said, it's clearly the raw material escalation will have some impact on working capital as we just cycle through those increases and get them out into the marketplace. Really, that's the reason why we're sticking with the $1 billion to $1.1 billion. It's basically that point. As I said, we think we can get to the upper end but let's wait and see what happens with any further raw material movements. That's really the simple answer.

Anthony Pettinari

Okay, that's helpful.

You saw strong Rigid volumes in the quarter. I think hot fill volumes were up double digits, and I think you indicated on the Flexibles side for next quarter there wasn't necessarily much in the way of a big COVID benefit when we look at the year-over-year comp. If I got that right, does that also apply to Rigids. Just as the U.S. economy reopens, how should we think about the positives and the negatives for Rigids on a year-over-year comp basis?

Ron Delia

I think you're right to call out the trends. The business hasn't had much of an impact. I know we've sounded a bit like a broken record on that point, because we don't have a whole lot of exposure to the foodservice side. The place where we have a little bit of exposure is the convenience channel in Rigids where you saw some softer sales at times last year. The offset to that has been the healthcare segment. The two just about net.

Again, I think somebody else asked the question earlier and I made the comment as far as trying to find a comp and whether it's negative or a positive, there's just not a whole lot in it for us. I think you're going to see volume growth at the end of the year that's consistent with our long-term averages. We're having obviously a pretty good year in Rigids with positive mix on the hot fill side, but that's really driven by just consumer demand in some of the hot fill, sport drink, juice and tea segments more than anything else.

Anthony Pettinari

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

Ron Delia

Thanks.

Operator

Your next question will come from Salvator Tiano of Seaport. Please go ahead.

Salvator Tiano

Yes, hi. Thanks for taking my questions.

Firstly, I wanted to speak a little bit about your Fiscal 2022 starting in less than two months from now, how should we think about that? Some big key items came in EBITDA, and I know you have additional Bemis synergies. There's going to be accretion from buybacks, but any other things we should consider as we look into next fiscal year?

Ron Delia

I think you described the main elements in the bridge. There's no secret here. We pretty much lay it out there each quarter. The business will generate organic growth mid-single digits, 3% to 4%. As you've heard us say a few times, the momentum organically in the business has accelerated actually this year, so you can make your own assumption around that piece. The Bemis synergies, we're saying we're going to end up this year at about $70 million. We got $80 million last year and we're on track to get at least $180 million so you can make your own assumption about what the increment might be next year. Then we've repurchased shares this year which will add to the base for next year.

Then the other thing that we want to make sure people don't lose sight of is this business will generate a lot of cash. It will generate well over a billion dollars of cash again next year, which will result in $300 million to $400 million left over after Capex and after dividends, and we'll do something with that. That's been our track record. We've been active acquirers over the years and we've also been active share repurchasers over the years, and so you should assume that some productive use for the benefit of shareholders will come out of that extra cash.

Salvator Tiano

Perfect. Touching base on potential opportunities for M&A, what are you seeing in the pipeline? What's your view on the multiples out there? Any specific areas that you're targeting? And I guess on the reverse side, people are spending less and less time focusing on your folding carton business, does this continue to fit into your strategy going forward?

Ron Delia

Yes. Let me answer the first part and then I'll come back to folding cartons.

We're going to be active acquirers. There's no question about it. We've done about 30 deals over the last 10 years and I hope we do at least that number over the next 10 years. That will be part of our playbook. This is an industry where even despite leadership positions across our portfolio, there's still lots of bolt-on opportunities across Flexibles and in Rigids, and then there's some areas that we'd like to double down on or that represent bigger opportunities for us. I mean, obviously Flexibles in Asia, we have a business that's well over a billion dollars in sales but the market opportunity is enormous, so hopefully we can supplement our growth there with M&A, as one example.

Probably another one would be in the Rigid Packaging space outside of beverage, we've got a big business growing well organically, but can we supplement that with further M&A? We certainly hope so. Those would be a couple of examples, but there's bolt-on opportunities across the board and we really hope to be active.

On folding cartons, it's a business that's about 8% of sales in Amcor. It's the industry's leader in what it does because it's a very specialized type of folding carton, high graphic intensity and shapes and tactile features as well, so it's the high end. It's not cereal boxes, per se. It's a high margin business. It generates a lot of cash, and it's pretty core to our Flexibles perimeter because it's essentially a printing and converting business. Industrially, it looks exactly like our Flexibles businesses. In fact, some of the equipment is actually the same.

It's every bit as core as everything else and it's got a great financial profile. It's obviously got a different top line profile than the rest of the company, but from a return on capital and cash perspective, it's about as good as it gets.

Salvator Tiano

Perfect. Thank you very much.

Operator

Your next question will come from Adam Samuelson of Goldman Sachs. Please go ahead.

Adam Samuelson

Yes, thanks. Good afternoon. Good morning everyone.

Ron Delia

Hi there, Adam.

Adam Samuelson

I guess first question, just thinking about business trajectory, I was hoping you could maybe give us a bit of a split by geography in terms of what regions, especially EM versus developed markets. Especially, you talked about some of the volume weakness in healthcare and any sense on comps there and visibility to business activity kind of picking up, especially in the U.S. where we're getting past the worst of COVID, it seems.

Ron Delia

Healthcare is a good long-term grower. That's a business that would have been disproportionately accretive to growth for a long period of time. It's a medical device business and it's a pharmaceutical business, and both of those have fantastic financial characteristics, including growth in excess of more traditional FMCG growth, and that will come back. There's no question about that. I think we're seeing signs of life in the developed markets in particular which were the hardest hit through COVID. We operate that business globally and in particular it's big in North America and Europe as you would expect, and those are the areas where the COVID impacts, the reduced elective surgeries, the lower prescription rates had a particular bite. I think we're coming out the other end of that and hopefully over the next couple of quarters we start to see that normalize, and normalize in the sense it means it's accretive to growth.

That's been the big impact, really. The rest of the portfolio will continue to grow low single digits. The comp issue is less meaningful everywhere else in the company except for the negative impacts from the healthcare dynamics that I just referred to.

Adam Samuelson

Okay, that's helpful. Then just to follow-up on the ePac acquisition, which the framing of it was different and you called it a corporate venture investment. Could you talk about what your real plans are for that business? Is there a real opportunity to gain some penetration with faster growing small and medium sized customers that you struggle to reach today?

Ron Delia

The framing was intentional, so I'll talk about ePac in a second, but the key point to take away here is that we're going to be much more purposeful and systematic in tapping into external ideas of all types. We believe and we have conviction that we have differentiated R&D capabilities in the company, but we're not naïve enough to think we've got all the great ideas out there. That's really the headline message is we're open for business if there's a great idea that somebody wants help developing or wants to come talk to us about.

ePac is a corporate venturing type investment. It's a minority stake in a business that is essentially a start-up. It's about a four-year old business. Fantastic business. Really exciting. It's a flexible packaging business, in essence, and it's gone really from zero to about $100 million in sales in four years. It's got about 15 sites; most of them are in the U.S. I think there's a couple outside the U.S. And we're really excited to learn from it, quite frankly. So, the first objective is to learn and kind of leave it alone. What we hope to learn is in a few areas. One is the commercial approach which, as you point out, is geared towards smaller enterprises and it leverages short runs, quick turnarounds and also high quality, so there's a commercial learning opportunity for Amcor. I think industrially, the business is enabled by digital printing and some other kind of neat industrial aspects inside the four walls of a plant, which are also interesting to us. Then the third thing, honestly, is how does a business grow from zero to $100 million in four years? I think there's a hell of a lot we can learn, like any big company, from a start-up and how that happens. From a managerial and organizational perspective as well.

We're going to leave it alone a little bit, Adam, in the first instance. Not a little bit. We're going to leave it alone and we're going to watch and listen and learn, and then watch this space. I think you'll see different manifestations of those learnings benefit Amcor for many years to come.

Adam Samuelson

Okay. I appreciate that color. I'll pass it on. Thank you.

Ron Delia

Thanks.

Operator

Your next question will come from Larry Gandler of Credit Suisse. Please go ahead.

Larry Gandler

Hey Ron, hey Michael. I also had a question about ePac and raw materials, so I might as well continue the ePac conversation.

Zero to $100 million in sales in four years, that's as you say incredible. What does it say about the size of that market? Can you give us some color about how big that small customer market is, and really what the opportunity is?

Ron Delia

Well, look, I think it says that it's pretty damn big. I don't know that we even size it. I think that's primarily a U.S. figure that I gave you, and so you can compound that when you think about the other parts of the world.

Look, I think it's really big. What I don't know at this stage is just of that bridge from zero to 100, how much of that is new business with new customers of that type versus how much of it is the growth of those customers that they continue to outgrow the big multinational FMCG players, but both are important.

Direct answer to your question, Larry, I'm not sure we could really size it per se.

Larry Gandler

Okay. Let me ask it a different way. When you look at ePac, do you have any similar customers or is it a completely different market than where Bemis and Amcor is hitting in the U.S.?

Ron Delia

Well, we certainly have customers like that in the Rigid space. In some respects—you've heard us talk about our regional business unit. In some respects we created our own version of ePac about five or six years ago in Rigids for exactly that purpose.

In Flexibles, I would say I'm sure we have customers of that type, but I'm not sure we've been all that purposeful and systematic about attacking that part of the market and that's where the real opportunity comes from.

Larry Gandler

Okay. Then on raw materials, Ron, you described the situation as manageable. As I talk to investors and characterize Amcor, talk about is safety, quality, the Amcor Way. When it comes to managing raw materials, I know pass-through is one of your mechanisms, and that also characterizes Amcor. But can you give us some anecdotes about Amcor's raw material procurement?

I remember, perhaps in the last or two resin spikes ago, I think Amcor was bringing resin into the U.S. from Asia in a unique fashion, which others were not doing. Maybe you can call out some anecdotes on how you're beating the high raw material costs through procurement and raw material management?

Ron Delia

I will, but let me just make one thing really clear. The convention in the industry is that the raw material fluctuations are passed through to the marketplace. The conversation about the lag or the P&L impact of changes in raw material prices is really about the commercial side of the business and the commercial capabilities of, first of all, measuring what those changes are and then executing price increases to recover those costs. That's the absolute key point here.

I think we have, I think, a pretty special approach to doing that, which goes all the way back, firstly, to understanding the profit of each order and each customer and each product. I can talk more about that, but that's the commercial side.

On the procurement side, which I would treat as a slightly different dimension, I think our procurement capabilities have evolved over the years. I think as we've gotten bigger, we've added people, we've added expertise, we've added IT systems. Our buy is broad. I think the fact that we're now a bigger buyer in the U.S. gives us visibility into the dynamics in this market that maybe we always had in Europe and didn't have as well in the U.S. As regional as the market can be at times, it absolutely has elements of a global market as well. I think all those things contribute.

Larry Gandler

Okay. Thanks, Ron.

Ron Delia

Thanks, Larry.

Operator

Your next question will come from Mark Wilde with Bank of Montreal. Please go ahead.

Mark Wilde

Good afternoon, Mike. Good afternoon, Ron.

Ron Delia

Hi there.

Mark Wilde

Ron, I wonder with COVID, are you being drawn into more conversations with your customers about automation and automation of the packing process as part of the packaging?

Ron Delia

Yes. I mean look, automation has always been important, and it's always been important from a productivity perspective, I think, for obvious reasons in terms of labor cost reductions. That's always been there. I think what's added, what's been accretive to that discussion now is the hygiene factor, right? And then obviously, meatpacking gets a lot of attention. There are other segments as well, where you've got a lot of people in a confined space and that creates a health risk that none of us appreciated 12 months ago, so the short answer is absolutely. And I think we have some unique product offerings that will help support that over the journey.

Mark Wilde

Yes. I remember about four or five years ago, Bemis was talking about a flat film technology they use in fresh meat that would replace kind of 3-sided bags, which have got to be stuffed manually. Are you seeing pickup there?

Ron Delia

Yes. Well, you're on it. I mean that's the differentiation, right? There's two ways to pack fresh meat, really simply stated. There's a continuous process using film, and then there's bags, which obviously has been more labor-intensive. We think we have some good products to offer in both but our film technology, we would put up there with anybody's. So yes, we would expect to see an acceleration in that space.

Mark Wilde

Okay. Then just as a follow-on, you mentioned the use of PCR PET in a number of new North American, products. Just trying to get a sense of what percent of the mix post-consumer PET would be at this point for you in North America.

Ron Delia

Yes. I'm glad you asked because we're pretty excited about this. It's almost becoming pervasive. So we're going to exit this year in North America converting about 10% of our resin as post-consumer recycled material. So 10% of what we convert in North America will be PCR.

In terms of absolute pounds, that's a doubling of the amount of pounds we were converting two years ago, and that's despite the pandemic. The pandemic has actually slowed down that trajectory. We probably would be at a higher level than 10% had it not been for some of the disruptions in the supply chain from the pandemic.

It's also pretty exciting that many of the new SKUs that we launched—and we've got a lot of new product examples scattered throughout our materials today—many of them are made with 100% PCR, and it's almost like electronic vehicles to some extent. We're not launching a lot of new products in PET that aren't leveraging PCR to some extent, and many of them are 100% PCR. So I think what you're seeing, you're right, we're in the middle of a migration to a different industry convention which says there's no reason you can't continue to reuse this material over and over and over again.

Mark Wilde

Is the supply of PCR the limiter, or is it just getting the consumer goods companies to try it?

Ron Delia

It's a little bit of both. I think right now we're adequately supplied, and I would say the market is creating the right level of demand. We all project out at some point in the near to medium term, where we could have a supply constraint, but that's absent other factors that will increase supply, things like deposit legislation expanding beyond 10 states in the U.S., things like consumer education. You may have seen the Every Bottle Back campaign that a number of the beverage companies are co-sponsoring. Absent big increases in supply, we could be tight in the next couple of years. I do think there will be big increases in supply, however, so I think this trend will continue. I think it will accelerate, quite frankly. I think we get through the pandemic, any concerns around hygiene, any cessations of collection schemes will end, and we'll start collecting again. I think that 10% number that we're going to end this year at will be much higher 12, 24 months from now.

Mark Wilde

Okay. That’s really helpful, Ron. Thank you.

Ron Delia

Thanks, Mark.

Operator

Your next question will come from Brook Campbell-Crawford of JPMorgan. Please go ahead.

Brook Campbell-Crawford

Good morning. Thanks, Ron and Michael. Just had a couple of follow-up questions on the corporate venture side of things. Just wondering if you had considered pre-committing a dollar amount to an internal fund of some sort, or is it just really opportunistic investments made at the head office level? That's the first question.

Then the follow-up, would you consider investing in raw material processing or recycling assets on that side of things, the sort of evolving technologies on the raw material side?

Ron Delia

Yes, two good questions, two discussions that are always ongoing inside Amcor. On the corporate venturing side, we are getting more systematic, as I said. Part of that is including a couple of staff who will be full-time focused on this. Whether or not we're going to communicate a number remains to be seen. We probably will. We'll allocate a certain portion of capital every year towards investments of that type, but it won't be material, I can tell you that, in the grand scheme of the capital budget that we have each year or the free cash flow that the business generates, but we think a purposeful amount of investing on a regular basis will help us make sure that we're tapped into the best ideas out there. I would say, Brook, watch this space on this one. There will be more to be said on this topic.

On the investments in the recycling part of the value chain, never say never. We prefer not to put big lumps of capital into parts of the value chain that are not necessarily areas we can be differentiated and unique in. We would prefer to be a demand catalyst and a source of demand for others who might put their capital in those spaces because it's more aligned with what they do.

Then the other way that we hope to influence infrastructure development is through some of the collaborations and partnerships that we've entered into. We announced recently that we signed up with this Alliance to End Plastic Waste, which is not a new entity but one that we stayed close to for a couple of years and are really encouraged by the progress that that group has made, and particularly on the waste management side. We're hopeful that we can influence that part of the responsible packaging equation without allocating substantial amounts of capital.

Brook Campbell-Crawford

Understood. Then one quick one for Michael. Just on the corporate cost line, in the nine months, about $18 million increase in corporate costs, if we put synergies to one side. Are you able to just provide a few examples of what's driven the step-up there? Is any of it one-off in nature so that we might see it unwind in FY22?

Michael Casamento

Basically, Brook, the corporate cost increase is $8 million year-to-date. You have some synergies there. There's puts and takes against that, but if we just think about that, half of the $8 million is FX; we have unfavorable FX in that, and we've talked about some insurance claims, higher insurance claims that we've had and the insurance costs that we've had year-to-date. They're really the two key areas behind the increase.

As we look forward, I would say that they're probably going to roll through the year-end, and that's going to be about the increase versus prior year at year-end. Really, that’s it; you're not seeing any major movements in the costs, albeit we are investing in things like sustainability and innovation and those areas, so we'll continue to invest in that space as well.

Brook Campbell-Crawford

Understood. Thanks.

Operator

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

Keith Chau

Hi there Ron and Michael. The first one, Ron, just following up on Adam's question previously on raw materials. I think in the disclosure it talked about an unfavorable impact of revenues in the nine months, but certainly as raw material prices have increased then, the impact on sales should be favorable within the third quarter of FY21. Just wondering if you could narrow it down, just to give us a sense of whether raw materials did contribute favorably to sales and whether there was indeed an impact or not in the third quarter. As we look into the fourth quarter of Fiscal Year ‘21 and the initial quarters of the next financial year, whether there will be any impact from raw materials.

Ron Delia

Yes. I mean absolutely. The short answer is yes. In the third quarter, in the Flexibles segment, you'll see a positive impact from raws and I would suspect that will be the case in the fourth quarter as well.

Keith Chau

Any guesses as to what the magnitude could be or not material enough to be concerned about?

Ron Delia

Not material enough to be concerned about because also, as we report the numbers, we're always referring in the first instance to organic sales and so we're stripping out that impact. I'm answering your question directly, and there will be a positive impact in reported sales from passing through higher raw material costs.

Keith Chau

Okay. Thanks, Ron.

Then the second one, it seems like the business is becoming significantly more comfortable with the Bemis assets. Certainly, an upgrade coming through with synergies, if not today, being the soft upgrade there and something further in the future. Can you give us a sense of whether that will be driven through the costs line or whether you're starting to see some revenue synergies to start to come through for Bemis?

Ron Delia

Yes. Michael might just comment on the cost side, and I'll talk about the commercial benefits.

Michael Casamento

On the cost side, as we said, we feel really good about where we are. I mean the integration has gone exceptionally well. We've been able to generate synergies from the G&A side, from the procurement, and more recently, we're starting to get impact on the footprint side. As Ron commented earlier, we got $80 million last year. We're at $55 million year-to-date this year and we'll end up approximately $70 million by year-end, so as we exit the year we will have captured $150 million, and we'll be at least able to catch the $180 million. And we've got clear line of sight around the projects that are still to come to deliver that extra synergy benefit next year. As we get more and more through the time frame, we feel more—increasingly confident around that delivery. We're right on track to deliver at least $180 million.

Ron Delia

Yes. Then just briefly on the commercial side, I would say more broadly I think there's examples of products, transfers going in both directions. We've called out a few examples. I wouldn't describe them as material yet, but we've got some products going from the North American business into ANZ. I think we've got an example on Bega Cheese individual wrap slices. That's a good example of leveraging a structure from the U.S. legacy Bemis business into ANZ. We've got some examples going the other way, from our New Zealand dairy film business going to the U.S. market. I think you'll see more and more of that.

It's a really interesting and complementary mix of segment participation that the businesses have had historically. If I look in North America, the big positions in protein and hard cheese, processed cheese that we acquired are absolutely additive for our portfolio in Europe. Then the petfood and coffee positions that we've had in Europe historically are completely new and additive to the legacy Bemis platform in North America, so I think we'll see more and more of that. I think our way to probably describe that will be through examples as much as anything else, but I think we're starting to see it already.

Keith Chau

Great. Thanks very much.

Operator

Your next question will come from Kyle White of Deutsche Bank. Please go ahead.

Kyle White

Hi. Thanks for taking the question.

On the severe weather this quarter, was there any meaningful impact to earnings from this event outside of the raw material inflation that you saw?

Ron Delia

Yes. I wouldn't say material, but definitely impacts. Like everyone else, we were struggling to get raw materials at times. Some of the businesses that were most dependent on specific materials at specific plastic plants were a bit constrained, so we had all of that and more. I mean it was a really difficult quarter which is why we're particularly proud that it was our best profit quarter of the year, not to mention the fact that in certain parts of the world we're dealing with continued impacts from COVID.
Latin America, India, the businesses are wearing extra costs and certainly extra complexity and management time and attention to keep everybody healthy.

We're not calling anything out as material, Kyle, but there's no question that the business had a headwind in the quarter from all those exogenous factors.

Kyle White

Yes. Thank you.

I know it's a bit early but given the greenfield plant you referenced on Slide 8 in China, should we anticipate an uptick in Capex next year or will it be similar to this year's level?

Michael Casamento

I'll take that one, Kyle. I think we typically would spend 3.5%, 4% of sales on Capex. Last year being the first year after an acquisition like Bemis, it was a little lower than that, so we were around the $400 million mark. I think this year, we'll finish the year probably about 10% higher than that. As we look forward, we can manage investments of this kind—we've done them before within our Capex spend, and you should expect that the Capex is going to be somewhere around 3.5% to 4% of sales; probably getting closer to $500 million as we move forward.

We're really pleased with these type of investments because they generate growth and they get good returns and they really help us support our customer base as well. We're quite pleased to be able to invest in these activities.

Kyle White

Sounds good. Thank you.

Operator

Your next question will come from John Purtell of Macquarie. Please go ahead.

John Purtell

Good day Ron and Michael. Sorry, just another one on raw materials, obviously a popular theme here. But if we go back to Fiscal '18, I mean emerging markets seemed to be, in particular, an area that we saw an extended lag of up to six months. You seem to be flagging a shorter lag this time. I know you've alluded to it, but just trying to understand what dynamics have changed there.

Ron Delia

Yes. I mean it's a good pickup, John. You've watched the company for a long time, and I alluded to it in my answer earlier, I think we've improved. We improve with each commodity spike, and we improve not just when raws are going up but I think each year. If I contrast where is the company today with where we were in 2018, when I also would have said we're reasonably good at this, I think that the base capabilities are more pervasive around the company. The Asian business, the Latin American business are closer in sophistication and maturity at passing through raw materials. They're almost indecipherable from maybe the legacy European business. That would be the key. If I look back at the 2018 cycle, that would be the key legacy of that. If I go back to the one before, we got much more sophisticated about aluminum when the spike in aluminum occurred in 2011/2012. Each of them, each opportunity for learning is capitalized on and I think our capabilities are just continuing to evolve.

John Purtell

Thank you. Just a final one. We're seeing large increases in aluminum and inks and solvents prices. Is the passthrough lag or passthrough and recovery mechanism similar to resin?

Ron Delia

Yes, the short answer is yes. I think that we have good contractual coverage. For contracted customers, we absolutely have coverage over those commodities and the passthrough mechanisms function, for all intents and purposes, the same way.

John Purtell

Thank you.

Ron Delia

Okay, thanks.

Operator

Your next question will come from Nathan Reilly of UBS. Please go ahead.

Nathan Reilly

Hey Ron, just a question coming through on plant capacity and utilization. Can you give us a bit of an update on where you are on those factors at the moment? Notwithstanding the fact you've flagged some growth opportunities, but are there any areas around the network where you might be a touch constrained? Are there some opportunities to grow with customers in some of those areas of the network?

Ron Delia

Yes. Look, it's a very good question. The one standout area is in the hot fill space in containers in North America. I think without question the network is maxed out. It's a segment that has grown steadily over a five- or six-year period at about 3% a year, but obviously has had a much better run over the last several quarters. Without question, that part of our footprint is capacity-constrained at the moment. Now that won't last forever. Obviously, we'll put the capacity in place, if necessary, to capitalize on that growth. But that's the one that stands out.

Other than that, the supply/demand balance is manageable, but as Michael alluded to a couple of questions ago, we do hope to deploy some more capital and get back up towards that 4% of sales number to capitalize on the growth opportunities that we're seeing.

Nathan Reilly

Perfect. Thank you.

Operator

That's all the time we have for questions today. I'll now turn the call back over to the presenters for closing remarks.

Ron Delia

Okay. Thank you Operator, and thanks everyone for joining the call today, for your interest in Amcor and for your questions. We'll close the call now. Thanks very much.

Operator

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