Amcor Plc

First Quarter 2024 Results

5.30pm EDT October 31, 2023 / 8.30am AEDT November 1, 2023

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Sam Seow, *Citigroup*

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PRESENTATION

Operator

Hello and welcome to the Amcor First Quarter 2024 results conference. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (Operator instructions).

I will now turn the conference over to Tracey Whitehead, Head of Investor Relations. Please go ahead.

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Tracey Whitehead

Thank you, Operator, and thank you everyone for joining Amcor's Fiscal '24 First Quarter Earnings Call. Joining today is Ron Delia, our Chief Executive Officer, and Michael Casamento, our Chief Financial Officer.

Before handing over, a few items to note. On our website, amcor.com, under the Investors section you'll find today's press release and presentation, which will be discussed on the call. Please be aware that we'll also discuss non-GAAP financial measures and related reconciliations can be found in that press release and presentation. Remarks will also include forward-looking statements that are based on management's current views and assumptions. The second slide in today's presentation lists several factors that could cause future results to be different from current estimates. Reference can also be made to Amcor's SEC filings, including our statements on Form 10-K and 10-Q for further details.

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

With that, over to you, Ron.

Ron Delia

Thanks Tracey and thanks everyone for joining Michael and myself today to discuss Amcor's first quarter results for fiscal 2024. We'll begin with some prepared remarks before opening for Q&A.

As seen on Slide 3, Amcor continues to be an industry leader in safety with a recordable case frequency rate that has trended significantly downwards over many years. In our first quarter, 65% of our sites around the world were injury-free for the past 12 months with more than 30% injury-free for three years or more. Safety is deeply embedded in Amcor's culture and providing a safe and healthy working environment is the number one focus for our global teams.

Turning to our key messages on Slide 4, first, we delivered a first quarter result in line with our expectations despite a challenging demand environment characterized by continued weak consumer demand and ongoing customer destocking. Against this backdrop, our teams executed well and remained focused on managing the areas under their immediate control.

Second, the first quarter performance puts us on track to deliver against our full year guidance which we are reaffirming today. Our expectations for phasing through the two halves of the fiscal year have not changed and we continue to expect adjusted EPS for the second half of fiscal '24 to grow by mid single digits over last year on a comparable constant currency basis. As a reminder, there are several reasons why we expect a strong second half, including continued benefits and increased earnings leverage from ongoing price and cost actions, additional benefits from structural cost initiatives building through the year, a reduction in interest expense headwinds, and favorable comparisons to the prior year's volume performance.

Our third key message is we are making significant strides in our sustainability efforts, within our own operations and in the design of our products. Our commitment to sustainability and the creation of a circular economy for packaging represents one of our most promising avenues for growth as we enable our customers to meet consumer demand for more responsible packaging.

Fourth, we remain confident in our long-term growth and value creation strategy. The strength of our market positions and underlying business, our proven execution capabilities, and our consistent capital allocation framework collectively make a compelling case for investment in Amcor.

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Moving to Slide 5 for a summary of our financial results. September quarter financial performance was in line with our expectations as we continued to take proactive cost and price actions to align the business with market dynamics, including ongoing inflation and continued weak and volatile volumes.

Sales were 6% lower than last year on a comparable constant currency basis, which reflects price and mix benefits of approximately 2% offset by an 8% decline in volumes, which was within the range we anticipated for the first half of fiscal '24. As expected, volume weakness persisted and was broad-based through the September quarter due to a combination of lower consumer demand and continued customer inventory destocking.

Fiscal first quarter Adjusted EBIT of $358 million was 5% lower than last year on a comparable constant currency basis. Benefits from ongoing cost actions and price and mix benefits were more than offset by the weaker volumes.

Our teams drove working capital improvements which resulted in free cash flow being well ahead of the same period last year.

We expect to deliver strong cash returns to shareholders this fiscal year with returns of approximately $200 million in the first quarter, up more than 10% over last year, through a combination of share repurchases and a growing dividend which the Board increased to $0.125 per share.

I'll turn it over now to Michael to provide some further color on the financials and our outlook.

Michael Casamento

Thanks, Ron, and hello everyone.

Turning to our Flexibles segment performance on Slide 6, net sales were down 8% on a reported basis, which includes a favorable impact of 3% related to movements in foreign exchange rate, an unfavorable impact of 2% related to the pass-through of lower raw material costs.

On a comparable constant currency basis, net sales were down 6%, reflecting 8% lower volumes currently offset by price mix benefits of approximately 2% as the business continues to take pricing actions to recover inflation.

First quarter volume trends remained similar to last quarter with all regions continuing to be impacted by lower consumer demand and destocking. Volumes across North America and Europe were down high single digits with Europe a little softer than North America. Volumes in Latin America were also down high single digits, and in Asia volumes broadly in line with last year as continued growth in India and a return to positive volume growth in China offset lower overall volumes in Southeast Asia.

The impact of destocking across the Flexibles business was similar to last quarter, accounting for approximately one-third of total volume declines. By end market, we continue to see soft demand and destocking impact categories including protein, coffee, liquid beverage and healthcare. Pet care and confectionary categories remain strong in key markets with volume growth delivered in the quarter.

Adjusted EBIT was down 5% in comparable constant currency terms for the quarter, reflecting favorable operating cost performance and price mix benefits offset by the lower volumes.

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Turning to Rigid Packaging on Slide 7, reported sales were 6% lower than last year including the favorable impact of 1% related to movements in foreign exchange rates and the unfavorable impact of 1% related to the pass-through of lower raw material costs.

On a comparable constant currency basis, net sales were 6% lower than last year as price mix benefits of approximately 1% were offset by a 7% decline in volumes.

In North America, volumes in both the beverage and specialty containers business continued to be impacted by lower consumer demand and similar levels of customer destocking as experienced last quarter.

In the beverage business, overall volumes were down 9%, although mix trends were favorable.

In specialty containers, volume growth in food was offset by weaker volumes in healthcare and home and personal care.

In Latin America, while market demand was somewhat softer across the region, our business is benefiting from new business wins and overall volumes were up mid-single digits compared with last year. The businesses in Brazil and Colombia delivered strong volume growth, offsetting lower volumes in Mexico.

Adjusted EBIT was 6% lower than last year on a comparable constant currency basis, reflecting lower overall volumes partly offset by price mix benefits and favorable cost performance.

In terms of cash flow and the balance sheet on Slide 8, our adjusted free cash flow performance was in line with our expectations and meaningfully better than last year, enabling us to reaffirm our full year cash flow guidance which I will come back to shortly.

The cash flow improvement of more than $170 million compared to the first quarter of Fiscal 2023 mainly reflects our focused inventory reduction efforts which have resulted in a decrease of more than $500 million since the peak in November 2022. We remain highly focused on working capital performance, which is particularly critical in this environment of continued inflation and rising interest rates.

We also continued to return cash to shareholders, purchasing approximately 3 million shares during the first quarter for a total cost of $30 million, and consistent with our comments in August, we expect to allocate a total of at least $70 million towards share repurchases in fiscal '24.

In terms of the balance sheet, we maintain a strong investment-grade credit rating with leverage of 3.3x, in line with our expectations at this time, taking into account the usual seasonality of cash flows and the short-term impact of cycling the divestiture of our Russian business earnings, and higher working capital levels. We expect leverage will decrease to approximately 3x by the end of the fourth quarter.

Turning to our outlook on Slide 9, our Q1 performance was in line with our expectations and we are reaffirming our full year guidance for adjusted EPS of $0.67 to $0.71 per share. We continue to expect the underlying business to contribute organic earnings growth in the plus or minus low single-digit range, and share repurchases will result in a benefit of approximately 2%.

The U.S. dollar has strengthened slightly since August, and we now anticipate currency translation to result in a benefit of up to 2%. This is expected to be offset by a negative impact of approximately 3% related to the sale of our three plants in Russia in December 2022, and we also expect a negative impact of approximately 6% from higher interest and tax expense.

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Our expectations for interest and tax expense for the full year remain unchanged with interest in the range of $320 million to $340 million and a tax rate in the range of 18% to 20%.

In terms of cash flow, we are trending better than the first quarter last year, and we continue to expect significant adjusted free cash flow in the range of $850 million to $950 million in fiscal '24, representing growth of up to $100 million over last year. Our plan to repurchase at least $70 million of Amcor shares in 2024 is unchanged, and we continue to pursue value-creating M&A opportunities.

Turning to Slide 10, Amcor has a proven track record of strong, consistent long-term earnings growth. As noted on our call in August, it's important to call out that fiscal 2024 phasing of comparable earnings growth is not expected to align with prior years. Consistent with our comments from last quarter, we anticipate challenging market dynamics will persist in the near term, resulting in similar mid- to high single-digit volume declines through the December quarter. Combined with the unfavorable impact of higher interest expense, which is expected to moderate in the second half, our guidance for the first half is unchanged.

Compared with last year, we expect that adjusted EPS for the six months of fiscal 2024 will be down in the high single-digit to low double-digit range on a comparable constant currency basis. For the second quarter, this implies adjusted EPS and EBIT in absolute terms will be broadly in line with or marginally lower than the September quarter just finished.

As Ron mentioned earlier, our confidence in delivering mid-single-digit comparable constant currency earnings growth in the second half of fiscal '24 and resuming our long-term trend of high single-digit earnings growth shortly thereafter is supported by visibility to several known second half factors. First, we have the benefit of approximately $35 million from structural cost saving initiatives that build through the year; second, we have increased earnings leverage resulting from ongoing benefits of price and cost actions taken; third, as I noted earlier, a reduced interest headwind; and fourth, we expect that customer inventories will have largely normalized as we progress through the second half, and we will benefit from favorable prior year volume comparatives.

Finally and also consistent with our comments in August, we do not need to see a significant change in the demand environment to return to solid earnings growth in the second half and beyond.

With that, I'll turn the call back to Ron to provide some longer-term comments.

Ron Delia

Thanks, Michael. Before we open the call to questions, I want to provide a few words on the building blocks that inform how we think about growth over the longer term and then finish with a brief preview of our 2023 Sustainability Report which will be released in the coming days.

Looking at Slide 11, we have multiple drivers that have enabled us to deliver solid and sustainable earnings growth over the longer term, including opportunities in priority categories, emerging markets and through innovation. These have not changed and collectively give us confidence in our ability to deliver future growth in line with our historic trend rates.

Turning to Slide 12 and some highlights from our forthcoming Sustainability Report, which covers the significant strides we've made in product development and operational sustainability, sustainability provides meaningful opportunities to differentiate and drive growth and value. This is particularly important in today's landscape as consumers focus on the critical need for more sustainable, high-performance packaging solutions, and as customers increasingly look to work closely with responsible sustainability-focused partners.

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Starting with our own operations, since launching Amcor's EnviroAction Program 15 years ago, we've diligently worked towards reducing our greenhouse gas emission intensity and have achieved a cumulative reduction of more than 40% against our 2006 baseline. Along the way, we have also increased our ambition and committed to Net Zero emissions by 2050, in line with the science-based targets initiatives. In fiscal 2023, we delivered an annual reduction in absolute emissions of 10% through a range of measures, including an increasing focus on the use of renewable electricity.

In addition to carbon-related objectives, we maintain robust targets for reducing water and waste. One hundred percent of our sites have a water management plan in place and 143 of our sites have achieved Zero Waste to Disposal certification, which is an increase of around 20% in the last 12 months.

Transitioning to Slide 13, we also continue to make significant progress in supporting the development of circular systems and what we believe are the three requirements for responsible packaging: package design, waste management infrastructure and consumer participation.

Amcor's industry-leading innovation capabilities position us well to develop the more sustainable and high-performing packaging consumers are looking for, and we believe this is one of our greatest opportunities for growth and differentiation. Today, almost all of our Rigid Packaging and Specialty Carton portfolios are fully recyclable. Looking at our Flexibles portfolio, 61% of fiscal 2023 sales were recycle-ready according to the Ellen MacArthur Foundation definition, meaning these solutions are designed to be recycled using current technologies where infrastructure is available. Additionally, another 28% of sales had recycle-ready alternatives available, providing a meaningful growth opportunity when our customers are ready to transition more of their portfolios to sustainable solutions.

In total, 89% of our Flexible Packaging portfolio is designed to be recycled or has a recycle-ready alternative, a 6 percentage point increase over fiscal '22.

Our use of recycled content also continues to grow, increasing by 29% over fiscal '22, reflecting our commitment to work closely with customers to reduce the use of virgin materials. Over the past four years, we've more than tripled our use of recycled material, and we are confident we will achieve 30% recycled content across our portfolio by 2030.

We also continue to leverage our position as an industry leader and trusted resource to help our customers navigate their sustainability journeys. As an example, in fiscal '23, we hosted several Amcor events, which were attended by hundreds of customers and covered topics such as the use of recycled content in food contact and healthcare packaging, and the impact of evolving regional regulations on packaging options. Through these efforts, we are reinforcing our value proposition and helping customers accelerate conversion of their packaging portfolios to comply with emerging regulations and to meet their own sustainability goals. We take pride in the strides we have made across all aspects of our sustainability journey. We eagerly anticipate the opportunities ahead, which will continue to differentiate Amcor and also advance our growth objectives, all while contributing to the creation of a circular economy for the packaging industry.

In summary, on Slide 14, fiscal '24 has started in line with our expectations. We have reaffirmed our earnings and cash flow guidance today as we continue to have confidence in visibility to solid earnings growth in the second half. We are making good progress on our sustainability agenda, and we remain focused on our strategy to deliver long-term growth and value creation.

Operator, we are now ready to open the call for questions.

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Operator

(Operator instructions).

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

Ghansham Panjabi

Thanks, Operator. Good day everybody.

Ron, could you give us a bit of a sense as to what your base case is for volumes for fiscal year ‘24? I'm just trying to get a sense as to the sequencing beyond the first quarter, which was down 8%. Would it be sort of 4Q before you hit that inflection point on a year-over-year basis?

Ron Delia

Thanks for the question, Ghansham.

Firstly, as we entered the year we flagged that we expected volumes to be down mid to high single digits for the first half, and that's exactly what we saw in the first quarter, and we expect a similar trajectory for the second quarter as well.

As we look forward to the second half, we do expect that trajectory to improve. We would expect that the destocking will abate as we get past year-end and as we start to cycle several quarters of inventory reductions we would expect that impact to start to moderate. We would expect for the second half volumes more reasonably are flattish, flat to up to plus or minus low single digits.

I think it's more reasonable to expect that the trajectory will improve. Now, exactly the rate at which that trajectory improves in the second half is difficult to predict, but certainly as we get into the fourth quarter, the comps get a lot easier, and we would expect things to be improving as we exit the year.

Ghansham Panjabi

Okay. Thanks for that, Ron.

I'm just trying to understand the divergence also between volumes, which are quite a bit lower, against improved price mix as you've established over the last couple of quarters and the sustainability of that dynamic. Typically, during periods of weaker volumes there tends to be some sort of a trade down and you actually are showcasing the opposite. So, more color on that, please.

Ron Delia

Mix over a longer period of time over multiple years is a major source of earnings leverage for us and has been over a long period of time. As we emphasized, higher-value segments, both product segments and end market categories, mix is a very important part of our playbook.

For this year, on a full year basis, we expect mix to be more or less neutral. We have had a reasonably good start in the first quarter with positive mix in both segments. We would expect that will probably continue in the second quarter. But for the full year, we would expect that might normalize a little bit. The reason for that is some of the segments that are higher value have declined at a lower rate than some of

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the lower value categories. But as we look forward into the second half, we think that the healthcare destocking will continue, and ultimately that will balance out the positive first quarter.

So, all up, relatively neutral for fiscal '24, but on a multiyear basis, mix is absolutely part of the earnings algorithm going forward.

Operator

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

Daniel Kang

Good morning everyone.

Ron, I guess first question for me is on destocking cycle clearly some persisting in the quarter. Are you seeing any evidence or signs of destocking easing as we walk into the second quarter? Perhaps you can comment on what you're seeing on customer stock levels as well?

Ron Delia

Yes. we are using the term destocking. I think what we are seeing more broadly is just inventory reductions. Destocking might imply that inventories started at a higher level, and I think that's certainly true in some categories that were subject to more of the supply chain constraints and raw material shortages over the last 12 to 18 months; there certainly were some inventory accumulation. But I think we have got a few different dynamics that are driving the inventory reduction trend.

The first is, for those categories that started at a high level, obviously they are working down the excess at a time when consumer demand has softened, and also carrying cost of inventory is now much higher than it's been in a long period of time. So, I think that we are seeing a number of companies, including Amcor, try to drive inventories down to lower levels than they have been in quite some time. I know that we are certainly on that path.

I don't expect that trend to be beyond us in the second quarter, particularly as we are heading towards the year-end and cash flow at year-end becomes an important metric that companies are driving towards. We would expect that the destocking will abate in the second half, but not in the second quarter.

Daniel Kang

Got it. Thanks, Ron.

Secondly, I'm just interested in the progress of the new packaging products, AmLite. AmFiber, etc. I realize it's early days, but can you comment on the volume growth and customer adoption that you are seeing and the pricing premium that you are achieving?

Ron Delia

Yes. we are really excited about some of those platform products that you mentioned, AmLite, which is a recycle-ready retortable structure; AmFiber, which is a paper-based solution; AmSky, which eliminates PVC and PVDC from blister packaging. We think that we have got some really special products there with a really compelling value proposition for customers that are trying to drive their own sustainability agenda.

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It is early days. Several of those products, though, are generating real sales. AmPrima, which is also a recycle-ready alternative, AmSky, AmFiber, they are all each generating sales in the tens of millions of dollars, low tens of millions of dollars, but real meaningful sales.

AmSky, it's early days, and it's primarily oriented to the pharma industry, so the qualification period is a bit longer, but we are in active trials with a whole range of customers on that one as well.

We continue to be really excited about those platforms that you've asked about.

Operator

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

Adam Samuelson

Yes. Thank you and good afternoon.

I was hoping to maybe first talk about just the performance in the quarter from the difference between volume and comparable constant currency operating profit growth. Just very little volume deleverage in the period. To contrast the fiscal ‘23 experience, maybe Ron, you could give a little more color on how you were able to narrow the gap with volumes down mid- to high single digits, kind of keeping the profit declines that narrow.

Ron Delia

It’s just been really aggressive pulling the cost lever really aggressively. We continue to do that through the back end of fiscal ‘23 and into the start here in the first quarter of fiscal ‘24.

You might recall in August we talked about the cost actions that we took in fiscal ‘23, where we reduced costs by over $200 million, we reduced headcount by over 1,200 people. We had pulled the procurement lever really hard. We cut overheads. All of that continued in the first quarter and actually accelerated. So in the first quarter, coming off a year where we took $200 million of cost out, in the first quarter we took another $70 million of cost out versus the first quarter of the previous year. So that's really resulted in improved earnings leverage, and I'd say a much more dynamic ability to flex costs in the face of weaker volumes.

Adam Samuelson

Okay. I appreciate the color. I’ll keep it to one question. Thanks.

Ron Delia

Thanks, Adam.

Operator

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

George Staphos

Hi everyone. Good morning, good afternoon. Thanks for taking my questions. I just want to make sure it's two questions or one question? I don’t want to overdo the quota here.

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Ron Delia

George, for you, it's two.

George Staphos

Okay. Okay. I'll try to keep them good then. I guess the first thing I wanted to ask is, in an environment where we're still to some degree, waiting for customers, your customers to begin promoting more aggressively to drive volume. If you agree with that premise, are you starting to see that, and how does that reconcile with your wanting-ness to push more innovative new products, new product sustainability, which are typically going to have a higher price point? Who's winning that tug of war right now as you think about it? And are we seeing more promotional activity?

Ron Delia

It's anecdotal at best, George. There's, I think, a general recognition across the customer base that the price lever has been pulled really hard, and you see that from the results of a range of consumer companies that price has been a real driver of revenue growth more so than volumes. Maybe those two variables can be brought back into better balance over time. You do hear anecdotally more customers talking about reprioritizing volume or balancing their mix a little bit more towards volume. We need to see it and we haven't seen it yet. We are not setting the business up on the expectation that, that happens. In fact, our second half earnings uplift that we are expecting is not at all levered to an improved demand environment and it's not at all predicated or dependent on consumers taking a more active approach to promotions.

George Staphos

Thanks, Ron. The second question, broadly, can you talk a little bit about the momentum you apparently are seeing in protein packaging? You have a new high barrier win that you highlighted on one of the slides, you have your recycle-ready Ecotite package. Is there a way to put a quantum size, what kind of momentum you're seeing, what kind of incremental revenue you're getting, and broadly, why you are gaining this momentum in the market given that you're the smaller player in the market. Thanks. And I'll be back if there's time later on.

Ron Delia

It's early innings of our journey on protein, in particular, our journey as a full-service solutions provider in meat and protein packaging, which includes the ability to offer equipment now as a result of the acquisition that we made earlier this year in Moda. It's early innings. I think that we are picking up some modest pieces of business along the way, but I would also point out that meat sales have been weak. We are in a down part, a down cycle or a trough, let's say, a low point of the cycle in beef in particular. Meat sales have actually been weak across the company in the first quarter.

It's a long game, and we are in the early innings. I would say that we are really confident in the value proposition that we have and that we are building. We think we have got some really special films, and we think we have got a really special comprehensive offering that includes now equipment and service, but it's very new and very recent. The Moda acquisition is only a few months old.

Operator

Your next question comes from the line of Sam Seow with Citi. Your line is open.

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Sam Seow

Good morning. Thanks for taking my question.

Just a simple one on the balance sheet. Just wondering if we don't get that second half volume stabilization, would that result in net debt outside your range? Or would there be enough in the seasonality and the unwinding of working capital to bring that down irrespective of if volumes continue to decline?

Michael Casamento

Yes. Thanks for the question, Sam. I can take that one. We finished the quarter with net debt of $6.5 billion, $6.6 billion and leverage at 3.3x, which was right in line with where we expected it to be. That takes into account the relatively normal seasonality of the cash flows from fourth quarter to Q1; we typically see a tick up in leverage versus when we were at 3x in June.

The other factors impacting leverage, there are two temporary impacts. Firstly, we are lapping now three quarters of divested Russia earnings, and that's being reflected in the last 12 months EBITDA, and that's ahead of us getting the benefit of the restructuring, which is going to start to come through in H2. So you'll start to see that improvement, absolutely.

The other one is really the higher-than-normal working capital levels. We have been driving inventory down, but at the same time payables have come down at a faster rate, really just on the back of the lower demand environment. So again, we would expect that to start to normalize as we get into the second half, and we will get the leverage back to 3x by the end of June. That's the way we see it.

As we look forward from there, there will be further opportunity for improvement, particularly in the working capital as it continues to normalize and as we cycle through the full 12 months of the Russia and the benefits from the restructuring that we are going to get into the P&L. We are on track there.

Sam Seow

Got it. And just maybe a follow-up. You talked at length about your volume expectations for the year. Maybe your thoughts on pricing, kind of ex pass-throughs, given end market weakness and ongoing destocking?

Ron Delia

Our pricing strategy has been, first and foremost, to compensate for inflation. That's our approach. It's as simple as that. We have had inflationary pressure on the cost base for 12 to 18 months now and as a result we have taken price as a high priority from an industry leadership perspective and certainly prioritized price and inflation recovery over volume.

Rates of inflation are starting to ease. We haven't seen large parts of the cost base experience decreases yet, but the rate of inflation has eased, and so our pricing, the pace of our pricing will ease as a result.

Beyond that, our pricing approach is really just a price for value. If we have a differentiated value proposition, there is an opportunity to generate positive price, but that's something that needs to be earned every day in the marketplace.

Operator

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Your next question comes from the line of Mike Roxland with Truist Securities. Your line is open.

Mike Roxland

Thank you Ron, Michael, Tracey and Damon thank you for taking my questions. Actually, I just have one question really. The company made solid progress streamlining the portfolio. I note $70 million of savings this quarter, closing plants, realigning production, headcount reduction. If when volumes begin to improve, should we expect to see a reversal of this and you putting more capital to work in new plants, increasing headcount? Or maybe does your existing footprint as it stands today have enough excess capacity to absorb incremental volumes without any additional investment?

Ron Delia

Yes, it's a great question. I think the short answer is we are going to be well set up when volumes come back, and I think we are going to get even stronger earnings leverage as volumes return. We are taking really two sets of actions on the cost side. So the first, the $70 million that I referred to earlier that you just referenced is really ongoing productivity-oriented benefits where we are taking shifts out, reducing headcount, driving procurement, optimizing the overhead and SG&A part of the business, kind of steady state, but aggressive belt tightening, I would say. That's one form of cost reduction. I don't think a lot of it will come back, obviously, as volumes come back, you might need to add shifts, but we will be in a much better position from a leverage perspective as volumes return. That's on that side.

The second stream of cost take-out relates to more structural initiatives, which are more the restructuring type, which are plant closures and more deep-cutting overhead reduction. We really haven't seen the benefits yet from those initiatives. Those will start to build in the second half, as Michael referred to earlier. We expect to get about $35 million of benefits from more structural initiatives in the second half. Those also will be long-lasting and sustainable because we are going to be taking out several plants in the network that we can compensate for with the remaining footprint. And in many cases, when we close the facility, we relocate the productive assets into another facility, and we don't really take capacity out necessarily.

I think we're going to be well positioned when and if volumes return.

Mike Roxland

Thanks, Ron. Good luck in the second quarter.

Ron Delia

Thanks.

Operator

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

Richard Johnson

Thanks very much.

Ron, can I just return to the subject of price and in particular, the U.S. protein market? I'm interested in the comments you make and I'm just trying to reconcile that with what others in the market are saying and they are referring to significant overcapacity in that market, which makes sense given how weak the end market

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is, which is leading to acute price pressure because of that unused capacity. I'd just be interested to get your thoughts on that.

Ron Delia

I don't know that the pricing pressure or the intensity of the competition is any more so at the moment in that segment than it has been in the past or that it will be in the future. You have to remember as well that the assets that are deployed against that segment are fungible across a range of categories. We have film assets that produce into the protein market, also produce specifications for dairy and a number of other segments as well. It's certainly not a market that we look at as being overly capitalized or having much excess capacity.

Richard Johnson

Then if you sort of spread that through the U.S. around the different categories, can I extrapolate from your comments around the positive price mix trend. That's really across all the categories, or are there any areas where price is starting to—you're starting to give back price? Which inevitably you'd expect given how far price has gone. At some point that will normalize, correct?

Ron Delia

I think it's going to be a function of inflation. The rate at which pricing changes in this industry I think from this point forward will be primarily a function of the rate and the direction of travel of inflation. It's not been an industry over the years that had positive price in the absence of value. It's been an industry that has compensated for inflationary cost pressures and I think that's kind of where we are at right now.

Richard Johnson

Got it. That's very helpful. Thank you.

Operator

Your next question comes from the line of Cameron McDonald with E&P. Your line is open.

Cameron McDonald

Good morning, Ron, Mike. Can I just ask a question on Slide 10?

You've got the average of high single digit of 8% from '14 to '23, but if we think about the environment, we had interest rates collapsed to 0 during that period. You've had significant transformational acquisition with Bemis. You've had the buybacks, etc. Can you talk about the high single digits expected long term, how do we marry that up, or do you still think that there are significant M&A opportunities and the synergies that, that will create? I suppose I come back to that interest rate environment – you've got a significantly higher interest rate that's going to be impacting that EPS?

Ron Delia

Yes. It's a good question because it's really a segue into why we are confident that we are going to get back to high single-digit growth rates going forward. We just believe in conviction of our formula that's served us well over many years. That is that volumes in a normal environment will grow low single digits. We will get leverage in terms of higher rates of profit growth than that because the mix will improve over

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time and as we generate more productivity in our operations. So, low single digit volume growth will translate into higher rates of profit growth. Then the business generates a substantial amount of cash and really excess cash, excess to the needs of the business from a CapEx perspective and to fund the dividend. With that extra cash our first priority will be to do acquisitions as we have done over a long period of time and short of acquisition opportunities we will buy back shares.

So, you go from low single digit volume growth to something higher than that, mid-single digit by profit growth. And then the cash flow and balance sheet optionality to generate further EPS growth through either acquisitions or share repurchases. That's the formula. That's the formula that's delivered the 8% over almost a decade and that's the formula that we willl expect to deliver the same types of earnings growth rates going forward.

Cameron McDonald

Thanks. As a follow-up to that, just on the M&A, when you think about the industry at the moment, you've spoken about the industry doesn't really have real price power without value. You've got a changing expectation around sustainability. We've obviously seen WestRock and Smurfit get together. Do you think the industry needs to more significantly and aggressively consolidate to change some of those industry dynamics?

Ron Delia

We have been big beneficiaries, we've driven a lot of consolidation over the years. I think what's important is industry structure and industry dynamics at a segment level, the fact is that there are a lot of players that are very small in the industry. When we think about our M&A agenda, it's largely going to be bolt-ons. We have been quite active; even in the last 12, 15 months or so, we have done four small deals. You can expect to continue to see us do that.

A lot of the value that comes out of those deals is cost synergies. I think that's where most of the value is going to come from, particularly in this type of environment, and we are going to be active participants in the M&A space.

Operator

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

Nathan Reilly

Thanks, Ron. Just a follow-up in terms of that free cash flow allocation point. Can you talk about where deleveraging sits in the context of the allocation of excess free cash flows?

Michael Casamento

Obviously, we are committed to an investment-grade balance sheet. We have been in the range of 2.5x to 3x leverage for a long time and that’s where you should expect us to sit as we move forward.

To Ron’s point, as the earnings grow, the cash flow grows and we can reinvest that in the base business, so you should expect CapEx over a period of time to increase as well. We have been increasing our level of CapEx to grow organically, that’s being in that 3% to 4% range. As we look longer term, that's probably going to be more in that 4% to 5% range. That's going to drive organic growth and we still have cash left over to invest in the M&A agenda as a priority and again, grow earnings through that, create value and then

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do buybacks. As you look at all that, we would continue to maintain that leverage in that 2.5x to 3x range. That's how you should think about the excess cash will be deployed in that way.

Nathan Reilly

That's great. Thanks, Michael.

Operator

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

John Purtell

Good day, Ron and Michael. Just a couple of questions, if I could? The first is on your views around GLP-1. Obviously, there's been concerns across the sector, and it's obviously or still sort of long term in terms of potential impacts on food consumption and packaging demand, but still very early days, but do you have any general observations to make?

Ron Delia

Yes, I do, John. I think firstly I just want to reinforce that we have seen no impact whatsoever on demand in our segments from reduced consumption resulting from these drugs. The first point I want to make is that we have seen no impact as of yet.

I think in terms of trying to estimate the future impact I think there's plenty of things we don't know and there are some things that we do know based on history. I think what we don't know is the rate of adoption of these drugs. We don't know what the impact on total consumption will be. We don't know what will happen when people go off the drugs in large numbers. So there's a number of unknowns that I think only time will tell.

What we do know is the food and beverage industry over many, many years, over decades, has been fantastic at innovating to address consumer needs as they change and evolve over time. Think about the evolution towards lower fat, low sugar, less salt, organic. The food and beverage industry has navigated those trends really successfully through innovation and through adapting product portfolios to suit whatever consumers are prioritizing at that point in time. We know that, that's been the history and that's been the track record and I expect that would be the same going forward.

The other thing that we know is to the extent there's reduction in portion sizes or serving sizes, it tends to, and has historically been very good for packaging intensity. Units of packaging have tended to go up as portions have gone down, as serving sizes have been reduced.

I think it's early days, as you said. I would lean more on the things that we know to have been true historically and probably put more emphasis or more weight on those factors than the things that we don't know at this stage.

John Purtell

Got it. Thank you. Just second question for Michael, if I could? Page 11 of the news release shows that reconciliation between reported and adjusted earnings. We can see that the hyperinflation impacts were higher than last year, and Russia/Ukraine costs were higher as well. What were the key drivers of that? And should we expect to see those Russia/Ukraine costs reduce going forward?

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Michael Casamento

Sure, John. I can take that one. The Russia/Ukraine costs are really—that's the cost of the restructuring. We have moved into the program and Ron touched on the program earlier, the structural program where we have committed to spend about $170 million in cash from the Russia proceeds across some plant closures. There will be seven to 10 plant closures, some SG&A rightsizing. They are the restructuring costs there and they are going to continue through the year; you'll see those continue on.

Obviously from that restructuring we are going to generate the $50 million in EBIT benefits, $35 million of which will come in H2, and then a further $15 million into FY '25. You should expect to see a continuation of some costs in that line.

In relation to Argentina, Argentina is a hyperinflation economy and we have to account for Argentina certain ways. Really, that's just there was a devaluation in August, and that's the devaluation impact on the monetary assets, which was higher than it was in the prior year. But again, that seems to have eased at the moment, but we will see where that goes as we work through the year.

Operator

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

Brook Campbell-Crawford

Good afternoon. Thanks for taking my question.

Ron, just earlier on you mentioned about the destocking in the healthcare segment is likely to continue in the second half. Correct me if I'm wrong. Can you provide some color there on why you think that's going to play out and why you might have more visibility on destocking in that part of the market versus other categories that you serve?

Ron Delia

Yes, good question. You've got that right. I did refer to destocking accelerating really through the first quarter in healthcare, especially in the medical device side of that business. It really comes down to the fact that there were some real supply constraints over the last 12 to 18 months in that segment or in the products that we supply into medical, predominantly, but also pharma in some product categories where we and the rest of the industry lived through some real raw material shortages, which I think led to some stock buildup in some segments. We are now on the other end of that and the raw materials are now more available. There is no longer a shortage and we can supply in real time. So customers are sitting on a reasonable amount of inventory that needs to be worked down. I think we started to see that in the quarter. I think we will see that continue into the second half of this fiscal year.

Brook Campbell-Crawford

Okay. Thanks. Just one follow-up. On Slide 13 there, you just talked to some progress you are making on design of packaging to be recycled. Great progress there over the years. But in flexible packaging, there's still 11% of the portfolio that isn't designed to be recycled, and there aren't any trials underway at the moment by the looks of that graph. Can you just talk to that part of the portfolio? What's the plan? Do you have a commitment still to have 100% of that portfolio designed to be recycled by 2025?

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Ron Delia

Yes. We are going to continue to shrink that part of the graph. The 11% you're referring to is 6% lower than it was a year ago, and we have been making really good progress. It's substantially improved over even three, four years ago, and we are going to continue to close that gap.

Are we going to get all the way to 100%? I'm not sure. I think we are going to get really close. Some of the more sophisticated structures where that material is providing multiple types of functionality, whether it's barrier or sealant strength or physical strength. There are a number of different components that go into some of the more sophisticated materials that we make. Those will take the longest, but we are still at it. We are hard at it, and we haven't wavered in our ambition to get to 100%. We have got our sights on closing that gap.

Operator

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

George Staphos

Thanks for taking the follow-on. I'll make it quick, guys.

Ron, if we think about the $200 million last year of temporary savings, if that's the way you framed it, and the $70 million so far this year, at the end of the day how much of that truly will be temporary and how much do you think will be structural? I know it's hard to say; we won't hold you to the basis point. But if you were in our seat trying to model Amcor, what would you try to bake in?

Then just a minor question. I thought I heard you say or Michael, maybe it was you, that 2Q in terms of earnings and EBITDA might be flat to slightly down versus 1Q. I just wanted to make sure I heard that correctly? Thanks guys and good luck in the quarter.

Michael Casamento

I can take the second point there, George. Yes, you heard that correctly. Q1 and Q2 typically are pretty similar. If you look over the history of Amcor, pretty similar. We are not expecting anything to be different in this dynamic. I mean, Q2 is going to be broadly in line with Q1, perhaps marginally less, but H1 as per our expectations that we have outlined. So, no change there whatsoever.

Ron Delia

On the cost side, George, I'm not going to parse it down and give you a number. What I would say is most of the cost that's come out has come out of the operational side. The overhead portion of the cost reduction is certainly going to stay out. On the plant side, to the extent we have driven procurement benefits, those will be sustained. Then to the extent that we have taken costs out by removing shifts, then obviously, we will put those shifts back on as volumes return. I would just describe it more in terms of the buckets of costs that have come out. We don't think about that whole quantum of cost as being temporary necessarily. We do think there's some that stays out of the business even as volumes return.

George Staphos

Thanks, Ron. Appreciate it. Good luck in the quarter.

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Ron Delia

Thanks, George.

Michael Casamento

Thanks, George.

Operator

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

Ron Delia

Okay. Thanks again to everyone who's joined the call today. Thank you for questions and thanks for your interest in Amcor. Operator, with that we'll close the call.

Operator

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

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