Amcor plc

First Quarter Results 2022

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Cashen Keeler, *Bank of America Merrill Lynch*

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Operator Instructions

Tracey Whitehead: Thank you Operator, and welcome everyone to Amcor's First Quarter 2022 results. Joining today is Ron Delia, Chief Executive Officer, and Michael Casamento, Chief Financial Officer. At this time I'll direct you to our website, Amcor.com, to the Investors section where you'll find our press release and presentation which will be discussed on the call today. We'll also discuss non-GAAP financial measures and related reconciliations can be found in the press release and presentation on our website.

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

During the question and answer session, once again, we request that participants limit their questions to a maximum of 2 and then re-join the queue for any follow-ups.

With that, I'll turn over to Ron.

Ron Delia: Okay, thanks everyone for joining us to discuss Amcor's Fiscal 2022 First Quarter results. Joining me today is Michael Casamento, Amcor's Chief Financial Officer. We'll begin with some brief prepared remarks and then open the line for Q and A.

We start with safety, because it's the first and most important of our values and the highest priority for every one of our 46,000 people around the world. Amcor's been on a long-term journey towards our goal of no injuries, and our safety performance remains a real highlight. Across the group, we reduced the number of injuries by 16% compared to the prior year and 62% of our sites have remained injury-free for at least 12 months. And as we continue to make strong progress, it reinforces our conviction that an objective of no injuries is absolutely possible, and we continue striving towards that goal.

We have four key messages today listed here on slide four. First, Amcor's navigating well through challenging external conditions that we highlighted in August. Like the rest of our industry, including our customers and suppliers, we're experiencing unprecedented complexity across the supply chain. But we are performing well, and we remain on track to deliver on our expectations for the year.
We are able to say that confidently because we are leveraging our scale and global reach, we are relying on the capabilities and experience of our management teams, and we are maintaining an unwavering focus on the right priorities. In particular, security of supply for our customers, recovery of higher input costs, and managing the sales mix.

The second message today is that Amcor delivered a solid first quarter. While sales were tempered by supply chain challenges in some parts of the business, we delivered another solid quarter of double-digit earnings growth, which was in line with our expectations.

Third, we're reaffirming Fiscal 22 guidance and we remain on-track to meet the Fiscal 2022 earnings growth and cash flow objectives that we provided in August. Finally, we've built a strong foundation over the last several years, and today Amcor is better positioned strategically than ever. In addition to delivering against short term priorities we remain focused on our long-term strategy and track record of growth and value creation.

Turning to the financial highlights on slide five. The business delivered a solid start to the fiscal year. Our 10% reported net sales growth includes approximately $285 million of price increases related to the pass-through of higher raw material costs. We are incredibly proud of the way our teams have continued to successfully steer us through this environment of ongoing inflation, achieving significant recovery over the last several quarters and we will continue to manage this dynamic going forward.

Excluding this pass-through impact, organic sales grew one percent. In this environment, we are maintaining focus on our long-term strategy of optimizing mix and it's clear that volume performance in both segments would have been higher in an unconstrained environment. Overall EBIT increased seven percent in comparable constant currency terms which was right in line with expectations. The flexible segment had a strong quarter, generating earnings growth of eight percent driven by favorable mix and outstanding management of costs. In rigid packaging, the business in North America experienced a particularly challenging environment, including elevated demand, combined with full capacity utilization, and constraints of critical inputs which resulted in operating inefficiencies and higher costs.

Net income and EPS were both up at double digit rates, increasing by 10% and 12% respectively, and our financial profile remains strong. We increased cash returns to shareholders during the quarter, including repurchases of $64 million of shares, and the Board declared an increased quarterly dividend of 12 cents per share. The key message here is that the business remains focused and continues to execute well.

And with that I'll hand over to Michael.

Michael Casamento: Thanks, Ron. Hello everyone. Turning to slide six, the flexibles business has performed very well during the period, delivering growth in high value end markets, executing well to recover inflation, and demonstrating strong cost performance. Reported sales growth of 10% includes recovery of higher raw material costs, which increased throughout the quarter.

Actions we have taken to pass through those higher costs drove sales up by approximately $210 million which on an annual basis is well over $800 million and represented growth of nine percent in the quarter compared with last year.

The overall price cost impact was unfavorable but has remained manageable given the diversity of materials we buy, the multiple regions in which we consume those materials, and the implementation of inflation-driven pricing actions. This is once again evident in our margins, which remain at a level equal to the prior year despite the impact of higher raw material costs and related pricing recovery.

Excluding this raw material impact, organic revenue growth of one percent was driven by a favorable price mix of approximately two percent. Consistent with our long-term strategy, the business has remained focused on the mix with continued growth in higher value end markets including pet food, premium coffee, and medical. This growth more than offsets the sales impact of lower volumes in segments such as home and personal care, and across Southeast Asia.

In addition, shortages of certain raw materials including aluminum and specialty resins had a dampening effect on volume performance in some categories including health care and protein related products. Adjusted EBIT was up eight percent in comparable constant currency terms for the quarter and reflects a favorable mix, strong productivity, and cost improvements.

Turning to the rigid packaging business on slide seven, we delivered reported sales growth of 13% reflecting the pass-through of higher raw material costs. Comparable constant currency sales growth of one percent was driven by higher overall volumes. In North America, beverage volumes were marginally ahead of the same period last year. Hot fill beverage container volumes were one percent lower against a strong comparative period of double-digit growth, and high demand in juice categories was offset by lower sports drink volumes. Specialty container volumes were lower against the prior year which benefitted from strong volumes in the home and personal care category.

In Latin America double digit volume growth reflects strong performance in Argentina, Brazil, and Columbia, and earnings were higher in the region. In constant currency terms, segment earnings were adversely impacted by inefficiencies, and higher costs in North America, resulting from unprecedented industry-wide supply chain complexity and disruptions. Overall demand remained elevated and increasingly volatile in the beverage segment.

At the same time, the business continued to operate at full-capacity, and we've had historically low levels of inventory. This coupled with further inflation and shortages for key inputs including PET and certain specialty resins resulted in operating efficiencies and higher costs in order to service customer demand. While we expect these dynamics to persist in the second quarter, we anticipate current challenges will improve through the second half of Fiscal 2022.

Moving to cash on the balance sheet on slide eight, as a reminder our cash flow is seasonally weaker in the first half of the fiscal year and for the current quarter, adjusted cash outflow of $242 million compared with an outflow of $190 million last year. The increased outflow mainly reflects higher uses of cash related to working capital with the adverse impact related to timing of higher raw material costs cycling through the business. We continue to maintain a strong focus on working capital performance and our rolling 12-month average working capital sales ratio at the end of September remains below eight percent.

As planned, capital expenditure is tracking higher than last year as we have stepped up organic investments in key high growth segments and geographies. Amcor's financial profile remains solid with leverage at 2.9 times on a trailing 12-month EBITDA basis, which is in line with our expectations for this time of year. Cash returns to shareholders in the first quarter were higher than the prior year which reflects 64 million a share repurchased as mentioned earlier and an increase in dividend per share.

Taking us to the outlook on slide nine, a firm first quarter of double-digit EPS growth in line with our expectations enables us to reaffirm the 2022 guidance we outlined in August. We continue to expect adjusted EPS growth of 7% to 11% on a comparable constant currency basis, which represents an EPS guidance range of approximately 79 to 81 cents per share on a reported basis, assuming current exchange rates prevail for the balance of the year.

Free cash flow is expected to be $1.1 to $1.2 billion, and the growing cash flow enables us to continue to pay our compelling growing dividend, and allocate cash to share repurchases, which we expect will be around $400 million in Fiscal 22, while retaining the flexibility to fund acquisitive growth when needed.

So, with that I'll hand it back to Ron.

Ron Delia: Okay. Thanks, Michael. Before closing and turning over to Q and A, I'd like to spend a few minutes on the longer term starting on slide 10, which summarizes the investment case for Amcor. Over the last several years we've continued to execute against our strategy, strengthen our capabilities, and establish a stronger foundation for growth and value creation. As a result, we believe Amcor is better positioned strategically and our investment case is as strong as ever. In simple terms, that investment case starts with our market positions.

We're the global leader in most of our chosen segments with relative and absolute scale advantages in every region and significant exposure to attractive high-value end markets across food, beverage, and healthcare. We have a proven track record of consistent earnings growth and margin expansion, and we generate significant free cash flow every year including between $1.1 and $1.2 billion in this 2022 fiscal year.

With a strong balance sheet, that cash flow provides substantial capacity to invest in the long-term potential of our business and also to deliver a significant and growing amount of cash to shareholders. We use our shareholder value creation framework, which is shown here on slide 11, to describe how we allocate cash flow every year and how that translates into value for shareholders. Through the combination of reinvestment in the base business, M&A, and share repurchases, we expect to generate 5% to 10% constant currency EPS growth each year. Our dividend has historically yielded around four percent and continues to be especially compelling in such a low interest rate environment.
Through economic and commodity cycles the outcome of allocating capital in this way has resulted in average value creation through a combined EPS growth and dividend yield of about 13.5% each year, in line with the 10% to 15% you see here on this slide. We're very well positioned to continue that trend. The strategic choices we've made guide how we prioritize investments back into the business, and we're investing now in several areas that will continue to drive long term organic growth, and those are highlighted on slide 12.

First, our business mix is increasingly oriented towards the most attractive segments which offer greater potential for differentiation and growth, like healthcare, pet food, premium coffee, and hot-fill beverages. Our results this quarter provide strong evidence of how the considerate choices we make everyday lead to these attractive segments representing an increasing percentage of our sales mix, which contributes to consistent margin expansion over time even while navigating complex environments like the one we are in now.

Second, we continue to invest to expand our leading emerging market positions. We had another quarter of double-digit growth in both China and India, for example, and we're actively investing in these markets where we expect to see demand remain a tailwind for the foreseeable future. Third, we remain uniquely positioned to launch a steady stream of innovative new packaging solutions. We are investing in our innovation capabilities and network of global innovation centers so we can capitalize on what we believe is our greatest opportunity for growth and differentiation, and that is the demand for more sustainable packaging.

Slide 13 highlights what we see as the three requirements for responsible packaging, and we're seeing clear progress on each of the three: package design, waste management infrastructure, and consumer participation. In the past we've highlighted examples of groundbreaking new product platforms like AmLite, AmPrima, and AmSky, but we're also actively collaborating with others to develop solutions that address infrastructure and consumer participation.

Most of these initiatives start small, but all have the benefit of demonstrating a working model that can be scaled and leveraged across markets and customers. In Columbia, as an example, we've partnered with one of our key customers and others across the value chain to achieve a fully circular bottle to bottle solution for amber colored beverage containers where the color is critical for this particular brand. In Australia, we've enabled an iconic brand to transition confectionary packaging to a structure which incorporates 30% chemically recycled material.

Finally, an example which is already functioning at scale globally, we've worked with the global market leader for single-serve premium coffee to increase the use of recycled aluminum which is now at 80% for a core product line.

In the next few weeks we'll be releasing our 2021 sustainability report which will describe our sustainability strategy and agenda more fully and will provide more data and case studies to illustrate the strong progress we've made over the last 12 months.

On slide 14, a summary for today. Amcor delivered a solid first quarter result in line with expectations as we navigated well through a challenging external environment. This leaves us on track to meet our 2022 fiscal year guidance and looking further ahead we are better positioned strategically than ever before, with a strong foundation for continued growth and value creation.

So with that Operator, we will close our opening remarks and open the line for questions. Thanks.

Operator Instructions: Our first question comes from the line of Ghansham Panjabi of Baird. Please ask your question.

Ghansham Panjabi: Thank you. Good day everybody. I guess first off can you update us with your views on volumes for Fiscal Year 2022? In the first quarter is obviously flat and you have tough comps in rigids as well as the year unfolds. Just curious as to how you think the rest of the quarters will evolve. And I guess I'm asking because a lot of your customers are going to be passing on pretty significant price increases to consumers calendar year 2022 onwards. And there is some level of elasticity in those categories at least historically. So I'm just curious as to what you have baked in for volumes.

Ron Delia: Yeah, it's a good question Ghansham. With the guidance that we just put out--remember, it's only 90 days because we are coming through the first quarter. So our guidance is just from August. It factors in pretty much the volume growth that you would expect from us in any given year. We're sort of low single digits. Little slower in this first quarter but predominantly because of some of the constraints we had in the supply chain we would expect through the rest of the year those will abate over time.

As it relates to the pricing, we haven't historically seen a lot of elasticity in the demand for the products that we are providing packaging for. Considering that, these are defensive consumer staples, on the food side even the more premium products have been pretty resilient to price. There's been a lot of price pick-up already in many of those segments, then in the healthcare side it's probably even less so.

Ghansham Panjabi: Got it, then in terms of the raw material shortages you cited, just give us a bit more color in terms of which specific raw materials, you said you had some constraints in if I read that correctly. How are you managing also with labor issues in the U.S. and Europe? A lot of your peers have called that out. Do you see any residual impact on the second quarter as well? Thank you.

Ron Delia: The labor has not been a major issue for us, certainly not from an inflationary perspective. There are times when labor is hard to come by. That's definitely true. But more for us it's been a supply situation on the raw materials side that's been limiting. It's predominantly been in some specialty resins that affect the flexibles business and also the specialty container part of rigid plastics. These are resins that are not used in large quantities, but provide some particular feature, barrier or otherwise, that have been on particularly short supply and have put us on allocation. In turn we have put customers on allocation in several segments across the business including medical, where we had a rebound and had some growth but not as much as we could have had.

So specialty resins is one area. In PET which is a predominant raw material in our rigid packaging business we've been searching for resin for much of the quarter. In fact, probably back into the fourth quarter of the last fiscal year as a number of our suppliers have had disruptions of a variety of different sorts, including force majeure. Then even for some of the aluminum grades that we use in pharmaceutical packaging we've had limitations. So again, we've had customers on allocation in the pharma space as well. So that's where we're seeing it now.

I think there're reasons to believe that there is relief in sight. Many of those specialty resins we are starting to get some increased allocations, PET over the next quarter or two should start to normalize as well. But certainly in the first quarter provided a bit of a headwind.

Ghansham Panjabi: Very good. Thank you so much.

Operator: Your next question comes from the line of Anthony Pettinari from Citi. Please ask your question.

Anthony Pettinari: Good evening. Ron, you saw Europe flexibles volume down year over year and I'm just wondering was that driven by a tough comp or maybe some broader consumer weakness in the region? Just wondering if you could provide any more color on what you're seeing in Europe.

Ron Delia: That's driven fully by limitations on raw materials and us having to make choices. So really, the story in the flexibles segment overall and especially in Europe has been around practically managing the mix and making choices to allocate materials that are on limited supply to the highest margin uses. We saw that have impact as I just described for Ghansham in some of the more attractive spaces that we are in, including pharma, and some of the protein segments as well. We have just had to make some choices on what to do with the material that was in scarce supply. So that's the predominant driver there.

Anthony Pettinari: Okay, that's very helpful. We've heard about some virgin resin taxes being considered in Europe. I think during the quarter France issued some restrictions on plastic packaging for some fruits and vegetables. Do you see any commercial impact from those taxes and maybe that restriction specifically? Just wondering if you could talk a little bit about the regulatory environment in Europe and maybe more broadly how you're positioned with ESG?

Ron Delia: As it relates to the resin taxes, virgin resin reductions, et cetera, I think these dynamics, which are evolving in a pretty rapid way, pretty dynamic environment, they just create opportunities and in many cases there's an opportunity for us to help take cost out of the customer's supply chain, inclusive of some of these potential taxes by taking weight out of the package or innovating around some of the materials of concern.

So from an innovation perspective, this is generally favorable for Amcor. I think, and generally speaking as it relates to package design regulations, we continue to have a seat at the table as those issues are debated and discussed both as an individual company, and also through the industry associations that we participate in.

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

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

Cashen Keeler: Yes, hi. This is Cashen Keeler on behalf of George Staphos here. Just going back to your comment on the beverage business, given the low levels of inventory there can you just give us a sense as to when you might be able to have a better ability to rebuild inventories? Will that be as the supply chain bottlenecks are resolved? And additionally, is there a need to take down time in that business given you've been running full out?

Ron Delia: Yeah, thanks for the question. Let me just step back and describe the situation in rigid packaging at large. Personally, I would point out this is a North American set of circumstances. The Latin American business is performing quite well with strong volume growth and higher earnings.
In North America, we've got a unique set of circumstances. So firstly, demand has remained elevated for quite some time particularly in the beverage space. That has led to a depletion of inventories. We've been running with historically low inventories pretty much for the whole calendar year, and we are running flat out at pretty much full capacity utilization. On top of which we have had some supply disruptions as I just alluded to on the PET side which is the primary input.

So all of those things conspiring at once have led to some inefficiencies and therefore higher costs in the business. As we look forward, we see these conditions abating, certainly through the second half. I think we're going to wear much of that continuing through Q2. But in the second half we believe these will ease, and that's for a few reasons.

Firstly, we've got more capacity coming on stream, we have had capacity coming on through this calendar year as well but it's been consumed through the year. But there's more coming on stream. We've called that in previous calls. Secondly, we will start to build inventory now through the fiscal second quarter, the calendar fourth quarter. This tends to be the low season where inventories get built and we will be building through this quarter.

Thirdly on the raw materials side, some of the dislocations there are easing. So the allocation levels that we are living with from a PET perspective are starting to increase and some of the capacity upstream with the PET resin suppliers is starting to come back to more normal levels.
So we do see reasons to be optimistic, particularly around the second half. But we are going to wear these conditions now for the next few months for sure.

Cashen Keeler: Great. Great. Thank you. Then just going back to the volume discussion as well, I guess just as we look at, your medical exposure and, given non-critical doctor visits are down, during COVID, can you give us a sense as to when you may expect to see more normal demand in volume patterns, in that end market? Thanks.

Ron Delia: Let me comment on healthcare more generally. Healthcare for us is broadly speaking medical device packaging which you alluded to and then pharmaceutical packaging as well. Both of those segments have been impacted through COVID and have had demand at much lower levels than we would historically see. We would typically see mid-single-digit growth each year in both of those segments and these are two attractive segments, high margins, high levels of differentiation, lots of innovation. So they're about as good a place as you can play in flexible packaging.

Medical has started to come back a bit. Demand conditions improved in the first quarter. We did see a bit of an uptick in some of the elective procedures that you referred to which drive consumption of medical device packaging. So we saw some improvement through the quarter but, again, we were limited with some of the specialty resins that go into those products and we ended up having to put some customers on allocation and not capturing the full rebound in demand.

We would only anticipate demand to continue to build and get back to more normalized levels and some of the raw material challenges to ease, although we know we are not out of the woods yet on at least a couple of particular resins. On the pharmaceutical side, we've seen a very, very modest improvement in demand. Not to the same extent as medical, and in particular in that business in Europe it's a predominantly foil-based set of products. We've had some limitations on foil supply as well which has held us back.

We would expect that, over time as COVID recedes a bit and people get back to normal behavioral patterns that pharmaceutical consumption will return back to the levels it was pre-pandemic as well. So we're pretty bullish on these two segments long-term and there's just another couple of periods here as we get back to normal.

Operator: The next question comes from the line of John Purtell of Macquarie. Please ask your question.

John Purtell: Hello, good evening, Ron and Michael. How are you?

Ron Delia: Hey, John.

Michael Casamento: Hey, John.

John Purtell: Just had a couple of questions. So just in terms of raw materials, obviously it had a much bigger impact on your sales line this period in terms of pass through. You haven't called out any material impacts on earnings from raw materials at least on the flexibles side. Can you just provide a bit of color around how you managed raw materials overall through the quarter? Any sort of nuances there to call out.

Michael Casamento: Yeah, sure John. It's Michael here, I can take that one for you. We continue to see raw materials increase in the quarter, through the basket of commodities that we have, kind of mid-single digit which was a slightly slower increase than we'd seen in the first six months of the calendar year, but albeit continued to increase.

As Ron mentioned in the earlier comments, the teams have been really focused not only on securing supply for us and making sure we've got as much as we can to service customers, but also getting that raw material recovery through the marketplace. We were really pleased with where we got to in the quarter. You might recall at the end of Q4 last year we had $100 million roughly flow through the sales line. This quarter all up around $280 million with $210 of that in flexibles. So pretty significant recovery.

We did see some headwinds particularly in flexibles from that, but it was manageable. Outside of that, you saw that in our margins, where year on year the flexibles margins were maintained at 13%. So we were pretty pleased with that result, because if you take the raw material recovery out of the mix, margins in effect would have been about 100 basis points higher, so closer to 14% without that raw material recovery pass through.

So, we are pretty pleased with where we got to in the quarter. I would expect that there's still further recovery to come obviously, and in Q2 we're contemplating some lag still in that price cost recovery as we work through the next quarter. The indices are quite mixed, some indices are suggesting that raw materials are perhaps turning off a little and have reached their peak in other areas and certain geographies around the world, are still looking at some increases. So a little bit of a mixed position there as well, John. But that's all factored into our guidance range that we put out there for the full year.

John Purtell: Got it. Thank you. And just a second question there, you might have touched on this earlier. But can you remind us of the timing of the North American PET capacity expansion? And also more generally, what do you see as the potential for further capacity expansion, say, on the flexible side. I know you flagged a couple there in the last year. But particularly given that you're seeing pretty robust growth in emerging markets, in Asia for example.

Ron Delia: On the PET side in North America, which supports the rigid packaging segment and the beverage sub-segment within that, we've been adding capacity throughout the year. We are going to continue that capacity add through the first part of calendar 2022 so that we hit the high season next year. The high beverage season being fiscal fourth quarter for us, the second calendar quarter with materially more structural capacity than we had over the past 12 months. So that's been an ongoing journey. We've got some capacity that's coming on stream this quarter and will continue the next couple of quarters.

In flexibles, we have flagged a number of investments including a new plant in China which is midway through its construction. It's in the south of China in the Guangdong province, which is going to add capacity for the healthcare business there, as well as some of the other segments that we service in that area. We've been expanding and adding capacity on some of the sustainability platforms, there's more sustainable platforms that we've flagged we have talked about AmLite in the past and AmPrima. We're putting capital to work for both of those products. That's two examples.
So I'd say the flexibles capacity is targeted at those areas where we have the most differentiation, predominantly in emerging markets, and also the more sustainable structures.

John Purtell: Got it. Thank you.

Operator: The next question comes from the line of Keith Chau of MST. Please state your question.

Keith Chau: Hi, Ron. Hi, Michael. My first question is just around the supply chain issues and the complexities within that North American supply chain. You talked to potentially some of the resin issues easing. We're still having an issue in the next quarter, but it's certainly easing going into the second half. Just wondering what indications you're seeing from both suppliers and customers as it relates to supply chain complexity that things will ease? We've talked about raw materials, but from the supplier side. But can you talk about how your customers are responding to some of the supply chain complexities as well?

Ron Delia: They have the same issues as you can imagine, and in some cases their businesses might be more labor-intensive or energy-intensive and then they have got more acute impacts from those areas, that has a ripple effect back up the chain. If the customers are not running their plants, we are limited in how much material we can ship. I think that particularly in North America, labor has been an issue. There's a lot of theories as to why that is, but at least our customers and Amcor are doing whatever we can to keep our plants fully staffed. Transport at times has been a constraint as well.

We would expect that with investments that are being made not by Amcor necessarily but throughout the value chain and the supporting industries adjacent to it that eventually will subside. I don't think that we're going to adapt a supply chain to such pronounced shortages. I'm just not sure that's where this is all going to head.

Keith Chau: Are there any indications from your customers rather than your suppliers that their issues will ease by the second half?

Ron Delia: In many cases our customers are adding capacity, and in the businesses that are more seasonal, they're also taking shutdowns and building inventories, or allowing the inventories to build. So if we think about our issues and our constraints, they've been more on the upstream side then on the downstream side. Demand will continue to normalize. To the extent that it's been volatile we would expect it to continue to normalize. On the upstream side, for the reasons I outlined particularly in PET, we expect more availability of material. Flexible's is a little bit mixed and it's a bit of a story of individual materials as I said. But there's more reasons for optimism than concern as it relates to flexibles going forward as some of these materials ramp up and return to more normal production levels.

Keith Chau: Indeed. Okay, thank you. And then the second question just relates to your customer relationships. I mean, obviously, given these issues you've had to put some customers on allocation. Do you expect there to be any issues with customer relationships going forward or any degree of permanency given some of these allocation issues that the business is seeing at the moment? What feedback have you had with customers in that respect?

Ron Delia: The worst thing for everybody is when we have to put customers on allocation. But I would say that there are just as many examples of us being able to use our scale and reach and capabilities to help customers out of a bind. We have got examples in the beverage business where some of the resin is tolled by the customers. They've been unable to secure enough supply. We are a net bigger buyer than any one customer and we've been able to get resin to keep some of those beverage customers supplied. Then a couple of other examples in flexibles and the medical space, we've taken share with a customer in medical devices by being able to supply material that our competitors could not supply. No one likes to be on allocation and certainly that's not where we want to be. But I think that the benefits we've been able to deliver for our customer base, because of some of the things that make us unique, have outweighed any of the constraints and the allocation impact.

Keith Chau: So it sounds like, Ron, that Amcor even though it has to on necessity put customers on allocation may in fact be doing better than competitors?

Ron Delia: I think in some cases that would be true. Where we're competing head-to-head and using the exact same materials then I think that we would expect we have an advantage there.

Keith Chau: Okay. Thank you. Can I ask a quick question to Michael? Michael, your corporate costs were ten million lower than the PCP and $15 million lower than the June quarter. Can you just give us an understanding of why that's the case and with respect to the free cash flow garnered through the year given the start to the year, can you give us a sense of what the seasonality of cash flows will look like and what the risks are and whether you'd need to see raw materials prices come down to be able to get to that $1.1 to $1.2 billion guidance number? Thank you.

Michael Casamento: On the corporate cost side there's definitely some phasing element in there. More so from the prior year in Q1 we had an insurance claim we had to provide for in Q1 last year, and that's really the key difference in the corporate costs. We'd expect by the half year the phasing there will normalize to be more in line with the corporate costs position at the first half last year. So that's the impact on that front.

Corporate costs generally in the first half is lighter than the second half just as we shore up provisions and accruals and things like employee incentives and the others, they tend to happen in the second half as we progress through the year. So that's really the key difference there from the June quarter.

In relation to the cash flow on the seasonality our cash flow is seasonally stronger in the second half definitely, and that's really on the back of several areas. Firstly, second half earnings are typically stronger, and in particular Q4. So our Q4 earnings are our biggest quarter for the year and typically they're $100 million more than any other quarter in EBITDA. So you're getting stronger cash flow there. From a working capital standpoint, we tend to build working capital as we head through the year getting into the summer period in the northern hemisphere, and then you start to see some release of that as we head into the Q4 period.

We clearly have a stronger focus on working capital as we close out the year and we have some commercial terms that are favorable in the back half of the year. So when you put all that together we’ve consistently delivered a stronger cash flow in the second half. Where we are today is right in line with where we expected to be.

On the working capital front, we have obviously had some headwind from the raw material pass through as that gets through the cycling of the business. But that's more a timing situation than anything, and we expect that to improve as we head through the year. So from where we sit here today the $1.1 billion to $1.2 billion outlook, we feel really confident —we are in the normal cycle of the business cashflow seasonality.

Operator: The next question comes from the line of Kyle White of Deutsche Bank. Please ask your question.

Kyle White: Hey, thanks for taking the question. Can you just talk about some of the moving parts with your outlook? And I realize it's still early days in terms of the fiscal year, but since you first gave it last quarter cost inflation has gone up, supply chain issues have really ramped up. What would you say is going better than initial expectations to offset some of these headwinds in order to maintain the outlook?

Michael Casamento: I can take that one, when we issued the outlook, that full year guidance, you recall we did that back in August. At that time we had contemplated a range of external factors including the continuing raw material inflation and general inflation. We were already experiencing supply chain constraints and raw materials at that time, and the demand was volatile. So that was already factored into the guidance that we put out there back in August.

As we said, Q1 was right in line with where we expected to be at the end of Q1. Some puts and takes in the result but generally the double-digit EPS growth was right where we expected it to be and that gave us the confidence to reaffirm the guidance today around that 7% to 11% comparable constant currency growth, that's taking into account that range of factors that we talked about.

To be at the upper end of that range we'd expect things like a quicker recovery in the healthcare and medical and pharmaceutical business that we've touched on during the call. Perhaps quicker recovery in the raw material pricing or abatement sooner than we're anticipating, and less prolonged, supply constraints. So that would get us to the upper end, and the opposite is true for the lower end. If we see prolonged supply constraints further into the second half then we anticipate that could get us to the lower end as would, if raw materials continue to increase.

So that's all factored into our guidance that we gave back in August, we are on track from Q1, which gave us the confidence to reaffirm.

Kyle White: Got it. That makes sense. And apologies to go back to rigid packaging, but just trying to understand. Earning's down 15% year over year despite volumes being up. You touched on the supply chain issues quite a bit. But is it possible to break out how much of the earnings decline was driven by cost inflation? What's expected to stay throughout the year versus the supply chain headwinds that you expect to get better? Just trying to understand the earnings cadence throughout the year for that segment.

Ron Delia: To keep it really simple the earnings impact in the segment is really around the inefficiencies much more so than inflation. There are clearly inflationary pressures but those will get recovered over time through pricing and the inefficiencies will sort themselves out as we've discussed.

It's probably 70% or 80% the supply chain constraints, and 20% to 30% lag in passing through pricing to cover the inflationary factors as well.

Kyle White: Perfect. Sounds good. I'll turn it over.

Operator: The next question comes from the line of Anojja Shah from BMO Capital Management. Your line is open.

Anojja Shah: Hi, everyone. I just wanted to ask about the North American rigid business as well. Do you think you're getting some benefit there from the tight markets for glass bottles and aluminum beverage cans?

Ron Delia: Typically the substrates are not interchangeable, and we don't really see customers going back and forth. The different package formats have different places through different distribution channels and so we really don't see a whole lot of shifting.

We have picked up some volume in a more permanent sense, we've gained some share at the expense of glass. A good example, there's a picture in one of our slides of a big piece of business that we've won, and that business has gone from traditionally glass containers to PET containers for a couple of reasons. It's all about the environmental footprint of the package. They've gone all the way to 100% recycled material, and we won that business because of our ability to source that material and process it efficiently. That's more of a share shift that's related to a value proposition, that's different and provides some benefits to the consumer and to the customer in this case, that the legacy container just couldn't. That's more typical of what we would see than any kind of periodic shifts between one substrate or the next.

Anojja Shah: Okay. Thank you. And then, now with economies reopening, how do you estimate the shift to more eating away from home, how do you think that's going to impact Amcor? I mean, it seems your medical portfolio benefitted, some other businesses will also benefit, but you'll also have some businesses that don't. Could you estimate the net impact of that overall?

Ron Delia: Over the last several quarters when we've tried to parse out the impacts of COVID. We really don't believe that it's had a material effect on ourselves. We've had some segments that have been very depressed, Healthcare would be one, others had a little bit higher growth. So, if we go back over the last 15 to 18 months, there's not much difference between the growth rates that we've experienced, and the growth rates that we would expect to experience going forward. It's low-single-digits. This is also not a business that has a lot of exposure to food service or away-from-home consumption. So, we benefited from that portfolio mix when food service was shot and on the other hand, we're not going to benefit from a big rebound because we're not very levered to that channel.

Anojja Shah: Okay. Great. Thank you very much

Operator: Larry Gandler from Credit Suisse, please ask your question.

Larry Gandler: Hi, thanks for taking my questions. Ron, I would like to continue my questioning from the last quarter. I asked you about your major growth initiatives. You pointed to your five focus areas with protein as number one in your mind and then we talked about the harmonization of protein sales between North America and Europe. So, I've been looking at that, but still learning.

I'm just wondering first, can I just ask a short list of questions relating to that initiative? One, as you expand your protein business in Europe, do you have that managed by a single person or area? Is that an initiative that's encapsulated in from a managerial point of view? Two, are there particular sub-segments you're targeting there? I'm learning that proximity to customers is important for that business so do you need new plants? And are there any products like an EVOH based film that I'm not sure if you have or need. Three, how many years is it going to take to achieve the harmonization of sales between North America and Europe. A list of questions there, but as I said I want to delve into this growth opportunity if you can help me out.

Ron Delia: It is one of the biggest growth opportunities we have, so I'm glad you asked the question. I might just start by talking about the approach globally. Firstly, why we like this space and then our approach globally. The reason we like this space is because there is a lot of technology and a lot of material science required to package protein in a way that provides barrier protection and shelf life, and also provides a consumer with an aesthetically pleasing option, and something that stands out on the shelf.

So, there's a number of things required here in some of these films, sometimes nine layers of different materials, all providing some sort of functionality and playing some sort of role. So, this is a material science-based segment, for the most part.

That's common across the segment. In some segments, there're some other things required as well, including the right product format, whether it's bags or roll-stock and sometimes the machinery offering as well to supplement it. That's why we like the space, there's a lot to do there and there's a lot of value to be created for our customers as they provide value to their consumers. It's also not a space that everybody can play in because of the technology requirements. There're a couple of global players or players that compete in around the globe in this area, but there's not a very long list. That's why we like it. Now as far as how we're managing it internally. Our business is generally decentralise and a lot of the action happens on the ground in the different regions. In this space, there is global coordination occurring in a couple of ways firstly, the product development agenda, is global already, so we're not developing one product for a certain application in North America and then doing something different in Europe. There's a global product roadmap to support the protein space.

Secondly, as it relates to capital, as we think about deploying capital in this space, we're going to do that in a coordinated way as well. So, we have a global capital plan to support the protein space. The last point as it relates to capital, because you asked about plants. There's not any need that we can see for new factories per se, the material will ship. Proximity is always important to a certain extent, but these are high-value products. So, we don't anticipate new plants necessarily, but we will be expanding our capacity in the conversion assets. Did I cover the list, Larry?

Larry Gandler: Almost. Last one is do you think closing the gap between Europe and North America in sales, is that obviously can be many years. Is that a 10-year process or three-year process? What do you see there?

Ron Delia: The markets are different in structure. There is a collection of national markets in Europe versus a bit more of a homogeneous backdrop in North America. So that creates a little bit more complexity, which means things evolve generally more slowly on that continent. These are medium-term growth opportunities. Protein would fall into the medium-term bucket. And what does that mean? That's the three to four year range. And some of that is because the qualification periods are fairly lengthy.

Some of it is because, in certain sub-segments, there's a system to sell that's required which creates a bit more lead time. Then there's just a pounding of the pavement and getting out in front of customers. So, I would say it's more of a medium-term. It's not necessarily a this-year thing, although this segment is growing for us, and has right through the pandemic, we've had mid-single-digit growth in protein around the world, with some quarters higher than that. So, it is growing. But before you see a step change, will take a few years.

Larry Gandler: Okay, great. And your growth comment just now, that pertains to this most recent quarter?

Ron Delia: Yeah.

Larry Gandler: Thanks. Some constraints on growth as well?

Ron Delia: Yeah. absolutely. We were held back a little bit in this quarter by some of those barrier materials that you mentioned, but we are continuing to grow.

Larry Gandler: Okay. Thanks, Ron.

Operator: The next question comes from the line of Adam Samuelson of Goldman Sachs. Please ask your question.

Adam Samuelson: Yes. Thank you. Good evening, everyone. A lot of ground has been covered, but hoping you could just help quantify where supply chain disruptions and logistics issues and material shortages did cause some lost sales, as you quantify what you think the revenue impact of that was in the fiscal first quarter?

Ron Delia: Yeah, that's a good question. Best we can do is give you an estimate. We'd say was a couple of percentage points overall and kept us from getting to the growth rates that we would expect from this business which is low single-digits. In Flexibles, best we could estimate, it probably was one to two percent. Again, that's in some of the segments we've already talked about, including medical, where we did have good growth, but not as much as we would have liked, including protein and meat.
And certainly in pharma. Then in Rigid Packaging, it's hard to quantify, but there would have been at least two to three percent as we could estimate. That probably doesn't consider the full demand in beverage, and the beverage space in liquid refreshment beverages packaged in PET containers has continued to just grow very well. That two to three percent is probably understating what the real demand is. That's probably a constrained view of demand as our customers would express. I think put all that together, Adam and we would say it's probably about two percent low-single digits, which is where the business typically is from a top line perspective.

Adam Samuelson: That's helpful. And then there was reference in the press release to lower sales in Southeast Asia, presuming that was related to some of the incremental COVID lock downs that was happening there but, what was the impact of that in the business or in Flexibles specifically?

Ron Delia: Yes. that's exactly the driver, persistent lockdowns and stops and starts through that region, Indonesia and Thailand in particular over the quarter. It's an important business for us. It's a growing business and most of our big global customers are there, but it's not a very large driver and I'd say it would be behind the list of the raw material limitations and also just some home personal care comps that were tough to cycle. So, I think that will normalize as well. That region has a lot of intrinsic growth and has demonstrated that over the years.

Adam Samuelson: Okay. All right. That color is really helpful. I'll pass it on. Thank you.

Ron Delia: Thanks.

Operator: The next question comes from the line of Jacob Cakarnis from Jaden, Australia. Your line is open.

Jakob Cakarnis: Good evening, Ron. Good evening, Michael. Just wanted to follow up on the supply issues for the Rigid business. Can you just let us know you the sizing of those supply issues as it relates to the end of the fourth quarter of fiscal 21? And maybe how they are accentuated in the first quarter of fiscal 22?

Ron Delia: They go back probably to the start of the calendar year, this is on the input side, this is on the upstream side. First of all, demand is high up through the value chain, including on the resin producers. We had winter storms here in North America I think in February, which led to some plant outages and some plant damage, and some of the shutdowns go back all the way to that period in time. We were wearing some of that through the end of the third quarter and fourth quarter of fiscal year last year and then that's continued. We've had a couple of suppliers with real issues, one in particular in North America related to that winter storm and then taking some preventative downtime during hurricane season.

Just a litany of issues leading to us being at less than a 100% allocation. We also had another supplier that we source from in South America they had a plant go on fire in Brazil and had to take that plant down for quite some period of time. That actually happened in this most recent quarter. So, in one way, shape, or form we've had supply disruptions on the PET resin side from early in this calendar year.

Jakob Cakarnis: Okay. And then, if we think about the dynamic, and clearly by the time you comp the elevated activity, by the second half, is it a clearer runway for you? Are you seeing higher commitments from your suppliers moving into the second half or even the back of the second quarter?

Ron Delia: We're seeing a gradual increase in the output from upstream across the supply base and I would say it's gradual. We're not off allocation, we're still not able to source all of the resin that we would like to source. We know that our customers, when they toll resin or buy directly, we know that they also cannot get all the resins that they would like. And that's continued, but it does seem to be easing. And because we can point to the underlying drivers of the constraints, you can get some clarity on when that will start to come back on as these plants get fixed up and come back to a 100%.

Jakob Cakarnis: I appreciate the time. Again, thank you.

Ron Delia: Thanks.

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

Richard Johnson: Thanks very much. Ron just wondering if you could talk a little bit about the challenges that are posed by customer consolidation. And what reminded me of this was the photograph you used of body armor in the presentation. And I know in the past when Challenger brands, which has always been a source of good growth for you, have been absorbed by the majors. The price volume issue or the price volume scales kind of doesn't help you. So, I was just wondering how to think about that.

Ron Delia: We have broad exposure as you would know across the beverage space and we've got a good track record of growing with some of the upstart brands, as you pointed out. It's not so much the upstarts, but also the regional players that generate good growth in pockets of the U.S. in particular, but maybe aren't national.

It all goes in cycles, these brands need bottles, they need innovation and help with their branding, there's always moving parts in terms of the participation in the ownership structure but at the end of the day, the market demand for the PET format and increasing innovations at lighter weights is still there.

Richard Johnson: Great. That's helpful, thanks. And then just one for Michael. Can you help me understand the adjustments you've made for property and other losses? Obviously, you disclosed that it's a plant that was burnt down in South Africa, but just to tell you, so the number looks very high. Are those trading losses? Just trying to understand what it is, the $28 million.

Michael Casamento: The plant in South Africa was burnt down to the ground, so we had a full write-off there, and that included inventory and impairment of all the assets at the site, as well as some redundancy requirements that we have to make in that marketplace. That was really the cost with that. Obviously against that, we put some insurance recovery to date, so we've provided for some insurance recovery and we continue to work with our insurers to get further recovery against that loss. You'll see that progress over time as we get more indications of the level of recovery but unfortunately, we lost the plant in the riots, and thankfully, we had no coworkers injured. So that was a key item for us.

Richard Johnson: Thanks. Just quickly cash tax looks very low in the quarter, is that just a timing issue?

Michael Casamento: You might recall last year we had the CARES Act that we had a deferral delight from the prior year where we pay the tax in the first quarter last year. So that's really the movement year-on-year.

Richard Johnson: Terrific. That's super helpful. Thanks very much.

Operator: The next question comes from the line of Salvator Tiano from Seaport Research. Please ask your question.

Salvator Tiano: Thanks for taking my questions. So firstly, on sustainability--a couple of clarifications. Firstly, before there was a question about Europe and some new restrictions, or some consideration about the future. But in the here and now, they did start, I think in June or July, major markets including France and Germany, banning a number of single-use plastics restricting them essentially looping the effect that directly from 2018. Did you see any volume impact from these movements and related it to sustainability, before you mentioned protein, you like the complexity of the material science and protein films for the multi-layer different types of materials there but isn't this exactly what you're trying to change and simplify to make your films more sustainable to get away from the structure.

Ron Delia: Exactly. That's a good question, and I mentioned that in response to Larry's question. It's not so much the number of layers, it's the composition of the layers. We've got a number of innovations that are going to help us compete on the basis of better products in the protein space.
We launched one last year called Eco-Tite, which is a recycle ready PVDC-free shrink bag. So, it becomes recyclable, not because it eliminates multiple layers. In fact, on the contrary, we will continue to have multiple layers, but they will all be of the same chemistry so they're consistent with existing recycling streams. So that is a really important part of the protein opportunity for us.

It's to innovate against the sustainability requirements that are now out there, as compared to some of the legacy structures that hadn't had those features in line. That one on the first look, any of these single-use plastic bans that have been put in place around the world don't affect us because they're predominantly focused on food service items, shopping carrier bags, not the primary packaging that we're making for consumer food and healthcare products.

Salvator Tiano: Okay. Perfect. And my second question is just trying to understand a little bit the demand profile in beverage. So generally, if I remember correctly Rigids hot fill has been driving the growth last year, but now it was actually down in North America, so presumably cold fill was up. What is driving this change in the trend was it just the restrictions in the type of resins you needed or was it the different demand part there.

Ron Delia: It's just limitations in the supply chain. So, the hot fill business is growing, low to mid-single-digits for a long time. It can be a little bit lumpy at times, but it's been a consistent grower over more than a decade. We would be a leader in that space by a long margin. We've got a lot of patents and a lot of intellectual property in that space. This period, volumes were down, I think one percent more or less flat.

Bear in mind, last year in the comparable quarter we had very, very strong growth and we have over the last several years. Our volumes in that business and hot-fill are almost 25% higher than they were three years ago, so, there's just a bit of a timing issue with the last 90 days. But that will continue to grow well for us going forward.

Salvator Tiano: All right. Thank you very much.

Operator: Our last question comes from the line of Andrew Scott from Morgan Stanley. Please ask your question.

Andrew Scott: Hi, Ron. Thanks for taking the question. Just want to sit back and ask the bigger picture question. For as long as I can remember, we've talked about a more direct mechanism for cost recovery in PET and a slower way--where it lags in Flexibles. If we roll forward today, you've done the deal.

You credit the thousand-pound gorilla. As you said, I think now it's the case question is no one buys better than you. Is there a chance given the supply chain backdrop, everyone's feeling it? Is there a chance as the industry leader to really lead the industry and change the way that you're contracting the Flexibles business and take out some of that lag and make it a much more direct mechanism if you like?

Ron Delia: It's a really good question. And I think what the short answer is as an industry leader, we certainly have a role to play. I think out of necessity; the lags are shortening. I think we've got contracts and structural mechanisms we've also had to put surcharges out in certain places. We've also had to add surcharges for certain cost items that may not traditionally have been covered absolutely, I don't know that in Flexibles you get to a monthly price change.

It's a little bit complicated to talk to, or even assess that on that cadence but certainly we're getting closer to a quarterly on average and we're going to continue to put prices up. As Michael said, we're just on about $200 million for the quarter in Flexibles alone. Almost $300 million for the quarter overall, that's a run rate of a billion dollars in price. And we're going to continue to put price up as the inflationary costs persist. That's all part of just maintaining our margins and maintaining the discipline that you should come to expect from us.

Andrew Scott: Okay. Understood. And just a quick one. Just interested over the period. How have you seen the recycled resin price behave, obviously doesn't necessarily have the same input pressures, but imagine it's tracked similarly have you seen the premiums blowout or is it coming in a little bit versus the main commodity resins?

Ron Delia: Firstly, I would say that we are continuing to increase the amount of recycled resin that we're processing. So, in rigid packaging, we ended last fiscal year at about 10% of the resin we converted was recycled. At the end of the first quarter, we're close to the 13%. So that's a reasonable increase in a 90-day period. The pricing premium has actually expanded. It's somewhere between 30% and 50% depending on the week in the month and it's probably at the higher end of that range now. I think that it's, in some ways, linked to virgin resin but I think it's almost decoupled from that, Andrew. I think it's more of the supply versus the demand for recycled content. As it relates to rigid containers, which can be made from a 100% recycled material, the demand continues to strengthen as brand owners look to feature that as part of their marketing. I mentioned one of the examples earlier where we took a bunch of share out of a glass format straight to recycled PET, a lot of that was on the basis of the brand owner marketing the container as made with 100% recycled material.

Andrew Scott: Got it. That's very helpful. Thank you.

Operator: Ladies and gentlemen. This is all the time we have for question and answer session. We will now conclude. I will now turn the call back to Mr. Ron Delia for closing remarks.

Ron Delia: Thanks, Operator. And thanks for everyone on the call today, just to quickly summarize, we're navigating well, in an environment that has created a lot of challenges. The first quarter is in line with our expectations, and we are reaffirming guidance for the full year. We continue to be excited about the future for growth and value creation from Amcor. So, thanks very much, we'll talk to you next quarter.

Operator Instructions