Amcor plc

First Quarter 2021 Results

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Amcor's First Quarter 2021 Results Conference Call.

At this time, all participant lines are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press star, one on your telephone. If you require further assistance, please press star, zero.

I would now like to hand the conference over to your speaker today, Tracey Whitehead. Ma'am, the floor is yours.

Tracey Whitehead

Thank you, and welcome to Amcor's First Quarter Earnings Call for Fiscal 2021. Joining the call today is Ron Delia, Chief Executive Officer; and Michael Casamento, Chief Financial Officer.

At this time, I'll direct you to our website, amcor.com. Under the Investors section, 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 statements regarding future performance of the Company made during this call are forward-looking and subject to certain risks and uncertainties. Actual results may differ from historical, expected or predicted results due to a variety of factors. Please refer to Amcor's SEC filings, including our statements on Form 10-K, to review these factors.

With that, I will hand it over to Ron.

Ron Delia

Thanks, Tracey.

Thanks everyone for being with us today to discuss Amcor's first quarter results for our 2021 Fiscal Year. We appreciate you making the effort to join the call, and for any of our team members who are on the call who sometimes join in, we appreciate their efforts as well, which have been really outstanding over the start to the fiscal year.

As Tracey mentioned, joining me on the line today is Michael Casamento, Amcor's CFO, and we'll start with some brief prepared comments before we take your questions.

I'll start with Slide 3. Everything we do at Amcor starts with safety, as you would know from those who have followed us before. Safety is a value at Amcor, so the priorities in the business may shift from time to time, but our values remain consistent, and safety would be the most important of those values. This year, given the context around COVID-19, we're also clearly focused on keeping everyone on our team healthy as well. As we continue to navigate the additional risk and complexity of operating during the ongoing pandemic, we remain confident and convinced that the protocols we implemented earlier this year in our facilities will enable us to continue to keep our co-workers healthy, and to keep our plants running as they have been thus far.

With regard to safety in a more traditional sense, our recent performance continues to be a real highlight for Amcor through the first quarter. Across the Company, we achieved a 30% reduction in the number of injuries compared to the prior year, and over half of our sites were injury-free for at least 12 months. That's a significant achievement in our view, particularly in the current environment, and it's a direct result of the dedication, commitment and focus of our employees to keep themselves and their co-workers safe.

Moving on to Slide 4, and the key messages we have for today. First and foremost, we've had a strong start to fiscal 2021. We delivered outstanding results in the first quarter, which were ahead of our expectations, and both segments produced strong organic growth. Our Flexible Packaging business is capitalizing on the strategic and financial benefits from the transformational Bemis Acquisition and the Rigid Packaging business is also building momentum with strong volume growth and cost performance.

Second, the outperformance in the first quarter gives us the confidence to raise our outlook for fiscal 2021. We now expect adjusted EPS growth of 7% to 12% in constant currency terms, and today we've also announced a dividend increase and a share buyback.

Lastly, the investment case for Amcor has never been stronger. In the near-term, organic growth from our consumer and healthcare exposures should remain resilient. We'll deliver further acquisition synergies, and we continue to offer an attractive dividend currently yielding more than 4%.

In the longer term, we're very well positioned. Momentum is building around innovations to deliver more sustainable packaging, we have a strong balance sheet, and annual free cash flow of over a billion dollars, which provides us the capacity to invest back in the business, to pursue growth opportunities, and to maintain an attractive dividend.

Slide 5 provides a summary of our first quarter financial results. Earnings growth was strong with EPS increasing 20% on a constant currency basis, and that growth was really driven by three discrete components. The first, 8% of the EPS growth was organic, which is a real highlight for both the Flexibles and Rigid Packaging Segments. In EBIT terms, organic growth in the Flexible Segment was more than 4% and all of the 7% growth in the Rigid Packaging segment was organic. The strong performance in the operating businesses was partially offset by the phasing of some corporate expenses during the first quarter.

Demand for our products remained resilient, and we saw overall volume growth in North America and the Asia-Pacific region, while volumes in Europe were marginally lower than last year. There was also good leverage through to the bottom line, which was enhanced even further by favorable operating cost performance. 7% of the EPS growth came from synergies resulting from the Bemis acquisition. We delivered an incremental $20 million in cost synergies during the period, and we're well on track for the full year. Third, the remaining 4% of the EPS growth came from the benefits of the share buyback that we completed in the last fiscal year.

Free cash flow was also in line with our expectations, and the business continued to make good progress on working capital and our balance sheet remained strong. The strength in the underlying business and financial position means we've also been able to increase cash returns to shareholders during the quarter. Today, the Board declared a quarterly dividend of 11.75 cents per share, continuing our long track record of dividend growth, and we also announced plans to repurchase $150 million of shares.

The key message here is Amcor had a strong start to the 2021 fiscal year with both segments delivering excellent results and building momentum.

With that, I'll hand over to Michael to provide some more color on the financial performance for the quarter and our outlook for 2021.

Michael Casamento

Thanks, Ron. Hi, everyone. I'll start with some comments on the Flexible segment on Slide 6. Overall segment volumes were 2% higher than the prior year, with particularly good growth in North America, and higher volumes in Latin America and the Asia-Pacific region. This was partially offset by marginally lower volumes in Europe, and unfavorable price mix in North America where, over the last quarter and relative to last year, we saw some variable demand shifts across the portfolio.

A combination of high volumes and lower price/mix resulted in net sales being 1% higher than last year, excluding the unfavorable impacts of currency, the pass-through of lower raw material costs, and the impact from domestic businesses.

The Adjusted EBIT for the period grew 11% in constant currency terms, and margins expanded by 140 basis points. This was driven by a combination of these higher volumes, synergy benefits, and strong operating cost performance, which mainly reflects productivity improvements and waste reduction. Overall, we're very happy with the performance across the Flexibles business, which has been significantly enhanced as a result of the Bemis acquisition.

Before moving to the Rigid Packaging segment, I'll provide a brief update on Bemis cost synergies on Slide 7. As Ron mentioned, we delivered an incremental $20 million of synergies during the quarter, which was in line with our expectations. Our teams remain resolutely focused on achieving our goals, and we continue to see benefits accrue from Flexibles G&A, procurement, and from the initial work we've undertaken on plant closures. The business outperformed against our initial synergy expectations last year. We are on track to meet our objective of $50 million to $70 million in cost synergies for fiscal year 2021, and we are well on our way to delivering $180 million by the end of fiscal year 2022, a milestone we remain confident of reaching.

Turning to Rigid Packaging on Slide 8. In summary, the business delivered an outstanding result, with organic growth driving earnings 7% higher than last year. Sales growth included a 4% increase in volumes as well as 4% price/mix benefit, which includes higher pricing to recover cost inflation in Latin America. Volume performance was strong in North America, and mix was positive. Beverage volumes were up 7% compared with last year and hot fill container volumes were up 12%.

There was growth across most beverage segments on higher consumption of packaged beverage products and the launch of innovative new products in PET containers. Specialty container volumes are also higher as a result of continued growth in spirits, personal care and home cleansing categories. As a partial offset, volumes were 3% lower in Latin America. While this represents a sequential improvement, performance continues to be mixed by country.

As I mentioned, Adjusted EBIT for the period grew 7% in constant currency terms. This reflects higher volumes, favorable mix, and lower plant operating costs. This was partly offset by lower fixed cost absorption related to a demand-driven drawdown of inventories in North America. Overall, we're really happy with the commercial and cost performance of the business during the quarter and believe we are very well positioned for continued growth.

Moving to cash, balance sheet and currency on Slide 9. Adjusted free cash outflow of $190 million was broadly in line with the prior year and within our expectations for the period. As a reminder, our cash flow is seasonally weaker in the first half of the fiscal year, and this quarter also included approximately $50 million of U.S. cash tax payments that were deferred from Q4 in 2020.

We remain focused on improving working capital management, and as you can see, momentum continued this quarter with our rolling 12 months average working capital sales ratio at 8.8%, down from 9.5% at the end of June just passed, and 10.7% when we completed the Bemis acquisition back in June 2019.

We continue to have a strong BBB, Baa2 investment grade balance sheet, and leverage stands at 3 times on a trailing 12-month EBITDA basis, which is in line with the expectations for this time of the year. We have no material refinancing over the next 12 months and with this strong financial profile, Amcor continues to have significant capacity and flexibility to invest in many growth opportunities available to us.

We've also highlighted our currency mix and the impact from currency movements in Q1 on this slide. While the net translation impact of currency movements was unfavorable during the current quarter, you can see it has been a result of significant depreciation in our basket of approximately 20 different currencies, which began to depreciate through the second half of last year, being partly offset by strength in the Euro in the quarter.

Which brings me to our outlook for the 2021 fiscal year on Slide 10. Today, we have increased our guidance for constant currency EPS growth to a range of 7% to 12%, and we continue to expect adjusted free cash flow of approximately $1 billion to $1.1 billion. A strong start to the year and the momentum we see in the business are the two factors which has given us the confidence to raise our 2021 full year guidance. We expect the business to continue demonstrating resilience as a supplier for essential consumer goods, but we're also maintaining a reasonably wide range of outcomes for the remaining nine months of our fiscal year, which is appropriate given the ongoing uncertainty and complexity related to the COVID-19 pandemic.

In summary for me today, the business is performing well. Organic growth is strong. Synergy delivery is on track. Our financial profile remains solid, and we are positioned to deliver another year of EPS growth in fiscal year 2021, which is ahead of our original expectations.

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

Ron Delia

Thanks, Michael. Just picking up on Slide 11, many of you will be aware, Amcor hosted an investor briefing a few weeks ago, and this was an opportunity for several members of our Management team to provide an overview of the Company and to highlight our growth opportunities. The materials from that briefing are available on our website, so I'd encourage anyone interested in learning more about Amcor to have a look. The main theme of the event really was to outline our investment case, why invest in Amcor, and before turning to the Q&A, I'll just take a couple of minutes to reiterate and reaffirm those key messages that we use to answer that question, and these are shown on Slide 11.

To start with, we are a global industry leader with a 160-year history, a strong track record of performance, and a clear strategy going forward. Organic growth has been very consistent as a supplier to stable end markets, and we have several levers to pull to continue to grow, including product innovation and capitalizing on our leadership positions in faster growing emerging markets. Our dividend remains compelling, and currently yield is greater than 4%, and that dividend will continue to grow. We have a strong investment grade balance sheet with substantial capacity to invest and no shortage of opportunities. Lastly, we have momentum right now, which is very clear in the results delivered today, and we expect this to continue as we realize further synergy benefits in organic growth.

Collectively, these drivers have resulted in 10% to 15% of shareholder value each year, that's EPS growth and dividend yield, and we expect that to continue.

Another way to look at this return is through our shareholder value creation framework on Slide 12. We generate strong cash flow from relatively defensive end markets, and we redeploy that cash flow in the way shown on the slide here. Through a combination of reinvestment in the business, M&A, and share repurchases, we'd expect to generate 5% to 10% constant currency EPS growth. Our dividend is growing and has historically yielded between 4% and 5%, and continues to be especially compelling in such a low interest rate environment. Again, when you add these components together, the outcome has resulted over the last six or so years in annual shareholder value of 10% to 15%, and we're very well positioned to continue that trend.

One of the reasons we remain confident in that model that I just referred to is because of our sustainability agenda, we believe without question that sustainability will be the biggest organic growth opportunity in the business over time. It's part of our winning aspiration and our best opportunity to differentiate. It's our best opportunity for competitive advantage, and ultimately create shareholder value.

We've developed a reasonably well-informed perspective over the years on the topic of sustainability, and we believe we're uniquely positioned to leverage our scale and resources to help address growing consumer concerns about both climate change and waste. We believe the best answer to addressing those consumer needs and sustainability concerns is responsible packaging, by which we mean a system-based solution across three elements.

First, packaging design, which accounts for the full environmental impact, including the carbon footprint through the full product lifecycle. This would include packaging made from recyclable or compostable structures, packaging made with recycled material, packaging made with less material in the first place or reusable packaging. Second, the right waste management infrastructure, whether it's recycling or composting facilities or returnable systems, to enable the packaging to stay out of the environment. Lastly, consumer participation to properly reuse or dispose of packaging after its use.

Amcor already offers a full range of responsible packaging options today, including packaging made from 100% recycled material or compostable packaging, and packaging made from bio-based materials. We are continuing to make meaningful progress, leading the way in defining and developing the innovative more sustainable solutions our customers want, and their consumers expect. A great example of a differentiated breakthrough innovation from Amcor is the AmLite Heatflex product for retort, which we launched a few weeks ago.

This is the world's first fully recyclable retort pouch, which Nestle has introduced into the market for wet pet food. There's a wide range of end-market applications for this multi-layer structure, and we are really excited about the demand potential for this product over time.

In summary, on Slide 16, Amcor has delivered an outstanding first quarter result with both the Flexibles and Rigid Packaging segments delivering strong organic growth and building momentum. On the basis of the strong start, we've raised our outlook for fiscal 2021, we have increased the dividend, and we'll buy back shares. Finally, the Amcor investment case has never been stronger, with resilient organic growth, further acquisition cost synergies, substantial capacity to invest in growth—to grow the business, and maintain an attractive dividend.

With that, Operator, we will open up the line for Q&A.

Operator Instructions

Your first question comes from the line of Anthony Pettinari with Citi.

Anthony Pettinari

Hi, on full year guidance, could you talk a little more about the drivers of the raise? Is it fair to say that improved expectations around organic growth is the primary driver or are there others that you'd highlight? Then, when you think about price/mix for the year, are you thinking about that as a positive, neutral, negative, any color you can give there?

Michael Casamento

Yes, I'll take the question on the guidance. Look, the increase in the guidance really just reflects the increase in the performance in the first quarter, which was ahead of our expectations. We were pleased with the performance on that front. In terms of the balance of the year, there's no real change in the range of outcomes that we anticipated back in August to what we see today. Really, the key driver was the Q1 performance. Clearly, we've got good momentum in the business, and we're comfortable with where it's heading. That gave us some confidence to raise the guidance.

Anthony Pettinari

Okay, that's helpful. Then with regards to the mid-single digit volume growth in North American Flexibles, do you feel like you're growing faster than the market? Was there any comp issues that you'd flag to the extent that you're saying maybe higher level of demand in CPG categories, do you view that as maybe sustainable? I'm just wondering if you frame the relative strength in North American Flexibles because it's a bit better than what the business has done historically, and I think what some of your peers are doing?

Ron Delia

Yes, I'll take that one, Anthony. Look, first of all, where was the strength in North America Flexibles? It was in some of the real important segments for us going forward, so meat, cheese, pet food. These are all high value-added segments, back to your question on mix. We also had growth in home and personal care, which is important as well. I would say that our growth, generally speaking, is relatively consistent with some of the peers and customers that we track, but I do think that we're performing very well and not missing any opportunities to pick up business along the way. We would expect the business over time to grow roughly with the market as we try to manage mix and optimize mix over time, and that's low single-digit growth, that's what the expectation would be.

Anthony Pettinari

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

Operator

Your next question is from Ghansham Panjabi with Baird.

Ghansham Panjabi

Hi, everybody. Just as a follow-up to Anthony's last question, again, back to North American Flexibles, was the trend line of mid-single digit growth pretty consistent during the quarter? Are you seeing comparable momentum going into your second quarter? Then you call out unfavorable mix for the region, can you also expand on that? I assume it's partly healthcare weakness, but any color that would be helpful, thanks.

Ron Delia

Yes, generally speaking, month to month, week to week, volatility is still pretty high relative to historical patterns. If we look generally across Amcor, and this would apply to North America too, we had a stronger July, a weaker August, probably a stronger September. It's a little early to talk about the second quarter, but things haven't really changed dramatically. I'd say where we ended at mid-single digits is pretty indicative of the exit run rate, if you will.

Then on the unfavorable mix comment, yes, you picked up on the comment on health care, health care volumes in North America are more weighted towards medical than pharmaceutical, and medical sales have been slow, and a lot of that material goes into the operating theater for elective procedures or just general health care consumption that's sometimes a bit more discretionary. We're not really surprised to see that, but that's the negative mix impact for us.

Ghansham Punjabi

Okay, then second question, in terms of your outlook for resin and just raw material prices more broadly specific to 2Q and possibly 3Q, there have been some substantial resin increases that have been implemented, for example, in North America, less so in Europe, and also freight has picked up, a lot of your peers are calling that out in terms of incremental costs. Just help us think through the margin paradigm for North America, excluding the Bemis synergies, which of course is very specific to you? Thanks.

Ron Delia

Yes, look, maybe I'll just take the freight part, that's the easier one. Freight, most freight is passed through to the customer in this business, and so that's really a pretty benign input cost for us. I wouldn't expect much material impact on freight in any parts of our business. Raw materials are obviously a big part of the cost of sales, it's 50% to 60%, depending on the business and the sales volume. No question, we've seen relatively strong increases in several categories, particularly in North America. The outlook is for moderation of those increases and more stability going forward, so we could have a little bit of a lag impact in the second quarter, but nothing that we would project to be material for the full year. We factored in our outlook on raws around the world into the upgraded guidance today.

Ghansham Punjabi

Thanks so much, Ron.

Ron Delia

Thanks.

Operator

Your next question is from John Purtell with Macquarie.

John Purtell

Good morning, Ron and Michael.

Ron Delia

Hi, John.

John Purtell

Just had a couple of questions, thank you. Look, just in terms of emerging markets, looks like things are starting to—particularly in Asia, starting to get back to traditional growth rates there after some challenges. Obviously, you saw some decent growth in Asia and also in LatAm, just in terms of the drivers of that, Ron?

Ron Delia

Yes, it's a good pick up. We're pretty excited about the growth, particularly in Asia. In China, it seems to be tracking along, it's mid-single digits and in India, which is a smaller base, it's up in the double digits. I think we're performing well in the market.I certainly don't think we get any help from the market. Those businesses, especially India, those economies are still somewhat constrained a bit by COVID. In Southeast Asia, in particular, some of the smaller businesses for us continue to be constrained from COVID impacts. But generally speaking, I think we're executing well. I think the value proposition in those markets for Amcor as a blue-chip global supplier with good technology, good business practices, product safety and all the things that have helped us grow over the last several decades, are true as much today as ever, and we are executing well.

John Purtell

Thank you, and just in Europe, obviously saw marginally lower volumes there. Just to understand the drivers of that, was health care also a factor there, you also talked to lower closure volumes?

Ron Delia

Yes, again, pretty consistent with the peers and the customers that we track in that part of the world. Health care, a bit soft for the reasons that I referred to in North America, same applies in Europe. Closures business or the capsules business there is really leveraged to the champagne, spirits and wine segments, which have been a bit soft, nothing particularly out of the ordinary, but just for the 90-day period, softer volumes in some of those segments.

John Purtell

Okay, so would you have an expectation that some of this starts to normalize out through the course of the year? It's probably hard to call, but do you see some of this as—there's a little bit of cyclicality there?

Ron Delia

I think it's a short period of time, and part of it is the summer months, which are hard to read. What's very encouraging about our European business is the offset of mix because of the growth in the higher margin segments. We had really strong growth in cheese, snacks, pet food, ready meals, and so those segments offer accretive mix benefits to us, and we did a positive mix in Europe, benefiting the bottom line in the quarter.

John Purtell

Got it. Just last one, if I can. In terms of the buyback, is there anything to read into that as far as less M&A opportunities in the near term, presuming multiples are still pretty full?

Ron Delia

No, definitely not. I mean, multiples are certainly full, that's a separate topic. We expect us to be acquisitive, but we monetized investment we had and realized some proceeds, and we've simply redeployed those proceeds or simply announced an intention to redeploy those proceeds into share repurchases.

John Purtell

Got it. Thank you.

Ron Delia

Thanks, John.

Operator

Your next question is from Salvator Tiano with Seaport Global.

Salvator Tiano

Yes, hi, Ron, Michael and Tracey. First thing I wanted to clarify is if you can provide a little bit more color on the beverage strengths, and in North America, the volume growth you saw was very strong. I would have thought that even with lockdown season, people are not going as out as much, and I know a lot of the beverages, the beverage packaging you make is for on-the-go consumption. Was there some inventory restocking there, some pent-up demand from the prior quarter? Generally, any color would be very helpful.

Ron Delia

Yes, look, the business did have a good quarter. It's had volume growth like that before, so it's not unprecedented, but it certainly was strong. Longer term, we would expect low single-digit growth across that beverage space. That's what we've been seeing for a number of years, and that's what we are expecting to continue. I would say we have benefited from good customer mix. Some of our hot fill business, in particular, grew quite well on the back of some strengths from particular customers. Has there been any inventory restocking? It's possible. I don't know that that would be a material driver. When we look at retail sales in the period against our sales by segment, we see a pretty close match. It is possible there is a bit of inventory in there because that number in hot fill, 12%, is not what we would typically expect, although it's not unprecedented.

Salvator Tiano

Yes, okay, perfect. My second question is a little bit on the M&A front. During the Investor Day also you said you are looking actively, obviously your leverage allows that and you're over one year into the Bemis acquisition. I was wondering, would you consider expanding into areas beyond the traditional plastics, and I know it's a little bit unusual given that you did spin out everything for Orora, but you did talk a lot about paper, for example. Does something in the folding carton space make sense to you at this point?

Ron Delia

First of all, yes, we are on the lookout for acquisitions, and we have been acquisitive over the journey. I think we've done 25 or 30 deals in the last 10 years. The first priority, just to be crystal clear, is to complete the integration of Bemis in the Flexibles businesses, which is a substantial part of Amcor. We're about 16, 17 months into that and we're not declaring victory yet. That's the first priority, but we will keep our eyes out for deals.

I wouldn't expect us to go outside of our current segment participation, our segment mix, to the extent that we can build out the Flexibles portfolio in Asia, and bolt-on in some of the bigger markets. The Rigid business in North America outside of beverage is a place that we find pretty attractive, and we've been on a diversification path of our Rigid business for the last five, seven years. I'd like to be more activity there.

But I think the big constraint is likely to be valuations, valuations are quite high, and that doesn't seem to be abating. We'll continue to be on the lookout, and we'll be active. We have the balance sheet, as you suggested. We will have the Management bandwidth in Flexibles. I would say we have it already in Rigids, and we hope to be active.

Salvator Tiano

Thank you very much.

Ron Delia

Thank you.

Operator

Your next question is from Brook Campbell-Crawford with JP Morgan.

Brook Campbell-Crawford

Good morning. Thanks for taking my question. I just had one around the targeted synergies there for this financial year. There's a range there. Just trying to understand the focus of cost to explain that range, and I'm trying to understand really what needs to happen to get to the top end there for FY 2021?

Ron Delia

Yes, Brook, it's Ron. Let me try, I'm not sure I heard the question completely but let me see if I've gotten it. Question was about synergies this year, the composition of the synergy benefits and what would it take to get to the upper end of the range, I think.

Brook Campbell-Crawford

Yes.

Ron Delia

Okay, good. The range for the year is $50 million to $70 million of EBIT benefit. We've hit $20 million in the first quarter, so we are a little bit ahead, of the pace. The composition through the quarter is a bit balanced between continued G&A reductions and procurement, and a little bit of footprint. If we look out over the remainder of the financial year, we would expect—and we went into the year expecting footprint to be a bigger component of that $50 million to $70 million. The footprint initiatives will often be dependent on our ability to execute and get to the sites that need to be rationalized, get OEMs and contractors and technicians out to those sites. Some of those things can be impeded with mobility restrictions and other implications of COVID. We have been a bit cautious with regard to that source of synergies. For us to get to the top end of that range will require us to be able to execute unimpeded some of the footprint initiatives.

Brook Campbell-Crawford

Okay, thank you for that. Then my second question, I might have missed this in the release, but any sort of guidance you can provide on corporate expense and interest for the full FY 2021 period would be great.

Michael Casamento

Hey, hi Brook, it's Michael here. We are not giving any specific guidance on those items we gave. They're all covered in the EPS range that we put out there. What I can tell you is that if there was something materially different, we'd let you know, so corporate expenses, we are on track and will be similar to prior year, perhaps a little higher. Interest, I think you are going to look at interest and tax on a combined basis. You saw in the quarter we had some interest benefit there year-on-year with an offsetting tax. That's going to be similar as we head our way through the year. You'd expect that on an absolute basis the spend in interest and taxes is going to be similar, perhaps slightly higher than prior year. But I guess overall that's all factored into our EPS guidance range.

Brook Campbell-Crawford

Thank you.

Operator

Your next question is from George Staphos with Bank of America.

George Staphos

Hi, everyone, good day. Thanks for all the details. I wanted to drill into Rigid Packaging a little bit if we can go back to Slide 8, guys. You mentioned very strong volumes in North American beverage, hot fill up 12%, Specialty up, you mentioned good mix. The volume growth and the mix considerations you mentioned would have normally led me to believe you'd see a bit more incremental volume—excuse me, incremental margin 1Q versus 1Q. I think you said there were some absorption issue as well. Can you help me go from what was real good volume and good mix to 4% EBIT growth at the reported level? Then I had a follow on.

Ron Delia

Yes, first of all, the EBIT growth, as we would look at it, was 7% off the 4% volume, and really simply stated, you pretty much called out the drivers. We had good mix in North America and good volume growth. Although the profit impact of that was tempered a bit by drawing out of inventories, given the strength of those volumes, so you know that when you pull out of inventory, you've got a bit of a negative impact there. I would say that that normalizes over time.

George Staphos

How much was that inventory factor, if you could comment to that?

Ron Delia

In the grand scheme of the whole financial year, not material. It's just it would have held back the growth a couple of percentage points potentially. Then you have to remember, we also had negative volume growth in Latin America, we are down 3%. Those are the building blocks. The headline here though is this business is performing really well. It's very healthy, and it's growing in the right segment.

George Staphos

Okay, I appreciate that. My other question is on sustainability, and a two-parter, if I could and I'll turn it over. First of all, from the work that you've done, what do you think or what are your customers telling you is most resonating with the consumer in terms of sustainability? Is it footprint, is it recyclability, is it light-weighting? I know it's going to be all the above, but if you had to pick one thing that right now is most resonating with the consumer, what is it on sustainability? On the AmLite, when that comes back—its end of life story, what is that? What's occurring? Is that going back into polypropylene, recycling structure? How is that ultimately recycled and made positive? Thanks, guys, and good luck in the quarter.

Ron Delia

Yes, thanks, George. Look, that's two really good questions. The first one is an excellent question because I think we've got to remember that the consumer ultimately has a massive role to play in this. They've got to participate at the end, whether it's reusing something or composting it, or recycling it. There's an expansive narrative in the space that covers a lot of different things. What seems pretty clear to us and to our customers, and we have good insights here through a number of the organizations and associations that we sit side-by-side with the big brand owners on, that the consumer gravitates more towards recycling. I think it's because it's the easiest thing for the consumer to get their head around. The idea to recycle something, if the infrastructure exists, is the easiest thing for the consumer to embrace.

Composting can have a place, but that also requires infrastructure, which is just less ubiquitous around the world and is a little complicated, if you think about the science of it. The reuse systems, while they have a place and they have a role, there's a lot of buzz about some of those reusable systems, we've done a bit of primary research, on this ourselves - we've not seen lots of consumer take up at scale on reusable systems. I know that doesn't make us popular necessarily with some of the rhetoric from the NGOs, but I think it's the reality, and if we want a better outcome here, we need to embrace what the consumer is interested in adopting.

That would be the long answer to a short question. We would say it's recyclability is the outcome that resonates most with the consumer. On AmLite Heatflex, really quickly, that's a multi-layer structure, which is constructed with basically the same base polymers, which are consistent and allow it to be compatible with the polyolefin recycling stream that exists in places in Europe where that pouch has hit the market. Hopefully that answers the question on AmLite.

Operator

Your next question is from Richard Johnson with Jefferies.

Richard Johnson

Thank you very much. Just a quick one to start with. Michael, could you clarify whether any of the $20 million incremental synergy was in the corporate line, please?

Michael Casamento

No, it was all in Flexibles, Richard.

Richard Johnson

Fantastic. Then just on the topic of restructuring, if I look at your reconciliation table for Adjusted EBIT, and I look at the material restructuring and related costs, I was just wondering if you could just clarify whether the number in Flexibles is all Bemis related? Then talk a little bit around what's going on in Rigid Packaging, because that number has obviously gone up a lot year-on-year. I'm just interested to know as well whether there's any footprint reduction across the group that's outside of the two effective restructuring programs we know about, which is obviously Bemis synergies and Rigid's restructuring? Thank you.

Michael Casamento

Yes, so I can take that one. Richard. Under Flexibles, yes, that's all Bemis related. Under Rigid Packaging, it's just a timing point around some of the actions we've taken relating to some of the G&A and the plant work that we've been doing. We'll finish that program this year. We've only really got one site left to close on that front, so that'll be finished this year with full run rate by the end of the year as we exit the year. That's covered off. Yes, we just had one plant closure during the period, which we took in the EBIT line. That was about $9 million of cost which is in the result.

Richard Johnson

What was that?

Michael Casamento

The plant in Switzerland.

Richard Johnson

Fantastic. Thanks very much.

Operator

Your next question is from Mark Wilde with Bank of Montreal.

Mark Wilde

Hi Ron and Mike.

Ron Delia

Hi, there, Mark.

Mark Wilde

First question, I wondered if you could just give us a little color on the strength that you had called out in the specialty carton business this quarter, and related to that, whether tobacco packaging is an issue at all for any of the ESG Investors?

Ron Delia

The specialty carton business had a really good first quarter, volumes were essentially flat. We had some strength in the Americas, as we highlighted, some softness in Asia and Southeast Asia in particular, and pretty flat in Europe. All up, we had a pretty good top line and the business is executed really, really well. It continues to drive cost out and optimize its operations. We're pleased with that business. It's a good margin business, big cash generator, and it's got a leadership position in each of the markets around the world.

The second part of the question, the short answer is no. I think investors realize we're not actually in that end market. We're printing the carton board and shaping it and then it gets filled with the product that sometimes creates issues from an ESG perspective. But we're not an active participant in that end market any more than the bank who finances those companies and those customers is an active participant. Short answer on the ESG related point is no, no issue.

Mark Wilde

Okay, then I wanted to just toggle over to Brazil, that was a big business for Bemis historically. We've seen in a number of other packaging products a pretty marked pick-up over the last two or three months. It sounds like you didn't get any of that in the first quarter, but I wondered if you're seeing any pick-up right now in Brazil?

Ron Delia

Yes, look, we actually had a good quarter in Brazil. We had higher volumes in Rigid Packaging in Brazil. Our Flexible business, our core flexible business in Brazil and Flexibles grew as well. The offset somewhat was we have a disposable business there, which is one of the old Dixie Toga businesses, and that's really impaired because there's no food service and there's not much action happening from the disposables perspective. These are paper plates, paper poly plates and cups. There is softness continuing in that segment in Brazil, but the core of what we are going to do there long-term, Rigid Packaging and Flexibles and thermoforming, is growing and did grow in the quarter.

Mark Wilde

Okay, and then if I could just slip one other thing in here. You raised guidance. I think you held the free cash flow number for the year. Any thought to being able to bump that up at all?

Michael Casamento

The free cash flow number has a reasonable range in it. The guidance increase really fits within that range. We've kind of left it for there for the moment. If we think that's going to change over the year, we'll update you as we progress through.

Mark Wilde

All right, we'll stay tuned. Thanks, Michael.

Ron Delia

Thanks, Mark.

Operator

Our next question is from Larry Gandler with Credit Suisse.

Larry Gandler

Thanks, guys for taking my question. My question is about synergies, first one. Amcor being a constructive and proactive company as it is, is it possible to think that as you guys close the Bemis deal or after, you went to your largest customers in North America—of course, hang on a second. Can you hear me, Ron?

Ron Delia

Yes, no problem.

Larry Gandler

Sorry about that.

Ron Delia

That's okay.

Larry Gandler

You would have gone to your largest customers in North America and said, look, we have some gross synergy that we will develop out of the merger. Can we work an arrangement where we share some of this synergy, but it's a win-win, we get a larger part of your business? If those sort of conversations happen with your larger customers can you maybe describe some of that and how that's influencing these more recent results? I'm going to throw my phone out of the window in a second.

Ron Delia

Yes, no, that's all right. Look, I don't know that we're seeing material impact on our top line yet from those discussions, but there's no question that there's good things happening from a commercial perspective that are coming from this acquisition. The most obvious is the ability to engage with some of these big brand owners to help satisfy their needs around the world, not just from a supply perspective, but back to the sustainability agenda, the joint development programs we have on R&D and product development. That started really from the beginning. There are other examples where we've been able to secure business in certain parts of the world, because of strength and our value proposition in other parts of the world. I think that will continue and the benefits will accrue over time.

The other part of the commercial story for us is just leveraging the commercial capabilities that Amcor has refined over the years around margin management and mix management and layering those on to the legacy Bemis portfolio. Then taking some of the segments that we've acquired here, particularly around meat and cheese and protein packaging that's film-based, and leveraging that across our structure, around the world. We are getting more active in that regard, but that will take some time to see real topline benefits. I'm not sure you're seeing it in this result and I'm not sure you'll see it in this financial year, but I think over time we expect to have commercial benefits.

Larry Gandler

It was meat that particularly piqued my curiosity, because you do seem to be bucking the performance of many companies participating in that space, even Kraft Heinz, your largest customer in the first quarter called out, I think, weaker meat volumes. You had COVID impacting that sector with difficulty to get people to abattoirs, labor to abattoirs, so you do seem to be bucking the performance.

Ron Delia

In that segment, you're right, there is some disruption in the supply chain there and some of the meat packing plants have been constrained a little bit, but despite that I think we're performing pretty well.

We're probably taking some share and probably outgrowing the market in that space as we believe we should do. We've got great products.

Larry Gandler

That's not related to constructive conversations with customers around sharing synergies.

Ron Delia

All of our conversations are constructive, but it's just on the back of the value proposition that starts with the product.

Larry Gandler

Okay, great. A financial question for Michael, just on AMVIG, there is some associate income or equity-accounted income reported. Is that AMVIG? Will that zero out for the rest of the financial year?

Michael Casamento

That's exactly right, Larry. We had $3 million for the first quarter and from now on it'll be zero versus the prior year where we had $11 million for the full year.

Larry Gandler

I think the equity line was $19 million in the quarter.

Michael Casamento

Yes, that includes the gain on sale.

Larry Gandler

Okay.

Michael Casamento

The underlying, which we adjusted if you look at the table with the adjustments, that gain on sale was taken out of the result. It's just the base $3 million that was in the base result.

Larry Gandler

Okay, fantastic. Thanks.

Operator

Your next question is from Keith Chau with MST Marquee. Please go head.

Keith Chau

Good morning, Ron and Michael. Just going back to interest cost model for the full year. I think in the full year result, you called out interest expenses weren't going to change materially for the year. I think at the time you may have mentioned over $500 million bond rollover in high cost and lower interest rates balancing out to a net similar outcome for this year. Seemingly, the first quarter net interest expense was significantly lower than the first quarter of last year, and also the fourth quarter of last year as well, notwithstanding a high net debt balance. I'm just wondering, the guidance this year, I know you spoke about it earlier today, but I just want to dig into that a little bit further, just trying to work out what the order of magnitude and change could be at the interest line going forward, please.

Michael Casamento

Yes, as I said, I mean, we're not going to call out a number specifically. Clearly, in interest, we've had some benefit during the period, continued low interest rates. This quarter versus this time last year, it's a 200 basis reduction in LIBOR, and we are still getting really good access to commercial paper, both in the U.S. and Europe. We've had quite a strong benefit there in the period, more pronounced than it will be for the rest of the year, because interest rates started to come down this time last year and progressed through the year.

That said, we will have a lower interest number, but you've got to look at that interest number in line with tax as well and the offset—clearly, we saw an offset and we've seen increased tax in absolute terms and the ETR. As I said earlier, we will see some lower interest now at the full year, but the offset will be tax. We are going to have a higher tax bill just based on higher earnings and perhaps a slightly higher ETR as well. When you put all that together, net-net, you add those two together in absolute terms, they're going to be pretty similar to the number last year.

Keith Chau

Okay, okay, fantastic. Perhaps maybe if we're looking at first quarter to fourth quarter, last year, because rates albeit had gone down, but not as much as the first quarter versus first quarter last year. The $45 million in net interest in the fourth quarter last year, applying the $37 million for the first quarter. Is there any timing issues there that we should be thinking about from a quarter-on-quarter basis?

Michael Casamento

There were some additional costs we had just on some of the bonds and the like in that period. But I think overall the interest bill will converge as we head through the year.

Keith Chau

Okay, excellent. Then, second one, just very quick one, on Bemis synergies. Can you give us some guidance as to whether there will be some Bemis synergies allocated to corporate for the full year?

Ron Delia

Keith, it's Ron. It's unlikely. Most of the synergies in corporate were executed very, very early on post-close. For all intents and purposes, all the synergies this year will be in the Flexible segment.

Keith Chau

Okay. Great. Thanks very much.

Ron Delia

Thanks, Keith.

Operator

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

Ron Delia

Okay. Thanks, Operator, and thanks, everyone, for joining the call, and I think we'll close it there. Thank you.