Amcor plc

Full Year Results 2021

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P R E S E N T A T I O N

Operator Instructions

Tracey Whitehead

Thank you, Operator, and thank you, everyone, for joining Amcor's Full Year 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 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're discussing today. During the question-and-answer session, we request that participants limit their questions to a maximum of two, and then rejoin the queue for any follow-ups.

With that, I'll turn over to Ron.

Ron Delia

Thanks Tracey, and thanks everyone for joining us to discuss Amcor's Fiscal 2021 full year results. Joining me today, as Tracey mentioned, is Michael Casamento, Amcor's Chief Financial Officer.

We'll begin with some prepared remarks and then we'll open the line for Q&A.

We start every meeting at Amcor with safety, and we'll begin there on Slide 3. Safety is the first and most important of our values, and Amcor has been on a long-term journey towards our goal of no injuries. Our safety performance has shown continual improvement, including in the last 12 months where our performance has been a real highlight. Across Amcor, we reduced the number of injuries by almost 25% compared to last year. All of our businesses reported fewer injuries, and over half of our sites have remained injury-free for at least 12 months.

Through a year where the pandemic continued to present operational challenges in many countries, our focus on safety was unwavering, and we are incredibly grateful that our people continue to be engaged and focused on staying healthy as well as safe. We're proud of our safety performance, which we believe is the best in our industry, and the progress we've made over a number of years, but we're also convinced that our objective of no injuries is absolutely possible, and we continue striving towards that goal.

We have four key messages today which are set out on Slide 4. First, FY 2021 was an outstanding year for Amcor on multiple dimensions. The operating environment remains highly dynamic, but our teams stayed fully focused on the key business drivers within our control, remained agile as conditions changed, and demonstrated exceptional execution and consistency all year. Financial results exceeded our expectations as the year progressed. We ended the year with momentum and we expect another strong year in Fiscal 2022, which is the second key message.

Third, our recent performance, in many ways, is a result of the financial and strategic benefits from our 2019 acquisition of Bemis. Two years on, the integration is now essentially complete, the financial benefits are ahead of our expectations, and strategically, we're better positioned than ever with a stronger foundation for growth into the future.

Lastly, we're capitalizing on that strong base by investing in a number of organic growth initiatives which will maintain our momentum beyond Fiscal 2022, and for the long term.

Turning now to the financial highlights on Slide 5. FY 2021 was an exceptional year financially for Amcor, with record earnings, exceptional margin management, despite steep raw material cost increases and supply constraints, and momentum building through the year. Organic sales growth was 2% and we exited the year in Q4 with sales 3% higher than the prior year.

EBIT growth was 8% with the Flexibles and Rigid Packaging segments both delivering strong results, growing in several higher-value end markets and contributing to margin expansion. In Fiscal 2021, Amcor's EBIT margins increased 60 basis points to reach 12.6% for the year, which is a new high and an exceptional achievement in an environment where raw material price increases and supply disruptions continue to require an intense focus on securing availability as well as managing price recovery. We estimate Bemis acquisition synergies were around $75 million, and as we close out the final integration activities, we expect to exceed the original synergy target by at least 10%.

EPS increased 16% for the year and was ahead of guidance, which we were able to continuously increase through the year. Free cash flow of $1.1 billion was at the top of our expected range.

Return on capital or return on average funds employed finished well above 15% at a time when our cost to capital is at an all-time low, and through the year, we returned $1.1 billion of cash to shareholders through share repurchases and higher dividends. The key message here is that the fundamentals of our business continue to strengthen. Our teams around the world have demonstrated unwavering focus on executing against our strategy, and as a result, we've delivered another year of outstanding financial performance with momentum continuing to build as we begin Fiscal 2022.

I'll turn it over now to Michael to provide some more detail on the financial results, and I'll finish up with some comments on growth and sustainability.

Michael Casamento

Thanks, Ron, and good morning and good evening, everyone.

I'll start with the Flexibles segment on Slide 6, which performed very well, delivering record sales, EBIT, and EBIT margins for the year. Sales includes recovery of higher raw material costs, and as Ron mentioned earlier, these have continued to move higher during the quarter. Across the business, our response has been proactive and we've implemented price increases quickly.

As a result, in the June quarter, net sales increased by more than $100 million, with the annual recovery run rate reaching more than $500 million as we exited the year. From an earnings perspective and consistent with last quarter, the price/cost impact has remained manageable, given the diversity of materials we buy and the multiple regions in which we consume those materials. This is clearly evident in our margin performance, which continued expanding in Q4 and through the year.

From a volume perspective, demand in many of our key high-value end markets has remained consistently strong, including meat, coffee and pet food. However, this has been offset by double-digit declines in North America medical volumes and European pharmaceutical volumes, driven by fewer elective surgeries and lower prescription trends.

From a geographic perspective, volume growth has been relatively broad-based, with good overall performance in emerging markets. While volumes in North America were higher than the prior year, along with Europe, this is where large parts of our Healthcare business are located, and growth in these regions is inclusive of those headwinds.

Adjusted EBIT increased 9% in constant currency terms, mainly reflecting volume growth, exceptional margin management with expansion delivered every quarter, and around $65 million of cost synergy benefits related to the Bemis acquisition.

Turning to Rigid Packaging on Slide 7, in summary, the business has continued to deliver outstanding results, driven by increasing consumer demand in both North America and Latin America. Sales growth included a 5% increase in volume as well as a 3% price mix benefit, including higher pricing to recover cost inflation in Latin America.

In North America, annual beverage volumes were 8% higher than last year and hot-fill container volumes were up 13%, driven by rising consumer demand through the year which resulted in capacity shortages and historically low inventory levels across the industry. Demand was particularly strong in hot-fill categories, including sports drinks, ready-to-drink tea and juice.

Year-to-date, Specialty Container volumes were higher than the prior period, with growth in categories including spirits and home and personal care. This was partly offset by lower volumes in the Healthcare segment. Volumes in Latin America were 5% higher than last year, with growth delivered in Brazil and Argentina in particular.

EBIT growth of 8% reflects higher volumes and favorable mix across the business, and this was partly offset by higher labor and transportation costs in North America. These higher costs have been a direct result of capacity shortages and low inventories throughout our network, which introduced supply chain inefficiencies in the short term, ahead of installing additional capacity.

Rigid Containers continues to be one of the world's preferred packaging formats since it is recyclable, re-sealable and hygienic, and has the lowest carbon footprint. As you'll see on the slide, this preference continues to be reflected over time with format share and a healthy growing market remaining consistent.

Demand for recycled content is also rising rapidly, and our use of recycled resin has doubled over the last two years. Looking forward, we expect this trend to accelerate further and are working with customers on a very active pipeline of new product launches incorporating higher levels of recycled material.

Moving to Slide 8, adjusted free cash flow of $1.1 billion was at the upper end of our expected range for the year, and we finished the year strongly. Compared with last year, free cash flow benefited from the higher flow-through of higher earnings, and this was offset by a hundred million adverse impact from the timing of U.S. cash tax payments and a lower working capital benefit. Working capital has been an area we have been particularly focused on through the Bemis integration and is a real highlight. In total, since 2019, approximately $250 million of working capital has been released, and this has been a source of funds to cover synergy-related cash costs.

Capital expenditure increased in the current year as we have stepped up our organic investments in high-growth segments and geographies. Looking ahead, we have a broad range of attractive investment opportunities and expect to increase Capex by 10% to 15% in Fiscal 2022. Our financial profile is solid, with leverage of 2.7 times on a trailing 12-month EBITDA basis, and it's right in line with our expectations.

With strong annual cash flow and a strong balance sheet, the business has significant capacity and flexibility to invest in organic growth, execute M&A, as well as return a substantial amount of cash to shareholders. In Fiscal 2021, total cash returned to shareholders in the form of dividends and share repurchases reached an impressive $1.1 billion.

Turning to Slide 9 and our outlook for the 2022 Fiscal Year, we expect comparable constant currency EPS growth of 7% to 11% for the full year. This excludes the effect of disposed businesses which impact comparability, and an unfavorable currency impact of approximately $0.01 per share, assuming current exchange rates prevail for the remainder of the year. On a reported basis, this results in an EPS guidance range of approximately $0.79 to $0.81 per share.

Free cash flow is expected to be $1.1 billion to $1.2 billion, up to 10% higher than Fiscal 2021, even as we are accelerating capital investments to support organic growth. Growing cash flow enables us to continue paying a compelling and growing dividend and allocate cash to share repurchases, which we expect will be around $400 million in Fiscal 2022, while retaining the flexibility to fund acquisitive growth when needed.

With that, I'll hand back to Ron.

Ron Delia

Thanks, Michael.

I'll start with a few points to recap the Bemis acquisition on Slide 10. The all-stock acquisition of Bemis was completed in June 2019 and was the largest in Amcor's history. Two years in now, our integration efforts are essentially complete and the outcomes are clearly exceeding our original expectations.

Firstly, from a financial perspective, the transaction unlocks substantial value through the realization of cost and cash flow synergies, which have materially strengthened Amcor's financial profile. More specifically, based on our Fiscal 2022 expectations, over the three-year period post closing the acquisition, we will have outperformed the original cost synergy target of $180 million by at least 10%, and as Michael mentioned, the cash released from working capital over the last two years funded the cash costs to achieve those synergies.

Margins in our Flexibles segment will be more than 200 basis points higher than in Fiscal 2019. EPS will be at least 35% higher, or at least $0.21 per share. We will have repurchased approximately 25% of the shares issued to fund the acquisition, and the annual cash flow will be close to double Amcor's annual cash flow in the year prior to the acquisition.

Strategically, Bemis was a perfect fit for Amcor. It was a pure play coming into what was already the world's largest global flexible packaging business, and putting these two companies together created the only truly global flexible packaging platform able to serve multinational customers around the world with an even stronger value proposition, especially in the most attractive end markets like healthcare and protein, where our participation has meaningfully increased.

Amcor is now the clear flexible packaging leader in every major geography, with greater absolute and relative scale advantages, and we've strengthened our talent and capabilities, particularly in R&D, so we can support large and small customers with the broadest range of innovative and sustainable packaging solutions. Today, as a result of the Bemis acquisition, we're better positioned than ever with a strong foundation for growth looking forward.

With that stronger foundation, we have a range of organic growth drivers that we're investing behind, and on Slide 11 we've highlighted a few. First, an increasing percentage of our sales are coming from the most attractive, higher-growth, higher value-added segments where we have the best opportunities to differentiate, including healthcare and protein packaging and flexibles, and the hot-fill product segment in rigids.

Our global healthcare business is approaching $2 billion in sales across medical device and pharmaceutical packaging, segments that require unique capabilities that are not easy to replicate. We're investing to add both capacity and capability with current projects underway in Malaysia and Ireland, to highlight two examples.

In protein and meat packaging, we have a great opportunity to leverage our capabilities in high-barrier films and our growing business in North America to the benefit of our other businesses around the world.

In the hot-fill Rigid Packaging segment, we have extensive intellectual property and product design capabilities, and we know how to partner with customers to help them drive growth through innovation. Given the sold-out environment we're in and the growth outlook, we're adding capacity across our North American plant network.

The second organic growth driver we're highlighting today is our leading emerging markets portfolio with over $3 billion in annual sales and a long history of profitable growth. Again, we're investing behind the emerging market opportunity, including in the new greenfield plant in China that we highlighted on our last call.

Third, innovation and new product development will increasingly contribute to organic growth going forward. We've been investing in this area as well to extend our global innovation center network into Europe and China, and through the recently announced partnership with Michigan State University's School of Packaging, and with our entry into the corporate venturing space earlier this year.

Finally, the number one organic growth driver for Amcor going forward, which cuts across the other three, and really everything else we do, will be the increasing need for more sustainable packaging. We know there will always be a role for packaging for essential food and healthcare products, and so the ability to provide that packaging so that it meets all consumer needs and is more sustainable, creates the unique opportunities for growth.

Slide 12 highlights sustainability a bit more, and as we take stock at the end of one financial year and start a new one, we are particularly pleased with the progress we're making to accelerate responsible packaging through advances in package design, waste management infrastructure and consumer participation.

Examples of recent progress on package design demonstrate the breadth of our product range across substrates, with packaging that uses less material overall and more recycled content, eliminates problematic materials and has a better end-of-life profile. In terms of materials, our use of recycled resin in Rigid Packaging has almost doubled over the last two years, and we expect to almost double again over the next 12 to 18 months. We've also announced our new AmSky platform which eliminates PVC and has the potential to transform the sustainability profile of healthcare packaging in particular.

To improve end-of-life outcomes, we've commercialized several new recycle-ready product platforms, including the polymer-based AmLite and AmPrima and the paper-based Matrix product ranges, and we've entered into a new partnership to expand our offering of compostable solutions. Demand is growing for these new products, and we'll be scaling up to capture the growth opportunity.

Making progress on waste management infrastructure and consumer participation will be equally important, and both require close collaboration with others across the value chain. We've stepped up that collaboration over the past year through our partnership network, where Amcor is increasingly relied upon to shape and establish packaging design standards around the world, which can then inform infrastructure investment and consumer education to help keep packaging out of the environment. We'll talk more about our sustainability agenda following the publication of our annual Sustainability Report later this year.

Slide 13 is a slide we shared late last year at our investor briefing, but it remains relevant today. We believe the Amcor investment case is as strong now as ever, and we set out the reasons why on this slide. Several of the points have already been made, but in simple terms, we generate significant and growing free cash flow every year. In Fiscal 2022, that free cash flow will be up to $1.2 billion, and that cash flow will comfortably support reinvestment in the business, as well as M&A and regular share repurchases, which in turn drive strong EPS growth. In addition, we'll continue to pay an attractive and growing dividend. We also believe that momentum matters, and momentum has been building at Amcor, which is clear from our recent performance and outlook comments and the expectations we have for our Fiscal 2022 year.

Finally, on Slide 14, a quick recap of our key messages from today. Amcor had an outstanding year in FY 2021. We believe momentum is building and we expect another strong year in FY 2022. The Bemis integration is essentially complete, and we've summarized the outcomes today, which have exceeded our expectations. Finally, we now look forward to capitalizing on a range of organic growth drivers and we're investing in the business to make that happen.

With that, Operator, we'll conclude our opening remarks and we'd like to open the line for questions.

Operator

Thank you.

Our first question is coming from the line of Anthony Pettinari with Citi. Your line is open.

Anthony Pettinari

For the 2022 guidance, is there anything that you'd say about the cadence of earnings growth, whether you'd expect that to be more second half weighted or first half weighted, given you have a few moving pieces with cost inflation and some volume comps that are maybe a bit unusual?

Michael Casamento

We've given the full-year guidance there for you, of 7% to 11%. Typically, our business is weighted approximately 45% first half, 55% second half. We haven't given particular guidance by quarter, but we're expecting to be within that range as we head through the year.

Anthony Pettinari

Okay. Then, you obviously have a large global footprint. Is it possible to say how the Delta variant has impacted demand, if at all, across the regions that you operate in, and is there anything anticipated in Fiscal 2022 guidance from that perspective?

Ron Delia

Yes, Anthony, first of all, it's all incorporated in our guidance. Our outlook on the top line, starting point for the outlook and the forecast for the coming year, it's really early to say. I think we would say that consumption and our demand, other than in healthcare, has more or less normalized over the last several months, notwithstanding the pickup in positive test results that are coming from the Delta variant. At this stage, we haven't really seen any kind of dislocation resulting from COVID in the near term here.

Anthony Pettinari

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

Operator

We have our next question coming from the line of Ghansham Panjabi with Baird. Your line is open.

Matthew Krueger

Hi, good evening, this is actually Matt Krueger sitting in for Ghansham.

I guess I just wanted to start out with, given several moving pieces including some unusual volume comps and things like that, can you outline what your budgeted volume growth by segment and/or by region might look like for Fiscal 2022? Then, just given that we're halfway through August already, can you talk about how some of the sales in key segments or end markets have trended to kick off the year here?

Michael Casamento

Look, typically we'd expect low single-digit growth on the top line; that's what you saw this year, and if you look over history, that's typically what we see. I can't give you any more detail on that. I think the low single digit is where we would point to.

Ron Delia

I think also if you look back over time, we've typically grown mid to high single digits in emerging markets, and low single digits in developed markets, which is consistent with consumption patterns in those different parts of the world. Then from an end market perspective, we were pleased with the performance in some of the higher value-added segments where we're really pushing, typically protein, pet food, coffee, the things where there's more differentiation. Healthcare would typically be at the top of that list; obviously, we're weathering a bit of a blip because of COVID at the moment, but that's how we think about getting to that low single-digit expectation over time on the top line.

Matthew Krueger

Great, that's helpful. Then, I just wanted to shift over to the raw material environment. Can you talk a bit about what type of headwind you experienced from higher raw material costs and potentially raw material shortages during the latest quarter and full year of 2021, along with how those raw material trends are likely to impact your business as we move into 2022? Any detail on if you had issues procuring materials or if there was any downtime taken because of lack of supply would be helpful as well.

Michael Casamento

Yes, sure. I'll take the financial piece if you like.

The first thing is, as you know and understand in the industry, we pass through raw material pricing to customers on a contractual basis, so it's a timing issue more than anything on that front.

The other point about Amcor, obviously we have a broad and diverse range of raw materials and consumption around the globe, so you've got to take that into account as you look at our numbers through the year. Then of course, we build capabilities over them, many years of getting that raw material passed through.

From where we sit today, we're really pleased with how we dealt with some of the spikes in FY 2021. As we said in the remarks, we recovered over a hundred million in Flexibles in Q4 alone, and exited the year on an annualized basis that was about $500 million in those prices, so more to come.

The price-lagged cost was manageable, as it was in Q3, so we haven't called that out specifically. Really, the evidence around that is through our margins. You can see that our margins continued to expand in Q4, and in fact expanded in every quarter throughout the year.

When we put all that together, we're really pleased with where we've gotten to on that front. We've built capability in that space to make sure that we get that passed through efficiently.

Ron Delia

Yes, and as far as the outlook in terms of the commodities, I mean, as Michael said, we're pretty diversified, so it's always a little bit of a mixed bag. But generally speaking, we see things moderating and possibly the increases abating over the next quarter or two.

As you pointed out, Matt, the availability of certain materials is probably the bigger issue, potentially. At the moment, we have not taken any downtime, to answer your question specifically. But there are certain materials, particularly some of the specialty grades, that are in short supply and that are on allocation. That's been quite disruptive, and it consumes a lot of Management time just to ensure that we're getting access, and I think we've done a good job of that by virtue of our scale and relationships we have, and the breadth of the supply base we have. But that is as big an issue as the price inflation.

Matthew Krueger

Great, that's helpful. That's it for me, thanks.

Ronald Delia

Thanks.

Operator

We have our next question coming from the line of Salvator Tiano with Seaport Research. Your line is open.

Salvator Tiano

Yes, hi, Ron, Michael, thanks for taking my questions.

The first thing I wanted to understand a little bit is, as we think about that 7% to 11% EPS growth for next year, what are the key drivers of that besides the buybacks and the synergies? How should we think about it by segment, and if it's more price/cost recovery driven, or volume driven, things like that?

Michael Casamento

I can start there. Salvator, if you think about the growth of 7% to 11%, you're going to see around mid-single digits from an organic standpoint, is the first point. Then you've still got some benefits from the buyback to come through as well, which is more organic, so there's probably 1% to 2% there that's going to come through. Then obviously, we've got some synergies left to go, which will be low single digits. That kind of explains to you the makeup of the guidance, and should you get to the upper end, we'd see some better revenue in the top line, perhaps a stronger recovery in healthcare. That's the opposite in terms of the lower end of the range, maybe some further raw material headwinds can drive the lower end of our range, but that's really the makeup of the components in that guidance.

Salvator Tiano

Okay, great. Then, I'm not sure if I missed it, but do you have any outlook with regard to some other components of your EPS, free cash flow guidance, like interest expense, EPS, working capital expectations? Also, cash flows that you exclude from your adjusted free cash flow guidance?

Michael Casamento

Yes. We've said the adjusted cash flow's going to be $1.1 billion to $1.2 billion; again, a range there which, obviously depending on the earnings, will impact that. Working capital potentially could move around depending on headwinds from raw materials, but they're the key items there.

We haven't called out specifically interest and tax; I think you can expect that they'd be similar to where we are this year, if there was something unusual to call out there, we'd call it out for you. Obviously, we're going to have higher earnings so the tax absolute will be higher, but otherwise within that range.

Then we're looking to invest more on the Capex front, as I spoke to earlier. That's really to support organic growth into the future and several opportunities that we've got on-hand today.

Salvator Tiano

Okay, great, thank you very much.

Operator

We have our next question coming from the line of Kyle White with Deutsche Bank. Your line is open.

Kyle White

Hi, thanks for taking the question.

Wanted to focus on Rigid Packaging for my first question; hot-fill volumes continue to see nice growth here. Can you provide a bit more detail as to what exactly is driving this? Is it still at-home consumption with some of the large multipacks growing, or is it really just being driven by the new product introductions and innovation that you're seeing in that market?

Ron Delia

It's a good question, because it's across the categories. Hot-fill containers, typically used in ready-to-drink teas or certain premium segments of the juice market, and of course isotonics, sports drinks, and those categories collectively are all growing pretty rapidly. Most of the participants and brand owners in those categories are enjoying that growth, and it is pretty much a combination of the drivers you mention, Kyle, I think increased distribution and availability in multipack formats. There's probably a bit more at-home consumption, but there's also a lot of new product launches and a lot of rejuvenation of legacy brands, and also just extensions or introductions of new ones.

There's a lot happening in that space. A lot is oriented towards healthier and better-for-you type line extensions or new products. There's just a lot of activity there. That's a segment where there really is only one packaging format. I mean, it's a PET set of segments, resealability, lightweight, on the go consumption, it all fits together with the value proposition of the plastic container; it's all coming together. The volume growth has been strong. We've seen strong volume growth in the past. We sort of expect, at some point, you get back towards mid-single digits. But for now, the industry is enjoying strong growth and essentially a sold-out environment.

Kyle White

Got it, that's helpful. Then on Flexibles, in Healthcare Packaging, the higher-value product for you or mix for you, what's the update there? Are you seeing a recovery in that end market, or has it been stalled now, recently, with some of the upticks in COVID cases, and the cost inflation rates that we're seeing?

Ron Delia

I think it seems to have stabilized a bit. I'm not sure we're ready to say that it's turned the corner. These are segments, and the predominant sub-segments would be medical device packaging and pharma packaging, and we're more weighted towards pharmaceuticals in Europe and a little bit more weighted towards medical in North America. These segments would be growing typically at mid-single digits, and have for several decades. They offer great differentiation, and therefore good margins.

I'm not sure we are ready to say that we have turned the corner. We see evidence that things may be stabilizing a bit, notwithstanding the recent spike in cases; I'm not sure hospitalizations have followed suit. I think we would hope that as we work our way through the fiscal year, that scenario, that builds momentum through the four quarters of FY 2022.

Kyle White

Got it, appreciate the details, and good luck in the next fiscal year.

Ron Delia

Thanks.

Operator

We have our next question coming from the line of Andrew Scott with Morgan Stanley. Your line is open.

Andrew Scott

Thank you.

Ron, just wanted to step back and ask a bit of a bigger picture question. Great job offsetting raw materials in this period; just want to understand how you see that ability being changed with the Bemis acquisition. Obviously it made you, if you like, the 1,000 pound gorilla, brought that scale in your purchasing. Has that fundamentally changed your ability to manage your resin input and other input costs?

Ron Delia

It's an interesting question. There's a couple of things that have changed. What Bemis has brought is greater diversification in the buy, so we got bigger, obviously, and that helps. The relationships we have with the big suppliers are not unlike the relationships we have with big multinational customers. It definitely matters to be big on a global basis, and there's a lot of discussion about these regional markets or global markets. I think ultimately we have some big global relationships, and it's helpful.

Bemis brought scale, it brought further diversification in the spend and I'm sure it helped. But I think the other thing, Andrew, and you've covered us for a long time. I think the experience curve we continue to go down, and we've learned over the years, I've been around long enough to have been through probably three of these peaks in the last 10 years. I think with every cyclical peak, like the one we've been going through, we get better and better in terms of the internal processes and capabilities to, first of all, measure what's happening and then take action and mitigate it.

It's probably a combination of Bemis and maybe just getting further down the experience curve that's helped us through this cycle.

Andrew Scott

Understood, and I have covered you for a while and I know this is a question that you probably get sick of. But to what extent should we view the comments around the buyback as a reflection on maybe a lack of attractive opportunities in the acquisition market at the moment?

Ron Delia

I don't think you should see it as an either/or. I think what you're seeing with this result, we've been talking about the cash that the business spits out for a long time, and this is going into a fiscal year with line of sight to excess cash flow even after continuing to fund the dividend and continuing to actually fund more Capex, as Michael pointed to. Capex will pick up again in FY 2022. Even after those two allocations of cash, the business will generate a substantial amount left over, and we go into the year with an expectation that we will, at the least, buy back shares.

If there was an acquisition that popped up, we would not hesitate for a second to either suspend the buyback, or to find the funding, which we would comfortably be able to do. I think it's an and, it's not an or.

Andrew Scott

Very helpful, thank you.

Ron Delia

Thanks.

Operator

We have our next question coming from the line of Adam Samuelson with Goldman Sachs. Your line is open.

Adam Samuelson

Hi, yes, thank you, good evening or good morning, everyone.

Maybe following up on that last question and your response, Ron, just thinking on the M&A front, if we think about the growth potential beyond Fiscal 2022, obviously there's some more Bemis synergies that you're capturing and annualizing as you roll into your Fiscal 2022 outlook. The size and scale of that Bemis opportunity was fairly unique and probably not going to be easy to replicate. I'm just trying to think about the ability or the confidence that you have to drive the organic growth, and especially not just to buy the businesses but to extract value for them at scale moving forward, where it might be harder to find businesses of Bemis' size moving forward?

Ronald Delia

It's a really good question at this point in time, because we were absolutely resolute and focused on making the Bemis deal a success. We know there's a little bit to do, but it's essentially complete, which is why we provided a bit of a wrap-up today.

You're right, from a pure play perspective, there's not another $6 billion or $7 billion deal out there that's obvious. We don't feel compelled to move outside of our product segment mix, because we just think there's ample growth in the segments that we're in. If we constrain things or put some boundaries around the opportunity set, that does not limit us in any way.

Generally speaking, if you go back over the last 10 years or so, the Company's been pretty acquisitive. We're probably up to around 30 deals, and we've had a good track record of bringing synergies out on the cost side in particular, getting some product benefits as well. We'll continue to do that. There's no shortage of medium-sized deals in the packaging space. You can see every week, there's another deal announced. The good thing about being acquisitive and being big is that we're in the deal flow. There's almost never a deal happening that isn't at least put in front of us, and we at least get the option to take a look or not, and that will be part of the formula going forward.

The $400 million that we're allocating this year to buybacks, we have an equal amount each year that we'd be thinking about deploying in an ongoing sense for bolt-on M&A. Then obviously if something bigger comes up, then we would love to have a crack at that too.

Adam Samuelson

Okay. Then maybe just following on the discussion on growth investments, can you provide any incremental color on some of the capacity adds within the growth Capex? I think I heard a $500 million number referenced earlier, so $100 million, $150 million or so of growth capital, just where that's being directed and more broadly, if you think about some of the responsible packaging opportunities you're pursuing, if those might be a greater use of the capital moving forward?

Ron Delia

It's a good question, we're going to be stepping up. We will be about 4% of sales, which we think is a reasonable number to expect us to deploy each year. We have been a little bit lower than that because we have been focused on integrating Bemis, obviously, but we will be at about 4%. That means another bit of a step-up next year, which is incorporated into the free cash flow guidance that Michael described.

Anecdotally, some of the places that we're deploying cash, I highlighted a few. We are putting some capacity in the hot-fill space in North America, great use of capital, particularly when it's on site, co-located within a customer premises. Those are as good as it gets in terms of organic investments.

We are investing in the medical space, medical device packaging in Malaysia and in Ireland. We have got some capacity we are going to put in Malaysia for a certain product category that we typically export out of North America or Europe, and we are going to localize that, which opens up a whole other set of growth option for us. In Ireland, we are going to get into a product line in medical that we have not been in before.

Then, from a sustainability perspective, we have made a number of announcements over the last six to 12 months in new products. We have talked about a couple of platforms like AmLite, which is a recyclable, or ready to be recycled, retort pouch, which is unique. The demand has just been outstanding. The product is sold out before it's even barely been launched, so we are going to add capacity in Europe for that.

Those are just some examples, but that all fits within that roughly 4% of sales number that's embedded in our free cash flow guidance.

Adam Samuelson

All right, great, I appreciate the color. I'll pass it on. Thank you.

Operator

We have our next question coming from the line of George Staphos. Your line is open.

George Staphos

Thanks very much.

Hi, guys. Congratulations on the end to the year, and appreciate the rundown and the presentation today.

Ron, I wanted to segue off that last question and maybe go to Slide 12. If you could, quantify or categorize the packages like AmLite, like the PVC-free films, how much revenue do you think you're doing right now in terms of the responsible packaging product suite that you're offering your customers, and what do you think that's growing at, if you could put any numbers around that?

Related, is this a scenario that could get—I mean, the answer will be yes, obviously, but where you really think there's an opportunity for acquisitions to improve your performance here, or you really don't need acquisitions, you've got the best technology in the market. A couple questions to start.

Ron Delia

Let me answer the second part first. We do believe we have the best technology in the marketplace; we are also humble enough to realize we don't have all the good ideas out there. If there's an acquisition that would add to our product portfolio, we would absolutely do it. It's one of the reasons why we're going to be much more active in the corporate venturing space.

It's also one of the drivers of the investment with Michigan State. We're going to do much more in terms of external sourcing, let's call it, good ideas and innovation to supplement what we do believe is industry-leading R&D. I'd say watch this space.

As far as the sales into what we might describe as more sustainable packaging, if we think about it through the lens of what's recyclable, just take that lens. We are not for a second suggesting that that's the only answer here, but that tends to be the most readily available end-of-life solution. We have got three broad segments, two of which are fully recyclable. Pretty much everything that we produce and sell in Rigid Packaging is recyclable. Everything we make in the Carton segment is recyclable.

That leaves the Flexibles segment. In that space, right now, of the sales in the Flexible Packaging segment, about 60-odd percent of what we are selling today is considered designed to be recycled. There is probably another 75% of our sales that could be, so there's 10% to 15% that could convert, that would just require customers to adopt a different structure. Then you have additional platforms like AmLite, Matrix and AmPrima, which help move those numbers up in steps. None of them are going to move the needle on those metrics in a material way in a given year, but over time, the percentage of our Flexibles that is recyclable will start to increase as those products get take-up.

I'll stop there, but we're also acknowledging that's not the end of the story. We've got to have the waste management infrastructure and the consumer has to participate as well, but as far as the package design, that's about where we are at.

George Staphos

Okay. Ron, I appreciate that. Then, coming back to the fourth quarter, and I recognize, obviously, Amcor likes to focus on the year-to-date results and the year results, and you had good performance. It looked like, in Flexibles, there was a deceleration, and actually a decline, call it in the low single-digit range, in Flexibles. Was that just purely healthcare and the continued weak end markets for you this year? Did anything else slow down for you at the end of the year as we're exiting and going into Fiscal 2022? Thanks, and good luck on the quarter.

Ron Delia

Yes, thanks, George.

No, it's basically the same story that we've had in Flexibles all year, it's healthcare. Healthcare is a sizable business, if you think about it as between $1.5 billion and $2 billion in sales in the Flexibles portfolio, and you think about the big North American medical business and European pharmaceutical business being down double digits.

That takes a couple of percentage points off of what you'd expect from a growth perspective. They should be growing mid-single digits and they were down double digits. That takes a meaningful bite out of the overall segment growth.

George Staphos

Thank you, Ron.

Ron Delia

Thanks, George.

Operator

We have our next question coming from the line of Richard Johnson with Jefferies. Your line is open.

Richard Johnson

Thank you very much. Good morning, everybody.

Ron, so my first question I just wanted to ask about organic growth in the Flexibles division. If I look at this over the last two years in absolute dollar change, all the growth comes from cost or efficiency lines. In fact, the mix of volume and price is negative. That's obviously very impressive. Really my question is how sustainable is that? How can you continue to drive organic growth simply through cost-outs or other efficiencies? Should we be worried about the fact that the mix of volume and price continues to be negative?

Ron Delia

Yes, you've followed the Company for a long time. The top-line sales have grown low single digits, it's actually about 2% for a long period of time. Flexibles would normally be in that space. I think the last couple years is a tough read-through if you're talking about the long-term trajectory of the business.

That being said, with that level of growth, we've been expanding margins for, I don't know, over a decade. The Flexibles margins now being up over 14% from where they were 10 years ago or so at probably 6% or 7%, I think gives us some comfort that, at that level of relatively modest top-line growth, which mirrors the end markets that we supply, we're continuing to grow profit and expand margins.

Richard Johnson

Okay, thank you.

Then secondly, could you just run through the performance of the Carton business in FY 2021 and particularly by region? I'm interested to get an understanding of what volumes are doing. Thanks.

Ron Delia

The Carton business, which is about 8% or 9% of sales, had a very good year. The business had a good year on profit; the profit was up, a great job managing cost. The volume performance was probably a little bit ahead of long-term trend. That business, from a volume perspective, is likely to be flat to declining low single digits; last year it was close to flat on a volume perspective too. By region we start to get into some smaller parts of the business, but the bigger parts of Europe and the Americas would mirror the trends that I described.

Richard Johnson

Great, thanks very much.

Operator

We have our next question coming from the line of John Purtell with Macquarie. Your line is open.

Jonathan Purtell

Oh, good evening, Ron and Michael.

Ronald Delia

Hi, John.

Michael Casamento

Hi, John.

Jonathan Purtell

Just had a couple questions, the first one, Ron, just in relation to Capex and some of those increments there. Can you remind us what your return targets are on that incremental or that growth Capex? Obviously you've had growth or return targets in the past, so now they've changed that, or not.

The second question, for Michael, just in terms of that free cash flow, $1.1 billion. What was the drag, if any, from raw materials and higher inventory there, or impact on that? Thank you.

Michael Casamento

Yes, hi, John. In terms of returns on Capex, we really haven't changed the model there. It's a cash investment and we expect 20% return on those at the minimum, and that's typically what we work towards, so no real change there over the term.

In respect to working capital, we saw some higher inventory during the period and some higher receivables as we started to flush that through the system and then the offset with the payables. From a year-end perspective, it wasn't a meaningful impact, but there's probably still a little bit of that to flow through the system, and it's more a timing issue than anything.

But in the cash flow that we saw at the year-end, we were pretty pleased with where we ended. It was a strong performance and we had a good finish in the year, and that's really on the back of the continued focus in working capital, particularly around things like debtors and overdues, we had really good performance there across the board. Just generally, inventory management has been strong and we continue to manage with our suppliers as well. Overall, really pleased on the working capital front.

Jonathan Purtell

Got it. Thanks a lot.

Operator

We have our next question coming from the line of Anojja Shah with BMO Capital Markets. Your line is open.

Anojja Shah

Hi there. I wanted to ask about your sourcing of recycled resin. You're clearly sourcing enough to double your usage, and then I think you said you're going to double it again over the next 18 months. We hear from other companies that it's actually quite difficult to source the amount of recycled resin that they would like to. What do you think that Amcor's doing differently?

Ron Delia

It's becoming more and more important, obviously, to our customers. A lot of what we use—and maybe just to mention the numbers, across Amcor, Rigid Packaging would be the place where we are using the most recycled resin. We exited FY 2021 converting about 10% recycled resin out of the total that we convert, and that number is growing in absolute tons, as you referred to, but also, it's growing as a percentage of the resin that we convert.

In that space, we are clearly the biggest buyer out there, so we have been actively sourcing, both from new entrants into the recycled resin space, as well as some of the virgin resin providers that have gotten into PCR. It's a pretty broad book that we are buying across.

Then in Flexibles, it is a little bit more challenging when you are trying to source polyolefins, and that's still pretty nascent. A lot of the material that we are using for flexible packaging is coming from food-grade milk and water jugs and things, and those are in scarce supply. That will change over time. Chemical recycling will be a contributor over time. We are active in more than a half a dozen different pilots and feasibility projects on chemical recycling around the world; that will be part of the mix too.

I'd say watch this space, but so far, we've been able to satisfy our demand.

Anojja Shah

Great, that's very helpful, thank you.

Then my other question, you talked about exceeding the synergy target by at least 10%. Maybe you could just give a little more detail on where you're doing better than anticipated, just so we could get a little more granular around that at least 10% number.

Ron Delia

Yes, so the original number was $180 million, and that's the number that we are going to beat by about 10% or at least 10%. We talked at the time of the deal about three big sources. First, G&A, overhead reductions, we estimated that would be about 40%. That's more or less tracked. We are probably a little bit ahead of that number, but it's been in that ballpark.

Procurement, we said would be another 40%; that's more or less in line. Then footprint, at the time of the deal, we thought might be 20%. We have found more footprint opportunities than we probably anticipated. More of the outperformance, proportionately, will come from footprint, which means plant closures.

If you stand back, it's mostly the footprint, plant closure side, and a little bit on G&A which is the source of the outperformance.

Anojja Shah

Great. Thank you very much.

Ron Delia

Thanks.

Operator

We have our next question coming from the line of Larry Gandler with Credit Suisse. Your line is open.

Larry Gandler

Thanks, everybody, good day.

A couple questions, obviously. My first question is, if I can do it by way of example, the question is, what are the top three opportunities to create organic earnings over the next, say, three years, call it FY 2025? Here's an example of what I'm asking for. In Asia, you guys might be under-skewing in terms of your overall market share in medical and pharma packaging relative to your market share in other parts of the world. When you look at the size of that Asian market, in medical packaging, is that an initiative Amcor might undertake, and how would they do it to grow out its earnings over the next three years?

You might not look at geography, you might look at it maybe pet food across the world. Can you dimensionalize those top three initiatives, trying to look past short-term earnings?

Ron Delia

Yes, it's a good question. You've picked on one—I'm not sure it makes the top three. I'm going to elevate up on the top three, but on the medical point and Asia specifically, absolutely. We are actually doing that now, and that's the investment in Malaysia that I referred to. We are putting capacity in that part of the world that enables us to be much more nimble and responsive to the local market demand, which is substantial. That absolutely is part of it.

If I zoom out and I try to think thematically, one thing that comes to mind is broadening our participation in some of the higher value-added segments that we are deep in, in one region. Pet food, coffee, protein; these are segments that we have really strong positions in but it's uneven, so we might be particularly strong in Europe in one and a little bit weaker in North America. Evening out that participation is going to be a big source of organic growth.

As a region as a whole, I would say Asia, particularly China and India, and I would probably elevate up from medical and say generally in the places we are choosing to play in those high-growth Asian emerging markets, that would make the list.

Then I probably wouldn't rule out Rigid Packaging in North America, particularly as we continue to expand the hot-fill franchise that we have, and grow in the Specialty Container space where there's technology and differentiation but also share of opportunities.

It's a good question, Larry. I'd give you those three, as it is certainly amongst the top four or five.

Larry Gandler

Great. Okay, I look forward to scoping those out maybe in the near future. My second question is in relation to the Alliance to End Plastic Waste.

Excuse the criticism, but it feels like a bit of green-washing here. Amcor has taken its Executive Committee position, and when you get on the website for Alliance to End Plastic Waste, first of all, there's no set of accounts, and it's supposed to be an organization that's well-capitalized.

But when you look at the projects, I think there was a project in India where they put some sort of filter in a river which ended up getting stolen. There is a couple of projects, one in India and Africa, where it's highly manual-intensive, doesn't require a lot of capital, of collecting waste.

This is an organization that's backed by billions, and the projects seem very small. I'm just wondering where you want to take that organization because, as you say, we need the waste management infrastructure, particularly in emerging markets. I've always had a hope that that was going to be the organization that would drive it.

Ron Delia

I think it's an interesting observation. I would say that of all the different partnerships and organizations that we are part of, this has catalyzed the most actual funding by a long shot. I take on board some of those projects that have been launched are smaller. I think to contextualize it also, we have to keep in mind, this is a new organization, it was started a couple of years ago. Then, as soon as it staffed up with full-time management, the pandemic has slowed things down.

There is more capital that's been committed by the Executive Committee and the Board of that organization than anything else that we're associated with. It's real money, I mean, we write the cheque.

Larry Gandler

That's what scares me. There's just no set of accounts that we see anywhere.

Ron Delia

Like any NGO or industry association, it's not always this transparent. But the money that the participants are putting into that organization will crystallize and will catalyze action, and there's good examples. The project stop in Indonesia is a good pilot. There's one in the U.S. now called First Star, which is small.

I think as the initiative gains steam, we'll have bigger, bolder projects to point to, but for the early days, I'm pretty pleased with the way it's distributing its resources.

Larry Gandler

Okay, good. Thanks for that, Ron.

Ron Delia

Thanks, Larry.

Operator

We have our next question coming from the line of Nathan Reilly with UBS. Your line is open.

Nathan Reilly

Yes, hi, Ron.

It's pretty clear that you're signaling the completion of the Bemis integration, which I guess gives you the bandwidth to now pursue some of those smaller bolt-on M&A opportunities. But just given we haven't seen you too active in that space over the last few years, can you just remind us of your bolt-on M&A investment criteria? Just in terms of return metrics, but also where you'd be comfortable taking leverage to? Also, where are you seeing the most attractive M&A opportunities right now?

Ron Delia

Yes. I would say, across our portfolio, there's going to be bolt-on opportunities, and pretty much throughout the business. If I had to put a priority list together, I would say Flexibles to reinforce some of the higher-value end market segments that we're participating in, or in Asia, would be near the top of the list. I think in Rigid Packaging, the Specialty space in North America outside of Beverage would be high on the list, so that would be from a product perspective.

Returns are always going to be important. The Company is now generating a 15% return on capital, so we need to be there or thereabouts as we think about investments.

From a leverage perspective, I wouldn't give you a number other than to say we're going to be an investment-grade company, always have been and are committed to that, but within that, we have ample capacity. If you think about the EBITDA now of the business of over $2 billion, one turn would make for a lot of firepower for M&A, so there's no constraint there.

Nathan Reilly

Excellent, thank you.

Ron Delia

Thanks.

Operator

We have our next question coming from the line of Keith Chau with MST. Your line is open.

Keith Chau

Good evening, Ron and Michael.

Just a couple of follow-up questions. On the adjusted free cash flow guidance, I take your point around a step-up in Capex, but obviously the offsetting effect of FY 2021 was that timing of the tax payment. Michael, perhaps if—I don't want to steer you in a direction, but it certainly feels like the low end of that range is probably and likely and potentially getting more towards the top end.

I'm just wondering if you can provide us with a bit more detail on where you think, at this point in time, you'd be sitting within that range, notwithstanding some of the moving parts.

Michael Casamento

Yes, like you said, the range is there and it's a reasonably wide range, $1.1 billion to $1.2 billion. Obviously factored in that is the earnings guidance range, so we've given a range here of 7% to 11%, so depending on where we end up in that range will drive the cash flow as well. The other key component is really the working capital movement.

As I said earlier, we've had some raw material increases which we managed pretty well into the end of FY 2021. That can be a factor as we head into FY 2022, there can be some movement there either to the up side or the down side.

That's really what's in the range. That said, we've managed working capital really well over the last few years, taken cash out on that front. As we move forward, we think that that's going to be pretty stable. They are the drivers within that range.

Keith Chau

Do you think, Michael, you can continue to improve that average working capital to sales ratio, absent any other movements in raw material costs? I know you've done a particularly good job, particularly in FY 2020. Any more opportunity to come from there?

Michael Casamento

Typically we'd see the working capital—if you go back before the Bemis acquisition, the working capital was in that 8% to 9% range, and for us, we feel that that's pretty comfortable. When we did the acquisition, it jumped up to 10.7% and we got it down to 9.5% and then down at 8%. I think we feel pretty comfortable about where we are today. You shouldn't expect too much more to come out of working capital; it'll be relatively stable.

Keith Chau

Okay, thanks.

Then just the same question, and forgive me if I've missed this one, but I think you have labor and transport costs called out for the Rigid Packaging business, in part due to the volumes growth that you've seen in that business in North America. Is there an expectation for those labor and transportation costs to ease in the coming periods?

Michael Casamento

Yes, the reason behind that was really, we saw significant increases in demand, basically the capacity is full, and the industry capacity is full. We didn't get an opportunity to build inventory in the quieter months leading up to the summer. What we experienced was increased costs just to manage the supply chain, so we had shuttling costs, increased labor and the like, and that's ahead of installing new capacity. We touched on today that we are installing new capacity in that hot-fill space particularly. We'd expect over time they should start to abate as we get that capacity online.

Keith Chau

Is it possible, Michael, to give us, say, a quantitative estimate of what that headwind was in the fourth quarter?

Michael Casamento

Yes, it was a few million in the quarter.

Keith Chau

Okay, okay. Fantastic. Thanks very much.

Operator

We have our next question coming from the line of Scott Ryall with Rimor Equity Research. Your line is open.

Scott Ryall

Oh, hi there, thank you.

I just had one question for Ron. You made some comments in your prepared remarks about the need for waste management infrastructure investment to pick up, which, that's very, very clear. Do you think that Amcor will have to invest in this space? Obviously, you're taking an alliance approach at the moment, but do you think, in order to control the development of that infrastructure, that you'll actually have to invest there? Thank you.

Ronald Delia

Yes, thanks, Scott.

It's a good question. I mean, the short answer is no. We're going to be active in bringing responsible packaging to life in a number of different ways, but we'll also be, and we'll have to be somewhat judicious and focused and disciplined about where we deploy our shareholders' capital. We think the best use of capital is in developing packaging that is going to have a better end-of-life profile or uses more recycled material, or less material in the first place; that's where most of our principal will go.

As far as waste management infrastructure, there's a number of different things and means to fund that, including extended producer responsibility regimes, bottle deposits and things like that. When those are properly designed, then we're very supportive of those, and that can likely be part of the answer.

I don't envision us putting capital to work in that part of the value chain in any extensive basis, other than maybe just some pilots through a partnership or an alliance.

Scott Ryall

Okay, great, thank you. That's all I had.

Ronald Delia

Thanks.

Operator

Thank you. This concludes today's conference call. Thank you for participating.