# Amcor plc

## Third Quarter Fiscal 2023 Results

## 5.30pm EDT May 2, 2023 / 7.30am AEST May 3, 2023

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## CORPORATE SPEAKERS:

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**Ron Delia**
*Amcor plc; Chief Executive Officer*
**Michael Casamento**
*Amcor plc; Chief Financial Officer*

## PARTICIPANTS:

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*Robert W. Baird & Co. Incorporated*
**Anthony Pettinari**
*Citigroup Inc*
**Keith Chau**
*MST Marquee*
**Daniel Kang**
*CLSA Limited*
**Adam Samuelson**
*Goldman Sachs Group, Inc*
**John Purtell**
*Macquarie Research*
**Richard Johnson**
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**Jakob Cakarnis**
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## PRESENTATION:

**Tracey Whitehead:** Thanks, Christy, and thank you everyone, for joining Amcor's fiscal 2023 third quarter and year to date earnings call. Joining today is Ron Delia, Amcor's Chief Executive Officer; and Michael Casamento, Chief Financial Officer.

Before I hand over a few items to note on our website, amcor.com, under the investors section, you'll find today's press release and presentation, which we will discuss on this call.

Please be aware that we will also discuss non-GAAP financial measures and related reconciliations can be found in the press release and the presentation. Remarks will also include forward-looking statements that are based on management's current views and assumptions.

The second slide in today's presentation lists several factors that could cause future results to be different than current estimates and reference can be made to Amcor's SEC filings, including our statement on Form 10-K and 10-Q for further details. With that, over to you, Ron.

**Ron Delia:** Thanks Tracey, and thanks everyone for joining Michael and myself today to discuss Amcor's March quarter and year-to-date results for fiscal 2023. We will begin with some prepared remarks, starting as we always do with safety on Slide 3.

Safety is our most important value at Amcor, which means our commitment to keeping our co-workers safe is unwavering. We are highly proactive in our approach to continuous safety improvement and our results continue to be rewarded.

On a fiscal year to date basis, we reduced injuries globally by 23% compared to last fiscal year, and 64% of our global sites have been injury-free for 12 months or more.

While these are excellent industry-leading results and a reflection of our commitment to mitigating risk and protecting our people, the journey towards zero injuries continues.

Turning to our key messages on Slide 4. First, Amcor's portfolio is well positioned and is primarily exposed to consumer staples and healthcare end markets.

We have leadership positions in several strong underlying businesses, a compelling customer value proposition and differentiated execution capabilities, all of which contributed to solid financial performance for the first nine months of fiscal 2023.

That said, we are not completely immune to broader market challenges, and we were cautious heading into the third quarter. Market dynamics led to increased volume softness and volatility throughout the quarter, particularly in the month of March, and our updated outlook assumes this continues through the balance of the fiscal 2023 year.

Against this backdrop, our teams remain laser-focused on supporting decisive price and cost actions. The recovery of higher input costs remains a top priority, and we are also taking a range of actions to flex and reduce operating costs while advancing structural cost reductions.

These actions give us confidence that earnings growth will build as we progress through fiscal 2024. Importantly, we remain focused on executing against our strategy for long-term growth and value creation. We have a strong, well-positioned business, and while we navigate short-term challenges, we will continue to reinvest for organic growth, pursue M&A opportunities and/or repurchase shares and pay a compelling and growing dividend.

Moving to Slide 5 for a summary of our financial results. Reported net sales for the first nine months were up 4%, which includes an unfavorable currency impact of 4% and approximately $750 million of price increases related to higher raw material costs. Organic sales were up 2% on a comparable constant currency basis and volumes were 2% lower.

For the March quarter, sales were up 1% on a comparable constant currency basis, with volumes down approximately 3.5%. In both periods, price/mix benefits of around 4% included recovery of general inflation, which has totaled approximately $240 million on a year-to-date basis and approached $100 million for the quarter. Year-to-date adjusted EBIT of $1.2 billion and EPS of 54.1 US cents per share were both up 4% on a comparable constant currency basis, benefiting from strong operating leverage in the first half of the year.

In the March quarter, adjusted EBIT of $382 million was down 2.5% on a comparable basis versus the prior year. A modest decline as proactive cost actions helped offset significant headwinds related to a challenging operating environment. We continue to execute well on our capital allocation priorities, returning approximately $745 million of cash to shareholders during the first nine months through a combination of dividends and share repurchases.

We ramped up our share repurchases during the third quarter, and year-to-date, we've bought back 18 million shares for a total cost of $200 million, and our overall financial profile remains robust with return on average funds employed above 16%.

Now turning to Slide 6. I want to provide a bit more color on what we've seen through the third quarter, and more importantly, the decisive actions we're taking and will continue to take. Three primary factors influenced our performance in both the Flexibles and Rigid Packaging segments in the quarter.

First, the general market remains soft and more volatile, leading to lower volumes from a combination of weaker consumer demand and further destocking. Last quarter, we highlighted that demand would be a critical driver of our financial performance, and we expected Q3 and Q4 volumes could be in the range of plus or minus low single digits.

In January and February, volumes were tracking at the lower end of those expectations down between 1% and 2%, then weakened through the month of March to be down almost 7%. Volatility in customer order patterns also increased throughout the quarter, most notably in our Rigid Packaging North American beverage business.

Our teams are adept at flexing the cost base to match anticipated demand, although more volatility in order flow compromises the ability to pull the appropriate cost levers quickly enough in response, leading to operating inefficiencies. Second, mix trends were unfavorable across much of the business. Destocking continued in higher-value premium coffee and protein categories, and although health care continued to contribute solid growth, it was at a slower rate as we begin to lap a very strong prior year.

Our North American beverage business also experienced unfavorable product and customer mix and third, cost inflation is ongoing as we expected. While the rate may be moderating in some areas, inflation remains elevated in most of our markets. So, these impacts are not entirely new, and we saw the need for caution at the back end of last quarter and have been out in front, proactively managing the controllables and taking decisive pricing and cost actions, which continued in Q3.

First, we've successfully driven more than $1 billion of price on a year-to-date basis to compensate for higher raw materials and general inflation, and we'll continue to take further actions where inflation persists.

Second, we continue to actively flex and reduce operating costs. We have reduced our global headcount by more than 1,000 positions, lowered discretionary spending, increased the number of full or partial plant shutdown days and extracted more procurement benefits.

Year-to-date, these efforts have lowered costs by approximately $140 million. We expect to drive additional cost savings of approximately $50 million to $60 million across the business in Q4, including a further reduction of approximately 200 positions. Third, as we have previously announced, we are also pursuing a range of structural cost savings initiatives. To date, we have announced three plant closures and one partial closure, and we could add more depending on how the demand environment evolves.

We expect to deliver at least $50 million in cost savings from these structural initiatives, which will begin to benefit earnings in fiscal 2024, primarily in the second half. We expect current market conditions will persist in the near term, so we remain laser-focused on controlling what we can control and responding with actions. I'll now turn it over to Michael to cover more of the financials.

**Michael Casamento**: Thanks, Ron, and hi, everyone. Beginning with the Flexibles segment on Slide 7. Year-to-date reported sales grew 2%, which included a recovery of higher raw material costs of approximately $490 million, representing 6% sales growth. Excluding the raw material impact and negative currency movements, sales grew 3%, driven by favorable price/mix benefits across all Flexibles business units, partly offset by 2% lower volumes.

Our strategic focus on higher-value priority categories has continued to drive year-to-date sales growth. Particularly strong volume growth in the health care and pet care categories has helped limit the impact of lower volumes in other categories such as protein and premium coffee.

The business has continued to show solid operating cost performance and recovery of inflation, resulting in a 5% year-to-date increase in adjusted EBIT on a comparable constant currency basis. Margins remained strong at 12.4% despite the 80 basis point dilution related to increased sales dollars from passing through higher raw material costs.

In terms of the third quarter, a few call outs worth touching on. Net sales on a comparable constant currency basis were 2% higher, reflecting positive price/mix benefits. Volumes were down 3% in the quarter, as market conditions led to a combination of lower consumer demand and customer destocking to varying degrees across all Flexibles businesses.

This compares to a 1% reduction in volumes in the first half of the year, with the greatest sequential declines in Europe and North America, where compared with the same quarter last year, volumes were down mid-single digits and low-single digits, respectively.

In both regions, the overall trends towards lower volumes and month-to-month variability is consistent with retail scanner data with categories such as premium coffee and protein being incrementally impacted by customer destocking. This also contributed to unfavorable mix in the quarter, along with expected slowing of growth rates in health care as we cycled strong growth in the prior year.

Adjusted EBIT for the quarter was broadly in line with the prior year on a comparable constant currency basis, reflecting unfavorable volume and mix trends and ongoing cost inflation. This was offset by continued pricing actions and benefits from cost productivity and cost reduction initiatives, which increased as we progressed through the quarter.

Turning to Rigid Packaging on Slide 8. On a year-to-date basis, net sales were 8% higher than the same period last year, including approximately $260 million or 11% of sales, related to the pass-through of higher raw material costs. Organic sales declined by 2%, reflecting 3% lower volumes, partly offset by 1% price/mix benefits.

In North America, overall beverage volumes for the first 9 months were down 5%, hot fill volumes were up 2%, and up significantly over the past two years, with growth in key categories, including isotonics, juices and ready-to-drink tea, offset by lower container volumes, which reflects a combination of lower consumer demand and customer destocking.

Specialty container volumes were comparable with last year, and Latin America volumes were down 2% with challenging economic conditions leading to lower consumption across most of the region. Year-to-date adjusted EBIT was in line with last year as strong earnings growth in the first half was offset by a more challenging March quarter. Adjusted EBIT margin of 7.2% includes an adverse impact of approximately 80 basis points from the increased sales dollar related to passing through higher raw material costs.

Looking at the March quarter, comparable constant currency net sales were down 4% with continued soft consumer demand and customer destocking driving volumes lower in both North America and Latin America. Adjusted EBIT for the quarter was down $7 million on a constant currency basis, reflecting unfavorable volume and mix trends and ongoing cost inflation. This was partly offset by benefits from cost reduction initiatives.

As Ron mentioned earlier, volatility has been particularly notable in the North America beverage business, with order patterns changing on a week-to-week basis, significantly impacting our ability to flex costs quickly enough in response.

Combined with mid-single-digit volume declines and unfavorable customer and product mix trends, this has had a meaningful impact on operating leverage for our beverage business than we have seen in other businesses. As market-driven consumer demand remains soft and customers continue to reduce inventories, the business took a range of actions to lower costs, including reducing headcount.

Across the network this year, the business has also taken temporary plant shutdowns to better align production with lower demand where possible and to prioritize our inventory reduction efforts. Looking ahead, the June quarter is typically the seasonally strongest quarter for our North America beverage business.

This year, based on continued challenging market dynamics, we expect volume weakness with increased volatility mix challenges and ongoing inflation to persist through the U.S. summer and we anticipate the need to continue reducing inventories through the June quarter.

As a result, relative to what we have seen in the March quarter, we expect this combination of factors to have a larger unfavorable impact on June quarter earnings compared to the same quarter last year.

Moving to cash and the balance sheet on Slide 9. Our financial profile remains strong with leverage at 3.1x on a trailing 12-month EBITDA basis, broadly in line with last year and where we would expect it to be at this time of year. Year-to-date cash flow remains below last year, mostly related to lower accounts payable balances as we moderate our purchasing activities, partly to reduce inventories, but also to reflect the soft demand environment.

This is a timing impact, which will abate in the coming quarters. We are already making good progress on inventories with balances coming down over the last several months, and we expect a further reduction in the June quarter. Our cash flow is typically weighted to the fourth quarter, and we expect adjusted free cash flow in Q4 to be broadly in line with last year. This brings me to our outlook on Slide 10.

Given our expectation that current market conditions will persist in the near term, leading to a mid-single-digit overall volume decline in the fourth quarter, we are updating our guidance range for adjusted EPS of $0.72 to $0.74 per share assuming current foreign exchange rates prevail through the balance of the year.

We also expect full year adjusted free cash flow in the range of $800 million to $900 million, which includes our updated expectations on timing for working capital improvements. This slide lays out the elements making up our guidance. We expect a benefit of approximately 2% from share repurchases and earnings from the underlying business to be in line with last year, notwithstanding the significant market challenges we faced and will continue to face through the balance of fiscal 2023.

As Ron mentioned, we have already passed through more than $1 billion in price, related to raw materials and general inflation, and delivered $140 million of cost reductions year to date and we expect to deliver an additional $50 million to $60 million in cost savings across the business in the fourth quarter.

Throughout the year, we have also highlighted the significant non-operating headwinds we faced from higher interest expense and the divestiture of our three plants in Russia, which will be absent or significantly reduced in the second half of fiscal 2024. Combined with the benefits from the proactive actions we are taking in response to current market conditions, we are confident that earnings growth will build as we progress through the 2024 fiscal year. With that, I'll hand back to Ron.

**Ron Delia:** Okay. Thanks, Michael. While we navigate a challenging environment in the short term, we have a strong foundation, and we remain committed to our strategy of driving long-term growth and profitability. That strategy consists of investments in both organic growth and strategic M&A.

On previous calls, we have highlighted the importance of our priority categories, emerging markets, innovation that help deliver organic growth and better mix over the longer term. Our financial results over the years have demonstrated the success of that focus. For the longer-term comments today, I want to highlight how M&A complements each of these areas and spend a little time outlining our approach to delivering additional growth through acquisitions.

Turning to Slide 12. Disciplined M&A has been part of Amcor's playbook for a long time. Our history of successful deal execution and integration has helped us establish or build industry-leading positions, support earnings growth and drive consistent value creation.

Our model starts with strategic fit. We look across a number of factors when prioritizing opportunities, including businesses where Amcor or the target has a leadership position, where the target can complement our existing footprint, or where we gain access to a new customer base or new technologies.

Second, in terms of financial strategy, we have been and will continue to be, highly disciplined. We target all deals to deliver a double-digit return on the cash investment and well above our cost of capital within three to five years. Third, our investment-grade balance sheet and strong annual cash flow provide ample capacity and access to financing to continue to pursue M&A or share repurchases in addition to investing in the base business and funding the dividend.

We have been quietly active on the acquisition front. Last week, we signed a deal to acquire Moda Systems, a New Zealand-based manufacturer of high-performance vacuum and packaging equipment for the fresh meat, poultry and dairy markets, with machines currently installed in a number of geographies, including North America.

This is a small but important acquisition, which will complement Amcor's existing strength in film enabling us to offer a total system solution for automated protein packaging. Other recent deals over the past nine months include the acquisition of Shanghai-based medical packaging company, MDK in January, a deal that checks all the boxes to reinforce a priority category, expand an emerging market and broaden our product technology offering.

In August last year, we completed the acquisition of a state-of-the-art Flexibles packaging plant in the Czech Republic which increases our capacity to service strong growth in end markets, including pet care and coffee from a highly efficient, scalable production hub in a low-cost region.

On the corporate venturing side, our team has done an excellent job identifying opportunities to help fund, support and learn from new external developments that have the potential to become smart, functional and sustainable packaging solutions in the future. M&A and corporate venturing are integral parts of our growth agenda and looking forward, we will continue to be active, but also strategic and disciplined.

Before we turn to questions, just a minute on sustainability on Slide 13. We continue to advance our sustainability agenda on a number of fronts, and our success in supporting customers transition their own portfolios to more sustainable solutions and reduce their carbon footprint has recently been acknowledged by several important industry third parties.

Early in 2023, our innovation and sustainable product design leadership was highlighted by the World Packaging organization with Amcor's AmPrima and AmSky recycle-ready product platforms named as winners in three categories.

In February, the CDP or carbon disclosure project awarded Amcor an A- as part of its annual ratings. This superior grade recognizes Amcor's ongoing sustainability commitment and achievements, including our pledge to achieve net zero emissions by 2050 and our new target to use 30% recycled material across Amcor by 2030.

In February, Amcor's leadership in responsible packaging and overall commitment to ESG was recognized by MSCI with an AA rating, marking the fifth consecutive year that we received the ranking.

In summary, on Slide 14, the market remains challenging, but we are well positioned and confident in our ability to manage through this short-term period while continuing to generate value for our customers and shareholders. Most importantly, we believe the actions we are taking now will result in earnings growth building as we progress through fiscal 2024.

We remain focused on delivering against our strategies for long-term growth, including executing well on M&A, and expanding our leadership in sustainability.
Operator, with those opening remarks concluded, we are ready to open the call to questions.

**Operator:** Your first question comes from the line of Ghansham Panjabi from Baird.

**Ghansham Panjabi:** Ron, maybe you could just build on your comments and just touch on which specific categories do you expect incremental volume weakness in the June quarter? I think the March quarter was down 3%. You're getting towards down mid-single digits. And then also expand a bit more on the dynamic order patterns that you're calling out from your customers?

**Ron Delia:** Yes. Good way to get started here again, volume story has been quite volatile. I mean if you go back even to the end of our second quarter, we had flagged that demand or volumes had softened coming through the back end of calendar 2022, and that certainly continued.

In the first couple of months of the year, January and February, we were down about 1% or 2%, March, down almost 7% with the heightened volatility, which I will come back to. As we look forward to the fourth quarter, we just are extrapolating what we've experienced in March, and to some extent, already through the month of April, to get to that mid-single-digit decline.

It's pretty broad-based. It's relatively broad across the business where we see weakness. We do see sequential deterioration in the retail scanner data, particularly in Europe and North America. So the consumer side of demand is weak and doesn't seem to have started to improve.

Then we also know there is continued destocking in certain categories, particularly ones that were affected by some of the supply chain constraints over the last 18 to 24 months, where we know there was a lot of over ordering in some cases, to buttress against those challenges.

So segments like meat, certain parts of the coffee space, premium coffee, health care, to some extent, which is cycling a stronger comp. That's what we expect for the fourth quarter. As far as the volatility, it's really just week-to-week order changes and schedule alterations and things of that nature, which just make it a little bit harder to take as much cost out as we would like.

It is just a particularly volatile period out there. North American beverage in particular, for a number of reasons, including the seasonality of that business has continued to be particularly volatile. So we are expecting that to continue along with the demand weakness in the fiscal fourth quarter here.

**Ghansham Panjabi:** And then on that, Ron, for my second question, just given the operating environment that your customers are faced with at this point. Is that starting to impact their new product development cadence? And how does that compare to previous slowdowns, i.e., recessions in the past?

**Ron Delia:** It hasn't necessarily slowed the dialogue with customers on new product development. I would say almost universally, our new product development agenda with our big customers are oriented around sustainable packaging and delivering a package that's more sustainable than the one that's in the market today.

That has not abated at all. That has not slowed. If anything, it's accelerated as we came out of COVID, our brand owners have the same public commitments that we have to make their packaging recyclable or compostable or reusable mostly by 2025 and to use more recycled content. So we have not seen any slowdown to date in the product development side.

**Operator:** Your next question comes from the line of Anthony Pettinari from Citi.

**Anthony Pettinari:** Ron, I'm wondering what the full year guidance might assume for where price cost could shake out for fiscal 4Q?

Then just maybe directionally what that price cost trajectory could look like early next fiscal year? And maybe if you could just give us any kind of additional color on resin or labor or any other cost buckets that are impacting you?

**Michael Casamento:** Yes. It's Michael here. I can take that for you. Thanks for the question. Q4, where we see raw materials right now, we've seen a relatively in-line environment in Q3. Q1 we saw raw materials come off. In Q2, a more modest reduction. Then in Q3, relatively flat remembering that we have a broad base of raw materials we purchase from geographies across the globe.

As we look forward into Q4, we would expect a relatively benign environment. So from a price/cost perspective, you've seen it come down as we progress through the year. So in Q4, it's going to be a very modest price increase or flat thereabouts.

From an inflationary standpoint, we continue to see inflation in things like labor. We have reset labor rates as of the first of January. So you've seen mid-single-digit increases there continue.

Things like energy we continue to see increases and spikes in places like the West Coast of North America and Europe, still seeing significant increases in energy in that space.

You saw us talk about the recovery of around $250 million in price year-to-date on general inflation and $750 million on raw materials. As we look forward into Q4, I think from a general inflation standpoint, we would expect to see a similar number as we saw in Q3, which is around that $100 million mark.

**Anthony Pettinari:** Okay. That's very helpful. And then just one quick follow-up on the $50 million structural cost reduction. Is there any view in terms of that being weighted more towards 2024 or 2025? It seems like it could be pretty sizable if that fell to the bottom line?

**Ron Delia:** Yes. Sure, just to remind people the structural benefits program, we are investing around $170 million in cash to help offset the disposed Russia earnings. The expectation is that the benefits from that will be around 30% on the cash investment.

We have already made some initial inroads into those projects. We closed three plants and a part closure as well. So we would expect the benefits start to build on that through FY24, albeit weighted to the second half of FY24.

So we would expect two-thirds or a little more of the benefit of that $50 million to come through in 2024 and then the balance is 2025. But we have made a good start on that, and you will start to see those benefits build through the year in 2024.

**Operator:** Your next question comes from the line of Keith Chau with MST.

**Keith Chau:** Just a couple of questions. First one is on destocking versus underlying weakness. Just wondering if you can give us a sense of that 7% decline in March in particular and then the mid-single-digit decline for the fourth quarter. Can you give us a sense of what you believe makes up those numbers, whether it is destocking or underlying demand weakness?

**Ron Delia:** Yes. Sure, Keith. Look. It's hard to parse out too specifically. But a couple of things to think about. One is that the scanner data in Europe and North America that's tracking sell-through at retail has been in that mid-single-digit decline range now for a reasonable period of time, a couple of months at least. So we are not anticipating that that's going to improve at all on top of which then you have some destocking in certain segments. Some of the pronounced destocking we see is in the premium coffee space.

We see destocking in protein, we have seen destocking to some extent in the medical packaging space, again, places where there may have been some over ordering in light of supply chain constraints. So that's additive then to the demand deterioration on the consumer side of things. Then the offset is that we pick up some share along the way as well. So those are the three components of what we expect to be a mid-single digit decline in Q4.

**Keith Chau:** Okay, then in terms of the timing of the destock, do you expect that completely finished by the end of 4Q? Is there anything to suggest that your customers might destock for longer into FY24?

**Ron Delia:** Given that we are talking about fast-moving consumer goods, any destocking should be relatively short-lived. The caveat to that is as consumer demand comes down, that means more inventory needs to come out of the system.

So my sense is that's prolonging the destocking here a little bit because it's been going on now for a couple of quarters. Best estimates that probably will continue for another couple of quarters, particularly in some of the businesses that are more seasonal. Where the calendar second quarter and third quarter tend to be stronger, we are likely to see more inventory come out of the system through that time period.

**Operator:** Your next question comes from the line of Daniel Kang with CLSA.

**Daniel Kang:** First question, probably to Mike, in terms of cost-out initiatives. Just wondering if the scope of the plans have actually changed from 2Q where you mentioned $170 million spend for a 30% return. Can it be expanded is the next question?

**Ron Delia:** Yes. I'll start the answer, and Michael can build on it. The scope is global, we have announced three plants that are going to come out of the system already and another half a plant, a big department that we are going to reduce, and it's a global program.

Could it be more? It could be. We are going to wait and see how the demand environment evolves from here, but we are off to a good start and those plants will be coming out over the next several quarters, with the benefits flowing through the second half, building through fiscal 2024, as Michael outlined already.

**Daniel Kang:** You also mentioned in the prior question in terms of market share -- incremental market share gains. Can you talk about the categories where you are seeing more success in terms of market share gains?

**Ron Delia:** I think we see some good examples in the beverage business, in particular, in the hot fill space. Our hot-fill volumes were up about 1%, which is ahead of the market. It's a testament to the different light-weighting products that we have been able to bring to the market.

That's one, healthcare is another one where our growth has been really strong, particularly in the pharmaceutical side of things over the last several quarters, probably going back into last year as well. So those two come to mind as places where we are likely to have picked up a bit of share.

**Operator:** Your next question comes from the line of Adam Samuelson with Goldman Sachs.

**Adam Samuelson:** Yes. I guess the first question, Ron, you talked in the prepared remarks about earnings growth building through fiscal 2024. And I know you're not giving earnings guidance at this point.

But as you would sit here today and you would look at where the exit rate is after the June quarter and some of the headwinds you still have from Russia in September and the December quarters. Would you expect to grow EBITDA and EPS in fiscal 2024 or help us think about some of the key variables to actually growing in fiscal 2024 as you look at it today?

**Ron Delia:** Yes. We are going to have a couple of non-operating headwinds dissipate as we get into fiscal 2024. So certainly, we won't be cycling the absence of the Russian earnings in the second half. We sold that business right at the end of our fiscal first half this past year.

So by the end of this calendar year or the end of our fiscal second quarter, that headwind will go away. Interest rates really started to rise around this time last year, –so interest will be more of a headwind in the first half. But certainly, based on the forward curve and the expectations we have for rates going into calendar 2024, we would expect that headwind abates.

Then the third building block is the structural cost reductions that we have talked about a bit. As Michael said, it's roughly $50 million of benefits that we see at this point in time. Roughly 2/3 of those benefits, we would expect in fiscal 2024, with the momentum building through the second half of fiscal 2024.

So those are some of the big components. The other piece, obviously, is just what happens to underlying demand and how that evolves through the rest of the year. We are certainly not in a position today to forecast that. I think we will wait until we come to market as we do each year in August and provide guidance for the coming fiscal year.

**Adam Samuelson:** Okay. That's helpful. Then as you think about some of the mix tailwinds that you have had in the business, I mean, we are still quite strong in the March quarter, specifically in Flexibles.

How does mix progress from here, especially raw material constraints and supply chain? I think some of these have magnified or are those easing? Do some of the comps get a little bit harder on the mix side? How do you think about that being a contributor prospectively from the book of business that you have today?

**Ron Delia:** Yes. It's a good question. I think about mix, and I think about a much longer time period and a much longer time horizon. Mix has been part of our algorithm and an important part. We know that these markets, particularly the consumer staples and the health care markets that we are exposed to are going to grow collectively in the low single-digit range, when things normalize.

When I say when things normalize, it means when the consumer adjusts to inflation and when the inventory destocking is completed through the value chain. We are going to have a base amount of growth in the business that's at low single digits.

Then we have certain priority segments and categories that we have been doubling down on and investing disproportionately. So health care, both medical and pharmaceutical packaging, protein, coffee, pet care. These segments and the packaging intensity in these segments has been growing at higher than general market rates, those are all mix accretive to us.

So if you take a longer-term view, mix has been an important driver of earnings growth for this company for over a decade. We expect that will continue going forward as soon as we get through this short-term market dynamics that we are facing right now.

**Operator:** Your next question comes from the line of John Purtell from Macquarie.

**John Purtell:** Just as a follow-up to that, in terms of the price/mix it was actually similar, that 4%, for the nine months versus the first half. So within this, price was up but mix was down. Is that the correct read?

Is there any trading down effect in that mix as well? Just to understand that. I know that we have talked to this before, I mean, effectively, you pick up if there is some trading down, you pick up some of that volume, but maybe it has a mix effect as well.

**Michael Casamento:** Yes. I'll start there. Absolutely, we had price benefit in the period, which I touched on earlier. We recovered over $100 million in inflation during the period. What we have seen is some unfavorable mix around areas like the protein and premium coffee where we have seen some softness in demand, both from the consumer but also some destocking. So that's impacted mix negatively. On the offset to that, you still had in Q3, reasonable health care performance, albeit lapping a stronger comp. But some mix benefit coming through there. Pet food is another one in our focus categories where we have seen good growth there, which is driving mix. But as we look forward, I think that was really what we saw in the quarter, a bit of a tale of two stories. Then Ron touched on how we will think about things moving forward.

**John Purtell:** Just a second one on the cost saves you made, I think you've called out $140 million there. Has that flowed through fully to P&L, so it's in the numbers that we see? Or is there a lagged impact from that?

**Ron Delia:** No. Look. That's flowing through already. That's the year-to-date cost savings that have come out of the business. If you think about the year, we have had pricing to compensate for inflation, then we have taken cost out to compensate for volume and mix going the other way. The business through nine months has grown its EBITDA by 4%, roughly $50 million in EBIT growth, and the building blocks are as I just outlined.

**Operator:** Your next question comes from the line of Richard Johnson with Jefferies.

**Richard Johnson:** Ron, I just wanted to ask you. I'll go back to the subject of price. If you look at the last five quarters, by far, the biggest contributor to operating profit growth, has been net price realization. Given the nature of the industry price is by definition, really cyclical. So I was just wondering how we should think about price over the next few quarters, particularly in a very weak demand environment.

**Ron Delia:** Yes. Price in the industry, I think you have to break down into the two main components. So the raw material pricing in the industry is certainly cyclical. It ebbs and flows with the commodity cycle. We believe that we are coming off a period of prolonged raw material increases, as those abate then the pricing that we need to put into the marketplace to compensate will start to come down.

The other part is pricing just around general inflation. That's something that the industry hasn't seen in 40 years. We have not seen inflation above the rate of normal productivity growth.

Our view would be we are pretty pleased with the amount of pricing that we have been able to realize to cover the general inflation, the non-raw material price or cost increases that we have had to wear. It's demonstrated to us that there is pricing power in our value proposition, and we have been able to fully compensate.

So I think it remains to be seen where inflation goes from here. Hopefully, there are some positive signs that maybe the rates of increases are slowing. If that's the case, then our rate of pricing will slow as well.

**Richard Johnson:** That's helpful. Then you mentioned premium coffee a few times and certainly commentary from your customers would echo what you are saying. But really, what I wanted to ask about is the market leader at that end of the coffee market seems pretty determined to put in place a more sustainable substrate for their pods. There is a competitor out there with the product already. I just wanted to try and catch up with where you are with that, in that regard.

**Ron Delia:** Yes, we believe and we think that the customer would agree that aluminum capsule is as sustainable as any other alternative out there. It's fully recyclable, and we are making it with recycled aluminum content. That customer has invested a lot in the infrastructure to actually make that a fully circular system.

So we are pretty comfortable with the sustainability credentials of that particular format. But nevertheless, we are active on the fiber side as you would know, with the fiber line, and we are making good traction on that side of the business as well. If that's the direction customers want to go, I think we are going to be well equipped to meet them where they are.

**Operator:** Your next question comes from the line of Kyle White with Deutsche Bank.

**Kyle White:** I wanted to follow up on that comment earlier regarding the rate of inflation moderating obviously, been a lot of news regarding food and beverage inflation on the consumer. It seems like consumers are starting to push back with respect to that elasticity? Are you seeing or expecting any shift from your customers regarding promotional activity or pricing that could start to drive some sequential volume improvement?

**Ron Delia:** I think a couple of things, Kyle. One is we are still out there pricing for inflation. So it's still out there. It's real. Maybe the rates of increase have slowed, but prices or costs are well elevated well above where they were a year or two years ago for sure.

So we are still out there recovering. There is a lag. There is always a lag. It's no different to any other cycle around pricing. There's always a little bit of a time lag as we work through contracts, and contracts mature, et cetera. We are resetting at higher prices, but we are recovering.

I think as far as the residual impact or the impact on demand. There are some examples of shifts. So what we see in the beverage business, in particular, in North America is a shift more towards value packs. We see a lot of smaller containers that go into 12 packs or 24 packs. We see volumes in that side of the business growing much more rapidly than larger sizes.

We see channel shifts as well. So we see less sales going through the C-store channel. Gas station sales are way down compared to club stores, et cetera. So you do see a bit more of a shift towards value by the consumer.

**Kyle White:** Got it. That's helpful. Then I was just curious, did you experience any headwind or impact from the lag of the pass-through of resin in the quarter on your P&L? Then are you anticipating any impact from this in the fiscal 4Q quarter?

**Michael Casamento:** As I said earlier, the raw material environment in Q3 was relatively benign after some drop in Q1 or modest drop in Q2. So in Q3, we still have a modest benefit in the P&L

on the base cost lag. As we look forward into Q4, as I said earlier, right now the environment looks relatively benign across what we see across the globe.

So I think the benefit in Q4, if anything, will just be a modest price cost lag benefit similar to Q3. So as you think about the full year, it's really just been overall, it would be a relatively modest benefit from the raw material price position. As we look into 2024, it's too early to tell, we will wait and see where it's going from here.

**Operator:** Your next question comes from the line of Jakob Cakarnis for Jarden.

**Jakob Cakarnis:** Just one for Michael. On the free cash flow outlook for fiscal 2023. Please can you just talk through some of the expectations for fourth quarter inventory unwind maybe the go forward as you carry into fiscal 2024 and what needs to happen, perhaps to get that unit balance to equal out to get back to the free cash flow levels that we're used to with you guys, please?

**Michael Casamento:** Yes. Sure. I can touch on the cash flow. What we have seen this year is that the cash flow is behind prior year. It's largely on the back of working capital outflows. Particularly in the first half, we were building inventory on the back of supply constraints in the system. We peaked inventory in November and have started to see that come out of the system. If you think about the quarter we have just gone through. We took about $100 million out of inventory, but we didn't get the benefit of that coming through the cash flow in the way that we expected, because of what we are seeing on the back of the lower demand environment, and also trying to take inventory out of the system, our payables are much lower than where they were as well. So the payables and the temporary position we see, the payables are lower than we would normally expect, as we continue to take inventory out of the system, and also work our way through a softer demand environment. As we look into Q4 and what we have included in the guidance, Q4 is typically our strongest quarter of cash flow seasonally.
We do have a seasonal cash flow on the back of the fact that Q4 is our strongest earnings. We also typically build inventory during the year and then that releases in Q4 as we get into the busy period, particularly in the beverage business.

We also have some favorable commercial terms with our customers and suppliers, which help drive the cash flow. So what we are anticipating for Q4 is that we will continue to see some reduction in inventory – we have probably got another $100 million, $150 million to go to get back to a more normal level.

We are expecting to see that continue to come through in Q4 and realistically, based on the guidance, deliver the same cash that we delivered last year in Q4, and that was in a period last year where inventories were still increasing. So we feel pretty confident in the guidance range that we have given in that $800 million to $900 million for the full year.

**Operator:** Your next question comes from the line of Brook Campbell-Crawford with Barrenjoey.

**Brook Campbell-Crawford:** Can you just talk about the potential EBIT benefit in FY 2024 from the investments and acquisitions over, I guess, the financial year-to-date, it's probably close to spend. So I would have thought that will be a benefit to EBIT, but you didn't call it out earlier on as something to consider in that sort of EBIT bridge into next year?

**Ron Delia:** Yes, Brook, we have done really great so far, and these are all very small deals. The Moda deal that we announced today is a small one. It's really one with an eye towards the long term. It's a small business with less than 30 people it's not a business that's going to materially change the EBIT trajectory of the business going forward. Similarly, MDK in China is a business that's around $50 million in sales.

The plant in Eastern Europe is just that. It's a plant. It's running at a very low utilization. What we are going to do is fill it by moving business from Western Europe into the low-cost hub that we have acquired in Eastern Europe. So all of these are relatively small. They all help incrementally move the ball forward, but none of them are going to have a meaningful impact on FY24 earnings, which is why I didn't call them out.

**Brook Campbell-Crawford:** Okay, can you talk about your European business, volumes staying sort of mid-single digit in the March quarter, your key competitor and number two player talked about pretty solid growth, actually volumes, in the March quarter. Is there anything you can call out there to expand the gap performance between yourselves and the number two player there?

**Ron Delia:** I’m not going to comment on anybody else’s performance. I can tell you, from our side, when we look at the market, we assess it through the lens of the scanner data at retail and what our customers are reporting.

We would say that certainly coming through this earnings season, that all stacks up with our performance, it is right on line with the average of what customers have reported and probably a little bit ahead of the retail scanner data, which might suggest that some of the larger customers are taking some share.

**Operator:** Your next question comes from the line of Nathan Reilly with UBS.

**Nathan Reilly:** Ron, just a question on general cost inflation recovery. You have consistently been very good at recovering general cost inflation with customer price action over the last year or so. But just given the volume situation you are facing in terms of those declines and customer destocking, I just imagine those conversations with customers on price recovery are getting a little harder. So can I just confirm if you were successful in fully recovering general cost inflation in the third quarter and what you've baked into the fourth quarter guidance?

**Ron Delia:** As I alluded to in response to one of the other questions, if we think about it from a year-to-date perspective or the third quarter, however you want to look at it, we have been fully recovering general cost inflation. That's about $250 million of price that we put into the market this year on a roughly equal amount of inflation.

I wouldn't say it's harder. I would say that there is always a bit of a lag. If you think about our business, about 70% of it is contracted 30% not contracted, right? So we are certainly fully caught up with very little lag on the uncontracted portion of the business.

On the contracted portion, as we roll contracts, as they mature and we renew them, we reset pricing and we also expand the inflation coverage and shorten the time between price adjustments. That's just a function of the book of business and the customer or the contract portfolio that we have. So there's always contracts that need to be reset, and we will have several that reset over the next 6 to 12 months.

**Operator:** Your next question comes from the line of George Staphos with Bank of America.

**George Staphos:** I hope you guys are doing well. Thanks for the details, Ron and Michael. I guess the one question I had relates to the Rigid business, relative both between cold fill and hot fill and then in turn versus other substrates. Ron, what are you seeing weaker performance in cold fill and in preforms relative to hot fill, when the hot fill product would be typically for a higher-end product and one that if the consumer is hunkering down, might be less predisposed to be buying versus traditional soft drinks or water.

Then relatedly, your customers are seeing volatile order patterns, we empathize with what you are seeing. Nonetheless, your volumes are weaker, certainly more so in beverage packaging than what we have seen from some of the other substrates, particularly cans. Do you think there is any sort of share shift occurring there? And if not, why not?

**Ron Delia:** The starting point is where is the consumer right now at this point in time. I think there's always been really strong alignment between the package format, the channel, and the usage occasion. If we go back over a long period of time, the PET bottle generally, whether it's cold fill or hot fill, it has been predominantly through the cold channel. It's been predominantly single-serve whether it's hot fill or cold fill, soft drinks or sports drinks and the can has tended to be the value pack.

Whenever times are tougher for the consumer and when they are gravitating more towards value and buying things in units of 12 or 24, that tends to be through the warm distribution channel and tends to be through retail, big box retail and conventional retail and not through the convenience channel where most of our products go through. So I wouldn't call it a substrate shift as much as I would just say, it's a consumer thinking with their pocketbook at this point in time and buying things at the lower price point per unit.

**Operator:** We have time for one last question. And the last question comes from Cameron McDonald with E&P.

**Cameron McDonald:** Just wanted to go back to the comments you made about the scanner data. I was wondering if you could put that in context given your history of volumes? Where does that fit relative to how bad it could actually be during a recession? Then a separate question for me, around when we talk about seeing channel shifts and more value oriented, can you talk about what's happening perhaps in some of the confectionery market exposure that you've got as well, please?

**Ron Delia:** I would say that generally, we are going to be reasonably well positioned in a recession because the end market exposure of the business now is as defensive as it's ever been. Basically, all of our sales are going into consumer staples fast-moving consumer goods or health care.

Those through past economic cycles have held up reasonably well. I think we've got a softer consumer environment at the moment. At the same time, we are coming off a number of different dynamics that have led to lots of inventory in the system. I'm talking about COVID and then the supply chain complexities and constraints that followed. That’s working itself through.

To the extent there are recessionary conditions in some of our larger markets, we would expect to continue to be well positioned if I think back to the global financial crisis, which is some time ago now. Our volumes were down low single digits through that period, and we were able to hold our earnings.

So I feel pretty good about where we are positioned, but we are not sitting around waiting or hoping. That is the point of the cost-out initiatives that we have described today, and the pricing actions that we have taken to really make sure that we are not expecting the consumer to return and volume to start to grow more robustly than it has been.

**Operator:** There are no further questions at this time. I'd like to turn the call back over to Ron for closing remarks.

**Ron Delia:** Okay. Thanks, Operator, and thanks everyone for joining the call today, and for your interest in Amcor. With that, we will close the call. Thanks.

**Operator:** This concludes Amcor third quarter 2023 results conference call. You may now disconnect.