Amcor plc

Full Year Results 2022

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CONFERENCE CALL PARTICIPANTS

Anthony Pettinari, *Citigroup*

Ghansham Panjabi, *Robert W. Baird*

Brook Campbell-Crawford, *Barrenjoey*

Larry Gandler, *Credit Suisse AG*

George Staphos, *Bank of America*

Adam Samuelson, *Goldman Sachs*

Jakob Cakarnis, *Jarden Australia*

John Purtell, *Macquarie*

Richard Johnson, *Jefferies LLC*

Kyle White, *Deutsche Bank*

Daniel Kang, *CLSA*

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PRESENTATION

Operator Instructions

Tracey Whitehead

Thank you, Operator, and thank you everyone, for joining Amcor's June Quarter Earnings Call for Fiscal 2022.

Joining the call today is Ron Delia, Chief Executive Officer, and Michael Casamento, Chief Financial Officer.

Before I hand over, let me note a few items.

On our website, amcor.com, under the Investors section, you'll find today's press release and presentation, which we will discuss on the call. Please be aware that we will also discuss non-GAAP financial measures, and related reconciliations can be found in that 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 statements on Form 10-K and 10-Q, for further details.

During the question-and-answer session, as the Operator mentioned, we request that participants ask their question and then rejoin the queue for any additional questions.

With that, over to you Ron.

Ron Delia

Thanks Tracey, and thanks everyone for joining Michael and myself today to discuss Amcor's financial results for Fiscal 2022.

We will begin with some prepared remarks, before opening for Q&A.

We are kicking off with Slide 3, which covers safety, our first and most important value. Throughout Fiscal 2022, we continued to make good progress on our long-term objective of eliminating injuries across our global operations. The focus of our teams on implementing additional safety best practices resulted in a further 3% reduction in the number of reported injuries globally, and I'm pleased to report that well over 50% of our sites continue to be injury-free for the past 12 months, or more. We pride ourselves on making the wellbeing of our 44,000 global employees our number one objective and we will continue to strive to achieve our goal of no injuries.

Turning to our key messages for today, on Slide 4.

First, FY2022 has been another outstanding year for Amcor. We could not be more pleased with our teams, who have demonstrated remarkable perseverance and agility, continually adjusting to challenges in the operating environment, from raw material shortages to high inflation, while remaining focused on driving value for our customers and our shareholders. As a result, financial performance was strong, with growth across all key metrics. The business finished the year with good momentum, more than offsetting any external headwinds, so that Q4 was our strongest quarter of sales and EBIT growth, and full year EPS growth of 11% was at the top end of our guidance range.

Second, we expect the business to continue performing well and we anticipate sustaining strong underlying growth in FY2023.

Finally, we have a resilient and compelling investment case which has consistently delivered significant shareholder value through a combination of organic growth, value-creating acquisitions and cash returns to shareholders.

Turning to some financial highlights for the year, as outlined on Slide 5, in short, we have added to our track record with another year of sustainable growth in the underlying business.

Focusing on the strong June quarter, net sales growth was 13%, and this included approximately $1.7 billion of incremental price increases, on an annualized basis, related to the pass through of higher raw material costs. Excluding this pass through, organic sales growth accelerated through the year, reaching 6% for the June quarter in both the Flexibles and Rigid Packaging segments. Our strong performance reflects good work by our teams to recover broader and higher levels of general inflation, mostly through the second half of the year. It also reflects favorable volume and mix benefits, and as we have in the past several quarters, we benefited from mid- to high-single-digit growth in high-value priority segments, which confirms that our focus on these faster growing markets is paying off.

This top line growth converted into Adjusted EBIT growth of 9% in the June quarter. It's worth noting that this high-single-digit earnings growth was achieved in a quarter which clearly no longer benefited from any synergies and while we continued to experience significant inflation and an unfavorable price/cost lag related to raw materials.

Flexibles delivered outstanding EBIT growth of 11% in the quarter and was in line with our expectations. Earnings growth continued to improve in Rigid Packaging.

For the full year, net sales growth was 13%, and 4% on an organic basis, which represents our third consecutive year of accelerating top line growth. Adjusted EBIT of $1.7 billion was 7% higher than the prior year and Adjusted EPS of $0.805 per share was 11% higher than one year ago.

Our financial profile remains strong, with return on average funds employed at 16.3%, and we also returned more than $1.3 billion of cash to shareholders through share repurchases and a higher annual dividend.

Now, before handing over to Michael for more detail on the financial results, let me provide an update on our business in Russia.

As previously announced, we've been exploring all strategic options for our Russian business and after a thorough assessment, we decided to sell our three manufacturing sites in Russia. Until completion, which we expect will occur in the second half of our 2023 Fiscal Year, we remain committed to supporting our employees and customers, while preserving value for shareholders, through an orderly sale process. We are also proactively undertaking initiatives to help offset the future impact of the divested earnings, including optimizing our European footprint and adjusting our regional cost base.

With that, I'll hand over to Michael, who will cover the estimated impact of the sale on Fiscal 2023 guidance.

Michael Casamento

Thanks, Ron, and I'll begin with the Flexibles segment on Slide 6.

Performance throughout Fiscal 2022 was excellent across several different dimensions, as each one of our businesses responded quickly to the continued evolving market environment, implementing measures to recover high raw material costs, manage general inflation, improve cost performance and deliver increasing mix benefits.

Year to date sales of $11.2 billion includes significant recoveries of high raw material costs of $1.1 billion. The overall price/cost impact has remained a manageable headwind through this inflationary cycle, given the diversity of materials we buy, the multiple regions in which we consume those materials, and the leverage we get from our well-developed and deeply embedded capabilities which have enabled us to implement a range of pricing actions across the business in a timely manner. Excluding this raw material impact, we are very pleased with the organic sales growth which was delivered across all Flexibles business units, as well as the momentum built through the year as we focused on successful recovery of rising general inflation and optimizing mix benefits.

Organic sales growth was 4% for the year and 6% in the June quarter, representing the strongest quarter of growth for the year. The strong mix benefits, in part, reflect continued growth in priority segments, including healthcare, pet food, meat and coffee. We have made deliberate choices to focus on these segments and, through the year, have seen organic sales growth in the mid- to high-single-digit range across these categories.

More broadly, supply chain disruptions had a dampening effect on growth in certain high-value categories through the year, including in the June quarter. As a result, year to date and June quarter volumes across the Flexibles business were in line with last year. Faced with these constraints, we proactively took action in parts of the business to direct constrained materials to their highest value use, further enhancing mix.

In terms of earnings, Adjusted EBIT growth of 9% on a year-to-date basis and 11% for the June quarter reflects strong price/mix benefits and favorable cost performance. Margins also remained strong at 13.6%, despite an adverse impact of 150 basis points from the mathematical consequence of pass-through pricing for higher raw material costs.

Turning to Rigid Packaging, on Slide 7, the key messages today are that underlying demand has remained elevated across North and South America through Fiscal 2022, leading to continual sequential strengthening in our earnings growth in the June quarter in line with our expectations. On a year-to-date basis, reported sales grew by 20%, which included approximately 16% related to the recovery of high raw material costs. The 5% organic sales growth was driven by favorable price/mix benefits of 2% and volume growth of 3%.

In North America, year-to-date beverage volumes were up 1%. Hot fill container volumes increased by 2% for the year against a strong comparative period of double-digit growth and were up 4% in the June quarter, reflecting continued strength in categories like isotonics and juice. While leveraging Amcor's highly differentiated technology, design and PCR handling capabilities, we are well differentiated in adding significant value for our customers in the hot fill segment, which, over a multi-year period, has resulted in compound volume growth of around 5%, helping drive consistent mix benefits. Specialty container volumes continued to improve throughout the year, including in the June quarter, but on a full year basis remained below the prior year, which benefited from a strong first half in the home and personal care category.

In Latin America, the business delivered double-digit volume growth for the year, supported by higher volumes in all countries we operate in, in the region, and the June quarter marks the highest level of volume growth for the business this year, led, in part, by strength in Brazil.

Turning to earnings, in line with our expectation, operating conditions and financial performance in the North American business improved through the second half of the year, after being adversely impacted by industry-wide supply chain complexity and disruptions, as well as capacity constraints in the first half. As a result, the overall business delivered Adjusted EBIT growth of 4% in the second half, with growth improving sequentially and reaching 5% in the June quarter.

Moving to cash on the balance sheet, on Slide 8, we continue to generate strong free cash flow, even as we step up our capital investments and compensate for additional working capital needs from higher raw material costs and supply constraints. Free cash flow was $1.1 billion, in line with the expectations, and broadly in line with Fiscal 2021. We are pleased with this result, given we wore an unfavorable working capital impact of higher raw material costs throughout the year, and have also proactively increased inventories across the business to help offset some of the volatility created by supply constraints.

Our working capital performance remains a top priority, one even more critical in this inflationary environment, and despite these challenges, we’ve been able to maintain a 12-month average working capital to sales ratio below 8%, and in line with last year. We also see ample opportunity to increase investments in strategic projects which generate strong returns in excess of 20%. This led to a 13% increase in capital investments during the 2022 Fiscal Year, and as we’ve previously communicated, we will continue to step up investments to support future organic growth.

We maintain an investment grade credit rating, which gives us access to funding through the cycle at competitive rates, and approximately 54% of our debt is fixed. Leverage at 2.7 times on a trailing 12-month EBITDA basis was in line with our expectations at year end, and the balance sheet is extremely well positioned, with only one maturity in the next 18 months, being a €300 million bond in March ’23.

We continue to deliver on our investment case, returning meaningful capital to shareholders during Fiscal 2022, repurchasing $600 million worth of shares and raising our annual dividend per share to $0.48. In total, we are pleased to have returned more than $1.3 billion to shareholders in Fiscal 2022.

Turning now to Amcor’s outlook for Fiscal 2023, on Slide 9, we expect adjusted EPS of approximately $0.80 to $0.84 per share on a reported basis. This includes growth of 5% to 10% from the underlying business and a benefit of approximately 2% from share repurchases, offset by three non-operating items. First, the negative impact of approximately 4% from higher interest expense, which is based on the assumption that interest rates increase in line with the current market forward curve expectations; second, an estimated 2% negative impact from the scale-down and plant sale of our three plants in Russia; and, third a 2% negative impact related to a stronger U.S. dollar, assuming current exchange rates prevail for the balance of the fiscal year.

In terms of cash flow, we expect to continue to generate significant adjusted free cash flow for the year of approximately $1 billion to $1.1 billion, even as we fund a further 15% increase in capital investments to capture organic growth opportunities. While Amcor’s cash flows are typically weighted to the second half, in Fiscal 2023, the seasonality is likely to be slightly more pronounced, as we intend to maintain higher levels of inventory in the near term, before returning to more normalized levels later in the year. As a result, free cash flow in the September 2023 quarter is expected to be lower than first quarter of Fiscal 2022.

Our strong cash generation enables us to continue paying a compelling and growing dividend and allocate approximately $400 million in cash to share repurchases during the 2023 Fiscal Year.

In summary, from me today, the business has delivered another strong year of organic growth, as we remain focused on executing for our customers, recovering inflation and higher raw material costs, and increasing earnings leveraged by managing mix. Our continued and consistent performance supports our confidence in delivering another year of underlying growth in Fiscal 2023.

With that, I'll hand back to Ron.

Ron Delia

Okay, thanks, Michael.

Before turning to Q&A, I want to refocus for a minute on the longer term. Our financial performance continues to reflect consistent delivery against our strategy and a resilient investment case, which is shown on Slide 10.

We enter Fiscal 2023 with leadership positions in most of our chosen primary packaging segments, and with over 95% of our sales for consumer staples and healthcare products. We also have absolute and relative scale advantages in all key regions, and industry-leading commercial and innovation capabilities. With this portfolio, we have a long track record through multiple economic cycles of delivering earnings growth, margin expansion and significant free cash flow, all while maintaining a strong investment grade balance sheet. Our cash flow and balance sheet strength is enabling us to step up investments for growth and continue to return additional value to shareholders in the form of a growing dividend and regular share repurchases.

The starting point in creating value for shareholders will always be the underlying organic growth of the business, and as we continually strengthened the base business, including over the last few years, with the Bemis acquisition, we've built sustainable organic sales growth momentum. We have multiple drivers of organic growth that have contributed to that momentum, and which are shown on Slide 11. We have been focused on these areas for some time and we are investing across each of them.

First, Amcor has leading positions in higher growth, higher value priority segments, including healthcare, meat, cheese, premium coffee, pet food and hot fill containers. Collectively, we generated more than $4 billion in annual sales across these categories, and they're growing at mid-single-digit rates and offer significant opportunities for differentiation, contributing to margin expansion. Over time, they'll represent a higher proportion of our sales mix and become an increasingly relevant driver of earnings growth.

We also have a leading and well-diversified emerging markets portfolio, generating more than $3 billion in revenue, which we expect will also grow at mid-single-digit rates over the long term, as has been the case for many years.

Innovation continues to be one of the most critical drivers of differentiation and growth in the packaging industry, and Amcor is coming from a position of tremendous strength, with deep R&D talent and capabilities.

Finally, sustainability is fundamental to everything we do from an innovation perspective and remains at the forefront of discussions with global brand owners. As the sustainability leader in the packaging industry, we continue to be the supplier of choice to help our customers achieve their goals in a meaningful way and at scale. Organic growth has accelerated over the last three years and, as Michael mentioned, we're stepping up Capex to around 4% to 5% of sales on an ongoing basis to maintain that momentum.

In our industry, there's also a pipeline, a rich pipeline, of acquisition opportunities available to supplement our organic growth. We have a pragmatic and disciplined approach to M&A. We've completed around 30 deals in the last 10 years, and we continue to be active. Earlier this month, we acquired a world-class flexible packaging plant in the Czech Republic. This plant features state-of-the-art equipment and immediately increases our capacity in Central Europe to satisfy strong demand in priority segments, including coffee and pet food. The acquired land and buildings also provide optionality to scale and potentially consolidate operations in that region, while giving us a highly efficient production hub in a strategically attractive, lower cost location.

We have also invested in several new opportunities through our open innovation and corporate venturing efforts. These typically start small, but we are very excited to have recently increased our strategic investment in ePac, a fast-growing flexible packaging player leveraging digital technologies to offer smaller production runs and shorter lead times. This increased investment in ePac is an excellent example of our objective to partner with high-growth, visionary companies to learn from and to leverage new innovations and business models.

As you heard from Michael, we have a strong investment grade balance sheet and we expect another year of robust cash flow in Fiscal 2023, which means we can continue to invest in growth and return a substantial amount of capital to shareholders. We are committed to growing our already compelling dividend every year, and Amcor is one of a small number of companies included in the Dividend Aristocrats Index, which recognizers companies with a 25-year, or longer, history of consecutive dividend increases. Our current yield is especially attractive at approximately 4%.

We have also been a regular repurchaser of our own shares, allocating $1.5 billion of cash to share repurchases since 2019. Over that time, we have bought back more than 8% of our outstanding shares, or roughly one-third of the shares that were issued to acquire Bemis three years ago. Looking ahead, we expect our strong cash generation to continue supporting regular share repurchases, including approximately $400 million in Fiscal 2023.

In summary, on Slide 14, Amcor had another strong year in Fiscal 2022, generating sustainable momentum and delivering earnings growth at the top end of our expected range. We expect to deliver another year of strong growth in the underlying business in FY2023, and we are committed to continuing delivering for shareholders by increasing investments in the business and returning value through our compelling dividend and ongoing share repurchases.

With those opening remarks, Operator, we can now turn the line over to questions.

Operator

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

Anthony Pettinari

Good afternoon. In Rigids, you saw really good volume growth in North America beverage, and some of your packaging peers have talked about customers pushing price over volume, and maybe reducing some promotional activity. I'm wondering if you could just talk about the outlook for beverage volumes in Fiscal 2023, and the dynamics that you are seeing there. Do you think that you're gaining share, or maybe you are overweight in some categories that are winning in the marketplace? Just any further detail there would be very helpful.

Ron Delia

Yes, I think the starting point would be that demand has remained elevated. If we look across our business, and we had a good solid year in 2022 from a volume perspective, but what's really more compelling, in our view, is that, over two years, our volumes across the beverage space are up 6%. In hot fill, which is a priority segment for us, they're up about 14% over two years, and that includes growth in both of the years. So, we had super-strong growth in Fiscal 2021, a little slower growth in 2022, against that stronger comp, but demand has remained elevated.

I think, over the long term, we continue to expect low-single-digit volume growth across our end market segments. When you look back over the last five, six, seven years, we've had about 2% total beverage growth, but the hot fill space has grown closer to 3% to 4%, and that's what we'd expect going forward. Looking back over the last 24 months there's been a bunch of ups and downs, clearly, but we like our exposure. We're highly levered to the sports drink category, which has gone through a bit of a rejuvenation. Ice teas, some of the hot fill juices, as well, have performed well. So, that's the expectation going forward, it's low-single-digit growth, with maybe a little bit more in hot fill.

Anthony Pettinari

Okay, that's very helpful. Then, just switching to Flexibles, in terms of improving material availability, what inning do you think you are in there, or at what point does that maybe run its course, and does the guidance assume a modest mix headwind in 2023, as you maybe go back to some lower margin customers? I don't know if that's the right way to think about it, but anything there.

Ron Delia

Let me answer—it's two separate questions, let me try to answer both. As far as the raw material availability goes, I'd say we are in the middle innings. I think it's been a bit like a whack-a-mole game, in terms of the availability constraints that we have dealt with over the last 12 to 15 months. We still have constraints on some specialty polymers. I think the commodity raw materials that we source have been in ready supply for quite some time now. Where we have had constraints, it's been more in specialty resins. At times, we've had constraints or limitations on aluminum supply, as well, that seems to have abated a bit. But, as far as the overall basket of goods, I would describe that we are in the middle innings. I think we would like to believe there's light at the end of the tunnel. As far as our guidance, we assume, basically, ready availability and low-single-digit volume growth in Flexibles. Hopefully, we see the end of it by the end of the fiscal year in terms of the constraints.

Then, as far as mix, the other part of your question, we would expect organic sales growth to be generally similar, but over time, as materials become more available, the contribution to that sales growth will balance out, but we might see a little bit less in a bridging sense from mix and a little bit more from volume, but longer term, and this is important to note, making the distinction between the bridging of one financial year to the next, and just the long-term strategic direction, which is to drive improved mix and drive growth in those higher priority segments that we talk about.

Tracey Whitehead

Operator, we'll take the next question, please.

Operator

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

Ghansham Panjabi

Yes, thank you. Good day, everybody. I just wanted to follow up on Anthony's question on the elasticity impact. Ron, maybe just a broader portfolio question, not just Rigids, but Flexibles, as well. Have you seen any impact as it relates to new product introduction activity, or anything like that? Because, clearly, a lot of your customers are talking about consumer elasticity taking hold.

Then, also, just to clarify, the 3% price contribution in Flexibles, apart from the 11% pass through impact, what exactly does that encompass? Are these market-based price increases that you intend to adjust for higher freight and labor costs, or is there something else there? Thanks.

Ron Delia

Yes, I'll answer the first question and then Michael can come back on the second around the pricing.

We talk to our customers, as you'd expect, and we are close to our customers across the different markets that we are participating in. I think, generally, the same messages come back, and that is what you hear them say publicly, which is to date, in this part of the inflationary cycle, elasticities have been lower than they would have expected and lower than historical levels, but they are also quick to point out that there is elasticity of demand, even across these more defensive end markets, and there's a potential for that elasticity to increase as we get deeper into this period of high inflation. There's a cumulative amount of inflation that builds up, which could impact the consumer.

All that being said, we really like our portfolio. We have no general industrial exposure. We are almost completely exposed to consumer staples and healthcare products, which have proven over a number of economic cycles to be quite resilient, and we have got no durables exposure of any kind. So, we feel like we are as well positioned as anybody. Certainly, if you go back, if you followed the Company five, ten years ago, our portfolio now is more defensive than it's ever been, and essentially, all of our exposure is into more defensive segments.

Do you want to talk about the price?

Michael Casamento

In terms of the pricing, as you've seen from the results, our teams have been out there working really hard to get not only the raw material increases back in the year, and you see we have put through about $1.5 billion in raw material-related price increases through the year, so about 12% of revenue, and that countered a 25% increase, generally, across the board in raw materials. But, in addition to that, we have seen pretty significant increases in inflation across things like energy and freight, and, to a lesser extent, some labor. Clearly, our teams have been out in the marketplace recovering those non-raw material-related items, as well, and working really hard to do that.

If you think about energy and freight as a component of Amcor's cost of goods, they are a smaller component, they are around about 3% of our cost of goods, and during the year we've seen somewhere between 15% to 20% increases in those items. That equates to around $100 million, $110 million. Then, if you take labor and a few other things into account, the overall inflation for the year was somewhere around the $150 million dollar mark. If you look at our price increases across the board, we had about a 1% price increase, non-raw material-related, so 1% in sales growth, that's a pretty similar amount to the inflation that we saw.

Ghansham Panjabi

Thank you.

Operator

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

Brook Campbell-Crawford

Yes, thanks for taking my question, just one on Slide 9. The 5% to 10% organic growth, I guess based on organic volume growth of 1% to 2%, can you just step me through that leverage? Are you expecting price increases to more than offset cost inflation? I'm sure there's a mix in there, but is it just good leverage there from volume to EPS?

Ron Delia

I would describe it as, basically, the components that you just outlined. We start with the expectation of low-single-digit volume growth. We start with the expectation that volume growth will be more heavily weighted towards the more differentiated higher value segments that we've called out. We would expect to continue to get inflation recovery, and we would expect to continue to drive cost productivity in the business. Those building blocks probably haven't changed much. In certain years, we've had acquisition synergies to contribute. We don't have that, obviously, in 2023, but those are the building blocks.

Brook Campbell-Crawford

Just on the restructuring costs taken below the line, throughout the year there was about another $11 million in the fourth quarter, and I'd note there were no Bemis synergies in that period, as well, so maybe you can just help us understand what are some of the examples of things that contribute to that $11 million in the June quarter, and if we should expect some of that to continue into FY2023.

Michael Casamento

Yes, thanks, Brook. It's Michael here. That was just the end of the program, so some tail-off ones, certain costs mostly relating to footprint-related items, impairments and other things. That's specifically on the Bemis program, which has now closed out, so you should not expect any more costs below the line for that program, which we completed this year.

Operator

Your next question comes from the line of Larry Gandler with Credit Suisse. Your line is open.

Larry Gandler

Thank you. Okay, first question. I guess, Michael, with regards to the cash flow guidance, I was hoping for at least raw materials inventory not to be a drag on cash flow in F2023. Given that cash flow guidance is not in advance of F2022, it does seem like there is a bit of a drag. I was just wondering if you can walk us through that. My second question is related to—you recently appointed—this is probably a question more for Ron—you guys recently appointed a Head of Global Sales, I guess, to harmonize some of those high-margin categories and your presence across Europe and the U.S. Ron, maybe you can just talk about the priority there.

Ron Delia

Sure, okay. Do you want to take the first one?

Michael Casamento

Yes, sure. I'll start with the cash flow. We are looking forward to another strong year of cash flow in that $1.1 billion range, and there's several factors that drive that. Obviously, we'll have higher EBITDA within that cash flow. From a working capital standpoint, in FY2022, we had a cash outflow of around $150 million on the back of the raw material price escalation and holding more inventory on the back of the volatile and disruptive marketplace. So we are not anticipating any additional outflow as a result of that, but at the same time you're going to see increased sales and further passthroughs. So there will be some working capital impact from that, albeit, we'll be holding working capital to sales below that 8% ratio, which we've been pretty consistent on over the last few years. So, no real impact on the inventory side. It's also going to depend on what happens with raw material pricing and how the market supply chain works, but pretty much we are looking for a neutral working capital impact. Obviously, we are going to be spending more on Capex. We talked about a 15% step-up in Capex, which is included in the guidance. Then, with the higher interest, that's an outflow that we didn't have this year. So, when you put all that together, we are looking forward to another strong year in that $1 billion to $1.1 billion range.

Ron Delia

Then, Larry, you asked about Head of Global Sales and Marketing, which is a role that we've had, but we've elevated. Maybe just for context, we run the business in a very decentralized way through the business groups. We have a small number of resources in the center that drive leverage across the portfolio in areas that we think are the highest impact, and sales and marketing has been one of those, for quite some time we've had that role in the center. What's new is that we've elevated it, it's now a direct report to me, sits at the leadership table, and there are a few things I'm really expecting to get out of it.

First and foremost, as we pivot increasingly towards generating higher levels of organic growth and top line growth, we just want the voice of the customer even more prominent around the leadership table, and so this person will help us do that.

Clearly, we have some global customer relationships that have always required a degree of coordination, so she'll pick that up, as well.

Then, our commercial capabilities, which is an initiative called ValuePlus, that we've had in place for 15 years or so. It's a commercial excellence program inside the Company. Think of it as sort of Sigma for the commercial side of the business. She'll also take the lead in driving continuous improvement in that program, as well.

So, that's the rational for elevation and increase in prominence of what's always been a very important role for us.

Operator

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

George Staphos

Hi, everyone, good day. Hope you can hear me okay.

Ron Delia

Yes.

George Staphos

Thanks for all the details. My question is going to be on Russia, Ron and Mike. I wanted to understand the guidance for next year. You mentioned it would be about a 2% effect, considering that you assume the business winds down and is sold by mid-Fiscal 2023. Does that mean, then, that in Fiscal 2024, there'll be a residual comparison, it'll be the other half that you're comparing against in Fiscal 2023, from having the business in your result? Then, more broadly, you mentioned footprint alignment, cost reduction. Can you talk to us about how you are going to best try to fill some of the earnings that will be leaving, and how much will acquisitions play in that effort for the Company? Thank you, and good luck with the new year.

Ron Delia

Yes, thanks, George. I'll take it and Michael can tag on here at the end, but we decided to sell these three plants, which, for a start, produced around 4% to 5% of our EBIT. The planning assumption, and the assumption that's embedded in our guidance for the year, is that we complete that sale process at some point in the second half of the year, and between now and then we are scaling back the operations, which is all consistent with what we said back in March and, on our call in May.

Now, as far as the difference between roughly a 2% headwind in FY2023 and whether or not there's any residual impact in 2024, we are pedaling really hard to offset the gap, so we don't expect any meaningful residual impact in FY2024. Clearly, we are losing 4% to 5% of earnings. We are going to take a hard look at the cost base in that part of the business. We will be right-sizing, if you will, the cost base in that part of the Company, looking at footprint, as well, so we expect to mitigate the remaining impact, to the extent there is any.

Operator

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

Adam Samuelson

Hi, yes, thank you, everyone. I guess the first question is just thinking about the growth delivered in the quarter and your thoughts in Fiscal 2023, maybe a bit more regionally, and give some color regionally in the Rigids business, but help us think about what you're seeing in Europe, Asia. China had lockdowns in the most recent quarter that could have proven disruptive, and especially in Europe, as you look ahead, weaker economic growth and the impact of energy and power crisis, how that's both impacting your view of costs, but also your view of consumer demand. I think, high level, Ron, you talked about low-single-digit volume growth outlook as a starting assumption for Fiscal 2023, and I'm just trying to build up to that a little bit more.

Ron Delia

Okay. I'll handle that part and, Michael, you can come back and talk about the energy point.

Yes, that's right, the starting point is the assumption of low-single-digit growth. If we look backwards a bit in 2022, I would expect that we will have similar dynamics at work in 2023. Generally speaking, across the developed markets, we had flat to low-single-digit volume growth in North America. Europe was a little bit softer, because we had even more acute supply shortages of certain raw materials and we prioritized some higher value segments and customers. But, in the emerging markets in 2022, we had mid-single-digit growth, and that's been the long-term trend. So, that's the way we would expect FY2023 to evolve, as well.

You asked specifically about China. China's been volatile. It's been a really consistent grower for us for a long time. We had good growth across FY2022 as well, but, clearly, in the fourth quarter, in particular, with some of the lockdowns, we had some very strong months and we had some very soft months, and I would expect those ups and downs to persist into the start of 2023, at least, as things normalize.

But, generally speaking, the next level of detail beneath the low-single-digit growth across the portfolio would be lower single-digits in the developed markets, Europe and North America, mid-single-digits in the emerging markets of Asia and Latin America.

I would point out, as well, just because of some of the comments you made in asking the question, this has been a very resilient business through a number of economic cycles, and I can't emphasize that enough. I would also point out, for those that have followed the Company for a long time, that the portfolio has not been as defensive as it is now. We really have no general industrial or durables exposure.

Michael, do you want to talk about energy costs?

Michael Casamento

Yes. In terms of energy, as I said earlier, we have certainly seen inflation in our energy costs around the globe, and in Europe, that accelerated in the second half, but we have been out there recovering it. We are certainly anticipating there's going to be more inflation to come, but the teams are out there recovering it. The level is dependent on where things get to in that marketplace, and obviously we have factored that into the guidance range and the range of outcomes in that guidance range. So, overall, we are expecting inflation to continue and the teams are out there recovering it.

Adam Samuelson

All right, thank you. I appreciate the color, thank you.

Ron Delia

Thanks, Adam.

Operator

Your next question comes from Jakob Cakarnis with Jarden Australia. Your line is open.

Jakob Cakarnis

Good evening, Michael and Ron. Just a question on the Capex outlook. Obviously, at the third quarter update, you upgraded the Capex to sales guidance to be between 4% and 5% of revenue, and today you mentioned that there's a 15% increase in the Capex guidance. Can you just give us some indication as to where the Capex is being allocated? Is it going to allow Amcor to compete more in the sustainability and recycled material space, or are we looking at business as usual investment back into the business. I'm just wondering how it fits you up strategically looking forward.

Ron Delia

The guidance is consistent. If you do the math, we are working our way up to that 4% to 5% of sales range, which means for a couple of years there will be larger increases on the order of the 15% that you referenced. As a general rule, it's going into business as usual, in the sense that we are not allocating capital outside of our lane in the value chain. What we are not doing is allocating capital in a major way to recycling infrastructure, or things like that, that's a separate discussion but we think we can contribute to the development of infrastructure in a different way. So, from that perspective, you could call it business as usual. But, I think what's exciting to us is that we see enough line of sight to good organic growth in some of the priority segments that we have referred to, and some of the innovation platforms, which do have sustainability attributes, that we can deploy more capital to drive higher levels of growth.

A couple of examples. In healthcare, we have opened a new healthcare packaging plant in Singapore. We have also expanded a plant in Ireland in the medical packaging space. We have put money to work in Switzerland to supply Nespresso capsules. We have continued to invest in our sustainable innovation platforms. We have talked publicly about our platform called AmLite, which is recycle-ready material that can be used for human food pouches and pet food pouches. Those are some examples of where the capital is being deployed.

Operator

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

John Purtell

Good day, Ron and Michael. How are you?

Ron Delia

Good, John, and how are you doing?

John Purtell

Very well, thank you. Just in terms of price and cost spread, how should think about that, are you expecting a meaningful positive price/cost spread in 2023? We know that you won't have the benefit, or incremental benefit of Bemis synergies for the year ahead, and I suppose as part of that, is that price/cost spread, are you starting to see that come through in a positive way now, or is it more a second half weighting, assuming it does?

Michael Casamento

Yes, hi, John. It's Michael. I can take that one for you. Throughout this year, we have seen pretty volatile and persistent increases in raw material mix across the globe. You remember we buy a broad basket of raw materials in geographies, and they move at different times in different ways. But, what we did see through the year was our recovery of that, for the entire year, was a headwind, a manageable headwind. I'd say it eased as we got into the second half, and in Q4, it certainly was a marginal headwind. Where raw materials are today, and what we see moving forward, there are still movements upwards. Aluminum is probably one that's come down. But, the marketplace is still volatile across the globe. What we have included in guidance for now is that we think in the first quarter things are going to be relatively stable, based on what we see today, and we could start to see some marginal tailwinds as we get to December. What happens in the second half, we'll see, it's all going to depend on where the raw materials move, but that's all been factored into our guidance range that we put out there, in that 5% to 10% underlying business. Obviously, if raw materials come down fast, then, you know, that's one of the elements that could get us to the higher end of the range, and if they continue to escalate, then, as you know, we recover it, but there is always a lag in that, and so that could be one of the factors that leads us to the bottom end of the range. But, where we sit today, fairly neutral in Q1, perhaps some light tailwinds as we head into Q2.

John Purtell

Thank you.

Operator

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

Richard Johnson

Thanks very much. Ron, can I just quickly ask you a question on rigid plastics. Your major competitor in hot fill reported volume growth for the June quarter which was slightly higher than yours, and the reason they gave for their growth was market share gain in sports drinks, and given how consolidated that category is between the two of you, I just wanted to clarify whether you'd lost any share in that particular area.

Then, just secondly, a quick question for Michael, if I might. Michael, can you remind me how you account for interest hedging gains and losses? Thanks.

Ron Delia

Yes. On the hot fill space, in response to someone's question earlier, I pointed out that over the last two years our hot fill volumes are up 14%. Across any of the categories we are exposed to, there's not been 14% growth, I can tell you that. So, I think that our share has improved over the last 24 to 36 months pretty meaningfully.

Michael, on the interest?

Michael Casamento

Yes, on the interest rates, Richard, that's part of the interest expense that runs through that line.

Richard Johnson

Great, thanks very much.

Operator

Your next question comes from Kyle White with Deutsche Bank. Your line is open.

Kyle White

Thanks for taking the question. Ron, a little bit more longer term question here. I'm just curious how we should think about the shareholder growth algorithm over the long term. You are still targeting 10% to 15% shareholder return. I guess, why should it be higher, given the increase to Capex and organic investments, especially towards some of these higher value end markets that you are targeting? Obviously, you're increasing Capex now, it takes time to get those returns, but do you see runway for this algorithm increasing, especially as you include M&A to it?

Ron Delia

It's a good question. I think the short answer is, yes, you can see a path at some point, but as you pointed out, we need a bit of ramp-up to get returns from the capital that we are putting to work. The other thing that will happen is that the mix in that algorithm will shift a bit over time. We have been grinding out organic growth from margin expansion and cost productivity over the years, and then we have been quite acquisitive, although less so more recently. So, over time, you'll see the organic growth come a little bit more from the top line, overall, and a little more commercial productivity, and you'll see us get back on the acquisition path again, as we had been prior to the last few years. We are comfortable with the algorithm at the moment, but there are reasons for optimism that the mix will evolve a little bit as we move forward, and that's why we are putting our money behind some of these growth projects that I outlined earlier.

Operator

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

Daniel Kang

Good morning, everyone. I guess we've noticed, in terms of resin prices, it's pulled back quite meaningfully in recent months. Can you talk us through your thoughts on the dynamics that's driving this, your new PE capacity coming onboard, potentially, you know, providing a more medium-term tailwind?

Ron Delia

Yes, as Michael alluded to, the basket of resins that we buy have moved in different directions and at different paces, and so, overall, we actually saw resins across our global basket go up a bit in the fourth quarter, but there's definite signs that things will ease. In the medium term, and even maybe a bit sooner, in certain regions of the world, there is more capacity coming onstream in some commodities and that will certainly take some of the heat out of the pricing. Remember that supply/demand is one element. We also have the underlying feedstock prices playing a role, as well, so oil and natural gas, which have come off a little bit, and I'm talking very recently now. But, it's really those two things that drive the prices in the polymers that we consume, and for the last period of time here, in this more recent inflationary cycle, we have had pressure from both. We have had raw materials, the supply/demand working against us at times and we have had inflation in oil and gas. It's possible that in the near term, or certainly in the medium term, both of those factors abate, and we start to see some more meaningful softening and more sustained softening across the basket of raw materials that we are buying.

Daniel Kang

Thank you, Ron. In terms of a follow-up, I just wanted to ask about potential M&A. Are you seeing more opportunities at potentially more attractive valuations, given the higher rate environment?

Ron Delia

Not yet, but we would have to believe that as rates go up, as the high yield market maybe gets a little tighter and a little more constrained, that there'll be maybe less competition for deals. That would be a theme that you would expect to emerge. It's a bit early in the interest rate cycle and it's a bit early, generally, in the asset pricing cycle for us to have seen that yet, but we are in a great position, because we know exactly where we want to go strategically, we know exactly the segments that we'd like to acquire to advance our strategy, and we have got a great financial position to work from, with a really strong balance sheet and lots of cash flow, so we'll certainly be in the deal flow to the extent that assets do come to market.

Operator

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

Mark Wilde

Thanks. Good evening, Ron. Good evening, Michael.

Ron Delia

Hi, Mark.

Mark Wilde

Just curious about any inventory destocking behavior that you are seeing. We have heard a lot of conversation about this with different retailers, but I think there has also been questions about whether upstream from them, whether some of the CPGs have taken on a little extra inventory over the last couple years and whether they might be starting to bleed a little bit of that back out now. Just any thoughts around that, Ron.

Ron Delia

Yes, It's always difficult for us to have great visibility into where things stand from an inventory perspective down the value chain. This is really anecdotally, I'd probably suggest that there is probably more inventory than there needs to be in some parts of the chain. Has it been particularly acute in any part of our business and really held things back? No. But, I would say, with the limited visibility that we have, you'd probably say there's a little bit more inventory than there needs to be in certain segments, but take that for what it's worth, which is just a bit anecdotal.

Mark Wilde

Okay, and then if I could just follow on really quickly. Can you just update us on where volume is at in both healthcare and medical devices? Because you did mention some incremental healthcare and device investments, earlier in the pandemic, that some of those volumes were weak, I'm just curious about where you stand right now.

Ron Delia

Yes, that's a good question, I'm glad you asked. Healthcare volumes, generally, and medical device packaging and pharmaceutical packaging have bounced back very strongly. We had good mid- to high-single-digit growth across both of those segments through FY2022. Pharma was a little bit slower to rebound, but the medical device packaging volumes for us now are back to where we were pre-pandemic. Now, that's a segment that has grown in the mid-single-digits for us for many, many years, it's a good margin business, and innovation-intensive, etc., so we expect that to continue, but we are back to where we were in 2019.

Operator

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

George Staphos

Hey, Ron. Thanks for taking the follow-up. I wanted to come back to acquisitions, and recognizing you're going to be very disciplined, as always, about the businesses that you look at. You mentioned that sustainability is core to everything that you do at Amcor, clearly. How important will it be for the acquisitions that you look at to either give you a new technology, a new ability to promote sustainability, and otherwise help your customers' products become more sustainable, or is what's really important that you are looking at are the financial metrics, the improvement, and return on funds employed, and so on. How would you have us think about how you are evaluating that, and if you could talk a little bit about the Czech facility and just provide a bit more color on that, that would be great. Thanks, and good luck in the year.

Ron Delia

Yes, thanks. It's a great question, George. I would say the two factors that you outlined are inextricably linked. As you think about doing an acquisition, especially anything of meaningful scale, you'd be thinking more beyond the first couple of years of ownership, and so you'd be thinking about the sustainable growth in a business that you'd be acquiring, you'd be thinking about the sustainable competitive advantage. All of those things in our universe are going to be linked to sustainability. So, it's inconceivable that we would buy something that didn't further enhance the sustainability credentials of our product portfolio.

That being said, we like our product portfolio as it relates to sustainability. We think that we've got the key to more sustainable products with the stable of product segments that we are in today, so we don't see any real need to step out. Anything that we look at will be accretive, if you will, to the sustainability profile of our product portfolio, because, for no other reason, it will lead to better financial outcomes over time, and higher returns ultimately.

Just really quickly, to close off on the Czech plant, we bought a plant which is relatively new. It was opened right at the outset of the pandemic, so it's very low utilization. It gives us instant capacity in

Central Europe, and it happens to have assets that are easily directed towards some of our priority segments, including coffee and pet care, so we are essentially buying a plant more so than a business. We closed on that in early August and we will be working over the next couple of years to fill up that site. If things go well, then we have got optionality to expand the site, as well. So, pretty excited about that little bolt-on in that part of the world.

Operator

Ladies and gentlemen, there are no further questions. I will now turn the call back to Ron for closing remarks.

Ron Delia

Okay, thank you, Operator. Thanks, everybody, for joining the call today, and your interest in Amcor. We've had a strong year in 2022, and we are expecting another strong year in 2023, and expecting the resilient investment case we have built up over the years will be especially compelling in this environment. So, thanks again, and we'll close the call there.

Operator

This concludes today's conference call. You may now disconnect.