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Amcor: Ron Delia

JP Morgan hosts: Brook Campbell-Crawford & Jason Steed

Brook: Thanks Jason, Good morning everyone, it's Brook Campbell-Crawford here, Head of Packaging Research at JP Morgan and welcome this morning to Ron Delia, CEO of Amcor. Good morning Ron.

Ron: Hi Brook, good morning.

Brook: Yes, thanks very much for dialling in and thanks for all the assistance as well and we believe we have a great turn out this morning. I think just to start off Ron, just to hand it over to you for any opening remarks and then I can step through some questions.

Ron: Thanks Brook and thanks Jason and JP Morgan in fact for helping us connect to the investment community at a time when it is not easy to connect for anybody and thanks for the participants here as well for joining at a difficult time. As Jason alluded to it is clearly a challenging time for everybody, every company, and Amcor is certainly not immune, but we believe we are as well positioned as anyone and before we get to Brook's questions there are three points which I think are particularly relevant at this point in time. The first is that Amcor plays a vital role in the essential food, beverage and healthcare supply chains. The second is that we are in a very strong financial position and third we have clear visibility to near terms sources of shareholder returns. I will just walk through each of these points for a minute if I can. Firstly, as I said we are playing a vital role in essential food, beverage and healthcare supply chains. Essentially all of Amcor sales are into consumer staples or healthcare end market. Food, beverage, pharmaceutical, medial products, personal hygiene and these have never been more important than they are right now and essentially all of our products and packaging go to 'for at home' consumption or use in medical facilities. So there is almost no 'on the go' or food service exposure for our business. And these products and these supply chains are recognised as essential by governments and healthcare authorities around the world. That's allowed Amcor to receive preferential status or essential service status and to continue operating when others have not been able to. And it's clear that it is critical for governments to keep supply chains open as it relates to food and healthcare and packaged FMCG and healthcare products. And that's meant we continue to run in every one of the more than 40 countries that Amcor operates in. And because these products are essential and demand continues, we're focused on obviously keeping our employees healthy and safe but also keeping our businesses and 200+ factories around the world running and so we have got detailed plans in place for each of those sites around preventative measures, incident response, return to work protocols and the like. And I really have to thank our 50,000 employees around the world who have really rallied in allowing us to continue to operate and satisfy the needs of food and healthcare consumers around the world. So that's the first point.

Secondly, we are in a very strong financial position. We're a scale player in defensive end markets - food and beverage for 'at home' consumption, healthcare products. These have demonstrated resilience throughout economic cycles including extreme ones like this one, so that demand is not an issue. Geographically we run a distributed

network of 250 factories around the world. There is an element of redundancy there and certainly less concentration risk in terms of our operations. All of which leads to a strong cash flow. Cash flow has been strong and consistent year after year and we've a healthy balance sheet, even a relatively conservative balance sheet when compared to other packaging companies. We are investment grade credit. We have always been committed to an investment grade and we have relatively low leverage. So strong financial position.

And then lastly we have visibility to near term drivers of shareholder returns, we have a compelling dividend, and actually the investors are finding the dividend increasingly compelling at times like these. And defensive organic growth, leveraged to essential consumer staples, additional earnings growth from Bemis synergies and benefit to EPS from the buyback which we funded this year through the divestment proceeds which is essentially complete. So just to summarise, and I will turn over to questions, clearly and certainly challenging times for Amcor and our customers, including Unilever as was mentioned, and we are not immune but well positioned given the critical role we are playing in food and healthcare supply chains, the strong financial position that we have and the visibility that Amcor has to near term drivers of shareholder returns. So Brook with those opening comments we will turn it over to you and the questions you have lined up.

Brook: Yeah, thanks Ron for the excellent introduction. My first question would be just on demand. You did just touch briefly on demand and could you elaborate on what you're seeing on that front at the moment. And if you could provide examples of how Amcor is benefitting or being impacted as a result of changing consumer behavior over recent weeks and months that is.

Ron: The first thing to clarify is that we are not giving a trading update today but I think the changing operating environment all around us is pretty visible. It comes back again to all that we are producing, which is for critical consumer end markets right now. Essential food, beverage, medical, healthcare, personal care even homecare categories all of which are in high demand around the world. Nearly all of our products as I said are for 'at home' consumption through the retail channel. As we have seen in every part of the world empty shelves in supermarkets and increases in retail sales data for FMCG and healthcare products, restaurant closures etc so there is certainly an increased retail demand for things like pasta and ready-made meals and bottled beverages and pet food, not to mention personal care products like wipes and hand sanitizers. And we are seeing brand owners much more focused on getting the maximum amount of products to the consumer as they can, so they are prioritizing large volume SKUs in long production runs at the expense of lots of SKU variety. In some places we see evidence that consumers are gravitating a little bit more to locally made products versus imports. It's a demanding situation, obviously fast changing every day, given government regulations are changing and consumer reactions and responses to those changes are changing. And the supply chain is responding quickly as well. It is too early to tell what the ultimate impact will be but some of what we are seeing clearly may be short lived as people are forced to stay home. Other consumer shifts may potentially last a little bit longer. But I think it is pretty clear the value chains we are operating in food and healthcare that demand has certainly been there.

Brook: Thanks Ron for running through that. The second one on the operating environment, if you could provide an update on status of Amcor supply chains as well as those of your customers and suppliers and any examples you could provide on disruption to date, contingency planning or what you're doing in the event of any disruption going forward. Thanks

Ron: A few questions in there Brook. If we can go to the first one around the status of our operations and supply chain. We are absolutely not immune but so far we have had very little disruption, certainly not none, but limited disruption to our operations and they have been short lived in short durations. Very dynamic, it changes hourly, I get several updates throughout the day but so far so good. Probably, with the risk of being redundant, the starting point again is the nature of the products we make. You know it is critical for governments around the world to ensure food and beverage and healthcare products are available and plentiful and reachable by consumers and so health authorities, governments around the world have acknowledged our license to and Amcor's plants are considered essential and are allowing or even expecting us in most cases to continue to run our operations even in the face of lock downs or what is called 'shelter in place' orders in different parts of the world. In some cases, we have never had to stop running, like our healthcare plants in China and India and other cases authorities have issued blanket shut down orders but then have quickly exempted our sites. I think India is a good example, it's quite widely publicized, the whole country went into a three week lockdown but here too our food packaging plants were back running within a day after that nationwide lockdown. So, authorities are adjusting quickly where they need to but it's clear that we will continue to have a license to operate around the world and that is why we have Amcor plants running in all of the 40 or 45 countries we operate in.

Now aside from the license to operate of course there are other situations that can impact the status of our operations but so far these have also been minimal and we've managed pretty well so far. We can run our plants and continue to comply with social distancing protocols. If you have been to our sites you'd know it's not a very labor-intensive set of businesses that we have and so we have had a very small number of plants experiencing any type of capacity or limitations or shut downs at any point in time. It can happen from infection or just from high absenteeism particularly in areas where there has been a particularly high degree of concentration of cases. Mostly we have had some partial capacity reductions, or plant closures limited to one department in a factory or sometimes one machine. And any of these plant closures have been pretty short lived and measured in hours or days.

Beyond our operations and the walls of our plants of course we are 'tight and light' with the rest of the supply chain upstream. Our suppliers who we've always had good long-term relationships with, and typically have multiple sources of supply. We've got contingency plans with them and no big material impacts from anyone so far. And downstream in terms of our customers they're really in the same situation as us. They are considered as essential, some have had incidents they have had to respond to but given the nature of their business it's also been relatively temporary too. So, we are working very closely with those customers to leverage our global footprint and supply chain flexibility to make sure they keep operating.

Maybe just quickly I think you asked as well about contingency planning so I will briefly explain that. Primarily our focus is on keeping our employees healthy and safe and the 250 or so factories that we have around the world running. So we've got COVID-19 response teams in place as you would expect that meet daily or almost hourly in some instances and constantly monitoring government decisions and developments. Our co-workers are all armed with identification and credentials that they can use to make sure they're allowed to get to their facilities. In terms of contingency planning, we are in pretty good shape. Every plant around the world has detailed plans in place around preventative measures first of all, including the dividing the factories into small areas and segregating the workforce etc into different teams so that we don't have everybody exposed at the same time. We've got additional break rooms and things like that and obviously cleaning and disinfection at a new level. Secondly, we've got detailed incident response plans in place which typically as I mentioned mean we had to quarantine a small area of a site not necessarily a full facility. And, thirdly, we've got detailed return to work protocols which leverage the learnings that we have had from China. Not everyone has operations in China but clearly we have 10 plants in China and we've learned in terms of how to get those plants back up and running if they do have any kind of a disruption. So again, some advantages here with the number of plants we have which are well connected around the world leveraging learnings and providing contingency. But there will be disruptions and there will continue to be given the rapidly changing environment we are in, but we are overall in pretty good position given that we are seen as an important part of key value chains.

Brook: Excellent, that is great to hear. Can we move onto balance sheet if you could talk a bit about how the balance sheet is positioned? Clearly this is an area of focus for all companies right across the market. If you could detail things like tenor, liquidity that would be really helpful thanks.

Ron: This is an important question. We are in very good position here. Balance sheet is strong and that is a result of consistently strong cashflow for many years now and a relatively conservative financial approach starting with our commitment to an investment grade balance sheet. We are triple BBB rated credit with S&P and Baa2 with Moody's and that is important, never more so in times like these because it provides access to diverse sources of financing and obviously at competitive prices. So you get reminded of that periodically and this is another one of those times and we have low leverage especially relative to the packaging industry. As at 31 December we had leverage of 2.9 times which is always somewhat lower by the 30th June because our cashflow is waited to the second half, but the leverage is low in an industry or sector where 4x or even 5x leverage is not uncommon, so we've always had a fairly prudent and fairly conservative physical approach and I think that is the case currently. We don't have any material refinancing to do and no significant debt maturities over the next 12 months. Anything that was maturing has been extended regardless of whether or not we've needed it, but in the interest of being conservative we've extended anything that was due, and so there is nothing really left to refinance for a while. And then obviously it should go without saying we've got significant liquidity available too, so we are in a good place financially with a strong balance sheet.

- Brook: OK that's great. As an extension on that for cashflow - what are your expectations for cashflow and is the unique environment we are in at the moment going to have any potential impact on working capital in the second half of the financial year.
- Ron: Well the cashflow starts with the business activity. Our end markets are defensive and they have always helped us drive consistent cash flow which has been pretty resilient, and those food and medical markets are more essential now, really than ever. So as we said earlier, the demand is there and it just comes down really to eliminating any operational disruptions that we may have. Beyond that the typical working capital risk in uncertain times like this would be receivables, but bear in mind our customers are also essential providers of food and healthcare and other consumer staples, so the risk may be a bit lower than other periods of economic shock. I mean clearly there might be some moving parts surrounding inventories and things. Generally speaking in this kind of environment you are raising your focus on collections and watching that closely but I will come back to where I started, we generate very strong cashflow and that has been consistent over a number of years, so the fundamentals are in place, and that really underpins the visibility we have to near term drivers of shareholder returns starting with the compelling dividend, continuing to invest in the core business which is going to yield really defensive organic growth and continue to capture the synergies from the Bemis acquisition. And then lastly finishing the buyback that was funded by divestment proceeds, which is about 95% complete. So we are well positioned from a cashflow perspective to continue the long term track record we have of delivering returns for shareholders.
- Brook: Ok and that brings me to my final question. Perhaps most important, clearly it's a very challenging time for everyone across the globe, but do you think there are any opportunities that may arise for Amcor out of this very unique situation we are going through?
- Ron: Yeah, look it's early days clearly, so right now our focus is keeping our people healthy and our factories running. But no question there will be opportunities here. The nearest term opportunity is to demonstrate the resilience of the business and to continue to deliver consistent performance as I just pointed out that is clear. But to your question there are there some longer-term opportunities that we can see already.
- The first is the opportunities that will emerge because the importance of primary packaging for food and healthcare products and beverages and the role that packaging plays is probably never been clearer right, I mean, basically right now we all have a need for hygiene and safety and security and shelf life of food stuff in the retail channel and consumers are seeking this from packaged goods. So I think there will be a whole host of opportunities that will eventuate from more clearer recognition to the importance of the type of packaging we make is critical.
- Secondly, there's an emerging opportunity for us to get closer to our customers, we are helping them every day to leverage our scale and global footprint to enable some of our brand owners to respond to higher demand and reallocate supply in different locations or offer alternative package structures if necessary. Really demonstrating our commitment and our customers are acknowledging this. We have a big plant in Northern Italy which is clearly in an epicenter of this whole crisis and that plant had remained open during the peak of the crisis and our customers delivered some gifts to

all of the 400 operators at that plant just to say thanks. It was a small gesture but the people in that factory were really touched by the gesture from one of their big customers. Another example in the US, we've got several spirits customers in the container business who have converted their plants to the production of hand sanitizer and we had one that was desperate for bottles and we were quite short on hand sanitizers, so we donated some bottles and they donated hand sanitizer for our plant. So, I think the intimacy with our customers and the relationship with our customers is a clear opportunity.

Thirdly there is certainly going to be an opportunity to further our competitive advantage in R&D. Our financial position is allowing us to continue to invest, whereas maybe some of our competition might not be able to continue to invest and we've been recruiting top talent. We have been hiring anyway to support our sustainability agenda and so I think we are going to further create some daylight on the innovation side.

And then lastly, I think it would be an oversight to dismiss the opportunity from greater employee engagement that comes from working through a crisis like this. I think our teams around the world are really rising to the occasion, and they have a renewed sense of purpose as they can see the impact of what they do and the fact that they are expected to keep operating to support the food and healthcare industries is a real source of pride. We are integrating Bemis still, that hasn't stopped and so we are going through a crisis now as one company which will give those efforts a boost and its generally a good excuse for our leaders to reach even deeper into the company and check in with folks. So, certainly an opportunity from an engagement perspective.

I think yeah, I might wrap it up, it's a good question. It's hard to think about opportunities right now, it's a tough time but there are plenty and Amcor is going to be well positioned to capitalize on them. I am going to sort of go back to what I started with, we certainly are not immune but we're as well positioned as anyone given the critical role we are playing in the food and healthcare supply chains and the strong balance sheet and cashflow position we have and the visibility we have to near term drivers of shareholder returns, so you know watch this space, but for now we feel like we are in a pretty good position.

Jason: Ron, hi, it's Jason Steed here. We have a few minutes left and I thought I might ask you a question, not a controversial one of course, but clearly as a CEO and with your executive team and with the Board it would be fascinating to understand how you are dealing with this almost on a day to day basis? How has your managerial role changed and how often are you in contact with the Board compared to usual times?

Ron: It's a good question. You mentioned Alan Jope of Unilever who is a great customer of ours and a good friend of Amcor's, his job changing and mine is as well. Our Board is in more regular contact as you can imagine, I don't think that would be a surprise. They've been incredibly supportive and they understand the resilience of the business, particularly directors who have exposure to other industries and are facing massive demand shocks and then the consequences of those demand shocks. I think our Board is well calibrated. From a management perspective, yeah, I mean the peak into the engine room, is that we have a call every day which is at 6am and another one in the afternoon which we get a status briefing, which is 7 days a week. And we have sub-groups working on different aspects like supply chain, IT infrastructure which is critical

to keep us all connected. And then the other thing that the management leadership team at the top, including myself are doing, are lots of check-ins with teams around the world. Lots of phone calls to check in on folks, I mean clearly people are working from home in many cases and juggling home schooling and all the things that go with it on the personal side and so we are making a lot of extra efforts to engage and reach out and touch team members around the world. So, I would say generally speaking Jason, the shift is to a much more hands-on day to day level of intimacy with the business but at the same time we have an opportunity and an obligation to think about the long-term opportunities that might eventuate. To Brook's question earlier and we are keeping our eyes on those as well.

Jason: Thanks Ron.

Brook: Thanks Ron I think they are my five questions and excellent one from Jason to wrap up there. Thanks very much for your time, really appreciate it. It sounds like Amcor is in a strong relative position here so really appreciate your time.

Ron: Great, thanks again guys, thanks for Brook and Jason hosting it.