Amcor plc

Full Year Fiscal 2023 Results

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Amcor Full Year 2023 Results Call. I would now like to turn the call over to Tracey Whitehead, Head of Investor Relations. Please go ahead.

Tracey Whitehead

Thank you, Mandeep, and thanks, everyone, for joining Amcor's fiscal 2023 earnings call.

Joining today is Ron Delia, our 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 this 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. Reference can be made to Amcor's SEC filings, including our statements on Form 10-K and 10-Q for further details.

Please note that during the question-and-answer session, we request that you limit yourself to a single question and one follow-up, and then rejoin the queue if you have any additional questions.

Over to you, Ron.

Ron Delia

Thanks, Tracey, and thanks to everyone for joining Michael and myself today to discuss Amcor's fiscal 2023 and June quarter results. 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, and throughout fiscal 2023 we again made strong progress on our journey for continuous safety improvement across the Company. 69% of our sites remained injury-free for at least 12 months, and we reduced injuries globally by 31%.

While we are pleased with these results, ultimately, it’s not just the number of injuries we are focused on, but also the severity of the injuries that do occur. Tragically, in June, a contractor's employee lost his life at our Pondicherry site in India after falling from a roof. We immediately conducted a detailed investigation, and we are deploying the learnings across all Amcor sites with the goal of eliminating the risk of similar accidents in the future. We are relentlessly focused on safety globally and this tragic incident is a stark reminder of the importance of those efforts.

Moving to our key messages on Slide 4. First, Amcor delivered solid operating performance for the 2023 fiscal year. Adjusted EBIT was up 1%, and we returned $1.2 billion to shareholders through share repurchases and our industry-leading dividend. Across the organization, our teams demonstrated agility by taking action to navigate highly challenging and volatile market dynamics, characterized by ongoing inflation, softening consumer demand, and customer destocking, particularly in the second half of the fiscal year.

Our ability to modestly grow Adjusted EBIT under these circumstances was the result of proactive and decisive actions to effectively manage the areas under our control, which is our second key message. Our teams did an excellent job prioritizing pricing to recover increases in raw materials and general inflation, and as we entered the 2023 calendar year, we stepped up the intensity of our cost reduction efforts to drive productivity benefits. Additionally, we invested in structural initiatives, including strategic plant closures that will deliver meaningful cost savings in fiscal 2024 and 2025.

Third, as a result of these comprehensive actions, Amcor is well positioned to return to solid mid-single-digit earnings growth in the second half of fiscal 2024, which also leaves us well placed to grow at our long-term trend of high single-digit rates thereafter. While we expect current market conditions to persist over the near term for the entire industry, we will continue to recover inflation and are confident the benefits from our cost reduction and productivity initiatives will have a sustainable positive impact on earnings leverage.

Additionally, we will be cycling weaker volume comparatives in the second half and the headwinds we faced from the sale of our Russian plants and significantly higher interest expense are largely limited to the first half of fiscal 2024. All these known benefits are largely within our control and underpin our expectation of a return to solid earnings growth in the second half without having to rely on a significant change in the demand environment.

Finally, as we and the entire CPG industry continue to navigate a dynamic operating environment, Amcor remains laser-focused on executing against our long-term growth and value creation strategy. We are well positioned as a recognized industry leader, and we continue to pursue opportunities to invest in our strong underlying business, particularly through innovation and sustainability initiatives in faster-growing, higher-value markets. We are also actively pursuing value-creating M&A, such as the deal announced last week to acquire Phoenix Flexible Packaging in the high-growth Indian market, and we are committed to returning cash to shareholders through a compelling and growing dividend and share repurchases.

Moving to Slide 5 for a summary of our financial results. Fiscal 2023 and June quarter financial performance were well within our May guidance range as proactive cost and price actions helped counter ongoing inflation and increasingly soft and more volatile volumes as we progressed through the year. Reported net sales for the year were up 1%, which includes an unfavorable currency impact of 3% and approximately $775 million of pricing to recover higher raw material costs. Organic sales were flat on a comparable constant currency basis as volumes were 3% lower, offsetting a price/mix benefit of around 3%.

Full-year adjusted EBIT of $1.6 billion was up 1% on a comparable constant currency basis, benefiting from strong operating leverage in the first half of the year and accelerated cost actions in the second half. Adjusted EPS of 73.3 U.S. cents per share was down 2% on a comparable constant currency basis.

For the June quarter, sales were down 5%. Positive price and mix of approximately 2% included recovery of $100 million of general inflation, and volumes were at the lower end of our expected range, down 7%. Last quarter, we referenced accelerated demand weakness in March and April, and this persisted broadly through the June quarter due to a combination of lower consumer demand and continued customer destocking, including in priority categories which also impacted mix compared with last year.

While earnings were in line with our guidance, the June quarter is historically Amcor's strongest of the year, making it more difficult to flex costs. As a result, weaker volumes had a more pronounced impact on earnings and adjusted EBITDA of $436 million was 7% lower than the prior year on a comparable basis.

We continue to execute well on our capital allocation priorities, returning approximately $1.2 billion of cash to shareholders during the year through a combination of dividends, which the Board increased to $0.49 per share, and the repurchase of approximately 41 million shares or 3% of shares outstanding for a total cost of $431 million.

Since 2020, we have repurchased approximately 11% of our outstanding shares and our industry-leading dividend currently yields around 5%. Our overall financial profile also remains robust with return on average funds employed of 15.4%.

Slide 6 highlights the proactive actions we continue to take to manage the areas under our control. We have been successful in pricing for inflation throughout the year, passing through a total of $1.1 billion to compensate for higher raw materials and general inflation, including labor, energy, and freight. We also delivered more than $200 million in annual cost savings through productivity initiatives, including a reduction of more than 1,200 full-time employees. We are investing in structural initiatives that will deliver approximately $35 million in savings, primarily in the second half of fiscal 2024, with an incremental $15 million benefit in fiscal 2025. Importantly, we expect the benefits from these fiscal 2023 cost actions and structural initiatives to have an ongoing favorable impact on earnings leverage.

I'll turn it over now to Michael to cover more of the financials.

Michael Casamento

Thanks, Ron, and hi, everyone. Beginning with the Flexible segment on Slide 7. Fiscal 2023 reported sales were in line with last year, which included recovery of higher raw material costs of approximately $515 million, accounting for 5% sales growth. Excluding the raw material impact and negative currency movements, sales grew 1% for the year, driven by price/mix benefits of 4%, reflecting our ability to continue to price to recover inflation across all Flexibles business groups. This was partly offset by 3% lower volumes.

While volumes in all regions were impacted by slower demand and destocking, particularly in the second half of the year, our strategic focus on higher-value priority categories continued to drive solid sales growth for the year. Volumes in the Pharmaceutical and Pet Care categories were especially strong, helping to limit the impact of broad-based lower volumes in other categories.

As Ron mentioned, throughout the year, the business did a good job aligning operating costs with challenging market conditions, while pricing to recover inflation. This focus resulted in a 1% increase in adjusted EBIT for the year on a comparable constant currency basis. Margins remained strong at 12.8%, despite 100 basis point dilution related to increased sales dollars from passing through higher raw material costs and general inflation.

In terms of the fourth quarter, net sales on a comparable constant currency basis were down 5% with positive price/mix of 2%, more than offset by a 7% decline in volumes. This represents an accelerated volume decline compared with the March quarter and was a consistent trend across most regions. The greatest sequential declines continue to be seen in the North America and European markets, where our overall June quarter volumes were lower by high single digits. This was consistent with softer retail scanner data and with categories such as premium coffee, protein and health care also being incrementally impacted by customer destocking.

Adjusted EBIT for the quarter of $387 million was 7% lower than the prior year on a comparable constant currency basis, reflecting the impact of lower volumes, unfavorable mix, and ongoing inflation, partly offset by benefits from continued pricing and cost actions.

Turning to Rigid Packaging on Slide 8. Fiscal 2023 reported net sales were 4% higher than the same period last year, including approximately $260 million or 8% of sales related to the pass-through of higher raw material costs. Organic sales declined 3%, reflecting 4% lower volumes, partly offset by a price/mix benefit of 1%.

In North America, overall beverage volumes for the year were down 6%. Hot fill volumes were in line with the prior year as new business wins in key categories offset unfavorable consumer demand and customer destocking. In specialty containers, volumes were lower than last year, with growth in the health care, dairy, and nutrition categories, offset by weaker volumes in food, home, and personal care.

In Latin America, volumes were down low single digits versus last year, which reflects challenging macroeconomic conditions across the region.

Fiscal 2023 adjusted EBIT was down 7% and strong earnings growth in the first half was more than offset by challenging market conditions that accelerated through the second half of the year. Adjusted EBIT margin of 7.5% includes an adverse impact of approximately 80 basis points from the increased sales dollars related to passing through higher raw material costs and general inflation.

Looking at the June quarter, comparable constant currency net sales were down 4%. Price/mix benefits of 2% were more than offset by a 6% volume decline as lower consumer demand and customer destocking continued to impact the business, particularly in North America. On a comparable currency basis, adjusted EBIT for the quarter of $73 million was down $22 million against the strong comparative period.

As Ron mentioned earlier, the June quarter is typically the seasonally strongest of the year, and together with volatility in customer order patterns, this limits the ability to fully flex costs. In an environment where production volumes are weaker, fixed cost absorption is also significantly lower and the combination of these factors amplifies the impact on earnings. The team continued to manage the costs under their control well with additional headcount reductions and more plant shut down days. We continue to focus on cost actions as we manage through this cycle of softer demand and destocking.

Looking ahead to the September quarter, we do not anticipate market challenges to materially improve, which will have an unfavorable impact on earnings compared with the same quarter last year.

Moving to cash and the balance sheet on Slide 9. Our financial profile and investment-grade balance sheet remains strong. Leverage of 3 times on a trailing 12-month EBITDA basis is modestly up from last year, but is aligned with our expectations given the softer demand on broad-based destocking through the supply chain.

Adjusted free cash flow of $848 million was in line with our updated outlook, though below last year. This reduction mostly reflects lower accounts payable balances as we moderated our purchasing activities, partly to reduce inventories, but also in response to the soft demand environment. This is a timing impact, which we expect will abate as we progress through fiscal 2024. Whilst we have made good progress bringing down our inventory balances with a reduction of more than $400 million from the peak levels in November 2022. We will continue to focus on reducing overall working capital to support increasing cash flow.

Turning now to the outlook for fiscal 2024 on Slide 10.

For the 2024 fiscal year, we expect adjusted EPS of approximately $0.67 to $0.71 per share. This includes expectations that organic growth from the underlying business will be in the plus or minus low single-digit range as volumes are expected to remain weak, particularly in the first half.

Share repurchases will result in a benefit of approximately 2% and currency translation is expected to add a further benefit of 2%, assuming current exchange rates prevail for the balance of the fiscal year. This is expected to be offset by a negative impact of approximately 3%, related to the sale of our three plants in Russia in December 2022, and a negative impact of approximately 6% from higher interest and tax expense.

As U.S. dollar and Euro interest rates have continued to rise, we expect interest expense for fiscal 2024 to be in the range of $320 million to $340 million.

In terms of cash flow, we expect to generate significant adjusted free cash flow in the range of $850 million to $950 million in fiscal 2024, which represents growth of up to $100 million over fiscal 2023.

We have planned to repurchase at least $70 million of Amcor shares in 2024, we have been active on the acquisition front, and we will continue to pursue M&A opportunities. As always, we will evaluate our uses of cash as we progress through the year.

Slide 11 shows that Amcor has a long history of delivering solid and consistent earnings growth and the phasing of the earnings across the year has also been relatively consistent year-to-year. For fiscal 2024, it's important to call out that phasing of comparable earnings growth is not expected to align with historical trends. We do not expect the challenging market dynamics we have seen in the last two quarters to meaningfully improve in the near term, and in the first half we assume mid to high single-digit volume declines.

Given this demand outlook and the unfavorable impact related to higher interest expense, which is expected to moderate in the second half, we anticipate adjusted EPS in the first half of fiscal 2024 to be down in the high single-digit to low double-digit range on a comparable constant currency basis when compared to the prior year.

While it's more difficult to predict consumer demand, we do expect customer inventories will have largely normalized by the time we enter the second half of the fiscal year. Additionally, we have a number of tailwinds in the second half, all of which are within our control, including the benefit of approximately $35 million from structural cost saving initiatives building through the year, increased earnings leverage resulting from ongoing benefits from price and cost actions, a reduced interest headwind, and favorable prior year volume comparatives.

The combination of these known factors supports our expectation that adjusted EPS will rise mid-single digits in the second half of fiscal 2024 on a comparable constant currency basis. It also gives us confidence in resuming our long-term trend of high single-digit earnings growth shortly thereafter.

It is also important to highlight here that we do not need to see a significant change in the demand environment to return to solid earnings growth in the second half and beyond.

In summary, we believe the current industry and Amcor specific challenges will primarily be limited to the 2023 calendar year. We remain laser focused on doing all we can to mitigate the impacts of these challenging conditions, while continuing to execute our long-term shareholder value creation strategy and we expect to return to our historic high single-digit organic growth trajectory as we progress through calendar year 2024.

With that, I'll turn the call back to Ron to provide some longer-term comments.

Ron Delia

Thanks, Michael.

Turning to our long-term commentary. Slide 12 highlights our strategic areas for investment where we see faster-growing, higher-value opportunities to drive sustainable growth. On prior calls, we have covered opportunities in health care and in M&A. Today, I'll take a few minutes to talk about protein and the opportunities we see to deliver strong growth in the high-value protein category.

Moving to Slide 13. The protein category for Amcor includes packaging solutions for processed and fresh beef, pork, poultry, and seafood. We like this category because it's a large addressable market, which historically has grown globally at attractive rates, driven mainly by an increasing percentage of the world's population able to afford to add protein to their diet. We also like the fact that there are many ways to differentiate and add value for customers since protein packaging requires specialized more sophisticated and increasingly more sustainable solutions to preserve and protect these premium products.

Amcor's unique product offerings have enabled us to successfully grow our participation in the Meat category over several years. Annual revenue from the sale of processed and fresh meat packaging now exceeds $1 billion. While inflationary impacts are currently creating challenging market conditions, looking forward, there are several reasons we believe Amcor can drive growth at a mid-single-digit CAGR over the medium term with margins accretive to our overall average.

First, Amcor is well positioned with a comprehensive product portfolio for processed and fresh meat applications. Underpinning our development of better products, our strong capabilities and significant investments in innovation, sustainability, and technical service. These are critical in an industry that relies on durable high barrier solutions to preserve shelf life while providing convenience for the consumer in environmentally friendly formats.

Second, we have a strong presence in North America, but our global scale and reach enables us to leverage our R&D network and installed capacity to transfer technical and process knowledge across regions as we actively pursue global growth opportunities.

Third, there's a unique go-to-market model in some parts of the world where equipment purchases drive the subsequent sales of packaging films and technical services. Our recent acquisition of Moda positions us well because we are now able to provide a wholly owned turnkey equipment solution aligned with this model, where efficiency and the ability to automate are some of the highest priorities for customers.

With the recent investments to enhance our offering and go-to-market strategy, we are well positioned to grow in this high-value market, and we are excited with the many opportunities to firmly establish Amcor as a preferred provider of fresh and processed meat packaging solutions globally.

I just want to spend a minute on sustainability on Slide 14. We continue to make excellent progress supporting the development of circular systems through the three pillars of our responsible packaging strategy: package design, waste management infrastructure, and consumer participation. We have made significant advancements on the innovation and design front by developing more sustainable packaging solutions and increasing our use of recycled materials. We will provide a more detailed update in our sustainability report, which is expected to be published in October.

We have continued to collaborate with other industry leaders in various ways across the value chain to help support the development of the infrastructure required for a circular economy. For example, in May, Amcor, Delterra, P&G, and Mars formed a strategic partnership to help reduce plastic waste in the global south by providing access to waste management and recycling systems and by enhancing consumer education.

We are also partnering with Licella and Mondelez to help promote a circular economy by bringing on stream one of Australia's first chemical recycling facilities. This is an exciting development in a market where Amcor's portfolio of recycle-ready flexible packaging solutions is already well above 90% and will provide local access to food-grade recycled materials.

In closing, on Slide 15, our teams are doing a good job navigating challenging industry dynamics by continuing to recover inflation and proactively taking actions to align costs with market conditions. We are confident in our long-term growth strategy. We have good visibility to factors well within our control that will see us returning to earnings growth aligned with our historic performance and our shareholder value creation model.

Operator, we are now ready to open the line for questions.

Operator

Thank you. Our first question comes from the line of Ghansham Panjabi from Baird. Please go ahead.

Ghansham Panjabi

Hi, guys. Good day. You mentioned that volumes for the first half of fiscal year 2024 will be down mid to high single-digits on a year-over-year basis. I think Michael mentioned that. But what are you assuming at this point for fiscal year 2024 in context of the 3% decline that you reported in fiscal year 2023?

Ron Delia

Yes. we are setting the business up to assume that the current market conditions essentially continue through the first half, so we are expecting the first half to look a bit like the fourth quarter with volumes down mid-to-high single-digits. That's continued softening of demand and continued destocking pretty broadly across the geographies and segments that we participate in. But the second half, we are expecting more normal rates of volumes, more like flat to up low single-digits. That really just assumes no more destocking and the fact that we will be cycling easier comps. We are not baking in any big improvement in demand.

All up, that would see volumes for the full year down sort of flat to down mid-single digits. The midpoint of our guidance range would see us down kind of low single digits for the full 12 months.

Ghansham Panjabi

Got it. That's helpful. in terms of the destocking, maybe you can just give us some insight as to the micro nuances between the major regions you have exposure to. The categories that first started to see destocking, are you starting to see any green shoots, if you will?

Ron Delia

Yes. the destocking has been relatively broad, and we have been living with it for a couple of quarters. The earliest categories where we started to see some signs of excess inventory in the system were those that were impacted the most acutely by the supply chain challenges over the last 12 to 18 months. We have seen destocking in the meat space. We have seen it in the premium coffee space in particular. More recently, in the fourth quarter, we started to see a little bit of destocking in the medical packaging space. Certainly, in North America, in the beverage part of our rigid packaging business, we have seen pretty pronounced destocking at a seasonal high point in the year.

Now, we don't have a crystal ball, but we do anticipate that the destocking will be largely behind us by the time we exit this calendar year. Certainly, it will have a less meaningful impact as we head into calendar 2024. If you think about it, our volumes for the quarter were down 7%. We would estimate that about two thirds of that volume decline is the market and our customer performance, and the remaining one third we would attribute to destocking. Certainly, as we move forward, and destocking starts to abate through the rest of this calendar year, certainly that will have less of a negative headwind on our growth rates going forward.

Operator

Our next question comes from the line of George Staphos from Bank of America. Please go ahead.

George Staphos

Hi. Good day, everybody. Hope you're doing well. Thanks for the details. I guess the first question—thanks for having me on—is just a quick one on net interest, and I know qualitatively what you said, higher global rates, foreign exchange, and the like. But the step-up, even from the fourth quarter rate which was $70 million, so $280 million run rate to, I think, you're saying $320 million to $340 million for fiscal 2024, is pretty steep. Is there anything specific we should be understanding in terms of what's behind that, Michael?

Michael Casamento

Yes. Overall, interest rates have continued to rise from this time last year all through the year, so we will be lapping higher rates as we exit. Using Q4 as a proxy is not the best quarter to use as a proxy for interest because that's our highest cash flow quarter. Obviously, our interest expense is lower in that quarter, typically, in comparison to the rest of the quarters as the cash flow comes through. That's really what we see. We are lapping some higher interest just by the way the rates increased as the year progressed, and there may be one or two further rate increases that we have factored into the range, so that's where we get to that $320 million to $340 million range.

George Staphos

Understood. That's helpful, Michael.

Ron, back to demand and the consumer. To the extent that Amcor produces high-value, high-quality packaging for—maybe one could argue, sure, they're staples, but more like affordable luxuries, if you will, premium coffee, protein, premium pet. I think we have talked about it in the past, but do you think there's maybe a little bit more of a negative effect for your customers and therefore for you given the environment we have been going through with inflation? And are you seeing any signs at all from your customers now asking you to somehow find cost reductions give back, so that they in turn can maybe be a little bit more competitive at retail and drive their volume? Thank you.

Ron Delia

Yes. I think that we still believe the portfolio is really defensive and the categories are, for the most part, consumer staples. Now, there are subsegments within segments where things might be a little bit more discretionary because of the premium attached to things like single-serve coffee systems or some of the premium pet food. But overall, across the portfolio, we still believe these categories are defensive. They have proven that out over a number of economic cycles. But I think that we have got a dislocation here that we haven't seen in 40 years around inflation.

We convince ourselves of the defensiveness of the portfolio at large by looking at the scanner data, and it's very broad-based. The weakness, in particular, in Europe and in North America, in the food business, where you see mid-single-digit declines. I think, generally speaking, others who have reported publicly have experienced the same sort of volume effects that we have. I think, yes, we do aspire to play at the high end of the market, and many of our products are at the premium end. But generally, we are in staple segments that will grow consistently through economic cycles.

Operator

Our next question comes from the line of Brook Campbell-Crawford from Barrenjoey. Please go ahead.

Brook Campbell-Crawford

Yes. Good evening. Thanks for taking my question. Just one on the buyback. Obviously, there's $70 million left on the existing program, but what's the thinking about potentially a new program at some point through FY 2024? Is that the priority once you get through the $70 million or are you leaving some cash flow there for M&A? Or is the priority to pay down some debt and reduce that leverage ratio? Thanks.

Michael Casamento

Yes. Thanks, Brook, for that question. If you look at what we have done over the last couple of years, we bought back half a billion dollars of shares. In addition to that, we have certainly started to get back on the M&A approach as well. We have done three deals this year in 2023, and also announced another deal just recently. We are planning to do the $70 million this year, so we'll close out that buyback.

If you think about our capital allocation approach, the priority is to invest back in the business through the CapEx for organic growth, which we have stepped up over the years, and we'll continue to do that this year. We grew the CapEx, and we'll have a similar amount as we head into 2024, taking into account the demand environment.

Next, we obviously pay the dividend, and then that grows over time. We have got $300 million or $400 million left over for, ideally, to put to work on M&A or buyback. Thinking about the last couple of years, we have certainly covered that capital allocation on the buyback side and now putting a little bit more into M&A.

We have got $70 million in the outlook for2024. As always, we'll continue to model the cash flow as we work through the year, and we'll get back to you if that changes.

Brook Campbell-Crawford

Thanks. Just a question on Nespresso. Your customer there seems pretty keen to move product into, I guess, fiber compostable pods. Could you just confirm if you have the capability and products to perhaps offer that format as well, given, I guess, you've already got a lot of capital put into those plants that are co-located, I believe. If that's the way that customer goes, can you participate and offer a different format? Thanks.

Ron Delia

We have a broad offering of fiber-based options for a number of different categories, and so I think we are going to be well covered as products move between substrates, whether it's aluminum or plastic or plastic to fiber or whichever direction the segment evolves. But I would say that is a niche at the moment. It's about expanding the pie. Not every consumer will be willing or capable or interested in composting. We know as well as our customer that the sustainability profile of the aluminum capsule is as attractive as any. It's product. It's a capsule that can be made with 100% recycled aluminum and can be recycled over and over again. There's been a lot of investment in the recycling loop for that particular format. We are not concerned about the long-term viability of that format.

Operator

Our next question comes from the line of Cameron McDonald from E&P. Please go ahead.

Cameron McDonald

Good morning, guys. Can I just ask a question around the destocking that you're talking about. My understanding is also that not only are we getting destocking in consumer weakness, but we are also seeing down trading from more premium products to more home brand type products. Is that having an impact on the packaging demand profile as well and the price or margin that you generate from that premium product in more of the home brand space?

Ron Delia

Yes. Thanks for the question. It's a different story in North America from Europe. The private label, in general, has picked up a few percentage points of share broadly across the European market. It's just slightly now ahead of where the share for private label was in 2019. In North America, we are still not quite back to the share that private label had in 2019 at large.

Ultimately, as products or as sales migrate to private label from branded or vice versa, we are pretty well exposed, and so we have got a reasonably broad participation in the store brand side of the business, such that those share shifts are not really going to have a material impact on our volumes. The packaging is essentially the same. That's part of the private label formula, and so from a margin profile perspective or a differentiation perspective, we are indifferent.

Cameron McDonald

Okay. Great. Just coming back to the previous question on sustainability of packaging, there seems to also be a move to potentially fiber-based in alternative packaging for beverages. What work are you doing around that, please?

Ron Delia

Yes. We have a pretty extensive platform that we call AmFiber, which is fiber-based packaging for a range of product categories. We see the opportunity particularly in the confectionery space to move from plastic-based products to fiber-based products, culinary, some formats like spices and food additives. Our work on the fiber side is pretty extensive. There's a little less activity in the beverage space, to be quite honest. But generally speaking, AmFiber is a big platform for us, and we are optimistic about the growth outlook.

Operator

Our next question comes from Adam Samuelson from Goldman Sachs. Please go ahead.

Adam Samuelson

Yes. Thank you. Good evening, everyone. I guess the first question is—if you think about the quarter and then moving into 2024, I wanted to ask a question on mix and I look at it in the Flexible segment, mix is still a 2% positive contributor in the quarter, less than had been earlier in the year, but still positive year-on-year, although I look at some of the parts of flexibles that I've historically thought had contributed to that mix in terms of healthcare, protein, pet, and premium coffee and those were down consistent with the overall segment volumetrically. Just help us dissect what’s happening in mix and where you see that trending through fiscal 2024?

Ron Delia

Yes. We had unfavorable mix in both segments in the fourth quarter and you pointed out the reasons why. Some of the categories that you would expect to be positive contributors to mix were softer in the fourth quarter, meat in particular, pet care even slowed a bit in the fourth quarter, as did medical. What you are referring to is price and mix together, and I think you have got to bear in mind that we are still experiencing reasonably high levels of inflation, and we still have been, and continue to be, actively pricing to recover inflation.

For the fiscal year, we priced up about $1.1 billion between raw materials and general inflation, about $300 million to $340 million of that was general inflation, and so you are seeing price and mix combined. So, you've got positive price offset by mix in that number that you are referring to.

Adam Samuelson

Okay. That's really helpful. If I could just ask a follow-up on your focus on proteins and the investments in equipment. I mean, you've got some pretty large incumbents when you think about that market, especially on the fresh meat side with equipment. What do you think the business needs to do to scale and grow more significantly there where you do have a competitor who has a pretty significant incumbent market position.

Ron Delia

Yes. That's clear, and most of our markets are pretty competitive, including that one. What we needed as a starting point was a full system offering, which we didn't have. So, the Moda acquisition allows us to offer the primary packaging equipment. It will allow us to offer technical services and parts. That all combines with what we believe is industry-leading film technology, including in that space.

The films in the protein space are amongst the most demanding of any that we produce. If you think about the functional requirements for meat packaging, there is obviously a barrier that's required to preserve shelf life. There also tends to be the need for puncture resistance. You've got to run these packages through the packaging lines at high speeds, so the processing requirement is quite high.

We believe we have got some advantaged film technology and the ability to now go to market with a full solution, including equipment and aftermarket service just completes the puzzle for us. So, we are really excited about the market. It's also one that we can leverage over our global footprint, and it really represents a pretty visible revenue synergy from the Bemis acquisition of several years ago now. We are excited about it.

Every segment is competitive, and we have to compete and earn the business. But we are pretty optimistic we will be able to do that.

Operator

Our next question comes from the line of Sam Seow from Citibank. Please go ahead.

Sam Seow

Morning. I wanted to follow up on some earlier comments that you've got improved volume growth it seems in the second half of 2024 growth expectations. Just to confirm, you're saying if volume growth does come back, you expect upside that mid-single to high single-digits in the second half?

Ron Delia

Yes. We are not banking on a much-improved demand picture. We think it's more prudent for us to set the business up to assume that volumes are going to be challenged through the year. For the first half of the year, we are expecting volumes to continue to be down mid single-digits, mid to high single-digits. Second half of the year, we would expect volumes to be flat to maybe up low single-digits. We believe that's possible without much of an improvement in the underlying demand profile because we are pretty confident that we'll be through the other end of the destocking cycle by the time we get to the calendar year of 2024.

There's no expectation of a dramatic improvement in the overall demand environment that's baked into our guidance.

Sam Seow

Thanks. That's helpful. Just a follow-up on potential volume growth. Looking through the year, it looks like Rigids were the first to decline followed by Flexibles. As we think about potential and is it logical to expect Rigids to come back quicker than Flexibles? Or is there something you'd call out there?

Ron Delia

We would expect the volume trajectory to be roughly comparable. Rigids has got another seasonally strong quarter to get through, and we are not expecting the business to be all the way back from a demand perspective in the fiscal first quarter. In fact, we expect continued softness and continued destocking in the North American beverage business in particular.

But generally speaking, if we take a 12-month view, our expectation is that the volume trajectory would be similar across the two segments. As you pointed out, this is the swing factor in our guidance range. So, to the extent that the volume picture improves, that would be a driver of us getting to the higher end of our range or beyond. We are just not setting the business up to expect that. We are taking the cost actions that you would expect us to take, and we are going to be really prudent before we anticipate demand coming back.

Operator

Our next question comes from Daniel Kang from CLSA. Please go ahead.

Daniel Kang

Hi. Good morning, everyone. First one, maybe to Mike, just in regard to your FY 2024 guidance. Can you talk us through your assumptions and maybe expectations on price/mix and any input cost tailwinds?

Michael Casamento

Yes, sure. If I take the raw material side first, in Q4, we saw raw materials pretty well across the board come down in that mid-single-digit range after a pretty benign Q3. In Q4, we just saw a modest tailwind as we are still cycling through the higher inventories and also reduced purchases. As we look forward on the raw materials side, what we see into the first quarter really is a pretty benign environment, basically flat raw material, maybe slightly down, but that would translate into a relatively modest tailwind in the first quarter. After that, we will see where things go on the raw material side.

On the price/mix, we will continue to price for inflation. As we have said in the remarks throughout, we expect to continue along the price and cost initiatives that we have already been taking. So, inflation, albeit we are still expecting inflation, perhaps maybe at slightly lower levels than we have been experiencing. But we will continue to see inflation as we work through 2024. We would expect to see some price to offset that as well as cost.

On the mix side, initially, we would expect some negative mix really as we saw in Q4, which we touched on the call already today. So, things like health care, pet food, coffee, etc., as we are just cycling some stronger comparatives on that front. We would expect mix to be perhaps a negative, particularly as we start the year.

Operator

Our next question comes from Richard Johnson from Jefferies. Please go ahead.

Richard Johnson

Thanks very much. Ron, one of the things we are hearing quite consistently now from a lot of your major customers is some very significant SKU rationalization programs that they are having. In particular, I believe I'm right in saying that Unilever had taken the SKUs down by 25%, which is a huge number. I was just interested in getting your opinion on what that means, if anything, for yourselves.

Ron Delia

It's maybe not as pervasive as it might seem from some of the public comments. But to the extent that SKUs can get rationalized, it's generally a good thing for us. There are two things going on. There is a bit of SKU rationalization. The other thing that's happening is the continued evolution towards more sustainable formats and more sustainable SKUs. I think SKUs have proliferated across all the categories that we service. If you think about the variety of the store shelf certainly here in the U.S., it's really been explosive growth over a long period of time in the number of SKUs that are available.

So, anything that simplifies the business and takes out unnecessary or non-value-adding complexity is generally a good thing. At the same time, helping that process along by introducing more sustainable formats is also advantageous to us, too. We are in lockstep with the customers that you probably have in mind, and on that journey or both of those journeys at the same time.

Richard Johnson

That's helpful. Thanks. Just finally, you referred to your volume pressures being more skewed to developed rather than emerging markets. which, of course, is pretty understandable. I was just interested if we could get a bit more detail on where you sit in emerging markets, because others and there are reports that there's been significant down trading in emerging markets as well away from multinationals to local brands in particular, and then obviously for many large packaging company’s or global packaging companies that might be unhelpful. I'm just trying to get a sense of why you may have outperformed on emerging markets relative to others?

Ron Delia

Yes, it's a good question. It feels more like the underperformance in the developed markets relative to the emerging markets is the thing that's not easy to understand. We saw volume declines in Europe and North America in high single digits in the fourth quarter. Again, entirely consistent with what others have reported and the scanner data, etc. But the emerging markets business has held up.

We had volumes in Asia, and the emerging part of Asia, basically flat in the quarter. Latin America was down mid-single-digits. Both of those regions had better volume performance than the two big developed markets.

I think we have a pretty compelling value proposition in emerging markets, generally as an innovation leader and a sustainability leader. Our participation and our customer mix generally looks like the market. So, if I take a business-like China, we actually have more of our sales to local customers than to multinationals. Basically, that reflects the market shares of those respective customer groups. I think we are well balanced for the differential growth rates that you are referring to.

Operator

Our next question comes from the line of John Purtell from Macquarie. Please go ahead.

John Purtell

Good evening, Ron and Michael. How are you?

Ron Delia

Hi, John.

Michael Casamento

Hi, John.

John Purtell

Just had a couple of questions. First one for Michael. Just in terms of interest expense, what percentage is fixed and floating now? Are you looking to fix more to essentially lock in your interest expense?

Michael Casamento

Traditionally, we have been in that 50-50 fixed floating mix, but more recently,so over 2023 and looking into 2024,we are more 70-30. We are taking a bit of the volatility out of the mix there on that front. That's where we sit today on that 70-30 range fixed floating.

John Purtell

I see that is pretty stable.

Michael Casamento

Yes.

John Purtell

Thank you. Just a second question, Ron, on acquisitions. Are you seeing more opportunities now that fit your criteria? Obviously, valuations are generally coming down. And will you naturally play at the smaller to medium end? Obviously, we saw Constantia recently sold to private equity.

Ron Delia

Yes, we have been more active. We have done four deals in the last 12 months. They are all of the small variety and single plant deals. The first comment I would make is, yes, there are more things that seem to be coming to market. We went through a period of pretty pronounced market dislocation through COVID and then the supply chain constraints, and now some softer volumes, but I think sellers are more likely to bring things to market now than they would have been, let’s say, two years ago. The pipeline is relatively robust, and we have been able to convert four small deals in the last 12 months.

The second part of your question about the size really just reflects the nature of the participants in our space. There's just, by number, a lot more smaller single plant businesses than there are large multi-billion-dollar businesses like the one that you mentioned. I think just generally, you are going to see us execute more smaller deals. It doesn't mean for a second that we would not love to deploy bigger amounts of capital, so we would be on the lookout for medium and larger-sized deals as well. I just think by the law of numbers will suggest that most of the deals will be the smaller variety.

Operator

Our next question comes from the line of Nathan Reilly from UBS. Please go ahead.

Nathan Reilly

Hi. Morning, guys. Evening, guys. Question about just the cost out program and how much flexibility you might have around that just in terms of whether that destocking trend continues a little bit longer than, I guess, what you've currently forecast. How much flexibility you might have just to go a little bit harder around the cost base?

Ron Delia

Yes. We are getting after it pretty good, would be the first thing I would say. We are going after it reasonably hard. You have to remember also that the business has been optimized through the last several years. Through the Bemis integration, we took a number of plants out of the network. A couple of years before that, we took a few out of the Rigids network as well. The business is reasonably well optimized.

But that being said, there's more opportunity. We have announced 3.5 plant closures already. There'll be more. If demand remains depressed, then there is the opportunity to do a little bit more, although I would also point out that the ultimate path to value creation for the Company is to grow, and we want to make sure that we have got the productive assets available when demand normalizes.

We don’t see any of the demand challenges that we are experiencing right at the moment—we don't see as secular. We believe this is a cycle, and we believe it's an inflation induced cycle, and that volumes will return. I mean, certainly, the destocking impact will abate. But we do preserve the flexibility here if we need to go after it harder on the cost side. We certainly will do that.

Nathan Reilly

Okay. Thank you. I guess just following through in terms of historically, you have managed cost inflation quite well, and I'm talking about the general cost inflation in terms of being able to pass that through to customers with higher pricing. But in a period that's characterized by a high level of destocking and lower demand, can you give us an update on how you are going just in terms of recovering the general cost inflation. Around that, maybe a comment around how that inflation has been trending recently?

Ron Delia

Yes, as far as the trend, I think we are starting to see inflation moderate. I'm not sure that we are seeing prices fall anywhere, but we are seeing the rate of increase certainly decline across most of the cost buckets. I'd say labor is still increasing in mid-single digits. We still have higher energy costs than we had a couple of years ago. Freight might be one area where we have seen some declines off the peaks. It's still a real fact of life, number one.

Number two, I think we have been successful in pricing to recover. We remain kind of fully recovered, if you will. Last year, the general inflation running through the business was over $300 million, and we offset that with price. We expect to continue to do that as we go into fiscal 2024. We also reset prices with new contracts. As you would expect, probably two thirds of the business is contracted, maybe three quarters of the business is contracted. The average duration is two to three years, maybe four years, so every year you are turning over a portion of the revenue base and having an opportunity to reset pricing to reflect the current dynamics in the current inflation conditions. It remains a fact of life, but I certainly feel like we are coming out the other end of the inflationary cycle.

Operator

Our next question comes from the line of James Wilson from Jarden Australia. Please go ahead.

James Wilson

Good evening, guys. I was just wondering if you could give us a little bit more color firstly on how your inventory and working capital management is progressing heading into 2024.

Michael Casamento

Yes, sure. I can take that one. We were obviously building inventory this time last year, and that was back when there was supply constraints in the marketplace. A lot of different activity happening, and we certainly built inventory during that period as well as putting through—over the last two years, put $3 billion roughly through the top line in terms of price to recover raw material and inflation. Both of those factors have impacted working capital.

But from November, we really worked down our inventory levels. From the peak in November, we have taken nearly $400 million out and $200 million of that was in Q4. We haven't seen the full benefit of that really come through from a cash flow standpoint yet because at the same time, particularly in the second half of the year, we have seen a much lower payables position. Although our inventory has come down point-to-point over the year around $200 million, our payables have also actually come down about $500 million.

If you look at our working capital performance during the year, we had a cash outflow of around $230 million. Really, that's the payables impact. As we have seen the lower demand signals, we have started to reduce our purchasing in addition to that, taking inventory out of the system, and so we did see a negative impact on working capital as a cash outflow in the year.

As we look forward, we have still got work to do on the inventory side, and we will continue to focus on that. I think the payables side will start to normalize as we work through some of this softer demand. As we work through 2024, certainly not anticipating a cash outflow at the level that we had in FY 2023, and we would hope to be able to get to a more neutral position by the year-end. From a working capital sales standpoint, we are about 9.5% working capital sales at the moment. Typically, we would be more in the 8% to 9% range. I think we have certainly got some opportunity there as well as you look forward over the next couple of years.

James Wilson

Guys, just in terms of how much of that is baked into your free cash flow guidance for next year, am I right in seeing that as a buffer on the downside? Or is that potentially already baked into what you have come out with today as guidance?

Michael Casamento
Yes, so the cash flow guidance for 2024 is $850 million to $950 million. It's a $100 million range, which is really the working capital range in there. At the midpoint, probably still going to see a little bit of cash outflow, but we have obviously got some opportunity to do better than that, and the working capital is the key factor there.

Operator

Our next question comes from the line of Scott Ryall from Rimor. Please go ahead.

Scott Ryall

Hi. Thanks very much. Hopefully mine are quite quick questions. I was wondering if you could comment on what you have seen in terms of the changes of your customers in terms of their price expectations around responsible, sustainable packaging platforms, and the willingness to pay a premium, on the Virgin products? How has that changed over the last 12 months?

Ron Delia

I don't know that it's changed much. I think customers understand that there's more value to be ascribed to a product that's got a better sustainability profile, and I think consumers understand that as well. It's another element of functionality that is now expected in consumer products. That is the environmental profile is at least neutral, if not positive, overall, and there's value associated with that. Most of these products do have a premium.

There's also the scale curve that we need to work through. We are introducing new products, and like any new product with less volume and less scale benefits that typically tends to start out at a higher price point. It will evolve over time. But I think as brand owners look to meet their own commitments and you take the full range of different costs, including regulatory costs, into consideration, the more sustainable products offer higher value and therefore they tend to carry a bit higher price, particularly at the outset.

Scott Ryall

Okay. Great. Thank you. Secondly, I just wanted to ask a bit more about the Licella plant in Australia. Just for a bit more detail. Am I right, firstly, that you have invested directly in Licella, then can you just give us a few stage gates or timings around when that plant will come into operation? I guess, thirdly, just to discuss in the U.S. market where we have got a lot of advanced recycling facilities being built or already built. They tend to be linked with one of the major petrochemical companies. How do you think about the risk around using effectively the solution with a startup phase?

Ron Delia
Yes, there's a lot there, and it's a pretty exciting project, so I'm glad you asked. The investment we have made, firstly, I would just make sure it's clear, it's a modest investment, several million dollars that's in the single digits of millions of dollars we are co-investing with Mondelez and we are investing in Licella as the technology provider for this particular plant that's going to be built in the western suburbs of Melbourne, Altona.

We are pretty excited because it will bring recycled content, chemically recycled material to the Australian market with local production, which is great because the collection of soft plastics, as they are referred to in Australia through the recycle program needs an outlet. This plant will be a perfect outlet for the recycled plastics that are collected.

Then the brand owners in Australia are differentiating and are really advocates for more sustainable packaging, including packaging made with recycled content. So, there's a captive supply of the primary input, which is waste plastic, and there's a captive market, which is the brand owner and the Australian consumer looking for more sustainable packaging. We are really excited about this.

In terms of stage gates, it's a pretty extensive build, as you'd imagine. The site has been selected. There's a chance that the plant could be operational by the end of calendar 2024, but it's really an 18- to 24-month project.

Operator

Our final question comes from the line of George Staphos from Bank of America. Please go ahead.

George Staphos

Hi. Thanks for taking the follow-on, guys. Ron, I was asking earlier, are you seeing any signs from your customers at all as they are trying to find ways to stimulate growth. Maybe they are considering more promotional activity at the request of their customers and they are now coming back to their packaging suppliers and looking for your and other companies support perhaps with givebacks, cost reductions, productivity, what's happening there, if anything, on that front? Thanks, and good luck on the quarter.

Ron Delia

Yes. Thanks, George. Others have talked about potentially increased promotional activity. We really haven't seen much of that of any great consequence. You see it a little bit more in the beverage space in the summer season. There are pockets of promotions here and there, but nothing that's pervasive enough that we would point to that's got a material impact on our volume outlook.

It would be great if it happens. That would be upside. We are certainly not banking on increased promotional activity leading to higher volumes for Amcor. If it happens, as I said, it would be great.

The pricing dynamic is, as we have discussed on this call—there's continued inflation recovery that's necessary. While it's moderating, it's still a fact of life that we have got to recover continued inflation through our cost base, and that's what we are busy doing.

George Staphos

Very good. Thanks very much.

Ron Delia

Thank you.

Operator

I would now like to turn the call over to Ron Delia for closing remarks. Please go ahead.

Ron Delia

Thanks, Operator, and thanks for everyone's interest in Amcor and for joining our call today. We appreciate it, and we'll speak to you at the end of the first quarter. We'll end the call there. Thank you.