Amcor plc

First Half Results 2021

5.30pm EST February 2, 2021 / 9.30am AEDT February 3, 2021

CORPORATE PARTICIPANTS

Ron Delia, *Chief Executive Officer*

Michael Casamento, *Chief Financial Officer*

Tracey Whitehead, *Global Head of Investor Relations*

CONFERENCE CALL PARTICIPANTS

Keith Chau, *MST Marquee*

Mark Wilde, *Bank of Montreal*

Ghansham Panjabi, *Robert W. Baird*

John Purtell, *Macquarie*

Brook Campbell-Crawford, *JPMorgan*

Kyle White, *Deutsche Bank*

George Staphos, *Bank of America Merrill Lynch*

Larry Gandler, *Credit Suisse AG*

Richard Johnson, *Jefferies LLC*

Nathan Reilly, *UBS Investment Bank*

PRESENTATION

Operator Instructions

Tracey Whitehead

Thank you, operator, and welcome everyone to Amcor's First Half Earnings Call for Fiscal 2021. Joining the call today is Ron Delia, our Chief Executive Officer, and Michael Casamento, our Chief Financial Officer.

At this time, I'm directing your attention to our website, amcor.com, under the Investors section where you'll find our press release and presentation which will be discussed on the call today. We'll also discuss non-GAAP financial measures and related reconciliations that can be found in the press release and the presentation.

Also, a reminder that statements regarding future performance of the Company made during this call are forward-looking and are subject to certain risks and uncertainties. Actual results may differ from historical, expected or predicted results due to a number of factors. Please refer to our SEC filings including our statement on 10-K and 10-Q forms to review these factors.

With that, I'll hand over to Ron.

Ron Delia

Thanks Tracey and thanks everyone for being with us today to discuss Amcor's first half results for the 2021 fiscal year. Appreciate you taking the time and making the effort to join the call.

As Tracey mentioned, joining me on the line today is Michael Casamento, Amcor's CFO. We'll start with some brief prepared comments before we take your questions. But the first place we'll start, on Slide 3, is with safety, and everything we do at Amcor starts with safety.

This year, of course, we're also focused on keeping all of our coworkers healthy as well. Over the last 12 months, our COVID protocols have enabled us to do just that, while also keeping our plants running to supply our food and healthcare customers around the world. Despite the added challenges of operating during the pandemic, our safety performance has continued to be a real highlight. Across the Company we reduced the number of injuries by almost 30% during the first half, and all of our business groups had fewer injuries compared to the first half last year. We're also pleased to report that over half of our sites around the world were injury-free for at least 12 months. We still have not reached our goal of no injuries, but we need to acknowledge the commitment and focus of all of our coworkers in keeping each other healthy and also safe especially in the current environment.

Our key messages for today are set out on Slide 4. First, Amcor had a strong first half of fiscal '21, ahead of our expectations, balanced across all businesses and regions, and that strong first half translates into higher expectations for the full year on the back of strong momentum in the base business. So the second key message today is that we've raised our outlook for EPS growth for full year fiscal '21 to ‘10% to 14%’ on a constant currency basis. Third, we're also increasing cash returns to shareholders through a higher dividend, and $200 million of additional share repurchases. And the fourth point is that we continue to believe that Amcor has never been better positioned on an investment case perspective. I'll spend a few minutes explaining why we believe that before I turn it over to Michael, who will describe the recent results in more detail.

Slide 5 is a simple snapshot of Amcor today, understanding who we are and what we do has to be the basis for understanding that investment case. The Company's been around a long time, over 160 years, and is now the global leader in consumer packaging. Amcor is a truly global company with scale positions in every major region, including over $3 billion of annual sales in faster growing emerging markets where we also have leadership and scale positions.

Essentially, all of our sales are into the fast-moving consumer goods or healthcare segments. The healthcare business now generates around $2 billion of sales each year to the medical device and pharmaceutical markets, which are among the most attractive places to play in the packaging industry.

Finally, regardless of whether they're operating in developed or emerging markets or in consumer or healthcare segments, all of our businesses go-to-market with differentiated innovation capabilities, which are increasingly valued by our customers as they look for packaging to meet shifting consumer needs around the world.

Slide 6 is another quick snapshot to highlight Amcor's performance and track record over the last 10 years. We've maintained as a starting point a consistent investment grade capital structure despite several transformational transactions, we've driven consistent sales and earnings growth and always had high cash conversion. That cash flow has funded capital investment in the business and close to 30 acquisitions over this time period, along with share repurchases and a growing dividend with an attractive yield. Added together, shareholders have been rewarded as well as the Company, delivering consistent operating performance.

Going forward, we expect our operating performance and cash flow to remain at least as strong, our approach to allocating that cash is set out on Slide 7. This is not new. There's no changes here to this framework. But it's worth just reviewing.

We consistently generate significant free cash flow every year. This year our free cash flow will be nearly $1.1 billion and that number will grow over time. That cash flow will comfortably support reinvestment in the business as well as M&A or share repurchases. In addition, we'll continue to pay an attractive and growing dividend, which has historically yielded between 4% and 5%.

Taken together, the EPS growth and dividend yield should result in 10% to 15% of shareholder value each year. So, while we've been delivering returns to shareholders at this level for a long time now, momentum is building in the business and we believe this is a special time for the Company and our investors.

Slide 8 is the slide we shared last year at our investor briefing and it remains relevant today. We believe that the Amcor investment case is as strong now as its ever been, and we set out the reasons why on this slide. Several of the points I've made already - global leadership positions, consistent growth from attractive markets, strong balance sheet and cash flow to fund growth, and dividends, and a consistent track record. They're all important features of our investment case. But we also believe that momentum matters in business. In that respect, the last point on the slide might just be the most important.

Momentum's been building across Amcor over the last couple of years and we expect it to continue. That should be clear from our recent performance, including the first half results and the increased full year guidance that we're announcing today.

At the core of our investment case is the consistent organic growth Amcor generates in several ways, as set out on Slide 9. The starting point for the organic growth is the mix of growing end markets we play in. And that's especially true in emerging markets. We've had a long history of profitable participation and profitable growth in emerging markets in high impact locations, like China and India, that continue to grow sales and profit at impressive rates, including in the most recent half.

Managing our sales mix across higher value, more packaging intensive consumer end markets, like protein and premium coffee, and more differentiated product types, like hot fill containers or barrier films, drives consistent margin expansion and volume growth over time. We have a global healthcare business approaching $2 billion in sales from every region of the world and across the pharmaceutical and medical device segments.

Innovation is also an important growth driver for Amcor, and probably the area where we are the most differentiated from our competition.

Our customers are launching new products in Amcor packaging regularly, and we've highlighted a few examples here of new and actually more sustainable products commercialized in recent months, including an extension of our HeatFlex family of products with the world's first microwavable recycle ready pouch for food, and premium coffee packaging using a biobased polymer. Finally, a common thread that cuts across all of what we do is sustainability, which we believe is Amcor's greatest opportunity for growth and differentiation.

A few more comments on Slide 10 to describe our comprehensive sustainability agenda, which includes our products but also our factories. Of course, we're deeply committed to the idea of responsible packaging, and we're working with our partners upstream and downstream to address concerns about packaging waste and the environment. We've stepped up to take a leadership role in the development of responsible packaging, which we believe requires three things.

The first is package design, which accounts for the full product lifecycle in addition to the end of life or waste profile. Amcor's uniquely positioned here, with leading R&D and innovation capabilities to handle the package design requirements. We pointed out some examples already in this presentation.

The other two requirements for responsible packaging require collaboration with others across our value chain, and Amcor's been active in that way as well to help drive improvements in waste management and consumer participation.

A couple of examples over the last six months help highlight that work. In one case, Amcor joined with 35 leading brands and retailers in the ‘consumer goods forum’ in a CEO-led initiative to develop packaged design rules to deliver packaging that's easier and more cost-effective to recycle.

In another example, we've extended our work with the Carbon Trust to launch a label that can be printed on packaging to indicate reduced CO2 intensity and provide greater transparency to the carbon footprint reductions enabled by our package.

The value created through our work in these initiatives and the progress we've made across a range of others this year including our EnviroAction program in all of our plants to drive greenhouse gas reduction, waste and water reduction, continues to be recognized by leading independent organizations, most recently MSCI and Dow Jones.

Turning now to a summary of our first half results on Slide 11. We had strong earnings growth with EPS up 16% in constant currency terms, including 7% organic growth and strength in both Rigid packaging and Flexible segments. Demand for our products remains balanced across regions and businesses, resulting in volume and sales growth in every region, and 3% for Amcor overall. The execution discipline and operating performance of the businesses drove cost performance, which also contributed to the organic profit growth.

Roughly 6% of the EPS growth came from synergies from the Bemis acquisition, which was ahead of expectations, and cost synergies totalled an incremental $35 million pre-tax during the half. Lastly, benefits from share repurchases accounted for the remaining EPS growth. Free cash flow was in line with expectations, and our balance sheet remains strong. The Company returned $450 million of cash to shareholders through dividends and share repurchases during the first six months.

Strength in the underlying business also enables us to increase cash returns to shareholders for the balance of the year. The Board declared a quarterly dividend of $0.1175 per share, which is higher than the prior year, and we announced today an additional $200 million of share repurchases, bringing the total announced this year to $350 million, which we expect to complete during the remainder of FY21.

The key theme enabling the strong performance in the half across the Company has been the ability of every one of our businesses to execute and outperform against the things that are within our control, despite an incredibly challenging and volatile external environment. Safety, working capital, cost synergies, cost performance, innovation. In all of those areas, the execution's been outstanding, and we could not be more pleased with the performance of our teams through the first six months of the year.

The key message here is that Amcor had a strong first half with results ahead of expectations, and we have an improved outlook for the full year, and increased dividends and share repurchases to go along with it.

With that, I'll hand over to Michael to provide some additional color on the financial performance for the half year and the outlook for the rest of 2021.

Michael Casamento

Thanks, Ron, and hi everyone. I'll start with some comments on the Flexible segment on Slide 12.

Overall segment volumes were 2% higher than the prior year. As Ron mentioned, demand has been broad-based with growth across all regions in the low to mid single-digit range. From an end market perspective, we've seen solid growth in food, pet food and beverage categories, and this was partly offset by lower volumes in certain healthcare end markets driven by reduced elective surgery rates and lower prescription trends. High volumes were partially offset by unfavorable price mix, resulting in net sales being 1% higher than the first half of last year, excluding the unfavorable impacts of currency in the past due to lower raw material cost.

Adjusted EBIT for the period grew 9% in constant currency terms. Margins expanded by 110 basis points driven by the high volumes, strong operating cost performance and $30 million of cost synergy benefits, which I'll come back to in a moment.

We're particularly pleased to see the performance of the Flexibles business continually improve as we extract benefits from the Bemis acquisition to deliver innovative new products to support customer growth and operate our plants efficiently.

Turning to Slide 13 and synergies. In terms of cost synergies related to the Bemis acquisition, the ability to continue delivering benefits from overhead reduction, procurement and adjustments to our operating footprint has been exceptional, despite the need to address some additional challenges presented in a COVID environment.

As Ron mentioned, we are tracking ahead of expectations with $35 million of benefits included in our first half results. Given the strong progress we have made across a range of synergy projects in the last six months, we now expect to deliver approximately $70 million in fiscal '21, which is at the top end of our previous guidance range. This means at the end of this fiscal year we'll have reached $150 million of cumulative benefits. We also have good visibility to remaining initiatives which leaves us very confident with regards to our original expectation of $180 million in cumulative benefits by the end of fiscal '22.

Turning to Rigid packaging on Slide 14. In summary, the business delivered another outstanding result, with organic growth driving year-to-date earnings 10% higher than the same period last year. Sales growth included a 6% increase in volume, as well as a 4% price mix benefit, including higher price to recover cost inflation in Latin America.

Volume performance continues to be strong in North America, and mix was positive. Beverage volumes were up 9% compared with last year and hot fill container volumes were up 19%. There has been strong consumer demand across all beverage segments, particularly in hot fill categories, including juice and sports drinks, where Amcor also benefits from favorable customer mix. This strong demand reflects higher at-home consumption of packaged beverage products and this has been supported by the work brand owners have done to increase the availability of multi-packs across the wider range of product categories, and through the launch of innovative brand extension and new health and wellness orientated products in PET containers.

Specialty container volumes were also higher as a result of continued growth in spirits, personal care and home cleaning categories. As a partial offset, volumes were marginally lower in Latin America. This represents a sequential improvement and trends generally improved through the current half. While we saw higher volumes in Brazil, Central America and Argentina, month to month variability continues and performance remains mixed by country in the region.

Strong overall EBIT growth of 10% reflects good leverage from the 6% volume growth and favorable mix across the business, partly offset by higher labor and transportation cost in North America, which were incurred in order to service the higher demand.

Overall, we're happy with the performance of this business during the half year, and believe we are well positioned to support customer needs and deliver continued growth.

Moving to cash flow and shareholder returns on Slide 15. Adjusted free cash flow of $276 million was higher than the prior year, excluding approximately $50 million of U.S. cash tax payments that were deferred under the CARES Act from Q4 2020. As a reminder, our cash flow is seasonally weaker in the first half of the fiscal year, and this outcome was in line with our expectations, which leaves us on track to deliver more than one billion dollars in this financial year.

We remain focused on improved working capital management and execution has been strong across all businesses, with our rolling 12 month average working capital to sales ratio continuing to improve, closing at 8.2% for sales at the end of December. This represents more than a $300 million reduction in average working capital over the last 18 months since the Bemis acquisition.

Our financial profile remains strong and leverage is 2.9 times on a trailing 12 month EBITDA basis, which is in line with where we would expect to be at this time in the fiscal year.

As Ron mentioned, with strong annual cash flow and an investment grade credit rating, the business has significant capacity and flexibility to invest in the many growth opportunities available to us, as well as increased returns to date through a growing dividend and further share repurchases.

In terms of the outlook for fiscal 2021 full year, on Slide 16, the strong start to the year through solid volume-driven organic growth and synergy outperformance, as well as the momentum we've seen in the business, are the two factors which have given us the confidence to raise our 2021 full year guidance for the second consecutive quarter.

We expect the business will continue to execute, deliver further synergy benefits and grow organically as a global supplier for essential consumer and healthcare products. However, we are also maintaining a reasonably wide range of outcomes for the remaining six months of our fiscal year, which is appropriate given the ongoing uncertainty and complexity related to the COVID pandemic.

We now expect constant currency EPS growth range of 10% to 14%. While we continue to expect adjusted free cash flow of between $1 billion to $1.1 billion, we see more opportunities to deliver cash flow toward the top half of that range.

To recap, the business is performing very well. Growth from organic sources and synergies is strong. Our financial profile remains solid, and we are positioned to deliver another year of EPS growth in 2021, which will be ahead of our original expectations.

With that, I'll hand it back to Ron.

Ron Delia

Thanks Michael.

In closing today Amcor had a strong first half to the 2021 fiscal year with results ahead of our expectations and growth balanced across the businesses and regions. The strong start and momentum in the business has translated into higher expectations for the full year and we've raised our outlook for fiscal '21. We've also increased cash returns to shareholders through a higher dividend and an additional $200 million of share repurchases. We continue to believe that the Amcor investment case has never been stronger, with consistent organic growth and momentum building, substantial capacity to invest to grow and also to maintain an attractive dividend.

With that, Operator, we'll open the line up for Q&A.

Operator Instructions

Your first question comes from Keith Chau from MST Marquee. Your line is now open.

Keith Chau

Good morning all. Good evening gentlemen. Thanks for taking my question. Good morning Michael. The first one is just on that hot fill product category. The numbers just seem too good to believe in the second quarter. Volume's up 19% in first half '21, up 12% in the first quarter. So, the implied numbers going into the second quarter with north of 20% or close to the mid 20s. I'm just wondering if you could give us a sense of has there been anything in particular that's driven that, whether there's been a pull forward of volumes? How sustainable do you think that is going into the balance of the year, please?

Ron Delia

Yes. No, that's a good question. It's a real highlight. Look, I think as we look across the business, that is a standout in terms of volume. I think there's a couple of things going on there. Firstly, retail sales are very strong, and our volumes track pretty closely to what we're seeing in retail for some of the main categories that we supply hot fill containers for. So, hot fill juices, iced teas, isotonics, those categories have been very strong throughout the whole first half, and especially in the second quarter. I think it's a combination of things, Keith. There's some additional sales going through multipacks in big box retailers, which are certainly helping. There's an introduction of some new products. Our customer mix has been quite favorable. And I think all of those things are contributing.

Clearly, these are higher growth rates than we would normally see. This is a segment that should grow kind of low to mid single-digits. So, this is a particularly strong period.

Keith Chau

Ron, do you think that particular strength can carry through into the third and fourth quarters, or at least the third quarter? I know things are pretty hard to get a handle on under the consumer backdrop at the moment, but is there something that you're seeing persisting into the third quarter already?

Ron Delia

Look, I think some of the things that I mentioned will persist for a while but not at this level, Keith. I think as we look around demand patterns, there's a couple of anomalies that stand out for us. On the negative side, we've had soft healthcare volumes across the business. On the positive side, we've had strong beverage volumes. Both of those have to be influenced to some extent by at-home consumption and other COVID-related factors.

So, it's very difficult to predict that aspect of it, but I think some of the underlying trends around new product launches, multipack sales, some of our particular customers gaining share, those things we would expect to continue. But all of that is incorporated into our overall guidance for the full fiscal year.

Keith Chau

Okay, thank you. My second question's just on Bemis synergies. They continue to track ahead of expectations or at least up to the top end. I think momentum in both FY20 and the first half of FY21 still remains pretty strong. So, it seems like almost a foregone conclusion that the total target could be upgraded at some point in time. I know that hasn't been done at this juncture. But can you give us I guess a sense, Ron or Michael, on where, synergies are over achieving relative to expectations?

Ron Delia

Yes. Look, the first part of your question I might just address first. I think we feel increasingly confident about the $180 million that we committed to. So I think we would expect to exit the end of this fiscal year, we would be exiting at a run rate that would be at that level. Now it's also getting increasingly difficult to pull apart what's a synergy versus what's a base business driver. I mean, as you can imagine, the businesses are completely integrated now.

As far as what's driving the performance, generally speaking, I think we've probably exceeded our expectations across the three big cost synergy buckets. So overhead, which came out faster and probably yielded a bit more benefit than we would have thought, the procurement savings have been higher than we would have expected, and footprint, which is building momentum, is also positively contributing. I guess if we're thinking about this year in particular, we've gotten some more footprint benefits than we thought we might be able to given the COVID backdrop, which makes those projects difficult to execute.

Keith Chau

Great. Thanks very much. I'll leave it there.

Operator

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

Mark Wilde

Congratulations Ron, Mike and Tracey. Very nice start to the year. Mike, I wondered if—sorry, Ron, I wondered if there's any way you could help us think about—how much of this strength you think is tied to more food at home, kind of a COVID-related issue because we are seeing most consumer packaging companies report very good volumes over the last couple of quarters. So, when you just think about your portfolio, how do you think about what's being driven by COVID versus just the underlying business?

Ron Delia

Yes. Look, that's the question, Mark. Like everyone else, we're spending a lot of time trying to unpack that. The conclusion we've come to is that we've really had no net impact one way or the other. And the way we get there, if you just take the big chunks of drivers, we've had a lot of extra cost in the business, and increasingly so as we've continued to operate, and we've had lots of folks out on quarantine, we've had lots of overtime, to backfill those people we had lots of extra shipping going around in the Rigids business. So there's a lot of costs to be borne in this environment, first of all.

Then the offset to that is obviously some stronger volumes in certain segments, like the beverage segment that we talked about a minute or two ago. The offset commercially is healthcare, which is a really high margin, attractive profitable segment for us, has been really soft. Medical device consumption generally has been very low with less elective procedures, surgeries and otherwise. Prescriptions have been way down. So the sales in that healthcare business have been way off.

So, higher costs in many parts of the business, some strong sales in some segments, like beverage offsetting some weak sales in medical and pharmaceutical, the net-net of all those puts and takes as we look at the business is really not much. And 3% sales growth is not too far off where we've been historically. We've been at about 2% over the last five or six years. The profit growth is flowing from that, plus the cost performance and synergies in the business.

So, I mean, we do a lot of work on this and there's a lot of interest in it, but our conclusion is there's really no net impact.

Mark Wilde

Okay. And then for my follow-up, I wondered, Ron, if you could just give us a quick lay of the land for plastic packaging in your key markets from a political and regulatory environment. It seems like in the short term you've benefited because people have moved to more single use products. We aren't seeing people here in the States go to the grocery store with returnable bags anymore but at the same time it seems like from a medium term perspective we are seeing more discussion in Europe and even here in the U.S. to some degree of producers having to fund end of life solutions to packaging and that winds up getting embedded in the cost. So, maybe if you could just give us a sense of what you're seeing from a political and regulatory standpoint in just your main markets.

Ron Delia

Well, yes, let's start with that part of your question. You asked about the political environment. I would maybe broaden that to just say the general environment, political, consumer, customer and otherwise, I mean, the short answer I would give you is—you asked how we see that environment evolving and the short answer I would say is, it's improving and it's improving for a couple of reasons. One that you've highlighted already, which is that I think the value of packaging and the role it plays in food and healthcare has become even more evident over the last 12 months. I don't know if we need to spend a lot of time explaining that. But I think the idea of packaged food is clear. I think the distribution of medicines and now we see vaccines, and how important packaging is, and the delivery of devices are in that process. So I think the value of packaging has increased in the eyes of pretty much any observer, full stop.

As it relates to plastic, I think the other thing that's happening which is quite helpful, is an increasing focus on greenhouse gases and climate. I think as people and stakeholders get more and more educated holistically on the environmental impacts of different types of packaging, I think increasingly plastic scores pretty well. And that's why we continue to see our customers very focused on finding better alternatives for the end of life of their packaging but increasingly focused on doing what they're doing today with lighter weight and better functionality.

I think the point you made about funding waste collection, producer responsibility, things like that, that has a role, because clearly we need the waste management infrastructure in place around the world to address the waste problem that we have and that needs to be funded. There are good successful models where funding that's generated through EPRs goes directly to waste infrastructure and can certainly help alleviate the problem. There's nothing wrong with that. We're in favor of well designed EPRs and as long as they're focused and targeted at the right level of infrastructure.

So, generally speaking, the environment has improved. We expect it to continue to improve as people get more educated on the total topic.

Mark Wilde

Okay. That's really helpful, Ron. Thanks very much. I'll turn it over.

Operator

Your next question comes from Ghansham Panjabi from Baird. Your line is now open.

Ghansham Panjabi

Yes. Thank you. Good day everybody. I guess, going back to Rigids, Ron, I mean, 10% sales growth, 6% of which was volume, 4% price mix. Why didn't that translate into a higher realization in terms of EBIT growth? I know it's very respectable at 10%, but just curious if something in terms of incremental cost held that number back.

Michael Casamento

Hi. Michael here. I can probably take that one. Look, we're really pleased with the overall performance of Rigids for the half. As you said, the volume growth was 6%. We had some price mix benefit, a large part of that was recovery of inflation in Latin America. So when you see that then, the leverage through the P&L, we grew 10% for the half. So we're pretty pleased with that. We had positive mix as well in the hot fill container business. The offset really, which Ron has touched on before, is we did have some higher operating cost during the period just to deal with that really strong demand, both in labor and then shuttling and freight cost around the network just to be able to meet the demand for our customers.

So, putting that all together, we were pleased with where the growth ended up for the half in the Rigids business.

Ghansham Panjabi

Got it. Thanks for clarifying. And then if we switch to Flexibles, it looks like volumes were relatively even for your first two quarters and I think you mentioned Europe picked up as the second quarter unfolded. Was the increase in Europe due to the expanded lockdowns as the quarter unfolded and was it the same case in North America as well? And just more broadly, how do you expect volumes to play out for the segment during the back half of your fiscal year? Thanks.

Ron Delia

Yes. Look, volumes were very comparable from Q1 to Q2. There was a bit of momentum picking up into Q2, particularly in Europe, where we had more of a sluggish Q1, I would say, rather than an extraordinary Q2. We're in the low single-digits across both quarters and we would expect that to continue into the second half. Again, I think when you net it all out, the healthcare softness more than offset any extra volumes in some of the food segments. And so the low single-digit performance that we had in the first half is more or less what we would expect to see in both of those big businesses.

Ghansham Panjabi

Got it. Thank you.

Operator

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

John Purtell

Good evening guys. How are you?

Ron Delia

Hey John.

John Purtell

Just a couple of questions there. Just in terms of raw materials, obviously you've seen some decent uplift in all related costs coming through, at least on a spot basis. What was the impact from raw materials in the second quarter and how are you expecting that to play out through Q3 and Q4?

Ron Delia

Yes. John, that's a good question. It was definitely a modest headwind in the Flexible segment. We had no impact really in Rigids because the pass through mechanisms are quite frequent but in Flexibles our raw material pass through go into affect every three to six months. So we did have a bit of a lag in the first half, really in the second quarter. Relatively modest. We would expect some continued headwinds into this quarter, but again that's factored into our guidance. And as you know from looking at us several times that the pass through and recovery mechanisms are well refined and any impacts we have positive or negative are just timing.

John Purtell

Thank you. And just a second question, coming back to Rigids and the higher transport and labor costs you're seeing, presumably those will normalize as demand comes back to some level of trend. If demand does stay high and if all costs stay high, are you able to recover those because it does appear there was limited pass through in this period?

Michael Casamento

Yes. Look, John, I think it would depend on what the costs were and what the region was. I mean, typically, with demand at the level that we had this period there is some shuttling and moving around the network that we have to do to meet the customer demand, and from a labor standpoint, as Ron touched on, part of that was due to higher absentee levels, particularly in Q2, due to COVID. So, you'd expect perhaps some of that normalizes over time and would have less of an impact. But regardless, when you have strong demand like that you are going to see some cost increase.

John Purtell

Okay, thank you.

Operator

Your next question comes from the line of Brook Campbell-Crawford from JPMorgan. Your line is now open.

Brook Campbell-Crawford

Yes. Thanks for taking my question. Ron, just one on sustainability. You continue to talk about sustainability, as the greatest growth opportunity for the business. I'm just trying to understand, do you think sustainability will allow you to take share and improve mix and basically grow stronger than if it wasn't a focus area or do you think it’s a necessary thing we could do just to hold share and keep yourselves where it is, I guess over the next five years when you're looking to reach those targets? Thanks.

Ron Delia

Brook, we would think for the foreseeable future, it's a share opportunity and a margin opportunity. That's because of the differentiation that we're going to bring to the more complicated aspects of the whole equation. So when we look at some of the products we've launched in the last three, four or five months that are more sustainable. If we look at the retortable pouch for pet food, and then the human food version that we launched with Mars for microwavable rice, I mean, that's just a different and better mouse trap, we've got the only product on the market that's got that sustainability profile. So clearly there's an opportunity there to take share. There's also obviously a higher level of value that's delivered to the customer in those two instances.

We've got a PVDC-free shrink film called Eco-Tite, which is another example for protein. I mean, again, all of these—the more differentiated they are, the more opportunity for share, and ultimately margin for the foreseeable future. There'll be a point down the road, well down the road where some of those types of products will be expected. But certainly, in the short and medium-term, and for as long as we can see, we're going to have a big advantage that should turn into some commercial benefits.

Brook Campbell-Crawford

Yes. And I guess just wondering if you think at some point you should be able to frame up that opportunity and provide some sort of targets or pull apart in your financials where the benefits are coming through, or does it all just kind of get washed up and then we can just talk about it qualitatively?

Ron Delia

Well, I think you're going to see it continue to flow through the sales line, and I think you're going to continue to see margin expansion, and that will be a more meaningful part. Sustainability dimension of our products will be a more meaningful part of the topline as well as the margin line. At the same time, we'll be managing the mix and we'll be exiting certain products as well. And so I think it will come out in the wash, but it clearly sets us apart from our competition and that's got to be nothing but positive from a commercial perspective.

Brook Campbell-Crawford

Last one for me, maybe just for Michael, just having a look at corporate costs looks like in the half steps up from the sort of $35 million in prior period to $48 million, and despite some synergy there in the current quarter. So an underlying increase there in corporate. And just wondering if you could explain, and what's driven that increase.

Michael Casamento

Yes. Look, it's largely phasing, Brook. It was particularly in Q1 where we had some higher cost from a phasing standpoint around insurance claims and just timing of management incentives and the like. As we look forward, we'd expect that to more normalize. The full-year level, we're not providing guidance. We'd expect corporate cost to be—they're about perhaps slightly higher than last year on the back of inflation and other things. But generally speaking, we expect a more normalized view of the timing year-end.

Brook Campbell-Crawford

Okay. Thank you.

Operator

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

Kyle White

Hey, hope everyone is doing well. Thanks for taking the questions. Just to focus on the EPS guidance raised. Two consecutive quarters where you've raised the guidance here. Yet, your free cash flow has remained unchanged both times. Just curious what the offset is. Is it working capital with the increases we have in resin or is it something else there?

Michael Casamento

Yes, I can take that one. To your question, I think, look, we've given a relatively wide range on the cash flow of $1 billion to $1.1 billion. With these guidance upgrades, what we're seeing is that we would expect now probably more to be at the upper end of that $1 billion to $1.1 billion range. So we haven't raised the guidance at this stage, we'd say we're going to be at the upper end of that range. If that changes, we'll come back to you.

Kyle White

Sounds good. And I want to focus on the recycled resin. I think you're pushing towards 10% of your resin purchase or consumable being a post-consumer recycled resin by 2025. Are there any limitations on how high this could be as a proportion of your overall resin by in terms of maintaining the integrity and characteristics of certain packages, it's probably the most applicable to your Rigids here. And then I hear from recyclers that there really isn't the end market demand for PCR necessarily, but on the other hand, it seems consumers want more sustainable products. So I'm just kind of curious what's the disconnect here?

Ron Delia

That would be a good question. I think there's incredible demand for PCR. In fact, you asked about limitations and you went to the technical thresholds. And the answer to that one is really, there are no technical thresholds, Kyle. We're making containers pretty much for every segment now and a 100% PCR in the Rigids business. The consumption of recycled resin in the Rigids business has dramatically increased in the last 18 months, even despite the COVID backdrop. So we've gone from about 4% or 5% of the resin that we processed to exiting December at about 10% of the total resin that we processed in that business. And that number will go up again by June.

So there really is no limit. There is no technical limit to the amount of recycled content we can use in a container. We're making plenty with all PCR. The constraint maybe at a point in time, not too far into the future, limitation on supply. So we, along with our customers and consumers are sending every demand signal possible that there is going to be an appetite to source PCR. So I'm not sure where the disconnect is.

Kyle White

Got it. Is there maybe—from a cost standpoint, what's the differential from using virgin over PCR?

Ron Delia

Well, it is a premium at the moment and there typically has been, but there's also a value premium as well. And so I think there's the cost plus aspect to the pricing mechanism, but more importantly, this is going to be an expected input to the end product that we're making and that our customers are packaging their products. So I think it's—I wouldn't want to say it doesn't matter what the cost is, clearly it will. But there is a premium, I think there's a demonstration in practice that there's a willingness to pay that premium.

Kyle White

Yes. I'll turn it over. Good luck for the rest of the balance of the year.

Ron Delia

Thank you.

Operator

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

George Staphos

Thanks. Hi, everyone. Thanks for the details. Congratulations on the progress so far. Ron, I wanted to hit a little bit on the new products to the extent that you can, recognizing that they are by definition smaller and perhaps the growth that you're seeing in them is not meaningful. Can you talk maybe qualitatively or as much as you want to quantitatively about, what you're seeing in terms of AmLite and some of the other products, the growth that you're seeing? And I was particularly interested in what you're seeing out of the Eco-Tite® product and whether you're getting any measurable market share in the protein market with that film?

Ron Delia

Yes. Those are really good examples of having a differentiated product and a differentiated offering that even the customers now are trying to reconcile and get their heads around in terms of what they can and can't do. The AmLite structure and the basic chemistry behind it, its got wide application. So we've launched the product for pet food first. And then we've also more recently announced the rice package that essentially uses similar technology. The demand has really far exceeded our expectations. And now we're going to have to scale up the capacity which is a good thing to deliver against that demand. But it's a good example of solving the problem that didn't seem to have a really easy answer maybe 12 months ago for these big brand owners and also their smaller competitors.

So I'd say watch this space on AmLite. There's incredible appetite not only from the European customer base where the product was first launched, but also around the world. India, Brazil, obviously North America, China, there are advanced orders or a book build if you will taking place globally for that structure. On Eco-Tite®, this is a recycle-ready structure, but maybe even more importantly, right now it's a PVDC-free structure for protein, which is also a major concern for many brand owners to get PVDC and chlorides out of their packaging. So this one has been targeted at the European protein market. In the first instance, there's a lot of take up there where that material is of particularly high concern.

It's pretty early days, but I would expect that demand to start to also come from the other regions of the world as well. So I mean you alluded to it, neither of these products are going to change the overall revenue profile of the Company in a given quarter, but over time, the cumulative momentum of products like these is going to help generate a good topline growth and good margin.

George Staphos

Thanks, Ron. My second question, if I look at the performance over the first six months, again, as you mentioned, it's inline or were ahead of your expectations. And you are performing well on any number of KPIs that you point to. When I look though at Flexibles, there was a little bit of deceleration in EBIT from the three month to the six month period, there was also a little bit of deceleration, even though I know you're raising your target for synergies. In the synergy momentum, it was $20 million in 1Q, it was $35 million through the six months. So if you can give us maybe a look underneath the hood with all the things that are going well for you in Flexibles, what's causing the minor deceleration that we've seen from three months to the six-month period? Thank you very much.

Ron Delia

Yes. Look George, the organic performance of the business is pretty similar from period-to-period. In fact, we had a modest pickup in the base business, organic growth let's say from Q1 into Q2. Q2 was modestly higher than Q1 from an organic growth perspective. I think what you're seeing is just the comp, just a year-on-year impact of the synergy capture, which in the prior year was three to six to nine months into the acquisition. And a lot of low hanging fruit drove higher synergy benefits in those first couple of periods.

So we're just cycling higher levels of synergy in the prior year, over time, that's going to continue to dissipate as a comp. But the organic performance of the business actually picked up a bit and we expect it to stay at that level and build momentum through the second half as well.

George Staphos

Thanks, Ron. I'll turn it over.

Operator

Your next question comes from Larry Gandler from Credit Suisse. Your line is now open.

Larry Gandler

Thanks guys. Yes, lot of progress in the business. And Ron, you made such good progress with Bemis. I'm wondering why you guys are buying back shares. It seems for anybody born in the last century, the world's expensive except for the packaging sector, so I'm just wondering how you're feeling about valuations in the packaging sector. It seems incongruous that you're buying back shares when it seems like it's relatively inexpensive.

Ron Delia

Yes. It's a great observation, Larry. First of all, you've watched us for a long time. We're active acquirers and we would expect to continue to acquire. So that's the first priority is to reinvest in the business, grow the business, continue to consolidate and acquire. We're certainly going to get increasingly active as the Bemis integration and synergy capture comes to a close, we'd be actively looking at it now as you'd imagine. The benefit of doing a non-market buyback is flexibility. So if we were to come across an opportunity that required more capital, we could always suspend the share repurchases. Although, as you also know, most of the deals in our space are pretty small. So in all likelihood, we could fund acquisitions and continue the share repurchases.

I think the last point I would make comes to the way you asked the question, which is around value. We would say as we look across the industry, yes, asset values are relatively high, but the best value in the industry right now is Amcor. So what better time to buy shares in the Company than right now, where we have clear line of sight into where the business is traveling and the momentum that the business had. So we would never try to be stock pickers here, but from a value perspective, we think Amcor is probably the best value in the sector at the moment.

Larry Gandler

Okay. And just a clarification on this first question because I want to answer the second one. Public company or private company, are you seeing any disparity in valuations there? To me, it seems like actually public company valuations might be more attractive than private company at the moment.

Ron Delia

Look, there's not a whole lot of deals getting done, right? So the mark-to-markets, if you own the private assets, only happen when there's a transaction. There's been a lot of cross, I would say on the deals that have been done. So there are certainly asset prices that have been pretty high and the market will pay what the market will pay for a public equity. I think it becomes more of a relative game in the public markets, relative attractiveness of the sector and the players in it to all the other alternatives in the public markets. There's just a lot of excitement around certain growth segments that maybe seem more appealing to people at this point in time.

Larry Gandler

Okay. Thanks, Ron. Just my second question relates to some research I did back a couple months ago regarding small customers in U.S. And it seems to me that that's like a $5 billion market. To frame the question, you guys had disclosed in your Investor Presentation, some 6,000 small customers in Europe, but only 850 small customers in North America. So it seems like a big opportunity, any progress there in terms of addressing the small customer market more broadly and deeply in the U.S.?

Ron Delia

Really good progress, and it is a great opportunity. I mean, you've flagged it and we've also flagged it in different forums. We've been after it in Rigids for a long time in the regional beverage space. We continue to see double-digit growth from those customers. Flexibles, the legacy Bemis business had identified this as a market segment, if you will, that offers some really attractive characteristics, but that business also continues to generate higher than average growth, higher than the rest of the portfolio. I think as far as the impact on the overall result, you have—maybe there's the challenge of small numbers, but very high growth rates. So I would say watch this space over time, it continues to be a part of the market that we're excited about.

Larry Gandler

Okay. Thanks, Ron.

Operator

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

Richard Johnson

Thank you very much. Ron, my first question is just on R&D and I know you're spending, I think you stated, it's roughly $100 million a year. I was wondering if you could sort of talk around where that's going? And what I mean by that is, if you would sort of put it into various categories, what percentage of that goes to film development or material science or product development and design and that sort of thing?

Ron Delia

Yes. It's a good question. If you break it down, I mean, I wouldn't give you a number, but what I would say is thematically, a lot of the design work that we do is with customers. In many cases, we actually get reimbursed for that work. And there's a lot of activity in both Manchester, Michigan in the Rigids business, and in Wisconsin, in the Flexibles business in North America doing design work that has also at times been done by advertising agencies. So that's an increasing part of the activity, but also one that quite often we get compensated for.

We also on the other end of the spectrum do advanced technology development on material science, films, barriers, and things that will benefit the business in the medium-term. And in the middle is where most of the spend is, which is application development and product development and product commercialization. If I was to use the 80/20 rule, I would say probably 70% or 80% of it is in that middle area.

Richard Johnson

Got it. That's super helpful. Thanks. And then, I just wanted to ask around or try and get a sense of what your view is on the broader competitive environment. And the reason I ask that, and that's in Flexibles—the reason I ask that is as you made reference to your recyclable retort pouch that you're doing for Mars. But my understanding is they're are competing products that have been launched as well. So I'm just trying to get an understanding of, one, where you feel you are competitively and whether there's been any significant changes, and has anything changed in the industry, which has always been a case that technology hasn't always been a barrier of entry?

Ron Delia

Well, I think it's becoming more of an increasing barrier to entry. There's a lot of announcements, particularly around sustainability and product attributes. There's announcements every week. You could imagine that we'd be across all of those and also across what we believe to be the makeup of some of those products. We maintain that on the products that we've highlighted here today, that we have the only solutions in the marketplace that have the attributes that we described. So in terms of the broader competitive environment, nothing has changed of any substance. I think, it's never been a place where you see really rapid changes in the competitive set, and we're not necessarily seeing that today.

Richard Johnson

Got it. Just a really quick one in, just on the shareholder value creation model, which has obviously been in place for quite a number of years now. In the first few years of its existence, there was quite a good correlation between the TSR and the total shareholder return and the shareholder value accretion, that hasn't really been the case in the last few years. And I was just wondering from your perspective, what you think is missing.

Ron Delia

I think that's the kind of thing that plays itself out over time. I mean, if you take up a 10-year view, it winds up actually pretty well. We would expect over the following 10 years, it will line up pretty well again. From time-to-time, again, there's relative valuations in a public market that makes certain sectors and certain industries more or less attractive. I think there's a bit of that over the last few years as well as segments sectors like tech and others have really had incredible returns. So I would expect over time that to converge as they have historically.

Richard Johnson

Fantastic. Thanks, and well done on the results.

Ron Delia

Thanks.

Operator

Your next question comes from Nathan Reilly from UBS. Your line is now open.

Nathan Reilly

Hi, Ron. Just a question just around manufacturing, actually, just in the context of some of the comments you made around the momentum that you're seeing in the business and picking up some of the volume growth, which we've seen this quarter as well. Can you just give a quick update just on where you're at from a manufacturing capacity and utilization point of view around the network at the moment, and just what you're thinking about sort of reinvesting in that network for growth in the near-term?

Ron Delia

Well let me start with the first part, and then Michael can talk about the second part, which is around the reinvestment profile of that business going forward. I mean, look at the moment, we're at a comfortable utilization level and an efficient utilization level, probably with the exception of Rigids more recently as Michael alluded to. So when we talk about extraordinary costs to service, extraordinary demand, that is one of the outcomes of running a very, very high capacity utilization, probably too high over time. Now we don't expect that to continue as we've talked about. But other than that segment, and then the inverse would be true at healthcare where the demand has been soft. Generally speaking, we're running at a more normal level of utilization. And then as far as what does that mean for capital going forward, maybe Michael can talk to that point.

Michael Casamento

Yes. Sure, Ron. Yes, so look, I mean, capital expenditure, I think last year we spent around $400 million, that was a year after the acquisition, which probably was a little lighter than we normally have. Typically we invest around depreciation a little bit more depending on what the requirements were in any given period. But this year, look, we're expecting that probably around 10% above where we were last year. So around that $450 million range, and that's really taking into account some of those additional needs for growth cap ex across the network and new technologies as well. So I think as we look forward, that's kind of where we see the capex—in that $400 million to $500 million range, which we think is sufficient—more than sufficient to cover the expanding growth requirements and the technological advancement.

Nathan Reilly

Okay. Thanks for that.

Ron Delia

Thanks, Nathan.

Operator

Ladies and gentlemen, that concludes our call for today. I'll hand it back to Ron Delia for closing remarks.

Ron Delia

Thanks, Operator, and thanks to the participants on the line for all the questions. Just to close off where we started, we had a strong first half to fiscal 2021. Results are ahead of our expectations and performance balanced across the businesses. That start is translated into higher expectations for the full-year and so we've raised our outlook for fiscal 2021. We've also increased cash returns to shareholders through a higher dividend and $200 million of additional repurchases. And then we conclude with probably the most important point, which is that we continue to believe that the Amcor investment case has never been stronger. Thanks very much, operator. With that, we'll close the call.

Operator

This concludes today's conference call. Thank you, everyone, for your participation. You may now disconnect.