Amcor plc

Second Quarter Fiscal 2023 Results

5.30pm EST February 7, 2023 / 9.30am AEDT February 8, 2023

CORPORATE PARTICIPANTS

- Tracey Whitehead; Amcor plc; Head of IR
- Ronald Delia; Amcor plc; MD, CEO & Executive Director
- Michael Casamento; Amcor plc; Executive VP of Finance & CFO

OTHER PARTICIPANTS

- Anthony Pettinari; Citigroup Inc.
- John Purtell; Macquarie Research
- George Staphos; BofA Securities
- Larry Gandler; Credit Suisse AG
- Ghansham Panjabi; Robert W. Baird & Co. Incorporated
- Daniel Kang; CLSA Limited
- Adam Samuelson; Goldman Sachs Group, Inc.
- Nathan Reilly; UBS Investment Bank
- Michael Roxland; Truist Securities, Inc.
- Jakob Cakarnis; Jarden Australia Pty Limited
- Kyle White; Deutsche Bank AG
- Cameron McDonald ; Evans & Partners
- Richard Johnson; Jefferies LLC
- Brook Campbell-Crawford; Barrenjoey Markets Pty Limited
- Ben Kairaitis; MST Marquee

MANAGEMENT DISCUSSION SECTION

Tracey Whitehead
Global Head-Investor Relations, Amcor Plc

Thank you, Operator. Thank you everyone, for joining Amcor's fiscal 2023 first half earnings call. Joining today is Ron Delia, Chief Executive Officer; and Michael Casamento, Chief Financial Officer.

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

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

The second slide in today's presentation notes 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. With that, over to you, Ron.

Ron Delia
Chief Executive Officer, Amcor Plc

Thanks, Tracey. Thanks everyone, for joining Michael and myself today to discuss Amcor's first half financial results for fiscal 2023. We will begin with some prepared remarks before opening for Q&A. I'll start with Slide 3, which covers our first and most important value, safety.

Safety is deeply embedded in Amcor's culture, and our management teams understand our collective responsibility to provide a safe and healthy working environment. Our dedication to eliminating injuries in the workplace continues to result in industry-leading metrics.

In our first half, we improved further and made great progress with a 24% reduction in the number of injuries globally compared to last year. And 65% of our global sites have been injury-free for the past 12 months, with more than 30% injury-free for 3 years or more. Safety and a culture of caring for our people will always be our highest priority.

Turning to our key messages for today on Slide 4. First, the business delivered a strong first half and second quarter despite ongoing challenges in the macroeconomic environment. Our teams are doing an excellent job driving value for customers while managing the many aspects of the business under their control.

We have increased our focus on flexing costs as demand evolved, and we are proactively taking actions to drive further efficiency and productivity improvements while recovering general inflation and passing through higher raw material costs. The outcome was strong operating leverage, with an 8% increase in both EBIT and adjusted EPS in the first half on a comparable constant currency basis.

Second, although not entirely immune in a weakening demand environment, our business remains resilient. 95% of our portfolio is exposed to consumer staples and healthcare end markets, which combined with our broad geographic footprint, positions us well through economic cycles. Our volume performance through the first half demonstrates that resilience and compares favorably to the mid-single-digit or higher declines reported by others in our value chain.

Third, a solid first half, strong execution and a resilient portfolio gives us the confidence to reaffirm our guidance ranges for fiscal 2023. We are confident in the ability of our teams to continue focusing on the controllables.

However, we are also mindful that through the second quarter, the demand environment softened and became increasingly volatile. We expect this will continue in the near term. As we enter the second half of the fiscal year, we are more cautious in relation to the demand outlook, and we currently expect to be toward the lower end of our EPS guidance range.

Our final and most important key message is that we remain focused on executing against our strategy for long-term growth. The business generates significant annual cash flow, which allows us to invest in organic growth opportunities, pursue acquisitions, pay an attractive and growing dividend and regularly repurchase shares. We are confident in the strength of our underlying business, execution capabilities and capital allocation framework, all of which support our compelling investment case.

Moving to a few financial highlights on Slide 5. First half reported net sales were up 6%, which includes approximately $670 million of price increases related to higher raw material costs. Excluding this impact, organic sales were up 2% on a constant currency basis, and volumes were 1% lower.

Both the Flexibles and Rigid segments did an excellent job driving price and mix benefits, including recovering around $160 million of general inflation. We are making good

progress on our commercial and strategic agenda, with our priority segments continuing to deliver high single-digit organic growth and several of our emerging markets businesses also growing at high single-digit rates in line with long-term trends.

Positive price/mix performance more than offset modestly lower overall volumes, which reflected generally softer and more volatile demand as well as customer destocking in parts of the business. Operating leverage was strong as we continue to increase our focus on costs, and the business delivered an 8% increase in both adjusted EBIT and EPS for the first half.

Looking at our December quarter financial performance. Reported net sales growth was 4% and 1% on an organic basis. Adjusted EBIT and EPS each grew 7%. So another solid quarter highlighting the benefits of geographic diversification and exposure to more defensive end markets, even as we experienced softer demand.

Through the first half, Amcor returned approximately $400 million of cash to shareholders through a combination of dividends and share repurchases. Today, we have increased our planned repurchases for fiscal 2023 by up to $100 million. Our overall financial profile remains robust with return on average funds employed at 17%. We are pleased with our first half and our December quarter financial performance, and I'll now turn it over to Michael to cover more of the specifics.

Michael Casamento
Chief Financial Officer, Amcor Plc

Thanks, Ron. Beginning with the Flexibles segment on Slide 6. The business performed well in the face of challenging macroeconomic conditions, executing to recover higher raw material costs, manage general inflation, improved cost performance and deliver solid mix benefits. Reported first half sales grew 5%, which included recovery of higher raw material costs of approximately $460 million, representing 9% of growth.

Our teams continue to do an excellent job passing on increases in commodity costs. As expected, the related price cost impact on earnings for the second quarter was modestly positive after being neutral in Q1. Excluding the raw material impact and negative currency movements, sales grew 3% for both the first half and December quarter, driven by favorable price mix benefits of 4%, partly offset by modestly lower volumes.

As Ron mentioned, sales across our higher-value priority segments, which include healthcare, pet care and protein, remained strong, collectively growing at high single-digit rates through the first half and contributing to positive price/mix. We also continued to see strong growth in our businesses in India and Southeast Asia, particularly in healthcare and media end markets.

This helped limit the impact of lower volumes in some business units across categories, including coffee, dairy, condiments, confectionery and home and personal care, where we have seen varying degrees of customer destocking or lower demand. Volumes were lower in China due to COVID-related lockdowns and in Latin America, where inflationary pressures unfavorably impacted demand in several countries.

In terms of earnings for Flexibles, we again demonstrated strong operating leverage. Adjusted EBIT grew 8% for the half, reflecting ongoing price mix benefits and favorable cost performance. Margins remained strong at 12.6% despite the 120-basis-point dilution related to increased sales dollars associated with passing through higher raw material costs.

Turning to Rigid Packaging on Slide 7. The business built on its first quarter performance with another quarter of solid earnings growth. First half sales increased by 12% on a reported basis, which included approximately $210 million or 13% of sales related to the pass-through of higher raw material costs. Organic sales declined by 1% for the half, reflecting 2% lower volumes, partly offset by a 1% price/mix benefit.

Looking at the December quarter, overall volumes declined by 5%, with the beverage business in North America and Latin America impacted by lower consumer demand and customer destocking. In North America, first half beverage volumes were down 5%. This included hot fill container volumes, which increased 2% in the half but were down 2% in the December quarter, which was in line with market.

Cold fill volumes were lower in the half and quarter due to a combination of lower consumer demand and customer destocking. In Latin America, volumes were marginally higher for the first half with growth in Mexico and Argentina, offset by lower volumes in Brazil. Consistent with what we saw in the Flexibles segment, the December quarter was unfavorably impacted by softer consumer demand in the region.

The Specialty Containers business delivered good performance with solid volume growth from health care, dairy and nutrition end markets. Overall adjusted EBIT for the Rigid segment in the first half increased 7% on a comparable constant currency basis with our teams being able to adjust to evolving market conditions and improve operating cost performance.

Moving to cash on the balance sheet on Slide 8. We had strong sequential improvement in adjusted free cash flow, which came in at $338 million for the December quarter, in-line with last year.

For the half year, cash outflow of $61 million was lower than last year, largely reflecting the unfavorable impact on the working capital cycle related to higher levels of inventory

and higher raw material costs. These impacts also make our cash flow seasonality, which is typically weighted to the second half of the year, more pronounced for fiscal 2023.

Our financial profile remains strong with leverage at 2.8x on a trailing 12-month EBITDA basis. This is in line with our expectations for this time of year given the seasonality of cash flows and the receipt of proceeds from the Russia business sale. We repurchased $40 million worth of shares in the December quarter and expect to repurchase up to $500 million in total through the 2023 fiscal year.

Prior to turning to our outlook, I wanted to provide a few more comments about the completed sale of our Russian business. We received sale proceeds of $365 million, in addition to $65 million of cash which was repatriated upon completion.

In terms of the use of total proceeds received, we expect to do three things. First, we will invest approximately $120 million in a range of cost-saving initiatives across the business to partly offset divested earnings. This is in addition to approximately $50 million of cash we allocated back in August for similar initiatives. Second, we plan to allocate up to $100 million for additional share repurchases, and finally, the balance is expected to be used to reduce net debt in proportion with divested EBITDA, maintaining our leverage ratio.

Taking us to the outlook on Slide 9. We are maintaining our guidance range for adjusted EPS of $0.77 to $0.81 per share, assuming current foreign exchange rates prevail through the balance of the year. As Ron mentioned, while we are taking aggressive action now to flex the cost base across the business, we expect the environment will remain volatile in the near term. Entering the second half of the fiscal year, we are more cautious in relation to the demand outlook and currently expect to be towards the lower end of our EPS guidance range.

Our earnings bridge on this slide lays out the elements underlying our expectations. We expect earnings growth of approximately 3% to 8% on a comparable constant currency basis to be comprised of approximately 5% to 10% growth from the underlying business and a benefit of approximately 2% from share repurchases.

This will be partly offset by a negative impact of approximately 4% related to higher estimated interest and tax expense. Our effective tax rate for 2023 is expected to be lower than last year in the 18% to 19% range. However, the year-over-year benefit this provides is more than offset by higher interest expense.

Now that we have clarity on the timing of the sale, we expect a negative impact of approximately 3% related to the divestiture of our three plants in Russia. In addition, the U.S. dollar has weakened since our last update, and we now expect a negative impact of approximately 4% from currency translation movements. We are also reaffirming our

adjusted free cash flow range for the year of $1 billion to $1.1 billion, although likely towards the lower end of the range, as noted on last quarter's call.

In summary from me today, the business has delivered another solid result, and we remain focused on supporting our customers and taking actions to continue recovering inflation and flex the cost base. Balancing these priorities will leave our business well positioned as we navigate through higher-than-usual volatility in demand and macroeconomic challenges in the near term. With that, I'll hand back to Ron.

Ron Delia

Chief Executive Officer, Amcor Plc

Thank you, Michael. In previous quarters, we have highlighted multiple drivers of organic growth, which you see on Slide 10, and include priority segments, emerging markets and innovation. Before we open the line to questions, I want to take a few minutes to talk about one of our most important priority segments, which is healthcare.

An overview of our global healthcare packaging business is shown on Slide 11. With more than $1.8 billion in annual sales in fiscal 2022, our portfolio covers both Flexible and Rigid Packaging formats and is evenly split between medical device and pharmaceutical packaging.

This is a truly global business with global customers and globally recognized products and technology platforms and it's one where we have scale in every region, including in emerging markets. This is not an easy market to enter because healthcare packaging is also highly complex with many functional demands, quality standards and regulatory requirements.

This complexity provides ample opportunities to differentiate and add value through our industry-leading product innovation, material science and global regulatory capabilities, and makes healthcare a strong contributor to Amcor's growth profile from both a volume and mix standpoint. It also supports strong collaboration with customers, leading to a book of business that tends to be more consistent over the medium and longer term.

Moving to Slide 12. Globally, healthcare packaging is a substantial market with significant headroom and growing at mid-single-digit rates over time, and we're investing to capture more of that growth.

As an example, in the December quarter, we localized thermoforming production in Europe at our medical packaging site in Sligo, Ireland. This is an exciting project that leverages the experience and technical know-how of our sites in Minnesota and Puerto

Rico. As a result, our European business and customer base will now benefit from local access to a broader range of specialized healthcare packaging solutions.

In another organic growth example, we opened a world-class dedicated healthcare greenfield plant in Singapore at the end of calendar 2021, enhancing our ability to serve the rapidly growing Asian market.

M&A also plays a role in supplementing organic growth in this segment. A few weeks ago, when we announced the acquisition of Shanghai-based MDK, a leading provider of medical device packaging in the China market. This is a great acquisition that enhances our leading position in the broader Asia Pacific medical packaging market by adding product capabilities and a complementary customer base.

Drilling down a little more on sustainability and moving on to Slide 13. Across all substrates and end markets, the sustainability of packaging solutions continues to be a critical consideration for customers, consumers and regulators. Our collective objective is to create a truly circular economy for the packaging industry. The solution is responsible packaging, including package design, infrastructure development and consumer participation.

In terms of package design, Amcor is well positioned as a leader in the industry. Today, nearly 100% of our rigid packaging and specialty cartons products and more than 80% of our flexibles products are designed to be recycled or have a recycle-ready alternative. This matters because as deadlines to meet previously established goals rapidly approach, customers are increasingly adopting more sustainable solutions.

As an example, this quarter, Mars adopted Amfiber performance paper for part of their confectionery range in the Australian market, and Ferrero Rocher launched an Amfiber pilot in the European market. These two companies joined Nestle, who initiated a global transition to paper-based packaging for one of their core brands in 2022 and are now adding a pilot for the KitKat brand.

We have also seen important progress in the development of the infrastructure and technology required to produce recycled materials. While the use of food-grade recycled PET is growing rapidly, including in our rigid packaging business, the ability to produce recycled content for and from flexible packaging will be a critical ingredient to creating circularity.

Significant strides are being made in advanced recycling technologies, which enable use of recycled content and flexible packaging applications where mechanically recycled material may present regulatory or technical challenges.

To meet ongoing demand for more recycled material and to support infrastructure and technology development, Amcor continues to increase our long-term offtake commitments. In December, we announced a five-year extension of our partnership with ExxonMobil to purchase certified circular polyethylene, giving us line of sight to significant quantities of recycled material that can be used in healthcare and food-grade packaging applications.

We also recently announced a partnership with Licella to further explore an investment in one of Australia's first advanced recycling facilities. These agreements provide another point of differentiation and value, which can be applied across all end markets for customers like Mondelez, who've incorporated 30% advanced recycled material into their packaging for the Cadbury Dairy Milk brand in the U.K. and Australia. These capabilities also position Amcor to meet the sustainability goals we share with our customers and to contribute to a truly circular economy for the packaging industry.

Turning to Slide 14. The opportunities and investments I have outlined today in our healthcare business, our innovation across a range of substrates and our increasing access to advanced recycled materials are just a few examples of the initiatives we have underway, giving us confidence that we have built and continue to build a strong foundation for growth and value creation.

We don't expect to be immune to macroeconomic challenges, but we believe we are well positioned with a resilient portfolio and multiple drivers of growth, including cost productivity. Additionally, our consistently strong cash flow provides the ability to reinvest in the business, to pursue acquisitions, repurchase shares and grow the dividend, all of which positions us well to generate strong and consistent value for shareholders over the long term.

Finally, in summary, on Slide 15, we have delivered a strong first half in a macroeconomic environment that remains challenging. We are more cautious on the demand environment entering the second half, but our portfolio leaves us well positioned. Most importantly, we remain focused on executing against our strategies for long-term growth.

Operator: with those opening remarks, we are now ready to open the call to questions.

QUESTION AND ANSWER SECTION

Operator: We will take our first question from Anthony Pettinari with Citi.

Anthony Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Ron, a lot of CPG companies and packagers have talked about a drop in December volumes, but a meaningful improvement and maybe a strong start in January. Just wondering, have you seen this? Or did you see December weakness continue into January? I'm just trying to square what sounds like maybe a weaker view on fiscal second half demand. And then maybe specifically, you talked about destocking and lower demand for Rigids. I'm just wondering where you think destocking stands now.

Ron Delia
Chief Executive Officer, Amcor Plc

A

Thanks for the questions, Anthony. I'll just back up a step and talk about the chronology of volumes that we saw through the second quarter. Very much a mixed picture in October and November. Depending on the business and the geography, the story was relatively mixed. But across the business, our volumes were relatively flat in those two months.

December, we definitely saw things softened. We had volumes across the group down mid-single digits. I think that's a function of softening demand but also destocking in a number of segments. We know that because customers took more shutdowns than normal and longer shutdowns than normal.

As we worked our way into January, we did see some improvement. I'm not sure that we would call it a trend, but we definitely saw some improvement in January, albeit mixed. So the word I would use with regard to our outlook is cautious, and it's caution around this demand outlook from here given the volatility, which really had swung quite considerably from month to month and almost week to week. I'd say that despite the improvements in January, we just remain cautious on the demand side of the equation.

As it relates specifically to Rigids and destocking, I think it's clear there has been some destocking in the beverage segment in North America and also Latin America to a certain extent. We have also seen demand soft generally. If you look at the scanner data for the quarter, the market generally in North America for beverages was down mid-single digits.

We also know that our mix is more exposed to the convenience channel. Convenience store sales were down even further than the broader market. So I think that our volume performance in Rigids through the quarter is a function of a softer market, probably some destocking and then offset by some business wins that we picked up, particularly in the hot fill side. So that's the way we see it as it relates to volume.

Anthony Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's very helpful. And then just in the release, I think you talked about maintaining the full year EPS and free cash flow guide. In your comments, you said you could be at the lower end.

Without putting too fine a point on it, is there any reason not to formally lower the guidance range? Or are there maybe circumstances that could get you to the higher end of the guide? Is it just completely dependent on volumes? Or is there any way that we should think about getting to maybe the higher end or the lower end of the guide?

Ron Delia
Chief Executive Officer, Amcor Plc

A

The primary reason for not changing the guidance is we have half a year left. We have got a relatively wide range when you consider that we have got two quarters left, and we have maintained the full width of the range.

The swing factor really will be volumes. It really will come down to volume -- the volume outlook for the second half. I think we also feel pretty good about the execution capabilities of the business and the ability to continue to take cost out, which was a real highlight for us in the first half. We believe we will continue to do that in the second half. But the swing factor will be volumes.

What could lead us to the high end of the range? We could have low single-digit volume growth. We could get out front of raw materials as they come off at a faster pace than we are assuming, and a weaker U.S. dollar would help as well. The inverse would be true for the lower end of the range.

I think it's also fair to say that at this point in the year, we have a wider range of demand outlook than we normally would or a wider range of possible scenarios for volume than we ordinarily would. Our view would be volumes could be anywhere from up a couple of points to down low single digits, and it's unusual for us to have a forecast that could include a decline in volumes.

So for all those reasons, we have decided to express some caution here. But what we think with two quarters left and with some strong cost performance that will continue into the second half, we thought it was prudent to maintain the range at this stage.

Operator: We'll take our next question from John Purtell with Macquarie Asset Management.

John Purtell
Analyst, Macquarie Securities (Australia) Ltd.
Q

Just in terms of price and mix, so that's been a benefit for you over a long period of time. We saw that continue in this half with a 4% benefit in flexibles; and presumably health care, which you called out there Ron, as a key part of that. The question is how do you see that price mix profiling through the second half. Would it be fair to say that you're expecting slightly less price and mix benefit in the second half relative to the first?

Michael Casamento
Chief Financial Officer, Amcor Plc
A

Yes. John, I can help you with that one. So you're right. The teams have done a good job on price and getting out there ahead of inflation and recovering that. We commented in the half, that we have recovered about $160 million in cost inflation during the period.

But we also had really good mix benefits, particularly from the strong healthcare performance, particularly in the half, where we saw a double-digit growth, which is above average growth for that part of the business and a bit of rebound versus the prior year.

So, as we look forward into the second half, there will still be the price/mix benefit there. But inflation is still there. We have got to recover that. On the health care side, -- comparatively, you are not going to see the same level of growth and, therefore, the mix benefit. So although we are still expecting that, we would say that it will be lower than what we saw in the first half.

Operator: We'll take our next question from George Staphos with Bank of America.

George L. Staphos
Analyst, BofA Securities, Inc.
Q

My question is on cost saves. Ron, you talked about aggressive actions. I forget exactly how you phrased it. But to obviously offset some of the headwinds that you're seeing, can you talk a bit further about what those actions are?

Can you size them either in relation to, I don't know, the volume weakness that you're seeing or the ability to offset the dilution from Russia? And how can cost saves build into both calendar 2023 and fiscal 2024 to offset that further dilution you'll have from Russia, at least in the first half of the upcoming new year?

Ron Delia
Chief Executive Officer, Amcor Plc

A

Okay. Thanks, George. Let me respond to the question, and Michael will respond to the question in two parts. There's the cost savings activities that we've been undertaking through the first half in the face of softer volumes and then there's the offsets to the divestment of the Russian earnings.

We got out front, very proactively and fairly aggressively on cost in the first half. The way to think about it is we had really strong operating leverage with 2% organic sales growth, really flat to minus 1% on the volume line, and we had 8% EBIT growth.

If you think about the drivers of that EBIT growth, price and mix sort of offset and we recovered inflation. So, the profit growth was driven by cost-outs. So where did the cost-outs come from? We did a really good job of flexing labor. We cut shifts. We reduced overtime. Several hundred people are out of the business.

There's a reasonably meaningful headcount reduction across the business. We have also pulled the procurement lever pretty hard and cut back on discretionary spending. We got out front early on those actions given the volatility that we saw and just reading the tea leaves from discussions with customers on the demand environment. Those initiatives, those actions will continue into the second half, and they underpin the outlook that we have reaffirmed today.

I think Russia is almost a separate topic, just to level set, Michael can talk about some of the specifics. But we had a business in Russia with three plants that represented about 2% to 3% of our sales and roughly 4% to 5% of our EBIT in any given year. So essentially $80 million to $90 million of EBIT, which we have now divested, and we are resolute in trying to replace that EBIT as fast as we possibly can.

With the proceeds exceeding our expectations, we generated a pretty healthy profit on the sale of the business as well. Then the proceeds of over $400 million, $430 million, as Michael alluded to, a bit ahead of our expectations, we think it's a good use of cash to reinvest in the business and take cost out, structural cost-out, to help offset the $80 million to $90 million of EBIT that we have divested. Michael, maybe you can talk a bit more about the financial profile of what we are planning to do.

Michael Casamento
Chief Financial Officer, Amcor Plc

A

Sure. Thanks, Ron. Following on from that, so we announced today we are going to use part of the proceeds to help offset the divested earnings.

Around $120 million of cash will be put to work in cost-saving initiatives, things like footprint and SG&A and the like, and that's in addition to $50 million cash that we allocated back in August as well. So, in total, about $170 million of cash is going to be invested in cost-out initiatives over the next 12 to 18 months. We would expect to get a 30% return on that at full run rate.

If you think about the timing of that, those initiatives are only starting, we'll start to work on those this financial year. So there is no upside factored into the guidance range in fiscal year 2023. But certainly, we are expecting benefits from this program in fiscal year 2024 and then into fiscal year 2025.

If you think about that, bear in mind, in H1 in fiscal year 2024, we will have a headwind. These programs will kick in but weighted more to the back end of the year. So on that $170 million investment, if you call a 30% return, it's roughly a $50 million potential impact to offset the Russia earnings. I would say that two thirds of that we think we can achieve in fiscal year 2024. So over the course of that year we feel that we can pretty much minimize any headwind from the Russia earnings in the first half of fiscal year 2023, and then you will get the full run rate as we head into fiscal year 2025.

Operator: We'll take our next question from Larry Gandler with Credit Suisse.

Larry Gandler
Analyst, Credit Suisse (Australia) Ltd.

Q

I might as well just continue on that last comment. Can you just talk about some of the specifics about how to achieve that 30% return, $50 million savings from those Russia cost-saving actions? What are you guys doing there?

Ron Delia
Chief Executive Officer, Amcor Plc

A

As Michael alluded to, we are going to close some plants. As we think about it and take some overheads out, if we think about this environment that we are in with the demand backdrop being as uncertain as it is and the fact that we are also already increasing our CapEx to pursue growth, particularly in our priority segments, we feel like that's pretty well in train.

The next fastest way to generate earnings to offset the divested earnings is through cost reduction, and cost reduction in a structural sense, which means optimizing the

footprint. We have got 220 plants around the world. There are always opportunities to optimize further, and so that's largely what we will do. We will also reduce overheads in parts of the business as well to rightsize the cost structure.

Larry Gandler
Analyst, Credit Suisse (Australia) Ltd.

Q

Okay. That's pretty clear. One other thing that caught my attention is you guys repurchased only $40 million of stock in the first half and then the target for $500 million now for the full year. So I'm just wondering, was there anything that kind of gave you some hesitancy in the first half? I'm interested if on the M&A pipeline, if you guys might have been looking at something that caused some hesitancy.

Michael Casamento
Chief Financial Officer, Amcor Plc

A

Ultimately, we started the buyback in Q2. We spent $40 million. If you think about the cash flows in the first half, we also invested in some M&A activities. So we acquired the plant in the Czech Republic. We spent a little more on ePac, and at the same time, we were managing the cash flow, as we started to release some of the inventory that we built up on the back of supply chain constraints over the past 12 months.

So we started to see that come out of the system toward the end of quarter two, which gave us the ability to start to do the buyback. Then as we look forward into H2, we will start to see more -- as I mentioned in my comments, we will see the cash flow more weighted to the second half, particularly as we start to get through the inventory and working capital impacts from that. In addition to that, you've got the proceeds from the Russia sale, which we are allocating $100 million to the buyback.

So really it was around the timing of the cash flow and just managing that through and we can get the buyback done in the second half as we have done in the past. So we feel like we can get the $500 million done.

Operator: We'll take our next question from Ghansham Panjabi with Baird.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

I just want to go back to Anthony's question on the caution, Ron, you referenced. Can you elaborate on whether this is a caution on any specific region between Europe and the U.S. and Latin America? Or is it just universal? I'm just trying to get a sense as to maybe some of the -- just the moderation of volumes that we're seeing is really a function of perhaps just catching up over the last year or so from previously depleted inventories, and now we're just approaching a more normalization phase and an adjustment related to that.

Ron Delia
Chief Executive Officer, Amcor Plc

A

I don't think we know the answer to that is a short response to your question. The caution is based on the volatility that we have seen in demand patterns globally. If we look specifically in the second quarter, it's more segment-specific in North America and Europe.

Then we had some geographies where things got even more volatile as we went through the quarter, in particular, Latin America, where we saw some destocking but also some softer demand in light of the deteriorating macroeconomic environment in several countries down there. China would be another one where we saw demand soften considerably in the second quarter, really concurrent with COVID lockdowns. Now obviously, those are behind us, we would expect the business to bounce back. But how strongly it bounces back is an open question.

As far as the drivers of volume in the quarter and even into January, how much is related to the consumer pushing back on prices that have been put through versus how much is destocking, it's difficult to read. Generally speaking, there's been volatility across the business, and that adds up to a degree of caution on our part.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Understood. Then just given the increase in interest rates, I mean, obviously, it's a big headwind between fiscal year 2023 and fiscal year 2022, just for everybody, really. How are we thinking differently, if at all, in terms of allocating cash flow towards buybacks versus debt paydown?

Michael Casamento
Chief Financial Officer, Amcor Plc

A

The interest rates where they are for us, the buyback still makes sense. It's EPS accretive. We have strong cash flows, and we have regularly been doing buybacks, and we will continue to do that where the interest rates are. It still makes sense from that perspective.

Operator: We'll take our next question from Daniel Kang with CLSA.

Daniel Kang
Analyst, CLSA Australia Pty Ltd.

Q

Just interested on the impact of destocking. I know it's quite difficult to quantify. But can you estimate how much it contributed to the volume softness in both Flexibles and Rigids? Are you seeing any green shoots at this point in terms of the destocking cycle

coming to an end? Just wondering what you're assuming in terms of destocking in your guidance.

Ron Delia
Chief Executive Officer, Amcor Plc

A

It's a difficult one to estimate, you would have to triangulate a few different data points. If you look at the scanner data and look at the results of other public companies that have reported, volumes were down considerably.

In light of those comparisons, our volume performance was actually good. But what we know anecdotally in certain segments, particularly in coffee, single-serve coffee in Europe, some of the dairy segments in the U.S., meat in Europe. We know in some of those places, including Beverage and the Rigid Packaging segment, that there was excess inventory in the system. And we know that because customers took shutdowns in a way that they haven't in the past, meaning longer shutdowns.

So it would be very hard to parse out the volume performance of the half. The volumes were down 1%. I think that probably compares favorably to the other external markers out there, but it would be really hard to parse that 1% in terms of what was destocking versus what is just a softening consumer environment given the price increases that have been put through in pretty much all segments and all regions.

Operator: We'll take our next question from Adam Samuelson with Goldman Sachs.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

I guess I want to come back to this question on mix. And Ron, earlier, you alluded to maybe healthcare, which has been a strong growth driver moderating as we go into the back half of the year. Can you just maybe calibrate that a little bit more, just in the context of a broadly cautious volume outlook, when do you see the healthcare business settling out? And help us think about what happens into fiscal 2024 as you start lapping some of the growth there.

Ron Delia
Chief Executive Officer, Amcor Plc

A

Well, healthcare has been a good grower for us over many, many years. It's grown, both the medical packaging side and the pharmaceutical packaging side, have grown kind of mid-single digits globally, obviously a bit higher in the emerging markets, and that's been consistent over a long period of time.

I think we saw extraordinary growth in the first half coming off quite a strong fiscal 2022 as well. A few drivers there that we think have been fueling that growth. Obviously, our

market position is quite strong, and the innovation that we have been bringing to the market is quite strong, and we are investing behind that as we have highlighted today.

I think to be clear, there's been some pent-up demand because some of the supply chain constraints that we have talked about and others have talked about really hit the healthcare segments for us in a pretty acute way. Those are unwinding, and some of that pent-up demand is being satisfied. I think it's also not a secret that on the pharmaceutical side, there's been a relatively big cold and flu season.

So those are some of the things that really fuel double-digit growth globally across both the medical device and pharmaceutical segments for us in the first half, and we believe that the business will continue to grow at healthy rates, but will revert more towards long-term trends that we have seen over a long period of time in the mid-single-digit range, and that would apply going into fiscal year 2024 as well.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful. If I can just squeeze in another one. In the context of maybe on the food and consumer goods side, but slowing demand and some destocking on the part of customers, have you seen their engagement on new products and new form factors for packaging change at all as bid activity or RFPs maybe that kind of activity different than 6 or 12 months ago?

Ron Delia
Chief Executive Officer, Amcor Plc

A

No. If anything, it's accelerating, particularly around the sustainability side, where many of the brand owners that we work closely with have the same commitments that we have and have made similar pledges around recyclability or recycled content. Those commitments are fast approaching and the dates are fast approaching.

If anything, we are seeing an acceleration in that dialogue, and we are seeing good take-up. Some of the examples we cited today with our Amfiber performance paper platform, which is getting good take-up in the marketplace. We are seeing good early take-up of advanced recycled material and products that contained that offtake. At the moment, it's not slowed down at all. I think also brand owners are looking for ways to differentiate as they try to scratch out whatever growth they can.

Operator: We'll take our next question from Nathan Reilly with UBS.

Nathan Reilly
Analyst, UBS Securities Australia Ltd.

Q

Ron, would you mind just talking about how the latest round of general price increases have been received by customers just given that lower demand outlook, particularly with those December volumes takes to notable turn down? I'd imagine it's getting even harder to recover inflation on costs, but I also note your comment on managing manufacturing capacity. So just interested on any views on pricing.

Ron Delia
Chief Executive Officer, Amcor Plc

A

We have been at it now for a while. We put about $670-odd million of price into the market in the quarter just to recover higher raw material costs, another $160 million or so to recover general inflation.

It's certainly not getting easier, but we are passing it through, and we are recovering, and I think you can see that in the margins. The margins have expanded -- excluding the dilution effect of the raw material prices going through the top line, the margins have continued to expand and not shrink. That should give some confidence that we are out there recovering.

It doesn't mean that the conversations are getting easier. I think the consumers are probably starting to get a bit tired. Elasticities, if they haven't already are likely to increase. I think that's what we are hearing from most of our brand owner customers. But at this stage, we are still recovering, and we expect to continue to fully recover our inflationary costs in the second half.

Operator: Our next question comes from Mike Roxland with Truist Securities.

Michael Roxland
Analyst, Truist Securities

Q

I appreciate you taking the question. Just first one, just on the $120 million in cost takeout in SG&A. Ron, can you comment on what regions you're looking at and whether there are any particular end markets that you're looking to restructure? And just quickly, on your Asian business, especially with China eliminating its COVID restrictions, have you seen any type of improvement recently in the volumes there? And was that a fact that you considered in your recent MDK acquisition?

Ron Delia
Chief Executive Officer, Amcor Plc

A

Maybe I'll address the second question first, and then Michael can come back on the $120 million. Look, it's relatively recent that China has reopened and then we went into

the Chinese New Year in January. But we do expect that business to bounce back. More importantly, the China business has done an outstanding job managing costs. So despite the volume declines that ran alongside the COVID lockdowns, the business grew earnings in the first half, which was just an outstanding outcome.

It's been a business for us that has grown at least mid to high single digits over many years. What's really important in China is to be very focused in our participation strategies.

Healthcare is a place we want to participate, and we want to go deeper in China, and we are doing that both organically, and we are doing that through M&A. The MDK acquisition that we announced last month is a good example of that. It's a small business, one plant outside of Shanghai, complements very well another medical packaging plant that we have near Shanghai as well.

It brings us some complementary products that we didn't have local production of in China, and it also expands our book of business with a new set of customers. So we are pretty excited about that, and we think that's all part of the long-term secular growth that we have experienced and will continue to experience in China. On the $120 million, do you want to comment on where we are at there?

Michael Casamento
Chief Financial Officer, Amcor Plc

A

At $120 million, we see opportunities across the business. As Ron mentioned, there's 220 plants around the globe. It's going to be focused on taking some plants out of the network and as well as SG&A opportunities to right size the business. There is some focus in Europe. But generally speaking, we will see opportunities across the globe. So that's to come.

Ron Delia
Chief Executive Officer, Amcor Plc

A

Wherever we can find EBIT -- to offset the EBITDA we have sold is where we will be looking.

Operator: We'll take our next question from Jakob Cakarnis with Jarden Australia.

Jakob Cakarnis
Analyst, Jarden Australia Pty Ltd.

Q

Michael, just a question for you. I was just wondering if you could talk through some of the fixed and variable cost structures across both of the divisions. And just noting you did talk about some plant downtime, which is a little bit higher than expected. Can you just talk about how that's flowed through to some of the cost benefits in the half,

whether that will occur into the second half of the year if the volume environment remains weak?

Michael Casamento
Chief Financial Officer, Amcor Plc

A

Yes, you have got to think about it in the context of just our cost of goods and the breakup of the cost of goods where we focused on taking some of that cost-out. About 60% to 70% of COGS is the raw material. You then get into labor, which is around that 10% to 15% and then things like energy and freight. Where we were really focused was around just managing the labor in the half, particularly flexing downtime to match our customers when they were down, managing the overtime to take that out as well.

If anything, we have recovered inflation. We talked about that, the $160 million. But within the performance in the half, we absolutely took some cost-out. We haven't specified the exact amount. But to Ron's point earlier, there was a few hundred heads as well from a direct labor standpoint that came out as well as just generally managing and flexing that cost in line with the demand.

Operator: We'll take our next question from Kyle White with Deutsche Bank.

Kyle White
Analyst, Deutsche Bank Securities, Inc.

Q

Just curious, given the kind of customer elasticity that you've talked about, have you seen any shift in your customers' go-to-market strategies on pricing as volumes have started to decelerate? Any sign of increased promo activity that could drive volumes? And I understand it might be hard to give a general statement given your diversification within Flexibles. So I guess I'm most interested on hot fill and cold fill beverages within rigid packaging, but any details would be appreciated.

Ron Delia
Chief Executive Officer, Amcor Plc

A

It's a good question. We have seen some shifts in the consumer and some of that driven by actions that the brand owners have taken. In the beverage space, and if we just focus on North America, some of these points would hold in Latin America as well, but in the beverage space in North America, when the consumer is under pressure, they tend to revert to multipacks and smaller unit sizes, right?

So if they are going to buy a soft drink, they are likely to buy it in a pack of 12, where the unit price is lower than buying it through the convenience store in the cold chain. So we have seen some of that. That's probably contributed to the softness, particularly on the cold fill side.

I think we have seen some other examples in other segments in Europe in the coffee segment. We have definitely seen soft volumes in the more premium end than the single-serve system sales, and we have seen higher sales in the segments that are multi-serve.

So think about capsules in a system versus ground coffee or instant coffee. The instant coffee is what's being pushed at the moment. So we are seeing a little bit of that sort of behavior. It's maybe just a different degree of emphasis across their product mix as they help the consumer through a high inflationary environment.

Operator: We'll take our next question from Cameron McDonald with E&P.

Cameron McDonald
Analyst, E&P

Q

Just a question for me. Just on coming at it a different way with regards to the outlook on the volumes and the demand environment. Can you delve into what the order cycle actually looks like particularly the products around FMCG and the comments made by customers and how much visibility you've got on that order cycle.

So obviously, your products get put into their production facility and then it sits on a shelf, and then they've got to sell it. So you get further visibility on what the customers are expecting. So have you got good visibility into the rest of the third quarter? Or can we see into the fourth quarter at this stage?

Ron Delia
Chief Executive Officer, Amcor Plc

A

The business is exposed really to consumer staples and fast-moving consumer goods and healthcare. Typically, we'll have visibility a few months out. Obviously, we have planning discussions with our customers over a longer period of time.

But as you get near and near those discussions get more and more granular and you get a greater degree of accuracy as you get closer, so I would say our degree of forecast visibility extends a few months. That's about the extent of it. Right now, those forecasts are moving around quite a bit and have been now for the last few months.

The volatility has increased and the variability in forecast has increased. I think on the positive side, to the extent that there is any destocking that's gone on in our value chains, we would expect that to work itself through reasonably quickly. In a matter of a quarter or two, we should be through whatever destocking needs to occur.

Operator We'll take our next question from Richard Johnson with Jefferies.

Richard Johnson
Analyst, Jefferies (Australia) Pty Ltd.
Q

Ron, I just got a question on strategy. Your shareholder value accretion model has been at the forefront of your strategy, very much the foundation of your strategy for a very long time now. I'm conscious of the fact, though, that TSRs really struggle to keep pace with the value-add in more recent years.

Really, my question is around the long-term numbers because you are about to lose the big benefit of Alcan in your 10-year numbers. I was just wondering how we should think about that, how you think about it and whether the model is still appropriate.

Ron Delia
Chief Executive Officer, Amcor Plc
A

It's a good question, Richard. We certainly believe the model is still appropriate. If you go back and look over a 10-year period post the Alcan acquisition, which is about 13 years ago now. The last 10 years, we have been well above from an intrinsic perspective, well above the 5% to the 10% to 15% shareholder value creation model that we talk about.

We still believe the business will generate low single-digit top line growth. It will convert that with operating leverage like we have seen in the first half. Then with the excess cash flows of the business, we are going to continue to acquire or buy back shares and continue to grow our dividends. So all up, we think the model still makes sense. It's held us in good stead, and will continue to do so going forward.

Richard Johnson
Analyst, Jefferies (Australia) Pty Ltd.
Q

Great. And just a quick one on Russia for Michael, if I may. Michael, it looks like you've booked, I think, off the top of my head, it's about $15 million of costs related to Russia below the line in the quarter. Can I just check whether that's correct. And secondly, what it might be? And thirdly, now you sold the business, there's no more to come below the line.

Michael Casamento
Chief Financial Officer, Amcor Plc
A

So below the line we took a $215 million gain, obviously, on the sale transaction. And then there were some costs just in relation to transferring a business. Some of Ukraine costs still to just transfer equipment, et cetera, in that. As we look forward, you'll see the restructuring costs start to come through that will run through that line. But generally, the costs in relation to Russia are finished.

Operator: We'll take our next question from Brook Campbell-Crawford with Barrenjoey.

Brook Campbell-Crawford
Analyst, Barrenjoey

Q

Just on CapEx. It looks like a larger CapEx quarter. the December quarter, it looks like it's about $94 million. Can you just remind us, I guess, what the expectations are for the full year? I think at the last result, it was $550 million to $600 million of CapEx was the expectation. So just an update on that one would be great. And any reasons for the lighter investment period in the December quarter?

Michael Casamento
Chief Financial Officer, Amcor Plc

A

In terms of the half, we are in around that $250 million. There's a bit of FX in there as well versus prior year. So versus prior year, we are running about 3%, 4% ahead. For the full year, the number of $550 million to $600 million still in the range of outcomes.

We are likely to be 5% to 10% ahead of prior year, and we continue to invest in the focus segments and the innovation platforms, which is where we have been focused on that investment. So no real change on the CapEx outlook, perhaps a little lower than where we were at three months ago, but pretty similar.

Brook Campbell-Crawford
Analyst, Barrenjoey

Q

A follow-up, if I could, just around capital and the M&A strategy. Ron, if you wouldn't mind just reminding us of the M&A strategy as it is today? Has it changed at all over the last couple of years. I guess I asked just because more recent investments seem to be focused on fiber paper type smaller deals like PulPac and the one in China. You seem to be becoming a bit more substrate-agnostic. But just an update really on your M&A strategy will be fantastic.

Ron Delia
Chief Executive Officer, Amcor Plc

A

We are substrate agnostic. That's been true of the company throughout its history. In fact, about 25% of what we do is either fiber or aluminum. But as far as M&A goes, no change. We think there're going to be good bolt-on opportunities across the portfolio. You see some examples this year with this healthcare acquisition in China MDK.

Michael referred earlier to a plant we bought in the Czech Republic earlier in the year to bolster our Eastern European footprint. So we think there'll be deals like that. I mean those are the deals that are out there because many of the companies in our space are

small, and so we have got to be comfortable bolting on small businesses to our footprint. That will be part of the mix.

Then where we can supplement the portfolio, we would like to do that, too. I mean, certainly, in the priority segments that we've nominated, we'd like to continue to grow, healthcare being the one we have talked more about today. In rigids, obviously, the hot fill space is one that we have a strong position in. But outside of beverage, there are opportunities for us to continue to grow as well. So there're a number of areas where we think the portfolio could be bolstered, but they'll be bolt-on opportunities across the Flexibles and Rigids segment. So no change to note.

Operator: We'll take our next question from Ben Kairaitis with MST.

Ben Kairaitis
Analyst, MST Marquee.

Q

Just wondering if you are able to give any insight into what the interest rate impacts could be in fiscal year 2024. Also with tax, I note that there was a lower rate in the period but wondering what we should expect for the balance of fiscal year 2023 and what we should consider to be a more normalized rate.

Michael Casamento
Chief Financial Officer, Amcor Plc

A

If you think about interest and tax, together this year from a full year guidance standpoint, we have called out, they are going to be a headwind of around 4%. Tax, we have called out, is going to be more in that 18% to 19% range. That's really on the back of the mix of earnings and particularly where our interest expense is, which is in higher tax cost countries.

But when you put that together with the interest increase, that's more than offset by the increase in interest. So, for this year, 4%. We haven't called out any guidance for fiscal year 2024 at this stage. But obviously, in the first half, depending on where interest rates go, there could be some headwind, but we are yet to see where that ends up. So, at this stage, we'll come back to you on that one.

Operator: We'll take a follow-up question from John Purtell with Macquarie.

John Purtell
Analyst, Macquarie Securities (Australia) Ltd.

Q

Just a quick follow-up. Michael, just on the raw material side. You obviously saw a modest benefit there in the second quarter. I mean it looks like the raw material indices have retraced a fair way. So the question is what have you backed into guidance

because it looks like there should be a pretty material raw material benefit in that second half.

Michael Casamento
Chief Financial Officer, Amcor Plc

A

You're right. As we mentioned, we started to see some modest benefit in Q2 from raw materials as they have come down. Obviously, we are still holding higher inventories.

They are working their way through the system, which you are still going to see some impact from in Q3 as we work those down. Raw materials right now, they are benign, remembering we will have a broad basket of materials across broad geographies. So, when we see that pretty benign outlook for raw materials, so in Q3, we are again expecting some modest tailwind from the raw material side.

Beyond that, it's really going to depend on what happens to the raw materials and how quickly we can get the inventory out of the system also linked to the demand environment, as well. So clearly, if demand improves, and we get stronger demand, then inventories will come down faster, you might get a little tailwind.

The opposite is true if the demand stays off -- if demand is softer, and we can't get the inventory out of the system as quickly then that will impact. But the guidance has a range of outcomes built into it, and that's all factored into the guidance range at this stage.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back over to Ron Delia for any closing remarks.

Ron Delia
Chief Executive Officer, Amcor Plc

Okay. We would just like to thank everybody for their interest in Amcor. We feel like we have had a very strong first half, and we are looking forward to closing off another strong year for the company for fiscal 2023. So, we'll close the call there. Thanks very much.

Operator: That concludes today's presentation. Thank you for your participation. You may now disconnect.