Amcor plc

First Quarter 2020 Results

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PRESENTATION

Operator Instructions

Tracey Whitehead:

Thank you and welcome to Amcor's First Quarter Earnings Call. Good evening to those of you in the U.S. and good morning to those in Australia.

Joining me on the call today is Ron Delia, Chief Executive Officer, and Michael Casamento, Chief Financial Officer. At this time I'll direct you to our website amcor.com, under the Investors section where you'll find our press release and presentation which will be discussed on this call.

We'll also discuss non-GAAP financial measures as we talk about performance against combined comparative information. Reconciliations of these non-GAAP measures can be found in the press release and presentation on our website.

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

With that, I'll hand over to Ron.

Ron Delia:

Thanks Tracey and thanks everyone for joining us to discuss Amcor's first quarter results for the 2020 financial year. As Tracey mentioned, with me here today is Michael Casamento, Amcor's Chief Financial Officer. We'll begin with some brief prepared remarks and then open the line for Q&A.

I'll move on to Slide 3 in the presentation pack. Everything we do at Amcor starts and ends with safety, which is our first and foremost value, and so we begin these calls with safety like we begin every meeting at Amcor with safety.

Fiscal 2020 is a busy year for our leadership teams and employees as we seek to simultaneously grow the underlying business and also integrate the legacy Bemis sites while making progress against our goal of no injuries. While we're not at no injuries yet, we are working from a position of strength with more than half of our sites around the world injury-free for the last 12 months and an overall recordable case frequency rate of 3.6 per million man hours work. You may recall that the recordable case frequency rate for the legacy Amcor business last year was 2.1 and we know from past experience that acquired businesses typically have higher numbers of injuries than we're accustomed to at Amcor and this was no different with Bemis So our primary focus this year is on aligning the Bemis sites with Amcor's safety practices, and our approach has been embraced with enthusiasm by our new colleagues. We look forward to providing updates on our progress throughout the year as we drive towards eliminating all injuries from our facilities.

If we move on to Slide 4, to the four key messages we have for today. First, we've had a solid start to the fiscal year, in line with our expectations for EBIT growth driven both by organic growth and synergies.

Second, the Bemis integration is right on track and delivering. Cost synergies made an impact in Q1 and will build through the financial year.

Third, we're gaining momentum on sustainability, in particular with our key customers with whom we share the same objectives and similar perspectives on how to achieve them.

Fourth, we're on track for the balance of Fiscal 2020 and we're reaffirming our outlook for 5% to 10% EPS growth for the full year.

Now, on Slide 5, we've got a summary of the first quarter results and before I get to those numbers, just a word on the financials that we're presenting today. The prior year numbers have been prepared on a pro forma basis as if Amcor had owned Bemis since July 1, 2018. The message here in relation to these results is that we delivered strong earnings growth in line with our expectations and therefore keeping us on track to meet our FY20 outlook, and we're encouraged by the momentum in the base business particularly.

Sales revenue for the period was in line with the prior year in constant currency terms and excluding a negative impact related to the pass-through of our material costs. We saw growth in our larger businesses, including the core Flexible Packaging businesses in North America and the Rigid Packaging business in North America, and this was offset by sales declines in Latin America and the Specialty Cartons business in Europe.

Total EBIT was up 10% in constant currency terms with organic EBIT growth in both segments and synergy benefit of approximately $10 million in the quarter. Net income and EPS increased by 15% in constant currency terms and the Board declared a quarterly dividend of USD $0.115 per share.

Lastly, we started a $500 million share buyback which we announced in August. We have purchased nearly 6 million shares in the first quarter.

I'll hand over now to Michael to provide some more color on the financial performance of the quarter and our outlook for 2020, and then I'll come back to talk about some of Amcor's longer term growth opportunities.

Michael Casamento:

Thanks, Ron. I'll start on Slide 6 with a brief recap of the results for each of our two segments, which both delivered organic EBIT growth in Q1.

In the Flexible segment, Adjusted EBIT was up 9% in constant currency terms and margins expanded by 110 basis points, which reflects a combination of synergy benefits, strong operating cost performance across the businesses and further benefits from the normal time lag in recovering raw material costs.

Sales were broadly in line with the prior year in constant currency terms. This reflects higher sales and volumes in the core Flexibles businesses in North America and Europe, which was offset by customer inventory destocking in the Specialty Cartons business in Europe, and lower volumes in Latin America.

We had previously highlighted a very weak June quarter in the legacy Bemis business in Latin America and although continuing to track at levels below the same period last year, the business has improved sales and earnings considerably compared with the June quarter.

In the Rigids Packaging segment, Adjusted EBIT was up over 3%, mainly reflecting the higher volumes and strong operating cost performance, although this was partly offset by unfavorable mix in Latin America.

Constant currency sales were also broadly in line with last year excluding the 1% unfavorable impact to revenue from passing on lower raw material costs.

Across North America, volumes were higher with mix favorable. Volumes in Latin America were in line with last year, however, mix was unfavorable.

Turning to Slide 7, as Ron mentioned, we are pleased with the progress we are making on the Bemis acquisition overall. First of all, the actual integration of the two businesses is progressing very well. As we reported in August, we achieved the quick start we had planned for and we have two legacy companies functioning as one with no issues around systems or business processes. Everything works and if you were to walk through any of the facilities around the world, it would be hard to tell we just brought together two different companies. We are not taking the good start for granted but so far we have been able to keep the focus on moving the company forward.

In terms of synergies, we delivered $10 million in the first quarter and at the current run rate we feel very confident about delivering our guidance of $65 million for the current fiscal year and $180 million by the end of the third financial year post transaction which will be Fiscal 2022. To date, the synergies have mainly come from overhead reductions within the Flexibles business and Corporate functions. During the first quarter we continue to reduce G&A headcount and took some of the actions necessary to accelerate procurement synergies. We also announced the start of consultations for two additional plant closures in Europe, which means we have now announced plans to close four plants in total to date.

The key takeaway is that we feel very good about where we are in terms of the integration and synergies will represent a significant driver of EBIT growth for Amcor over the next three years, including an increased contribution through the remainder of Fiscal 2020.

Moving to our outlook on Slide 8, first quarter performance was in line with our expectations and as a result we are reaffirming the 2020 guidance we shared with you in August. We continue to expect adjusted EPS growth of 5% to 10% in constant currency terms. Using current exchange rates, we would expect minimal FX impacts from translation, so this guidance continues to imply a constant currency range of $0.61 to $0.64 per share. This is inclusive of $65 million of pretax synergy benefits. There will be very little impact in Fiscal 2020 from the share buyback given we will only see a margin decline in the average shares outstanding for the full year.

Corporate costs, interest, tax and cash flow were all roughly in line with our expectations for the quarter and as a result we have reconfirmed full-year guidance for each of these metrics as well.

Looking forward, it's worth mentioning briefly here that sales in Rigid Packaging in Fiscal Q2 last year were particularly strong on the back of favorable product mix in the North American beverage business and especially so given the second quarter in that business is typically the seasonal low point of our fiscal year. So, given the unusually strong comparison, we expect Rigids to assume a more normal seasonal pattern this year and earnings in the second quarter will be lower than Q2 last year. Most importantly, our full-year guidance had already incorporated this phasing and remains unchanged.

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

Ron Delia:

Thanks, Michael. Before we turn it over for your questions, we're going to lift out of the details a bit to focus on the longer term for a few minutes. Slide 9 recaps Amcor's strategy which has not changed and which we've described publicly many times. We've actively managed our way now to a focused portfolio of businesses in four product segments. Each of those businesses benefits from a small number of differentiated capabilities which we call the Amcor way and which provide real competitive advantage. Our aspiration is to win for key stakeholders, and for investors specifically, the strong cash flow that Amcor generates gets deployed in several ways to generate value which I'll describe on the next slide.

Amcor's capital allocation framework is on Slide 10 and provides some perspective for how we think about creating value from our cash flow for shareholders over time.

Over the last six years the outcome of this combination of shareholder value drivers has averaged about 12% per year. Looking forward over the next few years at a time when uncertainty and volatility are high around the world, we have clear visibility to controllable sources of shareholder value through continued organic growth, and $180 million of cost synergies from the Bemis acquisition plus strong cash flow to enable a growing and compelling dividend and the $500 million share buyback we announced in August.

Moving to Slide 11 and sustainability, as we've highlighted many times previously, the single most exciting organic growth opportunity for Amcor comes from the increasing consumer demand for more sustainable and environmentally friendly packaging. On the topic of sustainable packaging, we have some particular points of view that I want to spend a few minutes walking through now and which are summarized on Slide 11.

First, let's remember that Amcor is a consumer packaging company and we make primary packaging. By primary packaging, I'm referring to the package that actually touches and holds food or medicine or other consumer products. The fact that we make primary packaging for food and healthcare is important because we have a strong point of view that there will always be a role for that type of packaging. In fact, several roles including preserving food and healthcare products, protecting products through increasingly demanding supply chains and helping our customers promote and differentiate their brands. We know, for example, that properly engineered food packaging can extend the shelf life of many basic food items and help to reduce food waste, which is around 30% globally. Packaging that helps reduce that number not only provides more food for more people around the world but also helps to reduce the environmental impact of food waste, which accounts for roughly 8% of global greenhouse gas emissions. To put that in perspective, if food waste was a country, it would rank third behind only China and the U.S. in terms of greenhouse gas emissions.

So, feed the world's growing population and protecting the planet from climate change are two of the defining challenges of our time, and there will always be a role for properly designed packaging that can help address both.

Next, turning to Slide 13, we have to acknowledge that the requirements and expectations consumers around the world have for packaging continue to increase. We know that consumers have come to expect packaging that works well, is lightweight, convenient, easy to use, cost effective and great looking, and now they have an additional expectation and that's for packaging to have a responsible end of life solution that doesn't result in more waste or more packaging ending up in landfills or the ocean.

Now, we see no end in sight for consumers looking for increased convenience generally, including from the packaging they interact with daily. We see sales of single-serve products or products with functional packaging continue to rise, for example, and at the same time consumers have been buying more environmentally friendly products and also expressing a willingness to pay more for them.

How much more do they really have to pay? Not much, actually. In the case of most rigid plastic containers we are switching to 100% recycled resin as many of our customers are doing currently. Even if that recycled resin carries a 20% cost premium, it would lead to a retail price increase of less than $0.01 or less than 0.5%.

We believe the way to address the growing consumer concerns around waste is through responsible packaging and we also believe that responsible packaging requires a total system solution with three parts: first, the right package design; second, efficient and accessible waste management infrastructure; and third, active consumer participation.

It's clear we need to continue to design packaging to be recyclable, reusable or compostable. We need to continue to design packaging made from recycled materials, and of course, we need to continue to design lighter weight packaging using the least amount of material in the first place.

Equally important for responsible packaging is the right waste management infrastructure, whether that's recycling capacity or composting facilities or equipment to support returnable systems, and even when that infrastructure is in place, we still need consumers to actually use it and to properly dispose of packaging in an appropriate way in order to reduce waste.

Now, we also believe, as Slide 14 indicates, responsible packaging does not mean no plastic. We know that greenhouse gases and climate change are important consumer concerns, and on those dimensions plastic is clearly advantaged versus other materials and just as recyclable. So, in addition to all the great functionality plastic packaging provides consumers, there's no environmental tradeoff as long as the package is properly disposed of, which is also true for any type of package no matter what material it's made from.

Our customers are crystal clear on this point, as evidenced by recent comments they've made publicly, a couple of which are on the slide here, and by their continued commitment to plastic packaging generally.

We believe there will always be a role for packaging. Consumers expect more and more from it, including less waste, and the answer is responsible packaging.

Finally, we also believe that Amcor is uniquely positioned to lead the way in finding solutions. As the industry leader we have the scale and resources to innovate and develop new products. We are seen as the partner of choice for collaborating with customers and other stakeholders, and we have the technical expertise to help inform the debate and educate consumers, particularly around topics like recycling.

So, we're increasing our support for key partnerships, particularly those focused on waste management, and we'll be increasing and accelerating our external engagement generally.

We're core partners with The Recycling Partnership, which recently joined with the leading beverage companies in the U.S. to launch the every bottle back initiative, as well as the Materials Recovery for the Future Project which also kicked off the first curbside recycling program in the U.S. to accept flexible packaging along with other recyclables.

Of course, we remain core partners in the Ellen MacArthur Foundation's New Plastic Economy Initiative, which has brought together over 400 organizations across industries and around the world to work together to help solve the issue around packaging waste.

Finally, as you'd expect, we're innovating and developing great new products at a rapid pace, typically in partnership with our major customers. This month we've been helping a major food customer transition an iconic brand to a container made from 100% recycled material. We continue to win awards for our packaging innovation and last month we took home another one for one of our paper-based materials. We also continue to introduce new flexible packaging structures that are fully recyclable.

All of this innovation and product development will help us reduce our use of virgin plastic by more than 200,000 tons by 2025 while providing consumers with the same great functionality that they currently enjoy.

To close off and summarize on Slide 17, the 2020 fiscal year is off to a solid start. First quarter results were in line with our expectations and we've reconfirmed our full-year guidance. We're making great progress on our longer term priorities, including maximizing the benefits from the Bemis acquisition and taking a leadership role on sustainability, all of which will further differentiate Amcor and create meaningful value for shareholders.

That concludes our opening remarks. We'd be happy to take your questions.

Operator:

As a reminder, to ask a question, you will need to press star, one on your telephone. To withdraw your question, press the pound key. Please stand by while we compile the Q&A roster.

Your first question comes from the line of Daniel Kang with Citigroup.

Daniel Kang:

Good morning Ron, good morning Mike. (Inaudible) you mentioned that overall volume growth was strong in Flexibles in North America, in Europe and also in Rigids in North America. Just wondered if you can provide some detail on the product categories where you are seeing the strength. Also, maybe provide some color in terms of the magnitude if possible. That's my first question.

Ron Delia:

Look, we had growth in Flexibles in North America and in Europe that you would expect and that we are used to seeing which is very low single digit. That's what we would expect from the business and that's what we've seen in our business historically.

Areas of strength continue to be healthcare. That would be true globally. We continue to see strength in liquid packaging or packaging requiring higher barrier structures, coffee packaging generally. These are actually the same segments that have grown both in Europe and in North America.

Outside of that, we see growth in some of the emerging markets. I didn't mention Asia in the prepared remarks but Southeast Asia and India in particular we continue to see good growth as well.

Any period, Daniel, there's segments that are going really well and there's segments that are softer, but generally we're very pleased with particularly the bigger parts of the flexible packaging business through Q1.

Daniel Kang:

Got it. Mike, in terms of operating cash flow, I noticed that first quarter is a negative number. Can you talk us through the seasonal drivers for first quarter operating cash flows being negative?

Michael Casamento:

As you said, the cash flow was an outflow in the first quarter. I mean this was in line with our expectations and meaningfully better than the prior year. This was included in our full-year guidance and so we were able to confirm that full-year guidance as being cash flow (inaudible) dividends of $300 million to $400 million and that's before $100 million of integration costs.

We indicated back in August that our cash flow will vary widely from quarter to quarter and versus prior year and typically it is seasonally weaker in the first half so we come off the strongest quarter in Q4. We'd expect that in Q2 it will improve but reminder there that we will also have two dividend payments in Q2 as we realigned to the quarterly dividend program so one of those obviously was declared in August and we paid that in early October and then the one that was declared today will get paid in December, so that will have an impact. Typically, we see the first half cash flow as a small outflow and we don't see any thing different at this stage.

Daniel Kang:

Got it. Thank you for that. Then finally, in terms of your guidance for profit growth to be 5% to 10%, given the 15% growth in the first quarter you generated and the synergies that were only $10 million out of the $65 million that should be generated this year, are you actually running ahead of your guidance for 5% to 10% for the full year?

Michael Casamento:

No, I think we were expecting the result we had. This is really in line and that's why we confirmed the guidance where we are. There were a couple of things in things like corporate costs and interest that we had a lower number in this first quarter but that will ramp up as we progress through the period interest. I think that's what we see.

Daniel Kang:

Okay, got it. Thank you.

Operator:

Your next question comes from the line of Nathan Reilly with UBS.

Nathan Reilly:

Thanks for taking my question. Just in relation to the Bemis integration process, it sounds like you're tracking pretty well there from I guess an operational point of view. Just curious how you've managed sort of customer expectation levels through that in terms of delivering to their requirements through that process. Then I'm just wondering how you're placed at this point to start driving some of the revenue synergies through cross-selling initiatives and whatnot. A bit of an update on that would be fantastic. Thanks.

Ron Delia:

That's a good question. Look, the first priority with customers is to make sure that we're keeping our eyes on them. Integration is a massive undertaking internally and the thing that we're most on the watch for is that we become too internally focused, so the first priority with regard to management of customers is spending the same amount or more time with them than we had previously. That's been priority one, two and three is just being as attentive as we can possibly be.

I'd say that's all gone very well. I think as Michael commented, the integration, the nuts and bolts of it has gone very well and that includes our continuing service and quality levels with customers which hasn't missed a beat in any part of the business, which is just great. That gives us great foundation from which to start to talk about the benefits of the acquisition for those customers and those conversations are continuing, they're accelerating.

I think we probably talked about this publicly a few times but this deal, unlike some others, is a little less threatening to customers because there's very little direct overlap. There's very few examples where the two companies were supplying the same products to the same sorts of customers in the same regions. And so, really, the onus is on us now to turn the acquisition and the combination benefits into value for customers and I would say they continue to be highly engaged and optimistic. The topic of sustainability is the one real thread that has made us even more relevant to the customers of both legacy companies.

It's early days to talk about traction on revenue synergies. I think those conversations evolve over time and I think I would say watch this space on that. We're not expecting anything material in the next couple of periods here.

Nathan Reilly:

Okay, thanks. Finally, just on the sustainability agenda, I'm pretty sure that when you sold your healthcare assets you (inaudible) allocate some of the proceeds from those sales towards some investment in sustainability. Can you just give us an update on what that is shaping up to look like at this point?

Ron Delia:

Yes, it's really going to be the four buckets we talked about at the time. First of all, you're right, we divested some plants to satisfy the antitrust regulators and get the deal approved. That liberated $550-odd million of cash after tax and we said we were going to commit $500 million of that to a share buyback and $50 million to advancing our sustainability initiatives. The money is going to go in three or four big areas. Firstly, the R&D infrastructure that will really help us turbocharge the product development efforts is a little bit uneven. We've got more infrastructure in certain parts of the world than others. But infrastructure I mean customer prototype and design centers, pilot equipment, etc., so that will be one area.

Second is some capital equipment to make some of the products that are more sustainable whether that's handling recycled resin or some of the flexible structures that require different types of coatings and things.

Thirdly, putting some more money behind our partnerships and there's some really exciting things happening with our partnerships, including in the U.S. with the Recycling Partnership and their support for the Every Bottle Back Initiative.

Those would be the big three, and then ultimately we want to make sure people know we're open for business from an innovation perspective and we'll do a bit more open innovation sourcing which will require some investment as well. That's where the money will go.

No update in terms of something specific to point to but those are the themes that are being worked through and will evolve over time.

Nathan Reilly:

Okay, thanks for taking my questions.

Operator:

Your next question comes from the line of Brook Campbell-Crawford with JP Morgan.

Brook Campbell-Crawford:

Yes, good morning. Thanks for taking my question. Just one on raw materials for Flexibles. Apologies if it's in the materials already, but what was the impact to sales in the benefit to EBIT in the Flexibles division from the pass-through of raw materials.

Ron Delia:

The EBIT benefit was very similar to what we saw in terms of magnitude in the second half of Fiscal '19, so we had a modest benefit, about $5 million in the quarter, which is basically the same pace we were at in the second half. You might recall we had about a $10 million benefit for the full second half.

Overall, basket of materials was modestly lower but not really material. I would say that we are sort of at the same pace for the second quarter nothing to impact the results substantively that would change either the outlook or the results for the period.

Brook Campbell-Crawford:

I'd appreciate any sort of comment on the sale line as well. Just trying to understand the 0.8% decline really for Flexible sales that were being pulled down a bit by raw materials, so either on a growth rate basis or absolute dollars, did the impact on sales?

Ron Delia:

Just basically the sales would have been roughly flat.

Brook Campbell-Crawford:

Okay, great. Thanks. Speaking of Flexibles, Specialty Cartons and a bit of destocking there which influenced that business, can you help sort of outline what level of decline?

Ron Delia:

This happens from time to time in this business and as we report on a 90-day cycle it will become more evident that this happens. Customers manage through excise tax changes or packaging regulatory changes in different ways depending on the jurisdiction, and in the quarter there were a couple of changes in Eastern Europe where it was actually to the customers' advantage to deplete inventories and when that happens then we wear it through the top line. I think we've seen it before. We know that these are temporal, so we're comfortable with where the business is at.

Brook Campbell-Crawford:

Okay, thanks.

Operator:

Your next question comes from the line of Brian Maguire with Goldman Sachs.

Brian Maguire:

Good morning, depending on where you guys are at. First question just on the 2Q outlook. I think did you say in the prepared remarks that you expected EBIT to be down year-over-year? I wasn't sure if that was for the whole company or just specific to North America Rigids.

Ron Delia:

We're just flagging that Rigids last year had an extraordinarily strong quarter on really strong volume and mix and for this quarter it will be more of a normal pattern, which typically the second quarter in Rigids is the season low for the year, so the EBIT in Rigids for Q2 will be lower than the prior period; EBIT for the company will grow.

Brian Maguire:

Okay, just want to make sure.

Ron Delia:

This is all factored into our full-year guidance.

Brian Maguire:

Okay, great. Then I think did you also mention the impact to EPS from currency expected to be pretty minimal. I was just wondering if that's what you said and why? It seems like the FX rates might have moved a little bit more than the minimal level and to the average of where we were in Fiscal '19.

Then just sort of a related question on that. I see you guys are excluding some hyper inflation costs. Just wondering what's the policy on that and why exclude that?

Michael Casamento:

On the currency, we had a very small impact in the period. It was about $3 million. Based on today's rates and the convergence of currency over the balance of the year, the impact we don't see as going to be material, so we've basically called out that we don't see a material impact for the year. There will be some but it will be small based on what we see if you take today's rates.

In terms of the hyper inflation adjustment, really what we're trying to do there is provide a comparison of the results and so we're just taking below the line the translation impact on that front to give a comparative of the period year-over-year.

Brian Maguire:

Last one for me, just on the sustainability topic, just wondered how your conversations are going with some of the supply chain partners that you're going to need to partner with to develop the sourcing for recycled plastic. I imagine it's still sort of early days with some of these 2025 targets that a lot of companies have, but as you said, a lot of cap ex, a lot of infrastructure to be put in place today to kind of satisfy those goals.

How are those conversations going? Are they still high level or are we at the point where you're starting to see a lot of cap ex dollars be allocated to that and actual rubber hitting the road?

Ron Delia:

I think you're seeing an intensifying of the effort generally. I think the first thing I would say is the big brand owners remain committed to their current package formats. That's the first thing I would say. I mean I think they're under a lot of pressure and they need to show traction and evidence of progress and they're making that, but they remain committed to providing the consumer the same experience that he or she has today with the added benefit of a more recyclable or a more responsible end of life solution, so that's the first thing.

I would say that you are seeing an acceleration of activity and conversations and spend, and I think the announcement in the U.S. last week from the American Beverage Association and the Every Bottle Back Initiative, which is essentially a joint statement by the three major beverage brand owners in the U.S. is a great example of that. I mean there are hundreds of millions of dollars behind that.

I think separately each of the three would make the same comment that Amcor would make, which is we would happily secure and convert every pound of recycled resin that we could get our hands on and I think you're starting to see real evidence of people putting their money where their mouth is.

I think we all know that the challenge here is not just the package design but also the infrastructure, which will require capital and coordination, but also the consumer and their understanding of how to deal with the package when it's been used, what to do with it and their active participation.

I think it will be a journey but there are some real green shoots to point to for increasing activity.

Brian Maguire:

Okay, thanks very much.

Operator:

Your next question comes from the line of Debbie Jones with Deutsche Bank.

Debbie Jones:

Hi. Thanks for taking my question. My first just to follow-up on some of the previous volume questions. Could you remind us why Q2 volumes are so strong in Rigid packaging last year and then the Specialty Carton weakness that you talked about, are you actually seeing improvements in the quarter, in the current quarter, or is that something that will linger into this quarter?

Ron Delia:

Last year, Debbiefirst of all, for the whole half last year we had double-digit growth in (inaudible) which is the higher value added part of the Rigid beverage business. That volume growth was pretty benign in the first quarter last year and was just extraordinary in the second quarter. That's not going to happen again. We're in a more normal pattern. That's all been out there for a year so it's consistent with the results for last year.

On Specialty Cartons, we definitely see signs that the destocking will abate. I think that it will continue a bit into the second quarter. There's a couple of changes in Russia and in Turkey in particular, which will go into effect in the beginning of the calendar year, so as you work your way towards January 1 you start to see the impact of the destocking dissipate as customers resume normal ordering patterns. Not something that will linger into the second half but the second quarter will have a bit of a negative drag as well.

Debbie Jones:

Okay, thank you. My second question—by the way, the slides I thought were very helpful on sustainability and responsible packaging and the message around the carbon footprint. My question is really around the waste infrastructure and kind of your optimism and thoughts about whether that can improve sooner rather than later. I know that's a very broad question but you sounded pretty optimistic about some of the programs you threw out there that are being supported by your customers or whatnot, but it's a little unclear to me where the optimism lies and how soon that problem can be addressed because it seems like one of the big issues around kind of shifting away from some of these other forms of packaging.

Ron Delia:

Well, look, I think what we're seeing is the brand owners realizing that the format that their consumers prefer, just like all the other formats, has to have an outlet in a responsible way, so we need waste management infrastructure regardless of whether you're talking about a can or a glass pottle or a PET container. I think what we're also seeing is those brand owners remain committed to the same sort of mix that they've had, so they realize now that they've got to shift gears a bit.

If you go back over several decades and you just think about the positions that several of the actors in the value chain have had on things like bottle bills, things like sponsorship for this sort of activity—waste management in particular—and how that's shifted pretty dramatically, that's where the optimism comes from. I think it comes from the fact that if the consumer wants a package that is fully recyclable, can be turned into a new package over and over and over again, then they have a choice because PET is just as recyclable and just as reprocessable as any of the other substrates. They don't have to give up the functionality that they have come to enjoy and appreciate, but they also now have a particular desire to see a more responsible solution and that's going to require infrastructure.

I just think the pressure through the system now is at a point where there is action and not just words, and how fast does it get addressed is a good question. I mean you would know, in the U.S. only 60% of households have access to curbside recycling. That's not enough. You'd know that in the U.S. it's fragmented, right? It's city by city, municipality by municipality. It will be a journey but I think that today's consumer is educated enough and committed enough to help ensure that outcome and the brand owners are following. That's where the optimism comes from.

Debbie Jones:

Okay, great. Thanks for all the information and I'll turn it over.

Ron Delia:

Thanks, Debby.

Operator:

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

John Purtell:

Good day, guys. Just a couple of questions.

Ron Delia:

Okay.

John Purtell:

Hi Ron. In terms of sustainability, you've obviously highlighted some of the longer term issues, but just in terms of what you're seeing as far as impacts on the business and the short term, you've called out North American water, but other impacts are you seeing, either positive or negative on the business right now?

Ron Delia:

That's a great question. The short answer is John we really don't see anything in the here and now. If you look at the industry figures, and everyone focuses on PET which is the easiest one to focus on. It's not the biggest part of our business but it's obviously quite visible. If you just take PET and beverages in North America, the growth in the third quarter was the strongest quarterly growth that PET has had in the last five or six quarters. So, there doesn't seem to be any real shift in terms of demand patterns in the market at large, that's the first thing. We don't really see it impacting the business.

I think where we see action in the business, not so much in the results but in terms of activity, is sourcing of recycled materials. No question, that's intensified, our own activity in sourcing more recycled material.

Then I think the other thing is obviously the product development agenda and the dialogue with customers is probably increased by order of magnitude. So, those are the current impacts you see on the business. Today it's more activities, activity level as opposed to financial statement impact.

John Purtell:

Okay. Just sorry, lastly, a two part question here (inaudible). Just in terms of North American Flexibles, what drove the higher sales and volumes? Obviously you've got a couple of things happening there in terms of growth in protein, in terms of meat and cheese but weakness in dry goods. How did that sort of play out?

Ron Delia:

For our business, really the growth in the quarter was from healthcare and from what we would call liquid packaging that is higher barrier properties that is a substitute for metal cans or is for refillable formats as well. It would be more the structures that provide high barrier where we saw good growth, and the healthcare and markets, both medical and pharmaceutical would be the particular areas of strength.

John Purtell:

Thank you. Just last one. Latin American volume weakness, how did that track through the quarter and Bemis, you mentioned previously was profitable in July. How did that track through August and September? Thank you.

Ron Delia:

That's right, John. I mean the softness in LatAm in the Flexibles business was primarily from that legacy Bemis business that we flagged in August. What I would say there is really it's a good news story. Sales are obviously weaker than prior period. They continue to track weaker than prior period, but the business is in a much better place. It's returned to profitability for the quarter. The bottom line has benefited from the quick actions that were taken in the summer, northern summer around the cost base, the headcount takeout and some of the other things. I think we probably feel a lot better about that business than we did three months ago or two months ago when we last spoke, but the top line is still soft and I wouldn't say that there was any major shift through the quarter sequentially. We're going to wear a bit of a softer top line there but the business in back in the black.

John Purtell:

Okay, thank you.

Operator:

Your next question comes from the line of Salvatore Tiano with Vertical Research.

Salvator Tiano:

Yes, hi Ron and Michael. Wanted to ask about your Rigid packaging. Firstly, (inaudible) the mix impact in Latin America because it seems sales excluding currency and raw materials were still down despite posted volume and mix in North America, so I'm trying to understand what was the mix impact that drove the entire segment down.

Ron Delia:

The mix in this business is driven by a number of factors but one that impacted the quarter primarily was the product mix in Latin America. If we sell more preforms and less hot fill containers that will have a negative mix impact, both on the sales line and the profit line, and that's really what we're referring to there.

Salvator Tiano:

Okay. Can you also provide a little bit more clarity with regard to North America volumes. What drove the growth? Was it hot fill? Cold fill? How did you do in Specialty Containers? Do you believe you are growing with the market or are you still gaining market share like plastics have been doing historically?

Ron Delia:

I think our growth was pretty flat in the beverage space. We had good growth in some of the other segments, food and healthcare which we would put in the Specialty bucket. I mean I wouldn't read to much into a 90-day period. I'd say generally the format took a bit of share and grew about 2.5% and we over time have been gaining share and that hasn't changed, but I think for the quarter it would be safe to say the volumes are more or less flat in the beverage categories with a little bit of growth in the Specialty space.

Salvator Tiano:

Perfect. One last question. You know, we've talked about sustainability and it seems that companies that do make plastic packaging are now starting to fight back and make a stronger case for their product. The corporate world seems to understand that, you have these quotes by some of your very large customers about the importance of plastics, but have we seen any change in the attitude of legislators?

Ron Delia:

That's a good question. Look, I mean maybe I'll respond to the first part of the question. I think there's no doubt there's a shift in the communications from the big brand owners over the last several months. I think you can track comments by any of the large MNCs and what I think you see is a much more balanced position on the topic. I think you see an acknowledgment of the impact of greenhouse gases. I think you see an acknowledgment of the need for more waste management infrastructure. I think you're also starting to see the acknowledgment that the consumer has a role to play in this, that even with the right package design and even with the right waste management infrastructure, we still have to make sure consumers understand what they're supposed to do at the end of the use of a package and that they actually do it.

I think I would say that the narrative, particularly from the industry at large and that includes our suppliers and our customers and probably some of our competitors, I think the narrative is much more balanced and helpful and informative.

As far as what legislators and regulators have to say on the topic, I sort of—I'd probably not comment.

Salvator Tiano:

Thank you so much.

Operator:

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

Larry Gandler:

Just my question related to Latin America and I'm just wondering, Ron, if you're starting to see reusable containers perhaps explain some of the flatter volumes in LatAm that you achieved, rather than any other factor there.

Ron Delia:

No, you know, we've seen really good growth in reusables. I mean in a market like Mexico it's double the volume of two years ago, but the base is very, very small. It's low single digit percentage penetration in terms of our mix. It's actually those containers would be accretive to our mix as well. They tend to be high margin and there's a bit of technology in the design.

I would say it's encouraging because the brand owners are also putting a lot emphasis behind those containers in Mexico and Brazil in particular and we're right there in the middle of it. At the moment, the numbers are pretty small.

Larry Gandler:

That doesn't eat into your one-way package volume having a growing reusable base there?

Ron Delia:

No, it's actually—typically it's geared towards a different segment. The returnables tend to be 2 liter or even 3 liter now is some of the latest format, 3 liter carbonated soft drink containers in a refillable format. A lot of the growth that we see in that region is in single serve for away from home consumption, so it's really tapping into two different occasions.

Larry Gandler:

Okay, great. Specialty Cartons North America, (inaudible) reported some weak volumes there, but you guys seem to be bucking, at least in terms of revenue bucking that trend. Just wondering if you can comment on how you guys are pulling that out?

Ron Delia:

Well, we have a mix of customers in that business, as you know, and we actually had growth in the Americas, which continues the last several quarters of growth, modest, but positive. Yes, that customer did have weak volume for the quarter, but I think there's still share opportunities in this business. There's still premiumization opportunities which helped drive the top line and the business in the Americas is quite healthy.

Larry Gandler:

Yes, that's what I was wondering. Is pricing a main driver of the better revenue performance there in the Americas?

Ron Delia:

It's a little bit of all the drivers that you would expect, including some volume.

Larry Gandler:

Okay. I just wanted to ask something on the sustainability side of things. It's my understanding that virtually 80% of the mismanaged plastic waste comes from five or six countries on the planet, so there's a lot of discussion about recycling infrastructure and waste management infrastructure, which sort of goes to the developed world, but what can Amcor do to really improve the waste management infrastructure or motivate governments, perhaps even help fund that waste management infrastructure in the countries where the planet is really being affected, which is, you know, India, Indonesia, etc.

Ron Delia:

I mean it's a good point, perceptive point. I think there's a handful of rivers actually in Asia that account for a big chunk of the ocean plastics in the world, so you could start there and make a real impact.

Look, what can we do? I'd say it's the same mix of levers we have in developed countries as well. First of all, we got to do our part and we got to make sure that the packaging is recyclable or compostable in the first place, and we're making good progress there.

I think secondly we're a big company but we're only one company. We're going to have to work with others. It's a big scale macro problem and we can help inform the debate by providing insights and messaging and technical expertise, and the other thing we can do is help fund pilots. Pilots can be really impactful. We happen to be, along with others, launching one in Pottstown, Pennsylvania, which is the MRFF pilot I referred to earlier, and there's plenty of opportunities for us to support pilots like that in the developing world as well.

I think, Larry, we can make sure our packaging is designed right in the first place. We can help inform the debate, including with governments, and then we can also help contribute in this form of pilot projects that can then eventually scale up.

I have to tell you, it's a full frontal attack on multiple, multiple dimensions.

Larry Gandler:

Do you think these countries need a resin tax, which I've raised a couple of times in my research, to help fund waste management infrastructure? Do you think that's a solution?

Ron Delia:

Look, somebody has to pay for the infrastructure and I'm not sure that a resin tax that is applied just to one substrate is the answer because ultimately the issue here is waste. I don't think that a tax on one type of material which may disadvantage it versus others is necessarily the right answer, but as it relates to things that are closed loop in nature, where the funding that's generated goes directly to the required infrastructure, we're much more interested in those types of solutions.

Larry Gandler:

Okay, absolutely. All right, thanks guys, for your help.

Ron Delia:

Okay. Thanks, Larry.

Operator:

Your next question comes from the line of Richard Johnson with Jefferies.

Richard Johnson:

Ron, could you talk a little bit more generally about the performance of the Bemis assets in the quarter? I'm particularly thinking about in relation to the $112 million it's reported. If I think about that number compared to what historically they've produced in the September quarter and the fact, presumably, that the 112 has got some synergy in it, and it benefits from some accounting changes, is it reasonable to assume there's little or no growth on those assets?

Ron Delia:

Richard, no, it's not reasonable to assume there's no growth. There is good organic growth across the businesses, both Flexibles and Rigids. We had 10% EBIT growth of which a good chunk of that was the base business and then the $10 million of synergies that we referred to.

I think you might be talking about last year's number. There's a table at the back which is the comp, $112 million was the legacy Bemis contribution.

Richard Johnson:

I'm just thinking about Bemis standalone, and if I think about what historically they've produced in their September quarter, that 112 doesn't suggest to me that there's a lot of growth because that 112 has been flattered by accounting changes anyway when you compare it to legacy Bemis. I'm just trying to get a sense of whether those assets have actually delivered growth in the quarter.

Ron Delia:

The short answer is those assets have delivered growth in the quarter the 112 you're referring to is last year's number.

Richard Johnson:

Okay. Got you. Okay, that's fine. Then, secondly, on sustainability, another very large North American packaging company yesterday made the comment that they thought plastic replacement opportunity was $5 billion over time, so I'd just be interested to get your sort of take on that. They called out the beverage market, which they've done previously, so I just wondered if you could update me on where the beverage overwrap business at Bemis sits at the moment.

Ron Delia:

The overwrap business, it's one of many flexible packaging formats and it's a good healthy business. There's actually technology in bundle shrink wrap for beverages. You have to go to pretty dramatically different format with different functionality if you wanted to replace that. It doesn't mean it's not possible but that's not a very meaningful part of the portfolio.

Richard Johnson:

Okay, thanks great. Thanks very much.

Operator:

Your next question comes from the line of Grant Slade with MorningStar.

Grant Slade:

Hi Ron and Michael, thanks for taking my question. Just a really quick one from me on the remaining synergies that you expect to flow this fiscal year. How should we think about the remaining $55 million being allocated between the Flexibles and other segments? Thanks.

Ron Delia:

The synergies are really accruing in the Flexible space, Flexibles and Corporate. I think that you're going to see the vast majority of them in Flexibles over time. I think because this year is more heavily skewed towards overhead synergies you will see more balance in, a little bit more in Corporate, and there will be more to come. I think we called out 5 in Flexibles and 5 in Corporates for the quarter. You'll obviously see both numbers grow, but as we get to the later quarters you're going to see the Flexibles portion increase disproportionately.

Grant Slade:

Okay, great. Thanks for that.

Operator:

Your next question comes from the line of Keith Chau with MST Marquee.

Keith Chau:

Good morning, Ron and Michael. I'll try and keep this brief. Just (inaudible) around the discussions with customers who are ultimately trying to shift towards using more recycled inputs, as this happens, will Amcor be able to pass through the costs of recycled PET, for example, straight through to customers, noting that (inaudible) prices now sit about virgin PET in some regions. In other words, is it simply like a pass-through like the price of oils associated with the oil price or is it discussions with customers somewhat centered around the sharing of the burden?

Ron Delia:

At the moment it's a straight pass-through. I think the challenge for everybody in the value chain now is to get their hands on as much recycled material as possible. It has historically and continues to carry a premium, but I think it's clear the way the industry model has been set up over decades that the pass-through of raw materials is just fundamental to the way the business operates. The cost of recycled resin gets passed along just like the cost of virgin materials does.

Keith Chau:

Okay, thanks, Ron. Just a single follow-up on the Flexibles business. I think you briefly spoke about applying some of that $50 million of sustainability spend to I guess in part changing some of your assets to be able to take on new materials. Is it a matter of reconfiguring your existing fleet of assets to be able to handle alternate film products like recycled plastic or bio-based films, or is there—if we really take this to extremes and talk about the entire fleet being converted to be able to handle some of these alternate or recycled films, is there much cost associate with that?

Ron Delia:

No. Look, it's a good question. It's not really a question of reconfiguring the existing fleet. We have machines that laminate different materials together and they can laminate any type of polymer or substrate, whether it's made of recycled content or virgin content. It's not so much about reconfiguring.

Some of the investments will be in places where we're literally just sold out, where we've got more demand for some of the recyclable structures than we have capacity for, or some of the ancillary equipment to handle new materials and recycled inputs.

The assets in the business, both in Flexibles and in Rigid packaging, are fully fungible between virgin material and recyclable.

Keith Chau:

Okay, thanks very much, Ron. Appreciate it.

Operator:

At this time you have no further questions. Do you have any closing comments?

Ron Delia:

Operator, I think we'll leave it there. Thanks everyone for joining the call today.

Operator:

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.