Amcor Plc

2024 First Half and Second Quarter Results

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Michael Casamento
Amcor Plc; Chief Financial Officer

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PRESENTATION:

Operator: Good afternoon. (Operator Instructions) At this time I would like to welcome everyone to the Amcor's First Half and Second Quarter 2024 Results Conference Call. (Operator Instructions) I would now like to turn the conference over to Tracey Whitehead, Head of Investor Relations. Tracey, you may begin your conference.

Tracey Whitehead: Thank you, Operator. And thank you, everyone, for joining Amcor's fiscal 2024 first half and second quarter earnings call. Joining today is Ron Delia, our Chief Executive Officer; and Michael Casamento, Chief Financial Officer.

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

Please be aware that we'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 lists several factors that could cause future results to be different than current estimates and 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: Thanks, Tracey. And thanks everyone for joining Michael and myself today to discuss Amcor's second quarter and first half results for fiscal 2024. We will begin with some prepared remarks before opening for Q&A.

As seen on Slide 3, our focus on safety remains unwavering, and our significant commitment to providing a safe and healthy work environment continues to be rewarded. 70% of our sites have been injury-free for the past 12 months or longer, and we've experienced a 17% reduction in injuries when compared to the first half of fiscal 2023. Safety is deeply embedded in Amcor's culture and is the number one priority for our global teams.

Turning to our key messages on Slide 4. First, our reported earnings per share for the second quarter and first half were modestly better than the expectations we set out in October. And improved working capital performance helped drive a year-over-year increase of more than $100 million in adjusted free cash flow.

Second, our financial performance through the half was supported by strong and proactive focus on controlling costs. This helped us offset second quarter volumes that were a couple of percentage points lower than we anticipated. Our teams around the world continue to respond doing an excellent job proactively taking further cost actions.

Third, our first half financial performance puts us on track to deliver against our full year guidance, which we are again reaffirming today. Relative to the first half, we believe Q2 was the low point for earnings growth and we continue to expect the trajectory of adjusted EPS growth to improve through the second half of fiscal '24, including delivering mid-single-digit adjusted earnings growth in the fourth quarter.

Our confidence is supported by our improved earnings leverage as well as a number of known factors we will cover in more detail later that will benefit earnings through the second half of the fiscal year. Additionally, our volume trajectory has improved generally through January and this underpins our confidence that Q2 marked the low point for volumes.

Finally, we remain confident in our long-term growth and value creation strategy and in our ability to deliver a combination of strong earnings growth and a compelling and growing dividend. The strength of our market positions, execution capabilities and consistent capital allocation framework collectively continue to make a compelling investment case for Amcor.

Moving to Slide 5 for a summary of our financial results. Organic sales on a comparable constant currency basis were down 8% for the half and 10% for the quarter. Price/mix benefits were around 1% for the first half and flat in the second quarter, reflecting moderating inflation, which resulted in reduced pricing actions by our teams.

Volumes were down 9% for the first half and down 10% for the December quarter. Second quarter volumes were modestly lower than our October expectations, with the main difference being an acceleration of destocking, especially in the month of December.

First half and December quarter adjusted EBIT was $709 million and $352 million, respectively, modestly above our expectations. On a comparable constant currency basis, declines of approximately 6% in both periods reflect lower volumes, partly offset by benefits related to decisive and proactive cost actions taken across our businesses in response to evolving market dynamics.

In total, our actions reduced costs by more than $200 million in the first half compared to last year, with a reduction of more than $130 million achieved in the second quarter. Adjusted EPS was 31.3 and 15.7 US cents per share, respectively, also modestly above our earlier expectations. For both periods, this was down 10% on a comparable basis, reflecting lower adjusted EBIT and the unfavorable impact of higher interest costs.

Working capital improvement remains a focus and helped drive free cash flow for the first half, well ahead of the same period last year and in line with our expectations. We returned approximately $390 million of cash to shareholders in the first half through a combination of share repurchases and a growing dividend, which has increased to 12.5 US cents per share. I'll turn it over to Michael now to provide some further color on the financials and our outlook.

Michael Casamento: Thanks, Ron. Hello, everyone. Beginning with the Flexibles segment on Slide 6. Year-to-date, net sales on a comparable constant currency basis were 8% lower, which largely reflects weaker volumes. Volumes were down 9%, mainly due to lower market and customer demand and accelerated destocking.

In North America, first half net sales declined at high single-digit rates driven by lower volumes in categories, including meat, liquid beverage and health care, which more than offset growth in the condiments, snacks and confectionery categories.

In Europe, net sales declined at low double-digit rates driven by lower volumes, partly offset by price/mix benefits. Volumes were lower in snacks, coffee, health care and in unconverted film and foil. This was partly offset by higher confectionary volumes.

Across the Asian region, net sales were modestly higher than the prior year. Volume growth in Thailand, India and China helped offset lower volumes in the Southeast Asian health care business.

In Latin America, net sales declined at high single-digit rates driven by lower volumes mainly in Chile and Mexico, partly offset by growth in Brazil.

First half adjusted EBIT was 5% lower than last year on a comparable constant currency basis as a result of lower volumes, partly offset by favorable price/mix benefits and ongoing actions taken to lower costs, increased productivity and strengthening operating cost performance.

EBIT margin of 12.6% was comparable to prior year despite a 50 basis point unfavorable comparison related to the sale of our Russian business last year. For the December quarter, reported sales were down 9% on a comparable constant currency basis, and price/mix was relatively neutral compared with last year. Volumes were down 10% in the quarter, reflecting continued soft market and customer demand. Destocking also continued through the quarter accelerating in the month of December and was particularly impactful in health care where volumes were lower than last year by double digits.

In response to market dynamics, the business continued to take decisive cost actions, focusing on operating efficiencies and delivering procurement benefits, limiting discretionary spend and advancing structural cost reduction initiatives. This resulted in another quarter of strong performance, partly offsetting weaker volumes with adjusted EBIT declining 5% on a comparable constant currency basis.

Turning to Rigid Packaging on Slide 7. Year-to-date net sales on a comparable constant currency basis were 8% lower, with price/mix contributing around 1%. Volumes were down 9% for the first half, with lower volumes in North America, partly offset by growth in Latin America. In North America, overall beverage volumes for the first half were 14% lower than last year, including a 13% reduction in hot fill beverage container volumes due to lower consumer and customer demand and elevated levels of destocking through the first half.

In Latin America, volumes grew mid-single digit rates with new business wins in Brazil, Peru and Colombia, partly offsetting lower volumes in Mexico. Adjusted EBIT was 9% lower than last year on a comparable basis, reflecting lower volumes, partly offset by price/mix benefits and favorable cost performance.

For the December quarter, net sales were also down 10% on a comparable constant currency basis. Price/mix contributed around 2% and volumes were down 12% for the quarter, reflecting lower volumes in North America, partly offset by new business wins, driving mid-single-digit growth in Latin America.

Overall, North American beverage volumes were 19% lower for the quarter, reflecting a high single-digit decline from destocking as some of our customers took action to significantly reduce inventories in both hot fill and cold field categories. Volumes were also impacted in the high single-digit range by incrementally softer consumer and customer demand in Amcor's key end markets.

In addition, we had net new business wins in the hot fill category, which partly offset losses in cold fill as we elected not to retain volumes that fell short of our profitability threshold. Second quarter adjusted EBIT declined by 12% reflecting lower volumes, partly offset by benefits from continuing to proactively manage costs, including realizing labor savings by taking more plant shutdown days to better align capacity with market dynamics as well as driving procurement benefits.

Moving to cash and the balance sheet on Slide 8. As Ron covered earlier, adjusted free cash flow for the half came in more than $10 million ahead of last year, with our teams continuing to make progress against our priority to reduce inventories and drive working capital improvements across the board.

Our financial profile remains solid with leverage at 3.4x, and broadly in line with the first quarter and where we expected it to be as we cycle through temporary increases in working capital and given trailing 12-month EBITDA now fully reflects the divestiture of our Russian business.

Looking ahead, we continue to expect leverage will decrease to approximately 3x at the end of our fiscal year, supported by seasonally stronger earnings and cash flow in the second half.

This brings me to our outlook on Slide 9. As Ron mentioned earlier, we are reaffirming our full year guidance for adjusted EPS of $0.67 to $0.71 per share. We continue to expect the underlying business to contribute organic earnings growth in the plus or minus low single-digit range, with share repurchases adding a benefit of approximately 2% and favorable currency translation contributing a benefit of up to 2%. This is offset by a negative impact of approximately 3% related to the sale of our Russian business in December 2022, the impact of which was all in the first half.

We also expect a negative impact of approximately 6% from higher interest and tax expense, which takes into account our estimate for full year net interest expense of between $315 million to $330 million, which is modestly lower than where we were forecasting last quarter. Our full year tax rate expectations are unchanged in the range of 18% to 20%.

In relation to phasing, we believe that the December quarter marks the low point in terms of Amcor's earnings growth and volume declines. January volumes have improved following heavy customer destocking in December.

While we expect market dynamics to remain volatile in the near term, our volume trajectory is expected to continue to improve through the balance of the year. We anticipate Q3 volumes will be down in the mid-single-digit range and expect fourth quarter volume declines in the low single-digit range.

Taking into account offsetting benefits from cost reduction initiatives and a reduced headwind from higher interest costs compared with last year, we expect third quarter adjusted EPS to be down mid-single digits on a comparable constant currency basis. For the fourth quarter, we expect adjusted EPS to increase by mid-single digits over the prior year. Ron will talk through the factors that support this return to growth shortly.

Adjusted free cash flow continues to trend better than last year as we expected and we are again reaffirming our guidance range of $850 million to $950 million for our fiscal 2024 full year, which will be up to $100 million higher compared with last year. Our plan to repurchase at least $70 million of Amcor shares in 2024 is unchanged, and we continue to pursue value-creating M&A opportunities. With that, I'll hand back to Ron.

Ron Delia: Thanks, Michael. Prior to opening the call to questions, I want to provide additional insights into our outlook for the balance of the year as well as a reminder, on what are the key components comprising our longer-term model for driving shareholder value.

Looking first at the balance of fiscal 2024. As I referenced earlier and as highlighted on Slide 10, there are a number of key factors already known to us that give us confidence our earnings trajectory will improve through the second half of the fiscal year.

First, the earnings headwind related to the sale of our business in Russia is now fully behind us, eliminating an unfavorable comparative that impacted reported earnings throughout calendar 2023. Second, while second half interest expense is expected to be higher than last year, the magnitude of the headwind from the rapid rate increases over the past 18 months begins to abate as we move through the balance of the year.

Third, we have benefits from structural cost savings of $35 million in the second half with an additional $15 million to benefit fiscal 2025. These savings are primarily related to plant closures as we optimize our global footprint. Fourth, earnings leverage has improved due to our commitment to take proactive actions to align our cost structure with evolving market dynamics. This includes eliminating shifts to take out labor, reducing over time, driving procurement and maintaining tight control of discretionary spend.

In total, over the last 12 months, we reduced headcount by more than 2,000 full-time employees or approximately 5% of our workforce with more than 1,000 of these reductions taken out in the first half of fiscal 2024.

From an earnings perspective, operating costs were lower by more than $200 million in the first half of fiscal 2024 compared with the prior period and more than $100 million of this cost reduction was delivered in the second quarter, which is almost double the approximately $70 million delivered in the first quarter. The result has been and will continue to be improved earnings leverage which we have achieved this financial year-to-date despite significantly lower volumes.

As Michael mentioned, we are off to a better start in January and are confident Q2 marks the low point for earnings growth and volume declines and with our overall trajectory expected to improve as we move through the balance of the year.

To sum up, we are confident the positive earnings impact from multiple known factors will drive improved momentum in the second half of fiscal 2024, including delivering mid-single-digit earnings growth in our fiscal fourth quarter. Importantly, we are not assuming an improving consumer demand environment, and we will continue to be proactive in taking actions to ensure our cost base and pricing strategies reflect market conditions.

Moving to Slide 11. As we look beyond the second half of this fiscal year, these known factors will serve as important building blocks supporting a return to delivering against our shareholder value creation model, through a combination of strong earnings growth and a compelling and growing dividend, currently yielding 5%.

The starting point in creating value will always be growing the business and over the last 10 years, we have averaged 8% growth in adjusted earnings per share. As you can see on this slide, we have multiple drivers of margin accretive growth, each with significant opportunity over the longer term.

We will also continue to enhance our ability to grow in these areas through stepping up CapEx over a multiyear period, and executing on strategic M&A. As volumes normalize and improve, these generally faster growing and higher value growth areas will represent a larger proportion of sales becoming increasingly stronger contributors to earnings. And when we return to a more normalized volume growth environment, this combination of improved mix and the proactive steps we've taken to optimize our cost base positions Amcor well to again deliver strong earnings growth in line with our long track record.

To close on Slide 12, we are executing well to deliver against the earnings and cash flow expectations we set coming into fiscal 2024. Our teams are being proactive as market dynamics evolve and focusing on the controllables to take additional cost out where appropriate.

We have line of sight to mid-single-digit earnings growth in Q4 and our commitment to our longer-term growth and value creation strategy positions us well to deliver on our shareholder value creation model when the volume environment normalizes. Operator, with those opening remarks, we are now ready to turn the line over to questions.

Operator: (Operator Instructions) Your first question comes from the line of Ghansham Panjabi from Baird.

Ghansham Panjabi: Good day. I guess, first off on the volume declines across the portfolio, which looks like it's about six quarters of negative year-over-year volumes at this point.

Obviously, you're not the only ones. But there's been quite a bit of chatter from your customer set all the way down to retailers about increased promotional spending. Just curious as to whether you're starting to see direct signs of that at this point -- and if so, which categories, food, beverage, consumer staples, et cetera?

Ron Delia: Yes, thanks for the question. Maybe I'll just mention the volume declines at a high level first and then come back to your question about signs of promotions or more aggressive commercial activity on the behalf of the customers.

Firstly, I think where there's overlap, we are not really seeing any differences compared to others. So that would be the first thing I would say. Our 10% total decline in the quarter is about 2% worse than we expected going into the quarter. So we weren't actually expecting a much different outcome. Things did track according to those original expectations in October and November, where we were kind of declining in the range of high single digits.

December, we saw a really accelerated destocking, which accounted for the incremental softness in which we more than offset to deliver the profit. So that's the starting point.

In January, as we have alluded to, was much better. We have seen improvement in most of our businesses versus H1, and it really underpins our view that Q2 was the low point, and it really underpins our Q3 and Q4 expectations.

To continue and round it out a bit in terms of unpacking the decline roughly by driver, roughly half of our 10% decline, around mid-single digits was related to market impacts. This is a combination of consumer demand, and customer and segment mix. Roughly half or another mid-single-digit contribution was from destocking. That's pretty much the same in both the Flexibles and Rigid Packaging segments.

By geography, emerging markets broadly flat. Asia up modestly, Latin America down modestly. But the developed markets is where we have been especially soft, with Europe a little bit weaker versus North America.

Another way to think about it, just to close off here is of the 10% decline in the quarter, more than 50% of that decline comes from our global healthcare business and our North American beverage business, both of which have experienced the most significant destocking.

So we have had a concentration of impact from those two parts of the business. On the other hand, there are categories growing in some regions, confectionery in North America and Europe, condiments and cheese and coffee in North America and Latin America, and beverage in Latin America. So there are places where the business is growing.

Now to your point, specifically about signs of promotional activity or changing pricing strategies, there is a lot of talk about that. As you rightly pointed out, we hear that from a lot of customers, both publicly and privately.

We are seeing a little bit of that start to take place in the marketplace. But to be honest, we haven't seen that as any kind of a tailwind yet for our volume performance. Our outlook doesn't imply, or it doesn't assume that we are going to see any benefit from the market in the second half either. So we will wait and see on whether or not the pendulum swings a bit between price and volume.

Ghansham Panjabi: Okay. Terrific. Just for my follow-up on that, on the healthcare destocking, is that just a function of having been destocked? Are you seeing it now versus a little bit later than the other categories? Or is there something unique to the timeline associated with the healthcare destocking?

Ron Delia: I think it is a bit unique. The markets have been soft, but the healthcare weakness is really a story of destocking, and it's been significant in both medical device packaging and pharmaceutical packaging, and it's been pervasive and consistent around the world, the destocking in healthcare.

It's really a multiyear story. It's been a multiyear journey here for healthcare, which is ironic because it's been one of the most consistent businesses we have had for a long period of time, and we would expect it returns to that level of consistency. But over the last several years, going back to even COVID, where we had really constrained demand, then very strong demand on reopening, but severe supply constraints, and raw material shortages on things ranging from specialty foils, resins and papers.

Coming out of what would have been our fiscal 2022, which led really to customers building stocks to ensure supply during our fiscal 2023, we had extraordinary volume in fiscal 2023 as a result of customers really buttressing their supply chains and de-risking their supply chains by building up stock.

Now we have customers sitting on substantial inventories of a range of products from medical gloves to device packaging and pharmaceutical packaging, et cetera. We started to see destocking, which actually really started in Q1. We flagged it last quarter, but it accelerated significantly in Q2. We would expect that it's likely to continue certainly through Q3 and possibly into Q4.

It is a bit later stage, than in some other categories, we have seen signs that destocking might be abating, and we are closer to the end. In health care, it has been a later-stage story.

Operator: Your next question comes from the line of Anthony Longo from JPMorgan.

Anthony Longo: Michael. Just a quick one on the cost savings. In the face of the volume declines that you did see throughout the first half and particularly that last quarter, -- and do take your comments on January and thereafter. But I just want to get a sense as to what the outlook looks like for cost savings going forward and how you are still going to manage that declining volume environment with margin growth. What you have achieved thus far, but is there anything over and above that, that you can achieve?

Michael Casamento: Yes, sure. On the cost out, there are two things that we are really doing here. The first is in response to the softening underlying volume demand. On that front, we have clearly taken proactive and aggressive approaches to the cost flexing and really focusing down on productivity gains and discretionary spend.

For the first half, we took out more than $200 million in cost in relation to that, and it accelerated through the half. In the first quarter, it was about $70 million in the second quarter, about $130 million. We are achieving that by taking out and really flexing the cost base in relation to the volume and demand environment.

We were able to take out entire shifts. We were able to take out labor, reduce overtime. We are driving the procurement benefits, particularly in this low demand environment and really tightening up on the discretionary spend. So that will continue as we continue to flex through the volumes. But obviously, as volumes improve, some of that cost, and it's difficult to say, but some of that cost will go back in as we build the shift patterns up.

But we wouldn't expect that to be linear. You'll see us have better leverage there as we work through the second half because of the way we have learned to operate with some of that lower cost and improved efficiencies there. So that's really on the operating cost side.

Then secondly, we are taking cost out structurally. So, in parallel we are advancing the structural cost reduction initiatives that we have talked about on the back of the divested Russia earnings. That's mainly plant closures, and it's around up to 10 across the globe and in both segments. To date, we have announced seven closures and two restructures. Recently, actually, two to three of those plants have closed.

We did start to see a little bit of benefit from that program as we exited the first half. But we are right on track to deliver the $35 million benefit in the second half from that program and then a further $15 million in FY 2025. So really, that's the approach we have taken to the cost-out agenda and part of it is structural and part of it is ongoing.

Operator: Your next question comes from the line of George Staphos from Bank of America.

Cashen Keeler This is actually Cashen Keeler sitting in for George. He had a conflict this evening. So just going off that, are you able to comment at all on how much of that temporary cost saving might ultimately end up being permanent and structural costs that are taken out of the business?

Michael Casamento: It's difficult to say, as I just mentioned, what I can tell you is that things like procurement, there will be permanent savings. The operating cost out that we have taken out of the fixed base will be permanent. The structural program is obviously permanent cost savings that come out of the business.

On the flexing of the cost base, again, it's really dependent on the volume. We think we are much more efficient today. We have been able to proactively act to take labor out of the business overall versus prior year. We have taken nearly 2,000 heads out of the business and about 1,000 since June. So in total, that's about 5% of the work.

As the volumes come back online, we will have to increase some of that, but it is not going to be linear. We will manage that really tightly. We feel we have got good leverage out of that today, and we are more efficient. So you will see us continue to get leverage as we move forward in that. Really, that's going to contribute to the long-term margin benefits that we have typically gained of 20 to 30 basis points a year in our business. So you should see that continue to contribute to that on the longer term.

Cashen Keeler: Okay. Got it, and I appreciate all the color on that and on the volumes. But I guess you said volumes kind of came in lower than you were anticipating. So what ultimately gives you comfort in the guidance for the year? Is it really that cost-out component and some of the other factors you talked to?

Ron Delia: Yes. It's a couple of things. Firstly, on volumes, we are not anticipating any rebound in the consumer or any big improvements in the market. But we do expect that destocking will abate as we work our way through the half. Certainly, a portion of the destocking that we saw in December was certainly year-end optimization, that's not going to repeat.

We do believe we are going to see continued destocking in healthcare and North American beverage. But for the other categories, we are starting to see some evidence that the destocking is abating. So that's one thing. January also was much better. So we had a much better January relative to the first half from a volume perspective, we feel pretty confident in underwriting the volume assumptions for the rest of the year.

Then in terms of the profit, as Michael alluded to, –we have got a number of known benefits, which I rattled through in the opening remarks, but it starts with better operating leverage because we have gotten a lot of costs out of the business and as volumes come back, we are not going to add that cost back one for one, plus the buildup and the momentum on the structural cost side, which, again, will build through the second half with the benefits from plant closures and the like. So several things that give us confidence in the improving trajectory of earnings through the second half, but none of them ha ve to do with areal dramatic improvement at the consumer level.

Operator: Your next question comes from the line of Sam Seow from Citi.

Samuel Seow: You talked about some of your volumes coming in modestly below expectations. And just thinking about your balance sheet, I'm not saying it's going to happen, but just trying to get a feel of what kind of fourth quarter volumes lead you outside of your range at the full year, assuming all other things equal.

Ron Delia: Sam, are you still there?

Samuel Seow Yes. Can you hear me?

Ron Delia: Yes. You broke up there for a second. You broke up right at an important part of your question, which is about fourth quarter volumes.

Samuel Seow Yes. Just trying to get a feel of what kind of fourth quarter volumes would leave you outside of your range at the full year, assuming all other things equal.

Michael Casamento: You mean the guidance range of $67 million to $71 million, is that right?

Samuel Seow No. No. The 3x leverage.

Ron Delia: Okay. We are confident in the cash flow trajectory of the business in the second half. So we are going to be deleveraging from here, we will be at approximately 3x at the end of June. We are pretty comfortable that's the path we are on here.

In terms of volumes, the expectation for volumes that underwrites the EBIT growth in the second half for the EBITDA delivery in the second half is for mid-single-digit decline in the third quarter and a low single-digit decline in the fourth quarter. There is a bit of a range around that. The impact on EBITDA and then therefore on leverage is pretty broad. So we don't anticipate volumes being a major driver of us not getting to approximately three turns at the end of June.

Samuel Seow Okay. And I guess just following on, looking forward, generally, you have lower cash flow in the first half due to seasonality. I think if you do finish at that three turns like your guidance, would you expect to be outside of your range again in first half 2025? Is that the new norm now going forward?

Michael Casamento: If you take where we are right now at this particular point in time, it's a pretty unique point in time because there are two factors that are really impacting the leverage right now. We are at 3.4x, which is right where we expected to be at this time of the year in this situation,

and it’s really driven by the divestment of the Russia business. So we are now fully lapping 12 months earnings out of the business from that. So from here, we don't lap that anymore. We head into more normal earnings trajectory and growth. That's about 0.2 turn of leverage.

Then the second point is really around elevated working capital levels. So we have been carrying elevated working capital levels over the last twelve to 18 months. We have started to work our way through that. The teams have done a good job in the last 12 months on inventory where we have taken inventory out of the system, about $500 million. That certainly contributed to the cash flow improvement in the first half of this year where we are $100 million ahead of prior year already.

But we are still being impacted. We are not getting the full benefit of that inventory reduction because our payables are much lower. So in this environment, where we have seen demand softness and destocking, clearly purchases are well down and in turn, our payables are down.

We have probably still got another $200 million to work through from a cash flow improvement on the back of working capital. We are really targeting a working capital to sales range of between 8% to 9% working capital to sales. Right now, we are at 9.8% on a trailing 12-month basis.

When you put those two items together, leverage at this time of the year would normally be in the more of the 3x range. Typically, in the second half, the seasonality would take a quarter turn off the leverage. So we will get back into that 2.5x to 3x range. As we look forward, that's where we would expect to be in a more normal base. But as I said, we are in a little bit of a unique period of time. From here, we do expect improvements.

Operator: Your next question comes from the line of Adam Samuelson from Goldman Sachs.

Adam Samuelson: So I guess the first question just going on the volume side and just thinking about some of the end markets. And Ron, you gave some good color in the prepared remarks. One of the areas where Amcor has been investing more aggressively has been in the protein space. Can you talk about kind of incremental business wins that you're actually achieving there relative to maybe some end markets that are still pretty challenged on the red meat side, certainly in North America? And how much you can grow in spite of that and take market share in that opportunity?

Ron Delia: Well, yes, it's a good question, and you are right, the market is challenged. If we think about meat across the Flexibles businesses, it's been a mixed story. We have had meat declining in North America through the half. There's soft market, there's destocking in the meat space as well.

But we have seen that stabilize more recently. That would be one of those categories where we are not calling an end to the destocking cycle, but we certainly see signs that it's stabilizing a bit.

Similarly, in Europe, we have seen a bit of a stabilization in meat volumes in the last couple of months. In Latin America, we started to see some growth as well. So I think meat is, as a general category globally, meat is one that feels like it is coming out the other end of the destocking cycle, at least for us, or at least there's some green shoots that give us some reasons for optimism would be the first point. Certainly, as we exited January as well, that would be the case.

The second part of your question is a bigger picture question, and I think it's going to be a little bit longer dated, which is around our aspirations to win share in this space. You are aware that we made a purchase of a machinery company less than 12 months ago, which should be part of that total system solution that we are going to market with.

We are optimistic that we have got the right consumables, the right film structures and the right technical service staff to support the equipment offering. We think over time, that's going to be a great combination and we will take share not just in North America but around the world. There is not any evidence I can point to yet of that, Adam, because the near-term dynamics are well and truly overcompensating for any modest share pickup that we might be enjoying.

Adam Samuelson: Okay. I appreciate that color. And if I can ask just a quick follow-up. You do have a business and presence in Argentina, both for Flexibles and Rigid on the beverage side. I think you strip out all the inflation accounting for the devaluation, but you talked about the volume environment in Argentina and how you are thinking about that over the next couple of quarters given what I would imagine is a pretty challenged consumer environment.

Ron Delia: Yes. Look, Michael can talk about the accounting that you referenced. But from a business perspective, first thing I would say is we have been in Argentina since the mid-90s, over 30 years. It is a business that's about 2% of sales and about 2% of EBIT. We have five plants there actually across the two segments as you alluded to.

Having been there for 30-odd years, we have been there through multiple economic cycles and crises. The business is relatively local and we have maintained total control over the business. So it's still a business that's functioning more or less normally.

In terms of how we manage it, we continue to drive localization. It is essentially a local business. Already, there’s no exports, but to the extent there’s anything imported by way of raw materials, we are continuing to drive more localization of the key inputs. Most importantly, probably, we continue to price ahead of inflation. It's always been a hallmark of that business in that country and continues to be.

Then we continue to focus on cost because our expectations are that demand will continue to slow as consumers adjust to the new macroeconomic realities in that country. So that's a little bit about the business and how we manage it. Michael, do you want to talk a bit about the accounting?

Michael Casamento: Yes. on the accounting you referred to, Argentina has been designated a hyperinflation economy since 2018. So consistently, since that time, if there's been a devaluation that we see that impacts the monetary assets on hand, that's being treated as an SI. This quarter, there was a change of government and in December, we saw a 55%

devaluation. You see the charge of $34 million to the P&L in the quarter in the SI bucket, and that's really the outcome of that on our monetary assets only and that followed Q1 where there was a 20% devaluation. So really, that's the treatment of the accounting. It's been consistent all the way through since the 2018 approach.

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

Richard Johnson: Thanks very much. Ron, I just wanted to ask a question about Rigid Packaging and how you are thinking about the business now strategically. I was just trying to remember whether I've seen volume declines in the December quarter in the past, anything like that we saw in the December quarter, particularly in hot fill, and that's even if you adjust out destocking. So just interested to get your view on how you think the business is placed at the moment.

Ron Delia: Well, yes, listen, Richard, you don't remember seeing volume declines at that level because you haven't seen them at that level. I mean it's just the reality of it. It's been a good business for a long period of time. It suffered really from a volume perspective, from the same drivers as the rest of the company, although with higher impacts. We have had market impacts that we would say, attributed to a high single-digit decline in volumes.

That's inclusive of consumer demand down low to mid-single digits in some segments that are important to us, maybe down some more, some customers lagging the market. That all wraps up to a high single-digit impact on volumes for both North American beverage at large and hot fill, specifically that we would attribute to market impacts.

Then the bigger impact actually for us in the quarter was the destocking. The destocking is really being driven by a couple of things here, which are working in opposite directions. First is that traditionally, in this business, you would have some inventory prebuild in what is our fiscal second and fiscal third quarters in advance of the high season, the beverage season in North America. There's historically a bit of inventory buildup, that's not happening this year. So there's no prebuild this year.

At the same time, we have some customers and big customers with very, very aggressive inventory reduction targets. So rather than building, we are reducing. There was a significant acceleration in that activity to reduce inventories in the month of December, which ultimately led to a high single-digit impact on North American beverage at large, but a high teens impact in hot fill.

While we saw some modest improvement in January, we do believe that we are going to continue to see a destocking impact in the third quarter. So that's really what's going on there. That's unprecedented. We still believe in the business. The business is well positioned in terms of its market stature.

It operates in a in a reasonably well-structured market. It has world-leading technology. Its footprint is reasonably optimized. We are taking a couple of small plants out as part of the restructuring program, but it's reasonably well optimized. It needs to just weather the storm,and that's on the beverage side.

Then let's not forget that outside of beverage, we have a reasonably sized specialty container business which looks and feels almost like a Flexibles business because of its end market exposure and that business has room to grow. Latin America continues to be a very good business, including in the first half and in the second quarter, where we saw volume growth with new business wins in Latin America, too. So it's a portfolio of businesses.

At its core, is the beverage business in North America that gets a lot of attention but shouldn't forget about the other parts as well.

Operator: Your next question comes from the line of Brook Campbell-Crawford from Barrenjoey.

Brook Campbell-Crawford: Can you just confirm what the level of volume growth or decline was in January? And then as a follow-up to that, is there not a risk here that you extrapolate January volumes for the rest of the quarter when perhaps there was a benefit in Jan because customers have effectively delayed orders in December and push it into January. Therefore, January might not be a good indicator for the rest of the quarter? That's the question.

Ron Delia: Yes. We won't give a number on January other than to say it was an improvement over December and an improvement, not everywhere, but in most parts of our business. We did have some parts of the business even that grew modestly. So that's probably as much as I would say in terms of trying to dimension January.

I understand the nature of your question, particularly the second part as to whether or not we are being overly optimistic on the back of one month. It is one month, and we are well aware that it's one month. We are flagging that we will see continued destocking impacts in healthcare globally and in North American beverage. That no matter what happened in January, we know it will be the case certainly in Q3 and potentially into Q4, we are also not banking on any improvement in the consumer.

We are being relatively conservative and not reading too much into one month, but it is a month, and it does suggest as we expected that the low point for us from a volume point of view and earnings growth as well was the second quarter.

Operator: Your next question comes from the line of Jakob Cakarnis from Jarden Australia.

Jakob Cakarnis: Michael, I just want to build on Brooks' question there, though. Obviously, December was significantly weak. So January improvement might not necessarily move you guys back to increase. So I just want to square some of the commentary still where you're saying that you'll see a mid-single-digit volume decline in the third quarter and then low single digit in the fourth quarter. Can you just help us on the commentary around the January improvement, is that relative to the negative or the decline that you saw through the month of December specifically?

Ron Delia: Yes. It's relative to the performance in the whole first half and in the second quarter, and in December. So when we are talking about improvements in January in most parts of the business, where that's relative to the first half. That's the first part.

The other thing to keep in mind is as we work our way through the balance of the fiscal year, a couple of things will also underpin those growth assumptions that we have outlined.

One is that we do expect outside of healthcare and North American beverage, we do expect the year-end destocking that we saw in December not to repeat. Some continued abatement or continued destocking runoff or reduction in much of the rest of the business. That's the first thing.

The second thing, particularly as we get to the fourth quarter, the prior period comp gets a little bit easier. Our volume challenges really started in the latter part of last fiscal year, And So as we get to Q4 this year, we have got the benefit of a comparative period, which wasn't so strong.

Jakob Cakarnis: Just one more for Michael, if I can. Just on the net interest guidance, obviously, a little bit lower than where you were guiding to initially, how much of that's the movements in forward curves and expectations for rate or interest rate declines or cash rate declines in the U.S. through the balance of the year, please?

Michael Casamento: Yes, sure, you saw that we brought our guidance just slightly down from a range of $320 million to $340 million down to $315 million to $330 million. That's really all on the back of the forward curves and the interest rate hikes would appear to have reached its peak now, and potentially, you might see one rate reduction late in our fiscal year. But really, that's the slight improvement, it is really on the back of that forward curve. After tax, it's a pretty minimal impact on the full year guidance.

Operator: Your next question comes from the line of Cameron McDonald from E&P.

Cameron McDonald: Question for Mike, just in terms of -- well, the tax rate and then the capital structure. So the tax rate sitting s around under 19%. What jurisdictions are you getting a tax benefit from given the corporate tax rate in most of your jurisdictions is in excess certainly of that number, but in excess of sort of 20%?

Michael Casamento: We operate across a broad range of countries globally. In addition to that, the mix of earnings can be different in every geography and location. Then the overall underlying performance of the business can change. So when you wrap that all up for our business, we are guiding to 18% to 20% tax rate.

We have typically been around that 20% range for a long period of time. So it's really just the combination of the earnings, the country mix and the underlying performance of the business.

Ron Delia: The differences in deductibility of different expenses by jurisdiction, which then, you have to factor in, in addition to the headline tax rates in those jurisdictions.

Cameron McDonald: Okay. And then just in terms of the capital structure, comments earlier about the balance sheet and the leverage. Part of the investment thesis has been EPS growth. A big chunk of that has been undertaken through share buybacks. What's the leverage ratio that we should be expecting before we would start to see a discussion around the buyback being reimplemented? Do we have to get back down to the mid-2s? I think the last time you had a buyback active was sort of 2.7x leverage.

Ron Delia: Buybacks and MA is the way we think about the discretionary cash flow for the business. We will have bought back over three fiscal years and acquired to the tune of about $1.2 billion.

We will have done over $1 billion in buybacks, and we will have invested somewhere close to $200 million in investments and acquisitions. So that’s essentially three years of discretionary cash that’s been invested in the business. It’s a little bit lumpy. It’s not exactly even over the 3-year period, but that’s been what we have done.

From a leverage range perspective, more often than not, we are going to be between 2.5x and 3x. Obviously, we are comfortable being above that, particularly when there's good reasons for it as there is at the moment. We will be continuing to evaluate capital management or buyback opportunities in conjunction with M&A opportunities on a go-forward basis, and that includes now.

Operator: Your next question comes from the line of Mike Roxland from Truist Securities.

Michael Roxland: Actually, just one question because a lot of material already was covered here. Quickly on protein packaging, Ron. I know it was discussed earlier in response to a question, I think you discussed it, I think, last quarter.

Can you just describe whether there are any nuances in your business, maybe around equipment, for instance, that would make you unable to compete with some of it with a large player in the industry or some of your larger peers? I know are you intentionally participating in different parts of the market to avoid going head on with certain competitors.

And just lastly, where would you like this business to be on a revenue basis, let's say, in five years or 10 years?

Ron Delia: It's a great question. The biggest challenge we have at the moment is the lack of installed base. So there's a massive installed base that has got a lot of legacy behind it given the way the industry has evolved over several decades.

From an equipment perspective, I would say we are more open source. We bought Moda, so we are prioritizing Moda equipment, but we are more agnostic to the actual equipment installation. We think we have got a great business and the primary basis of competition here, we think, ultimately, will be on the film. That's what we are aspiring to do is to grow the film business, enabled and facilitated with a full-service offering, which includes not only the machinery but the technical service that is so important in this industry to the customers to help them optimize their operations.

It's really a total system solution that we are going to go to market with now and we are starting to go to market with really for the first time. As far as how big can the business get and what are our aspirations for it? I'm not going to dimension it here, it's a big, important business for us. It's a tough time to be asking for a lot out of the business as it weathers some of the destocking and some of the softness in the general beef cycle, in particular or meat cycle, I should say.

But We have aspirations to grow at mid- to high single digits and good margins for the foreseeable future.

Operator: Your next question comes from the line of John Purtell from Macquarie.

John Purtell: Ron and Michael, I hope you are well. Just a couple of questions, please. In terms of your second half EPS guide, previously, it was up for the second half, up mid-single digit in constant currency think you mentioned Q3 EPS down mid-single digit, was your expectation in Q4 up in single digits. So it looks like the Q3 guide is weaker. Is that reflecting a lower volume starting point?

Michael Casamento: Overall, John, we actually held our guidance. So you are right, we have guided to volumes mid-single digit down in Q3 and EPS down mid-single digit. We are expecting trajectory to improve through the half on the volumes, with volumes down low single digit.

On the back of some of the things that Ron touched on earlier and also the earnings trajectory of our business, Q4 is our biggest quarter, that's why we are expecting mid-single-digit EPS growth in Q4.

So really not a lot of change. What we have seen is that the volume trajectory is perhaps a little softer than we previously anticipated. That was really on the back of that destocking, particularly in healthcare and North American beverage, where we are expecting that to continue through Q3 and perhaps into Q4.

We are offsetting that with continued cost out and we have confidence in the underlying performance of the business with the structural initiatives that we have put in place and have touched on already, getting $35 million in the second half, the ongoing cost agenda and discretionary spend management. So not a lot of change really to our guidance overall. We perhaps did a little better in H1, but generally speaking we are holding the range and we feel pretty good about the drivers behind the $0.67 to $0.71 range.

John Purtell: And just the second one, just interested in what you're seeing from the consumer. Obviously, elasticity of demand has been an ongoing factor, and it looks like the FMCG companies are still pushing price

Ron Delia: Yes. the best proxy is probably the scanner data that we look at, and I'm sure you look at it as well. We still see a generally soft consumer environment and that's true across the staples that we are supplying packaging for.

You still see in the U.S. general scan data, which, obviously, there's a lot of nuance that you need to unpack. But generally speaking, low single-digit declines in the calendar fourth quarter that's just passed. Europe may be modestly better overall, but at a sub level, you still see lots of softness and lots of modest declines.

You see some evidence of down-trading in some parts of the business. You see on the margin, maybe some modest shift, and I wouldn't make too much into this, but you see some modest shifts in some categories like pet food and maybe even in coffee where you might see different formats doing better. We believe we see it in the beverage business. In the case of carbonated soft drinks, where we know that the value pack has historically been the can, if you're going to buy 12 or 24 cans or units of a soft drink, you are likely to buy it in a can and that has continued.

So I think generally, John, the consumer environment is pretty soft. There are some reasons for potential optimism if the brand owners toggle the dial a little bit between price recovery and maximizing volume, but we are absolutely not baking that into our assumptions on volumes going forward. But we will take as nice to have if it happens.

Operator: Your next question comes from the line of Daniel Kang from CLSA.

Daniel Kang: So you spoke about protein turning a corner in January. Can you just elaborate on how you're seeing stock levels and the potential for an end in destocking in other product categories?

Ron Delia: As it relates to the trend on destocking Firstly, we would say the really pronounced end of year destocking that we saw in December, we don't expect will continue with the exception of globally in healthcare and North American beverage. We know that in those two segments for different reasons that we have mostly covered we are going to see continued destocking certainly through Q3 and likely into Q4. So we are not expecting a big bounce back there.

Other than those two segments, other places where there was really accelerated destocking in December, we are not expecting to see a repeat of. Therefore, on a general basis, we would expect that we are going to start to come out the other end of this inventory cycle that we have been weathering for the last several quarters. We see some signs of that. Already, I mentioned meat as one place that seems to have stabilized, premium coffee in Europe is another. So there are some reasons for optimism.

But again, we are not getting ahead of ourselves here, and we recognize we have two important parts of the business in healthcare and beverage, which you are going to continue to go through some more destocking from here.

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

Keith Chau: Just an extension of Daniel's question on destocking and pardon my ignorance, but how can you actually tell what is destocking, what is underlying volume trend? Can you specifically quantify that with data that you are seeing internally? Or is it based on discussions you are having with customers a bit of an approximation internally? Can you just give me a sense of how you work out what is underlying consumer weakness? What is destocking? What is cyclical? What is structural?

Ron Delia: Yes, it's part art and part science. So firstly, there are a lot of discussions with customers. In some parts of the business we are even co-located with customers. So there's a high degree of customer intimacy across the business.

The starting point is the discussions and the joint planning dialogue that we have with our customers around the world. So that's arguably the most important input. Then we also try to triangulate with data. We look at things like in categories where there is scanner data, which is not the case across our portfolio, certainly not in healthcare.

But in food and home and personal care and places where there is good retail scanner data, we take a close look at that. We also look at the scanner results for individual customers, individual companies and try to determine if there's any difference between the overall market performance and the performance of our specific customers. Then we look at our volumes and try to triangulate between those three data points to see what's the difference.

If there's sell-through, or not, and whether or not we are seeing an inventory drawdown or buildup. So iit's an approximation, but it's a reasonably informed approximation, both with input from the customer directly as well as data and quantitative inputs.

Keith Chau: That's great color. And then just a quick follow-up on the point in January, and I appreciate it's only a month. But when you talked about an improvement, are you talking about a positive growth comp in January or less bad January versus the last six months?

Ron Delia: We are talking about it relative to the first half. So it's a little bit of both. But generally speaking, we are talking about the comparison to the first half. We had some parts of the business that grew, but we are not talking about general growth across the board. What we are talking about is a general improvement relative to the first half and certainly the second quarter.

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

Ron Delia: Thanks, Operator. And thanks everyone, for joining the call today. We are, as you can hopefully pick up, pretty optimistic about our second half. We believe that the second quarter was the low point for us in terms of volumes and earnings growth, and the business will build momentum from here. So thank you for your interest in Amcor, and we will speak to you next quarter.

Operator: This concludes today's conference call. Thank you for your participation you may now disconnect.