Amcor Plc

FY24 Results

5.30pm EST August, 15 / 7.30am AEDT August 16, 2024

Amcor Plc

FY24 Results

CORPORATE SPEAKERS:

Tracey Whitehead
Amcor Plc; Head of Investor Relations
Peter Konieczny
Amcor Plc; Interim Chief Executive Officer
Michael Casamento
Amcor Plc; Chief Financial Officer

PARTICIPANTS:

Ghansham Panjabi
Baird; Analyst
Keith Chau
MST Financial Services; Analyst
Adam Samuelson
Goldman Sachs; Analyst
Daniel Kang
CLSA; Analyst
Anthony Pettinari
Citi; Analyst
George Staphos
Bank of America; Analyst
James Wilson
Jarden Australia; Analyst
Brook Campbell-Crawford
Barrenjoey; Analyst
Richard Johnson
Jefferies; Analyst
John Purtell
Macquarie; Analyst
Cameron McDonald
E&P; Analyst
Nathan Reilly
UBS; Analyst

Amcor Plc

FY24 Results

PRESENTATION:

Operator: Hello. Welcome to the Amcor Fiscal Year 2024 Results Conference Call. (Operator Instructions) I would now like to turn the conference over to Tracey Whitehead, Head of Investor Relations.

Tracey Whitehead: Thank you, Operator. Thank you, everyone, for joining Amcor's fiscal 2024 fourth quarter and full year earnings call. Joining today is Peter Konieczny, Interim Chief Executive Officer; and Michael Casamento, Chief Financial Officer.

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

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

The second slide in today's presentation lists several factors that could cause future results to differ from current estimates. Reference can be made to Amcor's SEC filings including our statement on Form 10-K and 10-Q for further details. With that, over to you, PK.

Peter Konieczny: Thank you, Tracey. Thank you, to all who have joined us for today's call. I want to open the call with a big thank you to our Amcor colleagues around the world, all of whom demonstrated tremendous focus in fiscal 2024.

The hard work and dedication enabled us to improve our financial performance through the year and to finish the year strong, and I want to publicly recognize their efforts. In terms of Q4, we start as always with safety on Slide 3.

Safety is our number one priority, and our efforts to provide a safe and healthy work environment for our teams resulted in another year of improved performance, which reinforces our industry leadership when it comes to safety. 73% of our sites have remained injury-free for 12 months or longer. Overall, Amcor experienced a 12% reduction in injuries compared to fiscal 2023. Our commitment to our people, and to their safety remains our most important value, and we continue to aspire to achieve our ultimate goal of zero injuries.

Turning to Slide 4. Amcor's near-term priorities remain consistent with those I shared on our Q3 earnings call and I'm happy to report we are successfully delivering against these priorities. As I just mentioned, providing a safe and healthy work environment for our global workforce will always be number one.

Second is to stay close to our key stakeholders including employees and customers, which helped us finish the fiscal 2024 year strongly. Our teams continue to execute well in the fourth quarter, maintaining cost discipline as volume trends continue to improve sequentially, with a return to volume growth in Q4. As a result, we delivered another quarter of solid margin expansion and earnings per share growth above the expectations we set out in April.

Third is to build on the progress we have worked hard to deliver across the business and ensure we maintain momentum in fiscal 2025. We expect our earnings and volume performance to continue to improve, and this is reflected in our fiscal 2025 guidance.

And fourth, our senior leaders and I continue to focus on providing stability for the business and helping our teams deliver for all our stakeholders. We are executing well and winning with our customers as we continue to reinforce that Amcor's strategy, agenda and priorities have not changed.

Moving to our key messages for today on Slide 5.

First, Amcor reported strong financial results for the fourth quarter, driven by solid performance in the underlying business and a return to volume growth, resulting in both segments delivering adjusted EBIT growth on a comparable basis. Second, volumes, EPS growth and free cash flow were ahead of expectations we set out in April. Overall volumes increased 1% in the quarter compared to last year, which exceeded the low single-digit decline we were anticipating. Earnings per share also outperformed expectations, up 9%, which was above our guidance for mid-single-digit growth.

Third, we expect to build further momentum and deliver annual EPS growth through continued strong performance from the underlying business. At the midpoint of our fiscal 2025 EPS guidance range for growth of 3% to 8%, we expect total annual value generated to once again be consistent with the 10% to 15% outlined in our shareholder value creation model, assuming a dividend yield aligned with historical average.

It is important to point out that we expect the underlying business to continue to deliver strong growth in line with the high single-digit earnings growth experienced in Q4, considering our guidance includes an EPS headwind of approximately 4 percentage points related to normalization of incentives. Michael will step through the components embedded in our guidance range in more detail shortly.

Our final key message is that our capital allocation priorities and strategies for long-term growth have not changed. We continue to invest in organic growth across the business including in higher-value priority categories in emerging markets. Strategic M&A also remains an important source of incremental growth and value creation. We believe the strength of our market positions, our opportunities to invest for growth, our execution capabilities and our commitment to a compelling and growing dividend and to maintaining an investment-grade credit rating sums up to a convincing investment case for Amcor.

Moving to Slide six for a summary of our financial results. We finished fiscal 2024 on a strong note as customer demand continued to improve off second quarter lows, and our teams did an excellent job leveraging our differentiated value proposition to support our customers and drive volumes higher.

At the same time, our unwavering focus on proactive cost management through the year resulted in four consecutive quarters of strong margin expansion. Overall volumes returned to growth earlier than we anticipated and were up 1% in Q4, our second consecutive quarter of strong sequential volume improvement.

As expected, Volumes across healthcare categories and in the North American beverage business remained soft through the fourth quarter. Combined, these two businesses, which represent approximately 25% of sales in Q4, unfavorably impacted overall volumes by approximately 2%.

Across the balance of the business, overall volumes were approximately 3% higher than the June quarter last year. This reflects broad-based improvements in customer demand across many end markets and what we believe is the end of destocking in all categories other than healthcare. Price/mix had an unfavorable impact on sales of approximately 3% primarily driven by continued destocking in high-margin healthcare categories.

Cost reduction and productivity initiatives remained a focus, and we delivered another quarter of significant cost savings totaling more than $110 million including an additional $20 million of benefits from structural cost initiatives in Q4. This builds on the outstanding efforts by all our teams across the businesses through the first three quarters, bringing the total cost savings for the year to more than $440 million including structural savings of $35 million. The result of improving volume trends and our focus on cost and productivity actions was another quarter of strong earnings leverage as momentum in Amcor's underlying business continue.

Fourth quarter adjusted earnings per share of 21.1 cents grew by 9% on a comparable constant currency basis, above our April guidance for mid-single-digit growth. Adjusted EBIT was up 4% compared with last year.

Overall, for fiscal 2024, we delivered adjusted EPS toward the top end of our guidance range we provided last August and our ongoing focus on cash conversion was rewarded with adjusted free cash flow of $952 million, up more than $100 million on last year and just above the top end of our guidance range.

We also continued to return significant cash to shareholders through a compelling and growing dividend in addition to share repurchases, which combined totaled approximately $750 million for fiscal 2024. I'll turn it over to Michael now to provide some further color on the financials and our outlook.

Michael Casamento: Thanks, PK, and hello, everyone. Beginning with the flexible segment on Slide 7 and focusing on our fiscal Q4 performance. Q4 volumes increased by 3%, which represented a significant sequential improvement of 5 percentage points compared with the March quarter. Net sales however were down 1% on a comparable constant currency basis as broad-based volume growth was offset by unfavorable price/mix of approximately 4%, primarily related to lower healthcare sales, which we anticipated.

Destocking in healthcare categories continued in North America and Europe, and this resulted in a headwind of approximately 2% on overall segment volumes. Across the balance of our flexibles portfolio, Amcor experienced very solid growth with volumes increasing by approximately 5% in the quarter. The improved customer demand we saw in the third quarter continued as customers increased their focus on growing volumes and returned to more normalized order patterns now that destocking has ended. This led to broad-based growth across most geographies, with volumes increasing in several categories including meat, cheese, home and personal care and unconverted film and foil.

Across North America and Europe, fourth quarter demand improved across many end markets, resulting in a return to overall volume growth in the low to mid-single-digit range in both regions despite continued softness in healthcare. In North America, volumes were higher in meat, cheese and snacks categories.

In Europe, the business delivered particularly strong volume growth in meat, home and personal care and unconverted film and foil. Emerging market volumes were up mid-single digits in Q4. Most countries experienced solid growth, with volumes in China increasing for the fourth consecutive quarter, and strength continuing in India, Thailand, Brazil and Mexico, to name a few.

Adjusted EBIT for the quarter of $403 million was 5% higher than last year on a comparable constant currency basis. Higher volumes, combined with strong cost performance through the quarter including from restructuring initiatives, led to another quarter of margin expansion with EBIT margins up 110 basis points to 15%.

Turning to Rigid Packaging on Slide 8. Volumes and earnings trajectory for Rigids continued to improve in the fourth quarter, with the business delivering consecutive quarters of earnings growth in the second half.

As anticipated, overall volume performance for the business improved sequentially as the 5% volume decline in Q4 was 3 percentage points better than the March quarter.

As expected, the Q4 decline was driven by lower volumes in the North American beverage business. Across the balance of the Rigid Packaging portfolio, volumes were in line with the fourth quarter last year and favorable price/mix benefits of approximately 3%, resulted in a 2% decline in net sales on a comparable constant currency basis.

In North America, beverage volumes were down 8% reflecting lower consumer demand in Amcor's key end markets and unfavorable customer mix. Volumes improved by 3 percentage points on a sequential basis as destocking ended and warmer weather resulted in modest improvement in consumer consumption versus the March quarter.

In Latin America, volumes increased in the low single-digit range compared with last year, driven by continued growth in Brazil and Colombia.

From an earnings perspective, the business delivered another quarter of earnings growth and margin expansion through an ongoing focus on cost reduction and productivity measures and the realization of benefits from restructuring initiatives. Adjusted EBIT increased by 2% in Q4 with EBIT margin increasing by 70 basis points to 8.8%.

Moving to cash on the balance sheet on Slide 9. Adjusted free cash flow for fiscal 2024 was just above the top end of our guidance range at $952 million, up more than $100 million or 12% compared with last year. Cash generation was strong through the fourth quarter, and we delivered good cash conversion by remaining laser-focused on improving working capital performance with inventories reducing for the sixth consecutive quarter.

The timing of spend on CapEx projects was also a modest tailwind in the year, which we expect to unwind in fiscal 2025. Leverage at 3.1x was down 0.3 of a turn from the March quarter and was in line with our expectations for year-end. This brings me to the outlook on Slide 10.

For fiscal 2025, we expect to continue building on the volume and earnings momentum we achieved through the second half of fiscal 2024. Adjusted earnings are expected to be in the range of $0.72 to $0.76 per share on a reported basis, representing comparable constant currency growth of 3% to 8%. As PK noted earlier, we expect the growth in the underlying business will remain strong in fiscal 2025.

However, it's important to note that our guidance includes an EPS headwind of approximately 4% related to more normalized levels of incentive compensation based on our expectations for improved annual financial results. Excluding this incentive normalization, our guidance range implies expected growth from the underlying business in the high single to low double-digit range.

Our guidance range assumes an expected volume increase in the low to mid-single-digit range for the year, with trading performance in July aligned with this expectation.

Interest expense is expected to be between $290 million and $305 million, and the effective tax rate is estimated to be in the range of 19% to 20%. When combining interest and tax in absolute terms, the expectation is for a modest headwind to earnings when compared with fiscal 2024.

In terms of phasing, we anticipate this will be broadly aligned with historical average of approximately 45% of earnings being delivered in the first half of the year and 55% in the second half with the fourth quarter typically the strongest of the year. And finally, we expect to continue to generate strong adjusted free cash flow in the range of $900 million to $1 billion, even as we fund an increase in capital expenditure of approximately $40 million to $60 million from a lower base in 2024, which I mentioned earlier.

We expect to exit the year with leverage back within our 2.5 to 3x management range. We are pleased with the finish to fiscal '24 and look forward to delivering strong financial results in '25 and beyond, with that, I'll hand it back to you PK.

Peter Konieczny: Thank you, Michael. In closing, on Slide 11, we finished fiscal 2024 on a strong note, and we are encouraged by the broad-based improvement in volumes we are seeing across most geographies and end markets. Earnings growth in both segments in the second half of fiscal 2024, combined with a return to volume growth in the fourth quarter and the trends experienced in the first several weeks of fiscal 2025 give us confidence that momentum will continue to build in the underlying business.

We expect overall volumes to continue to grow in fiscal 2025 and we will maintain a sharp focus on cost control and productivity initiatives to drive solid earnings growth.

Importantly, assuming a dividend yield aligned with historical average at the midpoint of our EPS guidance range, we are well positioned to deliver annual value generated in fiscal 2025 to be in line with the 10% to 15% outlined in our shareholder value creation model.

We'll continue to capitalize on opportunities to grow the business by staying close to our customers, providing the support and the differentiated more sustainable packaging solutions they need to protect, preserve and promote their products as they drive their own volume growth. We continue to invest in organic growth including in higher-value priority categories and emerging markets.

Strategic M&A is an important source for incremental growth and value creation, and we're committed to a compelling dividend, which grows annually. We are confident in our execution capabilities and in the opportunities we have to continue delivering profitable growth from the underlying business and to create strong free cash flow in fiscal 2025 and beyond.

Operator, we are now ready to turn the line over to questions.

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

Ghansham Panjabi: Can you just give us a sense as to what you're seeing as it relates to true market conditions?

I mean obviously you're cycling over easier comparisons from a year ago, just given inventory destocking, et cetera. But what is your characterization of the actual end market in context of what we read about with consumer affordability issues and so on?

And I guess I'm asking because last year, your volumes were down 5% in fiscal year 2024, and your guidance is, I think it was low to mid-single-digit volumes. So just trying to get a sense as to what you're actually seeing in the market.

Peter Konieczny: Yes. Thanks, let me take that question here and then see if Michael wants to build if needed or required. First of all, we have been very pleased with the performance of the volumes with a sequential improvement from Q3 to Q4, which was even better than what we expected.

We went back to volume growth, which was again better than the low single-digit decline that we had indicated after Q3, and we have been pleased with that being pretty much broad-based across the different regions and categories.

So it was a broad momentum that was building here, and we are very pleased to see that, too. Then if I double-click on where the 1% comes from, I try to depict that into the different drivers. The first thing that I would say is it's not necessarily consumer demand. Consumer demand continues to be muted.

We would consider that to be low single digit down still. Also when we go into 2025 with our expectations, we wouldn't assume that necessarily improves.

What we are seeing is that our customers are starting to do better, when we talked about this also in the last earnings call we pointed out that our customers are looking for a better balance between volumes and price. You also see that when you go through some of the announcements that have come out lately, so that's better, and we are demonstrating an ability to win with those customers. That is through what we have to offer, and I would call that on a headline, the value proposition that we can bring to the customer.

So that's encouraging, and that's really the driver of the improvement to a large extent. Of course we are seeing some benefits from cycling out of the destocking that we had last year.

In the fourth quarter to give you a feel that would have been not really much, maybe a couple of percentage points, but also remember that we are still seeing destocking in the healthcare business. That pretty much goes against us. Those would be the major drivers. They're very consistent with what we are seeing when we look to 2025. I hope that answers the question.

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

Keith Chau: Just want to maybe actually reflect back on that question. So what you're saying is that the consumer is still weak at the moment. So the growth was not consumer demand, still low single digit down. Your volumes in FY 2025 feels like part of that is the unwind of destocking, which is a couple of percent that you're expecting on low to mid-single digits. So there is maybe some slight improvement in your underlying volume. So I'm just trying to work out what the difference is between those two factors. Like who do you think is losing? Are you taking share?

I'm just trying to square up the numbers from the first question.

Peter Konieczny: So first of all, I would say it's not really a share story here. It comes down to, the things that I've mentioned before, the consumer demand, we would hope to improve going forward, but we are careful in terms of our expectations for the next year. We are not banking much on that to happen. If it comes, that would be great, and that would be providing further tailwinds for us. And again what you are seeing is on a comparative basis to prior periods, you would see destocking cycling off.

That gets us a better volume performance in terms of what we report. And a little more color on that, in the first half of 2025, we would be comping a pretty broad range to destocking versus prior period. However, we said that pretty much came to an end after the first half last year. So that won't be there in the second half anymore.

In the first half, we will still continue to see destocking in the healthcare category, which is pretty much a quarter longer than what we guided towards after Q3, but that will abate in the back half of the year.

Then we continue to believe that our customers and to a large extent, we have good exposure to big global customers that they will continue to drive their volume performance, which is very consistent with what you are hearing. We are partnering up with them, we have built a good relationship with them over the past. We always have been very close to the big customers. And as their volumes are coming back, we take advantage of that. So you pull all that together, that results in the volume guidance of low single digit to mid-single digit next year.

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

Adam Samuelson: I guess maybe continuing along that line of discussion. Maybe I'd like to dig in a little more on the healthcare end market, which is still your most challenged. I was doing the math, it seems like you're implying that was down near high single-digit volumes in the fiscal fourth quarter.

It sounds like destocking is continuing for at least one more quarter. You talked about the confidence that you have of that ending by the end of this calendar year and maybe a little bit more clarity on what the assumptions are for the healthcare business or volumes in fiscal 2025 because obviously has important implications on mix as we move through the year.

Peter Konieczny: Yes. Good question, Adam. I mean first of all, I'd say that healthcare is as far as I'm concerned, a real gem in our portfolio, let's start right there. If we are challenged with the healthcare category, it would really just be on the back of the normalization that the category is seeing after a major dislocation that the category has gone through in the more recent past. That dislocation is now coming to an end with the category essentially rightsizing their inventories. That's what we're seeing.

So we don't have any concerns overall in the stability and the attractiveness of this category. What we are going through until the end of the calendar year on the back of what we know right now is really just continued destocking. I can confirm that the high-level estimates that you are doing on volumes is correct in terms of high single digits being down in the more recent past.

I think that the destocking that we have seen in Q4 is probably slightly better than what we have seen in Q3. And again on the back of everything that we know the destocking will come to an end by the end of the calendar year. That would be based on various conversations that we have with our customers and what they are confirming currently is happening in their business.

Now in the back half then, when the destocking has come to an end, we are expecting a better volume performance with the business as you would imagine.

We would definitely have no concerns to believe that healthcare can return to growth rates that are in line with the historical averages of sort of mid-single-digit growth. The final point that I'd like to make, maybe on healthcare is as I'm thinking through how to best answer your question, the destocking that we are seeing in healthcare is actually, when you look at the numbers, quite similar to some other categories that we have seen beforehand.

It's just that healthcare started later, pretty much in Q2 last year and has started mostly on the medical side, which we've cycled through right now. Then with the phased delay we have seen some impact on the pharma side, which we are now punching through. That will come to an end by the end of the calendar year, as I said before.

Michael Casamento: Maybe, Adam, just to pick up on the mix point. Yes. You are quite right. Obviously, the mix is unfavorable in Q4. With the destocking continuing, if we think about our guidance assumptions for FY2025, we would expect that negative mix to continue in the first half. But then as we head into the second half, it will obviously improve as we are through the destocking. So on a full year basis, we probably expect the mix to be more neutral.

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

Daniel Kang: Just a quick question on capital management. I noticed that the Board has chosen to refrain from share buyback at this point. Can you talk us through the decision there? Is it a reflection of wanting to see leverage ratio is lower? Or is it a reflection of more confidence in the M&A pipeline?

Michael Casamento: Yes. Thanks, Dan, it's Michael. I can take that one for you. We have still got a little bit more to go of a buyback that was approved earlier on. So we didn't do that in Q4. That's really a function of a good M&A pipeline and there's opportunities there as always. So we elected to not do the buyback. From a capital allocation standpoint, the buyback is just one element of that. Clearly, the strong cash flow, we direct the CapEx first to grow the business organically. We continue to pay a dividend, and you saw us increase the dividend again.

Then with the free cash flow left over, clearly, we would like to invest that, first and foremost, in M&A because that's where we get the greatest return. If that's not available, then the buyback is really the next alternative. So the buyback is a function of the cash flow performance as well.

So for now we haven't called out a buyback for 2025, we have still got to finish a little bit left over there to do, but we have got a good pipeline of M&A activity. We are expecting the cash flow in the business to be solid through the year as we have guided to $900 million to $1 billion. So we'll see how things play out as we work our way through the year. If there's capacity to do the buyback, we'll do it.

Operator: Your next question comes from the line of Anthony Pettinari with Citi.

Anthony Pettinari: We've come off two, three years of pretty sharp cost inflation that you had to absorb and pass on to your customers. Just wondering, as you look at the 2025 guidance what kind of cost inflation, raw material inflation, resin assumptions are baked into the full year guidance? And how might it be different or not different than what you've kind of experienced over the last couple of years?

Michael Casamento: Yes. You're quite right. We have been in a high inflationary environment. Clearly, inflation is abating, though it is still at an elevated level, but clearly abating. I think from where we sit today the main area of inflation now is really in the labor side of things. That's probably in that mid-single-digit range, and we would expect that again in FY2025. But our cost inflation in the fourth quarter was about $35 million or $190 million for the year versus $340 million in the prior year. So you can see that it is abating. The main area really now is just on the labor side as we look forward.

From a raw materials standpoint, it's a pretty benign environment at the moment. In Q4, probably overall, and we buy a broad basket of raw materials, across multiple geographies across the globe, Q4 in general, it was up kind of low single digit. It was a bit mixed by raw material types, so resins up a little, aluminum up probably more mid to high, but then films and liquids were down.

So on balance, not a material impact to the business. And from an EBIT standpoint, for the year, we are pretty neutral on the raw material side. As we look into 2025, as we look into the first quarter, again we are seeing a pretty benign environment.

If I think about North America and Europe, raw materials typically look pretty flat in the first quarter. Perhaps Asia is the one area where we might see some slight increases in raw materials. But again generally, I'd say the basket of goods is pretty benign across the globe. So that's what we've factored into our guidance assumptions. And of course we have given you a range of growth in the guidance assumptions, 3% to 8%.

Obviously raw materials is a factor within that. We pass through raw materials contractually, but there can be a lag. So that's just one element that could get us to the bottom or upper end of that range.

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

George Staphos: Can you comment on the outlook for beverage in North America and when you expect the volumes to turn more positive?

Peter Konieczny: George, it's PK here. I'll take that question. Beverage North America is a little more discretionary than many of the other categories that we serve. Think about the isotonics category and as such, what we are seeing in the current environment. If you look at the scanner data, low single-digit to mid-single-digit decline in that category. That's what we are facing in the market right now.

On top of that, I would say that our performance is also somewhat impacted by our exposure to customers that are in their totality underperforming the market, some low single digit, if you want, and that rolls up to our own volume performance. On your question, how do we expect that to continue?

I think as we are looking at 2025 it will to a large extent, come down to a question of how consumer demand is developing in that category going forward. I think we have got to be realistic here. We have got to say that we are not overly ambitious in terms of expecting the volumes to turn around in the near future. We would hope that, that's the case. But as we are looking into the next year, we are being realistic about that. It has mostly to do with the discretionary nature of the category that we're exposed to. So that's how I would answer the question. I hope that helps.

Operator: Your next question comes from the line of James Wilson with Jarden Australia.

James Wilson: Just heading into FY 2025, can you give us a bit of a sense of the quantum of the $400 million of cost out that you've managed to do over FY 2024 that will have to come back into the business as volumes pick up.

Michael Casamento: Yes. Sure, James, it's Michael here. I can take that one. As you said, we have been pretty focused on cost in 2024 and pleased with where we ended up. We have generated savings in excess of $440 million, which includes $35 million of benefits from the structural program that we put in place as well.

If you think about where that's coming from, there's two elements to it, obviously the operating performance of the business, we have been laser-focused on managing our shift patterns, taking whole shifts out where we can and flexing the operational cost of the business to the lower volumes. Procurement has been a big driver in this environment. Obviously we have been working hard through our global reach and scale on that front. Discretionary spend has been managed quite tightly. We have had a strong year in 2024, and we will be lapping some of that.

But as we look into 2025, the structural benefits of $35 million, there will be a further $15 million in 2025. So that completes that program where we were going to invest $170 million in cash and get the $50 million out. So we are well down the path of that and confident in that space.

Then on the balance, we continue to get procurement benefits, we will continue to manage the operations. But clearly, as the volumes increase, which is what we saw in Q4, we will have to flex the labor back up to manage those higher volumes that we are anticipating. That said, it won't be linear.

So we are more efficient today. We will continue to see benefits from the cost takeout that we have had just in the efficiency as we deal with those increasing volumes working through the next year. Hopefully, that helps.

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

Brook Campbell-Crawford: Yes. Just a quick one for you, Michael please, just around the D&A charge in the fourth quarter it was quite a bit lower than we were thinking, and it was down about 8% year-over-year or 6% quarter-on-quarter. Do you mind just commenting on what sort of drove that reduction in D&A in the quarter? And should we really just be annualizing that fourth quarter D&A charge when thinking about FY 2025? Or is there other adjustments we need to think about?

Michael Casamento: I can help you there.

In the quarter, for the year, as you said, D&A was down $7 million or thereabouts, not material. It's really a factor of a couple of things. We reduced CapEx spend. So you have got a little less there and also with the restructuring we have been doing, we have closed seven plants and had four restructure as well. So some assets have come out of the business from that front.

There's been some other minor adjustments here and there. As I look forward, I'd still expect depreciation to be in that $400 million to $420 million range on an annual basis, which is again as we build CapEx spend in 2025. As I mentioned in my speaking notes, we are expecting to increase CapEx again in 2025 as we work our way through higher volumes. So that will normalize some of that depreciation.

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

Richard Johnson: Thanks very much. PK, I've been thinking a little bit about the business kind of beyond the volume normalization process and in the nearer term, the benefits your profitability is getting from the restructuring program that you've put in place.

Is it possible to get a sense from you when you look across your portfolio, which of course is very broad from both a category but a geographic perspective, are there areas that you think that could do with a bit of refreshing on the one hand or on the other hand, maybe structurally challenged and long term might actually be a drag on the growth that you think the business could ultimately produce.

Peter Konieczny: Richard, I wonder how I can best sort of answer that question, you're asking about refreshing certain areas of the portfolio and seeing potential drags on the performance of the business going forward.

First of all, I have got to remind everyone here the position that I'm in, and it's hard for me right now as an interim to formulate views on the long-term strategy of the company, which that touches on when you go to the portfolio. But in essence, having said that, I believe that the business should continue to focus on categories that are more attractive than others. That would be a starting point.

You know that we feel strongly about focusing the business on certain areas that are potentially value driven, therefore, higher margins and offering better growth than others. And flexibles, the challenge is you can be everything to everybody, and that has never really played out. I'm a big fan of focusing the business on those areas that are more attractive to us.

Now the ones that I would call out here just as examples, is the protein category that we have talked about in the past, which breaks out into meat and to dairy or cheese to be a little more specific. We do like coffee or particularly premium coffee. We do like healthcare, while I did say that we are going through the short-term normalization of the business. We like pet food and so on and so forth.

So that's a good starting point. When you go through the portfolio, you may find other categories that are less attractive and that is something that we need to strategically think through.

In terms of geographies, I like the exposure of the business between developed and emerging markets. There, we want to continue the journey that we have been on. You have seen us make acquisitions also in the past. If I just look at the healthcare business that we acquired in China, the Flexibles business in India, we made an acquisition in Eastern Europe, which is positive, just to mention a few examples.

So that's what we are doing. This is how we are thinking about it, and we need to continue to think about it. I hope that provides a bit of color to the question.

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

John Purtell: I hope you're both well. Look, just a question regarding the growing volumes through the quarter. Where did the exit rate end at? And if you're able to make any comment on developed markets and emerging markets within that?

Peter Konieczny: I'll start out by saying I'm not a big believer in commenting on monthly volume performances because you have big swings in there, and you can't really read too much into it. I think that a quarter is better of an indicator for actual performance.

I would like to stay on that level, 1% overall growth in the fourth quarter is a good indication for the momentum that we carry forward into fiscal 2025.

Now to the second part of the question, developed markets versus emerging markets. We have in the past quarter seen growth in the emerging markets like you would expect, the developed markets were a little more muted. What has been encouraging in the fourth quarter is that the developed markets also returned back to growth. I say that, particularly encouraged by the fact that they also have the large exposure to healthcare where we have seen continued destocking.

So that's quite encouraging for us. So again, developed markets performing better despite the healthcare destocking, emerging markets continue to grow and that's the momentum that we carry forward. Hope that helps.

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

Cameron McDonald: Just going back to the structural questions that were asked before. We're seeing changes in preference shift around substrate towards aluminum cans, particularly. Is that providing any sort of headwind to the beverages segment that you've got? Then -- and/or any of the regulatory changes in the European market that could also be providing a bit of a challenge going forward. If you can comment on those, please?

Peter Konieczny: Yes, happy to do that. These are two big questions or one big question, maybe another one that I can take first that's a little easier to answer. Let me go to the beverage question first.

Substrates in the beverage side of the business, they do coexist, particularly between aluminum and PET, and they both have their place. PET typically you see that in on-the-go consumption resealable. That's where PET finds its home, so in the different categories on beverage, you find PET or cans coexist or aluminum coexist. There is one category where they both compete with each other, and that would be in the subsegment of CSD on the beverage side.

Now over long periods of time, we have seen pretty much constant share between the two substrates in that category. In the more recent past, given the more discretionary environment that we are looking at, consumers are shifting to the better value option. Those tend to be aluminum cans, which are sold in multipacks through the big box stores and the channel. Because when you look at the price points, they seem to be more attractive, so in the more recent times, we have seen a bit of a share shift to cans on that end, and we'll have to see how that plays out as the environment normalizes, but it's not been a big trend for us that significantly impacts the volumes because it's really just one subcategory.

So that said, to the second part of the question, regulatory developments, which is a different animal, but likewise, really important for our business. What we have seen in Europe, particularly the packaging and packaging waste regulations come through. We are obviously taking a close look at that. This is a regulatory development that to be honest with you, we welcome because at the end of the day all these initiatives try to do one thing and try to accomplish one thing, which is trying to keep plastic waste out of the environment. That's very much aligned with our targets here as a company and comes back to our efforts in terms of the sustainability side. The developments there, they help us essentially move the industry faster to an endpoint that we are more than happy to support and that we feel we are very well placed to support.

We have made great progress on developing more sustainable products, which are designed to be recyclable and the regulation that we have seen essentially moves the whole industry to the concept of circularity that we want to support and that we want to get in place. So we are supportive of the regulatory developments there in Europe, but also elsewhere and we welcome it.

Operator: Your next question comes from the line of Keith Chau with MST Financial Services.

Keith Chau: One for Michael. Just the restructuring costs seem subsided a touch in the fourth quarter. I think there are some restructuring costs to go in FY 2025 below the line. Just wondering if you can give us a sense, Michael, on what the drag on that will be on cash flow.

Michael Casamento: Sure, Keith. The program was going to be around $170 million in cash out. We've spent net around $110 million. So in FY2025, we will pretty much finish the program. It is another $60-odd million to go, which you would expect to see adjusted out of the cash flow.

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

Nathan Reilly: Peter, I'm just curious, how much spare capacity do you have in the existing manufacturing footprint to respond to demand growth, really just in terms of managing your flexibility?

Peter Konieczny: It's a great question, Nathan. You have got to distinguish between manned capacity and machine capacity that we have in place. That's the way we think about it.

On the manned capacity side, we are challenging ourselves and the business really hard to balance that with the actual demand profile, as you would expect. For the manned capacity side, we were pretty much balanced and that is where we flex and when we say we flex, that's what we are flexing.

When you look at the volume development over the more recent past, and you know that we have gone through a pretty tough patch here. Obviously, volumes overall have come down. Therefore, the machine capacity offers up some headroom for additional volumes, which is encouraging for the future when the volumes come back. Where we do have a challenge as a business then is to flex up again and operationalize essentially the additional machine capacity that we require. There is always a challenge because reality is you never have the capacity where you need it.

That never plays out in a perfect world and particularly where we are well positioned with a compelling value proposition, we are full in terms of our capacity very oftentimes also from a machine capacity standpoint, but that is something that we need to manage on a tactical day-to-day basis.

Operator: Ladies and gentlemen. that's all the time we have for the question and answer session. I will now turn the call back to management for closing remarks.

Peter Konieczny: Thanks, everybody for the interest in the company and for joining the call. I think the most important thing for me is to really just go back and to go back to the key messages for the call.

We really had a strong quarter, and we have got good questions. Overall, the company is, in a good spot with the momentum that we have developed in the fourth quarter to go into 2025, I feel good about where we stand and where we sit and pretty good about the guidance that we have out there, and we are looking at a good year to come.

Thanks very much for the interest in the call and talk to you soon.

Operator: This concludes today's conference call. We thank you for joining. You may now disconnect.