Amcor

Q3 2020 Year to Date Results

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C O R P O R A T E   P A R T I C I P A N T S

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Michael Casamento, *Chief Financial Officer*

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C O N F E R E N C E   C A L L   P A R T I C I P A N T S

Ghansham Panjabi, *Robert W. Baird*

Larry Gandler, *Credit Suisse*

Brook Campbell-Crawford, *JPMorgan*

Brian Maguire, *Goldman Sachs*

John Purtell, *Macquarie*

Richard Johnson, *Jefferies*

Mark Wilde, *Bank of Montreal*

Nathan Reilly, *UBS*

P R E S E N T A T I O N

Operator Instructions

Tracey Whitehead

Thank you and welcome to Amcor's Third Quarter Earnings Call.

Joining the call today is Ron Delia, Chief Executive Officer, and Michael Casamento, Chief Financial Officer. At this time, I'll direct you to our website, amcor.com, under the Investors section where you'll find our press release and presentation which will be discussed on the call today. We'll also discuss non-GAAP financial measures as we talk about performance against combined comparative information. Reconciliations of these non-GAAP measures can be found in the press release and presentation on our website.

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

With that, I'll turn over to Ron.

Ron Delia

Thanks Tracey and thanks everyone for joining us to discuss Amcor's year-to-date results. Joining me on the line, as Tracey mentioned, is Michael Casamento, Amcor's Chief Financial Officer. We'll begin with some prepared remarks and then open the line for Q&A.

We'll start with safety. We start every meeting with safety and always have, and obviously the topic takes on different meaning in today's environment. Our goal is no injuries and we're making good progress this year so far. This fiscal year we've got 8% fewer injuries in the first nine months of the year and more than half of our sites around the world have been injury-free for at least 12 months. We're really pleased with that progress at a time with so much distraction, and new ways of working to accommodate physical distancing. Never more important than today, and our employees have really risen to the occasion, and have remained vigilant.

Moving on now to the key messages we have for the call today. It's obvious these are unprecedented times for everyone and lots of challenges that no one has had to deal with before. Against that backdrop, it's important to make clear that Amcor is absolutely not immune, but we are relatively well positioned, and we've been demonstrating resilience, so that's the first key message today. There are a number of reasons for that, which I'll come back to in a minute, but it really starts with the commitment of our 50,000 employees around the world and their dedication and resilience through this period has been amazing, we can't thank them enough.

The second key message is that our financial results have been strong through the last nine months and for the second consecutive quarter we've increased our outlook for the 2020 financial year. We now expect EPS growth of 11% to 12% and we'll generate over a billion dollars of free cash flow this year. We've had good organic growth, momentum building in the businesses, and we've also benefited from faster delivery of synergies from the acquisition of Bemis last year. Now, we're coming up on the one-year anniversary of that deal which was an all-stock transaction, the largest in Amcor's history, and by all measures it's been exceeding our expectations so far, so that's the third point.

Fourth, we have clear line of sight to controllable drivers of shareholder returns in the near term, defensive organic growth, further cost synergies to come, a compelling dividend, and also the benefits from having bought back over 3% of our shares outstanding so far this year.

Lastly, longer term, we'll remain well positioned to generate continued value for shareholders in all macroeconomic conditions.

Slide 5 relates specifically to COVID-19 and with almost 50,000 employees and 250 factories around the world in over 40 countries, a global pandemic creates a global challenge for a company like ours, and the work to manage through it has been massive, as you can imagine, so early on we established three guiding principles. It starts with keeping our employees healthy. Everything we do starts with safety, so this would be the natural starting point for us, and we're taking many extra steps now, more frequent cleaning, and disinfection of our facilities and equipment, obviously increased physical distancing, restricted travel, protective masks and lots of work from home arrangements as well. Again, our employees have been incredibly adaptive and agile as we've introduced new measures to help keep them safe and healthy.

Contributing to the communities in which we operate has also been a guiding principle. We're fortunate we've been able to keep our people employed and our operations running, so we can help those around us who have been less fortunate. There are hundreds of examples from around Amcor of great initiatives, really at the local level, which range from producing face masks and face shields, to donating packaging for hand sanitizer, or supporting community foodbanks and healthcare agencies. There's lots of really good passionate work by the teams around the world.

Of course, since we make packaging for food and healthcare products, we've got to keep our plants running so we can continue to supply our customers. Doing that has required extensive planning, to prevent any issues but then also to deal with them in an efficient way, should they arise, and we've been doing just that.

Again, we've not been immune but we've managed well so far with minimal disruptions.

I mentioned at the outset that Amcor's relatively well positioned and demonstrating resilience, and I want to come back to that for a few minutes, starting with Slide 6. One reason we remain in a relatively good position today, and why it's so important that we keep our plants running is because Amcor is making primary packaging for consumer staples. That's really all that we do. It's essentially who we are. We're making packaging for defensive consumer segments like food, beverages, medical and pharmaceutical products, products that people need all the time, obviously, including now. These supply chains have been recognized as essential by governments and healthcare authorities around the world, and that essential designation extends to Amcor and provides us with the license to continue operating.

Almost all of the products we package are for home consumption or use in medical facilities or sold through retail. Very little of our packaging is for on-premise consumption or for sales through to the food service channel.

Turning to Slide 7, the primary packaging that Amcor makes for food and healthcare products has always played several important roles: to protect consumers and ensure food safety, to preserve products and extend shelf life, and to promote brands. Those things will always be important, but right now in the current environment, certain needs are especially important for consumers and companies around the world. Hygiene would be the most obvious one. In every aspect of our lives now hygiene has become much more front and center. This beverage container I'm about to drink out of, is that clean? Is this medical product sterile? Should I buy the loose lettuce from the open bin or the packaged lettuce? These are the questions that people have on their minds now.

Convenience is another one. We're eating at home more now. I don't have any more time than I used to have, probably less, so how can we make cooking and food preparation easier? Can we just pop this product in the microwave?

Then, automation. If you're running a factory right now, you're asking about automation, not just about cost but also about worker safety and whether or not there's a packaging solution that can make the production process less labor intensive. It's way too early to project how any of these needs will evolve, or what priority will be given over time, but it is clear that long-term demand for food and healthcare packaging will continue, and that demand will be there globally.

As Slide 8 indicates, Amcor is present in all the major developed and emerging markets around the world, and so in this challenging time we've benefited from our scale but also our geographic breadth and diversification. Scale provides many advantages at times like this, starting with the ability to ensure we have access to raw materials and other supplies, but also making sure we have redundancy in our supply chain, in our production network. If production is disrupted in one region, there's the opportunity to source from another.

Of course, being diversified geographically means in this instance while one region may be struggling like China was earlier this year, other regions have been less impacted, and especially during the pandemic. Being so global has also meant that we've been able to share learnings as different parts of the world have suffered through the pandemic at different times. We've learned from the experiences in Asia and Europe now as we've dealt with the outbreak at later dates in the Americas.

Lastly, turning to Slide 9, Amcor is also relatively well positioned by virtue of our strong financial situation. The market positions we have and the scale and the defensive consumer segments we supply have led to consistently strong cash flow, which in turn has enabled consistent financial performance and shareholder returns, and that's continuing this year. We also have a strong balance sheet. We're committed to an investment grade credit rating, and we have always maintained lower leverage than most of our industry peers.

With consistent cash flow and a solid balance sheet, we continue to have plenty of cash to reinvest in the business, as well as to distribute to shareholders, and while our dividend has always been compelling it's especially compelling right now relative to the alternatives that investors might consider.

Amcor is certainly not immune from the impacts of COVID-19 and we've not been spared by any means, but we're relatively well positioned to navigate the challenges, and I'll touch briefly on Slide 10 on what we've seen over the last few months.

We try to run the Company for the long term and we focus on one year at a time, so we normally discuss results on a year-to-date basis, but clearly it's an unusual time and we appreciate the need and the interest in some more insights on recent trading activity, and so that's what we've got here on Slide 10. The key message on the slide here is thus far we've seen no material impact on our financial results that we could directly attribute to COVID-19. We are a global company with balanced exposure across North America, Europe and the emerging markets, and we've seen plenty of puts and takes on volume especially across regions and categories, and ultimately sales in the third quarter were in line with the long term averages that we've seen in the business. There have been no real cost impacts, so no real material impacts on the financials for the Company so far. The results for the third quarter were in line with our expectations.

Slide 10 lays out what we've seen using volume growth for the third quarter, and you see the positives and negatives across the global portfolio. Overall volume growth for Amcor was about 2% in the quarter: 1% in our Flexible segment, 5% in Rigid Packaging. We had good volume growth in North America for Beverage packaging as well as Flexible Packaging, where Flexibles North America represents about one-third of our sales in that segment. Another third of sales in the Flexibles segment is in Europe and volume increased by about 1% in the quarter. The other third in the Flexibles segment would be in Latin America, Asia and Specialty Cartons, and those sales for the quarter were down low to mid-single digits.

By end markets, healthcare continues to grow well around the world; there's obviously a pick-up in home care, and protein packaging had a good quarter. On the other hand, anything that does go through the convenience channel or on premise, of which is a very small part of our portfolio, was a bit softer.

More recently in April we didn't see many changes, but Latin America volumes in all of our businesses in that region were very soft, and beverage packaging volumes in North America were also weaker given that package is often sold through the convenience channel.

So, other than in the most obvious cases, it's quite difficult to quantify with any degree of precision exactly what the COVID impact on those volumes has been, but at 2% volume growth the results were consistent with our longer-term averages.

The key takeaway here is that we remain relatively well positioned and resilient, and let me pass the call over to Michael to discuss the financials in more detail.

Michael Casamento

Thanks, Ron. Good morning and good evening everyone.

Beginning with a summary of our results on Slide 12, the business has delivered strong year-to-date earnings growth which reflects a healthy balance of synergies and organic growth. Sales are in line with the prior period excluding unfavorable FX and raw material pass-through impacts.

Year-to-date EBIT was up 7% in constant currency terms, with growth in both segments contributing to the double digit EBIT growth delivered by the Amcor group in the third quarter.

Net income and EPS were up by 13% and 14%, respectively, and free cash flow of $367 million was in line with our expectations and significantly higher than last year.

These strong cash flows have enabled us to return more than $1 billion to shareholders through three year-to-date quarterly dividend payments and share repurchases.

The Board remains committed to a sustainable and compelling dividend, declaring a quarterly dividend of 11.5 US cents per share to be paid in June.

Moving to the Flexibles segment on Slide 13, year-to-date sales were 0.7% lower than the prior period in constant currency terms, excluding a negative impact related to the pass-through of lower raw material costs. This reflects solid low single digit volume growth in Flexible's Europe and North America, across a range of high-value healthcare, food and home care products, partly offset by weaker demand in China and India through the third quarter.

We had previously highlighted business and periodic specific challenges in Flexibles Latin America and Specialty Cartons business, and we are encouraged to see the sequential volume improvements we anticipated during the March quarter.

Year-to-date adjusted EBIT grew 11% in constant currency terms, and margin expansion of 150 basis points reflects growing synergy benefits as we move through the year, and strong cost performance.

Overall, we're really pleased with the way the Flexibles business is performing, especially so given we have been able to leverage the unique position created through the Bemis acquisition covered on Slide 14.

First, there is momentum in the acquired base business which is evident in the strong year-to-date results in North America. Second, the integration is mostly complete, the teams have come together incredibly well to operate as one and support our customers through the COVID crisis. As Ron mentioned, the timing of synergy benefits is ahead of expectations and we are on track to deliver $80 million in Fiscal 2020, and $180 million by the end of FY22.

Turning to Rigid Packaging on Slide 15, in line with expectations, adjusted EBIT grew 4% in the March quarter with growth in both North America and Latin America. On a year-to-date basis, earnings were lower given the unusually strong comparison in the first half.

Overall year-to-date sales are 0.2% higher than the prior period in constant currency terms after excluding a 3.6% unfavorable impact from passing on lower raw material costs, which reflects volume growth partly offset by unfavorable price mix.

In North America, beverage volumes are 1.7% higher with 5% growth in hot-filled container volumes. The overall North America non-alcoholic beverage market continues to grow at a modest rate in line with long-term trends, and importantly as you see on the slide, consumption in PET format has remained stable after taking into account quarterly seasonality.

In Latin America, volumes grew 3.4%.

It's worth noting that volumes in both regions have slowed noticeably through the month of April, impacted by lower demand through convenience store and on-the-go channels as people are restricted from moving around during lockdowns. During the month, volumes in North America were down around 5% to 7% compared with last year, and in Latin America were down around 12%.

While the trajectory from here is difficult to predict, we have assumed volumes will remain soft through the balance of the June quarter and this has been taken into account in our revised full-year outlook which I will come back to shortly.

Turning to cash flow on Slide 16, year-to-date adjusted free cash flow of $367 million increased significantly compared with last year. This is consistent with expected seasonality given cash generation is always weighted seasonally to our fourth quarter, when EBITDA is the strongest and when we see working capital benefits peak. Most importantly, we remain on track to deliver more than $1 billion across the current financial year.

We have continued to focus on working capital and we measure progress through the working capital to sales ratio. On this measure, over the last nine months we have released the equivalent of more than $90 million of cash on an annualized run rate through a 70 basis point reduction in the ratio.

In this current environment, we are taking a prudent approach to non-essential expenditure, however, the overall strength and reliability of cash generation for our business means we remain in a position to invest and to maintain a strong, investment grade balance sheet, as shown on Slide 17.

We have an investment grade credit rating and our balance sheet metrics are strong, including leverage of 3.1 times at the end of the third quarter. This is where we expected it to be given quarterly seasonality of cash flows and is in line with last year's 3.1 times. As has consistently been the case over many years, we expect leverage will fall in the fourth quarter with FY20 is estimated to close at around 2.8 times.

We have less than 2% of our drawn debt facilities maturing within the next 12 months, and we also have ample liquidity of $1.9 billion should the need arise.

The key message here is that our strong balance sheet and cash flow means we have flexibility to meet the needs of our business and to continue our legacy of paying a compelling dividend, while maintaining a strong balance sheet and investment grade credit rating.

Turning to Slide 18, the highlights of our outlook for the financial year ending June 30, 2020 are shown. We expect heightened levels of uncertainty and volatility to continue in the broader environment, and this means there are additional challenges with regard to estimating future results. However, the business has delivered strong year-to-date results. We have visibility through the month of April, and have assumed that we and our business partners are able to continue operating plants with minimal disruption.

Taking these factors into account, we are confident the business will deliver our increased EPS growth range in constant currency terms of 11% to 12%, and be able to deliver over $1 billion in free cash flow before dividend and cash integration costs.

In summary, we believe we are on track to close out a strong first year following the Bemis acquisition and return significant capital back to shareholders.

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

Ron Delia

Thanks, Michael. Turning to Slide 20 and looking beyond the end of Fiscal Year 2020, at a time with lots of uncertainty and volatility, we continue to have good, clear visibility to controllable sources of shareholder value in the near term. We've touched on each of these already but we expect continued defensive organic growth for our food and healthcare packaging, and additional cost synergies from the Bemis acquisition. We will deliver $80 million by the end of this year and expect another $100 million over the next two years. Continued payment of a compelling dividend, especially in this low interest rate environment, and the EPS benefit of having bought back over 3% of our shares this year.

Longer term, Amcor's capital allocation framework has not changed. As we saw earlier over the last five or six years the model for shareholder value creation has delivered an average of 12% per year combined EPS growth and dividend yield, and that will be higher this year.

Before we close our opening remarks today, I want to touch briefly on our best long-term organic growth opportunity which is around sustainability. Sustainability as it relates to consumer packaging touches on a number of things that have become increasingly important to consumers around the world, including waste, pollution, greenhouse gas emissions and global warming. All important issues that aren't going to go away despite the immediate focus right now on COVID. So two points to emphasize today.

The first point, as Slide 21 makes clear, is that when it comes to these consumer needs and sustainability concerns, we believe the answer is responsible packaging, not no packaging or misinformed packaging. Responsible packaging requires a total system solution. First, smart design that takes into account environmental impacts through the product lifecycle, that means packaging that's recyclable, reusable or compostable, made from recycled materials and using less material in the first place. Second, the right waste management infrastructure needs to be in place, whether that's recycling or composting facilities or returnable systems. Finally, consumer participation is critical to properly dispose of packaging in an appropriate way.

The second sustainability point today is on Slide 22. Amcor is uniquely positioned to make a difference here and capture the opportunity, and we are fully committed in continuing to invest. This is not a new topic for us. We've been fully committed for several years now and we first made our aspirations public two and a half years ago with our 2025 pledge, and again in August last year we committed to invest $50 million to accelerate our sustainability agenda.

While we're dealing with the pandemic like everyone else, sustainability has and will continue to be in focus for Amcor.

Just to close off and summarize on Slide 23, clearly volatile times, challenging times for everyone. Amcor is not immune or any different, but we are well positioned and demonstrating resilience. We have delivered strong results so far this year and we have increased guidance for the second time. The Bemis acquisition is ahead of our first year expectations. We have clear visibility to shareholder returns in the near and longer term, and of course, one more thank you to any of our employees who might be listening in today.

With that, Operator, we'd like to open up the call to questions.

Operator

Your first question comes from the line of Ghansham Panjabi with Baird.

Ghansham Panjabi

Hey guys, good day to you and hope everybody is doing well. I guess first off, Ron, for the regions that benefited from a COVID related volume increase, is order flow starting to normalize as we're now in May and consumers have basically had time to cycle past the initial pantry loading, with demand starting to mirror closer to consumption trends? Then related to that, Bemis on a legacy basis has a decent amount of exposure towards meat. Just given the meaningful meat production disruptions in the U.S., is that a risk — it's a high margin category for the industry.

Ron Delia

Maybe I'll take the second one first, if I can. The meat business in North America is a big important part, it's about 20% of North American Flexible sales, and so as a proportion of Amcor it's low single digit percentage. We really haven't seen significant disruptions in that segment. We've had some ebbs and flows in volume but no real shutdowns despite the challenges that have been well documented, and that continue.

One of the things that is a real advantage for us in that segment, or will be longer term is the film technology in that business really lends itself to more automated meat packing processes and more automation in those facilities going forward. Some of those plants are quite labor intensive, as you've seen, and so we think in the medium to longer term that's going to bode well for growth, but in the here and now, no major disruptions and generally robust volume.

The first part of your question was about trends. Look, I mean I think the key message from us today is we didn't see much overall across the whole business that seems to have been impacted by COVID. We obviously see some areas where things grew better than we might expect; 4% volume growth in North America is a couple of percentage points higher than we'd expect but not astronomical. In a business like Europe, which is just as big, we saw volume growth of 1%, which is again, sort of normal. Then obviously in China, in January and February, we have had a decline. India was shut in March, so there are really puts and takes.

April has continued largely in the Flexibles space along the same lines. I think as Michael alluded to, Rigids volumes have slowed a bit and everything in Latin America has slowed in April, but generally speaking, if we look across the entire portfolio, there's not much material change.

Ghansham Panjabi

That's helpful. Just related to that, Ron, on the EPS increase of let's say $0.02, at the midpoint, excluding FX, can you help bridge that for us year-over-year? I mean lower interest costs, it looks like it will come to roughly half of that. Is the rest from just better volumes than you thought initially, or is it also due to lower raw material costs?

Ron Delia

Yes, well, you've got it. Interest and tax net is about half. Then the rest is the good organic performance of the business. We've seen momentum building in the base business throughout the year. We saw this in February and raised our guidance then, and we've continued to see it through the third quarter. Volume is a part, but we've had really good margin performance generally in the businesses. If you look in Flexibles, we've got 150 basis points of EBIT margin expansion, some of that's synergy related but some of it is just good performance in the base business as well, and the mix has been healthy with good healthcare sales and some other segments. So, it's a combination.

Ghansham Panjabi

Sorry, the raw material piece, that incremental benefit?

Ron Delia

Not so much so far. Where raws go from here with oil hitting the lowest it had hit in late March and April, we'll see, but in the third quarter we had a few million dollars of benefit. It's similar to the first half where we saw about $4 million or $5 million per quarter. We were at about that pace in the third quarter as well.

Ghansham Panjabi

Terrific. Thanks so much.

Operator

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

Larry Gandler

Thanks guys. I hope everybody is doing well. My question is about the cash flow, Ron. It looks like given the nine months cash flow of 470 and your guidance of over a billion, it's got to rain cash in the fourth quarter. Just wondering if you could talk to whether both Rigids and Flexibles generate significant cash in that fourth quarter and talk to that cash seasonality.

Michael Casamento

I'll take this one, Larry. Thanks for the question.

Yes, look, we're really pleased with where the cash flow is year-to-date. It's meaningfully better than the prior year. It's in line with our expectations based on the usual seasonality. It's ahead of prior year. There are a couple of areas on that. We've obviously had higher earnings, which is a positive, and also really good working capital performance, as I mentioned in my notes. We look at the working capital sales ratio and that's reduced from 10.7% at June 30 to around 10% now which is a meaningful improvement across the year-to-date. We're right on track to deliver the $1 billion in cash flow we talk about before dividends, and typically our Quarter 4 is always the strongest cash flow quarter, and that's for a few reasons.

Firstly, Q4 is our highest earnings quarter for the year, so typically you're $100 million better EBITDA in Q4 than any of the other three quarters, so clearly that adds to the cash flow. Our inventory cycle, we tend to build inventory leading into the peak season, particularly in Rigids. Then in Q4, when it's summer, we draw that down so we benefit from that.

We're going to see continued benefits from the working capital to sales ratio, particularly coming out of the Bemis acquisition, so we've seen some benefit there.

Then obviously as we head into year end we have a strong focus on working capital and it tends to lead to a stronger rally than some of the other quarters.

Overall, we feel good about the position and it comes generally across the board.

Larry Gandler

Okay, to follow on to that, just Q4 being the largest EBIT quarter of the year, with the volume weakness you're seeing in Rigids, is there any concern about negative operating leverage perhaps chewing into those earnings in cash flow?

Michael Casamento

As we said in the comments, we've seen some softness in Rigids volumes in April. We've factored that into our guidance for the full year and that's also factored into the cash flow guidance, so we feel good about where we're at. Obviously, COVID has some other variability that we've also talked about but where we are right now we feel okay with where we are at.

Larry Gandler

Great, thanks guys. Appreciate it.

Ron Delia

Thanks, Larry.

Operator

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

Brook Campbell-Crawford

Yes, good morning. Thanks for taking my question. Just a couple from me. Just on Rigids restructuring, just a couple of comments if you could where you're at on that across that program and when we should start to see benefits run through.

Ron Delia

We're still going through that. We've benefited I think about $10 million or $15 million so far. There's another $5 million to $10 million to go which will come next year. There's a couple more plants to close, which will happen after the high season at the end of the North American summer, so you'll see benefits in 2021 from the final plant closures in that program, which was announced a couple of years ago.

Brook Campbell-Crawford

Okay, understood. Then just on Flexibles, in the 10-Q for the quarter, so for the March quarter, it looks like price mix was a bit of an issue there, a 4% headwind to EBIT. Could you step through there what the issue was with price mix for that business?

Ron Delia

It's mostly mix. I think it's probably because we've got some weaker sales in Latin America, as we flagged, and in specialty cartons. Those are the businesses where the sales have been weaker. I think mix tends to be lots of different things. I think we'll probably get back to you on that one Brook because the business is growing nicely in some of the better segments around healthcare and meat. The offset will be in Latin America and in specialty cartons.

Brook Campbell-Crawford

Okay, understood. I'll follow-up, thanks.

Operator

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

Brian Maguire

Good morning, guys, or good afternoon, depending on where you are.

Just wanted to follow-up on that last question on pricing trends in general. I think in the prepared remarks you might have said that price mix was a little bit negative in Rigids. With the volumes it seems like some regions volumes are growing a little bit faster now than other regions. Segment basis, it seems like the trend is consistent, like you said, with the long-term trends, but seeing some divergence between segments, so just wondering how that's affecting mix. Then if you could comment on overall industry pricing in the current environment. Are people being aggressive, trying to pass-through some of the deflationary benefits, or have you seen any changes in competitive behavior you can ascertain?

Ron Delia

Thanks. On the last one, no changes in competitive behavior. I think the whole supply chain is focused on just keeping our plants running, whether you're an upstream raw materials supplier or a downstream customer or retailer. I think what we've seen is a reprioritization in a number of different dimensions towards just sustaining operations. No change in competitive dynamic, and certainly no change in pricing. I don't think there's any real commercial discussions happening in our supply chain right now.

As far as mix goes, it's a 90-day period so there's a lot of moving parts. I would say in Flexibles you see the mix benefits flowing through in the margin expansion. We're doing really well in healthcare this year. We have been for several periods now, medical and pharmaceutical packaging growing well. Protein packaging, which was flagged earlier, despite some of the press around issues in the U.S. which have been more recent, that business continues to grow, but generally speaking, the mix has been positive.

Brian Maguire

Okay. Just on the margins, in Flexibles it looks like the EBIT margins stepped down a little bit from 2Q despite I guess a little bit more Bemis synergy capture there. Just wondered if there was anything that would drive some differences in the margins between 2Q and 3Q and what's the outlook for margins in that business in the rest of the year?

Ron Delia

We wouldn't really look at the margins on a quarter-to-quarter basis. We'd be thinking about the full year. I think on a year-to-date basis the margins have stepped up quite substantially and we'd expect that to continue.

Brian Maguire

Okay. Then just a last one for me. Just wondering how you guys are working capital and cash flows, just wondering if in this environment you're seeing customers look to extend their payment terms or suppliers asking for payment a little bit quicker, if just trade terms are something to be concerned about and if you think you can kind of hold the line on those.

Michael Casamento

I can take that one, we haven't seen any near term stress from our customers, who, like us, are typically well placed from an essential products perspective to deal with the situation like COVID. I think having said that, we really continue to stay focused on our working capital management which includes the customer collections and supply terms, so we haven't really seen too much on that front right now.

Brian Maguire

Okay. Thanks very much.

Operator

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

John Purtell

Good morning, guys. How are you?

Ron Delia

Hey, John.

John Purtell

Just had a couple of questions. Just firstly, obviously you've highlighted Rigids weakness in April and likely extending into May and June, but you've lifted your overall guidance for the year in EPS terms, so it does imply outperformance in Flexibles. I think you've sort of provided some detail there, but essentially, is that outperformance coming from the big developed markets in Flexibles, North America and Europe and you've called out healthcare as well? Just trying to understand where I suppose the offset is, if you like, versus Rigids.

Ron Delia

Rigids is softer in April, as we flagged. I mean it's functioning well, it's a week-by-week story. Volumes, we're talking about the convenience channel business which is where the weakness is, in North America and Latin America, is really related to the pandemic.

In Flexibles, we've had good momentum in North America, good momentum in Europe, building throughout the year. The Asia business weathered the storm early in late January and February, but has built momentum as well, so we expect them to have a good fourth quarter. The cartons business also has built some momentum after a tough Q2 in particular. So really, it leaves Latin America in Flexibles as the question mark, but generally speaking across the rest of the segment we have seen and continue to see good momentum.

John Purtell

Just picking up on Latin American and Flexibles, obviously you've indicated Bemis is ahead of your first year expectations overall, but where does LatAm now stand, Ron, in terms of what was a disappointing start with some loss of market share?

Ron Delia

Yes, that business, notwithstanding the last couple of weeks and the pandemic impacts has been building momentum as well, and so we've sequentially improved profit in that business in each quarter. I think we flagged that at the end of Fiscal '19, our fiscal fourth quarter of the business actually had a modest loss. We started to make money again by July and August and had profit in the first quarter, second quarter even more so, third quarter was better again. So despite the softness that we're currently seeing, the business had generated incrementally more profit in each quarter, so we're on the right track there.

Operationally and from a cost perspective, the steps that we took in July and August last year and the headcount reductions put us in a good position. The customer relationships have been solidified, we had seen some better volume trends and better comps on sales period-over-period in January and February than we had seen in the first half of the year, and even March. Now, I think we're dealing with maybe the last major region in the world to go through the pandemic and that's where the softness is coming from now, but generally speaking, we would say that business has progressed throughout the year in line, maybe even a bit ahead of expectations.

John Purtell

Thank you. Just last one, just to clarify a response from an earlier question. Just in terms of Flexibles, you haven't seen or you wouldn't characterize there being a significant pull forward of demand in the quarter, so there's going to be an levelling out there. You sort of see these trends in terms of at-home consumption being sort of enduring.

Ron Delia

Well, if we look at the whole segment, we had pretty modest growth of 1% across the board and we spell out on the slide there some of the puts and takes. I think 1% or 2% volume growth is what you'd expect to see in this business and in the first half we had some challenges in Latin America and in cartons in particular, which had us a bit softer than that. But generally speaking, 1% or 2% is what you would expect and that's sort of where we're at.

John Purtell

Okay, thank you.

Ron Delia

Thanks, John.

Operator

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

Richard Johnson

I just want to reference Slide 8 and ask a question in general about emerging markets. I know you touched on them individually or at times through the presentation, but it looks like proportionately EMs dropped quite materially through the year and I just want to check is that an error that you've got Australia and New Zealand in there? So if I adjusted that out, it would have come back even more, so the question really is can you talk or give a bit more color about EM in general? You talked about China and India but I'm trying to get a sense of where else the weakness has been.

Ron Delia

The answer to the first question is no. The emerging markets portfolio or percentage of sales to emerging markets has not changed through the year. With Bemis, our weighting towards EMs went down a few percentage points, I think maybe 2 or 3 percentage points overall, but that hasn't changed.

Generally speaking, I think we've talked enough about Latin America. Asia has been relatively robust this year save for the late January/February period in China where things obviously were quite soft, although bounced back quite quickly in March. India in March was shut, essentially, so we had a very soft month in India. But to that point, for the first eight months of the year we had very strong growth in India and the rest of Southeast Asia.

Eastern Europe has been softer in cartons but pretty robust in food and personal care in the Flexibles side.

It's a mixed bag like it always is across the EMs but they're still a substantial part of the business and still an area where we expect to get disproportionate growth going forward.

Richard Johnson

Thanks. So just to clarify, Ems, that's 23%, that's significantly lower than what it was, so is that just rounding? Then I take Australia and New Zealand out and it goes down even further. You started the year at 27% in the EMs, but perhaps we can take this offline. I just want to clarify it's the right number.

Ron Delia

Let's take it offline, Richard. The percentage in the EM is in the high 20%, the high 20s.

Richard Johnson

Okay, then just a couple. I just want to go back to John's question around Flexibles in Europe. Can I just double check that you haven't lost any share there? Because the trading backdrop, it wouldn't have been unusual if you had done slightly more than what trend is, which is perhaps 0.1% volume growth.

Ron Delia

No, I think in the quarter you have to remember that Europe was pretty hard hit by this pandemic in many countries in the beginning of March, and so we had probably as much of an impact in probably the end of February, early March in parts of Europe as we had in Asia. So, yes, you had some stronger sales towards the end of the quarter but in the middle of the quarter in France and Spain and Italy, parts of Germany, even Switzerland, we saw pretty dramatic slowdown for a week or two.

Richard Johnson

Got it. That's helpful. Thanks. Then just finally for Michael, Michael, your interest guidance dropped by nearly 20% through the year, so I'm just trying to understand what the main moving parts are because that's a pretty big change through the nine months.

Michael Casamento

Well, Richard, at the start of the year we were expecting interest rates to increase, particularly through the U.S. and obviously that didn't happen. More recently, obviously, the more recent reduction in guidance we've put through was really on the back of the U.S. one month LIBOR. It's dropped nearly 2% in a month or two, so if you think about that, that portfolio on the fixed and floating rates and where our mix of currencies are, it's pretty easy to understand that the interest cost is going to come down.

Richard Johnson

Got it. Thanks. That's it from me. Good luck.

Richard Delia

Thanks.

Operator

Your next question comes from the line of Mark Wilde with Bank of Montreal.

Mark Wilde

Good evening, Ron.

Ron Delia

Hey, Mark.

Mark Wilde

I wondered, Ron, just to start out, that 4% volume in North America Flexibles is one of the strongest numbers I can recall in years for Bemis or even any of the peers. Any particular things you would point to behind that growth?

Ron Delia

It's what you've seen all over the tv and the media; it's been well documented. I think the U.S. consumer tends to pantry load like no one else and so sales were particularly strong in March. The business had reasonable sales in the first half, so we would have been in the low single digits, which is probably building a bit of momentum over where the business had been the last several years, so we probably started from a bit higher base and then picked up a couple more points of growth in the third quarter.

Really across the board, healthcare we keep coming back to, but healthcare has been strong throughout the year, in the protein segment, in home care, in packaged beverages, powdered beverages, etc., we had pretty good growth across the board.

Mark Wilde

Okay. Would you say that this is just better growth from a lot of the old benchmark brands that Bemis had focused on historically? Or are you also getting any benefit from this effort they'd had over the last few years just to try to diversify their customer base and get down with some of the smaller, faster growing brands?

Ron Delia

The business has done a really good job in that space so I'd say the growth in the quarter and probably the growth throughout this fiscal year since we've owned the business has been equal parts growth with larger customers and in the healthcare space, as well as good traction with the smaller customers. As it is with our Rigid Packaging business where we also have, and have had for a number of years, concerted effort to tap into that smaller end of the market, so it's across the board.

Mark Wilde

Any lessons or clues that you take from what you've seen in China and elsewhere in Asia in terms of what you might expect in terms of recovery in Europe and now in North America from the COVID situation?

Ron Delia

Well, the biggest lessons that we are able to benefit from in Asia were just how to deal with the situation operationally. In China, obviously in February we had disruptions in a number of sites. We learnt pretty quickly about the protocols to get sites up and running and protect sites, everything from how to set up a printing line to ensure physical distancing, to how to process hundreds of employees through temperature checks and PPE. All of that we learnt through the 11 plants we have in China and the experience they went through in the earlier part of the quarter, and those lessons were then built on in Europe and then carried through to North America and Latin America. Operationally would be the big lessons learnt.

From a consumer perspective, the consumers are quite different. Generally speaking, though, our business is very defensive and it's exposed to the same segments in China as it is elsewhere in the world. It's food, it's personal care, it's pharmaceutical and medical packaging and those segments just tend to be quite resilient and defensive. It's been more on the operational side where we've benefited from the learnings.

Mark Wilde

Okay. Last one from me, is it possible to get some sense of what the tobacco volumes are doing year-over-year?

Ron Delia

The industry itself declines 2% or 3% a year and some of the customers do a great job of laying all that out, I think they would say that the global demand in units declines 2% to 3% a year and then you have short term periods where either there's inventory builds, which provide an offset, or you might have an excise tax in a major market which builds on that decline. Our volumes would look similar from that perspective.

Then the offset for the packaging is outside of North America in particular, the complexity of the packaging is quite expensive and so there's a mix and a complexity offset that drives the sales at a bit higher rate than the volumes.

Mark Wilde

Okay, very good. I'll turn it over. Good luck in the last quarter of the year.

Ron Delia

Thanks.

Operator

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

Nathan Reilly

Hi gents, just a couple of questions from me. Firstly, Ron, did I hear you say that you'd seen no significant change in costs for the manufacturing or otherwise so far during third quarter, and if so, is that sustainable through the fourth quarter? I'm just wondering around increase of hygiene standards, social distancing, I guess there's an offset there with things like lower travel costs and whatnot, so just try to paint a bit of a picture of that for us.

Ron Delia

Yes. That's exactly right. I mean no material cost changes that impacted our financial performance one way or the other, or that we expect to in the fourth quarter. There's definitely puts and takes. Obviously there's increased costs around cleaning and disinfecting and extra PPE and things like that. We have not seen any substantial increases yet in any inputs or freight or anything like that, so those are bigger cost items and we haven't seen any real material change in those items.

Then there are offsets, as you said. There's generally no travel. No one at Amcor is traveling at the moment and you just have generally less expense in that side of things. So, puts and takes but no material cost change.

Nathan Reilly

Okay, understood. Finally, just on your R&D plans, I'm just wondering are the shifts we're seeing in consumer behavior prompting a rethink on some of the R&D investment? I guess I'm also wondering if this shift to the online channel in particular creates some packaging and redesign conversations with your customers?

Ron Delia

It's a really good question. Our view internally and in the discussions we've had with our customers is that the things that we had been prioritizing before this pandemic are still the things that are going to be important when we get to the other side of it, particularly around sustainability. Bearing in mind that our investments in that space are just core to what we're doing. We're making packaging; to make that packaging recyclable is going to satisfy a need that we're all confident is going to be there on the other side of this situation that we're in now.

On ecommerce, clearly there's a lot of sales of grocery and food products going through ecommerce right now and the online channel. At the moment we supply the same sort of packaging for the most part for that channel as we do through regular retail. Over time, gradually, our customers are developing omnichannel packaging or ecommerce specific packaging, but those things take time and that will continue. If anything, we would expect that to accelerate, but in the here and now that's not impacting our R&D agenda for the next, let's say quarter or two.

Nathan Reilly

Okay, thanks for that.

Operator

That is the last question we have time for. I'll now turn it back over to the speaker to end the call.

Ron Delia

Okay, Operator. Again, we thank everybody for joining us at different hours from different parts of the world. We'll end the call there. Thanks.

Operator Instructions