Amcor Plc

2024 Third Quarter 2024 Year to date Results

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Third Quarter 2024 Results

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Amcor Plc

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PRESENTATION:

Tracey Whitehead
Thank you, Operator. Thank you, everyone, for joining Amcor's fiscal 2023 third quarter earnings call. Joining today is Peter Konieczny, Interim Chief Executive Officer; and Michael Casamento, Chief Financial Officer. Before I hand over, a few items to note.

On our website, amcor.com, under the Investors section, you'll find today's press release and presentation, which we will discuss on this call.

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

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

Peter Konieczny
Thank you, Tracey. Thank you, to all who have joined us for today's call. Prior to discussing our third quarter performance, I want to spend a few moments recognizing my predecessor, Ron Delia, and his many accomplishments at Amcor.

In the last few years alone, Ron led us through the transformational acquisition and integration of Bemis, the largest acquisition in the company's history, successfully and safely guided the business through a pandemic and made the difficult and correct decision to divest our business in Russia. And most recently, Ron directed our teams in navigating a particularly challenging economic period.

Now I will speak for the Board, our global management team and our employees around the world in thanking Ron for his leadership, guidance and dedication during his 18 years with Amcor and nine years as CEO. I've worked closely with Ron, our Board and the other members of our executive team over many years to help shape and execute our strategy, and I'm honored to take the leadership in an interim capacity at this time.

Today Amcor is the established industry leader in our key markets and geographies, has world-class talent and clearly differentiated commercial innovation capabilities, all providing us with multiple opportunities to capture high-value growth. Importantly, the business is also well positioned to continue benefiting from the proactive steps taken by our leaders across the company to align the cost base with recent challenging market conditions.

The results of those decisive actions were again evident in our third quarter financial performance as we showed strong earnings leverage across the business. Third quarter year-over-year volume performance also improved on a sequential basis, and we expect this trend to continue driving stronger earnings growth as we close fiscal year 2024. My role right now is to ensure we stay focused and on track and that we capitalize on the strong position we are in to maintain momentum and further accelerate earnings growth. It is a team effort and will drive success. I'm surrounded and supported by credible leaders and talented team players throughout our organization.

As seen on Slide 3, my near-term priorities are simple. First, ensure Amcor continues to provide a safe and healthy work environment for our global workforce. Second, stay close to our key stakeholders including our employees and customers and finish our 2024 fiscal year strongly. After an improved third quarter performance, we are well positioned to do so, and we've raised our full year guidance today. Third, build on the momentum we have worked hard to deliver across the business. As we work through our planning cycle for fiscal 2025 set clear priorities to ensure our momentum continues. Fourth, provide stability for the business and keep our teams focused on delivering for all our stakeholders by reinforcing that. Our strategy has not changed, our agenda has not changed, and our priorities have not changed.

Moving to Amcor's Q3 performance, starting with safety on Slide 4. Our commitment to the health and safety of our teams remains our number one priority, and we continue to focus on providing a safe and healthy work environment. 72% of our sites have been injury-free for the past 12 months or longer, and we experienced a 19% reduction in injuries compared to the first nine months of fiscal 2023. Safety is deeply embedded in Amcor's culture and is a critical cornerstone of our success.

Turning to our key messages for today on Slide 5. First, outperformance in the underlying business resulted in adjusted earnings per share for the third quarter that exceeded the expectations we set out in February. Our Flexibles and Rigid Packaging segment each delivered adjusted EBIT growth, leading to Amcor returning to year-over-year earnings growth a quarter sooner than we anticipated. Improved working capital performance through the year also resulted in a year-to-date increase in adjusted free cash flow.

Second, as I mentioned earlier, our third quarter volume trajectory improved significantly on a sequential basis as destocking abated across most end markets, and we experienced higher customer demand in several of our businesses.

While this is clearly an encouraging and positive trend, our teams remain highly focused on continuing to control costs, and this helped us deliver a third consecutive quarter of improved earnings leverage and a return to earnings growth.

Third, our March quarter financial performance and expected further momentum in our fourth quarter gives us the confidence to increase our full year adjusted EPS guidance range to 68.5 to 71 cents per share and reaffirm our guidance for adjusted free cash flow between $850 million and $950 million for the fiscal year.

We believe we have turned the corner after a challenging calendar 2023, and we expect our sequential volume and earnings growth trajectories will continue to improve, which is supported by the demand trends experienced across the business in the first weeks of April.

Finally, we remain confident in our capital allocation framework and strategy for long-term growth. We believe the strength of our market positions, our opportunities for investment and our execution capabilities, along with our commitment to a compelling and growing dividend, make a convincing investment case for Amcor.

Moving to Slide six for a summary of our financial results. The first nine months of fiscal 2024 continued to reflect significant benefits from our proactive cost actions. Three consecutive quarters of strong operating leverage helped offset the unfavorable impact of 7% lower year-to-date sales, leading to a decline in adjusted EBIT of 3%.

We believe we've reached an inflection point in the trajectory of earnings and volumes with our Q3 results, and we are pleased with our financial results in the March quarter. Better-than-anticipated demand trends and continued strong cost performance resulted in EBIT and earnings per share ahead of our expectations entering the quarter. The underlying business saw a return to profit growth in the third quarter with adjusted EBIT up 3% compared with last year. Volume trends improved as the broad-based destocking experienced in the December quarter abated and customer demand strengthened.

Our teams also continue to focus on cost reduction and productivity initiatives and delivered another quarter of outstanding results with approximately $130 million in total cost savings including approximately $15 million of benefit from structural cost initiatives. These benefits, combined with improving volume trends, resulted in another quarter of improved earnings leverage. Interest and tax expense were modestly higher than the prior year, in line with our expectations and adjusted earnings per share of 17.8 cents, grew by 1%. Q3 net sales were down 6% on a comparable constant currency basis, which primarily reflects overall volumes 4% lower than the prior year. This is predominantly related to expected ongoing weakness including further destocking in healthcare categories and in the North American beverage business, which collectively represent approximately 30% of Amcor's total sales.

Across the remaining 70% of our business, overall net volumes were relatively flat with last year, a significant improvement compared with the December quarter and the business delivered volume growth across several categories and geographies.

Outside of healthcare, we believe destocking is now largely behind us. Price/mix for Q3 had an unfavorable impact on sales of approximately 3%, which is a result of greater volume declines in high-margin healthcare categories, which we anticipated and called out last quarter.

We continue to return significant cash to shareholders through a compelling and growing dividend and share repurchases, which totaled approximately $570 million through the first nine months of the year. 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 Flexibles segment on Slide seven and focusing on our Q3 performance. Net sales for Q3 were down 6%, reflecting an unfavorable pricing impact of 4% and a 2% decline in overall volumes, which was a significant improvement of 8% points compared with the December quarter.

As we anticipated and called out last quarter, volumes for healthcare products remained weak and destocking continued, particularly in North America and Europe.

In total, healthcare volumes were down double digits, and this had an unfavorable impact of approximately 3% on overall segment volumes, and was the primary driver of the 4% unfavorable mix in the quarter. Across the balance of our Flexibles portfolio, net volumes grew approximately 1% in the quarter, with growth in several end markets including meat, pet food, cheese and unconverted film foil, and we also saw growth across a number of emerging markets.

Across North America and Europe, third quarter net sales declined at high-single-digit rates unfavourably impacted by mid-single digit lower volumes and unfavourable price/mix related to declines in healthcare categories. Excluding healthcare, across these two regions we saw mid-single-digit volume growth in cheese and a strong sequential improvement in meat and pet care volumes, which were flat and up low single digits for the quarter, respectively. Across the Asian region, net sales were modestly higher than the prior year. China grew volumes for the third consecutive quarter and volume growth in Thailand, India and the Philippines also helped offset lower volumes in South East Asian healthcare business.

In Latin America, the business delivered good volume growth in Brazil, Mexico and Peru. Q3 adjusted EBIT of $358 million, was 5% higher than last year on a comparable constant currency basis. Strong cost performance through the quarter including from restructuring initiatives, combined with broadly improving demand trends, led to another quarter of strong earnings leverage, and EBIT margins increased by 170 basis points to 13.8%.

Turning to Rigid Packaging on Slide 8. Q3 net sales were 8% lower on a comparable constant currency basis, mainly reflecting lower volumes. While overall volumes were down 8% for the quarter, this represents a meaningful improvement over the December quarter.

In North America, overall beverage volumes continue to be impacted by soft consumer and customer demand in Amcor's key end markets, along with some lingering destocking. Total beverage volumes were down 11%, improving sequentially from the 19% decline we experienced in December quarter, which was impacted by significantly more destocking. Latin America volumes were in line with last year with growth in Brazil and Colombia, offset by weaker demand in Argentina.

We are pleased to see the Rigid Packaging business return to earnings growth, with adjusted third quarter EBIT up modestly over last year. Strong earnings leverage resulting from a continued focus on cost reduction and productivity measures and the realization of benefits from restructuring initiatives more than offset lower volumes, leading to an 80 basis point increase in EBIT margins to 8.7% for the quarter.

Moving to cash and the balance sheet on Slide 9. Adjusted free cash flow for the first nine months was approximately $100 million ahead of last year, mainly driven by improved working capital performance and successfully reducing inventory levels for the fifth consecutive quarter. Leverage at 3.4x is broadly in line with the first half and within the range of expected outcomes for the third quarter.

As a reminder, the business is cycling through temporary increases in working capital, and trailing 12-month EBITDA remains at lower than historic levels, reflecting the divestiture of our Russian business in December 2022.

Looking ahead, we continue to expect leverage will decrease to approximately 3x at the end of our fiscal year, supported by seasonally stronger earnings and cash flow in our fiscal fourth quarter. This brings me to our outlook on Slide 10.

As PK noted earlier, we are raising our full year guidance for adjusted EPS to 68.5 to 71 cents per share to reflect our performance in the underlying business in the third quarter and our expectation that volumes will continue to improve through the balance of the year.

We also remain focused on controlling costs and expect to deliver further savings in Q4 including from our structural initiatives.

For fiscal 2024, we continue to expect the underlying business to contribute organic earnings growth in the plus/minus low single-digit range with share repurchases adding a benefit of approximately 2% and favorable currency translation contributing a benefit of up to 2%. This is

offset by negative impact of approximately 3% related to the sale of our Russian business in December 2022. The impact of which was all in the first half.

We also expect a negative impact of up to 6% from higher interest and tax expense, which takes into account our updated estimate for the full year net interest expense of between $310 million to $320 million.

We are confident we will build on our third quarter performance, and adjusted earnings per share for the fourth quarter is expected to grow over last year by mid-single digits on a comparable constant currency basis.

Overall volumes in the fourth quarter are expected to be down in the low single-digit range, primarily due to ongoing destocking in healthcare categories and continued weak consumer and customer demand in North America beverage. We expect the volume improvement we experienced in the third quarter to continue as we progress through the fourth quarter, which will position us well as we enter fiscal 2025. We have also reaffirmed our guidance range for adjusted free cash flow of $850 million to $950 million for the year. So with that, I'll hand back to PK.

Peter Konieczny
Thank you, Michael. In closing, on Slide 11, our Q3 financial results, guidance for the balance of the fiscal year, and our expectation that we will continue to build earnings momentum in fiscal 2025 will highlight that Amcor is a very well-positioned business. Amcor's industry leadership across the globe is well established.

Our differentiated innovation capabilities are assisting the world's best known brands and smaller companies in achieving their objectives to protect, preserve and promote their products while enabling them to meet the sustainability commitments they have made to their stakeholders.

Amcor's talented employees around the world are capitalizing on growth opportunities in priority categories, emerging markets and through sustainable offerings while also continuing to closely focus on cost controls. We're confident we will continue to see positive momentum given the actions we have taken and continue to take across our operations to invest in growth, reduce cost and improve productivity.

As I mentioned at the beginning of the call my role right now is to ensure we stay focused and on track and that we capitalize on the strong position we are in to maintain momentum and further accelerate earnings growth. The continued safety of our people goal will always be at the top of Amcor's agenda. But a very close second for me right now is to keep our teams focused on delivering for all our stakeholders by reinforcing that our strategy, our agenda and our priorities have not changed.

Our Q3 volume trajectory and financial performance underscores our confidence in stronger earnings growth momentum as the challenges we faced in calendar 2023 are put further behind us. We have raised our full year EPS guidance, and we anticipate delivering mid-single-digit earnings growth in Q4. Our performance in the first few weeks of April supports this expectation. Our commitments to our longer-term growth and value creation strategy gives us line of sight to a return to growth in line with our shareholder value creation model.

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

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

Ghansham Panjabi
I guess first off, it just sounds like volume surprised you to the upside during your third quarter. Do you think that's just a function of 2Q coming in lower than forecast just given aggressive year-end inventory destocking by your customers?

Do you think this is more of a sustainable improvement that you're going to build upon as you look out to your fiscal year 2025?

Peter Konieczny
Yes. Thanks. It's a great question. There's a couple of things to take away here from the discussion of the quarter. The first one really is that volumes improved. The second one is that we had great cost performance. The third one is that we believe the momentum carries over into the Q4. But let me get back to the volume question.

So, significant improvement sequentially on volumes from the second to the third quarter. To remind ourselves, second quarter, we were down 10%. Third quarter, we were coming in 4% down versus prior year.

When you look at the 4% that we were down, it pretty much equally split between two drivers. That's the market impacts, and by that, I mean consumer demand and our exposure to categories and customers. Then the second one is destocking. So that made up the 4% decline.

Another way to look at that is the 4% decline was pretty much all driven by destocking in healthcare and North American beverage. That also means that the balance of the portfolio ended up being pretty flat.

We're pretty much pleased with this outcome because when you think about it, healthcare and North American beverage is about 30% of our business, that means the balance of the portfolio, 70% came in flat.

Now when I take a step back and we look at the third quarter volume performance, there's a few things that we take away. The first one is, we saw a bit of unwind of a very strong destocking in the December month. When we discussed the second quarter, we talked about a pretty strong January, and there was a bit of a question mark around how much of that performance was driven by unwind of the December month. As we left Q2 behind us, we can confirm that the volumes in January and also February, to a certain extent, benefited from a bit of an unwind in an unusually low December month. So that was the first one.

The second thing that we've seen is that our customers performed better. We talked about that also in the last quarter. The background here is that customers, particularly large customers, are talking more, and responding more towards turning the dial a bit towards a better balance between volumes and margins. So we've seen that come through.

Then the third one is pretty much what we expected to a certain extent that the destocking would abate., and that pretty much happened with the exception of healthcare and some lingering destocking in North American beverage. So, that's pretty much the discussion of the third quarter.

But as I have the floor on volumes, let me just make two more comments and breaking it down into the segments here because I think the color is important. In Flexibles, we came from being 10% down in the second quarter to being 2% down in the third quarter. Again the customer performance drove improved market impact performance and then the destocking significantly abated. When you look at the Flexibles segment, it was all made up by the healthcare impact in terms of the decline, the balance of the portfolio is flat to even slightly up.

Then just one more comment on Rigid and then I'll stop. Rigid went from 12% down in the second quarter to 8% down in the third quarter, so also an improvement. We continue to see a soft market, but the destocking has significantly abated in Rigids also. So across the board, really, really good improvement. When you think back to what I discussed, there's components that we believe to be sustainable, no question. That relates to one, further abatement of the destocking and second, to good customer performance that we believe we will continue to see.

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

Daniel Kang
Just a question on healthcare. You mentioned healthcare continued to fall double digits in 3Q, which from memory sounds quite similar to the December quarter. Can you comment on whether there was any sequential improvement in 3Q?

And just from the visibility of customer stock levels and given the comps that you should be working with going forward, is it reasonable to expect that first half fiscal year 2025 to show some improvement in healthcare

Peter Konieczny
Let me help you with healthcare a bit. So the main driver of the healthcare performance really has been the destocking and the destocking sort of abating from Q2 to Q3. I would say overall, the demand situation has not really changed much in healthcare. So you would see overall healthcare is marginally better between the second and the third quarter.

We do expect further improvement in healthcare though because the destocking will further sort of reduce in the fourth quarter. As a matter of fact, when we guide to low single-digit volume decline in the fourth quarter, we would believe that all of that is driven by healthcare. We don't really know exactly when the destocking will come to an end. It will certainly stretch into the fourth quarter. Maybe we'll see a bit of an impact also in the first quarter of fiscal 2025. But that would be as far as I would go with everything that I know at this point in time.

One more thing that I would want to add to that is, again we're talking about low single digit declines in volumes in the fourth quarter. But with a further improving trajectory, we're expecting to exit the fourth quarter flat on volumes.

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

Adam Samuelson
I was hoping to maybe talk a little bit about the operating leverage in the business or lack thereof on the deleverage side just given the profit performance, especially in Flexibles relative to the volume and mix declines you still saw in the period.

And hoping to maybe just aggregate a little bit the amount of fixed cost reductions actually realized in the period versus the variable cost efficiencies and productivity gains in the quarter and how kind of durable you think those variable costs and productivity improvements proved to be if volumes start to normalize or how much cost would have to leak into the system to serve incremental volumes from here?

Michael Casamento
Thanks for the question, Adam. I'll take that. It's Michael here. Yes, look, on the cost side, we're really pleased with the cost performance of the business in Q3. We took another kind of $130 million out of cost, which included some benefit from the restructuring program that we've got in place. So we now are now starting to see that come through, that was about $15 million, as expected.

If you take a step back and think about the cost work we've been doing, what are we actually doing? There's two things that we're focused on.

Firstly, the operational side of the business, the cost productivity and cost flexing in a lower volume environment. Then the second is that structural program that we've talked about in response to trying to offset some of the divested Russia earnings.

So in the quarter, we saw benefits from both, and we saw that in both the Flexibles and Rigid segment as well. So that was pleasing. On the operational side, what have we been doing, we've been really both proactive and aggressive in flexing the cost base. That's in account of the lower demand environment.

We've been eliminating shifts to take labor out where we can, reducing the overtime to take that labor cost out, taking extended shuts when we're aligning with some of our customers, so we're going to take extended shuts over long weekends and other things to get the plants fully closed and get the cost out that way. We're driving procurement.

Obviously in a lower volume environment, that's also an opportunity for us to drive procurement savings and we've been really focused on that, and the team has done really good work there. We've been tightly controlling our discretionary spend. That's the operating side.

Then on the structural side, that's more about plant closures. We've announced seven plant closures and two restructures. More recently, we've actually completed the closure of around three or four of those. So we've now started to see that benefit flow through as we anticipated. That program was going to deliver about a $50 million EBIT benefit over the program, $35 million, predominantly in the second half of FY 2024 and then another $15 million into FY 2025.We're pleased to report that we are now seeing those benefits come through.

In Q3, that contributed $15 million. The majority of that was in Flexibles, but also a few million in Rigid. So again good cost control in both of those areas. It's difficult to determine how much of that is going to stick with the business long term. What we would say is that we've taken a pretty significant head count out of the business.

If you think about the structural cost out, I mean those structural costs that have come out and they're permanent. So the $50 million over time that comes through will be permanent.

On the procurement benefits, they'll be sustained. The productivity we'd anticipate over the last several quarters, we've improved productivity, improved efficiency, being able to do more with less. So again we'd expect that to continue. But as the volumes come back, we will have to put labor back into the business, rebuild shifts, but it's not going to be linear. So we expect that we will continue to see margin improvement, and this will just contribute to Amcor's ongoing margin enhancement.

We typically, over a long period of time, have added 20 to 30 basis points in margin a year. This program -- we'd expect to continue that through the cost measures that we've taken here, and

you saw that in the quarter. We delivered a 120 basis point increase on the back of volumes improving, but cost take out really strong and the performance there across the business was great. So we feel pretty good about where we're at.

There's still more cost to come out. You'll see further benefits from the structural programs in Q4 as well as some ongoing efficiency benefits from the actions we've already taken.

Peter Konieczny
And I would add that we're particularly pleased with the work that's been done in the Rigid segment here because we acknowledged that the business returned to profit growth in the third quarter on the back of a pretty soft environment still. So that speaks to a good leverage in that business.

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

John Purtell
I'll just ask my one. The sequential volume pickup in Flexibles, just from the commentary and the release, so that appeared to mainly come from emerging markets rather than developed markets. So was there much sequential volume improvement in North America and Europe, for example?

Peter Konieczny
Yes. That's also a great question. In terms of our country performance or the different regions, you're right, we saw low single-digit growth in emerging markets in the third quarter, which was obviously pleasing and positive.

On the developed markets, we saw a bigger sequential improvement while we're still negative in terms of our volume performance versus prior year. Now you have got to keep in mind that the bigger markets where the ones that were more heavily hit with inventory builds and now with a normalization, therefore, the destocking. That would also make sense, particularly with our exposure to healthcare in those markets.

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

Richard Johnson
PK, I think I'm right in saying you have pretty much worked in every part of the business, except Rigid. I'd be really interested just to get a sense of how you feel about the strategic positioning of the group overall at the moment, but also particularly focusing on Rigid Plastics, which is perhaps in a slightly different position, with the backdrop of in the beverage market anyway other substrates appearing to be recovering a lot quicker than plastics.

Peter Konieczny
Yes. Richard, thanks for the question. We're in a particular situation right now with the business. We've had a couple of tough quarters behind us with volume weakness. We've worked really hard to position the business as well as possible to take advantage of the volumes improving again. We believe that's exactly the situation we're in right now.

So we said after discussing the second quarter, we said we feel like the second quarter for the business was the low point., and particularly now as we're having the third quarter, I think we can confirm that. That's where we stand. We believe that we will see a better volume performance in Q4. So that's the starting point. In that environment, we felt we want to get, first of all, back to the earnings capacity of the businesses that we have without asking strategic questions about the businesses.

In regards to Rigid Plastics, you're right, I've been around in Amcor a bit, Rigid Plastics, I've not managed myself. But when we look at Rigid Plastics, we think it's a good business strategically. I'll give you a couple of views here from my side.

First of all, it's a scale business. It's business for Amcor. There's no question about it. Secondly, when you look at the portfolio of the business, it's actually a number of different businesses under one roof. We -- often, we focus very strong in discussing North American beverage, but it's more than that. We have a specialty containers business. So where we started to diversify. We have a Latin American business and we have a closures business within our business. So it’s a portfolio of businesses.

We have really good industry positions. Across Rigids where we participate, we like the customer relationships that we have with good solid customer relationships. On top of that, also in the overall context of plastic, we have a strong sustainability profile, particularly in that business, which is really important.

Finally, I’ll come back to what I said at the beginning. We’ve done a lot of strengthening in the business and the restructuring, for example, with the footprint optimization that we’ve gone through when we’ve generated a leverage that has enabled us to return the business back to profit growth. So I think where we stand right now is we want to see the volumes come back and then we want to see what the business can deliver. There’s no question that we want the business to deliver more and that’s where I would leave it for now.

–I don’t know if you said it’s the Rigid Plastics business or the Rigid Packaging business. We call it the Rigid Packaging business, and it's just a little clarification. Thank you.

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

James Wilson
Would you be able to just talk us through the net interest guidance that you guys have put out, particularly what's driving the lower net interest given that leverage looks unchanged in your guidance? I understand that you've had some working capital improvements, but are there anything else that's driving that?

Michael Casamento
Yes. Thanks for the question. You saw we reduced the guidance slightly. Our guidance prior to this quarter was $315 million to $330 million, and we reduced that down to $310 million to $320 million. That's really just on the back of the timing of the cash flows and the working capital improvements.

We saw a little better timing of cash coming into the business, which, as we look at the forecast for the fourth quarter, we can see that and see that there's a little bit of upside there on the interest cost. So we adjusted the guidance range accordingly. Outside of that, there's not a lot to it. No real change in the rate profile or the mix of debt.

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

George Staphos
PK, could you give us a bit more color in terms of some of the trends you're seeing in Flexibles, in cheese and protein and some of the other key markets. And relatedly, are you seeing your customers perhaps pushing back some of their sustainability targets one of the larger branded companies and what are the implications for you in terms of growth as well?

Peter Konieczny
Sure. So in Flexibles, again a pretty significant improvement in volumes between Q2 and Q3. I did make a comment earlier in terms of the two main drivers here: market impact.

We were flat in the third quarter and the destocking went to low single digits, and it pretty much is the healthcare impact of destocking that drove the volume decline versus prior year and the balance of the portfolio is pretty much flat to slightly growing.

Now in terms of the category performance against that, you would remember that we're driving a couple of priority categories here in the business where we believe we have really differentiated products and a good position in the market and where we like the market dynamics. Those would be healthcare need. You have heard us talk to protein breaks out into cheese and meat. Hot-fill beverage, obviously would be one, pet food, premium coffee. Those are really the five focused categories that we drive. We have seen, particularly in pet care, meat and cheese, we've seen growth in the quarter, which we are pleased with.

Now I will say these are green shoots and don't walk away from the call believing that this is like significant growth numbers. These would be low single digits. So we got to stay bolted here. But we like what we see, and we'd love to see a little more.

Maybe a little more color here on cheese, as you particularly asked North America and Europe, we would be up also on the basis of less destocking. Meat, also less destocking and some regional wins that we've seen.

I just want to take the other part of the question, which was on the sustainability side and targets being pushed out and the effect on our business. Look, we follow the targets closely. Actually, we are part of the conversations. Of course we noticed that some industry participants have started to think about resetting their targets for their sustainability initiatives.

At the end of the day we're talking about essentially putting circularity in place, a circular economy for plastic, which will be the critical initiative to keep plastic waste out of the environment. That requires a lot of things that have to come together, and we're going to have to work together. Nobody can do that alone. I think the understanding in the industry right now is after having worked very closely on the topic that it may take a little more time to get to the targets that we've set years ago. I don't know if you particularly think about Unilever who's come out with pushing the targets backwards. But they were the first ones to come out and make a commitment, and that was sort of in 2017, if I have that correctly in my mind.

Over the years, they have learned a lot, and the industry has learned a lot. So I think it's a matter of additional realism to what they're saying.

Now in terms of Amcor, we have made a pledge in 2018, we're the first packaging company out there to a pledge that we'll make 100% of our packaging recyclable, reusable or compossible by 2025, and we're pretty much around the corner. We do not have the need to push our targets out at this point in time. We're making really good progress because we have, at this point in time, roughly 90% of our packaging portfolio in recycle ready structures or we have those alternatives available, and we're ready to sell them to customers when they want them.

So everybody needs to do their piece. We're holding on to our targets right now. We don't think that it means anything to us that others are pushing their targets out. We're very committed to our sustainability targets. Like the industry is, particularly our big customers are, particularly Unilever is. So we continue to drive that with full force.

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

Brook Campbell-Crawford
Just with respect to trajectory in the business, this financial year has been better than expected. In the third quarter, you saw some EPS good versus back in February expectation was for the

third quarter to be down a bit at EPS. And despite this, you've kept your fourth quarter EPS growth at mid-single digits, which is unchanged. So my question really is, why wouldn't the better performance for the first three quarters continue into the fourth quarter? Any reasons what's holding you back from upgrading that fourth quarter expectation would be great?

Michael Casamento
Yes. Thanks, Brook, it's Michael here. I can take that one for you. We finished Q3 with EPS growth, which was really pleasing. That was on the back of a couple of things, slightly better volumes really coming out of that December period as PK touched on earlier.

When we made our way through January, clearly, we saw an improved performance and some of that was relating to some of the unwind out in December. We weren't 100% sure on how that might translate for the rest of the quarter. What we saw in February was some more unwind clearly from December, which helped improve the performance in the March quarter and led to us being able to deliver EPS growth, which was really pleasing.

So you've seen us increase the full year guidance. We've taken the full year guidance to 68.5 to 71 cents per share, so an increase there. That's really on the back of that improved performance in Q3.

In Q4, we're still expecting sequential improvement, both in volumes and profit. And clearly, the driver of that, we're going to see that sequential improvement in the volume really held back by the continued destocking in healthcare. That's really the key point that's holding the volumes back in Q4 as PK touched on. That in itself has some unfavorable mix, which we've talked to in the past. So that will continue into Q4, although start to abate and certainly come down, favorable mix and healthcare will unwind as volumes start to normalize into the future there.

But Q4 is still expecting good cost out, good leverage through the P&L from that cost initiative as well as the structural piece, adding through there. We're also expecting the earnings trajectory to improve for that mid-single digit. We get benefits from the absorption in Q4, which is seasonally our biggest quarter as well. So we feel pretty good about where the outlook is for Q4. We have confidence in delivering within that range. What we've seen in the early parts of April confirmed the volume outlook. So we feel confident there.

We just felt that we didn't need to get ahead of ourselves at this point in time. Clearly, we've given you a range, we've given the market a range. So that’s a reasonable range in Q4. If the volumes come in a little better than what we’re expecting, then, clearly, that’s one way that the outcome for the full year could get towards the upper end of the range, along with cost and let’s see where raw materials impact as well.

Overall, I’d say we feel pretty good about where we’ve landed in Q3 and what’s ahead of us in Q4 to deliver a good year.

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

Keith Chau
Peter, a question just around the PPWR that was voted into European Parliament earlier in this month. Can you give us a sense of what Amcor is planning with respect to any changes to the regulation around plastics in the European Union?

I know there's some impacts that are expected to the, I guess a headwind for the plastics industry in Europe by 2030. But just be keen to hear your views on whether you think there is a headwind for the Amcor or Flexibles business? And if there are any mitigation strategies that are being put in place or whether Amcor is planning ahead to mitigate the headwinds?

Peter Konieczny
It's also a great question and obviously falls into our sustainability strategy. Look, I'll start out by saying that we're very supportive of regulatory and legislative developments that sort of drive the whole industry to this circular economy for plastic. And as such, the PPWR is actually welcomed from -- by Amcor and from Amcor because I think we're making -- we're creating an environment that allows us and the whole industry to make more progress into that direction.

Again everybody has a role to play. We're sitting in the value chain at pretty much the start. Our job is to come up with structures for plastic packaging that are recycle ready that can be recycled. I said a little earlier that we're making really good progress in hitting our targets by the end of 2025. So when customers want to have these structures, we're ready to provide them to the extent we're not doing that already today. Many of the recycle ready structures are commercialised, and by creating a regulatory environment, everybody gets level set.

We can work with certainty in certain directions in order to support the business and help the very efficient and high-performing packaging substrates find its place also in the context of sustainability. There is a place for plastic here, we have to remind ourselves why we have so much plastic packaging. It's because it's a very efficient and high-performing substrate. The challenge is end of life. The circular economy addresses that and regulation that gets us into that direction is welcomed.

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

Cameron McDonald
Question for Michael, if I can, just going back to the interest rate guidance. Can you remind us of what your hedging profile actually looks like? Last year, you had some significant interest rate exposure. And my understanding is that, that was mainly due to hedging and the exposure to floating rates.

So as interest rate expectations have been rather volatile in the last month or so, how do we think about your hedging profile in that and the exposure to that changing interest rate environment into FY '25, please?

Michael Casamento
Yes. Sure. The first point we could start, the debt profile today is about 70% fixed, 30% floating. With that, we have no maturities coming off now until the middle of 2025. From that respect, we've got a bit of flexibility in how we can manage the debt book and the interest exposure.

As you look forward, we haven't provided any guidance for FY 2025. But clearly, we've given you some guidance for FY2024. If you look at our debt profile and then you look at some of the forward curves over the next 12 months or so, we're not expecting a material movement in our interest expense just based on the debt profile we have and the maturities that we've got coming. We've got some flexibility to work through how we manage that debt book and that currency exposure as well. When you put all that together, we don't see any material change or impact on the interest expense as we look forward into 2025. But we'll provide you further guidance on that in August when we provide the full year guidance for FY '25 at that time.

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

Anthony Longo
Just a quick one on destocking you spoke about that a fair bit already. But how are you ultimately thinking about the restocking cycle in light of as some of the early positive customer discussions that you have had to date?

And ultimately, what does that inform the top line growth expectations from here? I appreciate there's no guidance, but just how you're thinking about that and philosophies around your customers' inventory management from here as well?

Peter Konieczny
I'll start and then maybe Michael wants to build on it. The way that we look at this is the destocking that we're seeing currently is really a correction of the industry of holding too much inventory after a pretty volatile environment, which was driven partly by supply chain shocks that we've seen in the industry, de-risking and protecting their top line by building inventory and then there are other reasons.

What we're seeing right now is that the industry is normalizing across the categories. We see healthcare a little bit delayed because that's a very conservative industry, and they probably built more because of the dynamics over the last couple of years. Now they're starting to be confident again in the environment so that they can also reduce their inventory levels again to a normal level.

Now the new normal is probably different from what it was before holding cost of inventories because interest rates drive that down further. The industry is looking at new efficiency levels in terms of running inventories, and that's what we're going through right now. Going forward, we will see changes in inventory, but those will be tactical or they will go along with the seasonality of the business.

I would not think about it as there is a trend to restocking. The industry is coming down to a new normal and everything that we see from there is going to be tactical or following the seasonality of the different businesses. That's how I think about it. Therefore, once we have this extraordinary impact behind us. We will see with our category and customer exposure and then also -- hopefully going forward, also a renewed and stronger consumer interest and demand, we will see top line growth.

Tracey Whitehead
Operator, we have time for one more question, please.

Operator Your last question comes from the line of Andrew Scott of Morgan Stanley.

Andrew Scott
Michael, just a question for you. $40-odd million of below the line items there, I see the restructuring charges up relative to last quarter. Can you talk to us just two things, cash versus noncash there? And when do we get line of sight to maybe seeing an end of these below-the-line items?

Michael Casamento
The main items in the quarter are really around the restructuring program, which we've had in there for the last 12 months or so. That program is pretty much two-thirds of the way through.

We've now started to see the benefits come through from that program. You might remember, we committed to invest around $170 million in cash. We've spent on that program to date about $110 million. We've still got $50 million to $60 million to go. But we are starting to see the benefits come through from that. We're pretty pleased about the progress, and really by the end of the calendar year, we'd expect to be most of the way through that program.

So that's the way we see it from there. And as I said, we're pleased that we're now getting the benefits of $15 million in the quarter came through and we'll expect to build on that in quarter four and then into FY25. So pretty pleased with where the program is at and it's on track.

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

Peter Konieczny
Yes. Thank you, Operator. Look, thank you, everybody, for the interest in the company. The only thing that I want to say here before we close the call is we're pretty pleased with the way how the Q3 turned out for us.

I hope we were able to demonstrate that this was based on a broad-based volume improvement that we've seen in the business, combined with really some good cost performance in the third quarter. That also has impacted our margin performance. And more importantly, we believe that we have some underlying momentum here in order to -- that will carry into Q4. So we're very pleased with the situation we're in. We're going to take advantage of the momentum. With that, we're going to close the call and we'll talk to each other again at the end of the fiscal year. Thank you very much.

Operator This concludes today's conference call. You may now disconnect.