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Amcor plc

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FY26 Results

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Amcor PLC

FY26 Results

PRESENTATION:

Operator Thank you for joining us. And welcome to Amcor's Fiscal 2026 Fourth Quarter Earnings Call. (Operator Instructions). I will now hand the conference over to Kate Pearlman, Senior Vice President, Investor Relations and Treasury. Kate, please go ahead.

Kate Pearlman Thank you for joining Amcor's Fiscal 2026 Fourth Quarter Earnings Call. Here with me today are Peter Konieczny, Chief Executive Officer; and Steve Scherger, Chief Financial Officer.

In the investors section of our website, amcor.com, you'll find today's press release and presentation which we will discuss on today's call. Please be aware that we will also discuss certain 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 the current estimates. And reference can be made to Amcor's SEC filings including our statement on Form 10-K and Form 10-Q for further details.

Please note that during the question and answer session, we request that you limit yourself to a single question, and then rejoin the queue if you have any additional questions or follow-up.

With that, I'll turn the call over to PK.

Peter Konieczny Thank you, Kate, and thanks to everyone for joining us today. As always, we will start with our industry-leading safety performance on Slide 3 which remains our highest priority. The total recordable incident rate improved this quarter to 0.47, marking the fourth consecutive quarter of improvement as we leverage our world-class safety program across the combined organization. We're encouraged by the early results from our harmonized safety efforts and remain focused on driving continuous improvement.

Before turning to our quarterly results, I want to take a moment to discuss the transition in our Investor Relations team. After more than 15 years leading Amcor's Investor Relations efforts including through two strategic acquisitions, Tracey Whitehead has chosen to remain in Australia and pursue opportunities there.

I have valued her steady leadership and the lasting impact she has made on the company. Tracey will remain with Amcor in an advisory capacity through December to ensure a smooth transition.

I also want to extend a warm welcome to Kate Pearlman. Kate has developed a strong reputation leading both investor relations and treasury teams and consumer-facing industries. We look forward to leveraging her expertise and perspectives.

Turning to Slide 4.

We were pleased to deliver strong operating performance in the fourth quarter despite a challenging macroeconomic backdrop. Q4 adjusted EPS of $1.23 per share increased 23% year-over-year resulting in full year fiscal 2026 adjusted EPS of $4.02 per share, up 13% compared to the prior year.

First, these results reflect the resilience of our business model and the benefits of our diversified global portfolio, strengthened by the transformative acquisition of Berry last year. We were pleased to see an inflection to modestly positive volume growth in the quarter.

Sequentially, volume increased approximately 200 basis points with growth across several market categories. Importantly, we continue to deliver for our customers through a period of unprecedented input cost inflation. Highly coordinated efforts by our teams across the globe enabled us to secure the necessary supply, while also executing on productivity initiatives and taking responsible pricing actions to fully mitigate these inflationary pressures.

Second, synergy capture exceeded our expectations during the quarter as we realized $115 million of synergy, bringing total fiscal 2026 synergies to $285 million. This is approximately 10% ahead of our initial year one expectations. The successful integration of the legacy businesses, combined with our proven track record of execution, continues to create meaningful value.

We have built a strong pipeline of opportunities across procurement, SG&A, operations and commercial growth and remain confident in achieving a $650 million 3-year synergy target.

Third, we continue to make progress on optimizing our portfolio with a total of five divestitures closed in the second half of fiscal 2026. By sharpening our focus on higher return, higher growth opportunities across our core business, we expect to drive more sustainable growth in attractive categories and markets.

At the same time our noncore businesses delivered improved year-over-year performance driven by strong execution against broad-based operational initiatives. And finally, turning to our outlook.

As part of our previously announced fiscal year-end transition, we are providing expectations for the six months ending December 31, 2026. We expect adjusted EPS to be in the range of $1.80 to $1.90 per share which reflects continued improvement in our operating performance, partially offset by higher interest and tax expense. Later in the call Steve will walk through the building blocks for our EPS outlook.

Turning now to Slide 5.

We also wanted to provide investors with a view of where we see the business heading in 2027 as the benefits of our transformation become more fully realized. We expect that our portfolio actions will drive increased penetration in our higher growth, higher-margin focus categories.

By year-end 2027, we expect to complete the actions required to deliver the synergies and to achieve the majority of the $650 million target. We also anticipate organic volume growth as we leverage the Berry acquisition which created a stronger, more diversified portfolio with expanded product offerings, broader geographic reach and enhanced capabilities and innovation and sustainability.

Against this backdrop, we have line of sight to delivering double-digit adjusted EPS growth in calendar year 2027. We are expecting leverage to be approximately 3x by year-end while modestly growing the dividend.

We're entering this next chapter from a position of strength. The underlying business is performing well integration is on track, and we see a compelling path to accelerating earnings growth and cash flow generation over the next several years.

Moving to Slide 6 and our financial performance for the fourth quarter and full year. The business generated quarterly revenue of $6.4 billion, adjusted EBITDA of $1.045 billion and adjusted EBIT of $836 million. Each of these metrics increased versus the prior year period, driven by synergy realization, disciplined cost management and one additional month of acquired Berry earnings which supported further margin expansion during the quarter.

Adjusted EPS increased 23% to $1.23 per share for the quarter at the high end of our outlook range. This includes benefits from organic volume growth, strong synergy capture and responsible price and cost management during a period of rapid inflation.

For the fiscal year, free cash flow was $1.3 billion which was impacted by the Middle East conflict. Steve will discuss these dynamics in further detail later on the call.

Today the Board also declared a quarterly dividend of $0.65 per share which represents a modest increase over the prior year and reflects our long-standing commitment to annual dividend growth.

Turning to Slide 7.

As I mentioned earlier, synergies are tracking ahead of expectations, primarily driven by accelerated execution of our G&A and procurement initiatives. We have also made progress on operational and network synergies which we expect to benefit earnings growth and productivity over the next two years.

Finally, we achieved half of our 3-year growth synergy target this year with new business awards representing nearly $140 million compared to our initial $280 million 3-year goal. As we expected, we're winning new business by bringing together highly complementary product portfolios with participation in attractive categories. This allows us to unlock new opportunities that neither legacy company could have accessed on its own.

Let me give you just one example.

In Mexico, we recently extended our relationship with a legacy Amcor customer that specializes in beauty and wellness, so that we are now leveraging expertise and closures from the legacy Berry team to produce caps for their products as well.

In fact, just one year into the integration, our pipeline of growth synergies continues to build which reinforces our long-term expectation that there is greater potential for revenue synergies beyond the initial $280 million 3-year target. Keep in mind that fiscal year earnings benefited by a few million dollars as a result of these wins which are expected to ramp up further in the coming months.

Taking all these synergies together, we achieved $115 million in the fourth quarter, resulting in full year synergies of $285 million which were 10% ahead of our initial target. Looking ahead, the organization remains focused on driving out the cost synergies while taking advantage of our enhanced capabilities to deliver growth with our commitment to deliver the total target of $650 million over three years intact.

With that, I'll turn the call over to Steve.

Stephen Scherger Thank you, PK. Moving to Slide 8, and beginning with our core portfolio. Net sales of approximately $5.7 billion in the quarter, inflected to modestly positive volume growth and was in line with the overall company.

For the full year, the core portfolio generated $21 billion in sales with EBIT margins of approximately 12.7% and EBIT dollar growth of 8% ahead of the total company. As we've discussed previously the core portfolio includes six strategic focus categories.

Within nutrition, we have proteins, liquids, foodservice and pet care as well as healthcare and beauty and wellness which represent more than 50% of core portfolio sales. These are attractive end markets where we expect that our innovation, customer partnerships and differentiated capabilities will drive sustainable growth and support greater resilience across economic cycles.

During the quarter, we saw strong volume growth in the food service, pet care and protein categories, while liquids and beauty wellness volumes were flat.

In healthcare, while overall volumes were down due to softness in lower-margin healthcare categories, underlying growth trends across our healthcare platform remain encouraging and reinforce our confidence in the long-term opportunity in this focus category.

In aggregate, volume performance across the focus categories was in line with the core portfolio with trends improving as the year progressed. As PK mentioned earlier, we are pleased with the improved performance of our noncore businesses with performance up significantly in the fourth quarter.

Turning to Slide 9 and the global Flexible Packaging Solutions segment, where sales increased 16% on a constant currency basis, driven primarily by the Berry acquisition, along with the pass-through of higher raw material costs.

On a comparable basis, volumes were up approximately 1% year-over-year. Notably, this represents a sequential improvement of nearly 200 basis points compared with Q3. Across North America and Europe, volumes were up modestly compared with the prior year. Volumes across emerging markets were up low single digits, mainly driven by continued growth in Asia.

Adjusted EBIT was up 20% on a constant currency basis to $533 million, primarily driven by acquired earnings, net of divestitures and synergy benefits. On a comparable basis, adjusted EBIT was up approximately 18% and adjusted EBIT margin of 15.1% reflects synergy benefits in line with our expectations. Excluding synergies, comparable earnings were up mid-single digits compared to the prior year.

Turning to Slide 10 and the Global Rigid Packaging Solutions segment, where sales increased 35% on a constant currency basis, primarily due to the Berry acquisition along with the pass-through of higher raw material costs.

On a comparable basis, volumes were up approximately 0.5% in both the core and noncore businesses. This was sequentially stronger by approximately 200 basis points, driven in part by improvement in both consumer demand and stronger performance in our noncore businesses.

By region, volume growth was driven by developed markets with sequential improvement in both Europe and North America. Adjusted EBIT was $352 million, up 57% over last year, on a constant currency basis, primarily driven by acquired earnings, net of divestitures and synergy benefits.

On a comparable basis and excluding noncore businesses, adjusted EBIT was up approximately 24% compared to the prior year, primarily due to synergy benefits as well as volume improvement. Adjusted EBIT margin was 12.3%, a 180 basis points higher than the prior year. Excluding the noncore businesses, adjusted EBIT margin was 13.3%.

Moving to free cash flow and the balance sheet on Slide 11. After funding $290 million of Berry transaction, restructuring and integration-related cash costs, free cash flow for the year was $1.3

billion which was $200 million below our outlook range. This was primarily driven by working capital impacts across inventories and receivables due to the Middle East conflict that were higher than expected as well as accelerated integration spending to expedite synergy capture.

Importantly we target recovering more than $500 million in cash over the next 12 months, primarily driven by the reversal of working capital impacts related to the Middle East conflict and other initiatives to structurally improve working capital. Despite lower-than-expected cash generation, leverage at quarter end was 3.5x, in line with our expectations, driven partly by proceeds from the divestitures.

As PK mentioned, we are expecting leverage to be approximately 3x by the end of calendar year 2027, driven by robust free cash flow generation which underscores our commitment to an investment-grade credit rating.

Moving to our transition period outlook on Slide 12.

We expect to deliver adjusted EPS in the range of $1.80 to $1.90 per share during the transition period. Walking through the building blocks from the $1.83 adjusted EPS we reported in the prior year period, we expect a $0.04 per share unfavorable impact from the divestitures that we have completed to date which results in baseline prior year adjusted EPS of $1.79.

From there, we expect a $0.10 to $0.12 unfavorable impact from higher interest and taxes and a $0.13 to $0.21 positive impact to adjusted EPS and from synergy capture and net operating performance which represents roughly double-digit growth at the midpoint.

We expect leverage to be in the range of 3.5x to 3.6x on December 31, 2026, in line with seasonally lower earnings and cash flow generation in the September and December quarters.

As we reflect on the fourth quarter results, we are pleased with our improved operating performance which demonstrates the strength of the combined organization as a leading global consumer packaging company. As we move into the transition period and look ahead to calendar year 2027, we are looking forward to consistently delivering for our customers, our employees and our shareholders.

Thank you for your time today. Let me turn the call back over to PK.

Peter Konieczny When we outlined our expectations for fiscal 2026 more than a year ago, we targeted double-digit adjusted EPS growth, and we delivered on that commitment. We finished the year strong despite a demanding operating environment driven by disciplined execution across the business.

I'd like to thank our global team for their hard work, dedication and commitment to serving our customers. As we move into the transition period, our confidence in our momentum continues to build.

With our integration efforts largely behind us, we are now seeing the benefits of this global consumer packaging combination translating into stronger performance. While we have accomplished a great deal over the past year, I believe we are still in the early stages of unlocking the full potential of Amcor.

That concludes our prepared remarks. Operator, please open the line for questions.

QUESTION & ANSWER:

Operator (Operator Instructions) Your first question comes from the line of John Purtell with Macquarie.

John Purtell Just a question on working capital there, Steve. Just the $500 million of Middle East sort of working capital impacts, you expect to get that back, obviously over the next 12 months, I think is what you said. How much of that do you expect to get back in the next six months as distinct from 12? And you mentioned structurally improving working capital collection, any color there.

Stephen Scherger Yes, John, it's Steve, and thanks for joining us this evening as well for the call. You described it well.

We cumulatively have about a $500 million impact from the Middle East conflict. The original estimate was around $300 million, moved to $500 million. By the way that $200 million increase that we described is primarily accounts receivable driven.

So our customers, as they were taking on the incremental pricing associated with our products, they're paying on terms, but they were, in many ways, managing their own balance sheets and we saw a little bit of an increase in our days to sales ledger, being slightly larger than expected.

As we mentioned, we expect to get the $500 million back over the next 12 months. The exact timing over the next six months is uncertain but we certainly expect to make progress. So if you put that into the $100 million, $200 million, $300 million range. I think that's a fair assumption for this first six months, if you will.

Some of that will, of course depend upon how are the structural realities of continued supply availability and the like which right now is in a very good place. And so we do expect to methodically get that $500 million back over the next 12 months and would get a portion of it back here during this transition period.

And by the way -- sorry, John, I apologize to you just so I hit your answer. Structurally, it's the kind of things you would expect from us. We've got very specific goals for days of inventory that we're carrying for example, both at the raw material level and the finished goods level, specific targets for our days to sales outstanding and then a continued positive match on increases in days to payables. It will be across all three major components of our working capital.

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

Ghansham Panjabi PK and Steve, just curious as to the price cost dynamic during the second quarter, was there any benefit? I mean obviously it was a chaotic backdrop with raw materials and then your own pricing initiatives.

So I'm just curious as to how that should cut specific to 2Q. And then if there was any benefit or negative, I guess -- how should we think about price costs evolving into the back half of the year? What do you have included in guidance?

Stephen Scherger Ghansham, it's Steve. I'll take that on.

In our fourth quarter, the quarter that we just completed here with our fiscal year, we had about $280 million of price realization which was the pass-through of the vast majority of our inflation.

So as we anticipated, the price pass-through was in line with the overall inflation that we experienced and we would expect that to continue to be the case as we manage through the transition period. And so overall, the stability of that price cost relationship was very good in our fourth quarter, and we would expect to maintain that relative relationship here over the coming quarters through the transition period.

Peter Konieczny Ghansham, I may want to make an additional comment here which -- it's not so much a modeling question, but just taking a step back.

We've been very pleased with the way how the organization came through, particularly the fourth quarter in light of the inflation that came at us very quickly, obviously on the back of the Middle East conflict.

I think about it this way. I mean we were still handling the integration. Most of that now is behind us, but halfway through fiscal 2026, we were still in the middle of it, and the organization and the team were tested, and they performed excellently against that. And I've been very pleased with the performance of the organization to essentially recover what we're seeing on the input side.

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

Nathan Reilly The question is just in relation to the, I guess the comment that you provided there in terms of the FY 2027 double-digit EPS growth outlook. You've highlighted you're expecting a return to organic growth. Just kind of keen to get a bit of an understanding in terms of what you're assuming there in terms of broader market volume lead growth? And also just in the context of, I guess the outcome of bringing the businesses together, I think at the time you highlighted that the combination should be able to deliver kind of growth, about 1% or so above market.

So just trying to get an understanding of how those two points are playing into that view around your organic growth outlook returning in 2027?

Peter Konieczny Nathan, it's a great question. I'll take that, this is PK. Let me take a step back here. It may feel like a lengthy answer, but I don't want to forget the questions that you've actually asked.

Let me tell you first, we're pretty excited about calendar 2027. And the excitement comes from the fact that you got to look at this as this being the first pretty much clean year in quotes after the combination of Amcor and Berry.

In fiscal 2026, we had essentially two targets. There was integration and enabling growth. And we were very busy with the integration. I just made a comment and I think we are in a good spot now that we exit fiscal 2026. And you'll have that team in the organization that actually performed really well through the challenging operating environment, you have that same team sort of enter into calendar year 2027.

And in terms of the growth side, there were a number of things that we have done. And I want to remind everybody, we're very clear in terms of our portfolio and where we want to play. Think about the whole conversation around the core versus noncore.

We'll expect to make more progress on the noncore side of the business. But then when you look at the core, we're also very clear in terms of how this company is positioned. We're playing in nutrition, we're playing in health, beauty and wellness and we're playing in specialties. And when you double-click on that, you find six focus categories. Steve has just laid them out in our prepared comments. And they already make up more than 50% of the top line of the company. And as they will grow, obviously that will further increase. So very clear on where we want to play and that focus will yield success.

The other thing is, and this maybe comes back a little more to your question is how do we win in those categories. And on that end, there's two things. We have the combination of the two companies, Amcor and Berry which will translate more into performance going forward. And you've heard us talk about a more global or broader -- first of all, broader product range. The company's are together more global than they were before each on their own.

And we talked about capabilities in innovation and sustainability that we can bring to the market. And those things are really driving the growth synergies where we are making really good progress. And I expect that really just to be at the beginning. I think we're scratching the surface here. There's going to be a lot more opportunity. So we'll translate that.

And then the other piece that gives us confidence for growth in calendar 2027 is the fact that we have, as I said before enabled growth between the two companies. So it would have been easy for us just really to focus on taking cost out in the combination and the integration.

But we did something else. We focused the companies more on service on quality and customer delight. And we're bringing more tools to our frontline teams in order to drive better growth. And that combination, leveraging the benefits of Amcor and Berry combined, plus the growth enablers that I just spoke to they give us good reason to believe that we will see outperformance versus market.

I think at this point in time you'll probably see us move more with the market, and the market is more positive than what we've seen in the last couple of quarters taking advantage of that. We're seeing green shoots. There's no question. When I just think about protein and pet care. We're doing really well. That's collectively somewhere between 15% and 20% of the company. But going forward, we'll see more outperformance I hope that answers the questions.

Operator Your next question comes from the line of Ramoun Lazar with Jefferies.

Ramoun Lazar PK and Steve, maybe if I could just follow up on that volume on those volume comments. Just anything in that quarter that stood out in terms of potentially one-off benefits to your business or whether the volume performance is a more broad-based improvement over the quarter. And I guess just focusing a bit further on some of the end markets, what are you seeing? You mentioned green shoots.

I guess if you could just elaborate a bit more on what you're seeing on the volume side that would be great.

Peter Konieczny Sure, Ramoun, happy to do that. Look, you started off the question with Q4. Are there any one-offs or developments of one-off character driving the volume performance. It's a fair question. We actually spent some time on trying to figure out if that's the case.

We believe that there would have potentially been two factors that could be a bit more of a one-off character. One is just simply in an accelerating inflationary environment at the request of our customers to buy ahead that could have been one, and the other one could have been pretty much around the World Cup. Those were the two things that I would carve out that could have some one-off character.

So we did some digging around that. And I can tell you that we would have had like a couple of customers that did buy ahead or in terms of the World Cup, we did see some strengthening of our beverage business, also in the food service category. But when we add it all up, we don't think that this adds up to anything that would be material to the volume performance in the fourth quarter. So that's your first question.

In fact, when I talk to the volume performance, it's been pretty broad. And across the business broad, across core versus noncore, it's been broad between the two segments. It's also been broad when you look at the focus categories or also the regional performance, actually. So it's been a pretty strong broad-based volume performance in the quarter which we like.

In terms of some highlights, I don't want to make this too long-winded here, but emerging markets, we've seen really good growth throughout the whole year continuing into the fourth quarter. Developed markets improved sequentially. We're talking about North America which is back to growth. Remember in the third quarter, we had the winter storms. Europe improved sequentially. And focus categories, as I said before were pretty much in line with the overall business.

And then I talked about some green shoots, foodservice, very strong performance petcare continues to perform really well on the back of our material science and the solutions that we can bring to market. Protein continues to excel. Remember, on the back of the MODA acquisition, we got ourselves into the equipment business. We're now having a significant share of new equipment installations in the market which will going forward are starting to pull consumables. So those are the type of green shoots that we're seeing.

Stephen Scherger Ramoun, it's Steve. Just to add to PK's comments, we do have, of course the view into July. And on a positive front, July continued consistent with Q4. And so in terms of kind of net pull forward and the like, we just didn't observe anything, and July is a good indicator that some of the positive momentum that we've seen from a volume perspective has continued here into the first quarter with our July results now in hand.

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

George Staphos Thanks for all the color and the commentary. My question is going to be around some margin factors relatedly.

So in reading the press release and reading the material guys, price mix was noted as negative, even though you're obviously passing through inflation. And I was wondering what was driving that price mix negative, if I read it correctly in the quarter? And what are the implications into the transition period and kind of a related bonus piece, I think you gave us the EBIT performance in flexibles ex synergy, did you give us that for rigid? And if not, could you provide that?

Stephen Scherger Yes. Thanks, George. Let me touch on those.

I think -- in terms of looking at the top line, you touched on it, what we've seen on price/mix which excludes all of the raw material pass-through that minus 1% has kind of been consistent with what we've observed over the last year. There's always bits of movement kind of in the competitive dynamic, the reearning of business, et cetera.

So that minus one is very consistent, and doesn't really have that negative impact on our economics. Repeating what I mentioned earlier, $280 million of top line was passed through consistent with our inflation, no impact on our economics in total. It does, to your point, at $280 million in the quarter, that's roughly 4%, 5% top line growth.

It has some minor implications on margins, but overall margin performance was quite good. And I think in terms of your EBIT question, the key thing, George, on a comparable basis which is the lower left portion of our segment slides, that's really where you can see that we earned on the improvements sequentially on the volume growth, that 200 basis points of volume improvement quarter-to-quarter was successfully earned on. And you can see that in the margin growth.

And so I think as you're looking at the segment reporting, that lower left corner is kind of the best place to focus because it's comparable on a like-for-like basis and gives you a sense for the margins.

Operator Your next question comes from the line of Mark Wilson with RBC.

Mark Wilson PK and Steve, it's probably a question for you just in relation to the asset sales, and thanks for outlining the impact going forward. Just wondering if there was a gain on the sale of the assets in the period? And if so, where was that booked ?

Stephen Scherger There was a modest gain on one of the sales of the assets. It is not included in our adjusted EPS figures. So it's below the line. It's down in the figures that we have for the adjustments around transaction-related costs, et cetera. So it's not -- there are no gains or losses inside of the $4.02 EPS that we shared with you, if that's the question, just to make sure I'm answering it for you.

Operator Your next question comes from the line of Gabe Hajde with Wells Fargo.

Gabe Hajde Two quick ones. If we're doing our math correct in the first half, implied EBITDA is somewhere around $1.8 billion. And I appreciate that you're not giving us kind of calendar 2027 guide other than talking about it, I guess contracts with double-digit EPS growth and synergy realization.

But if I tack on the remaining kind of synergies and then make our own assumptions about growth. It's something in that $3.8 to $4 billion range. Anything in that -- those bridge items that you would kind of steer me towards.

And then the second one, it looks like CapEx is starting to accelerate here in the first half. I don't know if that's -- I should say first half, but sorry, transition period. I don't know if that's timing related or if we should read anything into that?

Stephen Scherger No. Thanks, Gabe. I'll start, and PK can add any color relative to the strategic implications.

But fundamentally, you're correct in how you're observing what is implied both in terms of the transition period and into 2027 which is fundamentally mid-single-digit EBITDA growth. That's really kind of at the core of the assumptions that we will continue to have our synergy benefits as well as some modest volume growth. And there's always moving parts, by the way of other things that are moving in and out.

But from an EBITDA perspective, six months next 12 months, so over the 18 months kind of that mid-single-digit EBITDA growth is implied and it is then inside of the range that you just provided. And so I think you're overall in line there. What you've seen on CapEx is roughly 5% of sales.

We've used that quite a bit to talk about what we think is steady and consistent CapEx to support our growth initiatives. And so you're seeing us invest at that level, not materially above historic levels, but we believe that, that 5% is a good harbinger for our ability to grow organically and invest back in the business.

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

Keith Chau Steve, I just want to ask you a question on free cash flow for the next 12 months? I mean I appreciate the comments you made here about getting the $500 million of working capital back.

But I just want to confirm something with you. So last year, I think free cash flow started -- or the target started at $1.8 billion to $1.9 billion. Out of that, this -- for the next 12 months, you should be getting the $500 million back in the working capital imposed from the Middle East conflict.

Hopefully, everything kind of settles from that. And then plus, you get incremental synergies as well. So we should be staring down the barrel of $2.5 billion or so of free cash flow for the next 12 months. So the stub period plus the first half of your next calendar year or new fiscal year. Would you agree that $2.5 billion is a reasonable number to target for the next 12 months?

Stephen Scherger Yes. Thanks for that, Keith. I think maybe playing that back to you in similar words. If you look at kind of the next 12 to 18 months which is the pathway to 3x leverage, it's really three things, and you had them embedded in your question.

One is to Gabe's question, continuation of mid-single-digit EBITDA growth.

So the EBITDA continuing to grow, that's part of the pathway. And then as you just said, roughly $2.5 billion of free cash flow would be a combination of the natural cash flow capabilities of the business, EBITDA minus CapEx, minus the interest and taxes plus the $500 million of return from the Middle East. And so you're in line with the kind of assumptions or the pathway if you will, towards the end of 2027, 3x levered because all of that kind of correlates together, I think if that's inherent in your question.

Operator Your next question comes from the line of Matt Roberts with Raymond James.

Matthew Roberts 4Q EPS is up 23% I think you had Berry two months of that in the prior year. So now that Berry is fully in the September quarter it is still down at the midpoint. I believe, drags from interest and taxes.

But should EBIT be up hitting earlier and July volumes appear to be similar and then slightly up to June Q? Or any other puts and takes there on the EBIT line looking at the September quarter and second half?

Stephen Scherger Yes, Matt, let me touch on that. You're really referencing Page 12 on the outlook, and you summarized it well. That $0.13 to $0.21 bridge there that you see think of that at the midpoint, there's roughly $80 million of after-tax earnings or roughly $100 million of EBIT, and so we do expect to see some EBIT improvement year-over-year.

As I mentioned earlier, a lot of that is, of course the capture of the $110 million of EBIT synergies that's implied in our in our outlook, we'll get a little bit of favorability year-over-year, some reduced depreciation that impacts EBIT.

That's as we've dialed in the depreciation for the Berry assets that we've acquired. And there's always, of course some other puts and takes. But EBIT and EBITDA improvement is, of course critical as we continue to drive the business forward.

It's offset, as you referenced by some of the increased tax assumption of 16% in the first half, returning towards a more normalized but low 19%. And then the realities of some of the refinancings that were completed in the prior year which is a modest increase in our interest expense. But that bridging on EBIT is kind of, I think critical to your question.

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

Brook Campbell-Crawford Just one on incentive compensation. I think there might have been and some sort of benefit in the June quarter, perhaps, given sort of accruals and things for incentive comp and perhaps that might have unwound in the first half. Do you mind maybe just stepping through that

Stephen Scherger Yes. Thanks, Brook, it's Steve again. As we mentioned in the footnote, we have some modest year-over-year increases in incentive compensation that is kind of a traditional pathway of an assumption that we'll be accruing at target compensation, growth and cash flow expectations which, as you're aware, in the prior year were not at the levels that we had originally anticipated.

So that's a little bit of the waterfall bridge, if you will, as to the compensation component during this transition period.

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

Jakob Cakarnis Steve, I just want to go back to Slide 19, if I could, please, PK.

It sounds like calendar 2027 is shaping up (inaudible) to look at just wondering half of enhancement to think you are from the current model that you displayed there where you've got $3 billion of annual cash flow that reinvestment target back in the business of $1 billion plus in the balance sheet utilization of $1 billion plus, please?

Peter Konieczny Jakob, you weren't really coming through that clearly here. Let me just check in with the team if they understood what the question really was?

Stephen Scherger Yes. So Jakob, I think you're asking about the kind of the value creation model that was a part of the original that was developed with the acquisition. I think are you asking is it still in line with those expectations? Was that the nature of the question?

Jakob Cakarnis That's right, please, Steve. Just to pitch it again. Hopefully, it's clearer.

In that value creation model, you're talking about annual cash flow of over $3 billion reinvestment back into the business of over $1 billion, and then also the balance sheet utilization of over $1 billion. The question was pitched at PK.

Just with calendar 2027 shaping up as a better, stronger year for the business, more representative of the go forward. How far do you think we are away from that value proposition model, please?

Peter Konieczny Yes. Look, I think we're so much better now in terms of the line, Jakob. I think we're well on our way to getting there. What we're seeing here on Slide 19, broken out to the right is sort of the swing in model after we have taken advantage of all the opportunities and the potential from the combination of the two companies. I think it still holds. And I think we're making good headways.

Let's not forget that 2027 is going to be the year for example, on synergies where we are going to pretty much see the bulk of it. And in terms of our activities that we will implement, we will pretty much be done by the end of 2027.

So that will impact our earnings capacity and also the cash flow generation. But generally speaking, we are well underway. And in terms of the capital allocation model, we will support the business, and this is the way how we think about it.

We are committed to the dividend. And of course this will all go along with a commitment to investment-grade balance sheet which is all in line with what Steve has laid out here in terms of the use of cash in order to reduce our leverage.

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

Michael Roxland Steve, I just wanted to follow up quickly with you. You mentioned that in terms of the transition period, outlook, some modest volume growth. Any way to quantify that is 25 bps, 50 bps, what type of volume weather you're embedding within that transition period outlook? And then secondly, PK, you mentioned softness in healthcare.

It seems like every quarter, there seems to be some issues around healthcare and volume growth accelerating in that key category for you. So what's driving the continued softness in healthcare? And what gives you confidence that volumes will ultimately inflect?

Stephen Scherger Mike, it's Steve. I'll attack the first and PK, the second part of your question. The assumption embedded in the $1.80 to $1.90 for the transition period, volume assumption is flat to very modestly up. So you think about that, it's a pretty narrow range as you can appreciate.

Peter Konieczny And then on healthcare, and Mike, thanks for the question because it's a bit of an obvious one when you listen to our commentary.

We're laser-focused on volumes and driving volumes forward because we believe that is the ultimate metric to follow when you want to decide if you're successfully competing in the marketplace. But volume is not always the best metric to decide on the progress that we're making in our focus categories. And in healthcare, that would be an example.

So I would start my reflection here by saying, don't read too much into the volume performance on the healthcare side. What we're really seeing is a mix shift, and we're not unhappy with the mix shift.

We have seen some volumes reducing in lower-margin subcategories in medical. And that is offset by really good progress on the pharma side, where we have higher-margin products think about nasal, opthalmic or inhalation devices that we bring to market. And the combination of the two actually leads to a profit expansion in the healthcare business. So we're happy with the overall performance.

But as we are very focused on volumes, we break out the volume performance of healthcare and that mix shift is driving the volumes down right now.

Now we will -- as I reflect on my answer here, we're excited about the business and also the outlook. And you talked a little bit about that or you were inquiring around that. A couple of things just to remind you of here.

We talked about our participation on GLP-1 with a win. It actually was a synergy win for a customer bringing oral solid dose to the market, multiple regions, multiple format when we're up and producing.

We've made some really good progress with generics in the fourth quarter, also in India. And we've also talked about the ramp-up of our air knife coating technology in Asia which is the first of its kind which will also support the medical business in good margin categories.

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

Anthony Pettinari PK and Steve, on the second half outlook for the stub period, could you talk about your assumptions around cost and just trajectory of resin, fuel, freight, and cost items that you'd call out? And then can you just talk generally about the level of conservatism in the second half guide and what could get you to sort of the higher or lower end given you've had a lot of success (inaudible)?

Stephen Scherger Anthony, it's Steve. In terms of our kind of guiding principles here, we obviously don't outlook specifically resin, logistics, et cetera, but our assumption remains that our pricing will offset that inflation. So that relationship of our pricing offsetting that kind of is the fundamental assumption.

I think the banding on our transition period outcome, as PK just mentioned, is probably just bands around volume, are we flat? Are we modestly up? Because what we are showing is good earning power on modest movements in volume. And I think that will be the primary movement which is a pretty tight band around our EPS guide for the 6-month transition period.

Peter Konieczny And let me, just -- Steve and I were looking at each other and wondering who should answer the question. I really don't have much to add to what Steve said, we can complete each other's sentences.

But I think what's important to understand this context here is we don't really know how the Middle East conflict plays out. What's more important for us is really how the supply chains normalize. That will have an impact on resin costing for us as an input.

And what Steve said is 100% correct. We feel like we can do the right thing here for the business and for our customers, which means should the inflation go up or go even further up or go up again. We have an opportunity to deal with that. If it comes down, we'll do the right thing for our customers and we'll adjust our pricing. So that is sort of the base assumption as we look forward.

Operator Your next question comes from the line of Ketan Mamtora with BMO Capital Markets.

Ketan Mamtora Maybe just one more on the 6-month transition EPS bridge. The $100 million EBIT that you talked about, Steve, any way to sort of just understand the puts and takes there? Because I would imagine the synergies alone would get you above that level.

What are the other factors that we should keep in mind as we think about just that component of the bridge?

Stephen Scherger Ketan, it's Steve. Yes. You touched on it well. The primary positive there is net synergies. And as we mentioned, we've got a couple of moving parts. There will be some modest decrease in our depreciation expense and then a modest increase on the incentive compensation expense that we just chatted about in the earlier question.

Those are the two kind of moving parts, if you will, that has some impact on the EBITDA, just given that the depreciation is down, I think of it -- and you'll see it in the guide. You can kind of get to a $30 million reduction in depreciation expense during the 6-month period.

If you kind of look at actuals versus the guide that's in the supplemental section of the materials, those are two moving parts beyond the synergies.

Operator Your next question comes from the line of Hillary Cacanando with Deutsche Bank.

Hillary Cacanando So you've now secured about $140 million of annualized revenue wins or roughly half of your 3-year gross synergy target.

Can you provide a little more detail on where those wins are coming from? Whether they are primarily cross-selling within the existing customer or new customer wins? And how should we think about the timing of those awards converting into revenue and earnings over the next 12 to 24 months?

Peter Konieczny Yes. Thanks, Hillary. This is PK. It's pretty much all of the above that you mentioned. We talked about the synergy wins before and they go back to the potential really that the combination has brought along. So think about it this way.

One lever is a combination of products between Amcor and Berry that creates an additional value opportunity for our customers. One of the things that we've said, one of the two companies makes the bottle, the other one makes the closure or the pump that goes on top of it and that creates a solution. That's one opportunity.

Second one is leverage the more global reach of Amcor for the Berry products. These things are happening. The third one is, and this was one of the examples I spoke to cross-referencing of customers from one side to the other. These are the type of things that create the synergies, and there's lots of opportunities there I think we're really just scratching the surface. And we have to really estimate that and against our estimates, we're making really good progress.

Now the second part of your question was how quickly does that translate.

At this point, we would mark about $140 million of annualized wins. They will play out, obviously over a period of 12 months once you get them, right? You need to ramp up first, so say it takes you about 12 to 15 months to see a full cycle of full revenues and that will then translate to the bottom line.

So that's why we're saying at this point in time we've really just had the smaller part of contribution falling to the bottom line from those wins, but as we move forward through the transition period and into calendar 2027, that will become a lot here.

Operator Your last question comes from the line of Jeff Zekauskas with JPMorgan.

Jeffrey Zekauskas (Inaudible) restructuring costs were $290 million this year.

I expect that they would go down next year? How much would they go down. And is that benefit included in your $500 million working capital benefit. And does that $500 million working capital benefit assume flat raw material costs?

And is your challenge in the coming quarter, how you modulate your declining raw material costs because polyethylene came down $0.15 a pound in June and propylene came down, and you did a great job during this period of inflation might you be able to hold on to some of the raw material benefit? Or does it go back perfectly?

Stephen Scherger Yes. Thanks for that, Jeff. It's Steve. Just very briefly, you touched on it well. $290 million of total Berry transaction restructuring costs $160 million of that was more integration-oriented.

$130 million was transaction oriented. You're correct that during the transition period, that number will come down quite materially. The transaction is behind us. We would expect more in the $50 million range for the integration-related costs. So it's a good tailwind. It is not in the working capital improvement assumption. It is more in the cash flow assumption relative to the 3.5x to 3.6x leverage targeted for end of December 2026. And you're into the good complexities of the business, PE & PP movements up and down.

Overall, our assumptions have reasonable stability in those cost assumptions in terms of the ability to get the $500 million back, in other words, not major movements up or down which could have some implications, obviously on timing. It's a good thoughtful question. And you're right, there could be some implications. Overall, our confidence in the recovery of the Middle East conflict cash flow is high as you've heard us articulate.

So thank you.

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Operator We have reached the end of the time we have for the Q&A session. I will now turn the call back to PK for closing remarks.

Peter Konieczny Yes. Thank you, Operator. And thank you everybody, again for joining us. We certainly look forward to the opportunity to sit down with many of you over the course of the quarter and clarify further expectations and the quality of the business. Thank you.

Operator This concludes today's call. Thank you for attending.