

# News Release

1 November 2017

## *AMCOR LIMITED, ANNUAL GENERAL MEETING WEDNESDAY, NOVEMBER 1, 2017*

### *MANAGING DIRECTOR'S ADDRESS*

---

Thank you Mr Chairman and good morning Ladies and Gentlemen.

Last year I talked to you about the opportunities we are focused on and our strategy for Amcor. Over the next few minutes I'd like to revisit these themes focusing on the mid to longer term, and the growth potential for the Company. I will close by providing an update on trading for the first quarter.

#### **Aspire, Focus, Grow**

But first, you have seen this image on the screen a few times now, which is the cover image for our 2018 annual report. More importantly than the image are the words that also appear on the cover.

These three words summarise Amcor's strategy:

- **Aspire** - our aspiration is to win for our customers, investors, co-workers and the environment as the leading global packaging company.
- **Focus** - we focus on attractive product segments and on capabilities that provide true competitive advantage
- **Grow** - we expect to grow shareholder value consistently over time.

#### **Strategy and Growth**

Over the next few slides I will step through that strategy which is unchanged from last year's AGM and includes three elements:

First, our focused portfolio of businesses

Second, the differentiated capabilities that enable each of our businesses to win in their markets

And Third, the shareholder value creation that these businesses and capabilities will generate.

Amcor Limited

Level 11 | 60 City Road | Southbank VIC 3006 T +61 3 9226 9000 F +61 3 9226 9050 [www.amcor.com](http://www.amcor.com)  
ABN 62 000 017 372



## **Strategy and Growth**

Amcor chooses to play in product segments which share some important characteristics: a focus on primary packaging and packaging for fast-moving consumer products, good industry structure and attractive relative growth.

Those criteria have led us to the focused portfolio of strong businesses we have today in four product segments: flexible packaging, rigid plastic containers, specialty cartons and closures.

And there are multiple paths for Amcor to win in these businesses, either by having a leadership position or significant scale advantage, or by offering something unique and differentiated.

## **Strategy and Growth**

The second element of our strategy are the capabilities we believe represent the keys to winning in the packaging industry. This set of differentiated capabilities in areas like Sales & Marketing, Procurement and Innovation, provide the Amcor businesses with true competitive advantage and a real source of differentiation. They also create value for Amcor by unlocking additional growth and productivity, extracting leverage from the full scale of the Company and providing a powerful way of aligning our teams around the world.

## **Strategy and Growth**

And then the third and final component of our strategy is what it all means for shareholders. With this focused portfolio of businesses and these differentiated capabilities, Amcor generates strong cash flow and then deploys that cash to deliver strong and consistent shareholder returns.

## **Amcor Shareholder Value Creation Model**

This is our shareholder value creation model in more detail.

It sets out how Amcor's cash flow can be deployed to consistently deliver 10 to 15% of additional value to shareholders each year, and it has not changed.

Our portfolio of businesses services defensive end markets, and consistently generates strong cash flow. The model starts with this strong cash flow, which we use to create value for shareholders by paying dividends, by reinvesting in the business to drive organic growth, and by pursuing acquisitions at attractive returns. After paying the dividend and investing in the business, any residual cash is then returned to shareholders to provide additional returns.

For the 2017 financial year, I'm pleased to say value creation was at the high end of this range again at 14%.

## **Current Operating Priorities**

Now, turning to our current operating priorities which are the things we're focused on at any point in time to advance our strategy. Over many years we've created a strong foundation based on the elements shown on the left hand side of the slide.

On the right-hand side are the opportunities we have to build on that foundation and advance and accelerate our strategy.

These have been consistent for the last two years, and we're making good progress against each of them.

In terms of growth, we completed three acquisitions and commissioned or announced four greenfield plants in the 2017 financial year.

As for adapting operations, we acted proactively to adapt our flexibles businesses in developed markets to make them even stronger and more aligned with our customers.

And then in terms of our team, we continue to increase our efforts to nurture the next generation of leaders.

So the key point here is that the actions we've already taken against these priorities are advancing our strategy, but also generating real financial results.

### **Mid-term Growth**

This slide shows how three of the more significant investments we've undertaken in the last 18 months will drive mid-term growth:

They are:

- The flexibles developed market restructuring programme;
- The Alusa acquisition; and,
- The acquisition of Sonoco

All of these investments are off to good starts and in the 2017 financial year delivered total benefits of around \$60 million. In fact, we've raised expectations for benefits from the flexibles restructuring programme by \$10 million. The take away here is that these prior period investments will underpin further earnings benefits of more than \$100 million by the end of the 2020 financial year as compared to the 2017 financial year. And importantly, this is in addition to organic growth and any further M&A which we would expect to pursue

### **Longer-term Growth**

Now, as excited as we are by the medium-term, the longer term is even more exciting.

Amcor has a presence in more than 40 countries across the four product segments mentioned earlier. There are significant growth opportunities, both organic and through acquisitions across all of the Amcor businesses which gives us the confidence that we'll continue to deliver on our shareholder value creation model over the long term.

Last year I spoke to you about focus segments within the portfolio. Our four focus segments are:

- Flexible packaging in the Americas;
- Flexibles packaging in Asia;
- Speciality rigid plastic containers; and,
- capsules and closures.

In really simple terms, they are focus segments because they have attractive fundamentals, they're segments where Amcor has opportunities to be differentiated and they're all segments where our current position is well underweight relative to our customers and our own potential.

As we've mentioned before, we're putting extra focus on these segments and we expect to win in these areas, meaning we'll generate growth, not as an objective but as an outcome. So no change here.

### **Strategic Progress and Recognition**

Graeme spoke to you earlier about our strong 2017 financial results, and I've just summarised some of the things we are focused on to advance our strategy.

But I'd also like to share some other examples of the progress we are making.

Amcor is a core partner in the Ellen MacArthur Foundation's New Plastic Economy initiative and our people are contributing to the initiative's goal to design a plastic packaging value chain based on a circular-economy principles, where plastics are intended to be used over and over.

Amcor was also recognised three times in the 2017 DuPont awards for packaging innovation. The awards in the Technological Advancement and Responsible Packaging categories reflect Amcor's commitment to collaboration and innovation, and demonstrate our deep knowledge of customer needs.

As you saw earlier, talent and engagement is at the top of our list of differentiating capabilities. Amcor has always run leadership development programs in our various businesses around the world. To supplement those local initiatives, last year we launched our first Amcor wide global Executive Development Program. In partnership with Duke Corporate Education this program is designed to develop our highest potential business leaders and further strengthen the company's "One Amcor" mind set. It represents a major investment in Amcor's leaders and is consistent with our priority to accelerate talent development

### **Strategic Progress and Recognition**

And finally, a few months ago, Amcor was recognised for our work with the World Food Program.

Since 2015, Amcor has been working with the World Food Programme on improving the way aid and food are delivered to the most remote parts of the world. Amcor's technical guidance and support has improved packaging for vital nutritional supplements, ensuring more children receive food assistance, and saving the World Food Programme several million dollars.

I am proud to say our contribution to this program has led to Amcor being recognised as one of the World's leading companies in Fortune magazine's "Change the World" report.

Our project with the World Food Program is one of several that enhance the sustainability credentials of Amcor as a company as well as the products we make.

We are really pleased with the progress we are making in this area and I invite you to read our 2017 Sustainability Report.

## **Summary**

To summarise, before I move to the first quarter trading update.

We are proud of the strong business that has been created over many years and our accomplishments in the 2017 financial year.

We have continued to make good progress against the strategic priorities we have spoken about for the last two years and these are now contributing to earnings growth.

And, longer term we are excited about the substantial growth potential we see across our entire portfolio.

Looking ahead, continuing to advance our longer-term strategy will underpin an ability to deliver consistent and strong returns for shareholders.

## **First quarter trading**

I would now like to turn to the first quarter update and will start with a summary, and three key messages.

First, parts of our business have had a good start to the year but overall it has been a difficult first quarter. In our outlook statements in August, we made some cautionary comments related to market conditions, customer performance and raw materials costs, and these issues have continued or worsened through the September quarter, especially in emerging markets.

These industry challenges are not Amcor specific, however we are advantaged in addressing them given our global footprint, industry leadership positions and execution capabilities. So the second key message is that we have taken the appropriate actions and moved quickly and decisively in response. As a result, we have already implemented actions to flex capacity, increase prices and reduce costs. Our management teams are focused on what needs to be done to minimise the adverse impacts from the current market conditions and they are executing well.

And the third message, and most importantly, as a result of the actions we are taking, notwithstanding a more cautious outlook, we continue to expect 'Profit after Tax' (PAT) growth in constant currency terms for the 2017/18 financial year will be within the range of outcomes we expected in August. The magnitude of overall earnings growth will depend on trading conditions across the balance of the year and assumes some improvement relative to the September quarter.

## **Flexibles**

Looking at each of the segments and starting with Flexibles which represents approximately two thirds of Amcor sales.

Trading conditions and the performance of our businesses in developed markets have been in line with expectations and the benefits from the previously announced restructuring initiatives are consistent with the upgraded expectations we outlined in August.

But the businesses in the Flexibles segment have also experienced headwinds from rising raw material costs and weak performance across our emerging markets business.

As we described in August, raw material costs increased in the June 2017 quarter. Since that time we have seen further increases in the market price for a number of key materials around the world. Raw material costs across the business are now around 10% higher than they were at the beginning of the 2018 financial year. We will recover these higher costs over time and price increases have been actioned across all of our flexibles business units, with more occurring in the current quarter. As is always the case though, there is a time lag between the impact of raw material cost movements and the related pricing actions and as a result, we estimate the adverse impact on 'Profit Before Interest and Tax' (PBIT) in the Flexibles segment for the first half of this financial year will be approximately Euro 15 to 20 million.

Regarding our emerging markets business, we have seen good momentum in Eastern Europe for flexible food packaging and in certain healthcare and tobacco packaging markets. However overall conditions have been weak with organic performance well below the long-term trend, particularly in Asia. As well as raw materials costs increasing substantially in Asia and Latin America during the September quarter, the weak trends we saw through the last financial year in specialty carton volumes in Russia and Asia have continued.

In response to these challenges, we have been moving with pace and intensity in two areas. First, we have implemented price increases as raw materials costs have moved higher. And second, we are aggressively flexing capacity in line with current trading conditions and driving cost out across the business.

In summary, while we continue to expect the Flexibles segment will deliver strong PBIT growth in the 2018 financial year in constant currency terms, this growth will ultimately be dependent on further raw material cost developments and trading conditions across the balance of the year. PBIT in the first half of the year is expected to be broadly in line with the prior year in constant currency terms. This takes into account the time-lag in recovering higher raw materials costs, the trading conditions experienced in the first quarter as well as the acquisition integration costs of approximately US\$5 million, which we highlighted in August.

## **Rigid Plastics**

Turning now to Rigid Plastics.

The business has performed well in the context of some significant challenges in key markets. It is also worth recalling that the Rigid Plastics segment had a very strong first half last year, growing volumes in North America by 5% and overall earnings by nearly 12%.

In August we highlighted that North America beverage volumes in the June 2017 quarter were lower than the prior period, as Amcor customers experienced weaker volumes. And we cautioned that the earnings outlook for the first half of the 2018 financial year would depend on volume development over the balance of the summer. This same trend of weak customer performance and destocking has continued to negatively impact beverage and closure volumes in the first quarter. As a result, volumes in the North America beverage business in the first half are expected to decline at mid-single digit rates relative to the prior period, with hot fill volumes declining at around twice that rate.

In the rest of the Rigid Plastics segment, the business continues to grow and win share with regional customers, and the Specialty Containers business has performed as expected. However, in Latin America, economic conditions are mixed but remain challenging overall, and this continues to weigh on volumes. We expect this will continue to be the case in the near term.

In terms of our response to these market conditions, the management teams across the rigid plastics segment have acted quickly and decisively to aggressively flex capacity and to further reduce operating and overhead costs. In addition, the business is working to ensure our pricing keeps pace with steep raw material cost increases as supply conditions in the PET resin market tighten rapidly.

Taking into account trading conditions in the September quarter, we still expect the Rigid Plastics business will deliver solid PBIT growth in the 2018 financial year, though this remains dependent on beverage volume developments in North and South America over the balance of the year. We anticipate earnings in the first half of the year will be broadly in line with the prior year, taking into account current trading conditions as well as the adverse impact of integration costs related to the Sonoco acquisition which we previously described in our outlook comments in August.

## **Trading summary**

In summary, there are three key messages I would like to leave with you.

First, while parts of our business are performing well, the challenges that we highlighted in August related to market conditions, customer performance and raw materials costs have persisted or worsened through the September quarter, especially in emerging markets.

Second, we have been proactive in our response. We have taken appropriate actions – reflecting the higher raw material costs in our pricing structures, flexing capacity and reducing costs. Our management teams have shown a capacity to deal with market challenges by prioritising and focusing on the things that matter, and the broader organisation is outstanding in its ability to execute.

Finally, and most importantly. Notwithstanding a more cautious outlook, we continue to expect that PAT growth in constant currency terms for the 2017/18 financial year will be within the range of outcomes we expected in August. The magnitude of overall earnings growth will depend on trading conditions across the balance of the year and assumes some improvement relative to the September quarter.

## **Aspire Focus Grow**

Let me close with the three words we've used to summarize the strategy for Amcor.

- **Aspire** – we are committed to our aspiration of becoming the leading global packaging company, winning for our shareholders as well as our customers, employees and the environment
- **Focus** – we'll reach that aspiration by maintaining a focused portfolio of market leading businesses and by continuing to drive a focused set of capabilities that provide those businesses with competitive advantage in their marketplaces
- **Grow** – as we deliver on our strategy, we will continue to grow value for our shareholders while delivering for all our other stakeholders as well

Thank you for your continued support.

**Ron Delia**  
**Managing Director & CEO**

For further information please contact:  
Tracey Whitehead  
Amcor Investor Relations  
+613 9226 9028