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Amcor Ltd. (AMCR) CEO Ron Delia on Q4 2019 Results - Earnings Call Transcript

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FQ4: 08-20-19 Earnings Summary

Press Release *10-K*

EPS of $0.26997 beats by $0.06 | Revenue of $4.91B (-% Y/Y) beats by $2.26B

Amcor Ltd. (NYSE:AMCR) Q4 2019 Earnings Conference Call August 20, 2019 6:00 PM ET

Company Participants

Tracey Whitehead - SVP, IR

Michael Casamento - Executive VP of Finance & CFO

Ron Delia - MD, CEO & Executive Director

Conference Call Participants

Salvator Tiano - Vertical Research

Andrew Scott - Morgan Stanley

Brian Maguire - Goldman Sachs

John Purtell - Macquarie Research

Larry Gandler - Credit Suisse

Owen Birrell - Goldman Sachs

Daniel Kang - Citigroup

Nathan Reilly - UBS

Brook Campbell-Crawford – JPMorgan

Operator

Good morning. My name is Josh and I will be conference operator today. At this time, I would like to welcome everyone to the Amcor Full-Year 2019 Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers remarks, there will be a question-and-answer session. [Operator Instructions] Thank you, Tracey Whitehead, Senior Vice President of Investor Relations, please go ahead.

Tracey Whitehead

Thanks Josh and welcome to Amcor's 2019 year-end earnings call. This is our first call as a newly listed company following the Bemis transaction. So good evening to those of you in the U.S. and good morning to those in Australia. Joining me today in Australia is Ron Delia, Chief Executive Officer and Michael Casamento, Chief Financial Officer. At this time, I'll direct you to our website amcor.com under the investor section where you'll find our press release and presentation, which will be discussed on this call. We've also discussed non-GAAP financial measures as we talk about performance. Reconciliation of these non-GAAP measures to GAAP measures that we consider most comparable can be found in the press release and presentation on our website.

I would also remind you that statements regarding future performance of the company made during this call are forward-looking and therefore subject to certain risks and uncertainties. Actual results may differ materially from historical expected or predicted results due to a variety of factors. Please refer to Amcor's SEC filings including a statement on Form S-4 to review these factors. With that, I'll hand over to Ron.

Ron Delia

Thanks, Tracey and good morning and good evening. We've got a lot to cover here today. So we'll get right into it. And we'll start where we always start with meetings in Amcor which is with safety. And refer to the slides as we go through here, we've got slide set on the webcast, and I'm referring to slide 3 here. Safety is a core value at Amcor and we have one goal which is no injuries. And we're not there yet. But our safety performance over the last 12 months has been a real highlight, with reductions in lost-time injuries and recordable injuries of 29% and 25% respectively. And this is a great outcome. And it's a testament to our leadership teams and all of our employees around the world who're able to stay focused on what matters most, when there was a potential for lots of distractions during a very busy year.

Again, the only thing that matters to us is getting to zero injuries. But just a quick word on these metrics, when we acquire businesses, they typically have a higher number of injuries than we're used to at Amcor and as a result, these metrics end-up increasing for a period of time and that happened a couple of years ago. And you'll see that happen again during fiscal 2020 when we include the legacy Bemis in these numbers. But that said, our new colleagues are just as focused on safety. And pretty soon, we'll see fewer total injuries again as we march towards our goal of no injuries.

Moving to the four key messages we have for today, first 2019 from a number of different dimensions was a historic year for Amcor. We completed the Bemis acquisition. We added a listing on the New York Stock Exchange and we continue to progress our sustainability agenda. At the same time, the base business has been performing well and that's the second key message. The Legacy Amcor business delivered results in line with expectations and momentum is building as we head into the 2020 financial year.

Third, when we look out into fiscal 2020, and the next couple of years beyond, we have visibility to multiple sources of EPS growth. Our base business is defensive and will continue to grow organically. There are $180 million of synergies from the Bemis acquisition and that integration is off to a good start. And then because our balance sheet and cash flow outlook are strong, we have the confidence to redeploy divestment proceeds and a $500 million share buyback. So as uncertainty and macroeconomic risk around the world seem to increase by the day, we have a clear path forward for the next few years to create value for shareholders.

And lastly, and the fourth key message today, we're extremely excited at Amcor because we're uniquely positioned for the long-term. We've got leadership positions in each of our businesses, differentiated capabilities, scale and global reach that we can put together to generate growth into the future and a big part of that future will be Amcor’s continued leadership on sustainability. And today, we've announced at least $50 million of additional investments to accelerate that sustainability agenda.

Now before turning to the financial results for the year, just a word on the numbers that you'll see in the materials we released today. So the basis for all the financial information, I'll remind you, again is U.S. GAAP. But we'll focus on adjusted or non-GAAP metrics, which we believe is the best way to understand the operating performance of the business. And then later when we describe our guidance for FY 2020, we’ll refer to a pro forma set of financials, so we can compare apples-to-apples as if we own Bemis for all of FY 2019.

So moving on to slide 6, full-year adjusted financials, sales are up 5.5% in constant currency terms, or 3.2% if you exclude the added sales from the Bemis business. EBIT was up 5.7%, again in constant currency, with both the Flexibles and Rigid Packaging segments contributing to organic sales growth, strong cost performance, benefits from acquisitions that we completed earlier, and restructuring benefits. We continued our track record of consistent margin expansion with EBIT margins up 10 basis points, or 20 basis points up when excluding the sales impact of the higher raw materials we passed through in the rigid packaging business and net income was up 9% in constant currency terms.

And excluding the Bemis earnings, the Legacy Amcor business delivered solid growth of 7%, which was in line with our expectations. Cash flow was strong more than $200 million for the legacy Amcor business and the balance sheet is also strong, so we increased the annual dividend to $0.455 per share and in addition, as I mentioned, we did use to initiate a $500 million share buyback today to further enhance shareholder returns.

In the Flexibles segment, sales grew by 5.4% in constant currency terms or 2.1%, excluding sales from legacy Bemis with good growth in global healthcare and across emerging markets. EBIT grew by 6.7% in constant currency and margins expanded by 10 basis points. In addition to sales growth, organic profit growth also benefited from strong cost performance, particularly in the Asia-Pacific region and within the specialty carton plants.

In the European region, overall operating costs were higher as a result of higher than expected demand in our healthcare plans. Also driving profit were the final benefits from restructuring initiatives which we started in 2016, and a small benefit from the normal time lag in recovering higher raw material costs, which was a little better than we're expecting six months ago. And lastly, we had profit growth from businesses we acquired in prior periods which was in line with our expectations. Now as we highlighted in our news release in the June quarter, the legacy Bemis business demonstrated similar financial performance to the previous three quarters, with the exception of the business in Latin America, which delivered a marginal loss in the June quarter.

Turning to Rigid Packaging on slide 8, sales grew 5.4% and constant currency terms again includes the 3.7% favorable impact from passing through higher raw materials, and EBIT grew 4.8% given by a combination of higher volumes and favorable product mix, and benefits from restructuring initiatives. In North America, total beverage volumes were up 1% and hot fill container volumes are up 7%. So overall sales growth within the regional beverage unit, which focuses on smaller customers and brands continues to track at double-digit rates.

Acquisition benefits in specialty containers were offset by disappointing cost performance in two class and the closures business was negatively impacted by startup costs at the recently commissioned plant in Mexico. Latin America volumes are up 3% versus last year excluding Argentina volumes are up 10% reflecting strong growth in Colombia, Mexico and Brazil.

Returns were almost 17% in Rigid Plastics and overall we were pleased with the performance this year, and we believe the business is well positioned for the future. With that, I'll hand over to Michael to talk about the cash flow and balance sheet.

Michael Casamento

Thanks, Ron. I'm on Slide 9 now and in terms of cash flow, one of the highlights for the year was our working capital performance. The legacy Amcor business reduced the working capital sales ratio from 10.6% last year to 9% this year with improvements in a range of areas including payables and receivables days which in turn reduce our average debt levels during the year and net interest expense in the P&L. We expect the working capital sales ratio will increase following the acquisition of the Bemis business but will then become a source of cash as we work the ratio back down over time.

Capital expenditure was also lower than last year, we would typically expect capital expenditure to track in line with depreciation. And this year our spend was little lower as we focused on the integration activities. Capital expenditure is also likely to be slightly lower than depreciation mid-2020 financial year as we work through the integration. Adjusting for Bemis related transaction costs and an expert pro rata dividend paid in May, cash flow after dividends was $193 million or $207 million for the legacy Amcor business only which was in line with our guidance range for the year.

Turning to the balance sheet on Slide 10. As Ron mentioned earlier, Amcor's balance sheet and financial profile remain strong. Net debt of USD 5.5 billion at the 30th of June has increased compared to last year mainly driven by the addition of the Bemis debt facilities. Leverage measured as net debt over combined EBITDA was 2.7 times after adjusting for the impact of the divested businesses. In the last several months, our Treasury team has successfully refinanced and restructured a significant amount of debt that was carried by both legacy businesses.

We continue to be in a very comfortable position in relation to our debt profile, with access to a diverse range of funding sources, and appropriate combination of fixed and floating debt and with a well balanced mix of currencies, and no significant maturities in the next 12 months, demand for Amcor credit has been strong, and the outcome will benefit net interest costs in future periods. We expect the net finance costs will be within a range of $230 million to $250 million in our 2020 financial year, which is approximately $20 million lower than the combined net finance costs for 2019.

So in summary, Amcor continues to generate strong cash flow, and has balance sheet capacity to fund the buyback announced today, while retaining the ability to invest in growth and maintain investment grade credit metrics moving forward. So with that, I'll hand back to Ron.

Ron Delia

Thanks Michael. I will just take a few minutes here to talk about the longer term growth potential that we see for the company. And if I refer to Slide 12, any discussion on growth for the future needs to start with corporate strategy. And the message here on Slide 12 is that nothing has changed. I won't walk through this slide, again today it's been out there for a while. And that's really the point that the strategy has not changed at all.

Our approach to capital allocation and deploying our cash flow has also not changed, that's on Slide 13. This is essentially our capital allocation framework. And it provides some perspective on how we think about allocating cash for the benefit of shareholders over the long-term. The numbers have increased a bit given when our bigger company but otherwise there's not been any changes this framework today nor has been for many years now. Through paying dividends and growing the base business organically in a defensive set of end markets, pursuing acquisitions or returning cash to shareholders. Over time value creation has been strong and consistent.

And a big source of that value creation in the near-term is of course the Bemis acquisition, turning to Slide 14 just for a quick recap on the strategic rationale. The combined company is the only player now in Flexible packaging with a comprehensive global footprint and in addition to being truly global, we also have a scale and resource advantage in each key region around the world. Our customer and product portfolio now benefits from increased exposure to attract event market and product segments. And these differentiated solutions can now be transferred across regions and leveraged across that global footprint. And we’ve merged the capabilities and talent from both companies to create the industry's best team who are focused on delivering for our customers around the world.

So we believe and continue to believe the strategic rationale, it's highly compelling. And we also see the potential to generate significant value for shareholders as a result. The starting point for the shareholder value that will be created with the Bemis acquisition is the cost synergy opportunity, which is recapped on Slide 15 here.

And firstly, I would say we're pleased with how the integration has started. We've had the fast start that we planned for, and we can confidently reconfirm our expectations for the synergies this year, as well as the phasing of those synergy benefits over the next three years. In terms of procurement, we're taking a coordinated regional and global approach and quick wins are being actioned across both direct and indirect spend categories. G&A synergies are largely associated with reductions in headcount. And we wanted to start that exercise quickly so we can put it behind us and get people focused on moving the company forward to date, head count as been reduced by several hundred people and that number will increase further.

And as it relates to footprint, those projects tend to take a little longer. So generally, the financial impact will be more towards years, two and three. But we've already gotten moving on that as well. And we've announced the closure of three sites so far with some others to follow shortly. So we feel really good about where the teams are in terms of the integration and the business, and the position of the business that we acquired. As you'll be aware, we were required to divest some plants in order to secure antitrust approval for the overall Bemis acquisition.

And those divestments are now complete. And since Amcor is in a strong financial position, we’re able to fully redeploy the proceeds from those divestments to create value for shareholders now, but also into the future. Slide 16 outlines how we’re redeploying those proceeds, first, in terms of the $500 million share buyback that we've mentioned, when that's completed, we will reduce the number of shares outstanding by around 3%, enhancing future EPS for the remaining shareholders. We intend to start repurchasing shares in the coming weeks. And we will repurchase shares on both the New York Stock Exchange and the ASX in the same proportion as the number of shares, currently on issue on each exchange.

And then secondly, looking more towards the future. We've also committed to make incremental investments of at least $50 million in strategic projects to accelerate our sustainability agenda. In fact, moving to Slide 17, one of the most important organic growth opportunities for Amcor comes from the increasing consumer demand for more sustainable or environmentally friendly packaging.

And we see this as an opportunity because we start from the premise that there will always be a role for primary consumer packaging for food and healthcare products. That primary packaging, the packaging that touches and holds the product is what Amcor does today. And our packaging helps protect food and medicine, preserves and extend shelf life and helps brand owners promote and differentiate their products. And over the years, consumers have come to expect packaging that works first of all and is also lightweight and convenient, easy to use, cost effective, and great looking.

Now all of us have an additional expectation. And that is for the packaging to have a responsible end-of-life solution that doesn't result in more waste, or doesn't end up in landfill or doesn't end up in erosion. So we believe the way to address those growing requirements, particularly around waste is through responsible packaging, and Amcor is uniquely positioned to lead the way and be part of the solution.

As the industry leader, we have the scale and resources to innovate and develop new products, we’re seen as the partner of choice for collaborating with customers and other stakeholders. And we have the technical expertise to help inform the debate and educate consumers particularly around topics like recycling. This is an exciting time in our sustainability journey and looking at Slide 18, it's been a really busy year and 2018 quickly to recap, we became the first global packaging company, pledging to develop all of our packaging to be recyclable or reusable by 2025, to significantly increase our use of recycled materials and to work with others to drive greater recycling of packaging.

In 2019, we signed The New Plastics Economy Global Commitment, we established a sustainability Center of Excellence in Europe, introduced several new products with more sustainable properties and used more recycled content in our products in both Rigid

Packaging and Flexible packaging. And then of course, we took a significant step forward by bringing together the two R&D leaders in our industry which extends our capabilities and reach globally.

Just turning for a minute to product development. Our approach includes a broad range of alternatives. In terms of our raw materials, we're using increasing amounts of recycled content and in our Rigid Packaging business, PCR content post consumer recycled content is approaching 10% and more and more products, including beverage containers are reaching 100% recycled content.

In Flexibles, we've made good progress as well, and we're testing films with up to 50% recycled material. In addition, we've commercialized products, which use bio-based plastics derived from renewable sources. And each year, our products use less and less material in the first place. In Amcor’s success in light weighting has been a strong point of differentiation for a long time and this year alone, our light weighting efforts have reduced the amount of virgin resin we've used by 37 million pounds. Add to that our total use of recycled resin and our consumption of virgin material has reduced by more than 5%.

And then as far as reducing waste, we're making good progress as well. We now have a broader range of recycled products and commercialization trials are underway with more than 20 customers. We're evaluating a variety of compostable materials which we've had in the market for some time, and our sales of reusable and refillable PET containers in markets where refill programs exist have doubled in the last two years. By 2025, our pledge commitments will have been met. And we will have done our part to ensure consumers and the environment benefit from responsible sustainable packaging and that Amcor is continuing to grow and thrive. Before wrapping up, let me summarize on Page 19 here our outlook for the 2020 financial year and what you can expect from Amcor in what will be a transition year as we integrate the Bemis business and move to U.S. GAAP.

In terms of our outlook for fiscal 2020, we’re guiding to an adjusted EPS growth range of 5% to 10% in constant currency terms. Using 2019 financial year average exchange rates, this implies a range of $0.61 to $0.64 per share. This is inclusive of $65 million of pre-tax synergy benefits, it takes into account a marginal decline in the average shares outstanding through the buyback. Integration and transaction costs related to the Bemis acquisition and other items impacting comparability are excluded from our adjusted EPS guidance assumptions.

We expect cash flow after dividends to be in a range of $200 million to $300 million. And this is after deducting cash integration costs of approximately $100 million. Consistent with most companies in our industry, we intend to provide annual EPS and cash flow guidance each year. But we recognize that during a transition year like this one, additional metrics may be helpful. So we've provided those on the slides. You'll note that our guidance is related to the full-year and not by quarter. This is aligned with how we run the business and as we progress through the year, our discussion and narrative will focus on the year-to-date performance as much as possible.

Of course there will be investor communications each quarter and consistent with past practice we'll provide a comprehensive management briefing each half year.

Finally, moving to the last slide. In summary, FY 2019 was a transformative year for Amcor, the underlying business performed well delivering solid earnings growth and building momentum across multiple areas as we enter fiscal 2020, capitalizing on the value of potential that comes with the Bemis acquisition is one of our top priorities, and the integration is going well. And we're delivering incremental synergy benefits every day. At a time, when there's arguably a higher degree of uncertainty in the world, this gives us clear visibility to near-term earnings growth, and we've enhanced the value delivered to shareholders today by increasing our dividend and announcing a $500 million share buyback. We feel good about that. But we're even more excited about the opportunities we have to use our differentiated positions, to drive long-term growth and maximize shareholder value. That concludes our opening remarks and we would be happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] And your first question comes from Salvator Tiano with Vertical Research. Your line is open.

Salvator Tiano

Hi guys. Hi, Ron, Michael, hi and congratulations on closing the acquisition. So firstly, just like to touch basically little bit on the cash synergies I think you have floated out the number if I remember correctly $300 million in CapEx and working capital synergies and I'd like to check first of all, if this is on track and kind of what does this mean for working capital and CapEx for fiscal 2020?

Ron Delia

I'll let Michael speak to 2020 but the short answer on the first question is absolutely on track. We had a great year in working capital performance last year at Amcor and we expect to apply the same disciplines and degree of focus to the Bemis business. And we know going through an integration like this, there'll be less capital that gets spent in the ordinary course.

And so we'll see those benefits as well. But Michael, maybe you can just speak to the 2020 aspect of the question.

Michael Casamento

Yes, sure. I think, as you saw our working capital for the Amcor legacy business improved significantly in 2019, but obviously will see an increase there because the Bemis, the Bemis business kind of tracks around at 12.5% to 13% working capital sales. So that's an opportunity for us, but clearly, that takes some time to get down and we expect to see some benefit over the next couple of years. So bringing that down over time. And then on CapEx front as Ron said, I think typically, we'd be around that in line with depreciation this year, I'd expect we're probably going to be slightly behind that. So this is again, there'll be some benefiting the cash flow as a result of multiplying that level.

Salvator Tiano

Great. And just a different question here obviously, in your rigid packaging PET bottles, you had very good year especially for the hot fill containers, but we have been hearing and I'm sure you have as well by a lot of the beverage can companies, how they're gaining market share, how there's a lot of substitution and people are shifting and companies to beverage cans away from plastics, obviously, and you do have a slide about your very limited exposure to water bottles, but as we think about your broader exposure, including carbonated soft drinks and juices, energy drinks, what is kind of the volume outlook right now, can you sustain this growth in the hot fill business or perhaps the growth will be creamed, is there any

chance that you actually can see this business contract in the next few years gradually? Or are you confident that these growth rates can be sustained? Thank you very much.

Ron Delia

Yes, it's a really good question. Look, the short answer is we feel really good about this business and how it's positioned for the long-term. If we stand back, the business is participating across all of the liquid refreshment beverage categories in North America and in Latin America as well. And it also is supplying containers into food and personal care and pharmaceuticals, so it's broadly exposed, it gets more and more diversified with each year. Within beverages, there's no question we've seen some slow down in the water market. But again, as you pointed out, only about 2% of our margin comes from water in the rigid plastics segment. So it's really not a -- it's just not an important segment for us now or nor will be in the future. Beyond that, we continue to see 2% growth, at least across all of the other categories in beverage, in plastic and yes, there's obviously a role for alternative substrates in different sub-segments, sparkling water is one where there's been a good growth in cans but also been exceptional growth in plastic and sparkling water.

I think that's more of a consumer shift to that product format than a packaging issue. But going forward, we continue to see growth that looks like the growth we've seen historically in the segments we're playing in, which has generally been around 2% for a number of years.

Operator

Your next question comes from Andrew Scott with Morgan Stanley. Your line is open.

Andrew Scott

Good morning or good evening, guys. Thanks. Just one from me, Ron, I just wondered if you could talk about the guidance for the corporate line there. I think $130 million was the base were coming off. I would expect that that's probably one area where you might have had synergy opportunities as you collapse sort of two head offices into one, so interested in the growth for that to actually the outlook for that to actually growing year-on-year?

Michael Casamento

Andrew, it's Michael here, probably just to give you a bit of flavor there, as you said, the starting point is kind of $135 million and we're expecting kind of $20 million, $25 million to $30 million increase there. Part of that is to do, this year, we had quite low insurance claims. So at this stage we're guiding to a more normalized view on that front. And in addition to that, we're also looking to take the opportunity here, we think it's a great opportunity to double down invest, put some investment into our commercial, further commercial capabilities around Value Plus and Procure Plus and the like, and really take advantage of some of that across the whole of our business. So that's why you're seeing some increase there in the corporate costs.

Andrew Scott

And, Michael, would you think that that's the sort of level that we should be looking at to the next few years?

Michael Casamento

Yes, look, I think that's a reasonable place to sit in.

Andrew Scott

Okay, thank you.

Ron Delia

To be clear Andrew on the synergy aspect to your question there, absolutely our synergies in corporate. But as we've said all along, we're not going to be looking for synergies in the commercial part of the company, which is sales and research and development, certainly in the first instance. And so we want to double down there and make sure, we capture the marketplace benefits of this deal as well.

Operator

Your next question comes from Brian Maguire with Goldman Sachs. Your line is open.

Brian Maguire

Hey, good morning. Good afternoon, guys and congrats again on getting the deal through. Just a couple questions on the guidance. Just wanted to clarify a couple of things, just the EPS guide, I appreciate the $0.61 to $0.64, I can set in assuming constant currency. So the fiscal year 2019 average currency rates just wondered if you could give a little bit of color on what impact, current FX rates might have on that $0.61 to $0.64?

Michael Casamento

Brian, you have to do the math. I think about half of the currency in fact is related to the Euro. The other half is a really broad mix of currencies across probably 15 or so that would each be about 2% or 3% of the impact. I think last year, the impact is pretty clear in terms of, Brian what does it Slide 30 in the backup might be the best guide to look at.

Brian Maguire

Okay, let's take a look at that. And maybe on the cash flow guidance, I guess $200 million to $300 million after dividends, so I’m wondering if you could provide some components within that, just wondering what you're assuming for working capital of its meaningful source of cash and do you include the proceeds from divestments of $395 million-ish or cash in the healthcare sales. And I couldn't tell if you give a CapEx number other than just saying it was going to be a little bit less than D&A. But if there's a specific CapEx number, you're thinking about, would appreciate that?

Michael Casamento

Yes, look I will take that one. The range we put out there is $200 million to $300 million. And that is after cash integration costs of around $100 million. So we don't typically break down the components within that. But as I said the guide from guidance earlier around

CapEx is typically around depreciation, you expect it. So going to be slightly lower than that, this coming year, in terms of working capital, as we said we see opportunity, particularly as the Bemis business comes into Amcor, so we'd expect to see some working capital improvement, although that does take time to flow through. So I think

and in terms of your question around divestment, that's not included in the cash flow number as part of that.

Ron Delia

So you can think about it as $300 million to $400 million before the integration costs, which is a step up from where Amcor has been historically.

Operator

Your next question comes from John Purtell with Macquarie. Your line is open.

John Purtell

Good morning, guys. How are you?

Ron Delia

Hey, John.

John Purtell

Just had a couple of questions. Just in terms of the guidance, just wanted to confirm that the guidance assumes some base business growth there. And what you see is the key drivers of that?

Ron Delia

Yes, absolutely, absolutely. Their base businesses is going well, as we said, FY 2019 we finished with some good momentum and had a good second half. So we absolutely expect it to grow into FY 2020. On top of which then we have $65 million of pre-tax synergies. So it's really coming from both, in terms of the organic growth in the business, it's the things that you would expect, we expect a modest level of top line growth in the business, more in emerging markets, which we're seeing less though in developed markets.

We expect continued margin improvement as we evolve the mix. Generally each year, we've got some legacy, or let's say prior period acquisitions, which will add benefits in 2020 and some restructuring benefits in their Rigid Plastic segment, which will add value as well. So we have multiple levers with which to generate growth on the base and then the $65 million, again on EBIT synergies through the Bemis acquisition although that’s in the guide.

John Purtell

Thank you. Just the second question. And you touched on some elements of it earlier Ron, but just as far as some of the new product initiatives, supposed particularly in Flexibles, you've introduced this Amcor product and Bemis obviously has been pretty excited about their Amcor products. So just what you see is the opportunities there and how that’s changing things.

Ron Delia

Look, John, that is really exciting. I mean, the level of interest among customers for these products is just unprecedented. The

nature of the dialog with the customers in terms of the breadth with which we're engaging, and across those organizations, and the importance that they're placing on getting some of these materials, tested and in trials has been great. Now, we also have come to learn over the years that nothing moves quickly in this space with regards to new product development, shelf life, in most of the food categories, shelf life testing can be six to 12 months, just before you even can think about commercializing.

So these things take time but the leading indicators are positive and the leading indicators we're looking at is the customer inquiries, I should say, the trials and testing that are being done and just the general level of interest which is quite high. So look, what we would say that those products and in particular, and others will generate top line growth, two to three years from now, but there's no time like the present to start process.

John Purtell

Thank you.

Operator

Your next question comes from Larry Gandler with Credit Suisse. Your line is open.

Larry Gandler

Thanks, Ron, thanks, Mike. Question on Rigids if I can. Looking at the volume performance in the mix, very good considering what some of the data we're showing. But it doesn't seem like the EBIT growth sort of reflects much operating leverage. So I'm just wondering if there's any impedance to that, you also had cost savings coming through, so maybe it should magnify the EBIT growth?

Ron Delia

Well, look, Larry. I think first of all in the volumes, there is mixed data out there. Our business is more geared towards the segments that continue to grow as we touched on earlier, we're pretty pleased with the performance, we had 5% growth in constant currency terms. And if you look across the portfolio, we had basically flat volumes in beverage across the

board with positive mix, good growth in Latin America.

But then Argentina was a bit of a drag overall. So 3% growth in total. So you got 1% and 3% in two big businesses, leverage to beverage converting to profit. And then in our Specialty Containers business, we flag we had two plants that really didn't perform well for brief periods of time throughout the year and we lost some money on the table there. So generally speaking, we're pleased with the year 5% constant currency growth with relatively low overall volumes and a couple of plants that didn't help us out for a couple of periods there, a couple of months, I think, we're pretty happy with the results overall.

Larry Gandler

And with the Specialty products, plants, remind me which ones they were again, or what was the issue?

Ron Delia

There are two legacy plants we've had for a very long period of time that have been good earners for us and just had some operational issues and I won't get into the details, it happens we've got 150 plants and every once in a while a couple of them aren’t going so well.

Larry Gandler

Yes, now understood. All right. And on the sustainability investment moving topics is the $50 million all CapEx or will some of that be OpEx?

Ron Delia

No, this would be mostly capital and the like. So, specifically, I'm glad you asked, because we can put a little more color to that investment that we flagged today. Look, it'll be in a few areas. We know we can add some R&D infrastructure around the world. We've got a world-class facility in Rigid Packaging, we got a world-class facility now in Wisconsin that comes from Bemis in Flexibles. We don't necessarily have the same level of infrastructure in Asia and in Europe. And so that's an area where we'll spend some money.

To be some capital equipment, that will be helpful for us as we process more recycled content and as we roll out some of the new products like AmLite, HeatFlex and Shetron referred to earlier. And, we also know we don't have all the best ideas in the world. So open innovation, corporate venturing are things that we're doing more and more of. And then lastly, we're pretty active in terms of our partnership network, you would know about the recycling partnership in the U.S. and some others, and so we’ll allocate a little bit more to those initiatives as well. So it's really those three or four areas, most of that is essentially capital, I guess you could say.

Larry Gandler

Okay, and Ron can I just ask one more last question on Rigids. That's interesting, and I definitely want to explore that later with you but with Rigids, I noticed that Pepsi probably has a greater reliance on plastic containers than Coke in terms of overall beverage. I don't know if that's an observation you've made, it looks quite stark. I'm just wondering if that's your observation as well and whether that can change over time?

Ron Delia

Larry I got to admit, I'm not sure that I made that observation that that Coke is in the cold fill space operates through a different business model. They have Co-Op network that supplies most of their cold fill products. So there's less visibility generally, I would say in the market to that side, I would have thought it was very comparable. I know that our dialog with all the customers in the beverage space is quite similar in terms of their drive to smaller portions and smaller pack size in Rigid Plastics, as a primary source of growth for their various products. So I really wouldn't comment beyond that. I'm not sure I could really say with much conviction.

Larry Gandler

Okay, great. Thanks.

Operator

Your next question comes from Owen Birrell, Goldman Sachs. Your line is open.

Owen Birrell

Hi, Ron, Michael. Thanks for giving us the opportunity to ask a couple of questions on this. Just wanted to delve into your pledge to be 100% of your products being recyclable, reusable by 2025. Just firstly, do you include compostable products within that pledge? And secondly, what percentage of your products are currently recyclable or reusable today?

Ron Delia

Yes, good question. Look compostable products are part of our mix in Flexibles, it's a very small percentage. We have a couple of products that we've or a couple of structures I should say under brand name called Nature Plus, Plus in Europe, that have been around for a while. We have some hesitation around that because compostable doesn't necessarily mean recyclable. In fact, quite often, consumers get confused in compostable or biodegradable structures, in some cases actually can lead to more waste and can also corrupt or pollute the recycling stream. So those products are not necessarily recyclable, but they are compostable in the right environment.

In terms of the other part of the question about where we're at today, look I think it's clear on Rigid Plastics, 97% plus of our products are recyclable, in Flexibles, it's difficult to give you a number because technically speaking, a good deal of our product mix is recyclable. But that's the technical answer, and you need to have access to the right infrastructure. And so our role will be first and foremost, to make sure that all our products are technically recyclable. And we make good progress on that front every year, including some of the new developments that I referenced earlier. We also have a role to play in ensuring the infrastructure is in place to be able to actually recycle the products after they're used.

And there's work to do there and that's not Amcor's job alone, but we certainly have a part to play. So look, it's hard to give a specific number on Flexibles other than to say that the product development that I highlighted earlier and that we're heavily engaged with our customers on is getting us to a higher and higher level of technically recyclable products. And then we also have to help just the broader landscape to make sure the infrastructure is in place to actually be able to recycle.

Owen Birrell

Maybe I'll ask the question a different way. Which of your products do you think face the greatest challenges? I mean, are there particular products that actually just don't have a solution at the moment? Whether it's barrier films or certain patches and so forth?

Ron Delia

I don't think as we look across our mix, there's anything that we see that is insurmountable. It's just a question of time and development, there will be a solution for pretty much everything we make. It'll just take some product development and some time. So I would say the short answer is no, there's nothing that we see is an imminent issue that can't be solved.

Owen Birrell

Is five years enough time?

Ron Delia

Absolutely. For the technical part it is, whether society and the markets around the world have the recycling infrastructure in place in five years. That's a bigger question. I'm not sure, we have an answer to that one. But we will have done our part by 2025.

Owen Birrell

All right, excellent.

Operator

Your next question comes from Daniel Kang with Citigroup. Your line is open.

Daniel Kang

Good morning, everyone. Just a couple of questions from me on the raw materials. Ron, can you just talk about your outlook for raw materials? Is it becoming a headwind? In the past few reporting releases you did call out resin headwinds. I think it totaled over $15 million. Have you recovered all of that at this point? Is it more to come into FY 2020? And the second point I just wanted to second question on the strategic $15 million investments. I just wanted to confirm whether that was over and above the group's R&D spend of $100 million, I think combined for the company?

Ron Delia

Look the second question is a shorter is your answer that that is that $50 million is above and beyond what we spend each year. But as I think I responded to another question earlier, that's essentially going to be capital that gets spent over the next couple of years. So it's not operating expense. It'll be more investments and CapEx. In terms of raw materials, look I think as we highlighted, we had a modest benefit this year of about $5 million, if we went back six months ago, we had a modest headwind. And then we clawed that back in the second half a little bit, and then some. And yes, I'd say the short answer is we're out there recovering, you can see this sales line is reflecting the fact that prices have gone up to recover raw material increases.

The outlook from here is mixed, we see which is typically what we say it's almost, it's highly unusual that we see all the materials around the world moving up in the same direction at the same time, we've only seen that a couple of times in the last decade. Right now what we see is a mixed picture. Even within regions, you see some commodities going up and others going down. And so that says to us that it's not likely to be a material driver of our profit movement from FY 2019 into FY 2020.

Daniel Kang

Okay, thanks.

Ron Delia

Thanks.

Operator

Your next question comes from Brian Maguire with Goldman Sachs. Your line is open.

Brian Maguire

Hi, thanks for taking my follow-on question. Jus the legacy Bemis business seemed like it was a little bit weaker there in the quarter, I think you caught out some issues in Latin America. I just wondered if you could expand a little bit more on how it performed not so much just the three weeks that you owned, but just the quarter overall and then just as you look at that business in fiscal 2020 outside of the synergy capture, what sort of the outlook for growth in that business?

Ron Delia

Yes, look I think what I would say is that the Bemis business has performed well, it's been tracking as it had through 2018 and or through the first three quarters of the equivalent financial year for Amcor. And the fourth quarter in Amcor financial calendar or second quarter of the calendar year, the business in North America and the overseas businesses and the healthcare business perform well. So they I would say that the businesses is doing well, and it's got good momentum. And it continues to progress period over period. Latin American business didn't have a good quarter, as we call that made a marginal loss, I think it's just look at, they were lot week volumes, and no cost flexing, and all of which is fixable over time.

But it's a complicated portfolio. And it probably needs to be streamlined a bit. So we're on that already. The business made money in July. It'll get back on track over time, but it did not have a good fourth quarter, beyond Latin America, the rest of the legacy Bemis perimeter performed very well.

Brian Maguire

Okay, and then just last one from me, just back to the sustainability conversation. I appreciate all the efforts you guys are making around recyclability. I guess as you like, think about consumer preferences and the whole debate, how much do you think is solvable through science and how much of it do you think requires really just re-educating the consumer and changing, winning over hearts and minds when it comes to people's perceptions about plastic? And is there anything you can kind of do from a marketing approach, or through your partners on a marketing approach to really change the sort of consumer perception around plastic?

Ron Delia

Yes, look it's a good question. I mean, first of all, I think on the product side, as I answered earlier, I think that the science will allow us to come up with solutions for all the products that we make, so that they're recyclable, or compostable or reusable. That's, our part. And we can manage that. And we will over the next few years. So that part, I think is more straightforward.

I think then with the education is required, it's just on the recycling end, which is where most of these products rightly should end up from an end-of-life perspective. I think there'll be a role for reusable and there'll be a role for compostable. But it's unlikely that there'll be lots of industrial composting centers built for that people will install residential composting equipment at a large scale.

So I think ultimately, the answer here is largely going to be through recycling and there is some educating the consumer that's required. I mean, we have even in the U.S., only 30% of PET containers recycled at the moment. It's highly recyclable. It's a product that you can, you can reuse, for all practical purposes indefinitely, and yet the consumer doesn't recycle. So there's a bit of educating to be done. There's also a bit of infrastructure development required, which we have a role in. But not Amcor alone, we need to work with others on that part. As far as the perception goes, we continue to see growth in all of our segments in plastic.

We continue to see new product introductions, we continue to see new upstart brands, look to plastic packaging. So there doesn't seem to be other than the headlines around certain categories like water doesn't seem to be any shift that's substantive in terms of where these products or how these products should be packaged. And you have to bear in mind that consumer has a broad suite of needs. They want products that are convenient, that are functional, that are lighter weight. And most of that gets delivered most efficiently through some sort of a plastic format. That's why the industry has evolved towards plastics over the last several decades. So the answer now is to just do that in a way that is responsible, and that doesn't contribute to waste. And we think, we have a big role to play in making that happen.

Brian Maguire

Okay, thanks very much.

Operator

Your next question comes from Nathan Reilly with UBS. Your line is open.

Nathan Reilly

Good morning, or good afternoon. Just a quick question on the Bemis integration and the process around that. I imagine the bulk of the efforts are currently being directed at driving the cost synergies and keeping the focus on customer service levels. But I'm just curious to understand at what point did those efforts start to shift the driving some of the revenue synergies that are potentially there and leveraging a broader flexibles technology offering globally?

Ron Delia

It's a great question. Look, you're absolutely right, the effort now is on largely focused on bringing out the cost synergies, those tend to be more discrete projects. So you have a factory to close or you have procurement efforts to run and then it's behind you and the synergies are bank. So that's where most of the effort is. But I would tell you, in parallel, the commercial organization is always thinking about growth. And now they have a few more tools to deploy, as they think about how to do that. So I would say it would be understanding the effort commercially to give the impression that the thinking in that area hasn't started yet.

But I will tell you, as I also said few minutes ago, the ability to generate growth in these businesses takes time, particularly if it's technology oriented or based off new product development, it typically will take a couple of years before you can begin a conversation and actually see products on the shelf. And so no time like the present. And the teams are starting to get on it.

Nathan Reilly

Okay, thanks.

Operator

Your next question comes from Brook Campbell-Crawford with JPMorgan. Your line is open.

Brook Campbell-Crawford

Yes, thanks for that. I just had a question on working capital. And what was the ending working capital balance for the legacy Amcor business?

Ron Delia

Yes, look Brook we’re going to have to follow-up with you on that. I mean, we've closed the books on the combined basis, as you can imagine, so we have to untangle what was legacy Bemis and what was legacy Amcor particularly from a balance sheet perspective. So we might have big follow-up with you on that one.

Brook Campbell-Crawford

That's fine, I guess then a question on Sonoco and Alusa and can you just talk about how these two businesses are tracking relative to targets you talked about at the time of acquisition as of FY 2019? And then can you quantify what sort of further benefits you’re expecting in FY 2020?

Michael Casamento

Yes, so we got benefits from both in FY 2019 in case of Alusa, that was a big driver of the acquisition related profit uplift that we refer to today in FY 2019, we’ll get more value next year. As we said, probably a year-ago, that business will be a little bit behind from an absolute profit perspective, the returns are getting close to what we originally announced. But the absolute profit is going to be a little longer to realize because there's just been no top line growth. In Latin America, the business is exposed to some economies that are particularly challenged, including Argentina. And we just haven't really seen any top line growth. But we feel pretty good about that. In fact, we've gotten revenue synergies out of that, that we haven't quantified, but have manifested themselves in a number of global customer contracts.

And I think some of the growth you see in the Flexibles top line comes from some of those global deals. In the case of Sonoco, that one also has delivered value, it delivered value in 2019. It will deliver more in FY 2020. I think from an overall North American Rigid Packaging business perspective, we've expanded the restructuring, you might notice today, and we've taken a bit more holistic look at the footprint and we're actually doing more specialty container production in legacy beverage plants. So the egg is a bit scrambled at this stage, but that one also will deliver benefits in FY 2020.

Brook Campbell-Crawford

Okay, thanks.

Operator

Your next question comes from the line of Larry Gandler with Credit Suisse. Please go ahead, your line is open. Again, your next question comes from the line of Gary -- Larry Gandler with Credit Suisse. Please go ahead. Your line is open.

Larry Gandler

Thanks, Ron, for the follow-up question. With regard to the specialty cartons business, it seemed to again defy trends, particularly in Americas cigarette volumes have been really weak, but you guys are calling out higher volumes in the Americas. Just wondering if that is indeed tobacco packaging or perhaps other forms of specialty cartons? How is the growth being achieved?

Ron Delia

Yes, it's a good question. Look, it is a business that you need to peel the onion on because the conventional wisdom would be would lead you to think something other than what the reality is, the business does a great job every year of improving its mix, capturing incremental share where it can and yes in some case is diversifying a bit into specialty folding cartons for other end markets, as well as capturing growth now and not so much in the Americas but in Europe and Asia from the growth of alternative reduced risk products.

So look in the Americas, it was a combination of some of those factors. I wouldn't want to parse it too finally but the business does have growth leavers at its disposal, and we had a great year in that business last year in general.

Larry Gandler

Okay, great. Thanks.

Ron Delia

Thank you.

Operator

Your next question comes from the line of Salvator Tiano. Please go ahead. You're with Vertical Research. Please go ahead. Your line is open.

Salvator Tiano

Yes, hi guys. Thanks for taking my follow-up questions. Firstly, just a little bit going back to Bemis. You mentioned strong performance in North America, rest of the world. I was just wondering specifically, when it comes to volumes and the company's restructuring program. I think the company was trying to attract and have achieved positive volume growth over the past couple of quarters with a lot of short run businesses. Can you tell us a little bit how this is going? Is it going as a previous management expected? And what is the outlook on volumes and benefits from this, is Amcor going to stick with that strategy or change it? Just what is your outlook on that?

Ron Delia

Yes, it's a good question. And it's interesting. First of all, you might have been referring to Agility, which is the Bemis restructuring program, those benefits have been realized. And that program is behind them. So that's good to see they've executed well, on that in terms of top line growth, the business grows them in a similar way to the way the Amcor business grows in Europe. It's going to be 1% to 2%, sort of top line story. The focus on smaller customers to run business is, we think absolutely the right approach, the right strategy, it's an approach that we've had in several parts of our business, as well.

So there's an opportunity to learn from each other there. And that won't change. I think that's where a lot of the growth is in these end markets that we're servicing. So we're pretty excited about that that approach.

Salvator Tiano

Perfect. And just, obviously with this acquisition, you're greatly increasing your footprint in North America. And I think more than doubling your footprint in South America in Flexibles. So I was just wondering, are there any areas of now having this expanded database, and obviously, all the capital with your moderately levered balance sheet that you could try to invest and you know new lines of business, you could enter in Flexible packaging in these areas, in these regions?

Ron Delia

Well, from a strategic perspective, we're really happy with the portfolio we have. So we're operating now in four product categories, four product segments. And if you look back over 15 years at Amcor, we've been narrowing that focus and we're quite happy with the four categories we're now. So we won't be adding any new products beyond Flexibles, Rigids, closures and cartons. But then within those parameters, within Flexibles, there's areas that we would like to do a double down in and we were trying to improve the mix each year. Healthcare packaging is an outstanding market for us, there's more we can do there. So I think it'd be more incremental within the four product segments that we're currently participating in as opposed to anything very profound and fundamental across the whole portfolio.

Salvator Tiano

Thank you very much.

Operator

This concludes the allotted time for our Q&A session. I will now turn the call back over to management for closing remarks.

Ron Delia

Okay, operator and thank you to everyone who participated in the call this morning. Thank you for your questions. We will end the call there.

Operator

This concludes today’s conference call. You may now disconnect.