Global Packaging Giant in a New Paradigm

AMCOR

Equity Research Report

Amcor plc (AMC)

Industry: packaging
Sub-industry: paper packaging

THE UNIVERSITY of ADELAIDE

INVESTMENT SUMMARY

Amcor is a global leader in developing and producing packaging for food, beverage, pharmaceutical and other products. Following their acquisition of Bemis Co, Amcor is an industry leader in particularly flexible packaging. With over 35 years of experience, they are positioned to be adaptable to changing trends in the packaging industry. Their significant R&D division and secure financial position also give them the ability to innovate new products in order to maintain their market leading position. We issue a buy recommendation of Amcor with a target price of $14.46, presenting an upside potential of 31.7% from the closing price of $10.98 from September 5, 2020. Our buy recommendation is based on the following key claims: 1) market leading ESG position, 2) R&D division that will drive innovation and growth, and 3) strong financial position.

Recommendation:
BUY
Share Price: $10.98
Target Price: $14.46
Upside: 31.7%

1) Market leading ESG position

Amcor's strong performance surrounding environmental, social and corporate governance is likely to benefit them now and into the future against competitors. Sustainable funds that are based on ESG factors increased by four times from 2018 to 2019 due to increased investor interest and a higher availability. Around 85% of investors are interested in sustainable investing, up from 71% in 2015, with young people being the most likely to choose ESG funds. Amcor's ESG ranking is 91%, which is the highest amongst its competitors of WestRock (62%), International Paper (83%) and Berry Global (52%). The amount of money that is invested into funds composed of companies with good ESG ratings is rapidly increasing, and so will need to become of utmost importance for companies to consider this. ESG metrics are not commonly a part of mandatory financial reporting, however the CFA Institute is developing ESG Disclosure Standards in order for investors to better understand these metrics. Considering Amcor's high ESG ranking and leading sustainability efforts, we believe that this should be included as a valuation premium. Higher ESG compliance gives better revenue, better margins (already anticipating price changes) and a lower discount rate, as they are less risky than other businesses that aren't ESG compliant.

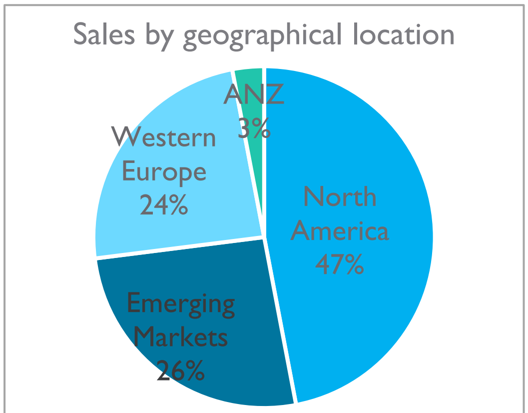
2) Strong R&D division positions Amcor well for growth potential

Due to the Bemis Acquisition AMC has become the Global leader in packaging research and innovation which will result in greater growth potential. The Bemis acquisition has nearly doubled Amcor's R&D capacity ($64.0m in FY19 to $97.3 in FY20). Amcor incurred at least $10m more in their R&D than any of their closest competitors in FY20. We believe that with the additional $33.3m in R&D capacity Amcor has become the global leader in packaging research which will allow them to innovate new cutting-edge products and designs that will separate themselves from their competitors and result in greater growth potential. Additionally should Amcor continue to innovate new products with the aim of reducing their carbon footprint or increasing sustainability as seen with products such as AmLite and Paperly, we believe this will provide an even greater competitive edge as it will look more attractive to potential investors, especially within the newer generations who place a greater importance on environmental impact and sustainability.

3) Steady margin management and defensive end markets

With steady margin management and defensive end markets, Amcor has been reducing the leveraged balance sheet from 83.7% of the capital represented with debt, down to now 59.1% with the target to remain at 60%. In comparison with the market the leveraged beta of 0.61 and the tier I competitors are at 1.12. Amcor boasts a sturdy balance sheet with a proven capital allocation model, the 26% increase in free cash flow to firm allows Amcor to maintain the 4.4% dividend to shareholders with approx. $300-$400 million to be returned into business operations where they receive 4-6% ROIC. The remaining is used for share buybacks and acquisitions which have historically shown a 4-7% return with 4% resulting from the buybacks and 7% from the acquisitions. The defensive nature of end markets has been evident during pandemic times with greater than 95% of the products sold in the market as consumer staples that are predicted to grow with population trends. Amcor is a low volatile, cash flow generative, high yield investment with industry leading financials that boast a wide mote around their end markets.

Amcor is a **global packaging producer and supplier,** with its headquarters based in Zurich, Switzerland. A majority of their business is responsible for packaging for food, beverage, pharmaceutical, medical and other products. The sales generated from these products generate a majority of the company's sales, as they are defensive industries. The purpose of their packaging is to protect products, differentiate brands and improve supply chains and efficiency. Amcor began as a paper packaging company, but in 2000 demerged from this division of the business in order to begin making new acquisitions. Amcor currently employs approximately 50,000 people and operates globally in more than 120 countries. Since Amcor rebranded in 2010, they have focused on committing to sustainability and innovation. Amcor acquired packaging competitor Bemis Company in 2019 to become Amcor plc on the ASX, and a global leader in packaging.



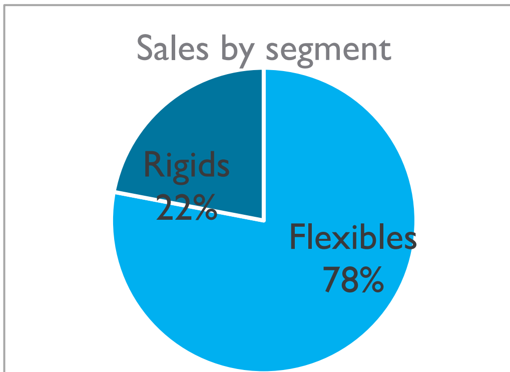
Source: Company Data

Geographic and business segments

Amcor operates through two main segments: **flexible and rigid packaging**. They produce both of these types of packaging throughout North and South America, Europe, Africa and Asia Pacific. Amcor's highest sales are in North America (47%), followed by Emerging Markets (26%), Western Europe (24%) and ANZ (3%).

Flexible packaging

The flexibles segment creates flexible packaging and cartons. Flexibles make up 78% of their global sales in FY19: develops flexible packaging for food, beverage, pharmaceutical, medical and other products. Made up US$10B of sales in FY19. Sales increased in Europe across a range of markets including healthcare, coffee and pet care. Operating costs in healthcare plants increased to meet stronger than expected sales growth. In the Americas, sales increased with strong growth in healthcare. This segment is comprised of four business units: Flexibles Europe, Middle East and Africa, Flexibles Americas, Flexibles Asia Pacific and Specialty cartons.



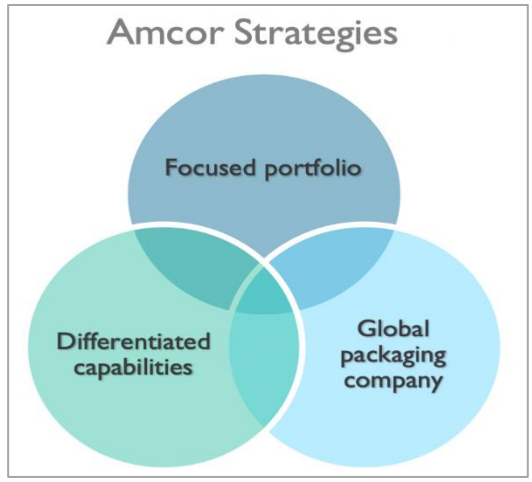
Source: Company Data

Rigid packaging

Amcor's rigid packaging segment is one of the world's largest suppliers of rigid plastic packaging. Rigids made up 22% in FY19: develops rigid containers and closures for food, beverages, home and healthcare products. Made up US$2.9B of sales in FY19. The segment is comprised of four business units: North America Beverages, North America Specialty Containers, Latin America and Bericap Closures.

Amcor End markets

Amcor's buyers include various food, beverage and pharmaceutical clients. Several food and beverage buyers include PepsiCo, Coca-Cola, Kraft Heinz and Wawel. Other customers include tobacco company P.J. Reynolds Tobacco Company, and personal products company Unilever. Sales to PepsiCo accounted for approximately 11.1% of sales in the 2019 financial year. Amcor's long and solid 160-year history, and reliable track record has enabled them to create valued relationships with these influential companies.



Source: Company Data

Market strategy

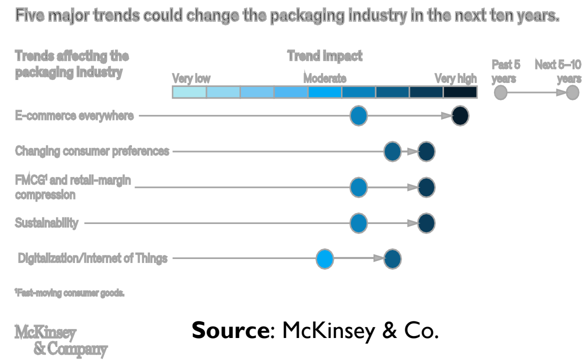
Amcor outlines several company goals and strategies to achieve these from 2019 and beyond, primarily being: having a focused portfolio, differentiated capabilities, and becoming a global packaging company. Amcor's focused portfolio component consists of having a portfolio of businesses that meet criteria such as a good industry structure, attractive growth and competitive advantages. These criteria have ensured that Amcor has a high calibre portfolio, such as PepsiCo and Coca-Cola, that will help them achieve their goals. Some of Amcor's differentiated capabilities include innovation, operational leadership and cash and capital discipline. Lastly, Amcor's goals are possible due to their strong, defensive cash flow. Due to their well-established products and end markets, and predictable market conditions, Amcor are able to create a total shareholder value of 10-15% per annum with low volatility. They do this by paying a 4% dividend yield, reinvesting back into the company and through acquisition/buybacks.

INDUSTRY OVERVIEW

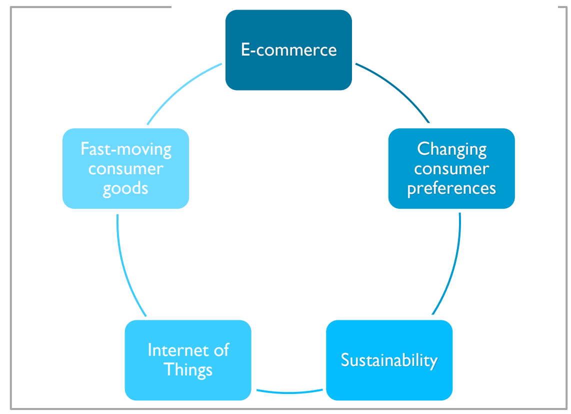
Growth of global packaging industry: According to McKinsey & Co, the packaging industry is likely to see growth in the next decade, however companies will be subject to changes. They stated that the five major trends that could affect the industry are: e-commerce, changing consumer preferences, sustainability, IoT and FMCG. These adjustments will require companies to be highly innovative and agile so that they are able to deal with these changes. Amcor will be well positioned in such a scenario, as they have a significant R&D division since their Bemis acquisition, and are ahead of the curve regarding sustainability.

E-commerce on the rise: E-commerce is predicted to be the biggest trend affecting the industry and could place an intense focus on increased packaging requirements, and new packaging products for delivery innovation. Amcor themselves are also predicting that 20% of consumer goods will be sold via e-commerce in 2025. Amcor is an official participant in the Amazon Packaging Support and Supplier Network (APASS), with their laboratories in the US and Belgium testing packaging products for ecommerce channels. This places Amcor is a beneficial position to adapt to changing ecommerce requirements and demands.

Sustainability outlook: potential opportunities for positive environmental impact: Amcor was the first global packaging company to sign the Global Commitment in January 2018, pledging to develop all packaging to be recyclable or reusable by 2025, significantly increase use of recycled materials and collaborate with others to encourage recycling efforts globally. This will be achieved by constructing a 'roadmap' of environmental strategies such as: a growing range of high-barrier flexible packaging designed to be recyclable and reducing carbon emission of transportation. Amcor were able to make progress on this promise in FY20 with a 41% increase in Post-Consumer Resin used- equating to 1.7 million pounds. Further, they successfully piloted Phase 1 of the MRFF program in the US- to recycle flexible packaging.



Source: McKinsey & Co.



Source: McKinsey & Co.

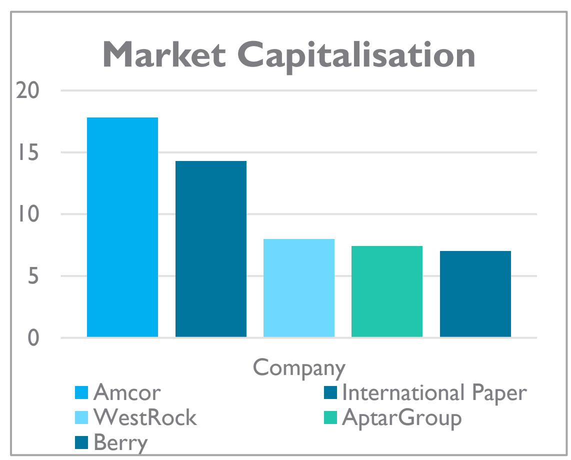
COMPETITIVE POSITIONING

Amcor ahead of competitors: higher market cap & global presence

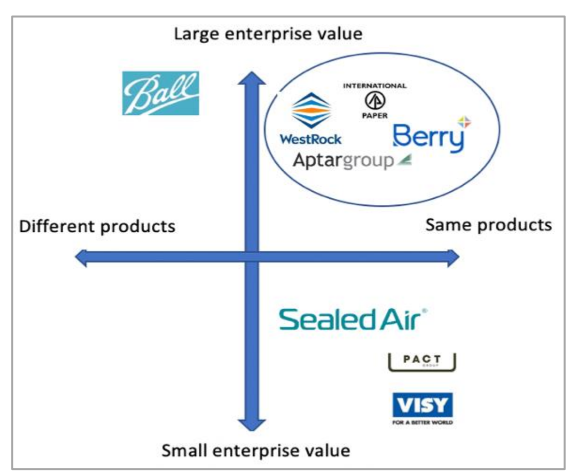
Amcor has a very strong position in the overall packaging industry. Boasting a market capitalization of US$17.8 billion, Amcor dominates over competitors. Based on market capitalisation size, geographic location and products, Amcor's biggest global competitors include: International Paper Company ($14.25b), WestRock ($8.007b), AptarGroup ($7.4b), Sealed Air ($6.4b), Berry Global ($6.9b). These variables were selected on the basis that Amcor strives to be a global leader, so market capitalisation and geographic segments are important factors. However, it can be difficult to determine a precise competitive position amongst their competitors due to the diversity of their products and business. International Paper and WestRock are the closest competitors in terms of market capitalisation, whereas Sealed Air and Berry Global have a more similar product.

Bemis acquisition cements position as global leader

Amcor have secured their position as global leader, primarily since their acquisition of flexible packaging leader Bemis Co Inc. Due to the acquisition of Bemis Co Inc, Amcor became the global leader in consumer packaging. This also enabled Amcor to combine R&D leaders in both businesses to have a wider reach globally. Bemis is the largest supplier of flexible plastic packaging in North and South America. The Bemis acquisition is expected to directly produce US$180 million of cost synergies by the end of financial year 2022, with USD$57 million recognised in the Flexibles segment in FY2020.



Source: Capital IQ



Source: Team Assessment

CORPORATE

Board Experience and Independence

Nine of ten Board of Director (BOD) nominees are independent non-executives, illustrating a strong impartial board. AMCOR is compliant with corporate governance practices by enforcing annual BOD election, holding regular non-executive meetings, BOD stock ownership requirements and extensive qualification requirements for potential board members. Four out of the ten BODs have been with AMCOR for over 5 years, allowing a deep understanding of the company, and the average time with the company is 2 years. The board is subdivided into 4 committees based on their personal experience and expertise. The board as a whole has over 75 years of professional experience.

Executive Experience and Compensation

CEO Ron Delia has held a position with AMCOR for over 15 years, starting with Executive General Manager of Operations Development in 2005, then progressing to other roles. Ron has extensive global manufacturing background working with McKinsey company where he held a senior management role prior to joining AMCOR. Ron is backed by a strong executive team with extensive experience and expertise. Executive compensation and remuneration framework are decided by the compensation committee consisting of 3 independent non-executive board members including the chairman, which allows them to provide objective impartial compensation benefits based on performance measures. The committee has commonly sought external help through compensation consultants to assist in determining appropriate compensation. Carefully selected US and global companies which operate internationally are used to give appropriate benchmarks for determining competitive pay structures which can attract and retain executives who are global leaders with experience. The board has outlined a new compensation package in light of their now greater presence in the US due to the Bemis transaction, allowing them to provide greater performance incentives.

Employee Relations

Independent corporate governance analysis and employee reviews on Indeed and Glassdoor have indicated AMCOR maintains a low employee satisfaction and retention ranking; 3.6/5 from both review platforms. It is important to note that AMCOR holds similar rankings to their close competitors, which is likely due to the nature of work within the packaging industry, particularly on the ground level in the factories (long hours and monotonous work). The reviews also put forward constant management restructuring as a recurring issue particularly at the lower levels. This may raise slight concerns about the effectiveness of low-level management. Our second concern is regarding Amcor's extensive restructuring plans over the past 4 years. Over $407.2 million in expenses was incurred due to these restructuring plans. Understandably, 2019 saw $47.9 million in restructuring costs in the fourth quarter due to the integration of Bemis; however, there have been restructuring plans implemented every year for the last 4 predominantly within the flexible's division. What's concerning is that employee termination costs made up the majority of the expenses. There will likely be a decline over the coming years as the two companies complete their integration.

Disclosure and Regulation

AMCOR follows strict disclosure and regulation principles as per the Corporations Act 2001 and in compliance with the Corporate governance principles and recommendations issued by the ASX corporate governance principles. Furthermore, AMCOR enforces strict insider trading rules which prohibit co-workers or directors from trading in AMCOR securities during defined blackout periods.

SOCIAL

Occupational Work Health and Safety

Considering AMCOR operates predominately out of factories and plants across the globe Occupational Work Health and Safety (OWHS) are of paramount importance. AMCOR has consistently been a top performer in OWHS for multiple years, they maintain stringent safety policies and training procedures to minimise workplace accidents. AMCOR recorded only 2.1 injuries per million hours worked, with 156 total. Annual reporting has indicated a 25% drop in injuries in the workplace in 2019. This statistic (Recordable Case Frequency Rate) has been reducing gradually over the last decade and has levelled off to around 2.0 over the last few years indicating obvious OWHS improvements.

Figure X: Corporate Governance Quality %	
BODs	85%
Executives	83%
Employee Relations	61%
Disclosure & Regulation	92%
Total	**82%**

Source: Team Assessment

Graeme Libelt (Chairman)	- Was managing director of Dulux Australia - finance and Management Expertise
Dr Armin Meyer (Deputy Chairman)	- Was CEO of Ciba Ltd - Ph.D. in engineering
Andrea Bertone (Member)	- Was president of Duke Energy International - Master of laws degree
Karen Guerra (Member)	- Was director of Colgate Palmolive France - Degree in Management
Nicholas Long (Member)	- Was CEO of MillerCoors - Was President of Coca-Cola Great Britain & Ireland
Jeremy Sutcliffe (Member)	- CEO of Sims Metal Management - Qualified lawyer
Arun Nayar (Member)	- CFO of PepsiCo Global - 40 years of finance experience
David T. Szczupak (Member)	- CEO of Dura Automotive - 22 years of leadership experience
Phillip G. Weaver (Member)	- CFO of Cooper Tire & Rubber - Extensive Management experience

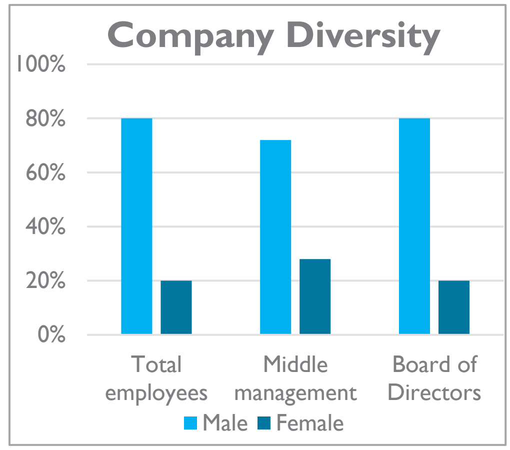
Source: AMC Website

Figure X: Social Governance Quality %	
OWHS	90%
Company Diversity	70%
Total	**80%**

Source: Team Assessment

Company Diversity

Amcor have ambitious goals for company diversity particularly with their employee gender ratios. Of the 35,000 employees only 20% are women, only 28% of middle management are women, and only 20% of the BODs are women. This illustrates that Amcor does have a way to go for proper gender diversity. AMCOR are however, engaging with global initiatives to promote and encourage professional development of women, such as Women Breaking the Mould, as well as targeting specific areas with less female representation. Packaging has traditionally been a male dominated industry, so it is a positive sign that AMCOR is pushing for better female representation. This way they can facilitate an equal and collaborative environment, but also appear more attractive to potential employees.



Source: FY19 Annual Report

ENVIRONMENTAL

Impact

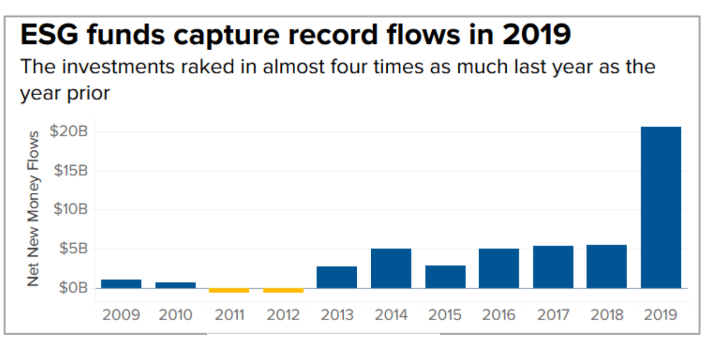
AMCORs internal EnviroAction program was established to help reduce the environmental impacts of their operations. Within their sustainability report AMCOR documented Green House Gas Emissions were down 6% in FY19 from FY17 (with the goal to be down 60% by 2030) and a 10% waste-to-disposal reduction in FY19 from FY17. They also outlined that water management practices were now in place at every AMCOR site. Although AMCOR are undoubtedly making progress, they are still a long way away from being environmentally friendly. The Carbon Disclosure Project (CDP), an international environmental reporting company, gave Amcor a B- in Water security, a C in climate change and a C in forests. There is a particular concern with the trend in these scores as both water security and forests were scored B in 2018 indicating a negative trend. However, water security did rise from C in FY18 to B- in FY19.

Furthermore, The Bemis acquisition nearly doubled Amcor's R&D capacity ($64.0m in FY19 to $97.3 in FY20), which has subsequently made them one of the global leaders of packaging innovation and research. Amcor incurred at least $10m more in their R&D than any of their closest competitors in FY20. This enormous R&D division allows AMCOR to take advantage of new scientific research and discoveries which could reduce the plastic used in their products, reduce the carbon footprint it emits whilst at the same time making it more functional and attractive to consumers. They have already begun taking advantage of their large R&D by creating new patented products such as Paperly™ a thermoformable paper-based packaging and AmLite a high-barrier recyclable packaging, which has a reduced carbon footprint by up to 64% compared to alternatives. AMCOR currently has multiple products moving from R&D to commercialisation which could be a large growth opportunity for the company.

Source: FY19 Sustainability Report

Sustainability

In January 2018 AMCOR pledged to make all packaging recyclable or reusable by 2025, as a part of a global initiative to increase sustainability in larger companies. This has separated them from their competitors as AMCOR was the first packaging company to make this pledge. Other notable highlights include: AMCOR signing with The Global Commitment in collaboration with the Ellen MacArthur Foundation and the UN Environment Programme; the establishment of a sustainability centre of excellence in Europe in 2019 which assisted in AMCOR introducing several new more sustainable products; and finally $50 million USD committed to sustainability projects in 2019 to accelerate progress towards their 2025 goal. This clearly indicates the importance AMCOR places on sustainability which could be a large growth opportunity in the future. Sustainable funds that are based on ESG factors increased by four times from 2018 to 2019 due to increased investor interest and a higher availability. Around 85% of investors are interested in sustainable investing, up from 71% in 2015, with young people being the most likely to choose ESG funds. Amcor's ESG ranking is 91%, which is the highest amongst its competitors of WestRock (62%), International Paper (83%) and Berry Global (52%). The amount of money that is invested into funds composed of companies with good ESG ratings is rapidly increasing, and so will need to become of utmost importance for companies to consider this. ESG metrics are not commonly a part of mandatory financial reporting, however the CFA Institute is developing ESG Disclosure Standards in order for investors to better understand these metrics.



Source: CNBC

FINANCIAL ANALYSIS

Capital Management

Long-term capital allocation model remains unchanged in the face of pandemic environment

Financial highlights were ahead of upgraded guidance given in May with EPS up 13% year on year and a total of 17% shareholder value. This was primarily driven from solid organic growth with the flexibles segment delivering $57 million in synergy benefits from the Bemis acquisition. Another factor for growth is the sustainable 4.4% dividend yield currently. The recent share buy-back delivered a reduction in 3.5% of shares outstanding resulting in 9% of the shareholder value. Michael Casamento, CFO commented *"Overall, we have not seen any material impact on our financial results that we can directly contribute to COVID-19. Amcor's 230 packaging plants have been deemed essential services around the world and continue to operate throughout the pandemic"*. The capital allocation from the defensive cash flow is distributed to shareholders in the form of a historical dividend of approximately 4% (-$750m) and organic growth of EPS of 3-4% across developed and emerging markets. Acquisitions and/or buy-backs with the remaining $300-$400m results in 2-7% of EPS with acquisitions tilting the amount closer to 7%. The $1.2bn free cash flow was 26% higher than last full year, benefitted by the positive capital allocation model. Continuous focus of working capital paid off during the Bemis integration, where $150m in cash was released into working capital due to the cost synergies. Capital expenditures was down $30m, reflecting lower capital requirements – which is typical of large-scale integration projects.

Revenue

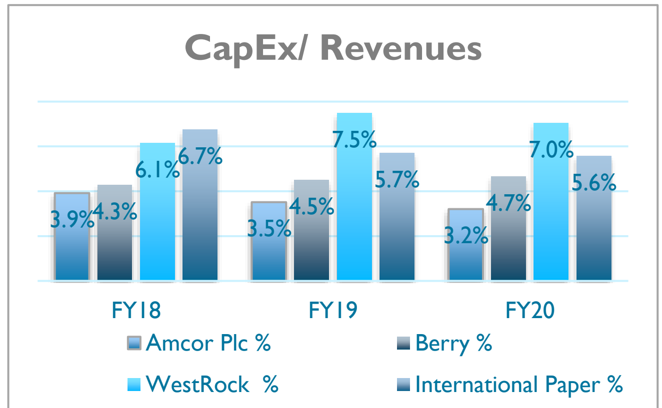
Defensive nature of end-markets was evident for revenue generation

Segmentation breakdown of end market diversification shows that >95% of products are consumer staples such as groceries, beverages and healthcare products. Growth in these end markets can be expected to grow with population trends that are approx. 1-2% in developed markets and 3-4% in emerging markets. While Amcor is present in >25 emerging market countries, the volumes were negatives in China, India and Latin America. This was reversed around in FY20, contributing in large part to the 10% EBIT growth due to initiatives taken to improve operating costs through simplification. Geographic diversification was improved with strong volume growth in North America through the Bemis integration (4.6%, $57 million). Finally, more than half of this growth continues on organic momentum in FY19 to switch into more profitable products such as coffee, healthcare and protein (5.2%). Revenue growth of 31% alongside an increase in profit margin reflects the scalability and global dominance of Amcor.

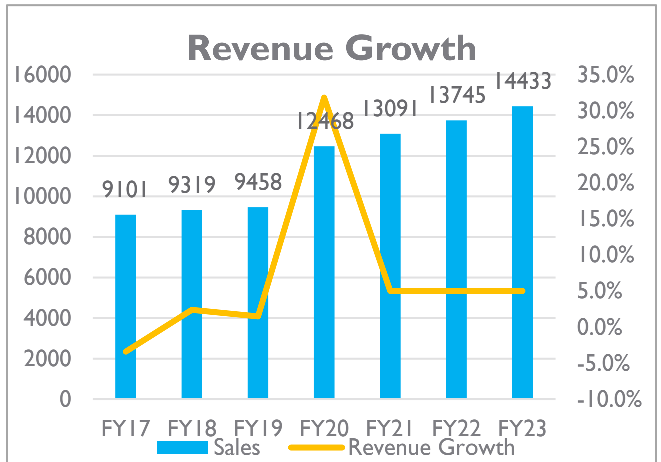
Significant acquisition

Bemis integration is 30% ahead of guidance

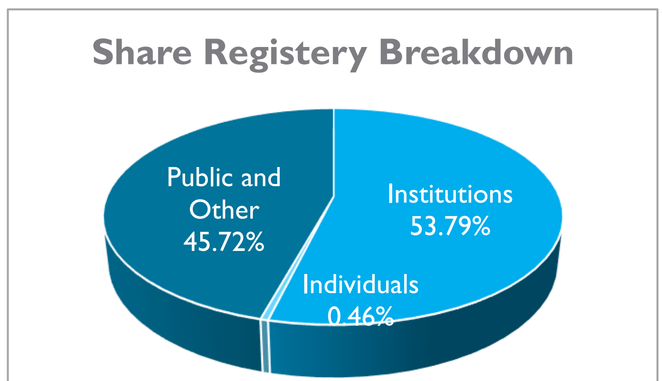
The first-year integration and synergies were well ahead of expectations, with $80m of cost synergies in year 1, 30% ahead of initial guidance. The Bemis business itself produced a strong organic margin expansion of 0.8% of EBIT margins and another 0.6% occurring in the for of synergies. In 2019, the Bemis acquisition contributed to $215m in net sales, and the injection of $150m into working capital assisted in the reduction of interest expense by 11% in total ($185m). The Bemis acquisition played a large part in the organic EBIT growth generated in the flexibles segment of the business. This is likely because 47% of flexibles sales are from North America, where Bemis was an industry leader. The acquisition of Bemis positions the company as a global leader in consumer packaging, with a comprehensive global footprint in flexible packaging. It also gives Amcor greater scale in key regions of North America, Latin America, Asia Pacific and Europe, along with industry-leading research and development capabilities.



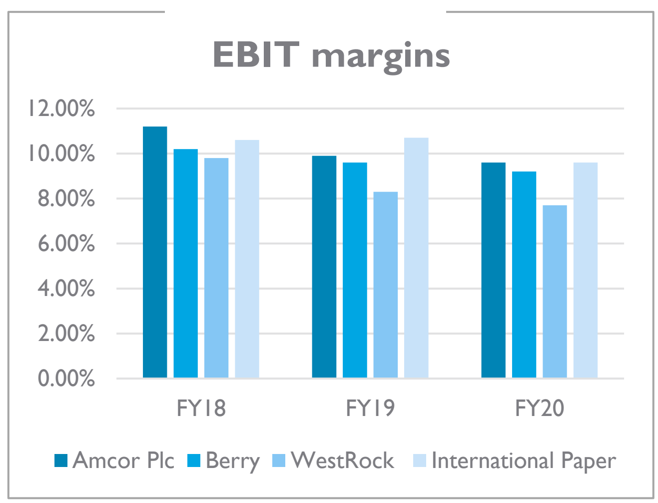
Source: Capital IQ



Source: Company Data, Team Estimates



Source: Company Data



Source: Capital IQ

Steady Margin

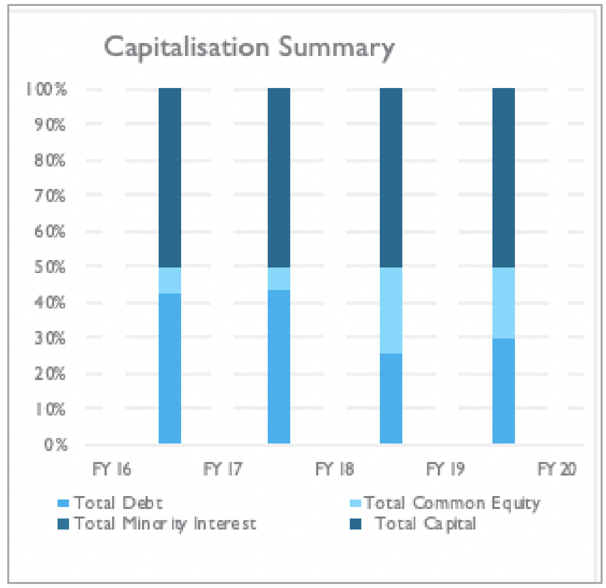
Strong bottom lines from successful structuring programs result in stable margin management

The 2016 Flexibles Restructuring Plan was an initiative to optimize the cost base and drive earnings growth in the flexibles segment. Through a program costing $230m across 2016-2018, the plan was substantially completed by 2019 and successfully aligned capacity with demand and improve the cost base - particularly in Europe. Net sales in Europe grew >2% p.a. from 2017 to 2020 which was far better comparative to other developed markets. The 2018 Rigid Packaging Restructuring Plan was aimed at reducing structural costs and optimizing the footprint of the rigid's segments. Since 2018 the benefits are expected to be $20m-$25m by the end of the 2021 fiscal year (approx. 40% return on the $60m of capital deployed). The rigid segment continues to account for approximately 30% of the net sales and while have a soft bought, the EBIT margins are continuing to be 10.7%. Further, volume expansion into emerging markets, particularly Latin America, China and India should see an increase in volume in the rigids segment. Finally, the Bemis Integration, as shown above, is proving that this new acquisitive chapter in Amcor history is reporting success in large scale restructurings.

Debt Profile

Well positioned to meet short-term obligations and maintain investment grade credit

While the company assumed the $1.4bn in long-term debt from the Bemis Acquisition, Amcor has been significantly deleveraging their balance sheet as a result of excess free cash flow since 2017, and a consistent restructuring strategy to reduce operating activities. The total debt has dropped from 84.1% in 2017 to 51.8%, while the short-term borrowings dropped from $788m to $195m. In the near term, less than 2% of the drawn debt facilities are maturing over the next 12 months. After taking on the obligations from the Bemis acquisition, Amcor maintains its investment grade credit class of BBB with a balance sheet at a leverage ratio of 2.9X, with respect to the industry average of 3.9X. The net cash flows from financing activities were increased by $222.2, or 40.9% for FY19, and further cashflows from financing activities increased by >200% when there were approx. $1bn in losses only 2 years prior. This was primarily due to the repayments of long-term debt by the issuance of more long-term debt at a more favourable rate. With the consistent decrease in lease obligations due to restructuring the rigid and flexible segments, the company has transitioned sharpy from ($997) to $38m, drastically freeing up working capital and free cash flow.



Source: Company Data

VALUATION

We issue a BUY recommendation on Amcor Plc (ASX:AMC) with a target price of US $14.46, representing a 31.7% upside from the closing price of $10.98 on September 5th, 2020. Our target price calculation is based on a mix of the Discounted Cash Flow (DCF) to firm with an implied share price **$15.81** and on a public company comparable analysis based on one sales-based metric and two profitability-based metrics resulting in a implied value of **$12.43**. Weights were attributed with 60% and 40% respectively to each valuation methodology. The slight increase in weighting to the DCF is driven by the decision to include two tiers of competitors (5 competitors in tier I and 5 competitors in tier II). Competitors were ranked with the characteristics relating to products, geography, and market capitalisation with preference in that respective order. The DCF model also is enhanced by the easiness to calculate some terminal implied growth figure due to most products following a reliable population growth trend in both developed and emerging markets.

WACC Calculation	
Target Capital Structure	
Debt-to-Total Capitalization	60.0%
Equity-to-Total Capitalization	40.0%
Cost of Debt	
Cost of Debt	7.0%
Tax Rate	24.0%
After-tax Cost of Debt	**5.3%**
Cost of Equity	
Risk-free Rate	4.0%
Market Risk Premium	10.0%
Levered Beta	0.61
Size Premium	- %
Cost of Equity	**10.1%**
WACC	**7.2%**

Source: Company Data, Team Analysis

Quality margin management and poised for consistent short- and medium-term revenue growth. While 7 out of 10 competitors shrank in sales this FY, Amcor cemented a 31.8% increase in sales largely from organic growth across North America and the Bemis acquisition. We expect a scenario that is above consensus expectations with 5% increases for FY21-23 and 10% increases for FY24-25. Amcor has a significant mote around their key end markets while their competitive advantage continues to roll-out in new geographies now that they provide a unique value proposition of global and sustainable exposure, thus we assume that sales will steadily grow.

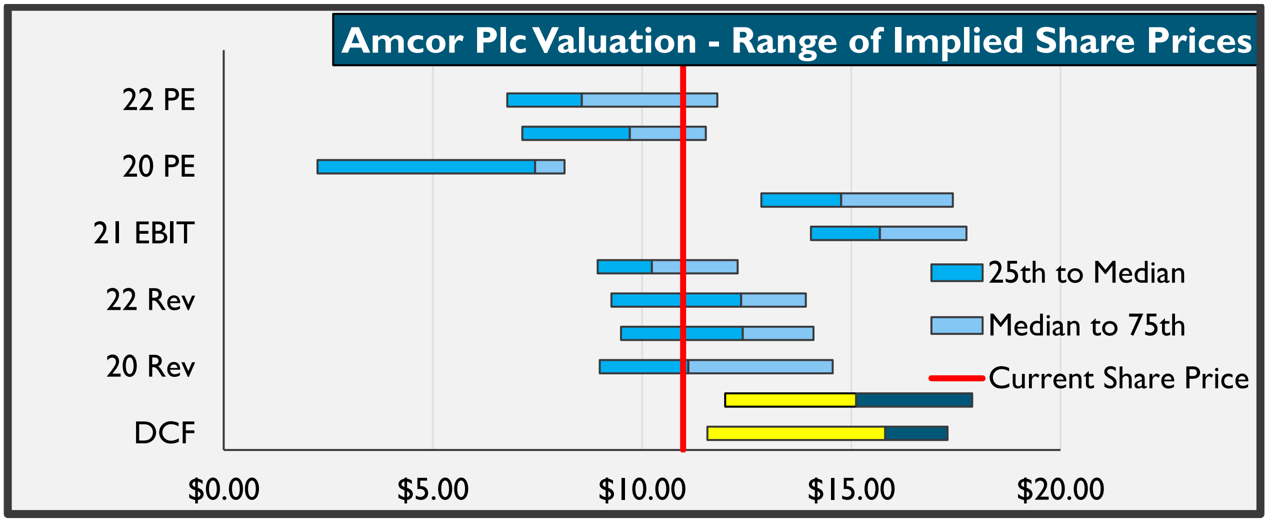
The annual growth margin improvement over the next 5 years is set at 0.3%. With $180m of cost synergies still expected from the Bemis acquisition over the next two years, the margins will continue to improve and the business remains very cash generative under the assumption that SG&A as a percentage of revenue will remain at some average level. Capital expenditure into the business has a trend of remaining flat and tends to produce 4-6% returns to the shareholders without growing as a percentage of revenue.

Conservative balance sheet drivers suggest positive outcome for cash balances and reduction in debt amortisation. There is a target leverage ratio of 60% outlined by management that will be accomplished in 5 years as they meet their maturity needs. Amortization costs were sharply reduced after the Bemis acquisition and with their cost of debt after tax remaining extremely low in the short-term their deleveraging is of exceptionally low cost. With long-term debt to reduce by approximately $300m this makes Amcor the safest balance sheet out of any competitors.

Consistent payout ratio of dividends and capital expenditures as a percentage of revenue will not significantly impact the growing cash balance of Amcor allowing unleveraged cash flow to average at $742.7m across the next 5 years.

Discounting the future unleveraged cash flows shows under these assumptions shows that Amcor is undervalued. With a conservative weighted average cost of capital at 7.2% using a long-term cost of debt of 4% and using the tier I competitors to find the levered and unlevered betas, the risk adjusted beta of Amcor is 0.61. Using the capital asset pricing model of the long-term Australian risk free rate of return and the market risk premium a 10% figure was produced. A sensitivity analysis of the DCF using the WACC and terminal growth weight were analysed to find that in the worst case scenario a DCF would produce almost a 15% discount to the present value of $8.91, however the upside of the sensitivity analysis with a terminal growth rate of 0.6% and a cost of capital of 6% the company will have a premium of over double the present stock price of $23.50. Showing there is still further potential upside to the present WACC and growth rate. This figure shows that the equity value implied from the DCF relies on 60% of the value is acquired from the terminal point, or after 5 years, this is reasonable in a mature industry with steady cash flows with a first class R&D department poised for changes in the industry.

The public comparable analysis shows Amcor is undervalued. In the case of looking at the median across the enterprise value as a percentage of revenue, also EBIT, and the price to earnings ration of the companies over the last 12 months, Amcor is proven to be benefitted by the debt levels in comparison to the competitors. **We chose to look at 3 comparable related to revenue and profitability to broadly compare the capital allocation models of Amcor vs. the peers.** Without adjusting the comparable to overweigh any segment that Amcor is the leader in, the company figures relating to that comparison shows that Amcor benefits from the median of industry, boasted a 13.2% premium to the current share price implying a value of **$12.43.**



Source: Company Data, Team Analysis

INVESTMENT RISKS

Financial Risks

Not being on track to payoff long-term debt obligations by 2026
With 5% organic growth in flexibles and 2% in rigids, Amcor still faces $1.7bn in principle due in 2026. Assuming defensive and steady growth with Amcor even at that level of free cash flow, any significant hit to revenue streams may impact the earnings per share of the company and result in a flat or reduced dividend.

Foreign currency risk: because Amcor operates in many different countries and currencies, they are subject to transactional and translational currency risk, which can negatively impact financial performance. This results from exchange rate fluctuations in the conversion of other currencies to the reporting currency, affecting the report value of income and expenses, which impacts Amcor's cash flows.

Operational risks

Failure to successfully integrate Amcor and Bemis: it is possible that the integration process of both companies could result in a loss of employees, key customers or higher than expected costs. Further, the integration of the companies may detract from important day-to-day business operations and growth.

Failure to attract key staff: majority of Amcor's success comes from being able to identify and attract qualified people in important geographic areas and divisions. If they were to lose or fail to attract employees in any of these areas, it would be difficult to meet objectives, and there is no guarantee they will be able to.

Strategic Risks

Dependency on a small number of blue-chip companies: Amcor currently only has 11 key customers that they provide packaging services to, including PepsiCo, Coca-Cola and Unilever, and Amcor provides 11% of their packaging to PepsiCo alone. Losing one of these key customers would highly impact Amcor's revenues, particularly if they went to a competitor.

Risk of increasing competition: Amcor operates in a diverse market where innovation, particularly sustainable are key to growth. There are many existing competitors that could expand their business into flexible/rigid packaging or offer sustainable forms of packaging that Amcor currently doesn't. This would impact their profits and competitive advantage.

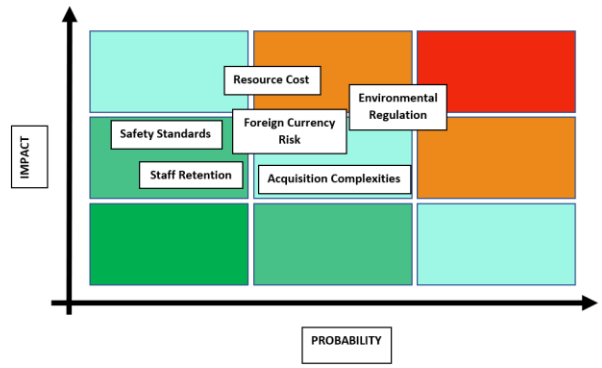
Not enough acquisition opportunities: a majority of Amcor's free cash flow is funnelled into acquisition opportunities and investments in order for the company to expand. If there are not enough good acquisition opportunities available for Amcor, they may start investing in poor/ negative NPV projects. This may restrict Amcor's growth and potential financial benefits.

Failure to fully realise the benefits of Bemis acquisition: while the acquisition of Bemis is anticipated to generate $180 million in cost synergies, Amcor must successfully integrate both businesses in order for these benefits to be realised. If this is not successfully done, these benefits may not be fully realised or may take longer to achieve than anticipated.

Regulatory Risks

Failure to achieve safety standards (due to Bemis acquisition): Amcor remains committed to the goal of no injuries across the globe. While there has been a 10% reduction in injuries since FY19 there was still a sharp increase after the acquisition of Bemis. With this acquisitive chapter in Amcor history there will remain the risk of similar increases in workplace injuries from further integration of businesses.

Risk of new regulation relating to plastic production: while Amcor are leading in commitments to sustainability, there is the potential for an increase in legislation to adversely affect the business. If there were to be tighter restrictions on plastic production and distribution in certain countries, Amcor's products may be banned or limited.



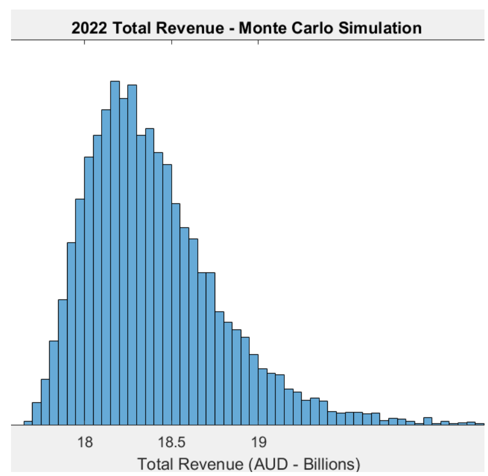
Source: Team Estimates

Quantitative Risk

Due to Amcor's global reach and large scale of operation, market risks stand to significantly impact earnings. We identify foreign currency, interest rate and commodity risks as three key quantitative sources of exposure. In all three areas Amcor actively hedges to reduce this exposure by providing higher levels of growth guarantee.

Monte Carlo Simulation results

In the projected income statement, we varied total yearly revenue around accepted baseline projects of 0.54% for 2021 and 1.21% for 2022. We stress these projections in 10,000 simulation runs to test Amcor's response to environmental regulatory risks, increasing competition and acquisition complexities. Under shifts in revenue we find Amcor's growth rate remains strong, with high probability of revenue levels consistent with our BUY recommendation.



Risk Matrix

While impacted by many highly variable factors such as foreign currency and resource price, through the active use of hedging Amcor limits exposure in these areas as shown in our Risk Matrix of impact vs probability. No risks fall outside of the manageable region.

APPENDIX NETWORK

Financial Performance	Valuation	Miscellaneous
		20. ESG Team Analysis 21. Board of Directors 22. Executives 23. Seek and Glassdoor Review Breakdown 24. Executive Compensation 25. R&D Competitor Comparison 26. Consolidated AMC Restructuring Plans 27. AMC Recordable Case Frequency Rate 28. CDP Rankings

APPENDIX XX: ESG TEAM ANALYSIS

Corporate Governance Quality %	
BODs	85%
Executives	83%
Employee Relations	61%
Disclosure & Regulation	92%
Total	**82%**

Social Governance Quality %	
OWHS	90%
Company Diversity	70%
Total	**80%**

Environmental Governance Quality %	
Impact	65%
R&D Innovation	80%
Sustainability	86%
Total	**75%**

APPENDIX XX: BOARD OF DIRECTORS

Graeme Libelt **(Chairman)** Member of the Audit and Executive committee. Chairman of the Nominating Corporate Governance (NCG) committee.	- 6 years with AMC - Was managing director of Dulux Australia - finance and Management Expertise
Dr Armin Meyer **(Deputy Chairman)** Chairman of the compensation and executive committee.	- 10 years with AMC - Was CEO of Ciba Ltd - Ph.D. in engineering
Andrea Bertone **(Member)** Member of the compensation committee.	- 4 years with AMC - Was president of Duke Energy International - Master of laws degree
Karen Guerra **(Member)** Member of the NCG Committee.	- 10 years with AMC - Was director of Colgate Palmolive France - Degree in management sciences
Nicholas Long **(Member)** Member of Compensation, NCG and Executive committee.	- 3 years with AMC - Was CEO of MillerCoors - Was President of Coca-Cola Great Britain & Ireland
Jeremy Sutcliffe **(Member)** Member of NCG committee.	- 10 years with AMC - CEO of Sims Metal Management - Qualified lawyer
Arun Nayar **(Member)** Chairman of the Audit committee.	- 1 year with AMC - CFO of PepsiCo Global - 40 years of finance experience
David T. Szczupak **(Member)** Member of Audit Committee.	- 8 years with Bemis, 1 with AMC - CEO of Dura Automotive - 22 years of leadership experience
Phillip G. Weaver **(Member)** Member of Compensation committee.	- 15 years with Bemis, 1 with AMC - CFO of Cooper Tire & Rubber - Extensive Management experience

APPENDIX XX: EXECUTIVES

Ron Delia **(CEO)**	- 15 Years with AMC - Previous positions with AMC include CFO, General manager of rigids and Executive Vice President of Operations - Was an Associate Principal at McKinsey & Company - Extension managerial experience
Michael Casamento **(Vice President & CFO)**	- 6 years with AMC - Was previously the Vice President of Corporate finance - 6 years in a managerial role in a Goods and Paper company in Sweden
Mike Cash **(President of Amcor Flexibles Asia Pacific)**	- 1 year with AMC - Experience in product development and operational excellence working at Axalta Coating Systems
Jerzy Czubak **(President, AMC Specialty Cartons)**	- 26 years with AMC - Over 20 years of industry experience in the Packaging Industry
Sheri Edison **(Vice President & General Counsel)**	- 10 years with Bemis and 1 year with AMC - Extensive medical-device manufacturing experience - Expertise in private legal practice & Mergers and Acquisitions
Aluisio Fonseca **(President Flexibles Latin America)**	- 2 years with AMC - Over 20 years of leadership and managerial experience working as Senior Vice President of Tetra Pak
Steve Keogh **(Vice President, HR)**	- 14 years with AMC - Extensive HR Experience working at BHP
Peter Konieczny **(CCO)**	- 10 years with AMC - 6 years of experience in the industry experience as President of Silgan White Cap - Financial expertise
Kirby Losch **(Senior Vice President, Integration Management)**	- 22 years with AMC - Previous roles include Senior Vice president Corporate operations and Senior Vice President, Strategic Development.
Eric roegner **(President Amcor Rigids)**	- 2 years with AMC - 12 years experience in executive roles at Arconic Inc a manufacturing firm for the packaging industry
Michael Schmitt **(Executive Vice President, AMC)**	- 9 years with AMC - 10 years of experience in the pharmaceutical industry
Fred Stephan **(President Flexibles NA)**	- 1 year with AMC - Was the president of Bemis NA - Extensive managerial experience
Tracey Whitehead **(Senior Vice President, Investor Relations)**	- 11 years with AMC - Over 20 years of experience in Investor Relations with BHP
Ian Wilson **(Executive Vice President, Strategic Development)**	- 20 years with AMC - Previous roles include Deputy Chairman and Managing Director, Corporate Finance
Michael Zacka **(President Flexibles Europe, Middle East & Africa)**	- 3 years with AMC - Mr. Zacka has extensive experience in global packaging and fast-moving consumer goods. - Worked for Tetra Paks on their Global Leadership Team

APPENDIX XX: SEEK & GLASSDOOR REVIEW BREAKDOWN

INDEED	**AMC (1.2k Reviews)**	**IPC (2.7k reviews)**	**WRK (2.1k reviews)**	**APT (0.36k Reviews)**	**BERY (1.6k Reviews)**
Work Life Balance	3.4	3.2	3.0	3.7	3.2
Pay & Benefits	3.7	3.8	3.5	3.8	3.5
Job Security & Advancement	3.1	3.4	2.9	3.3	3.1
Management	3.1	3.1	2.8	3.3	3.0
Culture	3.3	3.4	3.0	3.4	3.2
Overall	**3.6**	**3.7**	**3.2**	**3.8**	**3.4**

Glassdoor	**AMC (616 Reviews)**	**IPC (1.4k reviews)**	**WRK (1.1k reviews)**	**APT (183 Reviews)**	**BERY (460 Reviews)**
Recommend to a Friend (%)	66%	76%	59%	68%	61%
Approve of CEO (%)	79%	79%	69%	90%	70%
Overall	**3.6**	**3.7**	**3.2**	**3.6**	**3.2**

APPENDIX XX: EXECUTIVE COMPENSATION

Compensation is predominately split between long and short-term incentives. The larger of the two, LTI, are calculated by analysing performance over a three-year period and rewarding achievement of long-term sustainable business outcomes which provide value creation for shareholders. STI on the other hand seeks to encourage annual business objectives.

	Percentage of Total Compensation (FY19)			
Elements of Compensation (at-target level)	**CEO**		**Other NEOs**	
Fixed Compensation or Base Salary	21	%	34	%
Short-Term Incentive (STI) Cash	17	%	17	%
Short-Term Incentive (STI) (Deferred Equity)	9	%	8	%
Long-Term Incentive (LTI)	53	%	41	%

Name	**STI % (as % of base salary)**	**STI % at target**	**STI payment (USD)[1]**	**Percentage of actual vs target**	**Deferred equity awarded (USD)**	**Deferred equity award (no. share rights)[1]**
Ronald Delia	0% to 120% of base salary	80%	1,558,119	121%	589,222	51,747
Michael Casamento	0% to 100% of base salary	50%	756,988	195%	184,417	16,196
Peter Konieczny	0% to 100% of base salary	50%	211,870	38%	105,935	9,303
Eric Roegner	0% to 100% of base salary	50%	267,152	73%	133,576	11,731
Ian Wilson	0% to 100% of base salary	50%	840,776	195%	203,909	17,908
Michael Schmitt	0% to 100% of base salary	50%	321,261	84%	160,631	14,107

Name and Principal Position[1]	Fiscal Year	Salary ($)	Stock Awards ($)[2]	Option Awards ($)[2]	Non-Equity Incentive Plan Compensation ($)[3]	All Other Compensation ($)[4]	Total ($)
Ronald Delia	2019	$1,602,825	$ 589,222	$—	$ 1,558,119	$ 1,487,391	$5,237,557
Managing Director and Chief Executive Officer	2018	1,548,165	1,455,408	712,239	268,713	2,123,830	6,108,355
	2017	1,496,075	1,364,270	758,529	1,233,368	2,044,027	6,896,269
Michael Casamento	2019	760,266	184,417	—	756,988	830,040	2,531,711
Executive Vice President, Finance, and Chief Financial Officer	2018	753,856	515,993	282,577	170,286	771,141	2,493,853
	2017	701,190	360,789	178,631	415,490	715,556	2,371,656
Peter Konieczny	2019	1,080,055	105,935	—	211,870	343,731	1,741,591
President, Amcor Flexibles Europe, Middle East & Africa	2018	1,058,671	720,893	394,662	200,362	507,671	2,882,259
	2017	938,411	632,441	371,495	973,997	412,245	3,328,589
Eric Roegner[5]	2019	727,507	533,481	—	267,152	86,437	1,614,577
President, Amcor Rigid Packaging							
Ian Wilson	2019	881,669	203,909	—	840,776	113,457	2,039,811
Executive Vice President, Strategy and Development	2018	893,250	496,764	237,900	221,488	152,087	2,001,489
	2017	816,671	423,706	213,740	450,851	146,205	2,051,173
Michael Schmitt	2019	1,067,790	160,631	—	321,261	191,448	1,741,130
Executive Vice President, Amcor	2018	1,036,206	3,244,581	—	130,545	244,402	4,655,734
	2017	996,103	757,542	505,527	666,975	253,234	3,179,381

APPENDIX XX: R&D COMPETITOR COMPARISON (USD Millions)

	FY16	FY17	FY18	FY19	FY20
AMC	73.3	69.1	72.7	64.0	97.3
IP	27.0	20.0	28.0	30.0	29.0
WRK	N/A	N/A	N/A	N/A	N/A
ATR	67.1	66.2	68.2	75.3	82.8

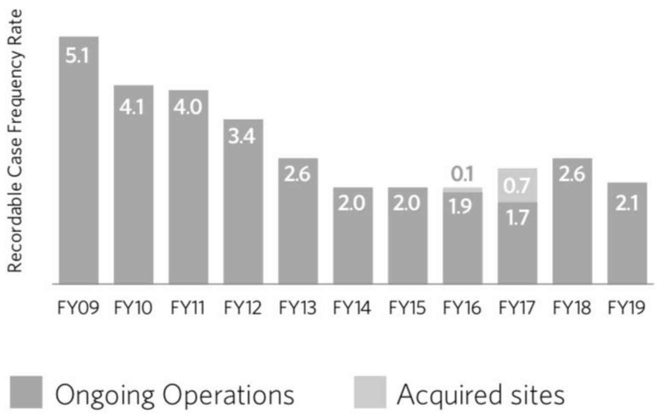
APPENDIX XX: CONSOLIDATED AMCOR RESTRUCTURING PLANS

(in millions)	2016 Flexibles Restructuring Plan	2018 Rigid Packaging Restructuring Plan	2019 Bemis Integration Plan	Other Restructuring Plans (1)	Total Restructuring and Related Expenses
Fiscal year 2016 net charges to earnings	$ 81.0	$ —	$ —	$ 12.0	$ 93.0
Fiscal year 2017 net charges to earnings	135.4	—	—	7.8	143.2
Fiscal year 2018 net charges to earnings	14.4	—	—	25.8	40.2
Fiscal year 2019 net charges to earnings	—	64.1	47.9	18.8	130.8
Expense incurred to date	**$ 230.8**	**$ 64.1**	**$ 47.9**	**$ 64.4**	**$ 407.2**

APPENDIX XX: RECORDABLE CASE FREQUENCY RATE

Recordable Case Frequency Rate

Amcor's RCFR is measured by calculating the number of medical treatment cases and lost time injuries per million hours worked. In FY19, our RCFR was 2.05, corresponding to 156 injuries across our global business.



APPENDIX XX: CDP RANKINGS (FY17 – FY19)

	FY17			FY18			FY19		
	Forests	Climate Change	Water Security	Forests	Climate Change	Water Security	Forests	Climate Change	Water Security
AMC	B	A-	B	B-	B	C	C	C	B-
IPC	B	C	-	C	C	C	B	C	B
WRK	B	C	B-	C	C	-	A-	B	B
ATR	-	B	-	-	C	-	-	B-	-

CITATIONS

https://www.cdp.net/en/responses/674
https://www.cdp.net/en/responses/58295
https://www.cdp.net/en/responses/9352
https://www.cdp.net/en/responses?utf8=%E2%9C%93&queries%5Bname%5D=AptarGroup

Amcor 2019 Annual Report
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Amcor 2019 Sustainability Report
https://assets.ctfassets.net/f7tuyt85vtoa/4K2md0HoOZpOZMLc9KLiF8/3ec5a77678f7238f4a96fd25ab35e54e/Amcor-2019-GRI-Sustainability-Report.pdf

Amcor 2018 Annual Report
https://assets.ctfassets.net/f7tuyt85vtoa/Ry9ogH9cQemqGA800oiGE/cbcc6bef0d76b79be2a227dfc13a7e87/Amcor_Annual_Report_2018.PDF

Amcor Q3 2020 Year to Date Results
https://assets.ctfassets.net/f7tuyt85vtoa/7JkXKeWNFC34IwuI5CyKR6/b3ef5178e87868da1284983b804ff766/Amcor_Q3_2020_-_Call_Transcript_-_final.pdf

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