Verallia H1 2020 Results

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Financial Highlights and Key Initiatives

Michel Giannuzzi

CEO, Verallia

Welcome

Well, thank you very much. And good afternoon, everyone, and welcome to our call for the first half of the year results. I do hope that you and your families are doing well and that you are not too severely hit by the COVID-19 pandemic.

I will share the presentation tonight with Didier Fontaine, Verallia Group CFO. And I am pleased to report strong performance in H1 that shows the resilience of the Group in the context of the COVID-19 pandemic.

H1 2020 Financial Highlights

Revenues, as they are reported, stand at up €1,275 million, which is down 4.1% versus last year, first half of the year. But the organic decline in the first half of this year is only 0.9%. And even if we exclude Argentina, which you know is a hyper inflation country, the organic decline is only 2.7% versus the first half of last year. So quite a strong top line performance in the context of the pandemic.

Our Q2 reported revenue were down 9.6% to €630 million and on an organic basis it is only 5.4% drop in Q2 this year compared to Q2 last year, after a good Q1 as you remember.

When we talk about the profitability and the adjusted EBITDA performance, our adjusted EBITDA was down to €299 million, in line with the revenue decline, and the margin basically dropped 10 basis points at 23.4% for the first half of the year compared to 23.5% last year.

We kept deleveraging the company during this semester, and our net debt leverage ratio is down to 2.5 times adjusted EBITDA for the last 12 months compared to 2.6 times at the end of December last year and 2.9 times a year ago.

We did pay a dividend to 87% of our shareholders in the way of share dividend and the treasury impact for the shareholders that have opted for the cash payments will be only €13 million or has been only €13 million in July.

And last but not least, we have announced during the second quarter, the implementation of a transformation plan in France to adapt our organisation to the market changes and to improve the competitiveness of our operations in France.

Continued management of the current COVID-19 situation

So moving to the next slide, work that we have done during the COVID pandemics. We have kept managing the business continuity plans very tightly with all our factories being operational throughout the semester. No factory was shutdown. We kept serving our customers whose role is essential throughout the food industry supply chain.

Since the end of the lockdown in many countries, we are progressively returning to the office where we still have good share of employees heading from office work. And we have constantly updated our health protocols to make sure that health and safety of our employees is always protected as best as we can. And we are quite pleased to report that so far we have been able to ensure a good level of hygiene and health measures in all our factories and work offices.

Verallia: United and Responsible

The second thing in page five is about the initiative that we have taken throughout the organisation led by our people on the floor in the countries, where since the beginning of the pandemic has been a huge solidarity move from all our employees and not only, as you remember, we have given some personal protection equipments. We bought some hydraulic solutions for the hospitals. We have provided also some medical equipments to some hospitals by buying them. Even in some cases, in some countries, we provided some transportation to the hospital personnel.

On the top of it, we have made also some donations to some NGOs that have been supporting people that were in distress or in difficulties during the period. And you have here three examples that we are quite proud of to report.

The first one is the Maison des femmes. They are all coming from what happened in France recently. The Maison des femmes in France in Saint-Denis, where we are supporting this organisation that is helping women in difficulty and victims of violence. And during the COVID-19 unfortunately there has been a surge of violence at home in some cases.

We have also supported Covidom, which has been a home monitoring platform to help and join the hospitals from the people that were having some symptoms of COVID and they have been able to setup in a record time. This platform with 2,500 volunteers, which has been a great solidarity move from lot of medical professionals.

And last but not least, we are also supporting the Secours Populaire Français, who is helping jobless or homeless people to, not only sometimes find shelter, but also provide food to them. And this has been done in association with the local communities in the areas where our factories are implemented.

So these are our three examples coming from France but we have plenty of examples in all the countries. And altogether, the funds provided by the executive management team and myself was setup with €1.6 million will be completely donated in a couple of days to help those entities. So this has been a stronger solidarity and very impactful move inside the company which we are very pleased to report on behalf of the 10,000 employees of Verallia.

Great success of Verallia's 2020 employee shareholding offer

Now another great success during the second quarter is despite the turmoil linked to the pandemic, we have maintained our decision to offer almost all of our employees shareholder ownership programme that was discussed at the time of the IPO last year. And with two things.

First of all, this is a fifth time we offer such an employee ownership programme to employees, but in the past it was limited to smaller number of countries. So we expanded to eight countries nowadays including some big countries like Italy, that in the past voting provisions could not join. So we have now extended to the maximum number of countries where it makes sense and it is possibly technically to offer employee ownership programme.

The second thing, we boosted the matching contribution from the company up to €3,000 per employee, which is in addition of the 20% discount on the share price, providing an attractive investment for many employees that have been trying to invest in the company.

So as a result of this programme, we got 42% participation rate amongst all eligible employees worldwide which is quite a significant participation rate. In France, this participation rate was 77%, which is even higher but there has been more use or more knowledge about this programme in France than maybe in other countries.

And you can see that in Spain, it was 50%. And in the countries of Italy and Brazil, where it was the first time we had such a programme, we had even up to 30% subscription rate. Now this means that at the end of this employee ownership plan that was done during the quarter, the employees now hold 3.3% of Verallia share capital.

Strong support from our shareholders

Moving to next slide on page seven. You have here another, I think, important information about the dividend payment that took place in the first half of the year, where 87% of our shareholders have opted for share dividend rather than a cash dividend. Our main shareholders, Apollo, Brasil Warrant Administração de Bens e Empresas, Bpifrance Participations and the employee ownership fund, FCPE Verallia had all opted for the share-based payment of the dividend, which means that the capital has increased as of 9th July up to 123,272,819 shares.

And you can see on this donut, the split of the main shareholder base post dividend payment. And this is an estimated split indeed since this could have changed slightly during that period.

Transformation plan in France

So the last information that the last highlight, if not, of the semester is related to France. You will see from Didier's comment that France has been more impacted than other countries due to the pandemic. However, we were already before COVID-19 facing some slight overcapacity in France, and also we had a plan to improve the competitiveness of our operation in France before COVID-19.

Of course, the sharp decrease of the French market has not helped. Just the opposite, it has just reinforced the need to transform our setup and our operation in France. And the decision has been taken not to not rebuild one of the three furnaces of the Cognac plant, which will reach its end of life at the end of this year. And this will basically eliminate some excess capacity we had in our French operations. And of course better load for all the other plants in France.

And the second thing we have announced to this plan is also change in the production organisations in all the plants in France, all the glass-making plants in France, we have seven of them, where we will implement the same process flow organisation that the one we have in all other factories for the world, which has been a key element in the success of our improvement in our operations everywhere in the world and which was a little behind in France.

So this will, I believe, make the French operations more competitive going forward. We, as a responsible company, will favour voluntary departures like early cessation of activity, like early retirements, helping people ready to setup their own businesses for most of them there that would like to do so. And altogether it conserves 150 jobs and positions that should be made redundant at the end of the year.

So these highlights being mentioned, now I will hand over to Didier, who is going to go for the financial results of this semester.

Financial Results

Didier Fontaine

CFO, Verallia

Agenda

Thank you, Michel, and thank you very much to you all for joining this call. I am going to structure my presentation in three parts, as usual, by the way. First, reviewing the revenue numbers at Group level and then by segment. Then move on profitability with the same breakdown. And finally conclude for cash performance for CapEx results and capital structure review.

Limited revenue decline in H1 despite COVID-19 impact

So now let us move to slide 10. So first of all, what we can see that despite the COVID-19, Verallia has shown a lot of resilience, and as a consequence, has been able to deliver revenue which is only slightly declining in H1 ’20 versus H1 ’19 on organic basis.

For H1 ’20, Verallia reached a revenue of €1,275 million to be compared with €1,329 million in the first half of 2019. As Michel highlighted that, this represents a drop in reported sales of 4.1%. Nevertheless, if we exclude the negative forex impact, which by the way has been sizable especially in the second quarter, as we have no scope impact, i.e., on an organic basis, the sales drop is limited to a slightly organic contraction of 0.9%. And if we exclude Argentina, you know the Argentinian state has suffered from the high level of inflation, the organic growth is minus 2.7%.

However, beyond the big picture in the first half, we have seen two different trends between Q1 and Q2. And if you go into more details, the first element I would like to draw your attention upon is the bucket volumes, the red one on the left-hand side. This is highly negative on the bridge at minus €56 million. And that is where the trend between Q1 and Q2 is important.

Within the first quarter, as you remember, from last call, volumes were slightly positive. We were showing a 4% positive organic growth. The picture, as we anticipated, has been different in Q2.

The drop in volumes reached 7.9% in the second quarter, leading to a minus 5.4% organic sales decline with a drop happening essentially in April-May period during which COVID crisis fully materialised, comparatively June was much better.

The second point in addition to the drop experienced in volume, is the mix deteriorating over the first half of the year, mainly driven by the France performance. Actually we see this of two natures. Number one, product mix. And second one, the country mix. The result of that being lower volumes sold in sparkling wine and especially spirits. And this has been associated to a shift by customers, especially in France and Spain towards less premium products, meaning cheaper products.

The green bucket price mix, we increased globally everywhere but at different level. And still been boosted by Argentina, which represent a good portion of this increase boosted by inflation is still a challenge in Argentina, where inflation is significant and we are fighting for price increases, if not an option.

To conclude on that bridge and in line with the recent past semesters, we also have been penalised especially in Q2 by exchange rates variation coming almost as usual from Latin America. The impact was strongly negative, €42.1 million, representing minus 3.2% of sales, primarily due to the usual suspect, Argentina, which is still in hyperinflation mode, but as well more surprisingly from the Brazilian Real, which lost in average between S1 '19 and S1 '20, 25% of its value, whereas it has been mostly stable over the past years.

SWE: revenue decline and most notably in France

Now let us move to page 11 to see more information in that segment. So we will start by SWE, Southern and Western Europe, as you remember, Iberia, Italy and France. Revenue in SWE dropped by 5.2% on a reported and organic basis, reaching €880 million. Actually after quite a nice performance in the first quarter in Iberia and Italy, revenue declined in all countries in the second quarter.

We are highlighting that in the beginning but the most notable drop happened in France, where volumes started to decrease already in the first quarter as registered in our publication end of April. And in this country where the exposure to premium products sparkling wine and spirits is the highest.

Speaking about product, and if we look by product category, the evolution in Q2 is in time to what we say and we saw in the Q1, namely strong dynamism in food jars in SWE but as well in the rest of the Group, while the sparkling and the spirits suffered the most. They are penalised by the shutdown or the very low activity of the hotel, restaurants and cafes sector.

Consequently, and Michel highlighted that in the previous slide, we have launched a transformation plan in France to adapt the organisation to the market changes and to improve its competitiveness.

NEE: good resilience

Now if you move to page 12 for Northern and Eastern Europe, which comparatively performed well, with reported revenue which increased by 3.1% amounting to €283 million. Foreign exchange had only marginal negative impact essentially coming from the Polish zloty and the Russian rouble.

The robust performance has been the – you remember the combination of a good segment mix, which is the jars but as well as non-alcoholic beverage, especially water, which as I said, did globally pretty well at group level, but here have been a driving factor of the continued dynamism of NEE in Q2 and already strong Q1. Mix was good, especially in Germany on beer and sales price increases, especially in Eastern Europe catching up with the weaker first half '19.

Latin America: volume and price contribution offset by unfavourable exchange rates

Now the third segment focusing on Latin America, page 13. Firstly, reported revenue drop by 12.2% especially in Q2 again, strongly penalised by the unfavourable evolution of the local currency. This represent €42 million negative FX impact, again, usual suspect Argentinian peso. But the Brazilian real, which I pointed out earlier, has been uncommon over the past years. I will come back to that later on, on the EBITDA. But going forward, there is no reason to be more optimistic on the vision of those two currencies for next semester.

But if we exclude this negative impact, the sales increased by 20.8%. And if you remove the boost from inflation in Argentina, this is still plus 5%, which is still sizable. This is the result of first, volumes increasing in wine in Argentina and Chile, still wine, offsetting the softening Brazilian market. We have seen that softening in the second part of the month of March, April and May, especially on the beer side. But the country has been showing some positive signs of recovery over the past two months.

As regards to the sales price increases, they continued to contribute positively everywhere in the region, particularly in Argentina, where I said it is not optional if you want to continue business. While the pricing policy is still very active. And I want just to highlight, as I am highlighting that every quarter but I want to highlight the quality of the job that our team is doing over there in an environment that remains highly inflationary and politically complicated.

You know there is a big discussion about the Argentinian debt that is coming up August first in an environment which is at the moment very fluid..

Slight decline in adjusted EBITDA margin to 23.4%

Now that we have covered the top line. Let us move on to review the adjusted EBITDA and we will start by the group on the slide 14.

As introduced by Michel, the adjusted EBITDA decreased by 4.5% in the first half of the year, reaching €299 million. If we exclude the forex conversion impact, it remained flat in value. This good performance is driven by, number one, our ability to contain volume decreases. And on top of that, June was a good month. Second one is still a positive pricing/cost spread confirming the quality of our pillar and which is linked to our dynamic pricing policy.

And finally, our third pillar, which is our capability to pursue our productivity plan and therefore reduce on a permanent basis, on a structural basis, our cost base and by being more efficient. The performance action plan (PAP) led to a net reduction in cash production costs of €19 million in the first half of 2020. Remember our target is a net reduction on a yearly basis of 2%. This represents a 2.3% improvement.

Back to the bridge analysis. If you go to the activity bucket of the bridge, we see this is strongly negative. The €26 million actually negative correspond to, first the weaker sales volume compared to H1 2019 and mainly the drop in volumes sold by 7.9% in Q2. This was partially offset by comparatively a lower destocking over the same period H1 '19 versus H1 '20. This reduced decrease in inventories is mechanically, almost, due to our planned furnaces repair scheduled for 2020 and 2019. This is a different schedule, nothing really linked to the COVID. This is planned well in advance.

The plan is covering more or less the same number of furnaces per year but with a different timing. In H1 '20, it happened in Q1: only one furnace shutdown for repairs was scheduled and happened compared to five furnaces repaired in H1 ’19. The consequence of that is that in H1 ’19, especially in Q2, we sold our products from inventory reduction not via production increase. This is very important because the plan for furnace repair exists and Michel said that many time he said between five to seven furnaces a year.

Then on the contrary in H2 ’20, six furnaces shutdown for repairs will take place compared to none in H2 ’19. It will be the exact reverse effect, it should trigger an inventory reduction in H2 ’20 compared to the same period in 2019. We will cover that later on.

As you can see, exchange rates were significantly negative, but again the vast majority of the impact happened in Q2, so driven by the Real depreciation, as well as the continued devaluation of the peso.

The “other” category includes the COVID-19 direct extra costs for €3.5 million. I will stop by there just to give you what is the way we perceive, we measure the COVID impact for the first half of 2020.

We consider, the way we measure it for the company, it was around €14 million, the cost. €11 million were recorded in adjusted EBITDA. €3 million basically the donation and the extra equipment are recorded as non-recurring. So the €299 million includes €11 million of COVID impact in basically three buckets. Bucket number one in activity. Under activity, you know we have specific rules when the activity of plant goes beyond a certain level, the under activity is not being booked on the product but recorded for P&L. So this is in our bucket activity.

The number two has been over-hedging, because you know our policy to hedge is to hedge the full year in advance almost. So clearly given the low activity we have been fully hedged, so we took it in line with the over hedging. And the number three is what you have there in other, which are the extra direct cost for €3.5 million, which are basically logistics and delayed or increased start up cost on our two brownfields projects which weretargeting to start in April-May and we have not started yet.

So back to the column ”other”, you have so the direct COVID cost plus some positive one-off that happened in ’19 such as insurance refund in Portugal or some claims won with customers, and anticipated maintenance in ’20 to prepare for the shutdown of the second half.

So despite those impacts, the adjusted EBITDA margin decreased only very marginally to 23.4% compared to 23.5% in H1 ’19. On the quarterly basis, the margin was maintained at 23.4% in Q2 ’20 to be compared with 23.5% in Q1 ’20 and 24.5% in Q2 ’19.

Just a word before exiting the corporate slide on the net income. The net income which reached a plus €79 million, which is by the way higher than the same net income last year. I wanted to say two words on it. It is better despite a decrease in operating income as you know, and the restructuring charge. We took a restructuring charge linked to the transformation plan of €19 million booked in Q2 and linked to the transformation plan in France.

But this performance on the net income is coming essentially from the significant improvement in the net financial income following our debt reduction in value and the improvement reached on the interest rate as well.

SWE: decline due to France, despite good resilience in Spain, Portugal and Italy

Now let us move to the slide 15 and reviewing the performance in SWE. In SWE, we reported an adjusted EBITDA of €196 million down 10.9% compared to the same period last year. The decrease is mainly due to France, where as we discussed on the top line, we experienced a sharper drop in sales, the highest level of underactivity booked in the activity bucket, and the strongest product mix evaluation.

I want to repeat this. This is, in particular, the consequence of the decline sales of premium product in sparkling wine and in spirits. I discussed that when I reviewed the top line with you.

On the other hand, Spain, Portugal and Italy show a good resilience with a stable adjusted EBITDA in the first half. In terms of margin, H1 margin went down to 22.2% versus 23.7% in H1 '19. This is again vastly coming from the France results. I will not repeat it again, but I am insisting that is the reason why we are launching transformation programme in France to adapt the organisation again and improve the competitiveness.

NEE: strong adjusted EBITDA value and margin expansion

Now if we move to the slide 16 on NEE performance on the back of good top line, the adjusted EBITDA amounted to €69 million in H1 '20, which compare very favourable to the €60 million in H1 2019, which is a 15.1% increase. In addition to that, in terms of margin, it reached a good very strong 24.3% compared to 21.8% in H1 '19.

The three pillars worked very well in this business unit in H1. Top line, good product mix offsetting softer sales in Q2, strong contribution from the food jars and the soft drinks sector, selling price increase implemented especially to catch up in Eastern Europe, to catch up with a weaker H1 '19 as I mentioned when we reviewed the top line, and an improvement and a catching up in industrial performance, thanks to the continued deployment of the Performance Action Plan (PAP).

Latin America: strong adjusted EBITDA margin improvement

And we keep the best for the end, the performance in Latin America on page 17. The adjusted EBITDA grew by 2.5% on a reported basis, despite a significant currency depreciation. But at constant exchange rates, it significantly increased by 42.3%, supported by the Argentinian top line and following the inflation recovery.

And here as well, the full deployment and the full impact of two pillars, volume growth in Argentina and Chile are described when we commented the sales performance on the region. Positive inflation spread and it's not an option I would say. You need to go and fight to increase your price in a very fluid environment. Thanks to the still very dynamic pricing policy, not only in Argentina but all across the region, each country showing a positive spread. And I say especially in Argentina which remains a very highly inflation environment.

And the third pillar, I think Latin America is doing very well in the continuous rollout of our performance action plan (PAP). And this is leading in each country in strong improvement in the operation in the region. The margin is following the same direction reaching 30.6% from 26.2% in H1 '19 representing a rise of 440 basis points.

As you notice it, the forex conversion impact has been sizable, and I want to say this again that we are not optimistic for the remaining part of the year, given the political and economical uncertainty of the region, especially the unexpected struggle that Brazil is going through at the time.

However, as a conclusion to Latin America, I want to say that we are very pleased with the way of three pillars have been rolled out in the region and by the quality of our fundamentals over there.

We cover the top line. We cover the results. And cash is reality. Let us move on the cash performance.

Tight control of investments

Starting by the CapEx. I would like to repeat it systematically, as an introduction, we have setup a very discipline process for CapEx monitoring and has seen in a period of uncertainties and volatility is more than ever important.

And given the current circumstances, I can tell you that all investments remain more than ever under tight control from both an execution and a cash outflow perspective.

When you look at the graph in H1 ’20, the total booked CapEx amounted to €91.5 million, a number which is slightly lower than the same number on the right-hand side, at €97.4 million, which happened in H1 2019. Numbers are similar in size but they differ actually in their breakdown – nothing new: this is something we already highlighted at the end of the year and in Q1.

We had lower recurring CapEx in H1 ’20. It is linked essentially to the different timing of a furnace renovation. I said five in H1 2019. Only one in H1 ’20. Six in H2 ’20. Please, I would like to remind you the key concept driving our CapEx management, discipline. We are committed to meet our target of recurring CapEx at maximum of 8% of sales.

The second difference on the breakdown is clearly the strategic investment in H1 ’20. They are much higher as planned and they are essentially in relation to the two brownfield investments in Spain and Italy, which originally were supposed to start up in end of Q2. And now they have been delayed given the current situation and they will be starting up depending on market need.

Solid cash flow fundamentals with good WCR management and continued high cash conversion

After CapEx, let us look at the cash flow. The cash flow from operations for the period amounted to €138 million. And there is two ways to look at that. The first way is to see the bottle half empty and saying that is €58 million below last year. And the second one is to see the bottle half full and I think this is a damn good result given the pressure in Q2 on the top line, the EBITDA, the stock management, the customer management and the supply management.

So to go back to the the €58 million decline, first of all, this is explained by the decrease in adjusted EBITDA by almost €14 million. The number two is we expect that, we explained that to you at the beginning, we were expecting, and this is happening, a much higher cash disbursement on CapEx in H1 ’20 compared to H1 ’19, given the profile especially of the spendings on our brownfield. This is €35 million additional cash out there.

And if you look at the bottom, we highlighted line called CapEx working capital. We spent in addition to the booked Capex, €11 million in H1’19 vs. €50 million in H1 ’20. Again, no surprise. We anticipated. We manage it.

Nevertheless, when you look at that, the €58 million, you could be saying, okay, that is half empty. Now when you look at the working capital requirement, we managed pretty well. There have been seven days decline in sales days despite significant reduction in off balance sheet factoring. One of our special focus has been customer collection follow-up, which has been better in value and in percentage of sales compared to H1 2019.

Please note as well that we have given a special attention to our supplier base. Number one, by playing the role of a big corporation, ensuring that payments were done on time. But secondly, by making sure that we were not creating difficulties or our supply chain which was not put in difficulties. Lastly, we delivered a cash conversion level of 69%, which is a very robust number.

Continuous deleveraging capabilities

Now if you move to the slide 21. Michel pointed out we continue to deleverage despite a drop in adjusted EBITDA. We continue to deleverage. We were at 2.9 last year, if we exclude the shareholder loan. We were at 2.6 times at the end of December. And we are at 2.5 times at the end of June. Essentially good cash generation.

Verallia's net debt

Now the last one. Just update on our financial structure, our capital structure. It did not change over the last quarter. The only item that had changed is the commercial paper. If you remember, we were almost at €200 million at year-end. We were at almost at €200 million at the end of Q1. And we are now at €39 million at the end of H1. Actually our programme is doing well but there is very little appetite during the COVID crisis for non-investment grade company.

However, we benefit from term loan A, five-year maturity. RCF 1, by the way, you know, we drew on it to compensate the commercial paper drop and we set up in April a new RCF with a maturity of 12 months plus six months, 18 months. And at the end of the day, the conclusion is that this brings us a very solid liquidity, almost €900 million, shy, €899 million, that's a shame! And liquidity, I repeat, being calculated as the cash in hand. The undrawn revolving credit facility minus the outstanding commercial paper.

Therefore, a good liquidity, but backed by very closed monitoring of the cash element of our businesses.

I would like to thank you all for listening. And I give the floor back to Michel.

Conclusion

Michel Giannuzzi

CEO, Verallia

Conclusion: Resilient H1

Thank you very much, Didier. Let us move maybe to the conclusion and the outlook for 2020. So if you have watched very carefully the presentation from Didier, you can really, I think, take away the fact that this COVID crisis has enabled Verallia to leverage its strength and demonstrate its resilience.

Just to remind you that until Q1 and if you go back to Q1 report and press release, we were enjoying another good quarter with a 4% organic growth in Q1 and another quarter of continuous EBITDA margin improvement by more than 100 basis points.

Unfortunately, like everybody else, we were taken by surprise by this COVID-19 in Q2. But despite this, the performance of H1 is very solid. And as I said, we limited the decrease of revenue to 4.1% on a reported basis but only 0.9% organically. Our adjusted EBITDA margin has been more or less stable just dropping by 10 basis points, 9 basis points to be precise in H1.

And as Didier mentioned, that was very strongly linked to the French market performance and "de-premiumisation", if you want, which is I think only a short-term issue because the long-term mega trend of premiumisation I do not think is at stake here. But in the short-term when people are not going to celebrate parties in hotels or restaurants or cafes that are closed and lockdown at home, they are not having any party at home either, you can understand that spirits and champagne are probably less consumed than in any other year.

Now this will come back. We are very confident about that, but it has hit France quite strongly during the quarter. We have kept generating strong cash flows deleveraging the company. And we have taken very sharp and immediate actions to reorganise our French operation in line with the market conditions, and strengthen the competitiveness of our French operations.

So it has been a very resilience first half of the year. You remember in April, we withdrew our annual guidance for this year in terms of financial guidance. And I mentioned at that time that we thought that Q2 will be the lowest quarter of the year and we should see some progressive recovery going forward in Q3 and Q4. We are still in this mindset and in this mood. And based on the strong performance of H1, we are going to provide the guidance for 2020 outlook.

Of course, this is based on the assumption there would not be another huge wave of lockdown, a second wave of lockdown in H2. That said, these things will keep normalising as they normalised right now with still a little bit of uncertainty.

So it is a difficult exercise to forecast, but as I said, Q2 should be a low point in terms of volume drop. The full year 2020, we believe will materialise with the volume drop of around 5%. We expect to have an adjusted EBITDA for 2020 slightly above the one of 2018 three years ago, that amounted to €543 million. Bearing in mind that we have, as Didier mentioned, a lot more repairs of furnaces, rebuilt of furnaces in H2, that will take place this year in H2 compared to last year where we did not have any. And the fact that we want to keep managing our working capital and especially our inventory very tightly, not building unused and in excess inventory in the second half of the year.

So therefore, we will keep tightening our inventory and controlling our inventory on a proactive way. We will also, in H2, implement our transformation plan in France. We are on track in terms of timing. And we expect to have gone through the process by the end of the year this year.

Just reminding that the restructuring provision has already been taken in H1, so we do not expect any new provision to be needed in H2.

2020 Outlook

So with this for 2020 outlook. If you remember, we also provided at the time of the IPO a mid-term guidance. And I would like to come back to this guidance that we provided now nine months ago.

The first item on the guidance was the organic sales growth, where we were expected at that time a 3% to 5% CAGR growth rate during the period 2020 to 2022. More or less, half of that would come or supposed to come from volume increase in line with the market growth that we have seen in the four years prior to the IPO last year. And half of that would have come from price increase which would have ensured positive spread above the inflation.

Now given the fact that COVID-19 has severely hurt the market consumption this year and given the fact that we are entering in a much more moderate inflation rate in our industry this year and probably next year as well, we clearly believe that this objective of organic sales growth between 3% and 5% is no longer valid.

Now we are not going yet to propose another objective until we see more clearly how the major economies will recover next year and the years after. So in due time, we will probably come back to this objective. But right now this objective of organic growth is no longer valid.

However, the other four objectives that we mentioned and we took at the time of IPO are still very valid in our mind. First of all, achieving at least 25% EBITDA margin by 2022 is still a good target that we confirm. The recurring CapEx on sales ratio at around 8% per annum is also, as you understood from Didier's presentation, very much in control and will be maintained.

We will keep proposing to the annual shareholder assembly to pay a dividend of at least €100 million and probably with a pay-out ratio above 40%. And the leverage of the company, as you have seen, is below 3 times and we believe that it should be in the coming years between 2 times and 3 times of annualised adjusted EBITDA of the company.

So we are maintaining four out of the five mid-term objectives and we will come back in due time when we have more visibility on the market recovery and the macroeconomic situation to confirm maybe top line group objectives.

So this is the end of our presentation. Now we are open to answer your questions. Thank you very much for your attendance.

Questions and Answers

Matthias Pfeifenberger (Deustche Bank): Three questions from my side. So the first is basically, can you give us any colour on June and July run rates for organic revenue growth? And is there actually a risk in the LATAM business that there is a lag because obviously the virus has taken some time to spread there? Is there some risk for the third quarter in light of the very positive development in the second quarter?

Michel Giannuzzi: Okay. Thank you very much, Matthias, for your questions. I will give you some precise number because we have seen that some companies are reporting more precise numbers month-by-month.

As Didier mentioned, the worse month were in Q2 with months of April, which was down 14%. I am talking about the reported revenue all together. 14% versus the prior year April. The month of May was the lowest, the trough at minus 18% versus prior year. And we are positively surprised by some good performance in June with even a 4% increase versus prior year in June.

So as you remember, during Q1 results presentations, we thought that we would end up the quarter Q2 with double digit drop in sales. Actually it is slightly below 10%, thanks to strong June. And July is not completed yet but it will be more or less at par with last year. So quite a nice trend in last two months. However, one month or two months does not make a summer.

And to be very frank with you, when we talk with our customers, we are not clear about whether there is some restocking in the supply chain. So is it just a restocking effect because after the lockdown of hotels, café and restaurant, if you remember that represent 30% of our customers business more or less, there could be some restocking in the supply chain.

Of course, we are helped by the fact that hotels, café and restaurants are reopened and consumers are consuming again. So these are precise numbers about the month-by-month recovery, if I can say so.

So there is still very much unknown about especially in South West Europe, which are big countries for tourism, Iberia, Italy and also France, where this year because, of course, difficulties to travel, we expect a lot less tourists than the years before. And this could have an impact on, of course, domestic consumption in those countries during this summer. So this is why we are a bit cautious on the outlook especially in those regions, in those countries.

Regarding the LATAM lag, it is clear that LATAM is still struggling regarding the pandemic with some partner stop and go in terms of lockdowns depending on the countries and even depending on the cities in the countries. We have not a lot of visibility again in the coming months, but we think that at some point LATAM with some delay maybe will also be able to release some constraints in the lockdown and the business.

So maybe Didier you want to add anything?

Didier Fontaine: Yeah. I think on LATAM performance, we need to be always cautious about the bottom line. Just give you one number on the real, Matthias, to understand. The average present values for S1 and not us, everyone, is at a rate of €1 for R$5.4. Today, clearly we are today at R$6.1, R$6.2. So the forex, the conversion will impact. I mean, at the end of the day, the EBITDA will be hit by the conversion impact much more in the second part of the year than the first part of the year.

And honestly it is a matter of time for Argentina to see the same stuff. The blue dollar is today at 80% above the current dollar in Argentina. So mechanically the forex will take a hit in those regions. That is independent of the top line. But the bottom line, you are going to see some conversion impact in the second half that is going to impact. Maybe I am too negative but I am expecting this to be severe.

Matthias Pfeifenberger: Okay. But my question was more on the organic sales, but fair enough. Maybe some add-ons maybe on the pricing? What has been the like-for-like pricing in the second quarter ex-Argentina? And then related to that, we have seen some news flow selectively on cullet cost increasing. Have you faced some of this in terms of basically collection being shut down in lockdown. Is that an ongoing concern or is that easing already?

Michel Giannuzzi: So regarding pricing, first of all, we do not report our pricing as such in a detailed way. It is actually price and mix together. And as you have seen, we have been hit with a negative mix impact. The pricing was, as Didier mentioned, very dependent on the countries, the dynamics of the countries. But at the end of the semester, at the end of the day what is important is we ended up with the positive spread.

And as you know, we negotiate prices in our business except in Latin America where negotiations are taking place much more regularly than once a year. In Europe, we usually negotiate once a year and negotiations are behind us. So we are pretty confident that what we saw in H1 in terms of pricing, we will confirm for H2.

Regarding your second question on cullet, it is true that in some areas but very limited regional areas. During the lockdown, some companies had difficulties to collect cullet and therefore there could have been in some areas some tension. Frankly speaking, we did not feel this pressure or tension on the cullet market. And as such, right now if there had been maybe some tensions somewhere in some areas, we do not see them anymore. So I mean, as Verallia, we do not see a lot of pressure on the cullet side.

Matthias Pfeifenberger: Can I just come back on the pricing, because at the IPO there was a lot of distrust in your ability to price up in times of weak volumes. And now today you mentioned actually a positive spread. You mentioned positive pricing in Eastern Europe. And you mentioned negative mix because of France. So can we assume that like-for-like was still positive on the pricing side in the second quarter?

Michel Giannuzzi: Yes, absolutely.

Charles-Louis Scotti (Kepler Cheuvreux): I have got two questions to discuss. One, can you quantify the impact on EBITDA in H1 of lower destocking? And destocking is going to be much higher in H2. Can you also give us guidance on what should we expect in terms of EBITDA impact? The second topic, can you clarify a little bit if the COVID-related impact has been booked in the adjusted EBITDA of the company? And can you tell us if you have benefitted and also the amount from state-backed measures regarding your partial unemployment ? And my last question is on raw material tailwinds. As you have focused on small clients that are probably less strict and aggressive on prices. Shall we expect significant raw material tailwinds in H2 and especially in 2021?

Didier Fontaine: Okay Charles-Louis. On the lower destocking, it is just fixed costs absorption versus unabsorption. This is why I won't give the numbers because it would tell you what my fixed costs by plan are. But the impact is more than €10 million one way or the other.

Regarding the COVID impact, as I said, that estimated again by the company and followed by the company, it is €14 million. €3 million of those €14 million is outside the adjusted EBITDA and non-recurring. And I said this donation and specific equipment, PPE, €11 million of that is hitting the EBITDA. As regards to specific measure and short-term employment, very, very limited.

Michel Giannuzzi: We have acted very responsibly as a company, forcing first people to use the bank hours. In some countries we have a system where people with affecting the hours with the bank hour system. So first of all, people were asked to empty their accounts on bank hours. Secondly, we have also pushed people to take holidays as much as possible or at least in France. And only in some factories that had much bigger drops in activity than others where that was not sufficient, we asked for a small partial unemployment and state aid unemployment system. But this was very marginal for the company.

Regarding raw material?

Didier Fontaine: Raw material, I think, on H2, we are benefiting. I mean, first, we have short-term and long-term contracts. Long-term contracts are locked to index short-term contracts. So we are seeing raw material flat for the coming second half of the year. We do not expect a surge in raw material in the second half. More we are trying to push it down going forward.

Charles-Louis Scotti: My mistake. The question was rather on energy cost actually.

Didier Fontaine: In energy, we are very transparent and very structured policy. Energy, we are hedging it. So you know the numbers as I know. You are clearly missing the opportunity of not being hedged. The one which is speculative and not hedging today is benefiting from a very low energy cost. This is the not the purpose of the company and I said several times that you win one and when you lose, you lose big time. And I do not shareholders will invest in a company with a speculative position.

Having said that, you are right, the cost of energy is lower than our hedge cost and it will probably go further down next year and probably we will probably be little bit higher than the market. But honestly, nobody knows what will be the spot next year, because if you look at the price of gas today and the future next year, there is still several euros of difference by TTF.

So you can speculate and remain open and expect the spot not to increase, or you hedge. That is what we are doing. But the average cost of energy next year should be probably lower than this year and on pricing and that is what Michel was saying when he said it is difficult for us to project an organic growth including sales price increases higher, because we expect on price, because we are covering cost. We do not expect price increase to be as high to cover energy, which is flat or going down.

And I would like to add one thing on the inventory destocking, because destocking is related to the shutdown of the furnaces but we are doing that as well very proactively, because we want to have that company slim with the right inventories and the right quality of services. It is good for the liquidity. It is good for the balance sheet.

And when you are having the right inventory and the market resume, your fall-through is much higher.

Charles-Louis Scotti: Just one follow-up question. It could be my last question. But considering the strong EBIT in H1, the €545 million EBITDA guidance for the year seems little bit confirmative I would say. Have you taken voluntarily cautious volume assumption for the rest of the year or does it just reflect the upcoming FX headwind?

Michel Giannuzzi: No, Charles-Louis. I think it is the best guess we have today on volume. So volume, there is no cautiousness here. I think around 5% drop in volume is neither bullish or bearish expectation. It is what we see going forward, although I repeat there is a lot of uncertainty and our customers are not helping us a lot in forecasting to be frank with you.

Now so the top line is very difficult to forecast. But on the EBITDA side, first of all, I remind you that we say slightly above €543 million. So this is basically like a floor. And this includes two big unknown for H2 – not unknown but one which we know and the other one which we do not know.

The one we know is the destocking that Didier mentioned several times, that is huge for H2 compared to what happened last year. So we are talking about variance in terms of inventory variation. And as you understood, since we are going to stop six furnaces in H2 this year, there will be a lot of destocking.

The second thing is the exchange rate that this one is completely unknown and this is only translation impact. It is not transaction impact. Therefore, it is not hedged. And therefore, the only thing we know and Didier was very clear about it is that it can only be worse than what we have seen in terms of impact in H1. So we expect much bigger hit on the exchange rate side than the €30 million hit we took on the EBITDA in H1.

And I remind you also that we also have a stronger H1 and H2 in terms of both sales and EBITDA. This is more the seasonality of the business.

Lars Kjellberg (Credit Suisse): I just wanted to continue a bit on the guidance side. Maybe I missed this but I do think you called out almost an 8% drop in volumes sold in the second quarter. What was it in the first half? And the question really that I am trying to get an understanding with now on is when you talk about 5% down for the full year, it seems as kind of the math works out, you are not expecting any volume recovery in H2 versus what you experienced in H1 even with the COVID significant impact in Q2. And also on the previous questions about just the delta significant in destocking versus stock building you did last year. But also can you call out what is your view on the actual costs bringing down the furnaces and bringing them up again. I mean, six furnaces in the second half versus zero in itself I guess leads to significant higher costs just related to the furnace rebuild stop and start.

Michel Giannuzzi: Well, regarding the numbers you quoted. The Q2 sales drop by 9.6% or 9.7%. So you got the numbers right. There is no difference in this one. And now the recovery we see in Q3 and Q4 is compared to Q2, which is close to 10% or down, where if you made the average basically you are expecting something like more around 5% drop in H2. Still I repeat, quite a lot of unknown about Q3 in Southern Western Europe because of the tourism impact. And Q4 is traditionally always a small quarter. But this is the seasonality of the business.

So we expect sequentially a progressive recovery but not the business or the economic bouncing back to the same level as the one we had last year. So this is our assumption for the second half of the year.

Lars Kjellberg: I was going to say the same goes for mix I suppose. So you still have in the first mix.

Michel Giannuzzi: Absolutely, yeah. There have seen lot of articles in France about that recently, about the champagne region being very strongly hit by the fact that people are not again partying and consuming champagne as they used to. And there will be a strong hit this year and probably also next year on the champagne side, probably of course less than Q2 but still significant.

Regarding your second question about the furnace, let us maybe explain in more detail what does it mean. After 12 or 13 years of production life, the furnace is worn off. And it has to be stopped to either don't replace it, this is what we will do in one of the furnaces in Cognac. Or to be rebuilt, so basically you knock it down and you completely rebuild this to a brand-new furnace.

So this is something that if you look at our track record, we repaired and rebuilt five or six furnaces a year, every year. This is very steady. This is an ongoing repair.

Now in the past until last year, because were sold out and we were short of capacity, the goal was try to repair, reconstruct the furnaces in the shortest period of time as possible. And during that time, the maintenance people are working because they do other maintenance activities on the site. They do some very big maintenance activities. Everything is being planned of course in advance. And some production people are taking off vacation or put on the banked hours systems and so on.

So this is the way we are doing. What is going to change this year compared to what we used to do in the prior years, is we are going to extend the shutdown of the sites. It is rather than trying to speed up the furnace we repair in the shortest possible time. We are going to take more time in order to adjust for the lower level of demand in the market. So we are adjusting it lower to the capacity that we have to the level of demand in the market.

So this will have, of course, some costs because we are not going to absorb those fixed costs of the people that are basically not producing in some cases or because we do not absorb the volume that we used to absorb in terms of fixed costs absorption.

Lars Kjellberg: Sure.

Michel Giannuzzi: But this is something that we clearly mentioned that this is our way and the most efficient way by the way to adjust the capacity. Of course, we have already taken the decision not to start the two brownfield furnaces in Villa Poma, Italy, and Azuqueca, Spain, until we see the demand of the market back to higher level. But beyond all of this first major decision we took in Q2, the best way for us to adjust down for capacity is to extend the stoppage period of the furnace rebuild.

Lars Kjellberg: Got it. Just one final question for me. The flow based organisation that you are talking about, you are now putting in place in France. Appreciate 150 jobs would be lost in the process. Aside from that setting itself, what sort of benefits does this give you and if you can put that in some sort of monetary terms, what you are now doing in France for the group?

Michel Giannuzzi: Well, first of all, the 150 jobs position that will be eliminated, 80 of them are related to the non-rebuild of the furnace in Cognac. So 80 of them is basically bring to the downsizing of the capacity in Cognac. The remaining 70 are spread over the other six plants, okay? So you see 70 divided by six, you are talking about 10 to 15 jobs per plant are basically optimisation of the work organisation.

And the main concept basically is to having a flow organisation where you have under the same responsibility the people looking for production and quality from the furnace down to the warehouse, where today France is still organised by process, which means that you have organisation for the furnace, , another organisation for the hot-end workshop and an organisation for the cold-end workshop.

And this is, of course, not the best in terms of responsibilisation and empowerment of our people. And we have changed this organisation already more than two years ago in the other factories. And we have seen of course much more responsive organisation, much more empowered organisation and that has led of course to improvements in quality, in adding a better quality because people react faster and they feel more responsible throughout the whole production process about the quality. And of course in terms of the yield improvement and in terms of machine efficiency and production efficiency.

So we are not going to give you precise numbers beyond the job that are going to be eliminated which is through productivity. But there is beyond just the cost aspect that you can calculate. There is a clear side benefit in operating your plant at a much better quality level and at a much better overall efficiency level.

Francisco Ruiz (Exane): I have two questions. The first one is, again, I am sorry to insist, on the EBITDA guidance for the full year. So assuming this €543 million, or slightly above €543 million, does imply a drop in margin, if I have a correct level of sales, of more than 300 basis points in H2, and compared to last year, almost 150 basis points. Are my calculation correct or probably I am doing something wrong here?

Didier Fontaine: No, actually it is a drop versus H1 of around 200 basis points.

Francisco Ruiz: Okay. Good. The second question is working capital and factoring. So if you could give us the data on factoring on this semester and how do you expect the working capital to evolve with the furnaces, stock etc.in H2?

Didier Fontaine: Non-recourse factoring dropped by 8% in H1 in flows, essentially because where it dropped mainly is where the countries dropped in activities, essentially France. So going forward, it should resume with increased level of activity. However, and let us keep in mind that in front of us, we still have customers that are weak, a wall of liquidity with PGE, with social charges. So we need to be very careful. And the insurance credits that are covering the non-recourse factoring programme are pretty cold feet today. And they are not increasing their exposure. They are more reducing than increasing.

So basically we do not expect to catch up on the non-recourse factoring. I think we are going to still be below last year in value and in percentage of coverage again.

Now on the working capital, if you exclude that, and I said that is very important for us, we did much better working capital in our first half than last year. And in second half, with the destocking mechanically because a lot of the furnace repair will happen in Q3, will have a full cash impact in the fourth quarter. So we do expect working capital to be an improvement compared to last year. And we are still foreseeing free cash flow to liquidity which is above three digits.

Michel Giannuzzi: Which means that we will keep deleveraging and reducing the debt of the company in H2.

Francisco Ruiz: And just a follow-up on the French plant. Could you give us an idea of the payback of the €19 million?

Michel Giannuzzi: I would start on this question for obvious reasons. We are in the process of discussing with the union representatives as we speak. And until those negotiations are completed, if you allow me, Francisco, I will not answer your question.

Francisco Ruiz: But the €19 million is the cost of the full plant?

Michel Giannuzzi: No. There are many costs associated. No, just it is not just the labour-related cost. There are also some reorganisation cost of the site. So it is a package. But for obvious reasons I just mentioned, I am not able to comment more details right now as the negotiations are still ongoing. Sorry about that.

Francisco Ruiz: Okay. No. Thank you very much.

James Rose (Barclays): Just after a comment on the situation in France really, why you have taken the decision to close there versus in other furnaces you have just taken the decision to take longer to rebuild them? And I guess related to that, could you comment on the sort of broader supply demand balance you are seeing in France and elsewhere in Europe, where there is volume pressures? And what the actions of your competitors are also?

Michel Giannuzzi: Well, I mean, I will repeat there one more time. I mean, in France this is the market that was already bring the list if you want to compare to the other countries. We were already close to having excess capacity. And these COVID impact has clearly highlighted the fact that we will have a lot of excess capacity. And we have two furnaces out of the three in Cognac that were up for repair. One would be repaired in Q3 this year. It is one of those six furnaces that Didier mentioned that will go for repair. But the second one which was planned to be repaired beginning of next year will not be repaired.

And again because this furnace was dedicated to the one segment, I would say, the standard wine bottles, that are clearly not performing as well as probably the other segments of the market. So this is the reason why this was the one furnace that was chosen. It was not a coincidence. It was the right furnace at the right time to be chosen for unfortunately restructuring.

I am not sure I understood your second question, James. Can you repeat it please because on our side the connection was not great.

James Rose: Just relating to what reactions are you seeing from competitors? Are competitors taking capacity out as well? And what is their response on pricing in end markets?

Michel Giannuzzi: Well, I mean, at least the listed competitors have already reported. Two of them have already reported their numbers. So you can ask them directly the question. What we see right now is that in the marketplace, everyone that seems to be adjusting the capacity to the new level of demand.

And I repeat, given the fact that the prices have been negotiated most of them before COVID, there is no big changes in pricing in the marketplace right now. So on the capacity side, everyone is either doing like we do, extending furnace stoppages for repair or not rebuilding or extending capacity as probably we could have done or they were thinking of doing last year when the market was sold out. And on the pricing side, since prices have been negotiated before COVID, it has been quite stable.

Okay. So I would like to thank you very much for attending this call tonight and for following the performance of Verallia. I wish you all good evening and especially for you and your families very good and strong health. Thank you very much. And I look forward to seeing you again soon. Have a good night. Bye-bye.

[END OF TRANSCRIPT]