Verallia Full Year 2019 Results

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Financial Highlights and Key Initiatives

Michel Giannuzzi

CEO, Verallia

Okay. So let us get started. Good morning, everyone, and thank you very much for attending this 2019 financial results of Verallia. This presentation will be recorded and will be audiocasted, if some people want to hear them later.

I will share this presentation with Didier Fontaine, the Group CFO. And I am Michel Giannuzzi, the Group CEO and Chairman of the Board. We will start with some key financial highlights and key initiatives during the last quarter of the year, then we will move to the financial sections with the results presented by Didier and I will make a conclusion and outlook on 2020 financial outlook.

Just as a reminder, first of all, Verallia, as you all know, is the leading glass packaging company in Europe, and Europe represents about 90% of our sales. In Europe, our organisation is divided in two segments: South and West Europe, which is made of France, Spain, Portugal and Italy; and then we have North and East Europe, which is made of Germany, Poland, Ukraine and Russia.

And then we are number two in Latin America, which makes about 10% of our sales. And Latin America is made of four countries: Brazil, Chile and Argentina. And then we are the third largest player in the glass packaging industry. The doughnut about the end markets that we serve has not evolved significantly since the IPO time, you see that we are still strongly exposed to the wine segments with wine and spirits altogether representing 58% of our sales. We are also presenting the food packaging and then beer and soft drinks make the rest of the sales.

We have 32 glass-making factories, 57 furnaces, eight cullet treatment centres in the Group. And we employ around 10,000 employees in 11 different countries. So this is just a recap or a reminder of Verallia Group profile.

If we move now to the financial results and the key figures for 2019. The sales were at €2.586 billion, which is a 9.1% organic growth. You know that Argentina is in hyperinflation and even if we exclude Argentina that is boosting growth, the organic growth of the Group excluding Argentina is still 7.2%, which is a fair growth, we believe.

The adjusted EBITDA at the end of last year was €615 million, which is a 23.8% margin, up 130 basis points compared to the prior year 2018. The net income has reached €125 million. And again, this is more than double of the year before. We were at €48 million of net income in 2018, despite some one-off costs related to the IPO, that Didier will cover.

We have a very strong cash conversion. I will remind you the cash conversion is EBITDA minus capex divided by EBITDA, at 59%, which is exactly the same as the year before, despite the two strategic investments or at least the three strategic investments that we had last year, Jacutinga, a new project in Brazil, and the start of the two new furnaces in Europe, in Italy and Spain.

The leverage at the end of the year, thanks to this very strong cash flow generation, was at 2.6 times EBITDA compared to 3.1 times EBITDA the year before. So strong deleveraging during the year, as anticipated. And as communicated at the IPO time, we will propose to the shareholders general assembly to pay a dividend of €0.85 per share, which in total makes €100 million of net cash out for dividend payments. All these financial results are fully in line with revised guidance that we provided after the Q3 results in November.

And as you see on the bottom of this page, I'll give you more colour on the outlook for 2020. But despite some headwinds that we had since the IPO, we are still confident about the 2020 outlook.

So moving to also the change of governance linked to the IPO. This is a refresher of the fact that, first of all, just two months after the IPO, we joined the SBF 120 Index. We are very proud of that. It was very fast and beyond our expectation, I want to say, and this is, of course, enhancing the visibility of the company for the financial investors.

The Board of Directors has changed at IPO times. You see now that Apollo has three seats, even though they still own 55.3% of the shares of the company, they have reduced their number of Board seats to three members now with, of course, a strong rise of the number of independent Board members. We now have five independent Board members that have joined just after the IPO, at IPO time. BPI is still represented with one Board seat. And very recently, actually, this week, we have appointed the two employee representatives at the Board, one, Dieter Muller, has been designated by the European Works Council, is German. And the other one, Sylvain Artigau, has been designated by the French organisations.

You see that the three audit committees are all chaired by the way by ladies that are independent ladies. And we fully respect the Afep-Medef Code by having a majority of independent Board members, especially at the Audit Committee and the Nomination and Remuneration Committees. And we have launched, at IPO times, a Sustainable Development Committee, just to highlight how important is sustainability in our company and it is taken at the highest level of governance in the company.

Another interesting thing which happened post IPO is the change of the shareholders' structure that was controlling the company at the time of the IPO between Apollo and BPI. They were, as you remember, in the same holding company. Post IPO, we decided to split and now Bpifrance owns the shares of Verallia directly, no longer through the holding company. And Apollo is the same, owns the share of Verallia directly through Horizon Investment Holdings Company that has all the shares of Verallia.

And you see that the public float is today 21% of the company with still the strong presence of our Brazilian investor, BWSA, that also joined the Board with one Board seat.

In the last quarter, we had the opportunity to inaugurate the reconstructed furnace in Burgos, in Spain. That was a major investment. Not only we rebuilt this furnace, but we also expanded the size of the furnace. This is part of the marginal capex that are recurring capex, but are enabling us to increase our capacity. And this is one of the largest furnace in Europe actually. The capacity increase was up by 7% from 560 million bottles per year to 600 million bottles per year. This plant is very well-located in the La Mancha region, which is a main Spanish wine producing region. And also, we will continue to invest in this site with an additional €10 million of investment this year to renovate the second furnace on the site.

Last year, as part of our commitment to sustainable development and to the circular economy, as you know, we are investing regularly in improving the cullet treatment facility. The cullet is the used glass that we collect post-consumer use. We have with a partner set up a joint venture near Madrid, which is Calcín Ibérico, where we have 49%, our partner has 51%. And this plant is a brand-new plant, state-of-the-art, to treat cullet and of course this cullet would be then sent to our Azuqueca factory or Burgos factory in Spain, in order to be able to recycle the glass that we collect on the market.

Altogether, just for you to know, we have invested in the last two years about €12.5 million capex in cullet facilities, not just this one, but also upgrading and expanding the capacity of our cullet plants in France and Italy.

This being said, now I will hand over the microphone to Didier, who will go through the financial results.

Financial Results

Didier Fontaine

CFO, Verallia

Thank you, Michel, and good morning to everyone. My presentation will be divided in three parts. First, revenue, consolidated by business segment. Then profitability. And as cash is king, as said the bankers, we can look at the cash performance.

Again, just to repeat what Michel said, very strong reported revenue, 7% increase, once again hit a little bit by forex. We have been hit by forex especially in Latin America, and in Argentina especially, offset partly by Eastern Europe, where the hryvnia and the rouble have appreciated. But overall, if you remove the forex and a little bit of perimeter impact, for those who are not aware, we sold or disposed of our facility in Algeria in 2018, so it is a minor change, but if you exclude that, 9.1% organic growth. And if we exclude Argentina, because inflation in Argentina was 54% last year, it is still a very, very robust 7.2% organic, excluding Argentina, organic growth.

Now this is, again, split on our three pillars. You are going to see those three pillars in the profitability slides. Number one is activity: rooms are growing. Second one is a blend of price increases, again mainly to offset cost base increase in energy and raw material. And the third point is value-added pricing, especially on the mix and especially hitting our SWE business segment. So at the end of the day, I do not think you have a lot of industrial profile with this kind of organic growth.

Now if we split by business segment, let us start by SWE. What we should say, this comprises Portugal, Spain, France and Italy, 6.5% reported. And by the way, when we are talking about 7.2% or 9% organic at group level, there is not a single business segment which is below 6.5%. So 6.5% in SWE all across the board. There is not one country which is worse than the other or less good than the other at that stage. This is addressing all product segments.

If you want to get details in term of premium in France, a very strong year on still wine and champagne. Italy, all the businesses, all the products have been positively impacted and Spain is more around beers, spirits and jars. And again, volume, price, value-added pricing. This is all across the board for the three segments.

Now when you look at NEE. NEE, very strong 9%. If you remove the appreciation of the hryvnia and the rouble, it is still a very strong 7.6%. Here, two different profiles. First, the market in Germany is very strong and we captured that. We are very strong in beer and wine. And the good news is, again, in Russia, where we stand – because Russia is a big country – where we stand, the market is booming and we have improved significantly operations so that we can capture this growth. And the same split still, volume, value-add pricing and price increases, the same three pillars we have to support the top line.

Latin America. Latin America is always – carnival is next week in Brazil, but it is carnival all year long. Reported revenue, 7.5%. I said 54% inflation in Argentina. Devaluation, if you remember, last year, we closed December 2018 with the peso at 43, we closed December 2019 with the peso at 67. So if you remove that forex, which is around a €54 million hit on the top line, you reach a 29.4% increase.

If you remove Argentina, because Argentina is a bit outside the boundaries, you still have for the rest of LATAM, an increase of 12.4%, which is still very significant. We are benefiting from what? We are benefiting from a very good position in Argentina because despite the difficulties that the country is facing, the operations are doing very well from a business perspective, from a commercial perspective, from an operational perspective.

Brazil is very strong because the market is pulling a lot. And you know, we have launched our new plant in H1 in Jacutinga in Minas Gerais, on-time, on-cost and the ramp-up was even more efficient than expected. So we have a lot of good news in those countries and especially, you are going to see when you look at the profit, we have been able in Argentina to pass more in prices than the inflation.

Now we covered the revenue, let’s move now to the adjusted EBITDA. As Michel said, we delivered internally exactly where we wanted to deliver, the operations have delivered exactly what we wanted them to deliver. So first of all, you have the reported growth in EBITDA of 13.2%. And again, I am insisting on the three pillars that have been discussed during the IPO that have been delivering.

Number one is operating leverage volume, there. Number two is positive spread, there. Number three is productivity, there. And this is, we started in 2018, we confirmed in 2019, this is what you are going to see in the future.

So when you look at the percentage, if you remove as well the exchange rate, again, massively from LATAM, the growth is 16%. And the margin, so we are moving from €543 million to €615 million, and the margin is moving from 22.5% to 23.8%. Just a number. At the end of 2016, we were at 20.4%.

Again, when you look at the three pillars, activity, the number is only €2 million. Why? Simply, because in term of sales, we increased a lot. However, the market flow is booming, we have to destock massively to address the market. If you remember what happened last year at the end of 2018, we anticipated a little bit that the market was going to pull very strongly in 2019. We increased inventories. Inventories in 2018 increased by 7%. So we ended the year with a lot of inventories. Nevertheless, not enough to address the growth of the market. And we have to destock 5% in 2019. So all across the Board, between 2018 and 2019, 12% reduction in inventories. And in our business, which is heavy in fixed costs, this is a massive number of non-absorption of fixed costs.

So the top line, the growth from volume is partly offset by the destocking, but the fundamentals of the market are there. The market is still pulling significantly.

Price mix and cost inflation. You need to gather the two together. You see the cost inflation has been pretty substantial. We know raw material, we know energy, especially in the first half of the year. Again, we have been able to address and we are generating a positive trend via either price increases, value-added pricing and a positive mix.

Now, one of the backbones of the company is our capability to reduce our cost base via productivity, PAP. We said, as a target, 2% of cash production costs, 2% of €1.8 billion is €36 million. We delivered net €41 million. Why net? Because, of course, some countries can face some difficulties. So we are looking at net. We want to have net hitting the bottom line.

So the growth has been €44 million. Some industrial variances of minus €3m give a net of €41 million. And the €41 million is as well all across the board. The strategy is not to have some at 1.5%, some at 2%, it is all across the board. We want a minimum by plant of 2%. The good, the worse, 2% minimum, exactly what we deliver.

Exchange rate, as I mentioned to you, essentially, LATAM, and essentially Argentina. On the other, we should have expected a positive number because you have the impact of the IFRS 16. However, number one, we have some positive happenings in 2018, one shots, such as subsidiary, grants, refunds that have not happened in 2019. So that was all one shot, so you are missing that.

The second one is that the life of industrial company. We have to do some heavy recurring maintenance, not extending lifetime of the furnace but just keeping the furnace in good shape. This is going there, so this is expense.

But at the end of the day, the takeaway is the three pillars have been working, that was our message during the IPO. They have been working in 2018, they have been working in 2019, and they have be working going forward.

Now if we split by region again. SWE, 15.4% increase from €357 million to €412 million. Again, the three spread, the three pillars have worked perfectly well. PAP, spread positive and volume. And this has been efficient all across the board again. But you have a positive impact of IFRS 16 and you are moving almost 200 basis points. If you remove the IFRS 16, so you will be moving from 21.6% last year to 22.5%. So still almost 100 basis points increase. Again, thanks to the three pillars.

Now if you look at NEE, 13.4% increase reported, 11.6% if you remove forex, from €110 million to €125 million. Performance in Germany, performance in Poland, performance in Ukraine, performance in Russia, and you can see those numbers are much higher than the reported or the organic growth in revenue everywhere. Each business segment has performing EBITDA higher than its growth in sales organically. Again, 9% growth you saw in sales, 13.4% growth in EBITDA.

Now Brazil because Brazil, let us spend some time on it. LATAM reported figures only 2.8% increase, but if you remove the forex, you reach 24.8% increase, reaching €96 million compared to €77 million last year.

And maybe you can focus on a little bit of disappointment on the margin, 31.2% last year, 29.8% this year. It is just a mechanic effect of the dilutive effect of price increases. When you are increasing massive repricing to offset inflation, one-to-one is dilutive at bottom line percentage-wise. Clearly, it is accretive in EBITDA because spread was positive in Argentina, which is a very good sign that the business is sound, but it is dilutive in percentage. Now if you look at the others, Brazil is doing extremely well. The market is very strong and our new plants and the current plants are performing very well.

Cash Performance

Didier Fontaine

CFO, Verallia

Now let us see how those impact cash. And to start by cash, we start by the big cash consumer, which is capex. Capex is very simple. It is about process and discipline. First, we established very clear and simple KPIs on what are the financial KPIs that trigger investment. You can see on the left-hand side, we spent last year, we booked last year, €225 million of capex. This year, we booked €253 million, which is a 12% increase, driven mainly by strategic capex. Last year, the €26 million was Jacutinga and the €46 million this year is essentially comprising of Villa Poma and Azuqueca. You know that we are launching two brownfield sites that will become live end of the first half of the year with a full impact in term of top line in the second half. So that explains the growth.

You see that in terms of recurring expenses, we are still at 8% and that is what is going to happen forward. The good news is in the €207 million, there is a new furnace in Chile. You know we have been revamping the furnace in Chile, which, by the way, we have been heating up yesterday, which is very good news because, again, in a country where this is difficult, this is bringing additional capacity for the Group at a very competitive price. So process and discipline, that has triggered the capex spending. And you are going to see I am going to talk about cash on capex and you see that might have an impact.

Now let us look at the operating cash flow, very strong, €108 million above last year. And if you look, this is significantly higher than EBITDA. And you know you have the financial paradigm that says, working capital increases with activity. This is proven to be wrong again. But honestly in my life, if you want to work on working capital, we can work on working capital. This financial paradigm is more a matter of fitness than something else.

Okay. Despite total capex, operating cash flow is much stronger. Why? Because we have been able to work and improve the working capital on two aspects. Aspect number one, inventories. We have been reducing the inventories, therefore the need for working capital by, almost €20 million this year.

On the top of that, I was mentioning cash on capex. The cash out on capex, despite having booked more capex this year than last year, booked has been the same. Meaning what? Meaning that we have been able to improve the terms and condition on capex payments. And point number two, we have been able to plan better the Capex.

The benefit of that is that we have a positive variance on working capital on capex, meaning as well that next year, do not expect such a good performance because next year, with the two big furnaces starting in the middle of the year, I will not have this capability to extend the payment terms and the conditions. So the total capex booked will be higher and the cash cost on capex will be significantly higher.

So at the end of the day, very strong cash conversion, 59%, as Michel said, despite higher booked capex, adjusted EBITDA fuelling the operating cash flow, but a positive change in working capital. So good discipline everywhere, again confirming that this company can generate a lot of cash, despite investing heavily.

Now the consequence of EBITDA, the consequence of operating cash flow shows you that, number one, we are reaching a debt of €1,591 million, which is an improvement of €118 million compared to last year. And if you add IFRS 16, because IFRS 16 is a €53 million notional debt, you have €171 million like-for-like debt reduction. We have been consistently deleveraging half a turn since 2017. We continue to deleverage half a turn. And next year, it will be a bit lower because we are going to pay dividend but the trend remains the same.

Two seconds on our capital structure because together with the IPO, of course, we have been revisiting our capital structure and upgrading it. And in parallel, if you remember that we have been able to be upgraded by Standard & Poor’s and Moody’s, respectively, BB- and Ba3. We have been using that or using the IPO process to revamp our capital structure. Number one, by terminating Term Loan B and Term Loan C, changing that with unsecured loans, longer term, five years bullet, 2024 and cheaper, on average 100 basis point cheaper. We are now using much more commercial paper than we have been using. You see this year, we are using €188 million. Last year same period, we were €80 million. And this is extremely cheap financing. I think the market is very open to that. So at the end of the day, total cost of debt for the company going forward is less than 2%.

And the liquidity, of course, remains very strong because our revolving credit facility of €500 million is not drawn. And going forward, that could be helpful.

Okay. That was all for me, and I leave it back to Michel.

Conclusion

Michel Giannuzzi

CEO, Verallia

Thank you, Didier. So now it is time to conclude. First of all, to wrap up and comment or add comments to Didier's presentation. You have seen these results have been fully in line with what we said at the time of the announcement of the third quarter results.

It is illustrating, I think, the success of our strategy, which I will remind you is based on four pillars. First of all, disciplined growth, meaning growth that is profitable and sustainable. Secondly, a lot of our improvements come from our own self-helped operational excellence initiatives. Thirdly, we invest in this business. We invest this business and despite the strong investments that we make in this business, because the investments have been wise and very well targeted, we enjoy strong cash flow generation and strong cash flow conversion. And last but not least, all about company culture. This is the results of the 10,000 employees of Verallia that are getting more and more every day entrepreneurial, owning this company and wanting to lead the industry with best-in-class performance in this company.

So this, in a financial way, is translated into the three pillars that Didier keeps repeating. First one is we have the positive contribution of volume growth with the leverage impact of the volume. Secondly, the spread is positive. The inflation spread is positive and will continue to be positive. And thirdly, I repeat the self-helped initiatives on productivity are paying off every year. So this model is not going to change. It is a continuation of what we have done and are going to do more and better every year.

Now, before I give you an outlook of 2020, let us, first of all, say that since the IPO, although we are not present in China or in Asia, the major event has been the coronavirus impact, that is not impacting us or our suppliers directly, but some of our customers are somehow, to some extent, impacted by this. So we are not exposed as such directly to this issue, but indirectly through some of our customers.

Despite this comment, I would like to say that we are, of course, extending our sympathy to all the people and the families that are facing tough conditions in the present times in this area. And even though we are not directly impacted, we are supporting them from our greatest sympathy.

So this being said, despite this kind of adverse or headwind that we see from some of our customers, we maintain our guidance that we gave you six months ago now, which is to look for an organic growth between 3% and 5% this year. So it is in line with our long-term outlook despite also the fact that the inflation cost will be much more moderate this year than it used to be the year before. Therefore, the price increases that we have to pass to our customers to end up with a positive spread and to pass through the inflation of cost to our customers will be much lower than what you have seen before in Didier's presentation. So despite this, I would say, lower price increases with probably lower growth also due to this, we believe we will grow organically between 3% and 5% this year. With probably, as you know, the benefits of the new capacity being installed in the middle of the year in Spain and Italy, that should enable us to capture some of the growth.

We are going to deliver an adjusted EBITDA above €650 million in 2020. This is our forecast, of course. And we will clearly, as Didier explained, control the capital investment. The recurring investments will be at 8% of sales, and of course, excluding the right of use, which is the application of IFRS 16.

The total capex that includes the two strategic projects that we mentioned, Villa Poma and Azuqueca in Spain and Italy, are going to bring the total capex amount to €270 million compared to €253 million this year. And as Didier mentioned, the cash outflow linked to the strategic capex will be significantly more than last year because both those strategic projects will be completed in the middle of the year.

Despite all this, we believe we will continue to generate a lot of cash and we continue to deleverage the company by around 0.4 times, including dividend payments or post dividend payments, to be clear, which means that we will probably end up the year with a leverage around 2.2 times adjusted EBITDA.

So this is our outlook, which I think is confirming the confidence we have in this company. And now that we have finished our presentation, we would like maybe to take your questions and answer them as well.

Questions and Answers

Michel Giannuzzi: So we will start with questions from the room and then after, since we are on an audiocast, we will get the questions on the phone. So there is a microphone that will be circulating. So do not hesitate to use it.

Francisco Ruiz (Exane): Thank you for the presentation and congratulations on the results. I have three questions. First one is looking at the outlook that you put here, and if we assume that the PAP will continue in the same trend of 2% of cash cost, this will significantly mean €35 million. So this is mainly practically reaching this €650 million on EBITDA. So you commented that the price will not be as big as in 2019, but probably, do you still expect a positive price impact and operating leverage should recover? So is this a very, very conservative thing or am I missing something on this calculation?

Michel Giannuzzi: I mean, this is a floor, as you understood, because we said it would be greater than €650 million. It is just the beginning of the year. We have no visibility on the exchange rate, for example. And just talking about the exchange rate, you have seen that in the last two years, we have been strongly impacted by exchange rates, which have had a negative impact on our results.

But your PAP calculation is right. The spread that we are aiming at, we have said it at the time of the IPO, will be slightly positive. We are not looking for a huge positive spread, I would say. So if you take just zero-plus spread and €35 million, you are at €650 million, you are right. But now you know, how life is, we cannot forecast what the exchange rate will be and that is why it is a floor.

Didier Fontaine: Okay, €15 million forex last year, I mean 2019, €32 million the year before. We are just cautious about it. But as we should say, we are looking at it favourably compared to this year.

Francisco Ruiz: Okay. The second question is, if you could be a little more precise on what is going to be the impact of capex or cash capex for this year? And also, in terms of cash taxes, we have not seen much difference between the P&L and the cash flow in 2019, whereas during the IPO, you see that there are going to be some fiscal credits.

Didier Fontaine: Okay, if you look at cash capex over the past two years and you play with the book capex, more or less the payables, you spend on average €230 million in 2018 and 2019, whereas we are going to spend probably around €280 million, €285 million, €290 million, depending on the year end, but in 2020. So massively more, essentially because as Michel said, the investment, the largest investment will be completed in the middle of the year. The largest investment being essentially Villa Poma and Azuqueca brownfield projects. As regard the cash taxes, you see that €59 million this year versus €39 million, we expect probably to go around €80 million next year.

Francisco Ruiz: And the last question is regarding the Jacutinga ramp-up. So you started mid-2019. So how it is evolving and if you have recovered part of the lost ground that you had at the beginning of the year when you published the first half result?

Michel Giannuzzi: Well, on Jacutinga, as Didier mentioned, we were really exactly where we wanted to be in terms of capex spending, we started exactly on the date that we planned to start and actually the ramp-up has been impressive, very, very fast, much faster than one would have expected. So it has been, frankly speaking, one of the successes of last year. This Jacutinga project was also due to the relocation and the closure of our downtown facility in São Paulo. So by doing so, we have increased a little bit our capacity in Brazil. And given the fact that the market is very dynamic, we are going to enjoy some better growth this year in 2020 than we had last year.

By the way, one of the things I would like to draw your attention to, when you look at the big swing of inventory between end of 2018 and 2019, one of the reasons why we built inventory in 2018 was also to prepare the closure of Fabe, the downtown São Paulo facility and transfer the business. So that was part of the ramp-up of inventory in 2018. We do not expect to see such swings in inventory going forward.

Fraser Donlon (Berenberg): I have two or three questions as well. When you look at your core Europe exposure, how satisfied are you with the margin improvement you have seen this year, ex-IFRS 16? Because, obviously, it has been a great market, 6.5% to 7.5% organic growth in North and South Western Europe. So is the margin improvement you have seen kind of in line with what you expected or could you have done more? That will be my first question.

Michel Giannuzzi: Well, on this one, as Didier mentioned, I mean, we are very pleased that it is not one region on one segment of the market that drove this improvement. It was really general improvement across the board, in all countries, all segments of the market, both Europe, by the way, and Latin America. And Latin America, even in Argentina, which as you know, is a difficult country right now, we are doing extremely well in our business. The only impact is that exchange rate when you convert the Argentinian peso that has strongly devaluated into euros. But in local currencies, we are doing extremely well in Argentina.

So to come to your point, we are very pleased and very satisfied that all businesses in Europe and in South America have improved last year and all the segments contributed to this improvement. Now on the other side, you know very well that our mid-term guidance is we want to exceed 25% of EBITDA margin. That says that we still have some room for improvements that we have well identified, especially thanks to the productivity action plans or the performance action plans that we are every year deploying throughout the company.

Fraser Donlon: And then on the organic growth side, when you look at the 3% to 5% over the next two years, is that at constant currency? And then what trajectory do you see? A lot of your peers are talking about, in Europe, maybe 1% to 1.5% price increases next year. What kind of assumptions are you making there when you talk about the 3% to 5%? And kind of roughly do you expect to be at the higher or lower end? I know you have new volumes coming to market.

Michel Giannuzzi: Well, coming down from 7.2%, excluding Argentina, organic growth last year. This is part of the productivity action plan, by the way, shedding the light. Our contribution to the environment, saving the environment and saving the planet. So you take it the way you want. Usually it goes together, by the way, so I am sure they will restore the lighting very soon. Sorry, what was the question?

Didier Fontaine: The question was on the 3% to 5% on the growth versus the pricing?

Michel Giannuzzi: Yeah. Okay. No, the 3 to 5% is much lower than what we had last year. We grew last year, 7.2%, excluding Argentina. So by itself, it is a more reasonable growth rate going forward, which will be supported by new capacity. As you know, we were sold out. And the fact that we bring new capacity is through debottlenecking or a small marginal furnace expansion, as you have seen from the Burgos case I presented this morning.

The two new projects in Villa Poma and Azuqueca in Spain and Italy are going to help us fuel or support this growth. Now the market growth will be probably around 2%. That is what we estimate and you can expect the price increases across the board to be in the vicinity between 1% and 2% in Europe. Now, in South America, it is quite different, inflation is much higher. But in Europe, that is more or less the ballpark range that you have. It varies from one country to the other, but that is more or less. So it is much less than last year, put it this way.

Fraser Donlon: And then final one for me. In terms of the dynamics of margin in each region, are you still, I would say, more excited are interested by South and Western Europe in terms of what really drives the improvement mid-term, i.e., you kind of see more upside there? Obviously, your mix there is very favourable too with the wines and so on?

Michel Giannuzzi: Yeah, the margin improvement potential is more or less the same everywhere. I mean, the beauty of the performance action plan is that you work on your costs. And as I explained at the IPO time, when we have 32 glass making factories, there is always a number one and number 32. So you could say, okay, the number 32 has an easier job because it can catch up or it should catch up towards the best in class, which is true from that point of view. But on the other hand, the reason why the number one is number one is because usually you have better teams, more knowledge, more so on. So we can tackle much more sophisticated or more complex issues that the last factories cannot tackle. So that is why Didier explained that every factory has a goal to improve its cash cost by at least 2%, every, whether you are number one or number 32, you have the same goal, because I repeat, the best in class have more talent, more know-how and better skills to go further than the laggards that will probably benefit from benchmarking the others.

Fraser Donlon: A very final one now. So obviously, you are delivering quite nicely, 2 to 3 times target capital structure. How do you view capital allocation? There is not really much to acquire in Europe. But just more broadly, in the mid-term is it dividends or do you see opportunities for M&A?

Michel Giannuzzi: Well, yeah, on this one, we have not changed our view on this subject since the IPO time. We will look for acquisitions not just for the sake of acquisitions, by the way. We are being very disciplined on what we are looking at. I mean, just take an example, I mean, it is public information. One of our competitors is selling its operations in Australia and New Zealand. Well, we did not even look at it because, for us, we do not think it is going to create synergies and help grow our business in a sustainable and durable way. It is not because it is a bad business at all, but just that we do not see the synergies that we could get from such an acquisition.

So we have no need to chase any acquisition. We have a strong view on the companies we would like to acquire. Now they are not necessarily for sale, as you know but if there are opportunities that arise we will be certainly looking at them. And if we do not find a good use of cash, we said very clearly that we target to leverage the company between 2 times and 3 times. So if you go below 2 times, we will either buy back shares or pay special dividends or increase our dividend policy. But this is not for this year probably, at least, not for the time being, this question.

Charles-Louis Scotti (Kepler Cheuvreux): Two questions. The first one on US tariffs. Have you seen any impact of US tariffs on the European product? Have you seen any pre-buy effect in 2019? And my second question on the capacity expansion, how much they will contribute to your 3% to 5% targeted organic sales growth in 2020? Is it fair to assume a 1% boost on a full year basis in 2020?

Michel Giannuzzi: Okay. On the US tariff, as everybody remembers, this happened in the middle of our roadshow last year. So this was the news of the roadshow for us, which was completely unexpected, as you can imagine. It is really too early to really understand what has been the impact. The reason being that we know some of our customers had anticipated, to some extent, this tariff impact, so built up some inventory.

On the other side we know for sure that, for example, the French wine exporters have been quite strongly penalised, at least for the bulk of the market. We know on the other side, the premium wines have been doing very well last year. And you know that we are quite strong in the premium segments rather than the bulk of the market. So it has an impact, it does not have yet a huge impact on our customers. But it is probably a bit early to say, given the changes in inventories and the supply chain between us and the final customer.

As I mentioned during the IPO times, for the premium products, the consumers will continue to buy them even if there is a price increase due to tariffs. For the more sensitive segments or more sensitive products on the market on the price side, there might be some, of course, volume impact. Just one thing to remember on the other side, remember that the champagne and cognac are excluded from the tariffs in France. So we are not impacted on the champagne and spirit side in France, and Italian wines are excluded from the tariffs.

So it is a bit complicated to follow. But the fact that we are strong in Italy and the fact that Italian exposures to the US are going to benefit from less exports from France, means that at the Verallia level, we might have also some shifts from one country to the other without necessarily facing the full impact of the tariffs at the Group level.

Didier Fontaine: Yes, and regarding the 3% to 5%, you have a couple of buckets. Bucket number one is clearly the new furnaces, I would name basically Jacutinga full year impact, because this year it was not a full year impact. Number two, the furnace in Chile, which has been heating up yesterday and will generate more growth in the coming nine months. And the two brownfields, which are Azuqueca and Villa Poma. So that is the first bucket.

The second bucket clearly is indirectly through the PAP because we are improving yield, we are improving operational efficiency. The minimum we are expecting from that is, I would say, really minimum is a 1% capacity increase per year. That is what we have been delivering capex free. And then you have the normal, what you see in the recurring, new equipment, machines and more.

So that is the three buckets you are seeing. One is investment. Second one is efficiency. Third one is greenfield/brownfield.

Charles-Louis Scotti: Just one quick follow-up question on cullets. Can you remind us the share of cullets in your total raw materials and how far can you still go? And what could be the benefits on your raw material cost?

Didier Fontaine: Just a simple number, we are spending raw material around €400 million. Half of that is cullet and half of that cullet that we are using is cleaned and processed by us. So it gives us a little bit of leverage on improvement in trying to get the thinner and thinner parts. Four years ago or a couple of years ago, three years ago, we would stop at four millimetres. Today, we are we are using less sand, going down to 800 microns. So yes, we want to develop. We are not really better than the others, we are treating more than the others. After this the issue is probably the collection at European level.

Michel Giannuzzi: The issue is that in Europe, on average, the industry collects 76% of the used glass. The European Federation, which by the way I am chairing, has set up a target of collecting 90% by 2030. So in every country, we are working very hard with national associations, with the brands, with the trade to increase the capability of collecting glass, knowing that the glassmakers, the glass packaging makers are willing and able to use as much glass as we can collect. So the issue is not really the treatment facilities capacity, but it is more the collection right now which is at stake.

Do we have additional questions from the room? If not, we will take questions on the phone.

Moderator: Can you hear me, okay? We received three questions on the webcast. And the three are from Kristof De Graeve and he would like to know the following: could you recap today the dynamic between building up inventory and destocking on the EBITDA margin?

Didier Fontaine: It is pretty simple. We are having fixed costs. When you put production inventory, basically you are transferring fixed cost to balance sheet and then you are selling it. When you are producing and selling directly you are transferring directly fixed cost to sales. When you are destocking unfortunately the top line is there what it is, but you are using the fixed costs that were already in the balance sheet and not going through the normal production and P&L process.

Moderator: The second question would be as follows. 'I was somewhat late in the webcast, so probably you already tackled this subject but I heard you saying that you are confirming the 2022 targets despite experiencing some headwinds since the IPO. Could you please elaborate a bit on those headwinds?'

Michel Giannuzzi: Well, I think we have been clear. I mean, during the IPOroadshow, we discovered these tariffs the US put especially on the wine and spirits in Europe. That was one surprise that came during the IPO. It did not lead us to change our guidance. And since the IPO, we have faced now in Asia, and that has a knock-on impact on many other regions, this coronavirus issue, which is clearly slowing down the economies in many countries and at a worldwide level now. So this was unexpected too. But despite those headwinds, we still believe that our guidance is doable and we did not have any intention to modify it.

Moderator: And lastly, could you please explain the mechanics behind the margin decline in LATAM, partly due to the dilutive impact of the sharp price increases implemented during the year? Does that mean the price increase led to a loss in volumes or were you not able to compensate fully the increased input prices by price increases?

Michel Giannuzzi: So no, it is just a basic mathematic principle. First of all, let us put things in perspective. Inflation in Argentina was 54%. We increased the pricing more than 54%. But one for one, give a percentage. So that is just the fact that you need to increase much more. To get the percentage increase, you need to increase much more than just beating inflation. So the higher the inflation is, the more you need to increase the pricing, not only to be spread-positive but to cope with the growth in percentage. So one-for-one is dilutive in percentage. And 1.1 to 1 is dilutive in percentage. That is the case in Argentina. In Argentina, we are not losing volume. We are gaining. We are beating inflation, but we are not beating inflation by 5 times. We are beating inflation by 1.1 times. So basically, this is dilutive in terms of percentage. That is the basic principle math.

Moderator: Those will be all the questions that we received on the online webcast. We will now be listening to the questions that we have received during the call.

Matthias Pfeifenberger (Deutsche Bank): A couple of questions from my side. Firstly, congratulations on the results. I just continue on the path of Paco trying to see how really conservative the guidance is on the EBITDA and especially, maybe if you could help us quantify the effects of the destocking in 2019? Also, tell us if there is some good amount of restocking already taking place in 2020? And then also, you mentioned on one other occasion that you are fully hedged already for 2020 for the gas cost. Maybe you can share some quantitative numbers in terms of what is the average benefit is going to be in 2020 versus 2019? And then related to that, is there any incremental EBITDA contribution from the new furnaces or will this be compensated by ramp-up costs?

Michel Giannuzzi: Well, that is a long question. So I have tried to take note of all the points that you are mention. So forgive me and do not hesitate to repeat part of your questions, if I did not answer them properly.

Now in terms of EBITDA forecast, you chose the starting point of your question. I mean, I think the comment that was made before is still valid. I mean, that is a floor. We said it would be above 650. At this time of the year, it is too early to say if we will face additional headwinds. I mean, just take an example which we are currently living in France right now, I mean there have been quite a lot of strikes since December due to the national reform of the pension schemes in France. This has had some impact on our operations, and also this could have an impact if it lasts too long on the consumption of our customers. So this is something that is unknown at this stage. It is part of the headwinds I was mentioning that we see and we manage. It might have an impact on the top line. Our goal is really to, of course, work hard on the cost side to minimise the net impact. But this is something that we will have to evaluate as we see the year progressing, if you want.

Now, regarding the stocking/destocking. I mean, just to give you some numbers, so you can make the maths. But in terms of tonnage, in 2019, we increased our inventory throughout the year by 74,000 tonnes –

Didier Fontaine: 2018.

Michel Giannuzzi: Sorry, in 2018. We increased our inventory by 74,000 tonnes. In 2019, we decreased our inventory by 52,000 tonnes. And as you know, in the P&L, you look at the variance of the variance, if you make a bridge from one year to the other. So the variance of decreased inventory in 2019 versus increased inventory in 2018 is altogether 126,000 tonnes. It is massive.

Now going forward, as we explained, even if we ended the year with a global inventory, we do not have strong views whether the inventory will slightly go up or go down. Why? Because we should on the one hand increase inventory because our sales are increasing. This is what Didier was mentioning, our working capital should be increased because our sales are growing. On the other hand, we are working, at the same time on our supply chain processes to be much more efficient in improving the customer service or maintaining a very good customer service with less inventory.

So the net result should not change dramatically the level of inventory during the year. Despite the seasonality – we have a little bit of synergy, which you have to bear in mind – but from December to December, we do not expect a major change of inventory.

Didier Fontaine: I think if you look at the three pillars, they will still be existing. This year, you have seen the activity, so the volume growth has been offset by the destocking. Next year, we do not expect that, because as Michel said, we expect inventory to remain more or less stable compared to closing of this year.

Price increases and mix was significant in 2019 for the reason mentioned that the base costs are going to be much more moderate in terms of inflation. The spread will be positive, therefore contributing to bottom line, but not massively like this year. And the PAP is the PAP. So we will be generating at least 2% on the cash cost. So that is it.

In terms of our forecast as well, we took the assumption, might happen or not happen, that there will be another year of volatility in Argentina. And those who are ready to bet against me on that, I am ready to bet, because wait for the month of August, and you are going to see that going down again 50%. So we took that as an assumption. Clearly, this is impacting. We are not doing 2020 at forex 2019. This is not going to happen. We do not see that happening.

Michel Giannuzzi: And last but not least, just to give you some colour but the reason why we are quite, to take your words, maybe conservative on the EBITDA side, is the additional volume growth coming from the two new furnaces is not at marginal cost. Differently from marginal capex improvements that are made through debottlenecking activities, where for very small capex or no capex at all, you debottleneck your factory, and therefore you have a huge margin pulling through directly to the bottom line, here both two new furnaces will require full costs setup. New teams to be trained. By the way, not just on the time of start up, we are training the people as we speak. So this is a ramping cost that we have to absorb which, of course, is one-off, and then you have the ramp up of the factories themselves.

So my point is, we will have to incur, this year also, some additional costs due to those two start-ups. And two start-ups in one year for two brownfields is not a small thing for us.

So my point is if you put all these things together, I mean, we believe that we are able to deliver more than €650 million. Of course, we will do our best to do more, but we do not want to commit too much at this time. It will be easier to see or to revise maybe our guidance, if need be for the year if we see something that changes quite significantly.

Didier Fontaine: Yeah, let us not change the tone of the guidance. It is not a defensive guidance. It is not we are worrying about the future. I think we have all the means. We have all the fundamentals for the three pillars that we will be delivering. Let us not change the tone. While in February, start of the year, we know what the consensus is. We give you above €650 million. We do not look nervous. So let us not change the rule of the game.

Matthias Pfeifenberger: Fair enough, gents. That is a really good explanation like the destocking wiped out the operating leverage last year and then you have the ramp-up costs for the two new furnaces. The missing piece really, and maybe you can shed some colour, is the gas cost dynamics.

Didier Fontaine: The gas or the CO_2? The CO_2, as you said, and the CO_2 the Phase 3 is fully hedged at a cost which is lower than the current cost but is very similar to 2019 because we took a hedge at the same time for the upcoming three years when we did it. So there is no hit nor gain compared to 2019. We know more or less how much we are going to have to buy on the market because we are very steady. We know we are buying between 600,000 or around 600,000 tonnes per year and we know at what price, very similar to 2019.

Matthias Pfeifenberger: Yes, that is helpful. I just meant on the energy cost because you have a rolling hedge for gas prices and I was just after the benefit of gas cost deflation because obviously the hedges will follow the spot prices with a certain lag, right?

Didier Fontaine: That is clear. Today, the market is going down significantly. But you know our strategy. Our strategy is not to be open and be doing on spot. We do not want to speculate. So we have gas pricing that is taken on a rolling basis, which is not exactly matching the drop in price. And I must say, thanks to God, because if I was telling you that I am fully exposed every day on the price of gas or electricity, the day it's going down I might be missing an opportunity. But the day is going up, now you are going to put the finger at us and say, 'Okay, you are speculating.' So we are not speculating. Clearly, the spot price on gas and electricity is significantly down and our hedging is a little bit higher than that. But rolling forward as well, that is, I think, the right way to look at that. As in-control people, we are not speculating.

Matthias Pfeifenberger: Okay. My two final questions would be, you faced these two headwinds basically and you are still facing them, hence you still kept the 3% to 5% growth guidance. So what is actually positively helping you? Is it the capacity ramps? Is it winning market share? What is helping you? And then also on the cullet usage, you became a bit more explicit about it, more cautious maybe at the IPO. Now you are saying you want to increase the cullet use. Can you give us a number? Is it like 2 percentage points in the medium term? And also, do you face some competition from new segments like dairy moving again into glass?

Michel Giannuzzi: Well, we have talked about the headwinds because they are quite new compared to the IPO, but we did not speak too much about the tailwind that we talked about during the IPO. The strong move away from plastics to glass, the shift from plastic to glass, is difficult to quantify and as I said, it will not happen overnight. But clearly, glass is the preferred material because it is healthy, it is infinitely recyclable and it gives a major premium and quality that the other materials do not give. So this is clearly a tailwind. Again, very difficult for us to quantify, but this is still here and probably even surer than six months ago. So that is one thing which should help and mitigate some of the headwinds that we just mentioned.

Regarding the cullet, we gave you the ratio of cullet use in our company. I repeat the limiting factor right now is not the cullet treatment, but it is the collection, which is not in our hands. So we buy cullets that have been collected by third parties. And it is a complex issue because you have to align a lot of different stakeholders, the municipalities, the brands, the retailers or hotels or restaurants. So on-trade and off-trade networks and of course the collectors.

So that is something we are working on. Ideally, we would like to at least increase the cullet ratio by 1 point a year. It does not seem a lot, but this is something which we believe should be doable. And that is about it.

Didier Fontaine: But to come back on your point, I want to insist, because the 3% to 5% growth organically is going to be made a little bit of pricing clearly, volume, but again, volume, we have new capacities or like Jacutinga, full year impact of new capacities. And the efficiency, again, the PAP is bringing on side-effect improvement on yield and operating efficiency. All that together makes us comfortable to be able to capture more than the market growth.

James Rose (Barclays Bank): Just to pick up on the plastic to glass trend, please. Is there any more anecdotal evidence that you can give us post the IPO that would indicate that? And then secondly, at the IPO, I think you have mentioned there were some customers asking you to open capacity in the US. Just wondered if you had any more thoughts about that in general?

Michel Giannuzzi: Well, there is no real strong news post-IPO regarding the trend of favouring glass versus other materials. I mean, the same trend is solid in the market. Hard to quantify, but clearly in the mind of everybody, our customers, the consumers and even the public authorities. But no big change compared to what we discussed at IPO times.

Regarding the US market, I mean, clearly some glass. Clearly, it seems that there is a lack of glass in the US market right now. For us to go there just to build one factory does not make sense, to be frank with you. So that is not something we are considering as we speak. I mean, adding a greenfield factory in the US market, just to be there, it does not seem to provide enough strategic interest to us at this stage.

Now should we find other opportunities that are much bigger than this one, why not? But making one acquisition or one factory in the US is not for us sufficient to justify the investment in this country.

Paul Bradley (Citi): First, congratulations on the results. Very good to see you deliver what you promised. A couple of quick ones from me. On the working capital side, could you let us know what your factoring balances were at the end of the year and whether you have made any changes to your factoring programme? And secondly, I guess, picking up on this plastic to glass point, one of your US peers yesterday said in Brazilian beer, they have seen a move from glass towards cans. I was wondering if you are seeing the same in Brazil or if you are seeing anything in Europe which is losing share for glass towards cans?

Didier Fontaine: What was the first question, sorry, because I have a hard time to listen?

Paul Bradley: Sorry, factoring.

Didier Fontaine: Factoring. I was expecting the question. I did not want to raise the red flag in front of everyone on the working capital. On non-reverse factoring, we factored €315 million in 2018. We factored in 2019 €313 million. So that is what we discussed at the time of the IPO.

There was a ramp-up and of course, there will be an increase seasonally in the year. When you sell more, you factor more. But again, this is a service at a cheap price and we are paying

1%. And we are using it naturally, it is not a means for us to improve the working capital. It is just we are using where we have sales, 1% is still more expensive than what our banker friends are offering to us. And we have 10,000 customers with a level of revenue which is irrelevant, the level extremely low for a company of our size. So we have a very good customer base. So again, flat.

Number two, it is going to increase, probably going to be higher at the end of June because it is a strong quarter in terms of sales. And very attractive in terms of pricing.

Michel Giannuzzi: For your second question regarding Brazil. I have read this comment about the maybe or probable shift from glass to can. That is not at all what we see on the market, let us be clear. The glass market in Brazil is very dynamic, fuelled by, first of all, the beer segment, which is growing, growing quite fast by the way. And more importantly, consumer habits are changing in Brazil, where it seems that our customers that are selling beer are selling a lot more one-way beer rather than returnable beer. In other words, as you know, there is probably 20 turns when you have a returnable packaging versus one-way packaging, which is one-off. And it seems that the consumers in Brazil are drinking more at home right now than they used to in public spaces and therefore, the need for glass is quite strong. Actually, we have a strong demand from our customers in Brazil. So I do not know if the growth of glass is bigger or less than the growth of cans in Brazil, but I can tell you the growth of glass is very strong. And we do enjoy it.

Now in Europe, I mean, we'll see in a few months the official statistics from the federations, both glass and can federations. I am sure we will see if in Europe there is some kind of substitution from glass to can. It does not seem to be the case, to be frank with you, but I do not have yet any official statistics.

Operator: That was our last question from the audio lines, so I'll hand the call back to you. Thank you.

Michel Giannuzzi: Okay. So I think it is time to conclude and I would like to thank you very much again for attending this presentation and this discussion. Thank you very much, and have a good day.

Didier Fontaine: Thank you.

[END OF TRANSCRIPT]