Verallia Q1 2020 Results

Tuesday, 28th April 2020

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Michel Giannuzzi: Good afternoon everyone and thank you very much for joining us for this presentation for Verallia's first quarter 2020 results.

Before moving on to the financial highlights, I would like to firstly express my sympathy and solidarity with those particularly hit by the COVID-19 crisis and convey my gratitude to those risking their own health to respond to this epidemic.

So, I propose to start with page three, which is the financial highlights for the quarter. As you will see from later on in the presentation, from Didier, we had a very good start of the year, with a limited impact from the COVID-19 pandemic. Our reported revenues were at €645 million, up 1.9% versus prior year and the sustained organic growth of 4% versus Q1 2019 was quite impressive in the current environment. Even if we exclude the positive impact of hyperinflation in Argentina, we still enjoyed a 2% organic growth in the quarter.

Our adjusted EBITDA was up 6.5%, at €151 million and this increase was up by 9.6% at constant exchange rates and scope versus the prior year. Our adjusted EBITDA margin was at 23.5% for the quarter, up 103 basis points compared to Q1 2019.

As you know, Verallia is a very strong, cash-generative company and we continued to deliver, the company, during the quarter. Our ratio of net debt leverage and ratio of debt to EBITDA was reduced from 2.6 at the end of 31st December to 2.5 times last 12 months adjusted EBITDA at the end of March 2020.

Given the COVID-19 epidemic, we have a limited visibility on what is going on over the next few months and therefore we withdrew, as you know, our 2020 guidance. However, we stood firm on our proposal to pay a dividend of €0.85 per share, either in cash or new shares, at shareholder's option, that will be subject, of course, to the shareholder's general meeting, which will take place on 10th June.

So, let us move, maybe, to the next page, page four, where we will see the main impact, or the main event, of the quarter, which is COVID-19 and the short-term priorities we took. As we have no operations in Asia and in China in particular, the first country that started to be hit by COVID-19 was Italy, for Verallia. I have to say that I am quite impressed by the way our Italian colleagues first reacted to this pandemic. Then, after, we have immediately implemented a crisis-management organisation, not just in Italy but across all areas, with three clear, immediate priorities.

The first priority is obvious: we want to preserve our employees' health and safety. The second priority is to ensure the business continuity, to continue to serve our customers and the third priority, short-term priority, is to protect our financial strength.

On the top of these immediate priorities, I have to say that I am very proud of the spontaneous reaction of our employees, that have shown a lot of solidarity with very local initiatives to support the people in their local communities, where they live and work, by providing some very nice support to those people that were severely hit by the COVID-19. We will see that in a few slides.

So moving on to the next slide, which is slide five, priority number one is to preserve our employees' health and safety, so immediately, on all sites, we took measures to guarantee our employees' health and safety that were stricter than public authorities' guidelines at that time.

We immediately asked all the support functions, either in offices or in the plants, to, as much as possible, work from their home office. We, of course, implemented social distancing. We implemented very strong hygiene measures everywhere, including the canteen and the locker rooms. We have checked employee temperatures at the entrance, the factory gates. We have avoided, as much as possible, face-to-face meetings, opting for calls. We have reorganised our shift handovers in the production facilities to avoid having too many people in the locker rooms at the same time and we restricted access to our suppliers and of course our customers, too, during that period.

So, those are a few examples of what was done and I think I am glad to report that, out of the 10,000 employees that Verallia currently employs, we have had to report, so far, only about 15 people have been contaminated by COVID-19. None of them have been in a very serious health situation.

If I move to the next slide, on page six, the second priority was to ensure business continuity to better serve our customers. First, I would like to remind you that our activities have been considered as essential for the food and beverage chain and all our sites have been able to continue to produce during that period and still are. Therefore, we had no factory shutdowns at all and I am quite pleased to say that even though we have had to slow down some production lines in some areas, where demand was lower, all the furnaces are continuing to work as normal.

You know that our business model is 'glocal': a very decentralised organisation to better serve our customers and this decentralised organisation provided us a lot of agility and reactivity in this crisis situation. The business continuity plans have been very swiftly and timely implemented in all plants, all countries in a very remarkable way.

I personally had daily calls with all the division general managers to review the situation. We had calls with executive committees every other day to review the situation and take appropriate actions.

We also have some coordinated efforts at the corporate level, sharing the best practices, especially on health and safety, with our group health and safety coordinator and made sure that all the knowledge and experience of our Italian colleagues was very quickly disseminated across the organisation to the other divisions, to the other areas. We even had some examples where the Italian colleagues had some stock of masks that could be transferred to the Spanish colleagues that were lacking masks, as an example of the things that we have done. Group purchasing also made sure that we managed very efficiently and very rapidly a good supply of personal protective equipment.

Last but not least, Didier Fontaine from the organisation, within the financial community, has implemented a very strict monitoring of the cash position, the customer payments, with the sales force being involved, indeed and a tight follow-up on the supply chain as well.

So, these were the immediate measures that we took to ensure business continuity and I think it has provided us a very strong thank you from our customers that we have been served very well during that period.

As you know, during crisis, communication is key, so we reinforced, big time, our communication schedules. At an area, or division, level, there were internal video, or conference, calls in the regions. At a group level, I personally had weekly video calls and written information, flash information, at a group level. I also wrote a weekly letter to the board to update them on the situation.

So I think on this one we showed the very strong reactivity and agility of the company.

The third priority, moving to slide number seven, is to protect our financial strength. We have, at the end of March 2020, a very solid balance sheet and liquidity. As I said before, we have continued to deleverage the company, to 2.5 times last 12 month adjusted EBITDA, which is well below the maximum leverage covenant, at five times. At the end of March, we had €528 million available liquidity, which is a very healthy debt maturity profile.

Nevertheless, we also increased our financial ability by setting up a €250 million additional revolving credit facility, as of Friday last week, which was 24th April. This has given us a lot of strength into our balance sheet and liquidity situation.

Now moving on to the next slide, on page eight, I have to say that it is during crises that you see people bring the best out of them. I have witnessed personally many, many inspiring acts of solidarity that I would like to share with you and that were very spontaneous from our people.

It started with lots of local donations for hospitals, medical staff, firemen, retirement homes, people in need, homeless people and low-income families. Most of the things were very basic equipment, or food, or hygienic protective clothing given to those people in need. We also provided some local services, for example, to the truck drivers in Germany and Spain, providing and building some specific restrooms and showers for them. In Ukraine, where we have our own bus transportation company, or services, if you want, we have organised transportation for the medical team that are going to the hospital of Zorya, where we are living close by.

As a boost to these local initiatives, the executive committee and myself have renounced 15% of the annual compensation for the executive committee and 50% of my annual compensation to create a fund of €1.6 million that will be used to support these local initiatives.

Moving on to the next slide, now maybe leaving COVID-19 for two minutes, there are other things that happened quite nicely during the first quarter. The first one was the reconstruction of the furnace in Chile, which started at the end of last year. The furnace restarted on time on 20th February, this year, just before the COVID crisis. It is a major investment for the region. We invested about €40 million to not only construct the best in class, with the most modern technology furnace but we also took advantage of this big job to upgrade the factory and add a new production line in our Rosario site in Chile. This will increase our capacity in this country by around 50,000 tons. If you remember, this is a factory mainly addressing the wine market.

These new investments will give us more flexibility, with more production lines producing up six different types of packaging simultaneously. We have also upgraded the inspection machines to enforce our quality and safety in the factory.

Even if Chile is really on the other side of the globe, to say that I am quite impressed by the very good start up of this big job on 20th February, which was really on time, I have to do it. So that was a very good achievement for the LATAM team.

On the longer term, there was another initiative, on page ten, which I would like to bring to your attention. It is one of the very important initiatives for the industry, where an association of the main European glass packaging producers has set up, together, a project under the

Federation – the European Federation sponsorship to build a large-scale hybrid oxy-fuel furnace, which will be running on 80% electricity. Today, most furnaces run more or less 80% on gas and 20% on electricity and the purpose, which is an R&D project, is to be able to have a large-scale furnace – large scale means a furnace producing 300 tons of glass per day, which is a very good-sized tonnage – being able to produce high-quality products with electricity as a main energy source.

This is a technical challenge for our industry but it is a way to decarbonise our industry. This is a project that is going to start in the coming months with, of course, if the R&D project is successful, potential deployment after the first results. This is in year 2023.

As a reminder, this industry has already done a lot to reduce the energy consumption and the emissions of CO_2. In the last 50 years, we reduced the energy consumption by 70%, we reduced the emissions of CO_2 by 50% and the glass packaging is about 30% lighter than what it was 50 years ago. However, this is a major milestone, a major breakthrough initiative, to go much, much further into decarbonisation of our industry.

This is also in line with the other major initiative that we took at European level, which is to increase the glass collection up to 90%. As you probably remember, every time we can increase by ten points the ratio of collects, which is the used glass, into our furnace, we can reduce the CO_2 emissions by 5%. Therefore, we collect, today in Europe, 76% of used glass. We, as an industry, with various partners, the retailers, the brands, the local municipalities have a project to increase this collection ratio from 76% to 90% in order to use more recycled glass in our furnace and therefore reduce our CO_2 emissions as well.

So these are long-term projects that we have been pursuing despite the short-term hiccups linked to COVID-19.

These were the main highlights for the quarter for Verallia and for the industry. Now I will hand over, on the next page, to Didier Fontaine, who will present the financial results.

Didier Fontaine: Thank you Michel and thank you very much, all of you, for joining the call. My presentation will be structured under three parts. As usual, number one, we will start by reviewing the revenue numbers at group level. I will then move to profitability, as part two and I will conclude on the cash performance, with a review of our strong financial structure, which we have to address the current crisis. As you know, liquidity is, more than ever, a point of focus for everyone and for us as well.

Before moving to slide 12 and as Michel mentioned earlier, I would just like to highlight that, in general terms, despite the first direct impact of the COVID-19 epidemic on our March sales, we are reporting a solid quarterly set of results. We have increased sales and improved profitability.

I am moving to slide 12. Overall, we can see there has been a good start of the year. We have, so far, limited the impact from the COVID-19 epidemic. The initial direct impacts have only been felt in March and even the second part of March. The group achieved a revenue of €645 million, which compared to €633 million in the first quarter of 2019. This is a reported growth of 1.9%, which represents an organic growth of 4% and as Michel pointed out, 2% if we exclude Argentina.

The first element on which I would like to spend a bit more time is the category, quote and quote, 'activity' that you see as slightly negative on the bridge. That negative is despite volumes sold, which are showing a small increase. Actually, the decline in French sales, where the selling prices and the sales mix are higher than the group average, , have, therefore, negatively impacted the activity box. In a nutshell, the French drop has figured a negative country mix.

Now, if we are looking by segment, in Southern and Western Europe, excluding France, therefore basically Iberia and Italy, demand levels remained dynamic, particularly food jars, beer and mineral water. Italy and Iberia posted positive growth over the quarter.

As far as France is concerned, at the beginning of the quarter, activities in France were affected primarily by the national strikes due to the pension reform, associated to a decline in demand from customers exporting to China. This decline became more pronounced from mid-March onwards, due to the reduced workforce available on site, as a direct impact from COVID-19 that came along with associated confinement.

On the Northern and Eastern Europe side, all the region has been driven by food jars and mineral water markets. Germany, Ukraine and Russia show, all of them, positive organic growth in Q1.

As far as Latin America is concerned, all the countries reported positive growth for the quarter. Nevertheless, depreciation took a downturn from mid-March onwards, particularly in Brazil, which is going through a challenging political and sanitary context.

As a summary, there has been a deceleration in organic growth in March. We have reached, overall, 4% but, end of February, that 4% was 5.9% and only 0.4% in March. Most of the softening, actually, was related to the on-trade channel, to which we are only exposed for one-third of our activity. As you know, this market encompasses hotels, cafés and bars, restaurants, which indeed are suffering heavily from lockdowns.

In terms of pricing policy at group level, you know it is an important point for us, although and as expected, the sales price increases at the start of the year were more moderate than the previous year, they were in line with our expectations.

The weight of Argentina, which is still in hyperinflation, is noticeable as the price/mix impact represents €11 million over the quarter.

Again, we have been impacted by a negative FOREX hit of 2.1% in the first quarter, which is a negative €13 million. This is mainly due to depreciation of LATAM currency. We are used to the Argentine peso going down but here it was notable in Brazil and this drop has intensified in March.

You know the numbers but, as an illustration, the Brazilian real dropped by 19% on average in March 2020 versus March 2019. April is currently showing, in Brazil, a further significant drop of the Brazilian real.

Now, since we have covered the revenue aspect, we will now move to the adjusted EBITDA on slide 13. Adjusted EBITDA grew by 6.5% in the first quarter, reaching €151 million. Organically, it increased by 9.6%. Again, this increase is relying on our three pillars. Again, quote-and quote 'activity' is negative, despite more volume sold over the quarter, as it has been penalised by the unfavourable country mix that I mentioned in the previous slide. This is, essentially, linked to the lower sales in France.

The pillar number two, the positive price-cost spread, albeit price increases, as I said earlier, have been moderate compared to prior year, is still well positive.

Finally, our third pillar, our performance action plan, our capability to reduce our cash cost base by our productivity. The PAP led to a net reduction in cash production costs by €8 million in the first quarter of 2020. As you are familiar with it now, I am going to present it in three different buckets. The pure cash savings generated by our hundreds projects in portfolio through the performance action plan, these reached €13 million, well in excess of the 2% of production cash cost reduction target of 2%. Those were, however, partly offset by an amount of €5 million inclusive of, first, I will say, what we call industrial variances that mainly come with the day-to-day usage of our industrial setup and machines and inventory clean up, when it is necessary. However, in that case, we need to add up our limitation in production, linked to the March stiff slowdown and associated as well to the confinement setup of the workforce, especially in France.

Despite those impacts, again, the adjusted EBITDA margin increased by 103 basis points to reach a robust 23.5%.

If I go to page 14, very briefly, I am going to focus onwards on our cash performance and our deleveraging efforts, as cash is king, especially in these days.

I am going to slide 15. During the first quarter of the year, we have continued to deleverage. Our net debt reached €1,574 million at the end of March 2020, which is a 2.5 times leverage of adjusted EBITDA for the last 12 months. This compares very favourably to the 3.1 times of March 2019, the 2.6 times of 31st December 2019 and which is confirming our half-time per year deleveraging ability. For information purposes, this leverage ratio remains well below the maximum leverage ratio set out in Verallia group financing documentation, which is set at five times adjusted EBITDA.

Now moving to slide 16, as I mentioned at the beginning of this presentation, Verallia has a strong financial structure that underpins its resilience in these critical times.

Like Michel and together with Michel, I am, with my team, monitoring both at central and very importantly, at operational level, daily and accurately the cash position of the group and we are consistently seeking at optimising our financial structure to the best. This is why, on 20th March 2020 the group drew €200 million from its €500 million revolving credit facility for six months, ahead of the upcoming maturities of our NEU commercial papers, which, by the way, explain the high level of cash in the balance sheet at the end of March.

As you probably know, the commercial paper market is currently closed for non-investment-grade companies in France and €196 million of commercial paper at the end of March is today reduced at lower than €150 million.

The sum of liquidity amounts to €528 million, which, compared to our debt, is at a very comfortable level.

A reminder that liquidity is simply calculated as the cash plus the undrawn portion of the RCF, of the revolving credit facility, minus the outstanding commercial paper.

Lastly, at the end of last week, we have been revisiting our capital structure to reinforce our liquidity and have decided to restore the usual level of undrawn credit facilities.

I am pleased to announce that the group has successfully set up, on 24th April 2020, an additional €250 million revolving line of credit, with one year maturity, extendable by six months at the option of group discretion.

The syndicate of banks, that I want to thank for their support and reactivity, is made of eight core European banks and we have, on purpose, limited the number of banks partnering. Under current, unusual, circumstances, it has been a good common effort.

That concludes my presentation. I want to thank you for listening and I give the floor back to Michel.

Michel Giannuzzi: Thank you very much Didier. So, I propose to move to the last slide of the presentation, on page 18. As you have understood from Didier's presentation, we have had a very solid Q1 financial result, which we are very pleased and very proud to report about, especially in the given circumstances. The organic growth was very remarkable, at 4%, even excluding Argentina, it was a strong 2% organic growth. We have continued to improve our adjusted EBITDA margin to 23.5%, with more than 100 basis points improvement versus the prior year. As you know, we continued to generate cash and deleveraged the company to 2.5 times last 12 months adjusted EBITDA.

So, that was a very good position to face and to start entering into the second quarter, which will be much tougher, as we all know. Given the fact that we have very limited visibility on the markets and our customers' orders, we have decided, on 7th April, to withdraw the 2020 guidance. We nevertheless continue to take the very strong adaptation measures that we have taken so far, with a lot of discipline and a lot of agility from our teams.

The first is to continue to preserve our employees' health and safety. The second thing is we will, of course, variabilize, as much, our costs. We will continue to have a very accurate daily monitoring of cash and supply chain.

We will, of course, continue to adjust our CAPEX and investments to what we need to do in the future, without compromising the future. So, basically, the two strategic projects that we have launched will be completed this year but we will start the new furnaces, the new capacities, only when we think we will need them, so we might have a slight delay in the start up.

Last but not least, we have decided to maintain our 2019 dividend at €0.85 per share, in cash or in shares, together with the reinforced liquidity Didier mentioned, with this new revolving credit line of €250 million that was signed on Friday last week.

So, we enter in a much tougher second quarter, we believe but with strong assets and a strong organisation in place to face the strong weather, or the difficult weather. We are very confident that, beyond the second quarter, when lockdowns will be released a bit everywhere, normal life should resume at some point.

So, thank you very much for listening to this call. I propose now to move to the question and answer sessions.

Questions and Answers

Matthias Pfeifenberger (Deutsche Bank): Good evening gents, a couple of questions from my side, if I may? Firstly, trying to see how deep the double-digit decline is going to be in the second quarter, my question is to South-West European segment[?]. Is the on-trade channel there basically at zero, or is there some base load going on and what is the compensation via the off-trade channel?

Michel Giannuzzi: Thank you for the question Matthias. As Didier indicated, this is a rough estimate and it can change from one country to the other quite significantly but, on average, for Verallia group, the on-trade channel represents about one-third of our business, versus two-thirds on the retail side off-trade channel.

On the on-trade channel, this is the sales of our customers but our customers are also, I would say, having to manage their own supply chain. Even though, as you know, all the bars and restaurants and cafés are closed in many countries and will still be closed for a couple of weeks, some of them, in France for example, have completely stopped bottling for a few weeks but are now resuming bottling activities in anticipation for the restart and the reopening of those HoReCa channels. In other countries, it has been also the same, so we have had a big slow down which will continue for April and May. However, I would not say it is zero, otherwise it would mean, just making the maths, that we lose one-third of our sales. We said it will be a double-digit drop but we don't believe, at this point in time, that it will be a 33% drop in sales.

Matthias Pfeifenberger: Exactly and countries like Northern Europe and in Sweden are still open. Maybe a quick feedback from my side, here in Austria, because it just came out today: Austria will resume going to restaurants in a party of four from 15th May onwards. So basically, we are one of the earlier countries and it is basically resuming as we speak.

My next question could be on the drop through. With this double-digit decline obviously, maybe, being about, whatever, 10–15%, how can we think about the drop through in light what you said previously: you can also produce, to some degree, on stock, you can reduce the utilisation a bit on the furnace side and there are also cost measures? How do you think about the drop through in light of the high fixed cost shares in these items?

Matthias Pfeifenberger: Okay. I will let Didier, maybe, handle this answer. So, Didier, do you want to take that?

Didier Fontaine: Yeah. So, first, you are right, I think we are repairing furnaces, mending furnaces, on a yearly basis. This is the first line of amortisation of, I would say, quote-unquote, underactivity because instead of having two months' stoppage, you might have three months' stoppage and then you are able to offset or mitigate the impact.

We are very careful because it is a double-edged sword. You can still produce and put that in your inventories but you need to make sure those are good products and that you are able to sell it because it is future problems if you are just producing for the sake of putting that in the balance sheet.

So we are very careful to continue to produce but producing the right products, so that there is no future hit. However, the first defence, clearly is reducing the number of lines available, when there is downtime, make it a little bit longer, postponing some start ups, where you are not heating the furnaces, so it is not expensive. That is basically what we are doing and there is a mitigating effect from that, yes.

Matthias Pfeifenberger: Okay. I have a couple of smaller questions. Actually, let us say the world is being resumed in Europe in the third quarter, do you expect a catch-up effect, maybe, in the fourth quarter or is this, seasonally, too little in terms of importance? Can you confirm that Q2 is, seasonally, the strongest quarter?

Then my last one would be what about the ability to redirect volumes from France, Italy and Spain given the limited shipping radius?

Michel Giannuzzi: So, regarding the catch up in the third quarter, fourth quarter, I am not sure in our industry, at least for us, there will be a lot of catch up, to be frank.

Matthias Pfeifenberger: Yeah.

Michel Giannuzzi: I mean the wine, or the spirits, that people have not drunk, I am not sure they are going to drink two times more in the future. Also, our customers, as I have said before, to some extent, have also managed their inventory in order to mitigate the very sharp closing of hotels, restaurants and cafés. So we are rather cautious on what you call the catch up, or the rebound, effect in this industry. That is why we do not give guidance anymore: because nobody knows and we do not have a crystal ball. However, we do not expect a strong rebound in Q3 or Q4 to higher levels than last year. I think it will be a progressive recovery, if you want, of the demand from our customers.

The strongest quarter is actually Q3, normally –

Matthias Pfeifenberger: Okay.

Michel Giannuzzi: – because that is when people go on holiday and spend more time at bars, restaurants and so on. However, we also know that there will be a consequence on travel and the way people will spend their holidays this year, probably less travel, especially in countries like Spain, Italy, where there is lots of tourism activity. They will be probably be suffering a little more.

Matthias Pfeifenberger: Okay.

Michel Giannuzzi: Sorry, can you remind me the third question again? I did not have time to take notes.

Matthias Pfeifenberger: I think I have asked enough anyway. I will put myself back in line and let the others ask some questions.

Michel Giannuzzi: Okay.

Matthias Pfeifenberger: Thanks a lot.

Michel Giannuzzi: Thank you. Thank you, Matthias.

Francisco Ruiz (Exane): Hello, good afternoon and thank you for taking my questions. I have three questions, if I may? The first one is on the efficiency plans. So, remember during the IPO you commented that the efficiency plan is not heavily linked to production, so how do you expect this PAP to evolve in the following months?

The second one is if you could give us a little more detail on the cash flow generation, so maybe what has been the working capital and the CAPEX in this quarter?

The last question is if you could give us some detail, if you have any facilities already stopped and you could do some selective stoppage of productions in the coming months in order to adapt production to demand? Thank you.

Michel Giannuzzi: Okay. Maybe I will take the first question on PAP and let Didier talk about the CAPEX evolution. I will also speak about the selective stoppage, so I will take number one and three and Didier will speak, probably, about the CAPEX.

So, regarding the PAP, as Didier mentioned, we had a very, very strong Q1 on PAP, with €13 million gross PAP, which is well above the 2% target that we have.

Even if it is more difficult, let us be clear, because the people are very busy fixing the short-term absenteeism level, or customer demand changes and so on and so forth, we are more than ever committed to deliver this strong 2% cost reduction on the PAP side. So, as far as I am concerned, this is still a very valuable objective, so we are not giving up on this one.

I will take your third question, regarding selective stoppage. As Didier mentioned and I think that was something we covered during the IPO roadshows, we are refurbishing, every year, six furnaces that are completely knocked down and rebuilt. On the top of this, we had planned to increase the capacity before COVID-19 with two new furnaces to be started, one in Azuqueca in Spain and one in Villa Poma in Italy.

Obviously the two brownfield projects, the strategic projects, even though they will be completed this year, will be started only when the demand will be back to where it should be, which means the start of those two new capacities will be delayed.

Regarding the existing capacity, we will adjust our capacity to extend, wherever it makes sense, the furnace stoppages to a longer period. Usually it takes, depending on the furnaces, between 7–10 weeks to rebuild a furnace. We will consider extending, in some areas, the furnace stoppages to, of course, reduce our capacity in order to have the other production lines run as efficiently and at a nominal level as much as possible.

So, this will be our strategy: to adjust the capacity to the market demand by not starting new capacity, first of all and second of all, by extending the planned factory rebuild period by a few more weeks for each of them. So, I will hand over to –

Francisco Ruiz: Michel?

Michel Giannuzzi: Yes?

Francisco Ruiz: Yeah. Could you accelerate some refurbishing planning for next year to this year in order to do the same with the same aim?

Michel Giannuzzi: Well, accelerating, maybe not. Maybe stopping a bit earlier, yes. However, from a cash point of view, we have no interest to spend money upfront to rebuild furnaces that we will not use immediately afterwards.

So we might consider stopping some furnaces that were, for example, supposed to start beginning of 2020 when we stopped them, maybe, one month earlier. So when I say extended, it's either extended by delaying the restart or extending by anticipating the stoppage by one month or so, or two. So that will be considered as well, yes.

Francisco Ruiz: Okay, very clear.

Michel Giannuzzi: Didier, do you want to talk CAPEX?

Didier Fontaine: Yes, yes, CAPEX and working capital. Francisco, good afternoon. On the working capital, we are going to talk about variances. Actually, on working capital, first of all, we have used less non-recourse factoring in Q1 2020 than Q1 2019, essentially, because the France level of sales dropped and France is a big user of factoring. Despite that, we have been able to improve the variance. We burn cash in working capital because normally there is a growth between Q4 and Q1: Q4, N–1 and Q1, between 6% and 7%; that was the case. In 2019 the working capital worsened €8 million more than this year, so we have been able to be better in terms of working capital management, despite using less factoring, which is mechanical, that we have been better.

On the CAPEX, it is a bit different. We told you that we were going to expect cash, CAPEX, much earlier this year than last year, especially based on the fact that we have the two big strategic CAPEXs. Actually, we spent €20 million more in cash, in CAPEX, this quarter versus Q1 2019: €77 million cash CAPEX out, versus €55 million the year before, same quarter. However, that was as expected.

Clearly, going forward, the CAPEX level is monitored very carefully, the timing, the phasing, as Michel pointed out, so we are looking at that very carefully. However, in Q1, that was as per plan, starting to invest and spending more cash than the year before.

Overall, if you look at the free cash flow of Q1, after taxes and interest charges, it has been positive.

Francisco Ruiz: Okay, thank you very much.

Michel Giannuzzi: I will maybe come back to the question from Matthias regarding Q2 being a strong quarter. Maybe I should correct what I said. Actually, last year, Q2 was a stronger quarter than Q3 and it was the strongest quarter of the year. We do not expect this year to be the same. That is why I was mentioning Q3 would probably be higher than Q2, because of the big shortfall in Q2 this year. So, sorry for the confusion, Matthias but I just want to correct what I said. You were right: last year Q2 was stronger than Q3 but this year, because of the double-digit drop that we expect to see in Q2, we think Q3 will be slightly higher.

Sorry for the miscommunication.

Charles-Louis Scotti (Kepler Cheuvreux): Hello, good evening, I hope you are safe and healthy. I have four questions, please. The first one: can you share with us the organic sales trend in the second half of March and beginning of April? My second question, on the French market: we seem to be more affected than other countries; is it a production issue or is it because the demand is more impacted?

My third question is a follow-up question on the drop through. Is it fair to assume a 50% drop through, as you guided during the IPO, or can we expect a lower drop through because of the coronavirus stoppage?

The last one: can we expect the wine and sparkling wine demand to be more resilient because, regardless of the demand, winemakers will have to bottle it anyway? Thank you.

Michel Giannuzzi: What I propose is probably I will take the questions number two and four and will let, probably, Didier, give you the trend on the sales trend and the second part of March and April, as well as the drop through.

Regarding the French market, what happened in France is a bit different from what happened in the other countries, to be frank. The suddenness that took place in France to put people in lockdown with restricted activities and restricted moves from the people was much bigger than what we saw in the other countries, like, for example, Italy and Spain. So, therefore, we had a much bigger drop of demand in France than in the other countries, Italy and Spain, to name them, for example, as neighbouring countries. On top of this, I have to say we had a much higher absenteeism from our workforce in France than we have seen in the other countries.

So the slowdown, or the reduction, if you want, of sales in France is mostly due to the drop of orders from our customers. However, to some extent, we also have adjusted our production down, due not just because of the drop of orders but also because of the absenteeism that we had in our factories. Now, as I said before, one of the, maybe, characteristics of the French market is it is probably more premium than other markets. If I just take the example of champagne, the champagne producers have shut down their bottling facilities for a couple of weeks. They have restarted in April but they immediately stopped their bottling activities because champagne was very seriously impacted by the closure of hotels, restaurants and cafés, for example and the fact that it is not a time when people want to drink champagne at home, when they are in a lockdown situation. We saw the same strong impact on the spirits segment in France. The French spirit market is quite strong, especially at export and we believe that our main spirit customers, that are, especially, exporting spirits to Asia, or even the US, have also suffered quite a lot from the drop of their markets.

So, therefore, I think it is fair to say that the French market has probably been more impacted than the other markets because of the product mix and also because of, somehow, the strong lockdown measures that have been requested by the government.

To answer your question number four about wine and sparkling wine, it is true that, especially in the sparkling wine, our customers had to empty their barrels in order to prepare for the next harvest. That is one of the reasons why they have restarted bottling, for example and they will, of course, put the sparkling wine and to some extent the wine as well, in reserve, as a reserve for the future years so we might see some bottling activity restarting again.

However, again, it is very hard right now to forecast what our customers are going to do. You know we have, especially in the wine segment, a lot of small customers. This is where we have the biggest number of customers and they have quite limited visibility on their own sales. We navigate, from one week to the other, with sometimes very changing demand and orders. So the good thing about Verallia is that we are very flexible, so we are, I think, quite good at following up that demand and adjusting our production line to the real need.

As Didier mentioned before, we don't build stock for the sake of building stock. We build the right stock for them but we do not have a lot of visibility of what they are going to do, to be frank.

Now I would like to hand over to Didier, who is going to talk about the trend in March and April.

Didier Fontaine: Yes. I will step back and I come back to what I said during the presentation, on slide 12. The organic growth, if we exclude Argentina, has been 3.7% in January–February. As we said, it has been 0.4% in March and if we exclude Argentina, the organic growth has been negative in March by –1.1%. So, 3.7% January–February and 1.1% negative in March.

What has happened has happened, essentially, in the second half of March, in France and LATAM, especially Brazil. Now, April, we are seeing all the countries being impacted at different levels, depending on their exposure to that product or that product. However, the organic growth should be negative, as well, from a top line perspective by double-digit numbers in April. That is the reason, that is the pace we are seeing today.

Okay? Now, you had a question about the drop through: clearly, when we see volume going up, we expect a 50% contribution because we do not expect to put cost in front of that. On the other hand, when volumes are going down, we are putting a lot of measures in place that should enable us to mitigate. So no, we are not expecting a 50% negative drop through from a sales differential into an EBITDA differential. It should be much lower than that. It will have an impact, of course, because we are a fixed cost business but we are working on supply costs, we are looking about flexibility of labour, we are looking about stopping furnaces, reducing the fixed cost bases of the plants, of the lines, so there are a lot of initiatives we have taken to be able to be flexible in our fixed cost base and even our cost base, generally speaking. Therefore, no, it will not be 50% drop through, or near a 50% drop through, lower than that.

Charles-Louis Scotti: Okay, thank you very much. Just one follow-up question, please, on raw materials: I know that you have a very strict hedging policy but when shall we expect some positive impact of the decline of raw material prices?

Didier Fontaine: I will take it, Michel. Raw materials are different. Are you talking energy or raw material? Because raw materials at the moment are –

Charles-Louis Scotti: Sorry, my mistake, energy costs.

Didier Fontaine: Okay. Well, energy costs, to be totally transparent with you, you know we hedge 2020 based on 2019. So, currently, today, our hedged cost is higher than the spot. You know we have a policy for N+1 to be fully hedged, N+2 at 70 to 50%, N+3 between 50% and 25%. So, unfortunately, this year, we are almost slot with pricing at higher than the spot price. However, the spot price on gas, for example, is a total nonsense i.e. it is driven as well by the fact that there is a very low level of activity. So, when are we going to benefit? Probably in a very, very limited impact. We have some because we kept some flexibility, a little bit but very minor so no, we don't expect a positive impact this year. We are losing an opportunity. We are losing an opportunity but at least from pure risk management, I think we are safer to hedge than not to hedge and be speculative. We are running our strategy. The objective is not to be at the best price ever; it is to have a good long-term view on our cost base.

Charles-Louis Scotti: Sure, thank you very much.

Michel Giannuzzi: You remember, this policy on hedging has enabled us to give the right targets for price increases to our sales force. This, that you have seen from Didier's presentation, has enabled us to have a positive spread, so this is really key in our strategy. The three pillars of the strategy are growth, positive spread and PAP and we have delivered on the three pillars in Q1.

Charles-Louis Scotti: Perfect, thank you.

Jean-Michel Belanger (Société Générale): Hi, good evening Michel, good evening Didier. I had a quick one –

Michel Giannuzzi: Hello.

Jean-Michel Belanger: – on M&A. I know that, of course, it is not at the top of your agenda but could you consider that the current situation could lead to some attractive opportunities in some countries in Latin America?

Michel Giannuzzi: Well, thank you, Jean, for asking the question. As you know, M&A, although it was not the central theme of our equity story at IPO time, is something that we have always said that we will consider if it makes sense for the company, if it makes sense for our customers, for our employees and for our shareholders.

Last year, as you can imagine, we were very busy with the IPO, so that was not the focus of last year. This year, the start of the year has been quite disturbed by COVID-19 but this big shock to the global economy might push some family-owned business, or smaller business, to consider partnering with larger and well-managed and a very successful company like Verallia in the future. So we are going to, more than ever, actively look for M&A whenever we see opportunities, despite the short-term turbulences in Latin America. However, for those of us that have lived and worked in Latin America, that is part of the, I would say, volatility of the region that we have to accept. As you remember, this is a good area to invest in and of course, if we see opportunities there, we will look at them very seriously.

Jean-Michel Belanger: Okay, thanks a lot Michel.

Lars Kjellberg (Credit Suisse): A couple of questions from me: I just wanted to better understand the industrial variance we are talking about, the €5 million. What is in that number and how should we view that going forward?

Also, of course, China is gradually starting to reopen. Are your customers and your distributors starting to see any light at the end of the tunnel for the spirits business, the export business specifically, to China? I may have missed this but did you specifically talk about the first quarter volumes in Europe?

The final point from me would be on the risk, as opposed to pricing. Given we now have quite a weak environment, energy is a big tailwind, so as you start negotiations for next year's pricing and given your hedging policy, should we view that as a risk, generally, to pricing, because some of your competitors may not have had the same pricing policies, or hedging policies?

Michel Giannuzzi: Okay, thank you very much Lars. I will take the question about China and pricing and maybe I will let Didier answer the industrial variance and the first quarter volume, to remind you on the first quarter volume.

Regarding China, as you know, we are not directly exposed to China, or even Asia. However, we are, indirectly, through our customers that are exporting into this region. Now, as you well know, the biggest impact for them has been the fact that COVID-19 started during the Chinese New Year, which is a very, very important time of the year for our customers selling in China and therefore their businesses suffered from that. It seems that, according to what you read, they are resuming sales in this country, as well as the rest of Asia. However, again, I do not think the Chinese will drink the spirits that they have not drunk during Chinese New Year. So it is a progressive recovery but it will not catch up the lost volume of the first quarter.

Now regarding pricing for next year, it is hard to say. There are still a lot of things that can happen between now and next year. Just let me remind you that Latin America has a completely different system where prices are negotiated on an ad hoc basis, which could be every day, or every month, let us say, in Argentina, for example, or every quarter in Brazil, or every month, also, in Chile, so Latin America is a bit different. However, in Europe, prices are negotiated, usually, once a year and we have about 20% of our business in Europe which is based on long-term contracts with price indexation formulas. So 20% of the business is more or less covered by formulas, so whether it is up or down, the formulas will tell us what the new price will be next year. For 80% of the remaining business, it is an annual negotiation, which usually takes place between November and February of the following year.

So we will see what energy costs are in November and December; we will see what the capacities of the market are at that time; we will see what our customers going, at that time, to do. It is very early to say what will be the pricing dynamics, if you want, on the markets but we will see in due time, around the end of the year. It is hard to project, again.

Lars Kjellberg: I appreciate that.

Michel Giannuzzi: Didier, do you want to take both the other questions?

Didier Fontaine: Yes, the industrial variances. So, the €5 million: when I made my comments, I told you the €5 million was made of three buckets. Bucket number one is, generally speaking, industrial variances, which encompasses two types of it. Number one is the fact that you are not performing at the expected level of performance and the standard price of your product is not reached and the real cost is higher than the standard cost, so you have industrial variances. On the top of that, you know we are performing, on a very regular basis, a review of our inventory hedging: basically depreciating some inventories that are not either good, that are too long, as a duration, or they are not at the right quality, so that is the second bucket, with the first bucket I would say that is the day-to-day of the business.

The third bucket is really linked, today, to what we are seeing given the confinement and the restriction to have the right level of people available on lines. Meaning what? Meaning that if, in a given plant, I produce 10% less with the same level of fixed costs, especially on labour costs, indirect labour , I have two options, I call that under activity, given the COVID and the rest, either I put them with my inventory costs, which means I put that on the balance sheet, which is not financially sound, or take a hit as underactivity in my P&L. That is what has happened in March and it is what has happened, essentially, in France, because we had a level of absenteeism that was high, therefore lines running with lower production, instead of charging all the fixed costs to the adequate production, it is plant-by-plant type of approach. Clearly if the plant is running normally. So instead of taking that cost within the cost of production, going into the average cost of inventories, we have put that in the P&L. That is probably something that can be discussed in the future, whether it is a non-recurring event or it is a recurring event. At March, we considered that as non-significant, so we put that here as an underactivity, in industrial variances, impacting the PAP.

Lars Kjellberg: That makes sense, thank you.

Didier Fontaine: You had a question on Europe activity. We do not give the breakdown. What I can tell you is that, as we said, Northern Europe was showing a positive organic growth, Italy and Spain all together. That was partly offset by France.

Lars Kjellberg: Okay, thank you.

James Rose (Barclays): Evening everyone. Can I talk about some trends in March and April and could you talk about how the demand evolved in the off-trade part, then maybe give us an idea of how demand has evolved by category, i.e. differences between wine, beer? Perhaps there are some offsets from food and water jars, as well, by the sounds of it.

Then, lastly, on working capital, because you have such a fragmented customer base, with many smaller producers, have you got any concerns about receivables in the near term? Is there any help you can provide to those customers? Thanks.

Michel Giannuzzi: Okay, James, thank you very much for your questions. I will answer the first question, regarding the trend and a little bit more, I would say, colour on the business. I will let Didier talk about the working cap and what we are doing to protect, of course, our receivables and our cash generation.

Regarding the trends in March and April, basically, the trend that we started to see at the end of March has strengthened, or has worsened, I do not know how to say it, in April, with the same categories as in March that were doing very well, like jars for food, like beer, to some extent in many countries. On the opposite, the categories that are doing the worst are clearly the spirits and the sparkling wine, that are also linked to, mostly, HoReCa sales channel.

When we talk about the split between on-trade and off trade, this is our own assumption, so it is kind of an estimate from our side, because, of course, it is more the business of our customers. However, we estimate that there is quite a significant difference between one country and the other. The country that we see with the highest share of on-trade business, with around 45% on trade, versus 55% off trade, are countries like Iberia or Brazil, or Latin America, more generally speaking. On the opposite of the spectrum, you see countries in North-East Europe with a much lower share of on-trade business, which is, we estimate, about 20% only. When you talk about France and Italy, they are more in the vicinity of 35–40%. So the on-trade, off-trade business changes quite a lot by country. However, overall, when we average it out, it is about one-third for the Verallia group on trade and two-thirds off trade. I repeat, jars, for example, are mostly exposed off trade, in the retail shops, whereas spirits are mostly on-trade, or a big share of it is on-trade. So that is what I can say on the business side.

Maybe, Didier, you want to comment on the customer –

Didier Fontaine: Yes, on the receivables aspect. Clearly, this is as you say: we have a very diversified customer base. Part of it, or a big chunk of it, was under the off-balance-sheet, or non-recourse factoring, meaning this is depending as well, a lot, on the risk insurance companies. Those ones, honestly, are not playing their role; they are reducing some coverage.

Clearly it is something we are monitoring on a daily basis because of two reasons. Number one, we are not a bank. Number two, there are customers we want to protect as well but they have to make the effort, especially in a country like France, where they can have access to a state-sponsored type of loan. As of today, the overdues at the end of Q1 are very similar to the end of Q1 2019. However, I think the worst is in front of us because, I mean, as we said, the drop in sales is coming towards us, so we need to be very, very careful. You know we are monitoring that. We have taken a very close look through the commercial people. We are given tools to support, to anticipate, going customer by customer. The only thing is, from a pure number, pure millions, standpoint, the overdues are the same as last year, same period, which is not satisfactory because, really, clearly we wanted to go down in a normal environment and clearly it is a point of attention because it can derive. You know what we call it? We call working capital the silent killer. You do not see it, you do not feel it but, at the end of the day, you do not get the money.

James Rose: Okay, thanks very much for your time.

Markus Remis (Raiffeisen): Good evening gents, two left from my side, firstly related to the mix and especially asking about the off-trade channels. To what extent are you concerned that we will see a deterioration of the mix of people opting for less premium, be it wine or spirits, you name it?

Then, secondly, if you could clarify whether you have applied for any state aid measures, some sort of subsidies, moratoria to taxes, in any of the countries you are operating in?

Michel Giannuzzi: Regarding the mix, the biggest mix impact will be between categories, rather than within categories, I believe. The mix within categories can happen but I am not sure how big it will be. However, the biggest impact will be, probably, the mix between categories: the fact that spirits are down, usually. Spirits and champagne have, for us and for our customers, too, by the way, higher margin than, for example, the beer segment. So, the negative mix that we could probably face, although it is too early to say, would probably come from the segment mix, rather than the channel mix, if you want.

Regarding the applications for the state, maybe Didier wants to mention what we have done but as much as possible, what we have done, especially in France, we have used all the holidays and bank hours that people had, first of all, to adjust for the lower level of activity. Secondly, we have not applied for any state-supported loan or state sponsored or guaranteed loan, as, probably, other companies have done. Usually the only thing that we have used is partial and temporary lay-offs, when we had to adjust for a lower level of activity in some plants. So that is basically what we have been doing.

In the other countries, we have not had to ask for special support from the state, either.

Didier Fontaine: To add to Michel's point, that's the reason why the drop through will not be 50% as well.

Markus Remis: Right. Maybe one more on the dividend. So the option to get new shares, that is essentially scrip dividend. How should we think about the conversion price? Is that fixed in advance or when would that be kind of stipulated, how many new shares they get for the €0.85?

Michel Giannuzzi: This will be communicated very soon to the market. It is very usual practice, based on the current practice in this kind of share-based payment for dividend, so we will communicate to the market the details of the way the share dividend will be calculated, knowing that you have plenty of time because the general assembly, the shareholder general assembly, will take place only on 10th June. So we will communicate, probably, next week about it, at the same time we make public our resolutions for the general assembly.

Markus Remis: Okay, right, thank you.

Michel Giannuzzi: I think we have a written question from Rosanna Burcheri at Artemis. I will read it for you so that we get the whole question: '80% of the contracts are volume-based, on an annual basis. Could there be a possibility of no volume discount at year-end, as volume targets will not be reached?' The answer is clearly yes. We have a rebate system which, in many cases, is volume-based and therefore if volume, for some reason, is not at the expected level, the rebate might not be paid. Of course, this will be a negotiation at the end of the year, customer by customer but the answer is yes; there will be a reduction of rebate at the end of the year if the volumes are not met by our customers.

Thank you all for attending this long discussion and presentation. We much appreciate your time and your interest in Verallia. Again, thank you very much for following our performance and I wish you all to stay in good health in the coming weeks, months and years to come. So, have a good evening all, thank you very much.

Didier Fontaine: Thank you very much.

[END OF TRANSCRIPT]