Verallia Full Year 2020 Results

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Financial Highlights and Key Initiatives

Michel Giannuzzi

CEO, Verallia

Welcome

Good morning, everyone. And thank you very much for attending this call. I will be sharing this presentation today with Nathalie Delbreuve, Group CFO. And I am very pleased to be able to report to you our 2020 financial performance. First of all, I hope that you and your relatives in good health. And I wish you to stay healthy going forward.

A global leader in glass packaging

So the first part of the agenda is about the highlights of the year. And as a reminder, I just would like to remind you the global positioning of Verallia. Verallia is the glass packaging leader in Europe. And Europe represents about 90% of our sales in 2020. We are number two in Latin America. And Latin America represents 10% of our sales. And we are number three in the world.

If you look on the left-hand side of this chart, you see that we have a very diversified end-markets segment exposure. Of course, still wine is still the number one product category for Verallia, given our historical strong presence in the three largest wine-producing countries in the world – Italy, France and Spain. But beyond still wine segment, you see that it is very well spread in the other segments with good exposure to all these markets, which has enabled us to, of course, benefit from some more dynamically related markets last year rather than suffering from the poorest performance last year.

In terms of number of furnaces, as we speak today, this has changed compared to last year. We did have 57 furnaces last year, if you remember. As of today, we are pleased to report to you that we are starting the two new furnaces that have been built two years ago and were put on hold last year due to the pandemic, one in Spain and one in Italy. And we have also, as you know very well, decided not to reconstruct one furnace in France due to excess capacity we had in France. And therefore, today we operate in the company with 58 furnaces in the Group.

These are still the 32 plants we have. And in additional to these 32 glass plants, we have three decoration plants and eight cullet recycling centres, which are very important for our sustainable strategy.

Shareholding structure as of end of December 2020

Moving forward, if you look at the shareholder structure as of end of December 2020, I just remind you that during December there has been significant change in the ownership of the company with Horizon Investments Holdings, owned by Apollo, selling around 10% of the shares to BWSA.

And now you have seen the split between the main shareholders of the company with a strong increase of Brasil Warrant Administração de Bens e Empresas, BWSA, our Brazilian investor in the company, who has clearly declared that they are a long-term investor alongside the management in this company.

We were also pleased to see that Standard & Poor's upgraded two notches the company in December and we are now rated BB+ by Standard & Poor's with a stable outlook. And given also the change in the capital structure of the company and the shareholder structure of the company, I would say, the Board has slightly changed also with Apollo leaving one Board membership to BWSA, and we welcome Marcia Freitas on behalf of BWSA last year.

Last but not least, I have to mention that Sylvain Artigau at beginning of the year decided to resign from his mandate. And we will be organising, throughout the year, another election in France to elect a new employee representative.

So altogether, the Board members are 12 in total with two non-voting observers and five Independent Board Members. And each of the committees, the Audit Committee, the Appointments and Compensation Committee and the Sustainable Committee are all chaired by independent shareholder.

Our purpose

Moving forward, I would like also to remind you that last year was an important year for Verallia, because during that year we redefined our corporate purpose which you can read here. We want to “re-imagine glass for a sustainable future”. And this is really clearly embedded in our strategy and in everything we do in the company.

Verallia commitment to the United Nations Sustainable Development Goals

This has led us, on 21st January, to present to you and to all the general audiences, our commitments to the Sustainable Development Goals of the United Nations, which in our company, we have decided to focus on three main pillars.

The first one is to enhance the circularity of glass packaging. The second pillar is to significantly reduce our CO2 emissions across our operations. And the third pillar is to provide a safe and inclusive place of work. We have detailed in the presentation, which is available on the website, a lot more what it means for us in terms of complete action plans and strategies and targets. But I would just like to highlight a few slides from this presentation.

Circularity is at the heart of our model

The first one, I remind you that glass is a beautiful material. It is a healthy material and infinitely recyclable material. And it is a perfect material for the circular economy because we can recycle it forever. And not only it is good because we avoid depleting the planet from natural and raw resources, but we also, by doing so, can save a lot of energy and also reduce our emissions.

Every time we can increase our cullet usage rate, cullet is name for the used glass, by 10 points, we can reduce our CO2 emissions by 5% and our energy consumption by 2.5%. So not only it is good for the planet. It is also good for the P&L.

CO2 emissions reduction: detailed action plan

And therefore, this pillar is very key for us to achieving our long-term sustainable goals, especially in terms of CO2 emissions, because as you can see on this chart, we have built a very strong road map to achieve 27.5% CO2 emissions reduction by 2030, which is the target defined by, or with SBTi, Science Based Targets initiative, in order to comply with the well below two degrees temperature increase agreed at the COP 21.

This means for Verallia, in Scope 1 and 2, a reduction of 850,000 tonnes of CO2 in absolute value between 2019 and 2030. And our road map basically is focusing on three main areas.

The first area is to reduce the emissions of CO2 by using more cullet and more less CO_2 emitting raw materials. And this contributes about to one-third of the improvement.

The second area is to be more efficient with our processes. You know that the furnace we operate are running at around 1,500 degrees C. And therefore, we are doing a lot of things to optimise the energy consumption, and therefore the CO2 emission reductions for these operations.

And the third pillar is to move towards greener energy, and we want to move from 20% green energy we have today, to 60% by 2030. This is, of course, just a resume of what we presented in on 21st January.

CO2 related investments

And this will require also some investments we quantified and you can see here how it would be split throughout the years in the next 10 years. This will represent an additional €220 million investment to be able to manage and achieve this very ambitious goal of CO2 reduction.

Latest ratings and partnerships

Last but not least on this topic, we are very pleased that not only EcoVadis with a new referentials and confirmed our gold ratings, which is putting Verallia in the top 5% companies. But for the first time, because last year was the first time, we presented our results to CDP, carbon disclosure project, and we were rated A-minus, which I think for first approach is quite a significant achievement.

And as I mentioned before, we also welcome the Science Based Targets initiative in order to define our goals for 2030. Last but not least, we partnered also with Ellen MacArthur Foundation in order to work together to promote the circular economy in our industry. And you can see here the partnerships we have.

So this is very important for us to now focus on the deployment of our road map in the years to come.

Provide an inclusive place to work

Moving to just one example of what we are trying to do to promote our inclusive place to work. There are many initiatives about safety, about the work on the people in the company. But one area which we are very proud of is how we share the benefits and the profitable growth of this company with our employees.

I have to say that over the period 2016-2020, over five years, we went from 0% employee ownership to 3.2% employee ownership in the company. And last year, like the focus this years, we offered to 80% of our employees the opportunity to invest in the company buying shares. And altogether we had a 42% participation rate to this programme last year, 80% in France, which is quite remarkable.

And this means that, as of today, 37% of our employees are shareholders of this company, which shows the trust our employees in our company and in our strategy. And as such, we have been rewarded by the FAS Grand Prix for our practice focusing on developing the employee ownership programme.

And as we committed to at the IPO time, we will keep proposing in the years to come the same programmes or similar programmes to our employees to favour employee ownership and one programme will be of course guaranteed in the coming months.

So all these are important highlights of last year. And I think a lot has happened last year. And this has, of course, translated also into financial results, which we are very proud to mention to you.

Significant resilience to the crisis in 2020

First of all, reporting net sales dropped by 1.9% actually. But at constant exchange rate and scope, the organic growth was 2.1%, which I think you can appreciate is showing the resilience of our company despite the pandemic.

Our adjusted EBITDA kept improving at €626 million for the last year compared to, if you remember, €615 million the year before. This means an EBITDA margin of 24.7% for 2020 compared to 23.8% in 2019. So we gained 90 basis points improvement in EBITDA margin despite the pandemic, which I think the teams is very pleased to report to you.

As such, the net income drastically improved from €125 million in 2019 to €210 million last year. You remember that the year before, in 2019, we had quite a lot of one-off expenses due to the IPO and refinancing of the Group debt, and the fact that our debt has significantly been reduced throughout the year. Our surplus reduced our financial expenses.

The earnings per share is now €1.67 per share compared to €1 the year before. And this includes a negative impact of €0.37 due to the amortisation of the customer relationship that was booked at the time of the acquisition of the glass packaging division of Saint-Gobain in 2015, which is a pure accounting impact.

The net debt last year has also very strongly improved to €1,279 million at the end of the year, which means a 2 times leverage, which is really at the low end of our targeted range. If you remember, it was between 2 and 3 times, thanks to very strong cash flow generation last year that I will let Nathalie comment in a few minutes.

As such, we would propose to the shareholders in our assembly in June to pay a dividend of €0.95 per share compared to €0.85 a year before. And it would be proposed to pay the dividend all in cash.

Last but not least, given the strong performance last year, we are very confident on the fact that we would be achieving our mid-term objectives not in 2022 as initially planned at IPO time, but as of 2021, including the strong deployment of our ESG road map that was presented a month ago.

This being said now, I will let the floor to Nathalie Delbreuve, who will go through the financial results presentation.

Financial Results

Nathalie Delbreuve

CFO, Verallia

Welcome

Thank you, Michel. And thank you very much to all of you for joining this call. It will be my pleasure to walk you through our 2020 financial results. I will split my presentation in three parts. We will be first looking at the revenue numbers, then the EBITDA profitability for segments, and finally CapEx and cash performance.

Positive organic growth in 2020 despite COVID pandemic

So moving to the growth slide. You can see that we posted turnover of €2,536 million with a reported growth negative, minus 1.9%, but in fact organic growth has been positive throughout 2020, which is, as Michel mentioned, showing really the resilience of the Group.

Volumes have been very erratic throughout the years. The second quarter, especially, was showing a very significantly drop in volumes due to the first lockdown in the start of the pandemic. But then we have seen a good recovery in the second half of the year, especially in the third quarter as we already commented with the September results.

Throughout the year, in fact, for product, sparkling wines and spirits have been the two categories really suffering, but food jars volumes on the other side has been increasing steadily throughout the year.

Price increases have been supporting the growth of the sales and compensated our cost inflation, as I will show you later. And talking about the mix, we have seen a negative impact of the pandemic in the first semester but recovering the second half of the year. So overall, throughout the year it is basically flat.

Now the last pillar that you can see on this chart is the foreign exchange rate contributing significantly negatively minus 4.1%. And it is mainly driven by a LatAm currency, in Brazil, the currency has deflated by almost 40% from the beginning of the year to the end, and we suffer from that mainly in LatAm.

SWE: slight volume decrease

Now moving geographical segments. South and West Europe has been receiving quite well. So posting a slight decrease in sales, minus 0.5%, and slight revenue decrease as well. But Italy has been very resilient and could support the segment.

So food jars were quite strong throughout the region. In the beer segment, we have seen a stable H1 and then even some good performance in the second half. And talking about wine, in France, we have negative evolution in the wine volumes but it has been good, well compensated in Italy and Iberia. So here we really benefit from our geographical footprint that is well balanced in Europe and could mitigate the negative impact of France.

And in fact here, in this segment, France is the country affected the most. And here, we have the negative impact of the premium and sparkling and spirits, which I already commented on top of it.

NEE: slightly positive organic growth

In North Europe and Eastern Europe, here we have the negative impact of the foreign exchange rate, which we did not see, of course, in the Southern Western Europe. The Ukraine hryvnia and Russian rouble devaluated also during the year. But except for that, we have also slightly a positive organic growth, plus 0.4%. We could see that volumes were down and in all the countries but it was well offset by selling price increases and mainly in Eastern Europe.

And here in this segment, food jars as well behaved well but not enough to fully compensate the volume drop in sales in other categories.

Latin America: strong organic growth

In Latin America. Latin America has shown really strong organic growth throughout the year. Look at this quite impressive number, plus 23.4%. So the market in all the three countries has been very dynamic, is still very dynamic. We see volume expansions in all the countries. And volume performance has been very good in wine, in spirits as well.

We have been able to increase selling price throughout the year and we mentioned particularly Argentina, as you well know, with the high inflation in the country, absolutely key to follow cost inflation in prices. And you will see in our spread that is what we managed to be positive in the year. Then unfortunately the headwinds from exchange rates, but still a very good and dynamic market.

Increase in adjusted EBITDA both in value & in margin

So now moving to profitability and adjusted EBITDA. You will see in the presentation, in the next slide we will go through segments. On the top right, you have the adjusted EBITDA margin. And you will see that we improved the margin percentage at Group level but also in all the segments, which is a very good achievement.

So now if you remember the bridge. The EBITDA bridge is showing you how our pillars deliver EBITDA. So the first one is the activity one, very negative this year with minus €51.3 million. Here we have the full effect of the volume decrease, the market decrease we just commented. And also adverse impact of inventory variation. We have been destocking this year more than last year and this has a negative impact that you can see here.

The spread and price mix cost pillar, as you see, has been very positive, very contributive to our profitability. So prices has been increased well throughout the year. We have been benefiting from that all the year. And as I mentioned, the mix in fact was negative at the beginning in the first half but recovered well including improvements in premium segment in the second part of the year. So this is in regard to this very positive pillar that you can see here.

The third one, the net productivity is very important. You know this is in our strategy to reduce our production cash cost by an average of 2%. The target is 2% improvement per year. And as you can see here, we have been able to deliver more with 2.2%. This is really an achievement in a year with such disruptions caused through the pandemic. So we are really proud of this achievement. And you can see how contributive it is to our profitability. So €36 million net contribution.

The exchange rates, you can see unfortunately minus €36.5 million, mainly LatAm currencies but also in Eastern Europe, as I already commented. And to bridge the gap in the Other, you can see a small number. It is mainly our COVID-19 some incremental costs and also some positive impact as a compensation.

SWE: EBITDA improved despite challenging situation in France

So this EBITDA performance per segment. In Southern West Europe, you can see that we improved the percentage from 23.5% to 24% despite the pandemic. On the positive, spread has been positive. We have delivered a good industrial performance. I was mentioning our PAP programme. But then we had some negative impact in volumes.

Here, in this segment, the mix did not fully recover. We have this exposure in France, to quite premium segment. So we have seen improvements but do not back to the level that we can see at Group level. So here mix is still contributing slightly negatively.

And then the situation, specifically in France, has been quite difficult in 2020. So the reduction in sales, even if jars managed to compensate slightly. The mix I mentioned. And also social disturbances linked to the transformation plan that is now carried out and impacting as well industrial performance.

NEE: Good EBITDA improvement

In North and Eastern Europe, here as well on the right you can see improvement of our adjusted EBITDA margin by 0.8 points. The margin improvement is due to positive spread and productivity. So really these pillars are the two ones which managed to compensate the activity impact throughout the Group last year.

And I mentioned already the negative impact that you can see here for the forex. So all in all the improvement in the adjusted EBITDA, excluding net impact, is 4.6%.

Latin America: outstanding performance

Moving to Latin America, really outstanding performance. There is no other words. You can see 29.8% margin in 2019, up to 33.8% in 2020, remarkable margin expansion. And really the three levels or the three drivers delivered fully. We have seen that the market has been dynamic. We were there to catch the growth.

And the price-mix/spread, everything has been positive here. We mentioned already the price increase is well monitored. And the performance action plan is really contributing strongly to our EBITDA. Latin America is one of the segments that is overachieving our 2% target.

Investments fully under control

Moving now to CapEx and cash. So investments are quite significant in our business. So very important to show and to prove that we keep them under control. You can see on this chart that recurring CapEx stayed in the 8% of sales range that is our strategy and our target. So in 2020, it was fully achieved.

And we had strategic investments that impact our – over the two years, you have the Villa Poma and Azuqueca capacity investments, which the CapEx of it is about two years. And the start-up of these two new furnaces, one in Italy and one in Spain, has been voluntarily delayed to the first quarter 2021 to adjust our capacity to last year's market.

Very strong cash flow generation

So how did that translate into cash flow generation? On this chart, you can see that adjusted EBITDA overall ended up €10 million above 2019, so contributing positively to our operating cash flow. CapEx kept under control at a stable level. So that means a cash conversion of 60% in 2020.

Then change in the operating working capital contributed very positively, as you can see with €67 million. So two comments here. Stock has been reduced significantly during this year. I mentioned already the EBITDA impact. It is contributing very positively on our cash. This is quite specific to 2020. We ended the year at extremely low level of stock, so 2021 will not see the same trend here.

And important comment on overdues. We managed to keep overdues at exactly the same level as 2019 in amount and in percentage. So totally kept under control. So operating cash flow ended at €442 million to be compared to €408.4 million in 2019.

Continuous deleveraging capabilities

So all in all, our net debt has been significantly reduced in 2020, thanks to this operating cash flow we see. Thanks to also reduction in some non-operating cash out. As Michel mentioned, we had IPO specific cash out in 2019. And also let us not forget that, in 2020, the dividends cash out has been €13 million because some dividend has been given as shares. So out of the total of €100 million, only €13 million has been cash out in 2020.

So the leverage is 2.04x to be very precise. And the deleveraging of 0.6. So as a conclusion is very good, but with some specific of 2020. And liquidity at the end of year reached €1,080 million, which is at a very good level and very comfortable level.

Conclusion and Perspectives

Michel Giannuzzi

CEO, Verallia

Significant resilience in 2020

Thank you very much, Nathalie. So let us now conclude and give some perspectives about next year. First of all, as you can understand, we are very pleased to report these numbers to all of you, which have shown the strong resilience of our company last year.

First of all, I have to recognise the tribute from our teams and engagement from our teams throughout the year, which made it possible. This is also the result of the strong health measures that we took as soon as the pandemic started to protect our teams and keep improving both health and safety conditions at our plants and operations.

We, in a nutshell, are pleased to report positive organic growth of 2.1% and an increased adjusted EBITDA up to the level of 24.7% of sales for the year. The net income also significantly improved to €210 million with an earnings per share at €1.67. And as the conclusion, we would propose to the general shareholder assembly dividend per share of €0.95 in all-in cash.

2021 perspectives

If we look forward for this year, 2021, we had a slight volume drop last year, a bit less than 2% drop last year. We will recover this volume this year, therefore, going back to 2019 volume level. And of course this will lead also to a positive organic growth.

Although on the sales side, we expect sales prices to be more or less flat, given the fact that the inflation of costs in our industry has been more or less flat or slightly negative in some cases last year. The goal for us still is to have a positive contribution of spread to the improvement of EBITDA year-after-year.

We are aiming at an adjusted EBITDA of around €650 million for the year, which will provide more than 25% EBITDA margin, which was the goal for 2022. So will be one year ahead of our goal. And as you understood from Nathalie's comments, I mean, we have very strong market in Latin America and more specifically in Brazil. We are sold out despite the new factory we build two years ago in Jacutinga. We are now sold out in Brazil. And therefore, we decided to build a second furnace in our Jacutinga factory in Brazil, which will represent a strategic investment of around €60 million, to be spread over two years between this year and next year.

So altogether, of course, the hotels, cafes and restaurants will progressively reopen in many countries, as people get more and more vaccinated, we are hoping that the worst is behind us. And as you can see for Verallia last year was not such a worst year. And going forward, we have a positive outlook on the future growth of the company and the continuous improvement of adjusted EBITDA margin of this company, allowing Verallia to achieve its mid-term target one year ahead of the goal, which means that in 2021 we shall reach all our targets except of course the organic growth that has been abandoned already a year ago.

So this being said, now we are very pleased to end up this presentation and take your questions through the Q&A session.

Questions and Answers

Matthias Pfeifenberger (Deutsche Bank): The first one is really on the pricing dynamic. As I have heard for 2020, you raised prices, that is what Nathalie said. I think you are doing at beginning of the year and then the energy cost obviously deflated. And now this year you are seeing flat prices but energy prices recovered. Is that just basically saying for you it has not changed. Energy prices deflated last year. They are coming back now to these levels. And pricing therefore can remain stable. Is that how to think about it?

Michel Giannuzzi: Okay, Matthias. Thanks for the question. Clearly, first of all, you remember that we have a very strict hedging policy that was implemented now three years ago, which basically covers all energy costs at October time. We cover the next year energy costs through our hedging policy. Therefore, what happened during last year, which is the fact that the spot price of energy has dropped during the year, frankly speaking, we did not benefit. And on the opposite side we had hedged in October 2020 the energy costs for 2021. Therefore, should the energy price keep going up in 2021, we would not suffer from that. So that is first an important reminder for you to understand. And this hedging policy that we have implemented two years ago is the one that allows us to give precise price increase targets to our sales people in order to cover for the inflation of costs.

The good news last year is, in 2020, you know that mostly in Europe it is not the case in Latin America, where prices are negotiated on an ad hoc basis, which means very often, up to every month in Argentina for example. But in Europe usually the prices are negotiated once a year. And the good news is that when the pandemic rose last year, most negotiations were completed. And there has been no renegotiations for the year. So our customers and our competitors and ourselves, we all stuck to our agreements and therefore prices did not move.

Now moving forward, for 2021, taking your comments, it is true that we have in some countries real deflation of energy costs. And therefore, in some countries, this could even lead to slight price decreases whilst still maintaining a positive spread.

In other countries, it is not the case. In other countries, we still have inflation of cost and therefore some price increases will be made. Altogether, we guess that prices will be more or less stable in 2021 compared to 2020, and still maintaining positive spread despite stable prices. And this is our goal.

Matthias Pfeifenberger: Okay. The second question is basically on current trading, especially on the premium stuff, champagne, spirits and then also where do you stand on FX in terms of year-to-date versus 2020 average?

Michel Giannuzzi: Okay. So I will answer the question about the premium trend. As you have seen in our comments, or as you heard from Nathalie's comments, the mix impact was quite negative in the first half of last year and has recovered in the second half of the year, meaning that for the full year our mix impact was more or less neutral. There has been no significant throughout the year on the full year basis change in mix.

However, if we look, of course, in more details, what happened last year is the two segments that have been the most severely impacted by the drop of volume has been spirits and in sparkling wine. These are the two products that are used for celebrating parties and other events. But as last year was not very eventful, unfortunately, they have been less consumed by the market. And these are usually segments in which you have quite a significant share, especially in the spirits segment, significant share of premium products.

As you can read from some of our customers comments in the spirits industry, they see a positive outlook for 2021 with a progressive recovery starting with China and Asia, which was, if you remember last year, the first country very strongly impacted by the low consumption of spirits and a progressive recovery in this area.

So on the spirits side, we should see some recovery and some improvements. The champagne this year, which is a small part of our business but a very important and profitable part of our business, will still be in a difficult situation, for the second year in a row. Remind you that last year champagne dropped by 18% and this year we expect champagne to drop high-single-digit.

But the spirits and the other sparkling wines should recover. And therefore, we do not expect for the full year a negative mix impact at company level.

Matthias Pfeifenberger: And the last one?

Nathalie Delbreuve: For the forex, I can answer. You had the question. So in fact the main impact in forex is coming from LatAm as we said, the conversion impact I would say. And average BRL conversion rates, translation rates in 2020 was 6.3 to be compared to 4.5 in 2019, kina. So quite a significant devaluation.

In our outlook for 2021, we are cautious on this translation impact. As for today, I will say that the currency is behaving more stably and we think that we have been cautious enough in our 2021 outlook.

Then one comment on other foreign exchange exposure. Do not forget that it is pretty limited. We have local flows in fact. And when we have specific exposure, for example, lead to CapEx, we do hedge to limit this impact. So the foreign exchange is really conversion of our financial statements.

Francisco Ruiz (Exane BNP Paribas): I have two questions. The first one is on the outlook. Mainly if we take into account that the PAP will continue could add something like €30 million and as you have said, I mean, which is not spreading a negative price/cost contribution and probably some positive contribution from volumes. I think that this €650 million, it is conservative unless you think are very strong headwind in terms of FX.

The second question is on the dividend. Well, clearly this is above the target that you mentioned on the IPO to do all 40% or €100 million. But given the good performance of the debt in 2020, do you expect that this dividend could be increased during the year or even at the higher pace in 2022?

Michel Giannuzzi: Okay. Thank you, Francisco, for your questions. First point I think you perfectly well understood our position regarding the outlook for 2021. And your math is correct. So therefore, if we do more than €30 million of PAP, which is our goal, as you know, every year to generate more than €30 million of net savings. And with, I would say, flat spread or zero plus spread and a slight growth, we should be above €650 million indeed.

However, as you have mentioned, the last two years we have been hit by negative headwinds coming from the forex. And it is still very difficult to forecast. But if we look at what the market consensus is about exchange rates, unfortunately we might still this year face negative headwinds on the FX side. So this is the one thing that we will, of course, monitor very carefully. And you can monitor as well as we do because this is not under our control. So that is the reason why we guide, if you want, €650 million and not more.

Of course as the forex situation clarifies for the year, we would probably be able to maybe adjust our forecast. Now regarding the second point – sorry?

Francisco Ruiz: Michel, could you give us an idea of what is the impact on FX as you are assuming on the outlook?

Michel Giannuzzi: Well, you know, I mean, that 10% of our business is in Latin America. And as Nathalie said, it is purely translational impact. It is not a transaction impact. It is translation impact. Therefore, if let us say together if all the currencies of Latin America drop by 10%, that's a 1 point of EBITDA impact for the company, so it is quite meaningful. You are talking about €25 million of impact.

And 10% shift in exchange rates in those countries is not a big number by the way, of course, excluding Argentina, which is in hyperinflation. If you look at what Brazil currency, the Brazilian real has devaluated last year, we are talking about 33% devaluation last year of the Brazilian real. So 10% is as good as anything. I do not have the crystal ball to tell you what the exchange rate will be. But it is plausible. It is possible.

Now, of course, if we are for the first year not impacted by exchange rates, we will be more than good to celebrate that. But what I can do is your math is correct and I confirm the PAP target of at least €30 million savings. Okay?

Regarding the dividend, this is true that with €0.95 per share, this represents a payout ratio close to 55% above the 40%. But if you remember when we guided at IPO time, we said that the 40% was a minimum and the €100 million of dividend was also a minimum. It was a floor in both cases.

So what happened is given the huge cash flow generation of last year, given the fact that we have reached the low end of our leverage target, which is 2 times adjusted EBITDA, we thought it was appropriate to start increasing the dividend by €0.10 per share.

And going forward, this still leaves us enough and sufficient room for looking for acquisitions. So let us be clear because it has always been our strategy that we could increase of course a lot more of the dividends to the shareholders, but we want to leave some room for acquisitions should there be any opportunities during the year.

And, of course, if at the end of the year, if we see there is much cash, we will keep doing what we said, which is basically return the cash to the shareholders. But today it is too early to say what will be done in the future in terms of dividend policy.

Francisco Ruiz: Okay. Very clear.

Lars Kjellberg (Credit Suisse): Just wanted to focus in a bit on the final quarter performance which were clearly above certainly what we had modelled and I guess market expectations. You had called out accelerated furnace activity and potentially longer stops. But as you alluded to in your prepared remarks, clearly stocks are very low. So I suspect production exceeded your own expectations if you want to comment on that? And also if you can walk us through how you think about furnace rebuilt cycles and the activity in 2021. Clearly you had a bias towards the second half in 2020. So if you can walk us through how that should work through the system. And the last question I have would be on CapEx. Of course, you have your sustainable CapEx, part of which is strategic. You now have a new plant in Jacutinga and then maintenance I suppose still around the 8% mark. But if you can share any colour on how we should think about CapEx in totality in those various buckets in 2021, please?

Nathalie Delbreuve: Okay. So comments on the quarter four and how we explain the other performance. So first, let us remember that when we last published, when we made the outlook for the year, it was in October 2020 and just the day before or after our President announced the second lockdown. So it was again quite an uncertain period. If you remember after a very strong and quite back to normal summer, at least in Europe, we were again in quite uncertain times.

So the first comment we can make on the fourth quarter versus our outlook at the time is that, yes, we were better first in sales volumes, the market has been better than expected. Also the mix that we had in our outlooks was conservative, still negative. And in fact, as I commented, the mix did recover back to normal overall or back to 2019 overall throughout the year and it was also in Q4.

And then one area which contributed much more than expected is LatAm. Latin America, we did not expect such a dynamic market, with very high profitability. And also again the FX impact was less negative. The devaluation we mentioned for the year was less acute in the fourth quarter. So that is, in a nutshell, what we can comment.

And for the furnace rebuilds, so in the second half of 2020, we had six furnace shutdowns for rebuilds. So in 2020 it was basically out of the seven we have almost every year, six were in S2, in the second semester in 2020. And in 2021, we would not have the same pattern as most of the rebuilds will be in S1 and even in Q1. So we will have a very different shape this year.

Lars Kjellberg: And still around the seven furnace rebuilt mark?

Nathalie Delbreuve: Right, yes. Totally. Yes, exactly.

Michel Giannuzzi: We will have seven furnaces, as last year, this year. But again the seasonality is changing every year based on the condition of the furnace, then also on the suppliers that are intervening to help us repair and reveal those furnaces. Last year there was a strong workload in the second half of the year. This year, the first half of the year will be the most loaded part because we will have five furnaces repaired in first half and two in the second half of the year.

Now regarding the question about CapEx. So clearly, the guidance of 8% recurring CapEx is still valid. And as you see last year, very well respected. On the top of this, you have to add strategic CapEx. In the past, the strategic CapEx were the Azuqueca and Villa Poma furnaces, the two brownfields in Italy and Spain. There is for this year and next, a new strategic CapEx with second furnace in Jacutinga for about €60 million over the two years period.

And you need to add to the strategic CapEx the CapEx that we presented on 21st January, which are related to the transition towards greener company, I would say, with less CO2 emissions. And we provided kind of a visual split or year-by-year of this CapEx. And you can see that every year it is around €20 million to €25 million of CapEx. Altogether, it is €220 million over ten years. So this is what you can look at. And this CO2 related CapEx will be clearly isolated as strategic CapEx as well.

Lars Kjellberg: Right. So it is strategic CapEx this year around €50 million mark then, broadly speaking. Is that fair?

Michel Giannuzzi: Sorry, say it again, please Lars?

Lars Kjellberg: About €50 million is strategic CapEx including CO2 related investments in 2021?

Michel Giannuzzi: Yeah. Well, the CO2 will be not every year the same because some of these investments are linked to furnace repairs and furnace reconstructions. And they will be not evenly spread out for the year. By the way, altogether in terms of cash CapEx, you are closer to €180 million rather than €220 million because some of the difference could be considered as the partnership with some suppliers. So therefore, if they are not CapEx, that will be borne by Verallia by our partners. But for Verallia you are talking about around €180 million of cash out or cash-related CapEx. And you see that, in 2021, we are talking about around €15 million. 2022 will be much higher, around €28 million. So that is why I am indicating it is around €20 million per year on the regular basis.

Charles-Louis Scotti (Kepler Cheuvreux): I have three questions. The first one on the profitability targets. You are on track to reach 25% margin as of 2021. So basically what is the next step for you? Any reasons why you should not be able to fully catch-up with Vidrala?

The second question on the new furnace in Jacutinga. What is the size of the new furnace and how much additional capacities it will bring in 2022? And also overall including the start-up of Azuqueca and Villa Poma, what should we expect in terms of additional production capacity in 2021?

And finally, I think that you ended up the year with a very low level of stock at your level. So it means that you will sell on production in 2021. So shall we expect the profitability on incremental volumes to be in the high end of the historical range?

Michel Giannuzzi: Okay. So regarding the first question on profitability. I mean, clearly, we will have to give ourselves a new target based our three levers, organic growth, positive spread and regular performance action plans improvements. We do not see any limit right now for us to not to reach at some point in time the level of margins that our direct competitor in Europe Vidrala has. So clearly, we will communicate probably later during the year some mid-term objectives after I think had our strategic reviews internally. However, yeah, there is no fundamental reason why we should not be able as a company to reach this level of margin.

Regarding the second furnace in Jacutinga, it is an average size furnace, around 100 square metres furnace, which will provide again 100,000 tonnes per year of extra capacity on the market.

And the third question is in Europe what happens. So we are starting, as we speak, the two brownfields that have been invested in the last two years in Villa Poma and Azuqueca, so in Spain and Italy. And we will enjoy with these two furnaces, on an annual basis, again more or less the same amount. If you take an average furnace, it is about 100,000 tonnes per in average.

So on annual basis, we have two new furnaces of two times of 100,000 tonnes minus the furnace we stopped in Cognac. So all net-net all-in, the capacity increase for Verallia is only, if I can say so, 100,000 tonnes on full annual basis. And this is to be compared with the European market of glass just to have some numbers in mind of 20 million tonnes. So basically the additional capacity of Verallia is very minimum compared to the size of the market.

Your last question is inventory. You want to answer this one, Nathalie?

Nathalie Delbreuve: Yeah. So inventory, you are right, we end the year 2020 with quite low inventory. So as you said, we will sell mainly on production in 2021. We also need to rebuild inventory. And we need also to come back to better levels of inventory and we have the additional capacity we just mentioned to support that.

Then in the beginning of the year, we are still in the ramp-up of these facilities, which means that from extra fixed costs not fully covered for the ramp-up. So that is important to think as we will not be at full speed right from the start.

Jean-François Granjon (ODDO BHF): The first question concerns the organic growth. Could you give us more colour for what we expect for the organic growth in 2021? So if it is to expect higher volume, what about price mix? And due to the probably negative FX impact, do you expect growth for the global sales in ’21 compared to 2020?

My second question concerns the EBITDA guidance. So a slight improvement expected by more than €650 million were coming from more volume or from more spread/price mix impact?

And my third question concerns the CapEx. So taking into account the recurrent CapEx, the new investments for the new furnace in Brazil and the CO2 investments; could we integrate an average, I would say, €250 million CapEx programme for each year?

Michel Giannuzzi: Okay. Jean-François, good morning. Thank you very much for your questions. So regarding the revenue growth this year, in 2021, we expect to recover the less than 2% volume drop of last year, which means volume-wise, it is around 2% growth that we expect to see this year. As indicated, prices will be more or less flat, so except in Latin America where of course we have some much more inflation in the countries, but in Europe, which is 90% of our business, prices will be more or less flat.

And mix should be slightly positive, but again you are not talking about huge numbers. So we expect the price and mix to be slightly favourable but without the same positive impact as the one we had last year. And as you said, and as we commented before with Francisco, we still have a big unknown, which is the exchange rates impact that we will face. That we believe will still be a quite negative but probably as not as negative as it was last year.

And regarding the EBITDA improvement, again same pillars. We have the volume contribution to help improve the EBITDA. Spread should be slightly positive, that is the goal, but not as strong as last year as we indicated before. And we can count to €30 million+ coming from the performance action plan in 2021 with still the negative impact of exchange rates due to the translation of financial statements in Latin America, especially, and a little bit of Eastern Europe into Europe.

Last but not least for the CapEx?

Nathalie Delbreuve: So for the CapEx, indeed, we intend to keep the 8% recurring, so that is for sure. And so as we target to basically go back to 2019 levels in sales in 2021, that is our outlook. And then on top of that, we have Jacutinga II investment, which we mentioned that will be spread over the two years. So that is €30 million in average, and then the CO2 investments.

So indeed, yes, if you do the math like that, the €50 million, at least for the next two years, are quite possible, even if there will some timing for sure. But the €250 million are quite okay for 2021 and 2022.

Fraser Donlon (Berenberg): Just three questions from my side. So the first would be if you could maybe talk a bit more about France and maybe in very approximate terms how the margin there is looking versus the rest of the South Western Europe and whether you feel like you performed in line with the market in 2020 or whether some of the lower cost operators in Iberia in particular have might have taken some share?

The second question would just be on the carbon costs and what does that mean for the glass industry in Europe in general? I know it is a fact of role operators. But do you see any risk of imports from regions outside of the EU ETS scheme?

And the final question is just on the discipline of competitors in terms of visibility on capacity additions into 2021. Do you think that your peers will remain sensible as we head into an inflationary cost climate where you probably will need to look to increase prices again in 2022 perhaps?

Michel Giannuzzi: Okay. Thank you very much, Fraser, for your questions. First of all, if we zoom on France situation, as you probably understood from the previous calls and presentations we made in the Southwest Europe segment, France is the lagging country out of the four countries there. It is Portugal, Spain, Italy and France. France is, in terms of margins, behind the other three countries. So still an opportunity for us to improve.

And we do not know for yet because the statistics are not yet available about the French market last year. We do not know if we gain or lost market share. And by the way, that is not a driver for us. We have never been driven by market share, as I said before. However, clearly with the difficult year last year linked to the transformation plan that took place, we believe that we are now in a much better situation in 2021 and going forward with a much more linear, if you want, footprint in France; and a slightly more competitive cost base as well.

So we are not pleased, because it was difficult to implement. It was of course socially difficult, although out of the 150 positions that have been eliminated in the seven French factories, only one factory had to go through forced dismissals. And at the end, out of the 150 jobs that eliminated, only 20 people had to leave the company, were forced to leave the company. And the company has taken the commitment to support these 20 people until such time they find job close to their living place.

So this is now behind us. This plan is over. It has been implemented. The last letters have been sent out this week. And therefore, France is now in a much better position, I would say, to regain the competitiveness and to catch up with the other countries that was necessary.

Regarding the second question on CO2, as you have seen the CO2 costs has gone up to €40 per tonne now. Again, let us remind you that we have also very clearly indicated our hedging policy in terms of CO2 coverage. We are fully covered for this year. We were hedged long time ago on 2021. We have covered 75% of our shortfall of CO2 quota for 2022 in Europe, and we have covered 50% of 2023 shortfall already. So our hedging policy has proven to be quite useful. And should, of course, CO2 keep increasing, I am sure the whole industry will pass this inflation cost to the customers through the annual negotiations as we have done in the past passing the final inflation cost to the customers.

And personally, I think it is not a bit thing that CO2 increases because it helps us justify the investments that we are making to move away from some technologies that are not as efficient as the most modern technology that we can have on the market in terms of emissions related to production.

Regarding your first question, it is clear that, if you remember, before the pandemic, the market in Europe was short of capacity. And this is what led Verallia to build those two new furnaces in Italy and Spain. That was quite different from one country to the other. Of course, France was not under same situation. We did not have shortage of capacity. It was the opposite for Verallia.

However, many of our competitors, from what we understood from the public statements of our competitors, have also decided to postpone or delay, some cases maybe even withdraw, some future investments. But as the market, I think, will recover and the volume go back to the 2019 levels or above, the market will have to be served with new capacities coming from Verallia or others. That the must to accompany this market.

So we do not see a lot of projects right now but surely as the market repeats strengthens and grows again, we should expect some capacity increases in the future, which is normal and which is expected.

Nathalie Delbreuve: Allow me to take the opportunity of your question, Fraser, to enlighten you on some cash patterns for 2021. You were mentioning the France situation and also CO2 and carbon costs. Have in mind that in 2021, so the cash out of the transformation plan in France is for 2021. We are talking about around €15 million. And also with our hedging strategy at the end of the phase three of the CO2 quotas, we will have a specific cash out this year, so in 2021 of €28 million for this that we did not have in the previous year.

And in the cash pattern, to be fully complete, dividends, just to focus again. I mentioned that we did not cash out all the dividends in 2020. Only €13 million out of the €100 million total. And now the dividend we will propose to the shareholders meeting we intend to have it cash.

Michel Giannuzzi: Which is an amount of €117 million altogether.

Okay. Well, thank you all for attending this call this morning. I wish all a good day in good health. And I look forward to talking to you very soon in the various opportunities that we will have. Thank you very much. And I wish you a good day.

Nathalie Delbreuve: Thank you. And have a good day.

[END OF TRANSCRIPT]