Verallia H1 2021 Results

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Introduction

Michel Giannuzzi

Chairman & CEO, Verallia

Welcome

Thank you very much, and good morning, everyone. Thank you very much for attending this call. I hope you and your relatives are in good health and not suffering too much from the COVID. We will go together, with Nathalie, through the H1 results, and we will start first of all by reminding everyone about the company profile.

Company Profile

As you know, Verallia is the leader in Europe in glass packaging industry. And Europe, which is for us the Great Europe, encompassing EU plus Ukraine and Russia, represented last year 90% of Verallia sales. We are number two in Latin America, where we are present in three countries: Brazil, Chile and Argentina. And in last year, Latin America represented 10% of our sales. And we are the third largest company in the glass packaging industry.

As you can see on the left-hand side, we have a very diversified end-market reach, where we can address all the segments of the market with a strong presence in the wine segment based on our historical presence in the three largest wine-producing countries in the world, namely, Italy, France and Spain. And we address more or less in a balanced way all the other segments of the market.

Now, Verallia is made of 32 glass-producing plants with in total 58 furnaces to produce glass packaging. We also have three decoration plants that provide additional services to our customers. We are also treating about half of the cullet. Cullet is the name of the used glass that we use internally. And therefore, we have nine factories that are working through really for us in order to treat the cullet that we reintroduce in our furnaces to make glass again.

And in total, we employ around 10,000 employees in 11 different countries and we make every year about 16 billion bottles and jars.

Financial Highlights

So moving to the financial highlights of the semester. First of all, I think it is interesting to note that the capital structure has evolved quite a lot since December. As you noticed, there has been two blocks of shares traded on the market based on the sell-down of Apollo, which today means that Apollo owns 16.3% of the capital of the company. At the same time, we have seen our Brazilian investor, BWSA, increasing their shares progressively and slightly up to 26.6% at the end of the semester.

And the most important highlight of the semester was the fact that, as we mentioned before, we have bought back some shares two times during the semester. In total, we bought back some €109 million worth of shares. 1.6 million of the shares that we bought back have been cancelled in order to avoid any dilutive effect due to the employee ownership programme that we implemented last year and this year. And we have kept 1.7% of the treasury shares in the balance sheet. So today, the Verallia share capital is divided into 122,289,183 ordinary shares.

The other important financial event of the semester was the launch of the inaugural Sustainability-Linked bond. This was the first issuance of a bond by Verallia since we are listed as a listed company. It was clearly oversubscribed. We had four times more request than the €500 million that is finally committed to issue.

We were the first issuer of a Sustainability-Linked bond in Europe in the glass packaging industry. And we benefitted from a very attractive financing conditions with a coupon of 1.625% per annum. And this has provided us not only a diversification of our fund of financing, but also it has provided us a greater and extended maturity because it is a seven-year bond that we have raised in May.

So I think we have been very much supported and we received a lot of interest from the bond investors on the two KPIs that are ESG-related that we have taken to merger the sustainability approach of Verallia. One of them is the reduction of the CO2 emissions, which is in line with the presentation we made in January regarding our long-term commitment to reach the 27.5% CO2 emissions reduction by 2030 in line with the COP21 agreement. And therefore, for this specific bond, the objective is to reduce by 15% against 2019 our CO2 emissions by 2025.

The second KPI that we took was to increase the external cullet usage rate and to increase it by 10 points versus 2019, again, reaching 59% by 2025.

Now, this has been considered by Vigeo Eiris, which is the independent or second party opinion that looked at this bond as very relevant and as a high ambition, which allowed Verallia to reach the highest rating provided by Vigeo during this issuance. So the team here is very proud about what has been achieved and it is again a strong commitment not only on the financial benefit of its bond but also of the commitment of the company in its move and ambition to reduce CO2 emissions.

Verallia Design awards

Moving to another competitive topic, one of the very strong capabilities of Verallia is design. And just as for information, since 2009 we are organising in main Verallia countries some design contests with students. This year we had more than 500 students in France, Italy, Spain and Ukraine. And we provided the theme of the year. We showed the theme was Glass in Solo Format. And based on this theme, we received a lot of interesting design ideas and design products. That sometimes end up in a commercialisation because they are very much liked by some of our customers.

And we have had a very interesting successes in the past with this contest being most interesting products and have been selected by our customers to be commercialised.

Every year, we also have on the design side, what we call, a style book, which is trying to anticipate the trends for the following year. This is our premium product line which we call selective line, that is benefiting of this trend book. And this, again, has been updated and put online on our website very recently. And you can see all the beautiful products that we can provide to the customers as well as the new trends for the next year. So this is all for the design.

ESG Initiatives

Let us move again to environment, where Verallia has joined the Ambition for Climate initiatives launched by AFEP. AFEP is a French Association of Private Enterprises. The idea is to really put together all the good examples of what companies in France are doing to reduce the global warming at the global level. And we have submitted three low-carbon projects on the platform, the Ambition for Climate platform.

One of them is about the improvement on non-melting energy. The second one is about the ability to de-mix white cullet in order to improve the share of white cullet in the flint glass production. And the third project is about the project that is ongoing with the installation of photovoltaic panels on our Portugal site of Mondego. So these were, again, some good examples of what Verallia is doing to reduce its CO2 emissions.

And last but not least, on the social and community side, we have, as we speak, partnered with Bpifrance on their Big Tour. This is a second year in a row that we participate to this Big Tour. The purpose of this is really to get consumers, citizens, know more about the glass industry, about Verallia and also promote, of course, the recycling habit at a very large scale. So this Big Tour is organised in 24 different cities from 16th July to 20th August by Bpifrance.

We also promote, during this tour, the know-how and innovation and the French industry and technology. And we have a stand there where we meet hundreds and thousands of visitors where we educate them about the quality of glass and the importance of recycling. So the goal is really to raise the awareness and to involve all communities in the challenges of the circular economy.

And last but not least, we have a few jobs to propose to those people that would be interesting to join us in our industry.

Financial Results

Now these are the most interesting highlights of the semester. Now let us move to the financial results. As you have seen from the numbers, this is a very robust performance in the first semester with a very, very strong Q2, where you can see that the revenues were up 4.2% for the semester and it was even a 7.7% organic growth for the semester. But Q2 shows a very strong after Q1, as you remember because of it is soft, we mentioned a soft start for the year, Q2 was extremely strong with 14.8% growth in Q2 and a 17.6% organic growth in Q2.

So this is, as we said before, the results of the progressive reopening of hotels, café and restaurant mainly. And by the way, we are clearly sold out and our factories are producing as much as they can and everything we can produce is today being sold, given the strong demand that we have on the market.

Now on the profitability side, our EBITDA increased also very significantly, +15.4% compared to H1 last year and 20.8% organically to reach €345 million, which means an EBITDA margin of 26% compared to 23.4% last year, again, very, very nice results that we are very proud to comment to you today.

As a consequence, indeed, the net income has jumped significantly from €79 million last year to €133 million. And it is even €155 million if we exclude the PPA impact due to the acquisition of the company from Saint-Gobain, which is amortisation basically of the customer relationships that was booked at the time of the acquisition. And despite the strong share buybacks that we made during the semester, the very strong cash flow allowed us to keep reducing the leverage of the company and we ended up the semester with a leverage of 1.9 time adjusted EBITDA for the last 12 months against 2.1 at the end of March this year.

So altogether these very strong results give us the confidence that we can improve our guidance for the year. And we are going to revise the 2021 adjusted EBITDA upwards, so that we will comment it in a few minutes.

Before we move to the guidance upgrade, which I am sure you look forward hearing from us, I will hand over to Nathalie, who is going to explain to you the strong results of the semester.

Financial Overview

Nathalie Delbreuve

CFO, Verallia

Introduction

Thank you very much, Michel, and good morning to all of you. So indeed, let us go and look at the sales at the top line. What you can see that we enjoy a strong organic growth in the first half with plus 7.7%.

Now, as Michel commented, that we had a slow start in Q1 in the year in terms of volumes, we had a negative organic growth in the first quarter, but the second quarter is showing plus 17.6% so a strong rebound and directly linked to the gradual reopening of the on-trade channel.

So the sales have been strong on all product categories, exception for food jars. That is a category that benefited last year from the first lockdowns in the second quarter. So food jar volumes are more back to pre-COVID and 2019 levels in our portfolio.

Now the spirits rebounded sharply and thanks to exports to Asia and US pick-up in the second quarter. The sales price increases as already commented are pretty moderate. And this is exactly as planned. And one important point in the first half and even stronger in the second quarter is that we enjoyed an excellent product mix at Group level.

And now the last pillar is impact from exchange rates, that is negative for us, mainly from Latin America.

Southern and Western Europe

If we look now at our regions and move to Southern and Western Europe. You can see that the sales recovered well and organic growth is positive at plus 5.5%. So the growth is in all the countries and all the product categories with the comments I already made on food jars.

In Southern and Western Europe we can really see the spirits back and quite strong in the first semester. The growth is also there in wine and beer, and sparkling wines benefited from Italy increase and especially on Prosecco. And in Southern and Western Europe price contribution is pretty neutral.

Northern and Eastern Europe

Moving to Northern and Eastern Europe. Here, you can see negative organic growth. So some comments here. We mainly had a fall in volume in Q1, so the impact is mainly in the first quarter. And we have seen an improvement in the second quarter with volume improving across all product categories. And to recall that one year ago, Northern and Eastern Europe had been hit very differently from the COVID and was the only region in our Group with still a positive growth in sales.

So the comparison with H1 is a bit more difficult for Northern and Eastern Europe. The sales prices are overall stable. And the foreign exchange impact is negative due to Ukraine and Russia.

Latin America

If we move to Latin America, you can see a very strong organic growth. We had some additional capacities, as you know, in 2020 that we fully benefit from in 2021. But the market is really strong in all the countries and in all the categories with again the same comment on food jars. So, as Michel has said, and especially in this country are fully sold out and the market is putting really hard.

Now increase in selling prices are still there. We compensate inflation and hyperinflation in Argentina, so we have this effect always in Latin America to maintain a positive spread. And the impact on forex is negative. But despite this impact, the increase in sales is there.

Adjusted EBITDA

So how does this translate into adjusted EBITDA and in margins? You can see that we moved from €299 million up to €345 million. And more than that, we improved significantly the adjusted EBITDA margin percentage moving up from 23.4% to 26%. So the activity pillar is slightly negative. It was, if you remember, pretty negative in the first quarter. So here we benefit from the positive volume growth I just commented in the second quarter.

But we have also still destocking effect in our EBITDA as we had five furnace repairs in the first half of this year compared to much less in last year. And we have the strong sales, so again we also allowed and we sell everything we produce in the second quarter. The spread contribution is especially strong. Here, we benefit from €45.4 million in our EBITDA. And the mix impact has increased in this second quarter and is strong compared to last year.

The PAP is contributing significantly to the Group's performance of the first half year with a net productivity of €21.3 million and that is 2.7% of production cash cost. You know that this line is especially important as it is purely our internal work contributing to improving our EBITDA.

Exchange rates impact continues to be negative with a minus €16 million. And the "other" pillar is very low with plus and minus.

Regional adjusted EBITDA Performance

So if we look at the regions now starting with Europe, we have seen an improvement in EBITDA margin moving up from 22.2% to 25%. The spread on sales is positive. In this region, especially we benefit from the strong product mix, I commented. And the industrial performance is also contributing despite the difficulties that we had in France in the first quarter we commented to you and that are now over. And the performance is good overall in industrial.

So Northern and Eastern Europe, we saw that we are penalised by volumes and we also have in this region adverse exchange rates that have also impacted the EBITDA. Still the spread is positive. It does not definitely compensate fully for the negative impact of the volume drop. And in this region, maintenance costs are pretty high in this first half and that is one-off as we had two furnace repairs versus none one year ago.

Latin America is posting an outstanding performance, as you can see, with adjusted EBITDA margin moving from already a nice level of 30.6% up to 38.5%. So the growth in sales volumes and the dynamic of the market we already commented. The spread is positive, which is very good achievement in this region, where inflation in costs continues. And the mix was also strong in the region. The industrial performance is also delivering in the region.

And one point to comment on this first half is that Brazil benefited from a positive impact, tax credit on the ICMS following a Supreme Court decision to give back tax credit. But despite this one-off, adjusted EBITDA margin is really strong and improving versus last year.

Balance Sheet

If we move to cash and balance sheet. Let us look at investments, fully in line with our plans, our strategy. You can see that total booked CapEx reached €109 million in the first half. And this semester we have seen more recurring CapEx. This is directly linked to the maintenance in the furnaces which we commented to you and which were less one year ago. And the strategic CapEx we will see the Jacutinga II CapEx in the second half of the year. So for the first half, as pretty limited to €11 million. And one year ago we had the CapEx for our two new furnaces, one in Italy, Villa Poma, and one in Spain in Azuqueca.

Cash flow

The cash flow generation is very strong in this first half. It starts, of course, with the adjusted EBITDA, so the strong growth in adjusted EBITDA, so €45 million more. And the cash conversion is still very strong with a 68.3%. And the change in operating working capital is negative by €23.7 million, including CapEx WCR that is €38.7 million. In the operating working capital let's mentioned two points. Inventories are still extremely low as we are addressing the market, plus we had these furnace repairs. And one important point is that overdues are very well managed, stable and we have been facing no customer issue at all in the semester. So the operating cash flow ends up at €211.6 million to be compared to €138.2 million one year ago.

Debt

So our net debt at €1,266.2 million and leads to a net debt ratio at 1.9 times, that is decreasing versus end of March, but also as you can see versus end of the year. And one year ago we were at 2.5 times. So we continued to deleverage the company even after the share buybacks of €109 million, which I commented to you.

The good thing is that by decreasing our net debt leverage below 2, we allow Verallia to lower our TLA and RCF margins by 25 bps, so we lower our financial interest.

Net debt and utility profile. Our net debt profile has changed since last time I presented to you. Very pleased to present one new line with the Sustainability-Linked bond we issued in May for €500 million. And as you can see on the right of the table in the final maturity column, it allows us to push €500 million of our debt to 2028 when the rest of the maturities are for 2024. And as you can see and commented already, the nominal rate is at very interesting level.

So in this operation, we managed to diversify our funding financing sourcing and to diversify also maturity. Now available liquidity is reaching €847.9 million, so still at a very nice and comfortable level.

Conclusion and Outlook

Michel Giannuzzi

CEO, Verallia

Thank you, Nathalie. So moving to the conclusion. I mean, as you can understand, we are very proud and very happy with this strong performance of the first semester. After a soft start, as we commented in Q1, Q2 has been operating quite significantly. And we end up the semester with a high organic growth of 7.7%, which is clearly a bit better than expected.

We have also improved significantly our EBITDA and EBITDA margin reaching 26%. So as you understand, this is above our target of 25%, and we are, again, very proud of this. The PAP has played an important role for that. Consequently, the net income of course has jumped significantly.

And on the financial side, the issuance of inaugural Sustainability-Linked bond and the share buybacks have been also two major events using the strong cash flow of the company in a very efficient way in the case of the share buyback that we mentioned.

Now based on this strong performance, we are revising our 2021 outlook assuming that there is no new widespread COVID lockdown. We are, of course, always careful about the uncertainty we have in front of us. There are still here and there some partial lockdowns or partial restrictions. But assuming that there is no widespread or massive lockdown like what we had last year in the fall, we believe our sales will reach around €2.6 billion with a volume that will be back to 2019 level.

We are upgrading our adjusted EBITDA target for the year, which now should be €675 million versus the €650 million that we commented before. And interestingly, since we have achieved almost all the mid-term objectives that we set at the IPO time two years ago. We will organise the Capital Markets Day on 7th October in order to provide you with new mid-term objectives and an update on our strategy and results.

So this being said, now I think we can move to the Q&A session. And we will take a few questions.

Questions and Answers

Matthias Pfeifenberger (Deutsche Bank): I have got two at this stage. Firstly on pricing. You mentioned moderately positive pricing while you were mentioning flat pricing before. When I listened to the Vidrala earnings call, they are talking flat versus minus 0.5 to minus 1 before. So what is the situation? Are you pricing a bit better on the spirits and champagne side? And then also for next year remind us, I think, the majority of your energy costs are hedged so for next year. When I would listen to Vidrala, I am not sure if this number is correct but they are talking about 10% price increases that they want to go for an excess if that is true, is not margin expanding significantly if your energy costs continue to be hedged to a large degree?

Michel Giannuzzi: Okay. Thank you, Matthias, for your questions. First of all, regarding pricing. We confirm, when we say moderate price increase, is at the Group level, but we have two very different geographies, Europe and Latin America. And on the one hand, in Europe, we are in line with what we said before. Europe, prices are flat basically. It can vary a little bit by country, slightly below zero, I would say, in Iberia and Southwest Europe and slightly positive in Northeast Europe. But all together, in Europe, it is about flat as we mentioned before. So there is no change compared to the previous comments.

So the moderate price increase comes actually from Latin America, where, here in this region, we are facing more inflation. And also the commercial relationship with our customers allows us to go back to the customers during the year to revisit the prices, which is not a common practice in Europe. Usually in Europe prices are fixed once a year and we wait for the next round of negotiations usually at the end of the year or beginning of the year the following year to renegotiate prices.

So yes, this is exactly what we commented before. There is no change on our side. We are exactly in line with what we commented on the price side. The surprise, to some extent, which I would like to highlight again, is on the mix side, which you do not have the split here but is very strong. And part of it is because, as you mentioned, premium segments like champagne or especially spirits like the Cognac are doing extremely well and of course that is helping us. So it is a market-driven mixed improvements.

But also part of it is unfortunately due to the fact that we are sold out. And of course, if we are sold out, we favour the most profitable or other most profitable segments of the market. And try to, of course, provide our customers with more added value products rather than commodity products. So part of it also is due to the fact that we are sold out. But this is an important thing on the mix side.

Now regarding the hedging policy, clearly every company has its own policy regarding hedging. Our policy is very clearly described. I remind everyone what it is. It is we want to cover 85% of the energy cost the following year by October, so that we can really have a good control and a good visibility on the cost structure of the following year. And this is what we are doing every year, which means that, as you can understand, the energy prices of this year were locked for most of it or more than 85% of them, they were locked back last year.

Now, unfortunately, the energy cost increase that we see today will have an impact next year. And of course, next year even if we are hedging on a rolling basis and progressively into the following years, next year we will have to go for significant price increases in order to reflect an inflation that we have. And when I say significant, it is probably mid-single-digit.

Matthias Pfeifenberger: Okay. Second one would be on the PAP and I guess you were prepared for these questions, €21 million, 2.7%. Are you not raising the PAP savings guidance at this stage? And then also coming back to the guidance, maybe we can touch on the individual components. So it is the PAP savings, there will be operating leverage, there is mix. But you also talked about restocking being possible in the second half, which is implying better fixed cost absorption. So I guess the €675 million is still remains as conservative as the €650 million before with the new dynamics in place?

Nathalie Delbreuve: Okay. Let me try to answer, Matthias. So on the PAP, yes, we are very pleased to see the strong delivery in this semester with 2.7% now. Yes, our guidance is 2%. It is above 2%, remember? So we always keen to see much higher numbers.

Now, in this year, and this is really good, we benefit from the effect of the transformation plan in France that was planned that is contributing to the PAP numbers. And this one, we will not have that every year. So to answer to you on the guidance, we keep with a guidance of having PAP cost reducing our production cash cost basis by more than 2%. And you are right, we have been delivering this year 2.7%, so which is good. But again the transformation plan in France and the France effect will be for this year.

On your second point in the guidance, you are right, we integrate positive impact of not having to destock and hopefully to restock in the second half of the year. Now, on the adverse side, we have two important points which we mentioned already. Well, the first one is the inflation. I think we would all agree that inflation is coming. And yes, we are hedged on most of our energy. Now we have 15% that is not hedged. So this one is even this year having inflation.

And one important point where we see inflation coming strong and that was quite limited in the first half is packaging, and to a lesser extent, on freight and transportation. So these two we do not have hedging policies and inflation is very strong on packaging. So let us see how this goes. But we did integrate a negative effect on inflation costs in the second half.

And then another point is the mix. We have quite a specific mix situation that is not usual when we manage all the market. So here we also integrate a less positive or even a negative impact on the mix side. So that is why the plus and the minus would balance I would say.

Francisco Ruiz (Exane): I have few questions. The first one is a follow-up on Matthias, which is on operating leverage because we have seen a very positive turnaround in Q2 despite that the inventories are still declining. So could you see an acceleration of the drop-through in the second half of the year if you are able to start increasing the stock? Or given the strong demand you think that you would not be able to increase that figures? The second question is on the margin on Latin America. If you could give us the impact of the one-off in Brazil and your view on how sustainable these margins are? And last but not least is on the latest Fit for 55 plan on the European Union. If you could give us an idea if there is any change in your ESG view after the publication of this plan?

Nathalie Delbreuve: Hello, Francisco. So for your first point on the operating leverage and the inventory level, we would like indeed to rebuild stock in the second half. Again, as per today, we are sold out. So we anticipate that we would not be able to rebuild inventories as strong as we would like, so the effect there would be more limited than we would have told you at the end of March.

Now, in the margin in Latin America, so the impact of the ICMS one-off is €7 million to be really clear. So it means that the adjusted EBITDA margin of Latin America, even if you deduct this one-off, is above 30%. So still a very strong operational performance. And how sustainable is the Latin America margin above 30%? This is a recurring question we have. As per today, we do not see many clouds in the sky.

I would say the market is strong. The ability of our team to maintain positive spread has been more than demonstrated over the years and is still there. And we can see that every month. And again, the industrial performance and the PAP is delivering very steadily and strongly in this region. So the quality of the operations and the team lead us to be confident on Latin America margin percentage.

Michel Giannuzzi: Now regarding your first question, Francisco, good morning, the Fit for 55 plan decided by EU is yet to be better understood at our level. Clearly, as you know, we are still expecting to receive the final CO2 quota allocations, which are due normally this month. We do not expect any major difference versus our assumption, so we know that there will be a reduction of CO2 quote compared to phase three in phase four. But this is already anticipated.

We believe it is going to be around 7% less quota than the phase three quota we used to be seen. I remind you by the way that we also hedged on our CO2 quota, the shortfall of quota is being hedged. We are fully hedged for next year. We are hedged 75% for 2023 and 50% for 2024. So this is also part of our hedging policy to cover this CO2 quota cost.

So, of course, we know that this Fit for 55 will put additional pressure on the companies to accelerate their CO2 emissions reductions plan. And we are actually pleased that we did not wait and we anticipated back in January, if you want, this topic by working on our road map to reduce our CO2 emissions and not just the road map and the targets but also complete action plan.

So we believe we are well-positioned based on, by the way, Vigeo Eiris work that has been done when we issued this SLB. In order for them to provide an opinion on ambition of our targets, they benchmark, of course, our competitors and the rest of the industry. And the results of their benchmark were that our results and our ambition are really very advanced and this allowed them to give us the highest rating.

So in other words, long story to just say that, yes, it will happen but we anticipate it to some extent that this topic is becoming more and more important for the society and we are comfortable with our action plans that we launched that we will be able to follow this additional targets that will be set.

Fraser Donlon (Berenberg): Just a question on pricing for next year. When you look at what is going on in French wine, obviously there is this kind of weak harvest and maybe this impact will be shared across a couple of years rather than based on the kind of aging lifecycle of wines. But do you think that disrupts somehow the balance of the market in places like France? And that could play through to the ability to increase prices in that particular market? And then the second question would be, could you maybe just colour a little bit the kind of specific volume trends you saw in Q2, any different regions and/or countries?

Michel Giannuzzi: Good morning, Fraser. So I will take the first question and Nathalie will comment the second one. Regarding the harvest, as we mentioned, this frost event that took place in the first quarter was, of course, impacting the French wine producers or will impact the French wine producers during this year's harvest.

The real impact is yet to be seen, because as usual, they always claim big numbers in order to get the attention of the government. But the real impact is still to be measured when harvest comes in the fall.

We believe that, for Verallia, this could have some impact in France but yet I repeat to be defined and will know probably better and we will comment it probably better in October during the Capital Markets Day. But certainly not this year because this will be next year. And to some extent limited by the fact that last year was a good year. The harvest was very good.

And if you look back in the past, you have from good years to bad years, it is not unusual to have variations of 20% or 25% in the harvest.

And this is why the winemakers are using some inventories, some bulk wine that is put aside during the good years to provide for the bad harvest the following years. So what would be difficult is we have two bad years in a row because then you have emptied your reserve. The first year and the second year, you are short of wine, which is not the case. So cross fingers unless 2022 is a bad year from the harvest point of view. And so far we trust that there will be enough reserves to compensate for the lower harvest this year than last year.

Now regarding the balance and the consequences in the French market in terms of balance between supply and demand, right now even the French market is really tight in terms of capacity compared to the strong demand that we have. And we do not see any significant impact due to this low harvest, if you want, in France.

So knowing that, by the way, the harvest in the other countries like Spain and Italy should be very good this year. So again, as you know, there are quite a lot of exports from Iberia to France or from Italy to France, which probably will be less this year because they will have to care about their domestic market first before exporting to France.

Nathalie Delbreuve: Now on your second question on the sales and volume in the second quarter and to give more colour per region. So first, in just one step behind, on the first quarter in the region, Latin America was already strong and it was mainly Europe really strongly hit versus last year. In the second quarter, we have seen very strong rebound in volumes in Southern and Western Europe and in all the countries. Latin America continued to be a really strong.

And North Europe was more flattish compared to previous year as we commented, but again in Northern and Eastern Europe last year, one year ago, the effect of the pandemic was a bit later. And so the comparison is not exactly the same. But as a conclusion in the second quarter, really strong, especially strong in Southern and Western Europe, in Latin America still and a bit more flattish in Northern and Eastern Europe.

Fraser Donlon: Very clear. Just one final question, if I may, from my side just be returning to point on carbon. Obviously, you have the hedge in place, but do you have now more colour on how the number of free permits and allowances might evolve in this year and in later years?

Michel Giannuzzi: Well, that is what I was mentioning, Fraser. I think we still wait for the final allocations for this year, which are due normally in July. But as mentioned before, we believe it to be in line with our forecast, which is basically a reduction of 7% quota compared to phase three. But we do not have yet the numbers.

Lars Kjellberg (Credit Suisse): Just had a couple of questions left. Can you remind us about the packaging element as a percent of your cost structure considering the significant cost inflation you have there? And also, if you can call out the financial impact of your maintenance furnace activity in H1 and how we should think about that in H2 considering last year you had literally everything happening in H2? And also, if you can say what you expect for the full year in terms of CapEx? You highlighted of course Jacutinga will come into the equation strategic CapEx in the H2. But what can we look for the full year for total CapEx, please?

Nathalie Delbreuve: Okay. So for your first question, so freight and packaging represents about 10% of our total cost structure. But again, the increase in the packaging line is really strong, which is leading to some strong impacts expected in the second half. But all in all, freight and packaging is 10%.

Michel Giannuzzi: Now regarding the furnace repairs, roughly speaking, you can count around probably a bit less than €1 million of additional maintenance cost and start-up cost when you shutdown a furnace for reconstruction. So that is more or less than €1 million is the right number for the cost of such furnace. So around €700,000 or €800,000 is probably closer to the number.

And regarding the full year, the full year CapEx would be exactly in line with our guidance, if you want, to be exactly 8% for the recurring CapEx. And if we add the strategy CapEx, which in this case will be mostly leading to Jacutinga II new furnace, we should be slightly below €250 million for the full year. So yes, between €240 million and €250 million of CapEx for the year.

Lars Kjellberg: And just to clarify on the furnace comment that you made, I guess, that excludes lost production, etc., and then potentially lost revenues then for that number.

Michel Giannuzzi: You are right. Only the start-up cost the fact that you have to heat the furnace to bringing to 1,500 degree C temperature. And during that heating, for example, you use gas and energy, which is not used to produce any bottles. So these kind of things. But it is not including the loss of revenue, which normally should not happen if we have stock, because normally what we do is we build stock ahead of the furnace stoppage in order to keep selling during the reconstruction.

The fact is this year because we ended up last year with very low stock, we have not enough stock to deliver everything we should have done.

Lars Kjellberg: So taking that into account, how would you make us think about the total impact from this activity in H1 that you did not have stocks to sell?

Michel Giannuzzi: Well, this is the most difficult question because it is very hard to know exactly how many sales opportunity we missed if you want. Because all your question about this. We have sold everything we could and everything we have produced has been sold. Hence the destocking that still occurred in H1, despite, I repeat, start of the year which was already starting from the very low end on the inventory side. But it is very hard to quantify how many sales we lost because of lack of capacity.

Lars Kjellberg: Got it. Final question for me. You obviously called out a very favourable product mix as spirits recovered and the high premium products recovered, etc. How should we think about the mix going forward as we continue to reopen, assuming that that is indeed what is going to happen? Should we have a favourable mix? And how normal is the current mix versus what you would see in a normal year?

Michel Giannuzzi: Okay. I think it is very important and very interesting question you are asking us. Because when we comment the mix, we always comment the mix versus the prior year. And you remember, last year was exactly the opposite. The first semester, we had unfavourable mix because the most premium products like spirits, champagne suffered from the lockdowns and therefore our mix was quite negative this year.

You have seen the rebound and the very strong sales of our customers in spirits, especially in Cognac area but not just Cognac. And of course, year-on-year the mix is extremely positive. But I would say if we had to compare with a normal year, you would say it is so positive. It is positive but not with the same amount.

So what I am going to say is that it is one thing to compare year-on-year mixed impact, which is what we do when we comment on the financial results. It is another thing to look at what could be the normal run rate of the product mix we have. And here, we are back to what we said during the IPO, is there is a long-term / megatrend about premiumisation that we see in spirits but not just in spirits. We see it in wine also. If you look at the rosé wine, it is very obvious that it is going premium.

And this megatrend that we are observing on many years, if you want, has been somehow disturbed by last year's pandemic but it is still there. And what we see is a catch-up recovery compared to last year. But the trend is still the same.

Okay. Well, thank you very much everyone for attending this call. And I know that you have a few busy hours and days in front of you with all the half yearly results of all the companies. But I wish you after this intense working period, a good summer break and stay in good health. And I look forward to talking to you again after the summer break. Have a good day. Bye-bye.

Nathalie Delbreuve: Have a good day. Bye-bye.

[END OF TRANSCRIPT]