Verallia Q3 2021 Results

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Introduction & Key Highlights

Michel Giannuzzi

CEO, Verallia

A global leader in glass packaging

Thank you very much. Good morning, everyone, and thank you very much for attending this call on our first nine months of 2021 results. Let us start first with just a quick reminder about Verallia Group.

Verallia, as you know, is a global leader in the glass packaging industry. We are number one in Europe, and Europe represented last year 90% of Verallia's sales. We are number two in Latin America, that represented 10% of our sales last year. We are number three by size in the world.

If you see on the left-hand side of the chart, we address all end market segments in a quite balanced way, although, we have a strong focus on the wine and sparkling wine business due to our historical strong presence in the three largest wine producing countries in the world, namely, Italy, France and Spain, but we address all end segments of the markets which is providing a balanced and diversified end market exposure.

If we look at our footprint, we are present in 11 different countries with 32 glass production plants. We also have nine cullet recycling centres. The cullet is the used glass that is being recycled in our furnaces. We have three decoration plants also that are enabling us to provide additional services to our customers, and we employ around 10,000 people in 11 different countries. This is a mass production industry. As you can see, we produce 16 billion bottles and jars every year.

So last but not least, you see on the top right-hand corner of the chart our 2021 guidance, which we have confirmed during this press release today. It is about achieving €2.6 billion of sales with volumes back in line with 2019 levels. And we are targeting an adjusted EBITDA of around €675 million.

Our beliefs drive the way we do business

Now moving to the key highlights of the quarter, I think the most important thing of the quarter was the Capital Markets Day that we held on 7th October, which I will summarise in a few slides for some of you who did not look at it, although, the full presentation is available on our website.

I think what is interesting to start with is how we run this business and our beliefs in what is good for Verallia and all the stakeholders around the company. We strongly believe that our corporate purpose, which you know is re-imagine glass for a sustainable future, should drive our strategy. This is taking into account very seriously our environmental and social responsibility.

We also strongly believe that we should deliver a sustainable and profitable growth, and this is the only way to benefit to all stakeholders, I mean, customers, employees and shareholders. We believe in our organisational model, which is lean, agile and decentralised, to be close to our customers and we empower our teams to best serve our customers.

Very important is our operational excellence focus that is helping create value and we believe that this is more important than size and this is shaping our straightforward and very focused strategy.

Last but not least, we strongly also believe in the alignment between all stakeholders and the coherence of what we do starting with our corporate purpose but including our strategy and action plans. And this is key to our success.

As a consequence of all these things, we are investors and we run this company in a long-term view as long-term owners. And finally, as you know, we see a very cash generative business. We aim at returning excess cash to our shareholders through dividend increase and share buybacks.

CO2 emissions reduction

Now very importantly, as I said, we have communicated in January this year our ambition to be in line with the COP 21 objectives, which is to limit global warming well below 2 degrees C and this objective in January has been validated by Science Based Targets Initiative. This translated into our commitment to reduce our CO2 emissions for Scope 1 and Scope 2 by 27.5% in 2030 compared to 2019.

This was clearly detailed in a very strong and a precise roadmap that has been presented in January, which is also available on our website. This is basically focusing on three main levers: the shift of raw material mix and to have less carbonated raw materials, including a strong increase of cullet use. The second lever is to reduce our energy consumptions in our operations through mostly technical innovations and investments. The third lever was to increase the share of renewable energy.

Based on the fact that the deterioration of the climate is evident lastly by the report of the IPCC in August this year, we decided in October, during the Capital Markets Day, to raise our ambition to a new level of reducing and limiting the global warming to only 1.5 degree C. This is a significant step-up in our ambition, which will mean for Verallia to reduce our CO2 emissions by 46% in 2030 compared to 2019.

We will keep our Scope 3 emissions also below 40% of total emissions, which means more or less the same level of reduction for our Scope 3 emissions around 45% reduction for the Scope 3 emissions. More longer term, we believe that we should be able to achieve net zero impact on the CO2 by 2050.

The difference between the initial objectives of January and the new target of October is based on the fact that in January our roadmap was only taking into account existing technologies and known action plans and defined action plans to reach these 27.5% reduction. The new ambition to limit our global warming to only 1.5 degree C is taking into account future technologies that in the decade should be made available, namely, things like the better use of hydrogen, for example, like the new furnace of the future that this country being developed in construction with other industrial glass-making companies at European level, with also stronger share of renewable energies. All this is included in our new ambition action plan. Of course, there is quite a lot of work still to do to have a very precise roadmap on this topic.

Our four strategic priorities

The strategy that we also presented during the Capital Markets Day has not very much changed since the IPO two years ago. By the way, I should have started by reminding you that the reason for this Capital Markets Day in October is because we achieved one year in advance the mid-term objectives that we set at the time of the IPO.

We are not changing a winning strategy, which is basically based on four pillars. The first pillar is to pursue a disciplined growth, and this includes strategic investments, both for decarbonating our industry and to potentially acquire new companies and extend our perimeter. The second pillar is to keep increasing our operational excellence as we have done in the last few years.

The third pillar is to keep investing wisely for a sustainable future. I remind you that on average for the last five years, we've invested 9.8% of our sales in capital investments in the company. And the fourth pillar is to keep developing a strong entrepreneurial culture in our company. And all this is aiming at developing a profitable inclusive and durable growth.

Mid-term financial guidance (2022-2023-2024)

Now, financially how does it translate into new mid-term objectives? First of all, the organic growth sales that we are targeting for the next three years will be between 4% to 6% organic growth per annum. Half of it will be coming from volume and the other half from price and mix. This is assuming that inflation, which is expected to be strong next year, will start slowing down in 2023 and after.

We are targeting, at the end of the period in 2024, to reach between 28-30% EBITDA margin. This will be achieved through a positive price and cost spread, which you know is one of an important pillar in our strategy and also through the second very important pillar, which is achieving every year at least 2% of reduction of our production cash cost, which is generating €35 million improvement on our EBITDA every year.

The third objective is on cash flow. You know this is a very cash-generative business, and we expect to reach around €900 million of cumulative cash over the next three years. This is despite strong investments that will be around 10% of our sales during the period. That includes the CO2 related CapEx and also three new furnaces, one per year that we are going to build during the period, two in Latin America in Brazil and one in Italy by 2024.

As a consequence of these strong improvements, the earnings per share should reach around €3 in 2024, excluding the PPA from the Saint-Gobain divestiture. This is based on effective tax rate of around 27% and a cost of financing pre-tax which is around 2%.

Last but not least, the shareholder return policy is also very clear. We expect to grow our dividend per share around 10% per annum in line with the net income growth, which will be more than 10% every year. Potentially if we have excess cash, as I explained before, we will consider accretive share buybacks.

Key financial highlights for the first nine months 2021

This being said, let us now focus on the financial results and the highlights of the first nine months. The revenue for the first nine months increased 3.4% but it means in reality a 5.8% organic growth.

Our Q3 revenue grew 2%, and this also was a 2.1% organic growth, which I remind you is a strong performance, given the fact that in Q3 last year we had an 8.9% increase compared to 2019. So we are comparing our sales with a very strong and very difficult base of 2020 and we are pleased to report a good organic growth in the quarter.

The adjusted EBITDA improved to €528 million for the first nine months, which is 11.2% increase. Our margin reached 26.1% compared to 24.3% last year for the same period. We kept deleveraging the company with a reduction of our net debt, which now is reaching a leverage of 1.8 times in the last 12 months adjusted EBITDA compared to 2.2 at the end of September last year. This includes despite the dividend that was around €114 million this year and the share buyback that we did also two times this year, which was around €109 million altogether.

As we anticipated and as we communicated before, during the first nine months of the year, we have reached the same level or effectively above 2019 levels in terms of volumes and revenue.

So this introduction has been made, I will now hand over to Nathalie Delbreuve, the Group CFO. She would present to you in more detail the financial results.

9M 2021 Financial Results

Nathalie Delbreuve

CFO, Verallia

Organic growth in Q3 despite high comparison basis

Thank you very much, Michel, and good morning to you all. So let us walk through the year-to-date September results. So we have an organic growth indeed of 5.8% that I will present to you in this usual bridge from our nine months 2020 to nine months 2021. We have seen growing volumes over these nine months. And as Michel said, this is despite a very strong comparative basis, especially in the third quarter 2020; if you remember after a second quarter in 2020 with the first lockdown, we have seen a decrease in sales, we had seen a very strong rebound last year. The fact that we have a positive organic growth in Q3 now with this comparison basis high is very good. We see, as we anticipated, that we are now back to 2019 levels, that is pre-COVID volumes.

The price-mix is positive with €78.3 million significantly positive contributing to our growth. Sales prices are flat in Europe. In Latin America, they followed a cost inflation, so they are increasing, and we still have a strong contribution from the mix at Group level.

Now the exchange rates are contributing negatively but this impact is mostly stemming from H1. It is pretty neutral in the third quarter. If we comment shortly by region; in Southern Western Europe, the sales are up over the nine months with some slight slowdown in the third quarter but really due to the high comparisons, so volumes are still strong and market is dynamic. In Northern Eastern Europe, we have presented to you in the first half year a reduction in sales but with improvements in the second quarter and we see now indeed that the third quarter is showing growth versus previous year and so improvement. And in Latin America, continues strong momentum. In all the countries, the market is still in growth dynamic.

Leading to sustained adjusted EBITDA growth & margin improvement

This is leading to sustained adjusted EBITDA growth and margin improvement. Our adjusted EBITDA is €528 million for the period and 26.1% margin. You can see on this bridge that the activity pillar is now positive. We have the positive volume impact we just commented, and we have a lower than last year destocking impact. We have been stabilising our inventories in the third quarter.

The price-mix cost spread is significantly positive contributing to our EBITDA. We are seeing now negative price cost spread in the third quarter. The cost inflation has been significant in the third quarter, but still a positive spread with a positive mix contribution. The net productivity continues to deliver. We have 2.4% production cash cost reduction for the period.

In the foreign exchange, you see a negative number but mostly coming from H1. In the other, the minus €4.5 million, one significant item for the third quarter is impact of fire that we had in Argentina, where the cost we have posted is €3.5 million, after insurance. It means our adjusted EBITDA margin is up by 183 bps.

Leverage <2X

Now let us look at the leverage. We have continued to deleverage the company with 1.8 times at the end of September. This includes, as Michel said, payments of dividends and share buyback for €109 million. The decrease in this leverage is also allowing us to decrease our interest cash out as we have ratchets on our term loan which we are benefitting from.

Diversification of funding and lengthening of maturities

Now if we look at the fundings and our detail of fundings and maturities. You can see in this table in the first line, our sustainability-linked bond that we issued in May and that is maturing in May 2028, so a seven-year bond for €500 million. The proceeds of this bond helped us reduce the term loan. Here, we are diversifying sourcing but also lengthening the maturities of our funding, and this with very low coupon at 1.625.

Our available liquidity is very comfortable with €930 million at the end of September. And considering the success of our first bond, we are continuing to consider a further diversification of our financing sources.

Conclusion

Michel Giannuzzi

CEO, Verallia

Our winning strategy for a profitable, inclusive and durable growth

Thank you very much, Nathalie. So as a conclusion, after very strong third quarter, and despite a very short-term inflationary context and environment, we are confirming our 2021 guidance, which I remind you is to reach around €675 million of EBITDA this year for €2.6 billion of sales.

Now more longer term, the summary is that our winning strategy for profitable inclusive and global growth is working well and will be continued in the next few years with the four pillars I have already explained. You have seen also that for each of the pillar we are giving a more precise guidance about what does it mean in terms of financial results. So I will not comment it again, but everything we do is really centred around corporate purpose, which is to re-imagine glass for a sustainable future and to at the end of the day reach profitable inclusive and durable growth.

So thank you very much for your attention. Now I think we will take your questions.

Questions and Answers

Matthias Pfeifenberger (Deutsche Bank): The first one is a bit on Q4 in terms of price cost mix, what are the dynamics versus last year? Also, what is the plan for further restocking potentially? The second question is more on 2022. How are the pricing negotiations going so far? How do you think about margins next year, when, on the one hand, you have very ambitious medium-term targets but also just passing on the cost inflation has a technical margin diluting effect; what is your initial thoughts on pricing and margins for next year?

Nathalie Delbreuve: Okay. Thank you, Matthias. I will take the two first questions. First question on Q4 price cost mix evolution. As we commented, we have seen the spread in the price cost turning slightly negative in the third quarter with inflation, especially for us on a packaging and transport as we are quite almost well-hedged on energy.

In Q4, we include the same in our guidance, meaning a negative price cost spread. And with two comments here, one is that the comparison basis is very low. We were exactly in the opposite last year with deflation on cost. Second that indeed we see sequentially cost inflation still increasing again on packaging and transportation since H1 and also on the rest, especially on energy and the part that is not fully hedged for us.

We see a negative price cost spread in our landing for the year end. This is included in our guidance. On some other parts, we have some other pillars to compensate, for example, you have seen that PAP is delivering above 2% that is also contributing to the year-end performance.

Michel Giannuzzi: Okay. For 2022, Matthias, we are just entering, as we speak, in the price negotiations in Europe, given the fact that usually they take place within November and February, March for most of the negotiations. Clearly, we are going to request significant price increases compared to what we used to ask for in the past.

I would like just to remind everyone that on average this year in Europe, prices have been maintained flat. Therefore, the strong price increase that we need to request to our customers to cover for the inflation of costs is to be considered over almost a two-year period.

Now, technically speaking, you are perfectly right, Matthias. If we increase prices just to make the math – our objective is always to maintain a positive spread, which means that our pricing is at least at the level of matching or covering, if you want, the inflation of cost. If we, for example, look for price increase that covers the cost increase and that is of 5%, for example, price increase, this has a mechanical dilutive effect on the margin: the margin is dropping by 1 point, or 100 basis points.

So it is too early to say exactly what will be the impact of this strong price increases next year on the margin because there would be other factors like the growth of the business, like the PAP next year. As you know we committed to reduce our cost base by 2% production cash cost every year. Therefore, this is also, as you know, by itself has been improving the margin by more than 100 basis points.

We are in the process of, of course, putting everything together in our next year's budget. We will complete the exercise by the end of the year and we will provide the market with the guidance for 2022 when we publish our full year results in February next year. So that will be the time when we provide some guidance about EBITDA and potentially EBITDA margin next year.

Matthias Pfeifenberger: Just a small add-on on the restocking. Will that continue in the fourth quarter?

Nathalie Delbreuve: Yes, exactly. On the restocking, so we have stabilised inventories at Group level in the third quarter, not yet rebuilding inventories, the reason being that the market is bullish and we are still short of glass. We should rebuild in fourth quarter partially our inventories. However, indeed, there will be further restocking in 2022, we think maybe mainly in the second half of the year. This will have a negative impact on our cash generation next year.

Lars Kjellberg (Credit Suisse): You delivered, of course, a decent growth on a very difficult comp from Q3. Could you remind us what sort of comp we are up against in Q4 in terms of underlying volumes? That is my first question, and I think Matthias covered most of the others, but I may have a follow-up as well.

Michel Giannuzzi: Okay. Well, good morning, Lars. For Q4, I mean, Q4 last year started to normalise a little more compared to Q2 and Q3. Because if you recall last year, our Q4 organic growth was 1.7%. Therefore, this is much more in line with what we used to see in terms of organic growth. We right now are still enjoying, as Nathalie just said a few minutes ago, a very strong market, which, to some extent, is not allowing us to restock a lot, to rebuild our inventory as we would like to, which is, to some extent, good news.

We are expecting, as usual, because there is some kind of seasonality that the size of the Q4 impact on the full year is less than other quarters. We have, by definition, by seasonality a weaker Q4. However, so far, we still see strong demand. As you know, right now the limit we have is our production capacity. We are producing everything we can. We are working at full speed, full capacity. Therefore, the limit today is the production capacity.

Lars Kjellberg: One of your competitors talked about very strong growth in next year for various products that you are most engaged, including prosecco, champagnes, but they also mentioned Bordeaux wines. Is that something you would agree with as a cost for the next year considering the frost in France, etc., earlier in the current year?

Michel Giannuzzi: Well, yes to some extent, but not for everything you have said. Let us be clear. When you look at our French markets, clearly the champagne, which was down last year by quite a significant amount because people were not partying when they were locked at home. When you look at champagne, the exports in the first half of the year have grown up by 48% according to the official sources. This was following a year where last year the exports were down 18%.

So a strong rebound on champagne, which means that the champagne that was expected in three years to recover the highest record level of 2019 will recover already this year the highest level. Champagne is doing extremely well and that is, of course, from a premium point of view a good news for us.

The second thing which I will agree with is the spirits, especially in France, the spirits industry and especially the Cognac industry is doing extremely well. At the end of September, the industry according to the national professional information, the Cognac volumes have increased 25% at the end of September for the first nine months compared to last year with a strong pool from the USA and Asia.

And even more in the high-end Cognac, the VSOP, which is growing by 38%. Again, premiumisation trend that we mentioned before in our Capital Markets Day is being recognised through those numbers.

The one thing which I would less agree with is the wine business. You know that the harvest this year is the lowest since many, many years in France due to the frost we had in spring in April, due to also some diseases in the grapes. Therefore, the volume of wine that will be produced this year will be certainly much lower than last year.

Here, we think that the difference will be between entry level wines and the premium wine. For sure, it seems that the wine quality would be good and therefore the premium Bordeaux that you mentioned are going to do very well. By the way, the fact that taxes in the US against the French wines or the wines from Europe, except Italy, have been dropped in the first quarter of this year is also boosting the exports of premium wines to the US, like the Bordeaux you mentioned.

However, altogether, there would be probably a bit less ones, especially in the entry segment, being bottled this year because of the very poor harvest that we are seeing this year.

Lars Kjellberg: One final question from me. Let us look at your mid-term 4-6% organic growth, half of which from volumes considering your capacity constraints that you currently have, is that volume components like somewhat backend-loaded as you need to build out your capabilities to deliver that sort of 2-3% volume growth?

Michel Giannuzzi: No. I mean, everything is coherent. I mean, at the same time we are looking for good volume growth in the coming years. We are also investing to increase our capacity. We are building one furnace every year in the next three years. We currently have 58 furnaces. So one furnace every year is just a bit less of 2% capacity increase.

On the top of this, of course, we have, as usual, and as most companies, we are doing our own work to increase capacity marginally through debottlenecking activities or through production improvement, which are giving also some marginal increase of capacity. So the combination of the marginal capacity increase we have, thanks to the regular and ongoing job we are doing in our factories and the additional furnace we built every year in the next few years, is giving us the capacity to support our strategy of growth.

Francisco Ruiz (Exane BNP Paribas): My first question is regarding stocks, mainly on the channel on the industry as a whole. Everybody is reporting playing at full capacity and also we had some comments from beverages companies that they are running out of glass. How do you see the demand or the capacity to attend this huge demand in coming semester? What is your level of utilisation capacity at this moment?

The second question is a follow-up on one of the previous question. If you could give us some flavour on how the negotiations are by regions? I mean, if you are finding more difficulties to increase prices in one region versus others?

Michel Giannuzzi: Good morning, Paco. Thank you very much for your questions. Regarding the stock, it is true that the capacity shortage that we experience at Verallia is not just Verallia. I mean, at least in Europe and in North America by the way, all the regions in which we are present in are showing some capacity constraints. This is true for our competitors as well.

As you know, it takes eighteen months minimum to build a new furnace. We know more or less what is going to happen in terms of new capacity being put in the market in the next six months. This is something we have reported during our Capital Markets Day. Therefore, the market will be certainly under some kind of pressure. The balance would be clearly positive in terms of excess capacity in the next few years, I mean, at least next 18 months, given the strength of the market. We recognise that it is creating some difficulties to our customers. We apologise for this.

By the way, one thing also which has changed after the pandemic is the very difficult forecast ability of our customers, which by itself is creating also some disruptions in the production factories because they have to change over jobs more often. We are very flexible, but this is also not playing in favour of increasing capacity. Just the opposite. It is reducing the capacity because when you make job changes, during the time you make job changes, you do not produce.

This I think is something that the whole market is seeing right now. So I think this tension on the capacity on the market is unfortunately going to last for quite some time certainly at this point for next year. That is what we see.

Now regarding negotiations. I repeat, it is very early to say except Latin America, where we are currently renegotiating as we set our prices. However, in Europe, you know very well that we just entered in the negotiation period. It is too early to say what will be the reaction of the customers. I repeat one more time, yes, we are going to ask for significant price increases. However, I would like to remind you that this year, on average, in Europe, there has been no price increase at all. And in some countries, we even have decreased our prices because our cost base was deflating last year. So as usual, I mean, negotiations are never easy but that is the job of our salespeople to find the right arguments.

Francisco Ruiz: Okay. Can I do a follow-up on the shortage capacity? Could this bring to an improvement on mix if you prioritise higher margin rather versus other product or you will continue delivering more or less in line with your sales account right now?

Michel Giannuzzi: No, that is a good point, Paco. I think you have seen that in the bridge from Nathalie. This year, we have enjoyed a very strong mix impact. Part of it is due to the rebound of the premium segments like what I just said about champagne or Cognac. Yes, there is a rebound of the most premium products, and therefore, the biggest margin product that we sell. However, part of it also is just the fact that with the lack of capacity we had, of course, we favoured the best products and the best customers margin from a margin point of view.

I think in the future, we will keep seeing the positive impact of the premiumisation, which is not huge but it is positive year-on-year, because I think this trend, which I explained several times is long-term trend and we expect to see this positive mix improving going forward.

However, on the opposite next year, especially probably in H2, we will probably not have the same positive impact due to the fact that we are going to serve better all customers including the lower margin products that were somehow sacrifice this year.

Charles-Louis Scotti (Kepler Cheuvreux): Three questions from my side. The first one, the shortage of glass. Is it because of lack of production capacity or because there is tension in the supply of some raw materials? I guess this shortage of glass is creating a favourable environment to raise prices within it.

Second question on the Q4 implied by your full year guidance. Is it just low single-digit sales drop and 70 basis point margin contraction? What is then cautiousness for the balance of the year? Then third question on the profitability that, I guess, you would not give any specific figures. But is it fair to assume kind of a plateau in 2022 and more back-end loaded profitability increase throughout 2024 strategic plan?

Michel Giannuzzi: Okay. Good morning, Charles, and thank you also for your questions. Regarding the first one, the shortage of glass, yes, clearly it is linked to lack of capacity of the market. I mean, the whole market has been really taken by surprise with the strong rebound. First of all, the fact that the drop of demand was very concentrated in Q2 last year, but as soon as the hotels, cafés and restaurants reopened in Q3, the rebound was really unexpected and at a very high level and has been strong since. This shortage of glass is really linked to the lack of capacity, not to the lack of supply. You know the raw material we need to produce glass are cullet, which is by definition available on the market as people consume, and mostly sand and soda ash and we have not experienced any shortage of raw material.

With that, although, especially in Q3 some tensions on transportation, which delayed some deliveries, some shipments to our customers, but this was a very short-term impact, some service being impacted by lack of products and lack of transportation companies availability. However, not impacting really the sales. Just impacting the quality of service that we are offering to our customers.

Nathalie Delbreuve: About Q4 and your comments, Charles, which is in fact important component in our Q4 is inflation on costs. We have 10% of our costs which are packaging and transportation, where we have seen inflation and we are not 100% hedged on energy even if we are well covered. The gap again versus previous year is significantly negative as the comparison basis was on the opposite way. That is the main impact that we see in Q4 before we adjust prices in Europe, as you know, it is annually done and the negotiations are just starting for 2022.

Is 2022 is a plateau? I mean, for 2022, we intent to have our usual pillars delivering. However, then, as Michel mentioned already, there will be some dilution in the margin due to the size of the inflation and then price increases. That will be the main specific impact that we are not used to in the past year.

Michel Giannuzzi: Do not under-interpret Nathalie's comment. She is just mentioning the technical dilution of the margin due to the price increase. But I repeat one more time. We are just making our budget as we speak. This will be offset by growth and PAP. Therefore, at the end of the day when we have the positive contribution of growth, the positive contribution of PAP, spread, which will be zero plus, which is our goal, that is dilutive. I do not know if the summary of all these factors is making the margin plateauing next year or slightly increasing or hopefully it would not be decreasing.

However, certainly one thing for sure is we are going to have a headwind in terms of margin expansion next year, which by the way will revert the year after because as we see the energy prices are going down in 2023, then there will be normally everything being stabilised by 2023. There would be very little price increase in 2023 hopefully for our customers. Therefore, we would not have this margin dilution effect in 2023, which gives us more opportunity to catch up on margin expansion in 2023 and 2024. That is the way to look at it. In other words, to say it differently we are at 26% EBITDA margin today. We are aiming at more than 28% by 2024, but it would not be linear. It will be less next year and more the years after that, just for technical reasons, as you can figure out.

Peter Testa (One Investments): I have three, please. Just on the price mix cost question, so two parts. One, I was wondering if you could give a sense if there is any difference between the three regions on this regard. I mean, you do not need to be specific but whether it is sort of positive or negative? Then as far as the timing of the prices, as you talked about the negotiations start now and finish in January or whatever, if you can give us a sense that based upon your understanding how this actually works. Do you get the full price increase in Q1, or is it phased through Q1?

Then I had a question on the activity bridge or the EBITDA bridge. Firstly, just looking at activity, is it a good idea to essentially look at this on a two-year basis, given all the volatility and try to understand that bridge on a two-year basis so that should be kind of flat to somewhat positive on a two-year basis on EBITDA, just to help us. Then the last is a small question. On the other line on the EBITDA bridge is I think minus 5.9. I was wondering if there is any particular reason for that and then maybe on Q4?

Nathalie Delbreuve: Okay. So I will answer the first question on the price mix cost per region. First, we have 10% of our business in Latin America. There, as we said, there is recurring inflation throughout the year and price evolutions throughout the year. The price dynamic is different in Latin America. However, the price mix cost spread is positive in Latin America as our teams are following inflation with prices.

The mix has been contributing also in Latin America. Now I would say that the mix is especially helping in Southern West Europe. There, I would come to Michel's comments on champagne, on Cognac evolution this year. However, if you look at regions this year, the mix has been contributing positively in all our regions.

Michel Giannuzzi: Okay. For your second question regarding the timing, Peter. I repeat, Latin America, the price increases happens throughout the year whenever they negotiate. So usually it happens the months after negotiation. This can be done at any time during the year. In Argentina, for example, which you know is a hyperinflation country, we negotiate prices every month. Therefore, every month the prices are changing.

In Europe, it is once a year. I would say, most of our customers have their fiscal year starting in January. Therefore, most of them the price increases are from January to December, applicable from January to December. Some customers have deferred, if you want, price implementations. It could be 1st April usually and first of the second quarter or in very few cases, mid-year.

But again, this is every year the same. We do not change the timing of the price negotiations from one year to the other. So it is very recurrent from one year to the other, which means that when we look at our bridges, the timing has no impact if you want on the bridge itself.

Now regarding the EBITDA bridge, I think probably this one.

Nathalie Delbreuve: Yes, I can take that. So your question was, is it fair to look at activity on a two-year basis? If we do that, indeed, as we say, we see that the volumes are back to 2019 levels. Then the stock variation is really another negative component because we have today lower inventories than what we had two years ago at the beginning of the year 2020, and this is a main differentiating factor if you look at the activity over two years.

In the "other", in fact, in our year-end lending, we do not know yet. This "other" is a bit like items that are exceptional. Of course, we do not know what will happen in Q4. I mean, we will have at the same other as we have at the end of September and we are a bit prudent. We always take some impact to cover what could happen in Q4. Other than that, I cannot comment further.

Michel Giannuzzi: Maybe Peter I can add just a few things. Exchange rates in Q4 based on the fact that most of the devaluation of the currencies took place in H2 last year. As you have seen in Q3, there is very little exchange rate impact in Q3 and we do not expect exchange rate to have a meaningful impact in Q4. That is one thing. On the "other", just to add on what Nathalie has said, as we speak today, we have no material positive or negative charge or profit in the other column for Q4. It does not mean that nothing will happen between now and the end of the year, but as we speak today, we have none.

Charles-Louis Scotti: Okay. Maybe just one last question quickly. Is there anything different on the timing of the furnace refurbishments in the next 12 months versus what we have seen?

Michel Giannuzzi: Good question. I mean, we are still reviewing the budget for next year, and therefore the timing of those repairs for next year. However as we have seen, those last two years have been somehow quite unbalanced in terms of spread of repairs during the year. Although on a full year basis, it does not change. We are still talking about six to seven furnace repairs every year but we have not yet finalised exactly with each division the timing of the repairs furnaces.

So we will come back to you probably in February with the exact shutdowns of the furnaces for reconstruction. But you should expect for the full year the same number of furnaces that is going to repair next year.

Jean-François Granjon (ODDO BHF): I just want to come back on the spread impact. Are you comfortable to confirm of positive spread impact in next year despite the price increase for transport, etc., etc.? You already mentioned a positive spread impact. So to the fact that it will be probably more difficult during the second half of this year, do confirm a positive spread impact next year?

Michel Giannuzzi: Good morning, Jean-François. Thanks for the question. I repeat, next year this is the goal. You know our strategy and that was reiterated during the Capital Markets Day is to go for positive spread every year. When the costs are going down, we decrease our prices less than deflation and when the cost are increasing, we should increase prices to cover for inflation.

I repeat one more time. Our goal is to achieve the positive spread. We are working hard on it. All negotiations have just started. It is too early to say whether this goal, which is ambitious, given the strong price increases we need to will be achieved, but this is definitely the goal. So we will probably give you a bit more colour again in February when we, first of all, will have done most, at least majority of the negotiations, and, secondly, when we will have completed our budget, and therefore have a better view of the full year and then we will provide a guidance at this time. However, yes, I confirm this is the goal.

Lars Kjellberg: Just wanted to clarify you mentioned plateauing or maybe positive or negative. That also, of course, referring to margins as opposed to absolute EBITDA, just to clarify.

Michel Giannuzzi: Again, if you take the three pillars of our EBITDA bridge, activity next year will be positive. We see some growth coming and we will benefit by the way of the new capacity that we did not have in Q1 this year with the two new furnaces built in Spain and Italy. So the first pillar, which is a combination of organic growth on the sales side, plus inventory variation, we expect to stock next year where we reduce our inventory this year and we expect to have growth again. This pillar should be positive. Therefore, as a consequence, should contribute to higher EBITDA.

The second pillar, which is contributing to higher EBITDA, is the PAP. Again, we commit to more than €35 million of improvement next year. So this will increase EBITDA as well. The spread, we aim at zero-plus spread, which will not strongly contribute like this year to the EBITDA growth. On the opposite, mechanically, we will have dilution impact because the price increase is being more than 5%. This will dilute the margin by around one point (in case of +(% price increase for ex). I expect, but I repeat and it is not a commitment at this stage. I expect that altogether the margin will keep improving, will still improve but probably not as strongly as with the improvements we have seen in the last few years. I mean, I just remind you that in the last four years, we improved our margin about one point every year. Right now I do not see us improving another one point in 2022, given the dilutive, which is mechanical impact of the huge price increase. That is all we are saying. However, again, it is too early but I still hope that we are going to achieve a margin expansion next year. More importantly, it is the EBITDA value expansion.

Matthias Pfeifenberger: Sorry to be nagging about this and thanks for the statement on the margins for next year. You do not have to comment, but you can maybe tell me if my thought process is completely wrong. So supposedly you are better hedged on some of your competitors on the energy side and you were probably not show your strikes to the customers, so when your competitors move ahead with price increases, they will probably be higher than yours. I mean, just economically there is no incentives to not price as much as possible, right? If this works, is there really going to be a negative effect from the technicalities of the price increase? I mean, in a very positive scenario you could price much more than you need, right?

Michel Giannuzzi: I will tell you the way we operate. Thanks for asking the question, Matthias, because I think it is a very important question. The hedging policy is at Verallia a pure financial tool to average out our energy cost. We never speak to our customers or to our salespeople about the level of hedging that we have because it is a pure financial tool, and because this tool – we have been extremely transparent on our hedging policy and you know it very well – because this hedging policy is very transparent, it is financial tool and it is not speculative, which means that by the way in 2020, for example, when energy prices dropped quite significantly after the pandemic or during the pandemic, our hedging positions was at loss.

Therefore, next year it will be probably the oppositive. Next year we have hedged at lower prices than the current prices we have and we see. Therefore, we should somehow have a profit from hedging, which is what we expect to see. However, this is not what we tell our salespeople, this is not what we tell our customers. A few customers but very few of them, at least one or two customers who want to hedge, which we are prepared to hedge together, but this is not the case of the vast majority of all customers. At the end of the day, the price negotiations are based on the available market information.

This allows me to be more precise of what I said during the Capital Markets Day. If you remember in October when we take the future prices of energy that we saw in October for 2022, applying those costs of energy of 2022 that we saw in October to our P&L, this would mean a double-digit price increase to be neutral in terms of spread.

This, of course, is a spot price. You have seen that since October the 2022 prices have gone down a little bit. So therefore, if our customers wait a little bit and for example some customers negotiations will take place only in January or February, they will use probably the latest information available, which could be slightly lower than the information we had in October. You have seen that since October, energy prices have started to decrease a little bit, not too much by the way, but a little bit. And we do not know what will be the energy prices in January.

If they are lower, maybe the double digit that we needed in October will be a high single digit. So that is what you need to have in mind. When we negotiate with the customers in January, they will not look at October prices. They will look at January prices. Therefore, it is a kind of real time negotiation that will take place on the information available at that time.

What we have done for the last three years is to hedge out our energy costs in order for us to know exactly what is the bare minimum we need to cover our energy increases. Therefore, as you understood, the fact that we are hedged give us probably more safety margin than other companies that are not hedged or hedged differently. I do not know how they are hedged.

The dynamics in the marketplace regarding the fact that some competitors might ask price increases maximise, each company has its own strategy. We cannot comment what the pricing strategy of our competitors. Some of them will be more or less aggressive, some of them would probably accept to reduce their margin, some of them would try to maintain their margin or at least positive spread, some of them will accept the negative spread. This is their decision. Our policy is very clear; we are fighting internally and with our customers to maintain a positive spread. I hope I clarified the point, because I think you are asking a very important question and it is important you understand the way we manage the business in order to make the best estimate possible based on the information.

Matthias Pfeifenberger: So thanks for that. The only point I would add is that Vidrala, for instance, talked about double-digit price increase already in the Q2 call, which was ahead of the majority of the spike, when you talked about 5-10%. I think the safety margins are maybe quite big.

Michel Giannuzzi: I am not sure about the comments of our competitor. I mean, I do not know what they said because it is not public information. At least, I have not seen it. But I repeat what we tell to our customers is nothing to do with hedging. It is based on the prices that we see on the external available indexes and information.

Matthias Pfeifenberger: Spot prices. Thanks a lot for that clarity. Appreciate it a lot.

Michel Giannuzzi: Well, thank you all for attending this call. I think we are very pleased that we have been able to answer all your questions. And I look forward to meeting you at some point in time. And stay safe and enjoy a good day. Bye-bye.

Nathalie Delbreuve: Bye-bye.

[END OF TRANSCRIPT]