Verallia Q1 2022 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. Thank you very much for attending this call about the Q1 results of Verallia.

I will share the presentation with Nathalie Delbreuve, the Group CFO, and we will start, as usual, by a quick reminder about Verallia activities. As you well know, we are a global leader in the glass packaging industry. We are number one in Europe. And Europe represented last year 89% of our sales. We are number two in Latin America, that represented last year 11% of our sales. And we are the third largest glass packaging company in the industry.

As you can see on the left-hand side of his chart, we address all end markets and we have a very balanced exposure to all these end markets with a strong presence of course in the still wine and sparkling wine segments, due to historical reasons and our strong presence in the three largest wine producing countries in the world, namely, Italy, France and Spain. However, we address in a very balanced manner all the other segments, including the food segment, which represented last year 16% of our sales.

We operate in 11 different countries and employ about 10,000 people. We have today 32 glass plants with 58 furnaces in total. We also have three decoration plants that are providing added value services to our customers by decorating the bottles. As you know, we also clean and treat our own cullet, cullet is the used glass that we use in our furnaces, in nine different cullet treatment centres. Altogether, we produce every year around 16 billion bottles and jars.

Key Highlights

The SBTI validated in March 2022 our 46% reduction targets for CO2 emissions "scope 1 and 2" between 2019 and 2030

Now let us start with the highlights of the quarter. The first one you know how important it is for us to comply and to move on our ESG roadmap that we presented last year in January and then updated it in October during the Capital Markets Day last year.

We are very proud and pleased to report to you that our objective of CO2 reductions of 46% by 2030 compared to 2019 has been completely validated by SBTI. And we are now on track to reduce the global warming to 1.5 degrees Celsius as recommended by the Paris Agreement.

Now I remind you here are three main objectives regarding the CO2 emissions reductions. First of all, we will reduce our CO2 emissions by 46%, as I said before, by 2030 compared to 2019. We will also improve our Scope 3 emissions by reducing them to maintain them below 40%. It is more or less the same amount of reduction that we are targeting for Scope 1 and Scope 2, which is around 46% reduction. A long-term vision is that we will become net zero in 2050 or before in terms of Scope 1 and Scope 2 emissions.

If you want more detail, go back to our Capital Markets Day presentation, which is available on our website. However, to achieve this, we have presented last year a very comprehensive and detailed roadmap, which basically is based on three main pillars. The first pillar is about the raw material that we use, increasing raw materials that do not emit CO2 at all. Here, cullet usage increase is a big factor of improvement in this raw material pillar.

The second pillar is to improve the energy efficiency of our plants and especially our furnaces that are the biggest energy consumer in the plants. And for this, we have announced, if you remember in February, that we will develop an hybrid furnace and an electrical furnaces in order to cut by two the CO2 emissions coming from our plants.

The third pillar is to increase the share of renewable energy. And here also we are working actively either to install solar panels in our factories but this will not be enough. We are also securing PPAs, purchase price agreements, with main suppliers as we speak.

Verallia develops and promotes glass re-use

An interesting initiative is part of our ESG roadmap is also something which I think is quite new for our industry; actually not new, but something that is probably underdeveloped or under-looked at by our industry, which is the re-use possibility. We know that it is a trend from many consumers in some markets to not only dispose and recycle glass, which is, of course, one of the main advantages of glass is glass being recyclable infinitely, but to also consider reuse as a solution in some cases to limit the CO2 emissions.

We worked last year with many very well-known and famous industry experts, university experts and also customer experts in order to define what could reuse look like for our industry. This led to first a white paper that is also available on our website, which is basically providing some ideas, some guidance in how to make it work in some countries and in some cases. We also organised, on 17th March, Re-Use Lab in Paris, where we invited many customers, I repeat, stakeholders in order to work together on what could reuse look like in our industry in order to improve the circularity of glass packaging.

We have got already reused loops, especially in Germany where the market has never abandoned the reuse system differently from other countries in Europe. So, we are going to leverage what works in Germany and in other countries in order to try to make a pilot in France for example on reuse.

That was a major initiative that got a lot of interest from both the attendees on site and the people that attended remotely. So more than 200 people participated to the seminar and we intend to, I repeat, launch initiatives to try to test some reuse models. And this, of course, will be communicated in the future as we make progress on this topic.

Verallia co-innovates with its partners and customers

Now a concrete example of also of the growing interest on some customers in reuse, again I repeat, it is not new. You see on the top left of the chart that in Germany in dairy products, they have been for decades some reuse pools of jars that had been used by the German consumers. This pool has been enriched with a new jar of 150 grams capability, if you want, that we have developed.

We also have developed with Mehrwelt pool, which is part of the Oetker Group, a new jar that has been specially designed for this pool, which is very, aesthetically speaking, attractive for our customers & consumers. We see also patented closure, a specific closure that has been designed by Verallia and that is patented in order to make it, again, more aesthetically appealing to the consumers, and we are exclusive supplier now of this merhwelt pool that has been started in Germany in already 50 different outlets and with the major objective to generalise this pool in many more outlets in Germany.

The third initiative we have also in Germany is with a start-up company that develops also reusable jars. Here, again, you see three jars that have been designed and that are being produced by Verallia Germany for this pool that Circujar is implementing. This is a new concept that this company is trying to set up, which is a pay-per-use concept, where this company will rent basically the jars to the brands and they will manage the loop, if you want, by cleaning the jars after use.

My point is these are interesting initiatives. The interest of all these initiatives I believe is that they are gaining share against the worst packaging material, which is plastic, from an environmental point of view. Of course, this is an opportunity to grow the market share of glass packaging versus other materials like plastics.

Champagne Telmont

Another interesting initiative that we just communicated a few days ago is related to the champagne bottles that are, as you know, traditionally very heavy bottles. First of all for technical reasons, because the pressure that you have in a champagne bottle is quite high so therefore you need a bigger bottle and the heavier bottle in order to resist to the internal pressure.

However, we have worked with Champagne Telmont to try to make the lightest champagne bottle with 800 grams bottle. This has been an eco-design done by our factory in Oiry in the champagne area. This has been launched in real life, I would say, very recently this month, I think. This contributes to our overall long-term objective, our 2025 objective of reducing the weight of the standard and non-returnable bottles by 3%, which is a complete change in the trend when you know that in the last few years, the trend has been to increase the weight of the bottles and jars rather than decreasing this weight. Again, a very interesting initiative that is related to our ESG and environmental objectives.

Humanitarian Aid for Ukraine

Now let us speak two words about unfortunately the conflict in Ukraine and the war in Ukraine, where, as you know, we have a factory there when this war started. By the way one week after our last call of February, we immediately put safety of our people as a first priority by stopping all activities in the factory, asking people to stay at home to protect themselves.

We only left on site a very small number of people to maintain the two furnaces we have in this factory in hot temperature, in hot condition. This was the situation the first few weeks of the war at the end of February and March. After a couple of weeks, we were asked by local customers in food industry to provide them with glass jars, because we needed it to serve the food to the consumers and to the population in Ukraine.

Our teams were extremely eager to restart the furnace, one of the two furnaces in order to provide those jars to local Ukrainian customers. This is what we did during the month of March, restarting one of the two furnaces. At the same time, we completely stopped second furnace to protect this furnace just in case of any, I would say, either a shortage of gas or any war activities around the plant.

One of the two furnaces has been cooled down. In order to do it in a way that we can restart it easily, it takes a few days. It takes about ten days to cool down a furnace in orderly manner, which is what we did in order to protect our asset. We cooled down this furnace and now it is well managed, and it is well protected. On the other side, we started the production of the second furnace to serve the local Ukrainian customers mostly for the food industry.

This was, first of all, a testimony of the strong engagement of our teams there. I have to say that we are extremely proud of what we are doing in these extremely difficult circumstances. We support them as much as we can, through technical support and also through psychological support for those of them who need some psychological support.

We also donated many equipments for especially the fire brigade. We also provided some protective clothing. We provided some emergency medical aid and many other supports to the teams. This has been extremely well perceived by all our Verallia teams around the world and that has led all the countries of Verallia to donate also the money to support our Ukrainian colleagues. All together, we made already for about €590,000 of donations to the Ukrainian region.

We also have hosted the families that wanted to leave the country. We have today 15 people, four families that have decided to leave the country. Quite impressively, all the others have preferred to stay in their own country knowing that our plant is located on the west part of Ukraine, quite far away from Kyiv. It is closer to the Polish border. Therefore not where the war has been the most, I would say, unfortunately, impactful. We were lucky so far that the war has never reached our city, to the city where we are located.

Those four families that wanted to leave the country have been hosted in Poland by Verallia. We are doing everything we can to support our local teams. We are actually proud about their engagement, their commitment. It is quite remarkable to see also, I would say, support that all the other regions have provided in solidarity to our Ukrainian colleagues.

These were the highlights of the quarter. Quite a lot, as you can understand since we last discussed on 21st February.

Key financial highlights for Q1 2022

Now let us look at the financial highlights also. As you can see here, we have enjoyed extremely strong revenues during the quarter, 24% revenue growth, with almost no forex impact. That was quite remarkable and expected actually revenue growth.

EBITDA increased also 20% compared to Q1 2021 at €183 million, and Nathalie in a few minutes will explain to you in a bridge how we managed to increase our EBITDA in those extremely challenging conditions.

The margin has slightly been reduced because of the dilutive impact of the strong price increases that we made in Q1, which are double-digit, as I mentioned before price increases. We kept generating a lot of cash deleveraging the company. Now the net debt on EBITDA ratio has reached 1.7 at the end of the quarter.

Altogether, a very strong and very dynamic Q1 with a very supportive underlying market, extremely dynamic actually. We have been able, as I said before, to implement our pricing strategy in order to offset part of the inflation of costs that are unprecedented during the first quarter.

This being said, now I will hand over to Nathalie, who is going to present to you the more detailed analysis of the financial results of the first quarter.

Q1 2022 Financial Results

Nathalie Delbreuve

CFO, Verallia

Very strong organic growth

Thank you, Michel, and good morning, everyone. Thank you for following our call. So let me lead you through the Q1 2022 results.

So starting with the top line. We have seen a very strong organic growth during this quarter, plus 24% reported growth and plus 23.9% organic growth. Because as Michel mentioned, in this quarter, you will see very limited and even positive exchange rate impact both on sales and EBITDA, which is quite new for Verallia since some quarters.

So our total sales are €750 million. We have seen a very strong volumes in the quarter, growing volumes around 10%, very dynamic market in all the geographies. The price and mix pillar you see is contributing to €87.4 million. We have seen sales prices up more than 10% over this quarter, as we announced as anticipated in order to try to compensate for a part of strong inflation we have seen. And the mix contribution continues to be positive both on the sales and on the EBITDA.

Two comments by region. In South and Western Europe, volumes are up more than 10% and we have seen the strong selling price increases in this region as well. Northern Eastern Europe, volumes are around plus 10%, which is very good for this geography and also selling price increases.

As Michel mentioned, some update on Ukraine. We have restarted one of the furnaces, mostly for jars as per request of our customers and also our employees. You know that we are part of the food chain. In fact, we are supporting the food chain in the country as well. The other furnace has been fully emptied now. First, we had stopped it hot, but now it is a cold furnace to preserve the assets and available to restart if current situation allows it later in the year.

In Latin America, we have strong growth again and again in Brazil and Chile. A specific situation in Argentina, where we have the furnace repair, but the dynamic of the market is unchanged and the pricing is still very dynamic as well.

Increase in adjusted EBITDA and slight decrease in margin

Now moving to the adjusted EBITDA bridge. You have seen we increased the EBITDA from €152 million up to €183 million. Margin has slightly decreased from a 25.1% down to 24.4%. We commented earlier to you that we knew price increases would have a dilutive effect on the margin, and that is what we see in this quarter.

You see that the activity operating leverage is very strong in this quarter with €57.7 million. We are benefitting fully here from the volume impact and the dynamic of the volumes of more than 10%, and we had also positive impact of stock variation quite specific also to the quarter with inflation of costs impacting also the stock variation, especially when we compare ourselves to Q1 2021.

Now the spread you see is negative, minus €34.1 million. We have a very strong inflation in costs in Q1, and especially when we compare to Q1 2021 that we see inflation continues very strongly. It is not yet fully covered by selling price increases, as you can see, as we are still negative despite a positive mix contribution.

Now the net productivity, so with our internal PAP programme with €6.9 million contribution to the EBITDA is this quarter a bit below our target that if you remember is superior to 2% of production cash cost reduction, but quite close at 1.8%.

Foreign exchange rates for the first time since I joined is neutral. We have seen quite strong foreign currencies in Latin America. I mean, the Brazilian real has been pretty strong in the quarter compared to one year ago, and this more than compensates any other impacts. And in the other items, pretty neutral. It is an addition of positives and negatives from this year and previous year. All in all, it is almost zero this quarter, including some bad debt provision on Ukraine and the donations for Ukraine that Michel mentioned. However, this is offset by other positives, including some insurance reimbursements on our Argentinian fire that we had last year.

Further deleveraging and net debt reduction

Now moving to the cash and the net debt. We have seen a further reduction in the net debt in absolute moving from €1,268.4 million at the end of 2021 to €1,221.8 million at the end of the quarter. The leverage is now 1.7 times. The last 12 months adjusted EBITDA at the end of March, which is very good improvement compared to one year ago, where we are 2.1 times and to previous year of 1.9 times. We are confirming here that we are on investment grade trajectory.

Optimised financial structure

Now if we look at the financial structure, so no big change this time compared to the last time we spoke. You know that in 2021 we worked on rebalancing our financing and our financial structure between debt market and bank financing. So we have now a very balanced financial structure, as you can see, with our two sustainability-linked bonds, and also diversified maturities, which is very important for the Group financing, of course.

Important to know that a significant part of the Group floating rate exposure is hedged to fixed that is 83% and even 100% of our long-term debt is fully fixed. You can see in the nominal rate that we have very good interest rates for the total. Our total available liquidity is very comfortable at €897 million at the end of March.

Conclusion

Michel Giannuzzi

CEO, Verallia

2022 Guidance

Thank you very much, Nathalie. Let us conclude with a review on the 2022 guidance.

Of course, I mean, as usual, this guidance is subject to stabilisation of what we see today, both in terms of direct and indirect consequences of the war in Ukraine, which, as you all know, is creating quite a lot of volatility and which could, of course, have an impact on our forecast.

However, given what we see today and the current market evolution that we see, first of all, we confirm, as you clearly understand, that our revenue will grow significantly this year. Our revenue will be more than double-digit growth going forward. The goal we have for our company is to produce as much as we can until 31st December. I mean basically everything we produce is sold, and if there were a slight slowdown in the market, which, frankly speaking, we do not see right now, that would be not bad at all situation because we need to replenish at some point our inventory.

The second, of course, main item of the guidance is the adjusted EBITDA. We confirm that we will keep increasing our prices to pass the inflation of costs to our customers step by step and we have already, in April this year, so this month have a second round of price increases. We communicated last time that the first quarter, we aimed at increasing our prices by double-digit, which we did. We are going to go for another round of price increases in Q2, which is another mid-teens, so more than double-digit price increase in Q2 this year in order to pass the inflation of cost to our customers.

Step by step the goal for us, as you know, is always to end the year with positive spread, despite the need to pass the inflation to our customers. This will lead for an adjusted EBITDA above €700 million. As you have seen with the three pillars, the biggest contributors to this improvement of EBITDA being the growth and the PAP. We aim neutral spread for the year.

On top of this, we are clearly working hard, as you can see also on our ESG roadmap. The implementation of this roadmap is on track. Therefore, this is more a longer term view. However, we also look at the long-term perspective in this respect.

This is the end of our presentation. I propose now to take your questions.

Questions and Answers

Lars Kjellberg (Credit Suisse): I just want to come back to your guidance. I mean you made €183 million in the first quarter with €34 million negative spread and you expect that spread to be neutral by year end. What are you then factoring in for potential negatives? Because obviously, multiplying the first quarter with four lets you wellhead of €700 million. Maybe you can provide some clarity on the stock variation, if that is a major component in Q1 that you do not expect to be repeated in the following quarters, which could explain some of that relatively what seems to be cautious full year number.

Michel Giannuzzi: Good morning, Lars. Thanks for your questions. First of all, I mean, we always very clearly indicated that our guidance was a floor and the €700 million is the minimum that we are guiding. Some of our competitors or others are not guiding at all. However, we are guiding in a way that we provided you with a floor at €700 million of EBITDA, which we thought in February when we announced it was already a challenge, given all the uncertainties.

That was to remember just one week before the war started in Ukraine. That was, I think, quite already a bold statement. Clearly, we confirm that we will be above €700 million. I mean, now how much more than €700 million? I mean, we are only 21st April, so we are still almost eight months to go and many things can happen, especially in the current very volatile and unpredictable environment.

This is why we are a bit cautious. However, as you understood, we will be well above €700 million EBITDA going forward. Having said that, there is always, as usual, some uncertainty regarding the forex, which has been neutral for the first time in many quarters this quarter, but will turn negative second part of the year. You know there are some elections in Brazil, for example. The Brazilian real has been very strong. It is surprisingly strong so far. This could change. Many things can happen on this side.

We still have, I remind you, a little bit of our energy cost that is not hedged, 10% roughly speaking going forward this year is not hedged. We have seen some crazy energy price spikes in few weeks in March, getting to levels that were just unbelievably high. There is still a little bit of uncertainty here.

We factor in all our forecast, if you want, all these uncertainties. This is why we prefer to guide you with the floor and think that we aim at, of course, being as above as possible above €700 million.

Nathalie Delbreuve: Regarding your point, Lars, on stock variation. Absolutely, this is a good question. Thank you. In fact, yes, the rotation of our stock when we are comparing ourselves to Q1 2021, where inflation was not yet really started last year, we have a higher impact, positive impact of valuation in Q1 and we do not factor that in for the other quarters.

Also, in Q1, we had last year in a comparison basis as well in the activity pillar, some fixed costs not covered for the start of our two new furnaces in Europe, Azuqueca in Spain and in Italy as well. These ones were not fully operational in Q1 and they are in the rest of the year. Indeed, the activity pillar is with some especially stronger positive impact in the Q1, which you will not see every quarter.

Lars Kjellberg: Just a couple of follow ups, if I may. I mean, last year you had a very heavy furnace rebuilds in H1 and Q1 specifically. Can you share with us if there is going to be any real big quarters this year? Also in the comment, Michel, when you talked about you are not seeing any slowdown. 10% growth with extraordinaire. I appreciate in Q1 last year was somewhat soft. However, I mean, how should we think about volumes for the full year? Or how do you see it near-term and how do you think about that in the balance of the year?

Michel Giannuzzi: So for your first question regarding the furnace repair, if you remember in 2021 and 2020, we had quite unbalanced furnace repair during the year. In 2020, there were more towards the end of the year due to the pandemic, and in 2021 it was more towards the first semester. This year, we are more in a balanced split between H1 and H2. That should not have a real material impact on our production and sales.

Regarding the sales volume forecast, as I said, when we look at our customers forecast, they are extremely bullish, extremely strong. I mean, you have seen the report from some of our customers. Yesterday, one of our largest beer customer reported double-digit growth in Europe of their sales, Heineken to the name it. We see in the spirits or sparkling wine also very, very strong demand on our customer side. Therefore, we are not at all concerned by the strong demand. If anything, it is just the opposite. It is too strong. We are very, unfortunately, disappointed not to be able to serve better our customers because we are short of capacity.

Despite the fact that, as you know, we started two new furnaces last year in Q1 that are, of course, helping us achieve this strong growth this year. We have the full benefit Q1 this year compared to Q1 last year, which was the first quarter of the start of those furnaces. Going forward, of course, the comparison base will be less favourable than what it has been in Q1.

Still, we do everything we can to produce to serve our customers and we do not see any near-term or even long-term trend that should indicate cooldown or less demand from the market.

Francisco Ruiz (Exane BNP Paribas): I have some follow-up from the previous questions, and also an another one. On the volume side, I mean, you commented that demand is quite strong. Two questions here. The first one is, is there anything else, I mean, apart from this demand? I mean, I do not know is fear from your clients on scarcity of glass and some stockpiling, small competitors stopping due to the high energy costs that have helped yourselves and probably other bigger companies to have such a big level of volumes. Until how much could you maintain this level of activity with the capacity that you have?

The second question is for Nathalie, if she could be more precise on the real stock impact in EBITDA? Or you could give us a data on the pure drop-through that we are going to see in the following quarters?

The last question is on prices. You have commented that you are increasing prices by mid-teens. This quarter the gap has been €30 million, that means an extra 5% would offset this situation. Do you expect a worsening of the situation in terms of inflation for following quarters, or could we assume a positive price gap for the year?

Michel Giannuzzi: Okay. Thank you, Paco. I will probably take question one and three, and I will let Nathalie answer your question two.

Regarding the Q1, what happened in Q1? It is true that some competitors reduced their production or did not start the furnaces that were expected to start due to very high energy cost. However, I think under the market pressure because the market is so strong, eventually everybody has operated their factories at full speed in order to serve the customers and the market.

That has had no impact on us, given the fact that is for us, in any case, I repeat, we have to, unfortunately, arbitrate and allocate our production to our customers, given the fact that we cannot serve them all as they would like to. Therefore, we, as I said, are producing at the maximum possible level in terms of production output. We will continue to do so until the 31st December whatever the market situation is, and I repeat, the market situation only looks very positive, very dynamic right now. No concern whatsoever regarding the top line.

Regarding the prices, I think it is very important to understand. I always mentioned that our goal is to have a positive spread. This is one of the three pillars that is part of our strategy is to, I repeat, improve our EBITDA, thanks to activity growth, thanks to PAP, but also thanks to positive spread, at least the spread should not be negative.

Now, you are perfectly right, the spread has been negative in Q1 because we did not pass the full amount of price increases that is sufficient to cover the inflation of cost. I repeat, inflation of cost post hedging, which means that our customers are already benefiting from our hedging policy. But that was already a challenge. I remind you that in November-December last year, when we started to talk to our customers about a double-digit price increase starting by our own sales people, nobody has lived long enough to have seen such double-digit price increase.

You have to go back in the 70s and these people are no longer in the business. I mean in Europe. Of course, that is not at all the case in Latin America. It has been a first shock in

November-December when the sales people went to our customers talking about such high level of price increases.

First of all, unfortunately, the facts and the energy prices that everybody can check every day are just confirming that what we are asking for is clearly not enough to completely offset the impact of energy on our P&L. This was clearly explained to our customers, explained to everyone. That is why we have said to our customers, and this is a first round of price increase. We have to go for another round of price increase that we have already communicated, I mean, to our customers in April, which is another double-digit price increase for Q2. It is more in the mid-teens than the low double-digit that we are talking for Q2.

This will enable us to catch up the €34 million negative spread that you mentioned. Going forward, the goal is to end up the year with positive spread. I repeat one more time, the positive spread for Verallia is still an advantage compared to the spot price for customers because it means that they benefit from the hedging that Verallia took, which means in other words, that in 2023, Verallia will have to increase prices again, because the hedging is a financial instrument that is only there to buy time in order to pass progressively price increases rather than passing in one shot the full amount of price increases that we should pass in order to be in line with the spot prices on the market.

This is clearly what we intend to do. This is not at all different from what we have been seeing since last year in October during the Capital Markets Day, in October after the Q3 results, and in February after the full year results.

Francisco Ruiz: A follow-up. I think that the rest of players following you in terms of price increases in the same amount and the same way?

Michel Giannuzzi: I mean, every company has their own policy. Some people are doing it differently. I mean that is everybody's business. However, I would say the inflation balance equation is probably even worse for all our competitors. We believe we have a pretty good hedging strategy because we implemented it in 2018, and it is a three-year rolling strategy. Therefore, we believe we are pretty well hedged to say simple.

Some of our competitors are probably not as well hedged than we are. Therefore, their negative spread is even probably worse than ours. We see that at least for the listed peers in the coming days. We see that clearly everybody has at least the willingness what we seem to recover partly the inflation of cost through price increases.

It is done in different ways. I mean, every company has a different way to tackle it and to discuss it with its customers. However, at the end of the day, everybody has the same financial equation in front of himself.

Nathalie Delbreuve: Paco, to give you more colour on the follow-through. Because indeed this Q1 follow-through is very strong. Again, some specifics to this quarter with the fixed costs we had last year in the first quarter not fully absorbed by our two new European furnaces that you would not have this positive gap in the coming quarters.

On the stock variation, we are indeed comparing ourselves to Q1 2021 that was without inflation. All the stock movements were at lower cost per tonne. If we move forward during the year, you can go back to our usual fall-through that is around the 50%, which you know from us.

Guillaume Muros (Société Générale): I have one follow-up on cost inflation and a second question on ESG. The first follow-up on cost inflation. Besides energy, are you experiencing inflation in other direct production costs, namely raw materials and/or payrolls? What kind of implications would this have?

The second one on ESG. This is a more generic question, but do you think that looking at the current conjuncture and uncertainty regarding the supply of certain energy sources like natural gas, do you think that some CO2 emission reduction CapEx and/or ESG initiatives like your re-use one could be accelerated going forward? The second point there is, do you think that public authorities and decision makers, are you seeing them taking any action?

Nathalie Delbreuve: Okay. Hello, Guillaume. Thank you for your questions. I will answer the first one on cost inflation on other factors and energy. Yes, absolutely, we are seeing the cost inflation actually on all the lines. I mean, the strong ones after energy is still packaging and we are seeing almost 30% increase in the packaging when we are comparing ourselves to last year. Now we see also increase in raw material also double-digit. Part of that is due to soda ash but also some inflation coming on cullet, on transportation. I mean inflation is on all our cost lines.

Michel Giannuzzi: Okay. Regarding ESG, Guillaume. First of all, of course, on the re-use. Re-use is an initiative that is interesting to monitor because I think it is an opportunity, as I mentioned before, to grow our market against other packaging materials like plastics. However, as you know also, it takes time because you need to build a strong ecosystem with the brands, with the retailers, the transportation companies and the cleaning companies that are going to collect and clean the packaging. Therefore, it is not a short-term answer to the question. However, it is interesting to keep pushing it even if it is a long-term situation.

Now regarding the public authorities, I think, if anything, this war in Ukraine has pushed Europe to accelerate the transition away from fossil energy towards more renewable energies, which is completely in line with our ESG roadmap. Actually, if anything, that should help us long-term, of course, it is not a short-term answer because it takes time, but it should help us long-term to implement our roadmap. I repeat, this is mostly about the third pillar, which is the use of renewable energy or low carbon energy and not a fossil energy.

Everything which is going on right now be it with the gas or the fuel being supplied out of Russia is pushing Europe, I repeat, to move faster and invest more in renewable or low carbon energy. That would benefit, of course, to us, because it is part of our roadmap.

Guillaume Muros: Okay. Just a small follow-up there and over the short-term, namely over 2023-2024. Do you see, because we saw the letter from the FEVE asking for more public action being taken. Do you see any risk on your operations coming from these possible shortages in energy in Europe?

Michel Giannuzzi: The letter is for everybody's benefit. The letter you are, I suppose, referring to is the letter that the European Glass Association has sent to the European Commission highlighting the fact that glass packaging is part of the food chain, and therefore as for during the pandemic, we are part of an essential activity, and therefore should be protected, should there be some gas supply issues. Especially, we are talking about the gas coming from Russia, everybody understands.

This letter was to highlight the fact that this industry, I repeat, similarly to what happened during the pandemic, is an essential industry for the population. Therefore, should there be some restrictions on gas supply, this industry should be protected. That is what it meant. Of course, we have developed, at Verallia, our own business continuity plans, in case the worst will happen, and we should be under allocation in order to make sure that we keep maximising the use of the energy that we will get at the end; and, of course operate as much as possible our plants, depending on the decisions of the Commission or the governments in Europe.

Peter Testa (One Investments): I have got three questions, please. One maybe just coming back to this inventory adjustment impact, please. I mean, just to be clear, is it €10 million, €20 million? I mean, what magnitude is it?

Nathalie Delbreuve: Okay. It is in between, if I may. It is in between.

Peter Testa: Okay, fine. That is great. Then just on the price mix part. I mean, mix, if you work it out, it is around 4%. You can therefore try to understand that the price cost equation in the quarter was maybe as significant as minus 50, excluding mix. If you look at the price increases that you have put through, I understand from the past that not all of them earn through in the quarter. You still have some carryover impact to the first price increases. Then you put up prices again in April, a significant amount. I was wondering if you could just help us understand firstly whether my comment on the price cost is more or less correct. Secondly, how the carryover effect still has to work through? How you expect the rest of the price increases to work through? Are there any also carryover cost factors which still have not been felt in Q1?

Michel Giannuzzi: Peter, good morning. I am not sure I understand your point about carryover of cost. I mean, can you clarify this because your comment about the price, I understand, but I do not understand the comment about the cost carryover.

Peter Testa: Yeah, I did not know whether, for example, all of your packaging contracts were effectively felt in Q1 or whether you still expected some packaging and freight and other cost increases to carry on sequentially because of what is going on in Ukraine, creating shortages, energy inflation and so on.

Michel Giannuzzi: Okay. Thanks for clarification. I think regarding the price, I think it is pretty clear. I think I can repeat, but I think you have got the point. We have had a double-digit price increase in Q1 and then we are going to ask for another double-digit around mid-teens price increase in Q2. Of course, it will not happen all in 1st April, but going forward, this will help us for the year to end up with a positive spread.

Regarding the cost, then it is a bit more, I would say, we need to go more in a granular way, in a more detailed way to understand better what is going on on the cost side. The biggest cost factor right now, which has the biggest impact is energy cost. This one, as you know, we are hedged for 85-90% for the next quarters of our needs, okay? However, we still have about 10% of our energy needs that are not covered yet for especially Q3 and Q4. This is, to some extent, subject to market prices evolution.

The cost of, for example, packaging I am talking about the pallets, for example, the plastic interlayers and pallets that we use to ship our products to our customers, these are spot prices cost. I mean, on these packaging materials, we do not have any long-term contract. We do not have any hedging. Therefore, on this one, every day the price can change.

Then same thing for the transportation costs. Transportation and packaging altogether represented in 2021 around 12% of our cost. Transportation is a spot price. It depends on the fuel price. It depends on the availability of trucks and truck drivers. It depends on many things. Therefore, this one is completely open to evolutions on a day by day basis. Then, in between you have the raw material costs that are some of them covered with annual contracts. Therefore, we have visibility on some of those costs for the rest of the year. Some of them are not based on your cost, also on annual costs but more on a month-by-month revision of suppliers, in some cases, doing like we do, having either an energy surcharge or an adjustment of our price on a quarterly basis, depending on the evolution of course of their own cost drivers.

That is why we have probably, going forward, still some volatility and some uncertainty on the cost evolution side. This is why we provide the floor of €700 million and not a more precise number because we need to factor in our guidance the fact that things can change.

Peter Testa: Maybe just two points. Firstly, was that more or less right in terms of the mix and factor. We are looking at the tier price costs in Q1.

Michel Giannuzzi: Well, the mix has been positive. Here we are. We have a double-digit, of course, price impact, and the mix has been also positive in Q1.

Nathalie Delbreuve: Yeah, it is positive in the 24% top line increases, you have volume prices and around 4% of mix impact.

Peter Testa: Yeah. And there is a substantial element of peak profit, okay. Then on the price part, you have got some carryover from Q1 into Q2. You are now increasing. You said circa mid-teens in Q2. I suppose if the packaging costs and so on increase again later on, you would carry on at this sort of quarterly basis, reviewing this quarterly. Your mid-teens cost increase includes the latest element of cost. Are you taking any forward view on some of these more spot elements?

Michel Giannuzzi: So first of all, you are right. This is what we clearly indicated in our outlook in our press release, that we will monitor, of course, on a month-by-month or even quarter by quarter cost evolution. Our ambition is to, of course, keep adjusting our prices to reflect the inflation of cost. Should there be higher costs than expected, we will, of course, go for a further round of price increases.

The goal for us is the spread. The goal for us is to end up with a positive spread for the year, knowing that this positive spread, I repeat one more time, is already giving our customers the benefit of what we did on the hedging side. That is our goal. If we need to go for a further round of price increases in H2 to maintain a positive spread for the year, we will do so. That is the policy of the company.

I keep repeating since the IPO. The business model of Verallia, and I repeat one more time, is pretty simple. We are very disciplined and very committed to this business model. This business model is based on three pillars on the EBITDA improvement. Growth, this is growing market with a growing company. This growth brings, of course, contribution to the EBITDA improvements to the operating leverage. It is based on PAP. Every year, we generate our 2%

cash cost per activity, which is more than €35 million of cost improvement, and therefore EBITDA improvement every year.

And the third pillar is a positive spread. Zero plus is positive, but the positive spread, which means that we fully benefit from the other two pillars. This is what we have been doing since 2019 and even before actually before we listed since I joined this company in 2017.

So that is the discipline we have implemented and we will do whatever it takes, to take a famous quote, to make it happen.

Peter Testa: Okay. The last question, please, was just on the Southwest Europe volume growth of more than 10%. Can you give some sense as to what the impact was of the Spanish and Italian lines that it started up in the quarter? Then maybe whether there is anything you can do debottlenecking or elsewise to help with the demand equation that you talked about?

Michel Giannuzzi: Well, that is a good point. I mean, frankly speaking, it is hard to quantify because the ramp-up of the two furnaces in Italy and Spain last year occurred during Q1, but it was not a steep increase. It was a gradual increase. So therefore, the exact calculation we did not make to be honest with you and it is hard to believe.

Starting in Q2, we are more comparing comparable asset bases, comparable production capacities starting in Q2 Compare without the full benefit of the additional capacity that we had in Q1. However, on top of this, the 10% comes also for the fact that we have kept, unfortunately, we say it is very unfortunate but kept decreasing our inventory. Because the demand was so strong, we kept decreasing our inventory. Therefore, we will probably, I repeat, have less growth going forward, not because the market is not there, I repeat one more time, just because our capacity would be the limit.

Fraser Donlon (Berenberg): A few questions from my side. First, could you just confirm that you do not expect any kind of impairment of the assets in Ukraine?

The second question was on pricing and customers. I have the impression that your competitors are looking for much higher than the mid-teens price increase that you have mentioned in Q2. Are you finding any new customers or maybe higher quality customers coming to you and asking for your glass?

The third question was on more mid-term pricing. Obviously, Glass Europe is going to see a big increase in the price of its glass in 2023 even relative to 2019. Is there any concern internally about like imports or the tread of other markets adjacent to Europe like other than North Africa or other parts of the world?

The final two questions just on leverage. I know, Michel, you always used to make this comment that you would not ideally run leverage below two times. I know we are in an uncertain world. However, does that suggest that you do see M&A opportunities out there right now, given where the leverage sit today?

Finally, on CapEx. What kind of inflation are you seeing in your capital investments? Because I think you normally give this guidance on CapEx over sales, and obviously the sales figures this year will be quite somehow distorted. I just wondered what you expect there or what your budgeting may be in absolute value.

Nathalie Delbreuve: Okay. Thank you, Fraser. Do not hesitate if we forget one question because it was quite a long list. I will answer the first one.

In Ukraine, what is the situation? In fact, our assets are fully preserved as we speak as of today. But first, of course, our employees, as Michel mentioned, but also our assets, we have a one plant. It is close to the Polish border. Today it is really safe. As we explained, out of the two furnaces, we have cooled down one in order to preserve actually the furnace. That is exactly what we do when we have a heavy maintenance. It is really fully there and operational in the future, if the conditions permitted.

The second one is even producing, as we explained, as we restarted production actually and the request of local customers. As per today, to answer your question, no, we do not see impairment of assets coming, and we are, of course, looking very closely.

Now to remind that Ukraine, so it is one plant and it was last year a bit less than €50 million sales out of the total of Verallia, so it is a pretty limited impact.

Michel Giannuzzi: Good morning, Fraser. I will take your question regarding pricing. I repeat one more time, every competitor has its own pricing strategy based on their customer relationship and based on their customer contracts and based on their own potentially hedging situation. I mean, this one, I will not comment. The only thing I can tell you is what we are doing and what is driving our strategy.

In that respect, I would say, of course, as you know very well, this business is a long-term business. We build relationship with our customers over decades. We also know it is difficult for our customers to pass to their own customers, especially if they are dealing with the retail chains, the full amount of inflation. Therefore, that is why we are staggering the price increases over time, in order to help them or give them time for them also to negotiate with their own customers.

We are in the long-term business with them. There is no customer churn. As you know, this is a very stable industry in terms of customer base. We are doing also our best, if you want, to support our customers, by not, I would say, inflating their cost too strongly and too sharply in order to help them also negotiate with their own customers. That is the reason why we think that our hedging policy right now is also benefiting to our customers and reinforcing the loyalty that we had with them for a long period of time.

Now, regarding the potential substitution with imports from North Africa or other regions. I have to say it is probably the opposite because at the end, first of all, there has been some capacity destroyed in Ukraine and some factories have been either bombed or stopped because of the war. The capacity situation is even tighter than what it was in January before the war started.

Secondly, when I look at the other markets around the world, except Asia, where I have to admit we are not in Asia, so therefore I will not comment on Asia. It is probably too far. We do not see really imports from Asia because given the cost of the shipments and given the transportation costs. I mean, the cost of the container today moved from maybe €1,500 a year ago or 18 months ago to now almost $10,000 per container. The cost of shipping now is prohibitive, not even mentioning the CO2 impact, but therefore we do not see imports from Asia. We do not see imports from neighbourhood regions because there is no capacity, basically. There is, I repeat, no new capacity being announced. It takes two years to build a new capacity. Therefore, the market is going to be tight, unfortunately or fortunately, I do not know how to say it, for quite some time, I believe.

To answer your first question regarding leverage. Yes, we keep deleveraging the company. Just to be clear, on the second half of the year, we will have probably less cash generation than in the first quarter because we will rebuild inventory, hopefully, and therefore our working capital variance should become negative. However, we still want to keep some, of course, flexibility in order to seize any opportunity in acquisitions that might arise, especially in the current environment.

Again, no change compared to the very clear guidance we provided in October last year, which is, first of all, we invest for our own needs in terms of CapEx. We invest, of course, on the transition, the decarbonisation of our industry, the ecological transition and then we turn the excess cash to shareholders to dividend increase. We are going to propose next month to the shareholders assembly a dividend increase of 10% at €1.05 and we will also, if there is still excess cash, consider share buybacks at some point.

Nathalie Delbreuve: So for your questions on CapEx, whether we see inflation or not on CapEx? Yes, we see inflation on CapEx compared to previous year. You know that our target is to stay around 10% of total CapEx. Of course, with the price increases and inflation, we will see. However, we expect to keep around this 10% for the full year. We are not going to slow down or change our investment programme for this year in total.

Fraser Donlon: Perfect. You captured everything. Thanks very much for that.

Lars Kjellberg: Yeah. Just two follow-ups. On the last question, can you try to provide an absolute number on that CapEx number considering that you are obviously seeing significant price increases so that 10% would, of course, translate to a much bigger number than we would have expected.

Also, just to gain some clarity. I think you said, Michel, a couple of things that I maybe misheard. However, I thought you said first, the aspiration was price cost neutral for the year, and then you said a number of times, price cost positives. I just wanted to understand how you think about the full year? Or if that price cost positive was in the second half to achieve that neutral? Just to get some clarity on that.

Michel Giannuzzi: I will answer directly your second question, Lars, and I will let Nathalie answer your first question regarding CapEx. So I mean, zero is a positive number to start with, according to the math positive is zero plus. I mean, the point is, we will be very happy if we ended the year with a zero plus.

We will do everything we do to be above zero. It will not be a €1 above zero. But that we do not expect to have such a positive spread as we used to have in the past. That is my point. However, clearly, we will aim and we will make sure that we end up with a positive spread.

Lars Kjellberg: Okay.

Michel Giannuzzi: Sorry for the confusion, but probably my mathematics that are coming as well.

Nathalie Delbreuve: On CapEx, again, you can count around 10%. So that would be a bit more than €300 million for the year.

Alexandra Baubigeat Boucheron: Thank you very much. I think we have some questions on the web. Many of them have already been answered. There are many of them. First is from Inigo. Do you see risk of expropriation in Russia? And what is the value of the assets in Russia?

Michel Giannuzzi: Okay. This one has not been answered. As you know, we have two small factories in the South of Russia, in Volga region. Those two factories, since the war, are working in a very autonomous manner. We have no exports out of Russia. It is a local business with local customers for the food industry, which is considered essential by, of course, the Russian government, as all other governments. We have no expats there. They are managed by our Russian teams. I repeat, they are self-sufficient. They work in a completely autonomous manner. We do not transfer any cash. They are cash-efficient. They are autonomous and they can run the business without any need of cash. Therefore, this is a situation that is compliant with the sanctions, of course, that have been decided by European Commission and the European states.

I repeat, these assets are represented a bit less than 3% or around 3% of our sales last year. It is not a meaningful, I would say, operation for the size of Verallia. The fixed asset value is less than €50 million on the balance sheet. Again, that is not really material.

Alexandra Baubigeat Boucheron: Thank you, Michel. One that has not been answered probably is, how do you see the evolution of the spread impact quarter-after-quarter?

Michel Giannuzzi: Okay. Well, this is part of the difficult question that we cannot answer, given what I explained before regarding the fact that some of our costs are based on the spot prices and are changing almost every day or every week. Depending on how those cost evolutions change in the coming months, we might have a positive spread sooner or later. For us, it does not change the goal. The goal is to have a positive spread for the full year, and therefore we will manage the business towards these goals.

Alexandra Baubigeat Boucheron: Okay. Thank you. Regarding volumes just a quick question. Where does it come from? Is it market share gains or higher demand? Do you think there are client inventory build-ups in view of certain inflation?

Michel Giannuzzi: Clearly, I mean, we do not even look at market share. It does not make any sense. At the end of the day, the market is extremely dynamic. I repeat one more time. We cannot serve all our customers and we are not trying to gain market share. We are just trying to support our customers the best we can by selling everything they would like us to buy from us, and they like to buy a lot more than what we can sell. The decision is this one. I repeat, it is about every segment of the market. It is extremely dynamic. There is no one segment in the market that is lagging behind the others, extremely strong everywhere in all segments with all customers.

I do not think, as a consequence, that customers do not even have the opportunity to build inventory. Maybe they would like to build inventory, but given the tightness of the market, they cannot. They just cannot.

Alexandra Baubigeat Boucheron: Thank you. The last question, when you talk about mid-teens price increase in Q2, is this on top of the 10% plus or circa 10% in total in Q2?

Michel Giannuzzi: No, it is on the top of the 10% of the Q1. Okay?

Alexandra Baubigeat Boucheron: Okay. I think that the rest have been already covered through the previous questions.

Michel Giannuzzi: Okay. Well, I would like to thank you all for participating to this call this morning. Thank you very much for following our company. I wish you all a very good day. Bye.

Nathalie Delbreuve: Thank you. Goodbye.

[END OF TRANSCRIPT]