Verallia H1 2022 Results

Thursday, 28th July 2022

Introduction & Key Highlights

Patrice Lucas

CEO, Verallia

Welcome

Good morning, everyone. I hope that you are all fine, you and your families. I want to tell you that today, it is my pleasure and privilege to present to you our H1 results.

A global leader in glass packaging

To start with, I would like to share some facts with you about Verallia. So as you know, we are a global leader in glass packaging, number one in Europe, number two in Latin America and number three globally. We are operating in 11 countries with 32 glass plants with 58 furnaces and having the support of three decoration plants and nine cullet recycling centres, producing on a yearly basis more than 16 billion bottles and jars and all of that with our 10,000 employees.

We have as well a diversified and balanced end market portfolio. You have here the split. So obviously, still wine representing 36% and all the others quite well balanced in the different segments of food and beverage.

Capital structure & employee shareholding offering

Now I would like to share with you some key highlights about Q2. And to start with, so a snapshot of our capital structure. So you have that on the left-hand side, so with BWSA representing 28%; Bpifrance 7.5%, and what is quite interesting is the evolution of our employees share with through Verallia FCPE or direct shareholders, which moved from 3.5% to 4.1% as a result of the success of our seventh employee shareholding offer, which took place in Q2.

You will remember that this is a clear CSR objective that we have to reach 5% by 2025. And this shareholding offer was again a success, so presented in eight countries, more than 3,200 employees invested in it, meaning 41% of our employees eligible, with a strong participation in France with more than 75%. So as we speak, we have more than 45% of our employees that are now a shareholder.

A very good dynamic for glass packaging in Europe in 2021

About the dynamic of the glass business in Europe, interesting to share with you the final results of 2021 that we got lately through the FEVE sales report. And here two key takeaways. First of all, in 2021, glass packaging sales reached an all-time record in 2021, representing plus 6.7% compared to 2020 and plus 5.4% compared to 2019, pre-COVID, which was a previous record.

For 2021, we got more than 23.6 million tons of glass, which were sold on the market. And you see the different evolution on the different segments. So you see on Wine & Spirit, plus 9.7% compared to 2020; on Non-Alcoholic beverage plus 14% versus 2020; and even in Beer plus 7.3%.

Second key takeaway is that the glass is keep on progressing in the food and beverage market. And analysing the data, we see that the glass has gained 1 point of market share versus the other packaging material for food and beverage. And we see that we have, again, a positive trend on Non-Alcoholic beverage and even on beer. And we see a stable performance on Wine & Spirits and food compared to 2020.

So as a result of that, 2021 has been a strong year for glass packaging, confirming the preference of our consumer for glass versus over packaging material, which is a good news that we are confirming, and for sure, the trend we will keep on seeing in the years to come. And as a result of that, it is creating some tension on the glass packaging supply.

Verallia accompanies its customers in their commitment to decarbonation by light-weight bottles

You know that we have been very clear as well that we are putting ESG at the core of the company, working on many different levels. One of it is the light weighting we are working on with many customers. This is a trend we see as well on the market. And here, you have in front of you two examples, one with a Château Anthonic with a 9% lighter bottle compared to the previous model, so contributing to a nice reduction of CO2, and we see many customers coming in that direction. And on the right side, you see as well that we are working on our own standard bottle. And this one is seeing a minus 5% weight reduction, which is as well based on the annual production, which is about 234 million bottles contributing significantly to some CO2 emissions saved.

Verallia promotes creation and innovation through the Verallia Design Awards

Verallia as well is keep on promoting creativity and innovation through the design awards. This is something we are very keen on, organising this design awards in many countries. Here, you see the results of the winning proposals we got in France, in Italy, in Spain and in Germany.

Obviously, for us, this is a service that we have provided to our customers. This is a way as well to attract young talent, young designer and allow them to unleash their creativity, their potential and then be able to make some proposal to our customers to magnify their food and beverage products. So we are very proud of that, and this is something we keep on promoting.

Follow-up on key industrial projects

Key industrial projects. I want to give you a follow-up on maybe what is at the core of our business. So here, we have a follow-up on key projects for capacity increase. So we are on track to increase our capacity by 400,000 tonnes per year by 2024 with three main projects, two in Brazil, so first one, Jacutinga 2. We are on track according to our plan and start of production is planned for the end of this year.

We have a second capacity increase in Brazil underway with Campo Bom 2. So the furnace design and the technology is finalised. This is going to be an oxy-combustion furnace, which will allow to reduce by 18% of CO2 emission versus the traditional furnace. Start of production is planned for 2024.

And we will have the same technology to be launched in Italy in Pescia 2 for start of production in Q2 2024. So at the same time, we are increasing our capacity with these three additional furnaces to come, we are as well taking the benefit of reducing our CO2 emission.

And second important project, this is all about our new furnace technologies. You know that we have announced a clear objective to reduce CO2 by 2030. This will go with some new technology. Two technologies we are working on. One, it is a 100% electrical furnace. I am pleased to announce you that we are working on the design. We have selected a supplier and we are signing a strategic partnership with FIVES Group, which is a well-known industrial engineering group. We are going to work with them. And we are as well here on track to start production by the end of 2023.

And on the hybrid furnace, I want to say as well, clearly that our project development is on track. Design supplier and location will be confirmed by the end of Q3 with a clear objective to start production by the end of 2024.

So all in, we are executing with rigor and professionalism all our projects and key projects for capacity increase, key projects for our CO2 reduction objective.

Very strong first half

Then results of H1. So as you have seen from our press release, you can say that we have a very strong first half. So on the revenue we have in H1, which is a plus 23.4%, so up to €1.6 billion. On Q2, plus 23% with €889 million. Adjusted EBITDA is at €425 million in H1. So it is plus 23.4% compared to H1 last year, with a margin at 26%.

Net income is at €179 million, plus 34.9% compared to H1. Earnings per share at €1.49 in H1, compared to €1.07 in H1 2021. And on the net debt side, so we are keep on deleveraging our net debt ratio with a result at 1.5 times adjusted EBITDA for the last 12 months to be compared to 1.7 end of March 2022 and to be compared to 1.9 end of June 2021.

So now I am going to hand over to Nathalie Delbreuve, our CFO, who is going to present in details our H1 results.

H1 2022 Financial Results

Nathalie Delbreuve

CFO, Verallia

Strong organic growth fuelled by good volumes and price increases in line with inflation

Thank you, Patrice, and good morning to all of you. And this is my pleasure indeed to present to you this strong first half. So first, as usual, the growth in the sales. So you can see here strong organic growth fuelled both by good volumes and price increases. So you see that the price and mix pillar is pretty significant in this first half.

So for the volumes, we are up around 10% in the first quarter. And if you remember, we mentioned already at the basis comparison for Q2 was higher in 2021. So in fact, the main contributor to volume increase is still the first quarter but still a nice growth.

In the price and mix, we have around 20% effect in the first half. We have the result of the two consecutive sales price increases which we commented already in Europe, one of around 10% in Q1, and we commented that we would run for around mid-teens in the second quarter, which we have done, and you can see the effect in this graph.

And then also the mix contributed positively in this first half and also in the second quarter, which is good news. And in terms of products, the strength have been really strong in spirits, in jars and in sparkling wines.

SWE: Strong organic growth

So now if we move to the geographies and the regions. As you can see in the South and West Europe, the strong organic growth as well, plus 20.5%. This is in all product categories, except for Beers. In fact, in Beers, we see now that we are back to a pre-COVID level, and we have seen more flattish volumes, but the other categories have been really strong, especially in spirits. And the jars volume is very well oriented in France.

The Sparkling wine remains really dynamic. We have Champagne volumes continuing to grow very nicely as well as Prosecco.

NEE: Volume growth despite geopolitical turmoil

If we move to Northern and Eastern Europe, you see plus 19.3%. The volume growth is especially in still wine and jars in Germany. So the jars have been really dynamic in Germany, which is good news.

Occasion to update you on Ukraine. In fact, we are in the same situation as Q1. We have one furnace which we restarted in Q1 as per the request of our customers and the strong support of our employees. And this is still running and mostly for jars for local consumption. And the other furnace has been stopped and cooled down in order to preserve the asset.

LATAM: Strong growth and positive forex

In Latin America, very strong growth also and significant positive forex. The strong volume growth continues, especially in Brazil and in Chile. In Argentina, we had the planned repair of our furnace in the semester, but it restarted very nicely, so will contribute more in the second half. And we have plus 2.3% positive foreign exchange impact to the top line.

Adj. EBITDA: Strong performance

So now let us look at the adjusted EBITDA. So strong performance in this first half year, moving from €344.7 million up to €425.4 million. That is a reported growth of 23.4%. The activity/operating leverage is the most contributing. It is mainly coming from Q1, so you have already seen it. The positive volume is contributing significantly. And also in the stock variation, we have some valuation impact. And also we destocked, in fact, less than in H1 2021.

The positive price/mix cost spread, which is very good news. We succeeded into getting back to green in this pillar that you know is a very important one in our strategy. So we succeeded into covering most of the strong inflation because we have seen, of course, strong inflation in cost in H1. And we have here the effect of the two rounds of price increases in Europe, almost offsetting and also the positive mix contribution that is helping to turn this pillar green.

In the net productivity, we have a bit of a slow start this year, but still at 1.8% production cash cost reduction. This contributed to €14.2 million to our EBITDA, and we keep our objective of delivering a minimum 2% improvement for the full year.

And then the foreign exchange is green, as you can see. So it is a positive impact, both in Northern and Eastern Europe, but mainly this is coming from Latin America and the Brazilian real. In the other pillar, we have two main elements to comment. One year ago, I was commenting to you that we had a very positive one-off in Brazil linked to a change in the tax regulation that brought a bit more than €6 million from this closing. And this year, if you remember, so it turns as a negative in the comparison.

And this year, in Q1, we commented already to you that we had reimbursement of $5 million for the fire we had last year in September in our Argentinian furnaces.

So all in all, these are the big, which is explaining the minus €1.5 million that you see in this other comment. And all of this is leading to an adjusted EBITDA margin at 26%.

SWE: Improvement in value and margin

So if I focus now on the regions. In Southern and Western Europe, you can see on the top right corner, the adjusted EBITDA margin. And you can see that it improved by 20 bps from 25% up to 25.2%. And here, you have really the comments that I made already overall, so raising sales volumes, positive product mix.

So H1 inflation spread is slightly negative still but turned positive in Q2. But in Southern and West Europe, net, we are still slightly negative.

NEE: Challenging geopolitical environment

If we move to Northern and Eastern Europe, we have an adjusted EBITDA margin of 19.5%, so down versus last year, but increasing in euro from €58 million up to €60 million. So here, we have growth in volume as well. But we have in Northern and Eastern Europe, the Ukraine facility that is running now with only one furnace. And you know that we decided, of course, to support fully our Ukrainian subsidiary and people. So everyone is still working maintaining full salary and associated costs for our employees in Ukraine.

And so in the comparison, of course, we are missing some euros in EBITDA here for Northern and Eastern Europe. One specific point commented here is that we have initiated the delisting of Verallia Deutschland. Verallia Deutschland is our German company that is the mother company of also Ukraine and Russia, and that is listed on the stock market. This is really historical, but within small share of minority shareholders. So we initiated the delisting of this company.

LATAM: Outstanding margin expansion

Latin America. Well, I think data speak for themselves. You can see that adjusted EBITDA margin continued to improve from 38.5% last year up to 40.8%, which is really outstanding in euro, so converting nicely from €55 million up to €79 million also supported by some FX this semester.

So this is really an impressive performance here with the three pillars of our performance really delivering fully the sales volume growth, the spread being kept positive in each and every single country of this region. And the PAP and the industrial performance is absolutely outstanding again in this region.

Smart CapEx policy supporting organic growth and ESG roadmap

Now if we move to cash. You have here the CapEx. So the CapEx in H1 2022 are pretty low at €96 million and that is 5.9% of our sales, and this is lower than last year. You can see here that it is mainly coming from recurring CapEx that are €59 million. It is mainly due to timing effect as most of our furnace repairs this year are in S2, which was not the case last year. So we have five furnace repairs coming in the second half of the year. So it means that we will have a catch-up on this in H2.

And important to notice, Patrice presented to you that we are on track with our capacity investment and CO_2 investment. You can see that the strategic CapEx is with €27 million is higher than last year. And here, it includes €22.5 million for our new furnace in Brazil in Jacutinga, and we also have €3.6 million CO_2 emissions reduction CapEx as planned in our ESG road map.

Very strong cash-flow generation

So everything I explained leads to a very strong cash flow generation. So in this table, you can see the free cash flow in detail. And you see that it starts with the first line, of course, so the adjusted EBITDA growth; then the lower CapEx lead to a high level of cash conversion in this semester with 77.4%.

The operating working capital is very well under control. We have very low overdues in this end of June. So this is really very much under control. And we also have continued to have quite a low inventory. So the operating cash flow is very strong. And then in the other line, specific to mention, you can see that the interest paid is lower than last year in interest paid and other financing costs at minus €16.4 million. We have lower interest rates, and we have some exchange rate effects.

On the contrary, the cash tax is higher as a result mainly of our higher results. And also last year, we benefited from some specific positive one-offs in Italy. So all in all, a very high and nice conversion of our adjusted EBITDA flow into free cash flow.

Continued deleveraging to 1.5x

So leverage at the end of June is 1.5 times, as you can see here. And we are continuing to deleverage the company as we were 1.9 times at the end of December. And in fact, this is after the payment of €122 million dividends that were paid in May.

Optimised financial structure

And now if you look at here, you can see our financial structure. There is nothing new in this table compared to previous quarters. You know that we are now well balanced between debt market and bank financing within our two sustainability-linked bonds. And in fact, we are nicely hedged as well with fixed rates, of course, for our two SLBs, but also on the rest of our long-term debt, we are 100% with interest rates as we speak today. The available liquidity is close to €1 billion, very close at €999 million.

Conclusion

Patrice Lucas

CEO, Verallia

2022 EBITDA guidance upgraded

Okay. Thanks, Nathalie. So about our guidance. So based on the result of this first semester, and what we see for the second semester and with the assumptions that Verallia will not see a significant gas rationing in Europe, we expect, on the revenue side, a double-digit growth in annual revenue with the markets that remain promising.

And on the adjusted EBITDA, so we have decided to upgrade our guidance and the target to be between €750 million and €800 million for the full year to be compared to our previous guidance, which was at a floor of €700 million.

So this is what we are seeing for this year. And obviously as well on top of that, again, ESG is a core of the company, and we are on track versus our road map with many projects to be executed in the second semester.

Thanks a lot. This is ending our presentation, and I believe that now we can go with a Q&A session.

Questions and Answers

Francisco Ruiz (Exane BNP Paribas): I have three questions if I may. So my question was on CapEx. So mainly despite lower CapEx in H1, you see that H2 will be the full CapEx for the year. Could you give us an idea if there is going to be some delay than initially expected, and this could impact the capacity increases that you were expecting?

The second question, and I know probably is the more difficult one is 2023. I know that it is quite early to think about it. But with all nonhedged players suffering and also with energy prices where they are, could it be this year a similar situation than the one we saw last year where Verallia having a better situation than the majority of the peers and probably an advantage on pricing and how you see the capacity of the industry to absorb higher price increases in the future?

And last question is on new furnaces technologies because now you are dealing with several ones, with the oxy one with the electric and hybrid. Could you give us an idea if there is future technology that you are more interested in, or you are testing all of this and you will have a mix of this technology in the future?

Patrice Lucas: Okay. Thanks a lot, Paco, for these three questions. So Nathalie is going to take the first one, and I will take the two last ones.

Nathalie Delbreuve: Yes, exactly. Hi, Paco. Thank you for your questions. In terms of CapEx, this is really due to the timing of our projects. And as Patrice presented our new capacity projects, so far no impact. You have the date in the presentation. And for Jacutinga 2, we plan to start end of the year. So I mean, we see some delay, but nothing that would threaten so much this start, and that is why we included the dates in the presentation.

So you can count on that. And we do not see so much delay. Of course, our teams are working very closely on that, but that should not impact our capacity.

Patrice Lucas: Okay. For your second question, Paco, for 2023. Obviously, as you have mentioned, it is quite early to be definitive on that. What we see with a lot of uncertainty, obviously, so this is why we have time to put definitive and to make definitive stance on that, is that for sure, energy price is going to keep on increasing, and this is one of the major factor.

You know that we have a clear hedging policy that we are applying. We have a clear strategy as well to be spread positive on a yearly basis. So obviously, when it comes to selling price increase for next year, we will have to do something. And we are quite clear with the customers about that. And this is something we are going to start to work after the summer break, obviously having a better understanding and better robustness on the assumptions to come for 2023.

So we will go for a selling price increase. What I can tell why now is this is something which could be in order of magnitude around what we have been doing in 2022. All of that, obviously, to be confirmed. All of that to be dealt on a case-by-case, country-by-country, and all of that being dealt with a good balance with our long-term relationships and strategic partnership with our customers.

For your third question about new furnaces, what I could say is that the two furnaces we are launching, one in Brazil and one in Italy, Campo Bom 2 and Pescia 2. Here we are going to use some oxygen in a traditional technology, and this will allow us to push the CO_2 reduction around 18%, as I have mentioned. And then we have our new technology with Cognac, which will push much more down the CO_2 reduction up to be neutral for the electrical furnaces if we are using obviously green energy.

So we are going to have the electrical furnaces for an extra flint and then will use hybrid technology, which will switch from 80% gas, 20% electricity to 80% electricity, 20% gas. And this will allow us to address all the other products colours than the one which will be dedicated to electrical furnaces.

And obviously, one launch at the end of 2023, the other launch at the end of 2024. And the objective of that will be to have a strong validation and then we will be able to enter in a deployment plan for the years to come and cope with our decarbonation plan and CO_2 reduction objective.

Francisco Ruiz: Can I make a follow up? When you mentioned similar price increases done in 2022, are you referring to the initial 10% or the 25% that we have right now?

Patrice Lucas: Too early to answer on that. Again, I think this is something we will be able to have a better view at the end of the year, let us say, in Q4, for sure with a better understanding on all the current situation, macroeconomic situation and energy prices.

Michele Filippig (Jefferies): I have three questions on gas exposure, balance sheet and mid-term guidance. So on concerns on cut on natural gas supply and consequence shortage, especially in Germany, my understanding is that you have some flexibility to switch back from natural gas to fuel, if necessary. Can you attach some figure on roughly how much it is doable? And does it require significant CapEx? And do you have other contingency plans or gas storage?

And then secondly, one question on your balance sheet. Following continuous deleverage on current macro, your current balance sheet will be ideal for countercyclical M&A. In the past, you said that internal growth as a priority for you over external growth in capital allocation. Do you still take that instance?

And then final question on mid-term guidance. A world that at the moment, uncertainty is the only certainty. How do you see your margins in 2023 and 2024? You gave a guidance of 28% to 30% in 2024, but this was before the inflationary rates really materialised as we see it now.

Patrice Lucas: Thanks a lot, Michele. So for the gas exposure, on the gas situation, obviously, this is a big question, and this is, I can tell you, on the agenda of the executive committee on, not to say daily, but weekly basis obviously.

So what is clear is that we are preparing ourselves for a gas shortage to ensure business continuity. We do not know if it is going to be the case. Maybe we could be in the exemption mode due to our industry being part of the food value chain. But we are preparing ourselves.

And since the war, we have checked and prepared our furnaces to an eventual return switch back to fuel in our energy mix. And as a result of that, I can say that we are ready to absorb about a 20% gas shortage without any impact in our production level, meaning that we will use fuel to compensate for that shortage.

Obviously, all of that will require fuel ability and supply chain logistics that we are already working on, on securing some fuel supply for the end of the year and for beginning of 2023. So this is our plan.

So I would say that, again, with a caveat that fuel will be available. If we have to reduce our gas consumption, we have a clear and robust plan. And even in Germany, we have increased our storage capacity by renting some temporary tanks. So I must say that we are doing what we can to face and cope with this tough potential situation.

On the balance sheet for your second question. So I mean, again, we are clear with our strategy here. And as it has already been said, first priority for us is organic growth and to make a clear investment on capacity but as well on also decarbonation solutions that we need to move towards CO2 neutral.

The second is all about M&A. And we said clearly that any opportunity will be taken. Third, it is all about shareholder return through dividends. You will remember that we have as well a clear view, which is to increase our dividend by 10% year after year, which is, by the way, when you see the current share price, it is a good deal. If you put the dividend versus the investment, you can do.

And share buybacks could be as well an option on a way to return to shareholders. So we are keep on having this strategy, and this is what we are applying on in our business.

And your last question about the mid-term guidance. Obviously, when this guidance was presented at the Capital Markets Day last October, the overall context was a little bit different. We do not see any major issue on all the parameters, and we are quite confident that we will meet these objectives. The one which is obviously a challenge is the margin, this 28% and 30%. But again, we believe it is too early to say something about that, mainly what is at stake here is the dilutive effect of the inflation and price increase.

But what is sure is that being a margin we are going to see, so we keep it. But what is much more important is that on the absolute value which this objective was representing, we are on and we are getting to be there for sure. So it will come at a point where we see that early today to say that we are on that. It is still our objective.

Jean-François Granjon (ODDO BHF): A few questions for me, please. Could you give us, what do you expect in terms of volume for the H2 after a strong growth for the first quarter, slightly decline for the second quarter? So what do you expect in terms of volume for the second part of this year?

My second question concerns the pricing. Could you come back on what you expect for growth expected after the growth increase during the first half? Do you expect double-digit growth for the pricing?

My third question concerns the margin. You mentioned that the dilutive impact on the gross, the price, but I was positively surprised by the high level of margin in the first half stable at 26. So we do not see in fact a dilutive impact. So what do you expect? Do you expect a stable or increased margin for the H2? And also, do you expect a positive spread impact in H2 compared to H1?

Nathalie Delbreuve: Hello, Jean-François. I will answer your questions. So what do we see as volumes for H2? In fact, as we commented in H1, we had a strong contribution from the first quarter with quite low comparison basis also. In fact, in terms of demand, to be clear, we see really a strong demand. We are in the position today, still where we cannot serve all our customers, and we do not see signs today of any change there.

But for H2, we do not see the same growth in volumes as for H1, so mainly for two reasons for comparison basis reason, and also for our ability as well to serve this demand. As you know, we have continued to operate with quite low inventories. And we have in timing, five furnace repairs planned for this second half. So that is why we know that the volumes will contribute much less and should be more in the flattish area in the second half.

As for pricing in the second half, so we will continue to benefit from the current price increases. We expect further inflation in the second half as a continuation of inflation that we have seen on raw material, mainly like soda ash and cullet. And our target, as always, will be to keep and maintain a positive spread and achieve a positive spread for the year. So that was your third question as well. So yes, we target a positive spread for the year.

Also, you asked for margin and dilutive impact. So you are right. In fact, in here, we have a stronger contribution of the activity pillar, including the stock impact in H1. We have also a good contribution of mix that we are always a bit cautious about in our forecast. And this is also our position for H2. We believe that even if volumes will keep strong, we should see maybe a lower mix here.

And yes, we have, of course, a very positive and nice mix contribution, because when you see the increase in Latin America with 40% EBITDA margin percentage, of course, this is also supporting the overall EBITDA margin of the Group. So those are the positive contributors to our EBITDA margin in this first half.

Jean-François Granjon: On this last point, do you consider that the high margin in LATAM is sustainable with more than 40%. So do you think this is sustainable for the coming quarters or coming years?

Patrice Lucas: Well, we see a very good challenge for the teams in Latin America. I am not quite sure that they are going to fight for that. But what we must say obviously is that the level that they have reached is quite amazing. And I think the key strategy for Latin America for the quarters to come is to grow with the additional capacity we are going to put there.

So I think what is at stake is to grow with this additional capacity and keep on delivering this outstanding manufacturing performance. So I think this is what is at stake, to manage the growth and maintain the excellent manufacturing performance which we know is not always a walk in the park. But this is a nice ambition for Latin America, and we count on them to deliver based on that. We are quite motivated by that.

Guillaume Muros (Société Générale): Three follow-up questions on the one asked before for me. The first one, so on volumes to support here. The first one is that when we look at some beer brewers first half results, we see that some of them are already to start feeling the pain from inflation in demand. So I do not know if you can give us perhaps a bit more colour on any potential sign of customer demand slow down during the second half per category.

And also on volumes. Could you perhaps also elaborate a bit on the inventory or the change of inventories during the first half? Do you expect to rebuild inventories during the second one? That is for the volumes.

Then for the gas shortage risk, a follow-up as well. How much do the most exposed regions to Russian gas weight into your revenues, namely, for instance, Germany and Poland?

And the last question will be on ESG. And here, again to support for ESG. The first one is a follow-up on the electrical furnaces. Do you plan to aggregate renewable production capacity to the plants where these furnaces will be built through PPAs, for instance? And last one on ESG as well. Could we have an update on your workforce and particularly after the strong success from your employee shareholding offer last month?

Patrice Lucas: Thanks a lot, Guillaume, for all these good questions. So on the first one, about volumes and the demand. What we see today is any signal or even weak signal of a reduction of the demand when we are discussing with our customers and what they are asking of us from the scheduling, we do not see any reduction to come globally.

Maybe one segment to be over, we could see some variations. But I think we have some as well good tailwind, which is the euro compared to the dollar, which is obviously pushing exportations of some of our big customers, especially on champagne, spirits and all these premium beverages.

So to be clear, at this stage, no reduction. We do not see any reduction in the demand. Obviously, we are cautious about that, because we know that the world could change and we could go from one day to be other. So we are very cautious, but no signal of that.

On the inventory, Nathalie, if you want to answer?

Nathalie Delbreuve: Yeah. I can comment. Of course, this is a good question. In fact, today, we are at exactly the same level of inventory of one year ago in terms of volumes of inventory I mean. And this is low as we comment every quarter.

So to answer your question, Guillaume, yes, we intend to rebuild inventories in the second half. And this will be clearly challenging with the furnace repairs we have, but we will try to rebuild some inventories and also the right inventory. So it is also all about the quality of the inventories.

Patrice Lucas: About the electrical furnace and the renewal energy. Obviously, this is what we are and we are starting to work with some providers and to sign some PPA. So we have some to come. And obviously, this is again part of our ESG, and this is something we will have to do from more till the rest of the decade in order to secure some green electricity, especially. So we are on that, paying attention to all the projects, which are to be launched, which are available and taking part of this contract.

On the gas shortage risk, I am not sure I have understood your question. If I have understood it, it is quite difficult to answer based on the fact that we can do many scenarios. Again what I can repeat is that we have defined what I do consider as a robust plan to mitigate a potential shortage. We could cope with up to 20% without any impact on our production.

So obviously, if it goes further, we would have to reduce production to adapt and to reduce some sections on the IS machine, so to pull a little bit less from the furnaces. But from what we see, we do not see that today as a likely scenario. Be able to reach already to minus 20% compared to what we do today, I do consider that we have here a robust plant.

And then on your last question on the workforce, what is again your question on that?

Guillaume Muros: So well, perhaps just a follow-up on the shortage risk. So the 20% that you can absorb, is it at the Group level? Because I get that in some countries, we are already seeing that governments might ask for a bit more than 15-20% reductions. I do not know if to industrial players. That is for the shortage follow up.

And then for the workforce, if we can have an update on the workforce in terms of turnover, in terms of salary inflation, in terms of engagement or satisfaction level, particularly, as I said, after the successful employee shareholding offer from last month.

Patrice Lucas: Okay. So the 20% I am referring to is at the Europe level. It is at Europe level. It is at Europe level and it is considering that we will be allowed to allocate the restriction from one country, from one site to the other. So this is our plan. And again, if some factory could test to be stronger than that to allocate at the national level, we will have to adopt a little bit.

For the workforce, what we can say, again, is that this shareholder offer to our employees has been a real success. You have seen the number. It has been oversubscribed, and we have been obliged to shorten a little bit the participation that each of our employees wanted to put in it. So it has been a real success and an active demonstration of the confidence of our employees within the company, and as well for me as a reward of their commitment and engagement towards our strategy.

So good success, and this is something we are going to keep on proposing to our workforce.

Matthias Pfeifenberger (Deutsche Bank): So firstly, on pricing. You said you are happy with the price increases. I just wanted to point out some other companies that charge up that launch price increases for three factors, which is basically the cost inflation, the margin and availability. And that is in sectors where it is not as tight as in yours at the moment. So I am reading about beer glass bottle shortages in Austria and probably many other markets.

On the other token, you are having a lower hedging coverage next year. So you are moving more and more towards spot energy prices. So why do not you raise prices more? I mean, you could be launching 10% every quarter in the next several quarters and especially towards the medium-term target 27, 28. If you are facing the weaker hedge next year, I mean, how would you get there in 2024 without doing additional price increase? That is the first one. And I have a couple more.

Patrice Lucas: Thanks, Matthias, for the questions. I mean, again, we have a clear policy and active the strategy. Spread positive. This is the end of the game. And we are, at the same time, not looking for one shot effect. And this is why the hedging policy we have is really protecting our company, but as well protecting our customers.

And we are sharing this hedging policy, giving us some time to make selling price increase, and as well to the customer to adapt and to make the appropriate decisions. So it is a kind of flattening processes.

But as far as we are committing on spread being positive, I mean, this is what we are going to do and so on. Selling price increase leading to positive spread, and at the same time, looking for long-lasting relationships with our customers, which we have to realise as we face costs inflation. So we are really looking on a long-term basis here.

Matthias Pfeifenberger: Okay. But you did them already a big favour by just passing on the hedged cost. And next year, you are potentially facing a scenario where demand is going to be weakening and your cost increases will still be there. And so the energy cost will go up because the hedging rates are lower, versus right now where you completely sold out, where there is shortages and it is the time to raise prices. But that is maybe just my thinking.

Patrice Lucas: I mean, I do not think so. I think this is again our clear policy, clear strategy. The customer starts to understand that next year, and maybe before the end of the year, depending on how it moves. But next year, for sure, they will have to face the selling price increase. And I do not expect our competitors to be in a different situation, to be honest, compared to what I am able to read through the public information.

So this is what we are going to keep on executing. And again, in that taking into account the relationships and the long-term relationship and contract more to benefit with our customers.

Matthias Pfeifenberger: Okay. The second one would be on the furnace repairs. Now in the tightest period, is it really essentially you do these five furnace repairs? Or could you shift some of those into next year when we are facing the recession and potentially weaker demand?

Patrice Lucas: Good question, Matthias. What is important is that we want to maintain our sets. So our priority for us, again, looking for long-term and structural and robust results we do not want to play with maintenance and put in danger our assets. So this is point number one.

Point number two, through our technical expertise and our experts here, we are able to evaluate to make audits, technical audits of our furnaces and understand if we can delay or not for a few weeks, for few months the repair. So we have this opportunity.

But from what we are planning right now, we are going to execute as it is planned. Again, long-term view, preserving the maintenance for high-quality products and not playing with our assets. This is clear.

Matthias Pfeifenberger: Okay. And the last one would be on share buyback. Now it is a site priority for you. On the other token, you are trailing on a three-notch discount to your best peer and you have just taken margin leadership from them. So why is this not higher on the priority list? I mean, in the current volatility, how likely you are going to pull off a large M&A deal? And organic, I guess, is very much covered by the operating cash flow. So why is this not a higher priority? I mean you are trading on five times, that is the valuation of a super site. Your F&B derivative with very resilient top line and margins.

Nathalie Delbreuve: Hello Matthias, Nathalie speaking. I will answer this one. No, we are, of course, looking at the share price and considering share buybacks. But as Patrice said, our strategic priorities did not change. So this is first internal rule. Then if we have opportunity of M&A and share buybacks are on the list. They are just not on top of the list. So we will be very optimistic on this one, but we are not seeing low for S2. So we will be opportunistic.

Jean-François Granjon: Yes. A last question, please, regarding you mentioned the green energy, the green electricity for your business. Today, there is more and more industry and heavy industry to invest for the medium or long-term with the hydrogen energy to produce with hydrogen. Do you have some projects for the coming years to develop some hydrogen production for your industry?

Patrice Lucas: Jean-François, this is something we are looking at it obviously. But so far, we do not have any concrete projects. But as we have mentioned several times, I guess, we are open to look at and analyse all the different options and not to be cornered in one single energy sources or one single technology. But right now, we do not have anything concrete in that.

Lars Kjellberg (Credit Suisse): I just want to come back to your guidance. Of course, you had an exceptionally strong first half activity. I appreciate that contributed quite a bit. But if you were to look into your guidance, that implies unseasonal soft H2 in the range of, I guess, 325 to 375, i.e., a big drop. Could you walk us through how you think about the bridge from H1 to H2? Is the activity in the furnace rebuilds the big factor? Or how should we think about that?

Also, I guess your guidance historically has been on the CapEx to revenues. Of course, with revenues extremely elevated given the costs, how should we think about absolute CapEx, which is getting the more potentially relevant number now as, again, the elevated revenue base.

And I guess the final point, coming back to the tightness of the market. You are expanding your capacity by about 400,000 tonnes. Could you remind me what your basis, how much would that give you an incremental capacity?

Nathalie Delbreuve: Hello, Lars. Thank you for your question. So to answer your first two questions. So, on the guidance, in fact, as you well understood, yes, there is a shift in the activity contribution that was really strong in the first half.

Then if we move to the other pillars, we are aiming for a positive spread, but we know also and we structured it in our outlook that mix would be less contributing as with the inflation, maybe people would turn to lower-end products, so that is embedded into our forecast.

And as I said already, we know that there will be additional inflation as well at least on raw material that we see already and also a bit on the other factors, which will be spread even if again, we target a positive spread.

And then also 5 furnace repairs, not so much. In fact, we have the ramp up as well and start the cost of Jacutinga 2 facility that will start in the fourth quarter 2022 in the second half of the year. So these are the mitigating factors, I would say, compared to our H1 performance.

Then in terms of CapEx. So yes, we have inflation on the top line. We also have some inflation in the CapEx. There is a bit more delay, but we have also inflation in the CapEx. And I mean, we want to continue, as Patrice said, with our plan of furnace repair investments. We have the cash, so we expect to close again to the 10% of our sales for the full year. So that would be CapEx in the range of €340 million, if you want.

Patrice Lucas: Okay. And for your last question, so about 400,000 t additional capacity. It will represent a 6% to 7% additional capacity compared to today.

Fraser Donlon (Berenberg): Just two questions from my side. It sounds like you are obviously preparing for the difficult scenario vis-à-vis gas availability. But I would just be interested to know like what the municipalities in Germany, Italy are actually saying to you outside of what your worst-case scenario is?

And then secondly, I just wanted to understand if there would be any impact on your hedging if you were to use more fuel oil. So if you went from using 80% gas in your energy mix to 65% or 70%, for example, at the Group level, how that would impact your energy costs and the robustness of your hedge?

Patrice Lucas: Thanks a lot. Quite difficult to answer to your first question again because from one country to another country, many different situations. Obviously, we are following closely on a daily basis the evolution of the situation. And you may have seen that now we are speaking about the solidarity principle between European countries.

So this is where we are with some flexibility. And again, the opportunity to be classified as essential and has been exempted from the gas shortage. So we will follow up what will be enter into force in each of the country. And with our plan, again, I think we have a strong resilience capacity to absorb what we will have to face.

On the hedging, so you know our policy. Again, it is quite clear. We are looking to be hedged at 85% by October for our needs of 2023. So we are moving toward this number. And in order to be prepared as well and to have a clear and robust B plan, we are starting to take some position of buying some fuel to complete, at least for the first part of 2023, and we will see how the situation is evolving.

Fraser Donlon: Okay. Perfect. So in the event you have to use more fuel oil, there would be no issues with hedges breaking effectively or that risk in Germany, which we heard about maybe a month or six weeks ago? Just to clarify.

Nathalie Delbreuve: I think you are referring, maybe to the level and to the fact that hedging prices could be maintained. But to tell you, in terms of hedging, so first thing today, even if we had to not use hedging partly, it would be very positive. We have a very positive financial impact.

And on some of our hedges, I mean, this is the price that is hedged and not really the volumes with the suppliers. So today, we do not expect any significant impact. But of course, as we all know and see, governments continue to discuss on local decisions. So we will be monitoring that very closely.

Speaker: Thank you very much. I think we have some questions on internet, but most of them have been covered through the Q&A session, the live one. I think probably the only one that has not been covered is one from Emmanuel. So what are the total announced capacity expansion by the industry in Europe for 2022, 2023 and 2024 for the industry?

Nathalie Delbreuve: I think for that, we can refer to the Capital Markets Day presentation, where we have a specific slide that is exactly answering this question and listing all the additional announced capacity increases. There was not much change since that. And this slide was showing that it was, I mean, in line or even a bit lower than the demand evolution.

Patrice Lucas: Okay. So I believe that we are ending this Q&A session. So first of all, I would like to thank you for your time. I know how valuable it is. So thanks a lot for that and as well for the quality of your questions. And hope that you will have a good summer break. So please take care, and we will meet you back from this summer break for sure. Thanks a lot.

Nathalie Delbreuve: Thank you very much. Bye-bye.

[END OF TRANSCRIPT]