Verallia Q3 2022 Results

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Introduction & Key Highlights

Patrice Lucas

CEO, Verallia

Welcome

Good morning, ladies, and gentlemen. I hope that you and your family are fine. As always, it is a pleasure for Nathalie and myself to go through this presentation and to present to you our Q3 results and our key highlights of the quarter.

A global leader in glass packaging

So to start with, as usual, as an introduction, this is our ID card. So we are the number one in Europe, number two in Latin America, number three worldwide. We are doing business in 11 countries with 32 glass plants, 58 furnaces, nine cullet recycling centres, three decoration plants. And thanks to all of that, with our 10,000 employees, we are producing about 16 billion bottles and jars per year.

One of the key point is our diversified and balanced end market. As you know that we have more than 10,000 customers and that we are playing on the key segments and all the key segments of our food and beverage market: still wine, sparkling wine, spirits, beer, soft drinks, and food.

Recognition of our products and innovations

To go with the key highlights of the quarter, what I would like to start with is about some product and innovation recognition. So the first one is about this Flute Gothic, which is produced by Verallia France in Albi. And who had the pleasure to get the winner of Formes de Luxe 2022 award inside the Wine & Spirits Bottles category. This is, as usual, a clear demonstration on how we want to be creative and propose services solutions to our customers.

The second one, second example is quite interesting. It is a clear demonstration and that we have some opportunities to gain market share from some packaging competition solution. And here, we have an example. We are able to switch from aluminium to glass, and this was done for Laiterie Rians, a key partner for the past ten years.

First Environment Day in all our plants & offices

Another key element is we had the opportunity to have a first Environment Day in all our plants and offices. This was a great day. The opportunity to share with all our employees all the initiatives we are making in each of our plants. And here, you have some different examples. So in each of our plants, we had many sessions, many examples presented to the employees. And it is a way of strengthening the importance of our ESG roadmaps to all our employees and to have everybody proud about what we are doing.

CSR Report 2021

Going into that direction, the next topic is we took the time as well to complete a full CSR Report, which is a key document to understand our CSR strategy. So to give sense, to give clear orientations, and again, to have everybody understand what we want to do, what is our vision and what are going to be the next format.

I want to tell you that this document is available on our website. You can find it in the Media part of our website. And again, I think it is quite useful. We have a very good synthesis here of all the initiatives we are taking and we want to develop throughout the different pillars we have identified.

Verallia's commitment to the environment

Another clear examples on how serious we are about the environment and how we are pushing all the opportunities for us to reduce our emissions. Here, you have two examples, initiatives that we have launched. One is in Lagnieu plant in France, where we are going to launch in 2023 an ORC, Organic Rankine Cycle.

This technology is going to allow us to use the waste heat from our furnace fumes and will be converted into electricity. And by doing so, we will be able to use and reduce 10% of the plant consumptions.

Another one is about photovoltaic systems we are going to implement in 2023 in five plants in Italy and in our Mondego plant in Portugal. So again, it is going to contribute to a reduction of CO2 emission per year. So Italy is going to be close to 8,000 tonnes. In Portugal, a little bit more than 3,000. And you see the electrical energy autonomy that this will provide to Italy. So 4% in Italy and 14% in Portugal.

So this is a clear example of all the initiatives and we have much more on that, which is guiding us, which is confirming how serious we are about our roadmap towards decarbonation and with the commitment we took for 2030 objectives, which I remind you is minus 46% of CO2 reduction compared to 2019.

Update on key industrial projects

A quick view on our industrial projects. In July, I presented to you an update. So here, this is what is new. Just taking another example of debottlenecking we are implementing. You know that capacity is a challenge in order to address the customer demand. And we are working on a continuous improvement mode towards efficiency of our production lines. But as well each time, we have the opportunity to make a small improvement by debottlenecking our lines. Obviously, it is providing higher output.

And here, this is one of the examples. And we had this integration of the new line 44 in Vauxrot, which is leading to an additional production capacity of 10 million bottles per year for wine, spirits, markets mainly.

And then on our key projects, so Jacutinga 2. So I just want to confirm to you that we are on track and very well on track. And the lighting of the new furnace will be done on 9th November. And then we will ramp up in production to start production to be sold early December. And in Campo Bom and in Pescia, nothing new, still on track as we presented during July conf call.

On our new furnaces technology, so here again, we are on track towards our 2030 CO2 roadmap. So electrical furnace in Cognac is moving forward. We are in the project implementation. And on the hybrid furnace, I just want to confirm to you that we have chosen Zaragoza to be the location with this first implementation. So here, again, we are on track, and we plan to start production end of 2024.

Strong growth in revenue and solid cash generation

Then moving to our results of Q3 and at the end of September. So we can say that we have a strong growth in revenue and a solid cash generation. So revenue is plus 24.5% increase at the end of September compared to last year. And in Q3, we had a plus 26.5%.

Adjusted EBITDA at the end of September is at €654 million, plus 24% compared to the same period of last year and with a margin at 26%.

And last, we keep on reducing our net debt ratio. And at the end of September, for the last 12 months, we are reaching 1.1 times leverage.

So now I am going to let the floor to Nathalie, who is going to present in detail some financial results.

9M 2022 Financial Results

Nathalie Delbreuve

CFO, Verallia

Strong organic growth

Hello. Good morning and good afternoon, everyone, and thank you for attending this call. This is a pleasure to me to present to you these good numbers for Verallia for this Q3.

So first, if we look at the top line, we see continued strong organic growth. You see on this bridge that the organic growth is plus 24.4% in line with H1 growth, and that it is mostly driven by price and mix.

In terms of volumes, we have positive numbers of €33.2 million. It is still up in volumes, but we have Q3 volumes slightly down, as expected, and it is mainly due to furnace repairs.

Then the price/mix pillar is very significant. We have around 20% of price effect in the nine months. And we benefit in H1 as we benefit from the selling price increases that we have run in Europe in H1 mainly, you know that we had two waves of price increases in Europe. And then if we move to Latin America, there are regular selling price increases to follow with inflation. And the mix continues to positively contribute. You also see that the forex impact is still positive.

Good EBITDA performance

So if we go to the EBITDA performance. So the EBITDA is moving from €527.6 million at the end of September 2021, up to €654.2 million at the end of September 2022. Looking at the bridge here, you see that activities spread and net productivity pillars are green and contribute significantly to the nice improvement we see in this EBITDA.

So first, for the activity and operating leverage, we are still on what we were presenting to you at the end of H1. So a positive volume impact, but mostly stemming from H1 as we commented and a positive impact on the stock variation.

Now the price-mix/cost spread is the main contributing one, an increase since H1. You see here €46.6 million. So we see continuous inflation in cost, mostly linked to raw material and energy, but we continue to be able to offset this cost inflation by both price and mix. If we focus on Europe, we are benefiting again from the selling price increases. And we have still just a slightly negative price cost spread, but we are getting closer to a positive one. And then in Latin America, we have a very dynamic selling price variation and a very positive spread.

The net productivity, €22.3 million. We are reaching 1.9% reduction of production cash cost. We were at 1.8% in June, and you know that we are aiming of course at reaching 2% by the end of the year as it is our strategy.

Now the foreign exchange and other, very quickly. They are slightly negative. In the foreign exchange rate, it is mainly stemming from Argentina. Other effects continue to be positive. And we have many items in the other columns, but in the end quite a low number. And it includes a €0.5 million of donations to Ukraine. So in the end, an adjusted EBITDA margin at 26%.

Continued deleveraging

Now with this good result, we continue to deleverage the company. The net debt has reached €921.6 million at the end of September. And the leverage is now 1.1 times, in fact, 1.15 times when it was 1.5 times at the end of June. So a very strong and good performance and a strong cash delivery.

Optimised financial structure

Now the financial structure. Here there is no change compared to previous quarter. You remember, we have a well-balanced sourcing of our financing between debt markets and banks and bank liquidity. We have issued one year ago, last year, two sustainability-linked bonds for €500 million each with nominal rates at a very good level, and you have that in the table.

And we have our term loan and revolving credit facilities, so very well-balanced sourcing. And in the end, the available liquidity of the Group now reaches €1.2 billion at the end of September.

Conclusion

Patrice Lucas

CEO, Verallia

2022 Guidance

So last but not least about our guidance for 2022. So first of all, I would like to say that I am proud of the results we have delivered. I would like to thank the teams, which have been working hard, as you can imagine, to deliver this Q3 performance. And so thanks to this Q3 performance and the higher visibility we have over the rest of the year, we are upgrading our guidance.

So on the revenue, we are seeing that we are going to close the year around the 25%, so around 25% growth. And then the adjusted EBITDA, we are going to close above €820 million. And then, again, quite proud about what the team is doing in Brazil with this project management and the launch of this new furnace in Jacutinga, which will start on 9th November.

Thanks a lot for your attention. So I think now we can move to the Q&A session. And again, a pleasure for Nathalie and I to answer your questions.

Questions and Answers

Guillaume Muros (Société Générale): I have five in total. The first question will be if we can decouple the sales price increases for the European Union and for Latin America. I know that for the European Union you guided or you previously announced this price increase for Latin America. What sort of price increase are we talking about?

Then still on this price mix effect. My second question will be, if you can give us a hint on how much the mix effect contributes at the Group level? And how basically are you managing that internally sorting between products and our clients?

Then my third question will be on energy consumption and energy supplies going forward. You mentioned these initiatives that are taking place in Italy and Portugal and going forward in Spain with a hybrid furnace, moreover, the short, medium term. Can we get an update on how are your plans, particularly in Europe being equipped to potentially face some curtailment of natural gas?

Then fourth question. Can we also have an update on your employee engagement level, particularly in France? Are there some social disruptions there? And have you increased salaries?

And fifth and last question on M&A. Sorry for a lot of question. If we can get as well an update on the M&A environment because we have seen beginning of October, one of your competitors, Zignago Vetro announced a small acquisition in Italy?

Patrice Lucas: Thanks a lot, Guillaume. Quite a lot of fruitful questions. Thanks for that. So maybe, Nathalie, you take the first one. I will take the last one. So starting with price.

Nathalie Delbreuve: Hello, Guillaume. Nice to hear you. Thank you for all these questions. On the price effect, so you are perfectly right to distinguish between Europe and Latin America, because even if Europe inflation is now increasing to a double-digit figures or closing double-digit figures, inflation is still higher, of course, in Latin America that have been inflation countries.

So in fact, in Europe, we are still a bit below 20%. We would be more in the range of 18%. But you know that we have two waves of sales price increases, so there is a carryover effect of the second wave.

And then in Latin America, we are in higher numbers with, of course, Argentina being very specific with the hyperinflation. But in Latin America and even in Brazil and Chile, we are above the 20%. So that is why overall, in average, we land close to the 20%.

Patrice Lucas: Thanks, Nathalie. So about everything which is related to energy, let us step back maybe. So our strategy is quite clear is that we were using fuel in the past. We moved to gas. And then our long-term view is to move from gas to electricity, thanks to the new technology we are going to implement. And this is going to start with the two furnaces we have just announced here. So the electrical furnace in Cognac at the end of 2023 and then the first hybrid furnace at the end in 2024 in Zaragoza.

And then we will enter in a period where we are going to deploy this technology when we will have to replace furnaces. And this is going to be a major contributor to our decarbonation roadmap. So this is going to take place between, let us say, 2025 and 2030. And again, it is going to be a first pillar, a strong pillar to contribute to the minus 46% CO_2 reduction. So we are in fuel, we are in gas and we are moving towards electricity.

Then we have a kind of a specific situation right now with this risk of gas shortage. And this is why we have decided as a temporary measure to ensure business continuity and to be ready to use an additional 20% of fuel, allowing us to reduce our gas consumption to be simple by 20%. This was a backup plan that we are executing right now. We are just on that. And we said, if you remember in July, that we have done a lot of work to make sure that this was feasible on most of our furnaces in Europe. And again, this is the case. We have been preparing ourselves for that.

And now we are ramping up from now, as I speak, till the end of the year to a level of 20%. And as we need visibility and we need to be organised for all the supply chain, logistic topics, and all of that, we have decided that we are going to use for the first semester of next year, 20% of fuel. So this is a way to ensure business continuity, and this is a way to get this agility we need within this hectic world, where things could change from one day to the other. So first of all, protecting our business continuity.

I want to be clear that it is a temporary measure, that our long-term view is still to move to green electricity and to contribute again to our CO2 roadmap and to be the front runner in the glass industry to do so.

About France. So you mentioned social disruption, salary increase and all of that. So I would say that we have done the job. We have done the job already. Because in France, so we had a first salary increase at the beginning of the year for the 2021, let us say, inflation impact. As you know, at the beginning of the year, you make the salary increase. And then we have anticipated some salary increase in July this year due to the exceptional situation of inflation we are facing in France. And we have increased by 4.5% the salary in July, which is an anticipation of what would have done in January 2023.

And for now, we are going to have a second round or the final negotiation based on that at the end of the year, beginning of next year. And I would say that we do not see any disruption linked to that in our manufacturing location in France.

Last about M&A. I mean, as we have already said, M&A is on the table. We are looking at any opportunities. Nothing new to say on that. Nothing new to report to you today on that. But this is part of what we are looking at. I remember that to you that our capital allocation is number one, our organic growth, both capacity and technology for CO2 reduction.

Two, it is about M&A. If we have an opportunity and activity on that, looking for it, we will take it. And three, this is all about shareholders' remuneration with our dividend policy and some share buyback opportunity when we think it will be appropriate.

Guillaume Muros: If I can just add one follow-up to the first questions I asked on price mix. Are you planning to increase prices again for the end of the year or beginning of next year?

Patrice Lucas: What I said on that, and I can repeat obviously, is that what is important for us now is to prepare 2023. And we start to have a good visibility of what will be our cost in 2023, thanks to our hedging policy, but we still have to do some homework. And obviously, as you can imagine, we are going to enter in the budget process for 2023. And in the weeks to come, we have a clear view on that.

And what we want to do is really to have this good visibility on inflation to share that with our commercial forces and then to go and anticipate as much as possible the discussion with the customers, which will give customers the opportunity to get visibility, to give to the customers the ability to integrate that in their own budget process, in their own discussion with their own customers. And we are going to be pragmatic on that based on the discussion country by country, customer by customer. In some cases, we may have to increase in Q4. In some cases, it is going to be in Q1 2023. So we are going to be pragmatic.

And let me remind you that at the end of the day, what we are looking at is, and this is our defensive line, is to be spread positive. And this is our key objective and this is what we are going to build in the weeks to come for 2023.

Alexandre Simon, Tikehau: I had a quick one regarding your guidance for your 2022 EBITDA target of €820 million. So this would implicate for Q4 an EBITDA margin in the range of low to mid 20%, which is down quarter-on-quarter and year-on-year. I assume that you anticipate further lag maybe in passing through in Europe, although you previously stated that the gap is nearing to zero. Could you please make some comment on this?

Nathalie Delbreuve: Could you please repeat because we did not get it. The end of your question.

Alexandre Simon, Tikehau: Regarding your EBITDA guidance, I guess that this would implicate 24-25% margin on the full year. So something low to mid 20% margin in the Q4, which is down compared to this quarter and last year. Do you anticipate further lag impacting through inflation in Europe, because you said previously that the gap is zero?

Nathalie Delbreuve: Yes, clear. Your question is about the margin in the fourth quarter. In fact, we have every year a lower margin in the last quarter. Remember that December is quite a half month. So it is more some seasonality. First, there is seasonality in our margins always in the fourth quarter. If you take 2021, if I remember, it was 23.1% margin in the last quarter.

Alexandre Simon, Tikehau: It is still down year-on-year. Do you expect some further lag in passing through this inflation in Europe?

Nathalie Delbreuve: In fact, so we are passing through. And as Patrice explained, discussion on prices in Europe and also about the relationship with the customers and the timing of the price increases between end of this year and Q3, I mean, that is the comment that Patrice just made. So no, it would not be linked to some lag here. In Q4, we will also have the carryover effect of the price increases that we already passed. So it is more seasonality here that we are facing.

Jean-François Granjon (ODDO BHF): First question regarding the spread. You mentioned a little negative spread impact in Europe despite the increase of the pricing. Do you expect to have a positive spread impact in Europe or not?

The third question concerns the volume evolution. Do you see some better volume in Q3? And what do you expect for the volume for 2023? My third question concerns the trend for next year in terms of growth, in terms of volume and pricing due to the macro environment.

And my last question, can you make an update for your plan expected for 2024? Do you keep the same target presented us a few months ago for 2024 in terms of growth and in terms of margin?

Patrice Lucas: Thanks a lot, Jean-François. So first, spread in Europe, positive. The answer is yes. And I want to be clear on that, and this is what we are monitoring and we have the action for that. So the answer is yes.

About volumes evolution. So in Q3, we did a little bit better than expected. In Q4, and again, this is a big question behind, we do not see any volume reduction compared to same period market. We do not see any reduction in the demand, to be clear. And this is what we see for 2023 as well.

And I want to remind you that even in the worst situation, so referring to COVID, for instance, the food and beverage market is quite resilient. To remind you that in 2020 with a strong COVID impact, the market was just down by minus 1.8%. So we do not see that. Food and beverage is very resilient market. And I think it is one of the strengths again of Verallia. Thanks to our customer portfolio, we are not dependent on one customer performance. So I think this is a strong protection for us and we are able to manage that and through that. But again, no reduction of demand at the door. We do not see that. Obviously, we are vigilant.

We are taking all the different scene here from the market. But I want to be clear that I do not see that right now for the end of this year and for next year. And you know that the global industry, and Verallia in particular, is facing quite low inventory. So our main objective today is to produce, produce and produce. And every single bottle which is going to produce is going to serve the top line to satisfy customer demand or it will be an opportunity to rebuild some inventory, which will better serve our customers. So I do not see that at all.

About pricing for 2023, I cannot be definitive on that. But I mean, I can say that ballpark, we see in 2023, something in the range some order of magnitude of 2022.

And for the 2024 target, I guess, that you are referring to the targets which we are presenting during the Capital Markets Day. So here, obviously, the world has changed and this inflationary context has moved the baseline. And it is right for the top line and the growth we are speaking about and it is right as well for the margin of EBITDA. So what we are committing is to deliver the implicit number which were behind the assumption. So we are still on that. And I am very confident that we will meet all of them. And it will come the time where we will have to redefine a new strategic plan to cover, let us say, 2025 - 2030 period. And we will come obviously with a new set of objectives.

Nathalie Delbreuve: Maybe just one additional comment. So Patrice commented the volumes, the demand. Now very specifically, in H2 this year, we see some reduction in volumes because of our ability to serve those volumes. So remember, we have five furnace maintenances in H2 versus one last year. So it is really adding to the timing our furnaces.

Michele Filippig (Jefferies): I have three partially already answered, so they might be a bit more specific. The first one is on demand on 2023, and I appreciate you do not expect like a slowdown since glass packaging may be a resilient market. But considering the glass packaging won market share over aluminium probably because of the sharp inflation in aluminium in 2021, and now that glass price is on the rise, while aluminium is correcting, do you expect a reversal or losing some market share on that?

And then the second question is another follow-up on the price increase target in 2023. So you are targeting the same quantum of 2022. And my question is, do you expect like your competitors to follow like more or less the same quantum? And if so, what gives you the same confidence like they will follow with similar price increase? And if not, are you concerned about losing market share against competitors now that demand and consumption may softening a bit entering into a recession?

And then the last question, number three is on cost inflation. So you commented like that you have seen on a Group average like circa 20%. That was like, just to be clear, in the first nine months of 2022. And what do you expect for the rest of the year?

Patrice Lucas: Thanks a lot for this questions. So on the demand on 2023, again, from the different contracts, from the different signal we get from the market, we do not see any reduction of the demand. And I would say, when I see our premium customers are doing well, we have a lot of pressure to deliver much more volumes.

And when I am meeting customers, most of the time, they are asking me to deliver much more volume and how I can commit more for next year. And obviously, you know that for the premium one, we are exporting in US. But in other countries, they have quite a very positive impact with the weak euro today.

So this is a positive point, which is sustaining the demand. I can say that the harvest as well, if I want to be much more specific, was quite good compared to the last years in France mainly, but in Italy as well, a little bit less in Spain. So all of that is supporting in my view a strong demand for the next month.

In Champagne, especially, we are doing a record year. It is going to be plus 20%, let us say, as far as harvest is concerned compared to the previous year. So all of that is giving us some great confidence in the demand we are going to have in 2023.

About market share, I think, obviously, it is not a real topic for us today as really we produce, we produce, we produce and we sell it and we sell it. I do not have any strong example where we see this move from one packaging solution to the other. We got some of it. But as I presented, we have others as well which we are moving from aluminium to glass. And this is one of the examples I presented during the key highlight.

But again, vigilant on that. And I think what is at stake here is that we need to do our job to increase efficiency in production, to do our capacity increase and then to deliver and satisfy all the customers.

For price for 2023, our defensive line is spread positive. So it means that we are going to have to do our homework to reach this objective. Obviously, I do not have any competitor data or competitor clear understanding, and I want to be clear on that. The information I have is what I am able to get from public information. And I have the feeling that we are quite well-positioned on the cost side with what we are doing with our hedging policy, one. And two, with our PAP and what we are doing on a regular basis to improve our efficiency in everything we do.

So my guess is that if we are looking for this positive spread, we should be better positioned than our competitors to protect our margin towards what we are going to ask to our customers for selling price increase. But again, this is what I am feeling from the different communication which are public. But at the end of the day, what I am very concerned is how I am going to defend the profitability of Verallia.

I think we have good agreements for that respecting customer relationships, because again, we are not here to do one good quarter or one good semester. So all of that has to be put in perspective of what is our long-term strategy, long-term view. And this is important, I guess, for you guys as well to make sure that we are giving you some visibility and that we are resilient with a strong commitment to progress period after period. And the last question was?

Nathalie Delbreuve: Price increases in Europe. So around 20%, right? So in fact, just to say again that we will see the full effect of the two price increases and especially of course the second one that was started in April. And we also have some specific targeted price increases that will have the full benefit until year end.

Michele Filippig: Thank you so much, Patrice, for the colour. I know it is never nice to ask about like a competitor strategy. And Nathalie, thank you as well. My question was more like, just because I throw at you many, many questions, at the same time. It is about the cost inflation, because you mentioned at the beginning of the Q&A that a 20% overall. And I wanted to ask if it was this 20% refers to the first nine months in 2022? Also if you have any colour in terms of cost inflation for the rest of the year?

And then, I have also another follow-up question in terms of product mix effect. I guess, in a recessionary period, you will have some headwind in terms of product mix, probably customer will start to spend less on premium products. What do you expect on that?

Nathalie Delbreuve: Okay. So on cost inflation, in fact, the 20%, that is why I thought you were talking about price. Because when I mentioned 20% during my presentation, it was to comment the price evolution, not the cost inflation. So in fact, overall for the Group, our cost inflation is higher than 20%. And what I commented is that we have seen in Q3, and we will see in H2, further inflation, mainly on raw materials and also slightly on energy, but mainly on raw materials.

Patrice Lucas: About product mix, so this is always quite difficult to anticipate the mix evolution and to put some clear data and forecast number on that. And as a centre up assumption, we are always considering it a little bit neutral, let us say. And in the execution, obviously, we are trying to deliver much more case by case, country by country. So again, we have a better product mix in Q3 compared to what we were expecting. And again, referring to how our premium customers are doing well with the euro weakness, all of that is opportunity to pull and to push the demand and increase our product mix.

So this is a positive effect obviously we have in Q3. And I do believe that this is a trend we are going to see in the months to come as well.

Fraser Donlon (Berenberg): Just a few questions from my side. So the first is just a technical one on your hedging. Can you just clarify the rally in Spain, if you are hedging like the local gas prices or whether it is still like overlaid with Dutch TTF, just because obviously, you get quite big gaps between the pricing in the different markets these days?

The second question was on Brazil. So I think I saw that one of your competitors are adding some capacity in Brazil as well. So I just wondered like if you could give a bit of a summary of the excess demand you are seeing in that market or the strength of the structural growth drivers there?

Thirdly, on the switch to fuel, it is 20% of fuel. Given the different efficiency you might have in fuel versus gas, could you maybe give us a bit of an idea of what discount or cost savings using fuel over gas could give you?

And then finally, the fourth question was just on CapEx. So what inflation do you see in your CapEx? And could you just give me a reminder of the wallet which you are attributing to the Campo Bom and Pescia expansions in Italy? Those were my questions.

Nathalie Delbreuve: So do not hesitate if we forget one, Fraser. Thank you for your questions. So on hedging, in fact, we continue to execute our policy, our strategy that is really very positive currently in this very volatile environment, so giving us visibility on the cost evolution and averaging out other costs. So in fact, what is changing is the same explanation as in July. What is changing more currently is the mix in our energy and this is temporary. As we have been, in fact, introducing already now and in Q4 2022 more fuel than we would have done, let us be clear, where if we did not have this other energy crisis we face in Europe and especially the risk and availability. And as you know, we plan to have to introduce up to 20% of fuel in H1 2023. So we have been adapting our hedging accordingly. But except for that, nothing really changing. On Brazil?

Patrice Lucas: So on Brazil market, so we see a growth in the market, which is sustaining the local organic growth, I would say. But we see as well a need for bottle localisation, where we have some opportunities to localise from some customers, some production. So we have these two pillars which are driving the local market increase.

And as you know, so we are launching Jacutinga 2. And this furnace is already planned to be fully utilised. And this is what we are doing before launching a new furnace as it has quite significantly the cost. And that we are a fixed asset company and fixed cost company. We need to make sure that everything is contracted with customers launching production. So this is what we are going to see in Brazil.

For the fuel, I just want to remind, for the fuel that what we are doing with the additional fuel consumption is all about protecting our business. Because we just need to remind us that maybe today we see less risk of shortage due to the different situation, the reserve or better field. The climate so far in Europe, winter seems to be okay.

But let us remind where we were in July. Maybe, by the way, in a few weeks from now, the winter is going be tough. We are going to be back in this July situation. So that is why we decided to go with this 20%, which is I think was a good contribution for our industry to participate to this shortage potential situation. So it is a real driver of ensuring business continuity and serving our customers.

And once we have a good visibility of the situation and that when we think that we are well protected to do our business, obviously, we will revert that this year. We will see how to revert that decision. But you can understand that we need visibility. We need to be organised if we want to be efficient in our site. And we need to anticipate this kind of decision and not to move overnight from one to the other. So this is why it was important for us to secure all of that.

Nathalie Delbreuve: About the inflation in CapEx, your fourth question. Yes, we see inflation in CapEx, for sure. And we see on CapEx like refractory, we see inflation above 20% because they use also a lot of energy. So up to now, we still see quite a strong inflation, at least similar to what we see in our costs.

Fraser Donlon: Perfect. And just the last part of the last question which is like could you just remind me what the wallet is for the Italy and Campo Bom expansions from a CapEx perspective?

Nathalie Delbreuve: The envelop. So in fact, for a new plant is around €80 million. I would say, this is a minimum.

Patrice Lucas: New furnace.

Nathalie Delbreuve: For a new furnace, sorry.

Lars Kjellberg (Credit Suisse): Just have a couple of questions on your capabilities going into next year. Of course, Jacutinga 2 will start out in Europe, I guess, it is mostly about debottlenecking. So how do you see your capacity being able to meet demand trends given that you are still sitting on very low inventories? Do you have any capabilities to really grow in Europe before Pescia starts up in 2024?

And also curious a bit about the new furnace technology issues at Cognac and the hybrid furnace in terms of what capacity would potentially come out of those? And also if you have a view today, what would it cost to operate those and the potential premium prices for those being much less carbon in terms glass? So those were my first questions.

Patrice Lucas: Good. Thanks a lot for those questions. So first one about Jacutinga. So yes, again, we are going to light on the furnace on 9th November. So we are going to ramping up to make those different setup, but we plan to be able to start what we call good glass production 1st December and then build some stock and start to deliver some customers. So in other words, we do expect with a good ramp up having a full year impact in Brazil for 2023.

About the demand in Europe, you are right, no major capacity increase before Pescia. But we are making, as I presented in my presentation, some actions. Each time we are making, for instance, an intermediate maintenance repair, as we have done this second semester for five furnaces, it is always an opportunity for us to do some improvement to try to identify some actions, to pull much more. It is marginal, but it is part of the answer.

And second, we have all the efficiency work that we have to do in our facilities. And here, we have again some opportunity, especially in France, I would say, that we have some opportunities to better improve efficiency, which will give us some additional free capacity. So it is not something which is going to happen overnight, but this is something we are quite strongly determined to improve, and we have already some good examples to do so.

About technology for both being hybrid and electrical, what we can say today is that, first on the CapEx, we see that we have some additional CapEx costs, but I would consider them marginal compared to a traditional furnace. And as it is new technology, we strongly believe that this add-on cost will be reduced over time, especially that we have, let us say, a key advantage within our company that we are able to design our own furnaces.

So for the first electrical one, we are working with Fives, a strategic partnership, process engineering partnership. And then we are going to define the standards. And for the next one, we strongly believe that we will be able to reduce this gap. So even if it is marginal at the beginning, the add-on cost, we strongly believe that we will reduce the gap. So to be simple, we do not see any big difference.

On the OpEx, it is, let us say, about the same and it is difficult to have a definitive answer on that. But from a theoretical point of view, we do not see any strong driver to have OpEx cost on top of traditional furnace. Obviously, we are going to have a longer curve of how to run with high level of efficiency in these furnaces.

So maybe this period of time where we could have some additional OpEx. What is going to be key is the energy costs obviously, and everything which is related with some PPA that we will have to sign in order to run all the deployment we are planning and which is on our CO2 reduction roadmap.

Lars Kjellberg: Have you shared the capacity of Cognac 1 and the hybrid furnace?

Patrice Lucas: What do you mean by that?

Lars Kjellberg: The capacity of how many tonnes of glass will you produce on these two new products?

Patrice Lucas: Yes. It is about electrical furnace. You know that the challenge of the electrical furnace is that we need to scale up the technology, which does exist in the cosmetics, for instance, in pharma. So we are going to scale up that. And the first one, we are planning in Cognac. So it is going to be a big scale up compared to what it does exist, but it is going to be half of what we are doing in the traditional furnace.

On the opposite, on the hybrid furnace, it is going to be similar as traditional furnace.

Lars Kjellberg: Got it. Final question for me. Obviously, you had quite a lot of furnace rebuild activity in the third quarter, and you are guiding towards only one rather than four in Q3. And so how should we think about the activity contribution in the fourth quarter? Again, it is a seasonally slower quarter from a demand perspective. But as you said, you produce and produce and produce, so should we see any positive contribution there? And then again, relating to Jacutinga, would there be any sort of meaningful start-up related costs that are being offset?

Nathalie Delbreuve: No, in fact, you should not expect a big activity in Q4 in the activity pillar, right, because of the maintenance that we mentioned, because of the low inventory. And Jacutinga 2 is going to start really producing in December. So the impact is limited, is very good. We are pleased we are exactly on time. It is mainly to ensure that we are full speed or close to full speed because there is also, of course, always a ramp-up when you start the production for 2023.

Francisco Ruiz (Exane BNP Paribas): Just two quick questions after this Q&A session. The first one is, if you think that the current leverage could accelerate the organic expansion in some other – I mean, with another furnaces or in some other countries?

And my second question is if you could give us an idea of how the competitive situation in Latin America is because you are adding two furnaces and there are other competitors increasing capacity as well? So I do not know if you could give us an update on obviously the situation is there.

Nathalie Delbreuve: So the current leverage is, yes, could support the acceleration of capacity increase. But then we have already quite a busy schedule, I would say, for the coming even months with Jacutinga 2. Then we have Campo Bom in Brazil next year and then we have

Pescia in Italy, and then we will see what we do. So there is a lead time of more than one year to start a new furnace and the capacity for the teams to absorb. So it is not only about cash, I would say, on that, but then you can have the debottlenecking actions that we made already.

Patrice Lucas: And Francisco to complete on that matter, so as you know, we have already a quite clear plan from March in 2024 in Italy with Pescia, with our new technology as well. And we are obviously start to think about what is going to be the period between 2025 and 2030. And I think this is where we have some opportunities to develop further some capacity. So we are going to work on that. And this will be part obviously of the strategic plan we will have to present at a point of time from 2025 to 2030.

But this is obviously on the agenda and it is fully aligned with what we are mentioning about our capital allocation with a clear priority, which is developing our organic growth and the technology to support our CO2 reduction. So we are clear on that.

On Latin America, could you elaborate a little bit on your question? It was not so clear to me. Sorry for that, Francisco. Francisco, do you hear us? We have question on the web. Okay.

Speaker: So most of the questions on the web has been already answered. So obviously, I will not read all of them. Maybe could you please provide an update on your hedging strategy and activities for next year? Do you change anything?

Nathalie Delbreuve: So, on hedging, as shared already, what is changing is in fact the mix in the energy as we are introducing fuel. But except for that, we continue our strategy.

Speaker: Thank you. Another question. Any particular reason you are seeing some of the partners move from aluminium packaging to glass packaging?

Patrice Lucas: I think this is all about a few key topics, which is the sympathy seen from the end customer of glass packaging and we have some studies about that. I think this is as well related to food and safety. You know that we have some studies as well from various institute, which are showing that if you are in PET or even in other subsets, you could have some migration. I think this is all about that.

And with something which is a trend, we do not see really growing quickly right now, but this is, for me, a social trend. This is all about the reuse. So once you are moving in such glass packaging solution, you could open some doors for reuse.

Speaker: A question from Sebastien Lemonnier. Congratulations for the results. Given solid free cash flow, only 1.1 net debt to EBITDA and not any acquisition, what about share buyback implementation that was mentioned as consideration given valuation?

Patrice Lucas: Thanks a lot, Sebastian. I know this is one of your favourite topic. Again, no change in what we are seeing about that. And so, let us say, organic growth is a must and we see that with the results we are delivering, obviously, each time we have an opportunity to put €1 and to invest €1 in our company. It is a good deal and it is feeding our ability to get a sustainable growth.

M&A, as we said, we are on it. But again, we are going to see, we are screening all the opportunities. And so let us see how we can move forward on that matter. But again, as we said for the past years, this is on the agenda.

And share buyback, this is the latest one, but it is part as well of our thinking, depending on how we see our plan with number one bucket organic and number two bucket M&A.

Maybe just, Sebastien, I think we got a solid balance sheet by the current environment is rather safety and it is quite interesting for us all.

Speaker: Okay. Thank you. We have two more and then I think we will leave you. One from Pierre Bosset. Verallia has some clear targets in terms of CO2 emission. However, all the new technologies, electric, hybrid furnaces, lead to lower or higher energy consumption per bottle produced.

Patrice Lucas: It should lead to lower. And what is much more important is that it is going to move us from gas intensive. So high level of CO2, let us say, at production level to a very low level, giving a fact that we are going to link that with green electricity contract that we are working on already. So yes, it is going to contribute significantly to this reduction.

Speaker: Thank you, Patrice. And the last one is a follow-up from Michele. Free cash flow generation, can you please comment on the working capital and capital expenditures? The free cash flow generation is huge for the nine months, around €450 million implicit calculation given the net debt and the payment of dividend. What can we expect for Q4?

Nathalie Delbreuve: Thank you for this question. So yes, the free cash flow generation is strong, as we commented. And this is two important comments on this. And thank you very much for this question, indeed. First, the CapEx. We are still on our way to spend €350 million or to engage €350 million CapEx for the year, which means we have a heavy H2 and we have still a heavy Q4. So indeed, we are in the middle of the road, let us say. So we are at a very high level in terms of free cash flow, but there should be additional spending on CapEx.

And on the WCR (Working Capital) variation, it is contributing very positively still. If you remember our previous calls, in fact, our inventories are quite low and we do not really succeed into rebuilding inventories at better level. And on top, because of the maintenance furnace activity in H2, this would not be the time where we will do it. So yes, we have a strong WCR contribution from that and also from the inflation that is boosting the suppliers side of course.

So this, by the end of the year, should maybe be a bit mitigated, but mostly would be in 2023 that we will need to monitor that closely.

Patrice Lucas: That was the last question? Okay. So I think if no more questions, we can close this session. So I would like to thank you all for your questions, and most of all, for your trust and confidence. And you can be sure that the overall team is doing everything we can and we are committed on that to deliver good numbers for the stake of Verallia. Thanks a lot. Take care. Bye-bye.

Nathalie Delbreuve: Thank you. Bye-bye.

[END OF TRANSCRIPT]