



# **Verallia acquires Allied Glass**

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## Introduction & Key Highlights

Patrice Lucas

CEO, Verallia

### Welcome

Good morning, everyone. I hope that you are all fine. And I would like to thank you for being with us right now, despite the short notice for this call.

I am pleased to announce that Verallia is making its first acquisition, and we have decided so to acquire Allied Glass in the UK. My objective today is to share with you some piece of information about this acquisition, and then go, as usual, through a Q&A session.

### Allied: An industry leading premium glass platform

To start with, Allied is a strong industrial leader in the premium glass segment. Allied is all about leading in this growing UK premium market, with a long-standing UK market presence, about 150 years, with a clear focus on premium segment with advanced design, manufacturing and decoration capabilities. Again, a clear focus and primary focus on fast-growing premium spirits, notably gin and whiskey. They are operating with four furnaces located in the Yorkshire.

Allied is as well diversified customer base with a high-end service. So diversified customer base covering blue-chip, traditional and emerging brands, with good pipe of new product development, with an highly flexible operation setup to meet bespoke needs. With high customer relationship, long lasting customer relationship.

Allied is a strong team and has a stronger track record. So it is around 600 employees with more than 12 years seniority with strong management team, I want to insist on that, with significant industry experience. It is an highly profitable platform, with industry-leading margins and a strong growth track record for the past years, with a clear sustainability focus, with a clear action plan and targets in place for the future. It is a standalone platform with a factory optimisation programme well underway.

### Transaction Rationale

The rationale of the transaction for Verallia, it is to strengthen our premium positioning while gaining exposure to a growing UK spirit market. So it is to capitalise on a unique positioning, an expertise in luxury glass containers. It is to complement, obviously, Verallia's geographic footprint while gaining exposure to this fast-growing spirits market.

It is to broaden our customer base towards resilient and loyal gin and whiskey customers and pursue some cross-selling opportunities, which is to expand extra-white, colour, decoration and other premium capabilities. It is as well an opportunity to leverage some common ESG commitments, priorities and best practices.

It is going to enhance Verallia average price and EBITDA margin. Obviously, moving forward, we will have this opportunity to exploit further synergies by developing a sales team, optimising SG&A procurement and deployment of so-called Verallia PAP methodology, which I am sure is going to bring some improvement in the operation for additional profitability.

### Summary of financial terms

So Verallia is acquiring 100% stake for an enterprise value of £350 million. It is fully financed by existing cash. Our leverage will be maintained below 2. We do plan to keep on adding our

same shareholder return policy with a dividend. We expect to close in the days to come, let us say, mid-November.

### **Verallia preserves its strong financial profile**

In a nutshell, this acquisition is really fully aligned with our strategy. It is, as we have shared several times, totally part of our capital allocation. And this acquisition is going to preserve our strong financial profile. So again, with a good contribution to the Verallia margin. To be clear, we are the standalone business here, which is having, before synergy, a higher profitability than the Group average.

We see some significant synergy potential, again with our PAP methodology, for sure which will bring a continuous improvement over time. As it is a standard on assets, we are going to enjoy a strong growth potential. Again, we maintain our leverage below 2. For shareholder return policy, so no change to what we already communicated; meaning that we are going to have a dividend keep on growing at above 10% per annum and we keep with equity share buybacks options.

This is what I wanted to share at glance with you. Now I am open with Nathalie to answer your questions.

## **Questions and Answers**

**Matthias Pfeifenberger (Deutsche Bank):** Congrats on the deal. Just checking a couple of points here. Firstly, what has been the growth in the UK? You said it is a high growth opportunity. Is not alcoholic beverage penetration quite high? And then, so what has been the growth and what is the competitive landscape? That is the first one.

Second one, what are the margins, can you quantify? Lastly, including any purchase price allocation, what would you expect the EPS accretion is in 2023?

**Patrice Lucas:** Thanks a lot, Matthias, for your questions. About growth, you know that in our market, average growth in Europe is about 2%. What we see here with the specific market and segments that Allied is targeting and it has been demonstrated for the past few years is that we are going to see an average growth, which is going to be significantly above the market average. Again, 2%. What we see is between 5% and 7% on this premium market.

As far as competitive landscape, so the number one is Ardagh Glass in UK. We have a number two, which is O-I. Then we have Encirc. Then we have Allied number four, but with competitors which are not playing exactly on the same market. If you take globally the UK market, we could say that Allied is about 10% of installed capacity. However, with a market we are targeting, which is a high premium market, we are about, let us say, 30% of what the UK market is addressing for spirits and gins.

**Nathalie Delbreuve:** Hello, Matthias. Nathalie speaking. As for your question on the margins and the EPS. The margin of Allied is currently above the Group's average. I would not give you more details. On top, as Patrice said, we anticipate synergies by applying, I mean, first by Allied joining a larger group, so synergies on purchasing also benefiting from the sales side also through the portfolio of Verallia and by rolling out our PAP programme. That is why overall this acquisition is accretive for us.

As far as the EPS impact, it is early to say. It would be accretive. It would be positive, just with reminding the size of this acquisition, which is, of course boils down to the Group.

**Matthias Pfeifenberger:** Okay. Just a small add on. It is more than 95% UK revenues, and that is not including any exporters. There is limit to export business, right?

**Patrice Lucas:** Yeah.

**Nathalie Delbreuve:** Absolutely.

**Patrice Lucas:** Yeah. Correct. It is a total new territory, I would say.

**Lars Kjellberg (Credit Suisse):** Just a couple of follow-up to Matthias questions. A huge amount of volatility in the margins now. Can you give us a sense of what the premium margin has been over time versus Verallia's margins? Also, when it comes to the synergies, you are essentially adding a new market? Is there any meaningful operational synergies? Or is this more, to your point, adding your PAP methodology and maybe some on procurement, but also if you can get a scale how we should think about that opportunity when it comes to synergies?

The final point, then you obviously have not shared what you are paying for this thing in terms of the detail multiple. However, can you give us any indication how you think about the synergies post synergy multiple versus whatever you are paying today?

**Patrice Lucas:** Thanks a lot, Lars. First of all about premium margin. Again, we are not going to communicate about that. The beauty of Allied and what they have been demonstrating and doing for the past years is that they have been able to grow. They have been able to be highly profitable. Again, the margin is going to be above Group average. All of that before synergies.

About synergies what I would like to mention is that, and I think, again, this is, since day one, when we started to discuss for this acquisition, we see a strong alignment in terms of value, in terms of way of doing business, and with the key pillars we are using within Verallia to develop our profitability.

Thus, we foresee, we start especially some industrial upside, a new team who is going to be willing to implement these methodologies. On other topics, I am sure that we will be able to take best of both and get some nice contribution as well with some sales development. You can imagine on top of that, that for Allied joining a bigger group, an international Group as Verallia, it is an opportunity as well for synergies in terms of CapEx, in terms of purchasing. Again, this is something we are going to build as a team for the next weeks to come, especially as we are seeing 2023 view of the business 2023 budget.

For the multiples, so we are not communicating on that. However, let us say, that we are paying what we do consider as an average in this market, and much more of what is important for me. I am not looking at the short term. We are all looking at the long term when considering what we have in front of us, we do believe it is a very good and strategic deal for Verallia.

**Lars Kjellberg:** Just a very quick follow-up, if I may. First one being, did I understand this correctly that you said you are going to close within weeks? The second point, again, if you can confirm this comes from cash at hand, so there is no incremental borrowings on your side?

**Patrice Lucas:** Yes, we are planning to close mid-November, so in a few days from now. For the cash, Nathalie?

**Nathalie Delbreuve:** Yes, indeed, we will pay with cash at hand. You remember we enjoy a high liquidity. At the end of September, we communicated that we had a €1.2 billion liquidity. This allows us to pay with the cash available and not go into additional loan.

**Francisco Ruiz (Exane BNP Paribas):** Sorry to insist on the margin side. When you say that they are above company, so Group margin, are we talking about this 23% that you posted in nine months?

I do have also a couple of more questions. Looking at the evolution of sales compared 2021 to estimate 2022, it looks relatively low, taking into account how much the prices has increased this year. Do I am missing something? Because theoretically, the sales has grown only 10% in year-over-year. So on prices it has been growing more than this.

Last question is, if you could give us an idea of what is the level of capacity utilisation in order to grow this 5% per annum and also the age of the furnaces, if you need to make a big refurbishing in the short term?

**Nathalie Delbreuve:** So, on the EBITDA margin, you are right. Yes, we refer to the 26% of Verallia Group at the end of September. So it is above that.

**Patrice Lucas:** Okay. For the growth you are referring to, we see rather a growth around 15% year-over-year. We need to take into account as well that in 2022, there was a significant event with a new furnace reviewed, indeed, obviously, which has penalised or impact the production availability to push. However, we see a growth down the road. And again with some assets is one of your question. So we have four furnaces. One, which has been fully rebuilt in 2022 through the summer and production has restarted at the end of August.

The other furnace indeed will have to be rebuilt in 2023. And then the two other furnaces not before 2027, 2028. I must say that we have seen some significant investments in the past years within Allied. We see that as a positive asset.

**Francisco Ruiz:** In terms of capacity utilisation, what is the capacity you have right now?

**Patrice Lucas:** You can imagine that we are going to look to use full capacity. As you know, the topic between the demand in Europe versus the installed capacity. So our objective is going to work with Allied to make sure that we are using full capacity, take some opportunities for business development. Again, through the PAP methodology, for sure, working on some blind efficiencies. Again, being involved in working with the teams, we believe that we are going to find ways here to fully use this capacity and even to increase it step by step.

**Michele Filippig (Jefferies):** Just one question from me. I understand that this acquisition allow you to further leverage premiumisation to enter that are expected to bring benefits over the cycle. I also understand that like short term, the weaker euro and pound are boosting exports. By looking over it, are you concerned that a recessionary period may reverse this considering final consumers that might down trade or budget their expenses?

**Patrice Lucas:** Thanks a lot, Michele, for your comment and for your question. Again, the question of short term versus long term for us is not a topic because we want to be long-term oriented. Whatever is the current situation, we will have to face it. Again, we do not see any recession at the door in what we see from our customers. And being much more specific with Allied when we see the segment where they are playing, we do not see any issue.

Premium is certainly the segment which is going to be very resilient. And then most of the customers, Allied is delivering or exporting quite a lot, which is as well with the current forex is an opportunity for our customers.

We do not see that as a real topic and being a long term see that, again, this does fit totally.

**Jean-François Granjon (ODDO BHF):** Could you just come back on the market share? I do not really understand when do you mention about the market share you have in the UK today. The second question, could you quantify the synergy expected after this acquisition?

My third question, when you will integrate and consolidate the acquisition at the beginning of 2023? And the last question, as this is the first acquisition you made in UK, what do you expect for the future? Do you expect another operation to increase your market share? What is your strategy to penetrate this new market?

**Patrice Lucas:** Thanks a lot, Jean-François. First of all, about market share. What I was mentioning was just an indication because you know that we are not used to speak about market share. So I was just giving an indication of what was Allied about. Allied is about 10% of installed capacity in UK, but if I am looking just about the market they are addressing, it is much more around 30% because again they are targeting high premium market and this is what is representing about.

About the synergies we are expecting, I mean, again, you know our strategy about PAP for instance but we are going to look for 2% PAP at Group level. This is something for which Allied is going to contribute obviously. I cannot say more than that at this stage. This will be briefed with concrete actions with the Allied teams line by line.

We can imagine that we will have some nice purchasing synergy when it comes to buy soda ash, for instance, and on CapEx as well, with the maintenance to come in 2023 for one of the furnace indeed.

Yes, it is our first acquisition, and this is why I believe it is a strategic move for Verallia. As we have said, we are going to keep on monitoring and screening what opportunities we could have on the market. Here, this one was a new territory for us with a key player on a specific segment, again, contributing to good margins and good contributions to the Group.

Overall, could be consolidation on some actors in Europe or others. Again, we are fully open. No clear details at this stage. If opportunities we will stay them, and we have one criteria, and you know it, that it has to make sense for value creation. It has to make sense for fixed stakeholders. This is what we will look about.

About the consolidation date, Nathalie. Yes, we are going to start to consolidate.

**Nathalie Delbreuve:** Yes, in fact, the consolidation date will be the closing date. Well, you are right is that if we are talking about mid-November, we will see a very limited impact in the P&L of Verallia for the year 2022. The full year will be at 2023. However, the consolidation dates will be the closing date.

**Guillaume Muros (Société Générale):** First one is on inflation pass-through. Should we look for a similar energy hedging policy at Allied in 2023 than for the other European regions? Second one is from the financial situation of Allied. Let us know what is the leverage level or balance sheet position of Allied with respect to Verallia?

**Patrice Lucas:** Thanks, Guillaume. On your first question about energy hedging, Allied today is having a policy, which is very similar to what we have at Verallia. In a nutshell, we can say that they are very well protected for 2023. About the leverage, Nathalie, if you want to?

**Nathalie Delbreuve:** Yeah, as we communicated, anyway, we will integrate Allied in our financing, and after the acquisition, our leverage would remain below two times. This integrates everything, the acquisition and the financial position of Allied.

**Fraser Donlon (Berenberg):** I have a few questions. I can maybe just go one by one to make it easier for you. The first was just you mentioned this 30% market share of, let us say, the premium segment in the UK. I would be interested on your thoughts on who is filling the rest of that, because obviously like Encirc and some of the others are quite standard I think in their product range. Is it the O-I and Ardagh have some premium share as well? Or is it like exports out of France with Saverglass, for example, on the premium glass? Just to have some colour there would be useful.

**Patrice Lucas:** Well, again, we are not used to speak about market share. My indication was much more about the order of magnitude on which market Allied was playing. I do not want to comment any additional topic on that mainly about competition. Here we have a key strategic acquisition for us, which again, playing on a nice, profitable and potential growing market. This is what we are going to be to focus on.

**Fraser Donlon:** Okay, very clear. I guess again, without knowing exactly like the selling price and like the economics of these particular glass containers, but like could this kind of become like a European platform for the rally or in premium glass, i.e., could you like reach markets outside of the UK and increase the export sales within Allied or that's not really on the agenda? It is just the south UK?

**Patrice Lucas:** This is something we would think about. There is no definitive stance on that. And we are going to see how we can have some – again, this is going to be part of some potential synergies and opportunities that we are going to build as a unique family now. However, they have already quite a lot on the table with the UK market. But again, this is something we are going to work on.

**Fraser Donlon:** Okay, understood. Then just thinking about the P&L of Allied. Should we think of DNA over sales as similar to Verallia or is it a little bit higher? Is it like 10%, or something like this?

**Patrice Lucas:** Sorry, say that again?

**Fraser Donlon:** Just to understand the capital intensity of Allied Glass, should we think of depreciation and amortisation as a percentage of sales around 9-10% range, which is usual, or is it a little bit higher because they are more flexible in that production and stuff?

**Nathalie Delbreuve:** Yeah. No, it is not higher. It is very similar to ours.

**Fraser Donlon:** Okay. Perfect. Then again, without, I guess, talking about the PAP, is there a production tool very different than the usual production tool of Verallia? I.e., is it more difficult to implement the Performance Action Plan within these more flexible furnaces and flexible production footprint? Or is it actually quite similar to what you have already in terms of the way they operate?

**Patrice Lucas:** I would say that it is quite similar. Obviously, the industrial means are fully adapted to the market they are addressing. But the PAP methodology is all about making clear identification of one of loss of efficiency, where we do have an opportunity for improvement. The global methodology is about the same. It means that it is, again, to identify from upstream to downstream on your line, one of the inefficiencies, and then to be creative with the teams implementing some action plans, which at the end of the day are leading to additional output.

Metallurgy is about the same. The process is a little bit different, again, a little bit much more adaptive to smaller batch. However, the PAP will be totally adapted to implement synergies.

**Fraser Donlon:** Then just in terms of like the impact, I think there is assets changed owner a few times in the past, and I was just curious, like, how did it arrive? Did you source yourselves the acquisition?

**Patrice Lucas:** Sorry, say that again.

**Fraser Donlon:** I was just going to say, so I think Allied was acquired in 2020. I was just curious as to how the deal came to Verallia, or whether it was something you sourced yourselves.

**Patrice Lucas:** In fact, it was same as the acquisition in 2019. I mean, well, this is all about the screening we are making to try to implement some M&A operations. It starts as usual with management discussion, and to see if there is a fit, if there is a willingness or an alignment to move further to an operation.

**Matthias Pfeifenberger:** Yes. Just quickly again, slightly off topic, but do you want to comment on current trading? We saw O-I yesterday how the price negotiations going for 2023. And then also, I came across a post of FEVE, the glass association and I start to read about the VERCANE R&D projects. It seems like following the dismissal of the initial group, because of limited EU funding, there is another initiative with ENGIE and Saverglass and others. Why are you not joining this group again, in terms of hybrid or even electric furnace developments?

**Patrice Lucas:** Thanks, Matthias. Well, I mean, I do not want to comment again on competition and others on that. So what I know is that we have defined our own technological bricks. As you know, and as commented a few weeks ago, on our hybrid furnace, we are moving forward, and we plan to be ready for production at the end of 2024. We decided to look in our Zaragoza factory.

**Matthias Pfeifenberger:** Okay. On the current trading?

**Patrice Lucas:** No.

**Matthias Pfeifenberger:** No. Okay.

**Questions on the chat :** About the UK potential, the UK market. There was a question regarding – so please could ask about the volume growth in the UK market. It appears that total whiskey volumes for the market have not grown much over time. Which verticals have been most important from volume growth over time? Where these come the growth over the past few years, if it was not from whiskey?

**Patrice Lucas:** When we see and we make the detailed analysis on the premium service, we see the growth. We see some growth both in whiskey, in gin and over spirits.



**Question on the chat:** There was another question regarding the opportunities in UK following this year, likely to be more organic or inorganic developments in the UK.

**Patrice Lucas:** We are going to be focused with organic growth in UK now that we have this new platform. This is something we are going to do it with the teams there. With the industrial improvement, we can plan for the future here. This is where we are going to put our focus for UK market.

**Question on the chat:** Okay. Thank you. The rest were already answered regarding the synergy, volume growth and transaction.

**Patrice Lucas:** Okay. If we do not have any additional questions, again, thanks a lot for your time. Sorry for the technical issue we had during the call. Again, it is our pleasure to make this announcement, which is fulfilling our strategic plan. Then let us move forward, and I am sure it is going to be a successful story. The integration is on our side now. Thanks a lot. Take care. Bye-bye.

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