FY 2022 Results

Thursday, 16th February 2023

Introduction

Patrice Lucas: Good morning, everyone. I hope that you are all fine. And as usual, it is a privilege for myself and Nathalie to share with you our results. We are going to start with some key highlights of 2023 and then will go in the details of our financial results for 2022, and then guidance and Q&A.

We have updated what I can call our ID card, so now we have 63 furnaces, thanks to the acquisition of Allied, and with the furnace which has been started a few weeks ago in Jacutinga, in Brazil, and then we are present in 11 Euro countries, plus UK.

Going now with at least some key highlights. What I would like to share with you first is some data about the market. Here you see the market evolution from 2015-21, and we see that the market has been growing at a rate of 2.9%. Our internal estimation is that the market minimum, in a cautious way, is going to grow by 2% the coming years. You may have seen lately the data which has been released by the Open Federation of Glass which are showing that in H1 2022 compared to H1 2021 the global market in Europe has been progressing by +8% in tonnes and +8.5% in units. We are still seeing a dynamic market in front of us, especially in a tight supply environment.

Quick update on our key industrial projects. You know that these projects are strategic for us. Again, I will come back in a moment on Jacutinga, which was a big success, but we still have in front of us two new furnaces which are moving forward. One in Campo Bom, in Brazil, we are planning to start beginning of 2024 – you remember that we are going to launch an oxy-combustion furnace, which will allow us to reduce by 18% our CO2 emissions compared to a traditional furnace – and the second one in Pescia, in Italy, which is going to start in Q2 2024.

Then, lately, we have announced additional capacity to come by 2025 and 2026, one new furnace in Spain, and an additional one in Italy. This is clearly demonstrating our willingness to keep on growing, to keep on being able to grow along with the market growth we see and better serve our customers.

Capacity increase is obviously new furnaces, but not just new furnaces. As you know, we are working on a daily basis to optimise efficiency in each of our production lines, but as well we are working to what we call debottlenecking, which is working on our production lines to make sure that we are pulling as much as possible from capacity of the furnace. The job which has been done in the past months is leading to an additional capacity of 90 million bottles for all the segments and this will be beneficial for 2023 at least.

Then a quick update on our new technologies, which are key for our CO2 reduction roadmap. We are on track, first, with the electrical furnace that will be launched in Cognac. We are planning the first production by the end of this year. And our hybrid furnace, which will be located in Zaragoza. Here again, project development is on track, and we plan to start at the end of 2024.

Jacutinga was launched at the end of the year, as was planned. It is a big success and I would like to congratulate the team, which have been working day and night to make sure it was at the rendezvous. This furnace is going to be focused on long run beer and spirit production which will build our capacity on Emerald Green bottles in Brazil. This furnace is with fully-loaded with some key customers and capacity has been allocated. You see the numbers. CAPEX for this furnace, the initial target was €60 million. We are just meeting this number, so very good project management, on time, and we are going to get this additional capacity of a little bit more than 100,000 tonnes per year. Again, congratulations to the team who have been able to make that real.

One other key topic we like to share with you, is a thing which is related to ESG. You know that we have put ESG at the core of the company, the core of our strategy. Our objective for 2030 has been validated by the SBTi. We are now part of the attack SBT 1.5 degree Index, which is an index which focus on climate. Then, we are quite proud of the latest ratings which have been upgraded to first platinum medal with Ecovadis, meaning that we are among the top 1% company among 90,000 companies, which is a nice award for Verallia.

CDP, we got an upgrade of our rating to A-minus. And MSCI as well, we got this upgraded to BBB.

ESG is, obviously, a result as well, and we are focusing on two key categories. The first one is fuel to emission. For 2022, Scope 1 and Scope 2 has been reduced by 2.7%, which is finally minus -10.8% compared to 2019.

We are totally on track with the roadmap we have defined, which will lead us to reduce by 46% in 2030.

Another key KPI is the usage of external cullet. We reach 55.7% in 2022, +0.7 points compared to 2021. Here, again, we are on track to meet our objective of 59% in 2025 and 66% in 2030.

Verallia is also about creativity, focusing on added-value products, meaning premium. Here, you have a clear demonstration of our activity. This is just a few examples that you see in each of our countries. We have some quite successful stories. For instance, take Spain, we have launched the lighter bottle we can find on colour, and we are able to reduce by 125 grams this bottle compared to a traditional one. Can speak as well about the successful story of the Prosecco Rose in partnership with Vera Wang. This is really something that we are aiming to keep on pushing because we are very convinced that it is additional services to our customers and this is something we want to be in.

One other key moment of 2020 was our acquisition of Allied Glass, that is now Verallia UK. We confirm in November the closing of this operation, and it is a key operation for us, a strategic operation for us. Firstly, being the first one for Verallia; and secondly, because it is totally aligned with our strategic view. Here, it means that we are now completing our geographical footprint being present in UK. Verallia UK is a leading company in premium glass. Obviously, we see a lot of upside. The integration is ongoing, going well, and obviously, we are starting to work on all the potential synergies and remaining in the way we want to do business, which means 'glogal', what I call glogal. It means that UK is in charge of the UK business. However, being global, Verallia UK will benefit from being integrated in Verallia from economy of scale, obviously, on purchasing side, but as well on R&D and technologies.

In a nutshell, our 2022 results are quite good, let's say very good, and I am very satisfied about what we have been able to deliver, thanks to the agility and determination of the team. For revenue, we have a revenue growth of +25.3%, so more than €3.35; adjusted EBITDA €866 million, so +27.6% compared to 2021; with a margin which is improving compared to 2021 at 25.8%. Net income reach a growth of +42.7% to €356 million. Net debt, we are continuing to deleverage the company. We are at 1.6x compared to 1.9x at the end of 2021.

Extra-financial indicators, again, which are the core of our strategy, I have just commented it, so we are on track. The dividends, we are proposing a dividend per share of €1.40, which is +33% compared to 2021.

For now, I am letting the floor to Nathalie, who is going to present in detail our financial results.

Financial Results

Nathalie Delbreuve: Thank you, Patrice. Good morning and good afternoon to all of you. I am very pleased to comment these numbers for you again this month.

Consolidated revenue for Verallia, we ended the year 2022 at €3.352 billion. You can see on this page the usual bridge. We were at €2.674 billion in 2021, that means an organic growth of 26.5% versus 2022, and 32.9% in Q4. You can see in the bridge that the volume impact is limited. We explained already that we would have reduced capacity in the second half of the year with the timing of our furnace renovation, so this is perfectly in line with our expectation.

Now, the price and mix pillar is the most contributive one. In Europe, we have run several selling-price increases during the year of 2022 to compensate for the sharp inflation in production cost, and in Latin America, we do that as usual with a dynamic selling price variation. Important to note that the mix contribution has been positive throughout the year and on the quarters.

If we move by product category, the volumes have been pretty especially strong in spirits and also in sparkling wine with a continued recovery in Champagne reaching new records, and in sparkling wine in absolute. We have solid volumes in food jars as well.

Now, you see that the FX pillar is negative, this is mainly due to Argentinian peso, and to a lesser extent to Ukrainian hryvnia.

We are very pleased to introduce a perimeter impact. Now, the €17.5 million that you see in this bridge is the consolidation of Allied Glass in UK. This is a bit more than one month activity only, so in the 2022 figures, Allied contribution is very limited still. It will be of course effective in 2023.

If we move by region, in South and West Europe the revenue evolution has been 22.1% reported. We have flagged reviews, despite the four furnaces renovations in H2, and we have seen here very strong, the spirits and the sparkling wine that I just mentioned, and a very positive mix, especially in Italy.

If we move now to North and Eastern Europe, important to note that UK is included in this region, in this segment of North and Eastern Europe, and it contributes 3.2% in the growth, that is 29.3% as you can see. We have a slight increase in volume, and it is important to mention that it is despite the volume drop in Ukraine. You know that in Ukraine, the situation for Verallia is unchanged since we have our last call together. We continue with one of the two furnaces running, and I have to say here that our team in Ukraine is very strong, very committed and doing an outstanding job throughout the year in 2022, and supportive, of course, to our customers.

In North and Eastern Europe, also, strong in spirits, but also in wine, and we have seen growth in beer and food jars.

If we go to Latin America, you will see that figures for Latin America are again very, very strong. We have +38% of reported revenue, and it is +50% at constant exchange rates. The sales volume continue to be really strong in all the segments, I have to say, especially beer, spirits and sparkling wine, and we have seen significant increase in selling prices to follow the inflation. You know that in Latin America our spread is positive in each and every country, which is again, a very strong achievement of our team there.

We have successfully launched the new furnace in Jacutinga, as Patrice said, exactly on time. The contribution to the books is still, of course, very, very limited. Now you remember, it really started to have good glass in December, but exactly on time. Again, this will be a contribution to 2023.

If I move now to the consolidated adjusted EBITDA bridge, the usual format. We had an adjusted EBITDA of €678 million in 2021, and we achieved €866 million in 2022. In terms of margin, you have then on the right top corner, we moved from 25.4% to 25.8%, which is a strong achievement as we succeeded in compensating for the dilution of the price increases. You can see that our three pillars contributed positively to this performance.

The first one is the activity and operating leverage. Here, we had overall flat volume throughout the year and the positive impact is mainly coming from stock variation and valuation. The second pillar, the spread is the most contributive, as you can see. Progressively throughout the year, and we commented that to you each quarter, we have been able to offset the cost inflation in all the geographies. We have also, a positive mix contribution throughout the year in each of the quarters. One important point is about Q4. We have especially strong spread in Q4, but remember that a comparison basis here is important. In Q4 2021, we had a negative spread as we had started to see a strong inflation in energy costs and customer prices were not yet adjusted, so we have a comparison effect here.

If we look at the next part, we are pleased to report that we succeeded to deliver 2.1% of cash production cost reduction. You know that our target is to deliver at least 2%, and we had a strong Q4 here, so very good performance throughout the Group.

The exchange rate effect is negative and this is mainly due to Argentina. In the EBITDA margin, important to insist that there is a country mix effect, and regional mix effect, I should say, as LATAM performance is strongly contributing.

I will show you now the regions. EBITDA in South and West Europe moved up from €453 million up to €555 million, that is +22.5%. In terms of margin, you can see that we are pretty stable, even a bit above 24.8%, to be compared to 24.7%. Here, we have a positive inflation spread. As I commented, the product mix was strong and the industrial performance was good as well.

If we move to North and Eastern Europe, here UK is included but has really no impact in 2022. As I commented, remember the acquisition was on 8 November. The EBIT moved from €117 million up to €147 million, that is +25.1%, and the adjusted EBITDA margin 21.1%, that was 21.8% one year ago. The positive inflation spread on sales is due to the rise in cost. Here as well, we have industrial performance in line. Important to mention that in EMEA, we have Ukraine and this is impacting the comparison versus last year, but our Ukraine team succeeded in delivering a positive EBITDA throughout the year, so a really strong performance.

One specific point to mention, we succeeded in delisting our subsidiary in Germany, so Verallia Deutchland AG deprivatisation was finalised in December, so no impact in the EBITDA, but important to mention. This is actually less admin work for everyone, and it did not make sense for us to keep this listed company.

If we move to Latin America, the performance continues to be really very strong, €108 million EBITDA in 2021, moving up to €155 million, that is +52.1%. If we look at the margin, we are moving from 35.6% in 2021 up to 39.2% in 2022. Here, I think this is always my comment, but our three pillars delivered fully. We have strong volume and we address this growth. It will be even more valid in 2023, as we start our benefit from Jacutinga too, and we work on comparable capacity. We have a positive inflation spread and the industrial performance is really excellent.

Moving now to CAPEX and cash.

CAPEX evolution, we moved from €256 million to €367 million. As you can see on this graph, inside the recurring CAPEX maintained at 8% of sales, and we see that strategic CAPEX are moving from 1.4% to 2.9%, and this is fully addressing our strategic roadmap that is adding capacity to follow the market growth and in the most profitable geographies. We have the building of the new Jacutinga furnace in Brazil, the first investment linked to the new furnaces coming in 2024, that is Camop Bom in Brazil, again, and Pescia in Italy, and the continued roll out of our CO2 emission reduction CAPEX that is €22.8 million in the year.

If I move to the cash flow generation for the year, you can see free cash flow has increased from €329.3 million in 2021, up to €363.8 million in 2022. You can see that we start with the adjusted EBITDA, which I just commented, the total CAPEX, I commented as well, and the increase again is mainly due to strategic investments. We have the change in operating working capital that is €39.4 million, including mainly CAPEX variation this year. We had a strong roadmap of CAPEX in Q4 that is explaining this €75.2 million variation of this year. Overall, I have to say we have very good control of our overuse and inventory.

Other impact, you have mainly the usual IFRS 16 impacts, and to remember that last year, in the €39.8 million we had some specific CO2 effect at the end of the Phase III. You know that already. If we comment the interest paid and other financing cost the cash-out higher in 2022 is mainly due to, in fact, a foreign exchange impact, and the cash tax is increasing in line with our better results.

All in all, a strong free cash flow generation for 2022, and perfectly in line with our midterm guidance.

Looking now at the net debt and the leverage, the net debt is €1,405.6 and the leverage is 1.6x. This is after two elements that you have, after the free cash flow that I just commented. €123 million dividends were paid in 2022 and we have the acquisition of Allied that was paid, and paid cash for £315 million EV.

If we move to the financial structure and liquidity next, no major change versus previous quarter. You know our well-balanced financial structure between bank and market. We enjoy two sustainability-linked bonds with fixed rates that you can see on this page, at a good level, considering the current market level. All in all, the cost of financing for 2022 remained below

2% all included, and the available liquidity is now €680 million after the acquisition of Allied in the UK.

Patrice Lucas: Thanks, Nathalie, for this detailed information. Obviously, 2022 is behind us, and now we are all focused with the team on 2023 to keep on delivering profitable growth along with the implementation of our ESG roadmap, which is, again, clearly put at the core of our strategy.

For 2023 financial guidance, given a market that we still expect to remain supportive in Europe and Latin America, we are looking for revenue growth above 20% and we are shooting for €1 billion EBITDA for 2023. Adjusted EBITDA, we are taking the ambition and will be around €1 billion.

This is what we wanted to share with you. I am sure you have some questions, so let us move to your questions. Thanks.

Questions and Answers

Matthias Pfeifenberger (Deutsche Bank): Good morning, lady and gents, a couple of questions from my side. On the +20% growth, can you split that it into debottlenecking, price, most importantly, and then maybe underlying market growth, and that is maybe 1-2%?

Second question on the margin. Obviously, the guidance implies margin dilution. You are doing probably more price increases. How much of it is from down-trading or looking at 39% in LATAM being not sustainable, so just what is the driver for margin dilution?

Then on the gas hedging, I think you have eliminated the slide on the rolling hedging. Do you still do the rolling hedge? What is the position for 2023 and how does that compare to competition? What does it do to your competitiveness in terms of pricing? Thanks a lot.

Patrice Lucas: Thank you, Matthias for your questions. First of all, speaking about growth for 2023, obviously, we are looking to go along with the market growth, which is being cautious 2%, but we could imagine it could be 3% – between 2-3%. On top of that, Jacutinga will be part of it as well, as well the actions we are taking on a daily basis – efficiency, debottlenecking and all that, plus the perimeter coming from Allied, plus some mix impact that we are very willing to keep on developing high added-value products and working on this on our portfolio – and in Europe, we have a good job on doing that. Then the rest will be pricing effect which obviously carry over from 2022 to 2023, plus some additional pricing that we will have to do. You all know that we have a clear policy, clear strategy, I would say, which is to deliver a positive spread.

This is how we see our revenue growth in 2023.

Nathalie Delbreuve: Hi Mat. Hello, Matthias, and thank you for your question. Margin dilution, you were asking is it coming from down-trading or LATAM. I think the main contributor is again the price effect and dilution from increasing pricing or carry-over effect, as Patrice mentioned, to the margin to ensure a positive spread. We have a very strong margin in Latin America, but with Jacutinga, of course, we are adding some fixed cost, and we will have the ramp up of Jacutinga, too. However, except for that, we do not see any down-trading or strong effect in Latin America.

You save seen that Latin America has remained very strong throughout the quarter and the year. I would mention mainly the effect from price evolution.

Patrice Lucas: Gas hedging, Matthias, maybe you missed it, but the slide is still in the presentation in the appendix, so no change.

Matthias Pfeifenberger: Okay, sorry.

Nathalie Delbreuve: Okay.

Patrice Lucas: No problem. No change about that. We are still very disciplined with this policy. Because again, as you know, this is a tool. We are not traders, as we said, so we do not want to play with that. This is a tool we see giving us visibility. This is a tool which is allowing us to anticipate and put in place some actions when it is necessary, and this is a tool which is allowing us to share that with our customer visibility and protecting in a certain way our customers, benefiting from our cost on the energy side.

For 2023, we are in the same position as 2022. We are entering 2023 with 85% of our needs hedged and the rest will be buy at the market value, and we do not expect a really negative impact compared to spot market from what we see today. However, again, with the 15% that we need to get, we will see.

Matthias Pfeifenberger: Okay. You are not necessarily hedged above spot prices, is that what you are saying?

Nathalie Delbreuve: You know we are not giving the level of hedges.

Matthias Pfeifenberger: Yes. Or let me put it another way, are you impaired in your ability to raise prices by being hedged as much?

Patrice Lucas: No, I do not think so. I think what we need to look at is a much more cumulative approach between 2022, plus 2023, because thanks to our hedging policy, we will be able to be resilient and share that with our customers, and this is a cumulative approach you need to look at.

Matthias Pfeifenberger: Okay. Okay, great. Then, congrats for the results, very well done. Thanks a lot.

Patrice Lucas: Thanks, Matthias.

Nathalie Delbreuve: Thank you.

Francisco Ruiz (Exane BNP Paribas): Hello, good morning, and congratulations for the figures as well. I have some question on the booking and some other question on most of your takes.

On the first one that you book on Allied. If I look at your cash flow statement looks radically lower than the figure you reported of €350 million; is just because you are booking there only the equity value, or is because there are some other payments to be included?

The second question is on financial cost. There has been a big delta on financial cost in the second half of the year. What I would like to know is, it is just the effect of high interest rates during this part of the year or there is some one-off, and how we should understand financial cost for 2023?

A follow-up on Matthias's question. Could you give us an idea of how much Allied should contribute to this €1 billion EBITDA on 2023, and what's the FX that you're assuming for next year guidance?

And last but not least is on pricing. You commented that there has been some price increases. Could you be a little bit more precise on this, and how reassured you are that in this context of energy going down, the prices in the second half of the year would be maintained? Thank you.

Patrice Lucas: Thank you.

Nathalie Delbreuve: Thank you for your question. I take the first one. Allied, I think you referred to the free cash flow details in our –

Francisco Ruiz: Correct.

Nathalie Delbreuve: – in the press release. In fact, you are right. Here, you have a line that is acquisition, and here you have a net of different topics, plus, this is indeed only the equity, and then we had also some cash outflow for the debt-related. All in all, the cash outflow, the impact of Allied in our cash was around €400 million. And in this line, you have equity purchase for Allied, but it is also from other elements, so that is why you do not see exactly the figures. Francisco.

Then going through the financial costs for H2, if you remember, our interest rates, we are very well protected against the current increase in interest rate, as we have now two sustainability-linked bonds with fixed rate, and also we have hedged on the rest of our long-term debt. The main impact is coming from, in fact, foreign exchange impact and it is one-off. If we go to 2023, we will continue to benefit from, of course, our sustainability-linked bonds with fixed rates here, and we have hedging also on our long-term debt, and then the factoring is not hedged, of course, and we have the refinancing. However, we will not be hit at strong as the current interest rate level that you can see on the financial market.

Francisco Ruiz: Could you give me the detail on the balance you are factoring?

Nathalie Delbreuve: The detail? What do you mean?

Francisco Ruiz: The figure.

Nathalie Delbreuve: Let me check. It is around magnitude of previous year. We continue to roll our usual programme, and at the end of December the total factoring was €335 million.

Francisco Ruiz: Okay. Thank you very much.

Patrice Lucas: About your question on Allied, which is Verallia UK now, contribution in the EBITDA for 2023 is going to be around €50 million.

About pricing, what you have mentioned in your question about pricing, I would like you just to keep in mind that our clear strategy again is to be spread-positive. It means this is our commitment, this is what we are going to work on. What is to be noticed is that 2023 as far as price is concerned, we are going to have a totally different profile for spread as the one we had in 2022. In 2022, we started with an inflation market, and then we were running if I may say for selling price increase, and you remember that we did some in Q1, then in Q2, and at the end of the year. You see it is going to be a basis for comparison, but when you are in 2023, it is going to be the opposite. We are going to see the spread which is going to be in my mind, strongly positive in Q1, and then certainly going down due to the base comparison at the end of the year.

We are going to monitor pricing accordingly to this positive spread strategy and having in mind as well that we want to protect our long-term relationship with customers. All of that is a nice balanced and good decision, and as we have always said, we want to take charge. It is a question of protecting our competitiveness at the end of the day, but with our golden rule of being spread-positive.

Francisco Ruiz: However, some of your competitors have already commented on 15-20% increase in prices overall for the year. You agree with this figure, and this is what we should understand for Verallia?

Patrice Lucas: Sorry, Francisco, I do not comment anything about competition on that.

Francisco Ruiz: Okay.

Michele Filippig (Jefferies): Hi, good morning, and thank you for taking my question. Congratulation on the results. I have two question, on some it has already been touched, but maybe if you can add some colour. The first one is on cost outlook. According to your 2023 guidance, if we take a revenue hike by 20% and EBITDA of €1 billion, we have comparative cost in 2023 higher by more or less 20% year-on-year. I appreciate you are just in February and this can change a lot through the year, but can you help us break down this cost inflation. Is it mostly due to energy hedges running down, and what is the direction of travel for the other cost items, for example, raw materials?

Then the second question is on price dynamics. I understand, as you just said, the main driver for you is your price spread, but energy spots and forward prices are correcting it. My question is when do you expect to give back on moderating some prices? If you comment on that, and probably not, do you see some of your more hedged competitors starting to increase prices less you or even moderating in 2023 with lower energy costs as said? Thank you.

Nathalie Delbreuve: Okay. Thank you, Michele, for your questions. You are very good and you are right about your assumption on the total cost evolution that we see. Thank you for seeing us today, because I think we all agree there is still a lot of volatility in the market and lack of visibility in the evolution of inflation. You are right about around 20%. Now, if we look at the nature of the cost, we will still see energy increase versus 2022. We have also a component that is something we mentioned already for 2022 on the raw material, we have also inflation here. Especially on the cullet side, we see that is very different by country and we see inflation in the cullet prices versus previous year.

We have also around 20% of our cost base that is labour cost and there is inflation expected in 2023 versus 2022 in labour cost.

Important to say we do not see deflation. In fact, many of our cost nature, we would say we see some ease in the inflation on the packaging, on the transportation, maybe on storage as well, but we do not have costs that deflate in the component of our cost versus 2022 as per today.

Patrice Lucas: Michele, I think this one is an important point. What we see in front of us with all the visibility in this volatile environment is that we do not see deflation. We see an inflation which is going to slow down, but yes that could be still similar to 2022 in the first part of the year and maybe we will see a slowdown in 2023. For what we see for 2024 right now, we do not see any deflation. Again, what is important, and our keyword is agility and adaptation, and we will manage what we have to manage, again being responsible for the company, protecting the profitability, again with this golden rule of spread-positive, and this is it.

Michele Filippig: Thank you, very valuable comment. Do you have any comment on the price dynamics by any chance? I can repeat the question.

Patrice Lucas: Yes, do that.

Michele Filippig: Yes. You said before your main driver moving your price negotiation is your spread, and as you just said you will react to inflation from the energy rolling hedges, but we are also seeing the spot and the forward prices for energy correcting from the high of 2022. My question is, when do you expect to give back prices? Probably from 2024 or do you have any view on that?

Patrice Lucas: This is what I have just commented so far. I do not see any deflation in our cost.

Michele Filippig: Sorry.

Patrice Lucas: However, again, I am very humble about it, but we see cost inflation slowing down in the second part of the year, and maybe it will even turn stable in 2024, but too early to be definitive, obviously. That is why I was saying that the keywords are agility and adaptation and being reactive in order, and again our master golden rule – spread-positive – for how we are going to manage that. We have a mix that we are working on as well in order to support this objective.

Michele Filippig: Okay. Thank you. Sorry for asking again.

Patrice Lucas: No problem.

Michele Filippig: Thank you.

Jean-François Granjon (Oddo BHF): Yes. Thank you. Good morning. First question, I just want to come back on the EBITDA margin for Q4. I am positively surprised by the strong growth for the margin, for the first nine months remained at the same level at 26% for the EBIT margin, and we see a strong improvement by more than 200 bps for the EBIT margin, to which more than 25% compared to 23% for the previous quarter. Can you explain the huge increase despite the negative impact of the price increased?

My second question, I understand the price increased expected for 2023 you want not to comment on the detailed explanation. Nevertheless, I understood that you probably could increase the price by 20% in 2023 compared to 2022. I am just wondering do you consider that your expectation and 20% was for the top line is probably taking into account the price increase, probably some volume, and for sure has the Scope impact?

My third question, could you mention a bit on the CAPEX amount that you expect in 2023? the last question concerns the plan for 2024 presented a few years ago. Do you expect to make an update on the 2024 plan? If I remember you expect an EBITDA margin between 28-30% that was previously mentioned the impact. Do you expect to [inaudible] of the plan for the medium term? Thank you.

Patrice Lucas: Thank you, Jean-Francois. Nathalie, you take the first one?

Nathalie Delbreuve: Yes. Hello, Jean-Francois, thank you for your question. On the EBITDA margin in Q4, indeed it was really strong. We have here three comments. I commented on the spread compared to the previous year. If you go back to Q4 2021, we had a negative spread and we did not update customer prices in Europe. If you remember in 2021 there was one annual price increase, and in Q4 we had inflation hitting pretty strong, and inflation had already started in July 2021. However, energy prices started to rise already in Q4 2021, before the Ukraine conflict. If we move now to this 2022 spread, here we have the dynamic of several customer price increases that we did in Europe, and on the contrary, there was a bit of slowdown in inflation in Q4. That is one important component.

Also, the net productivity with the net PAP we did deliver a strong performance in Q4, and you know this one is really benefiting to the margin because it is adding to the EBITDA and no impact on the top line. This is good news and we are pleased to deliver that.

Then, I can add there is the mix in the geographies, with the increased contribution of Latin America step by step.

Jean-François Granjon: Okay.

Patrice Lucas: Okay. About our guidance on revenue, Jean-Francois, we are saying above 20% – and we are saying above. We have a plan obviously to deliver growth above 20%, and is going to be a blend of volume growth with the additional capacity with obviously the perimeter as well coming from Allied, with pricing, and with mix. This is what we see as of today and it is a commitment that we are clearly putting on the table, above 20%.

About the CAPEX for 2023, we are going to be as per our midterm guidance around 10% of sales, and always focusing on developing some strategic investment. You know what we call strategic is everything which is relative to our growth, so additional capacity, the announcement we have done, and we have two new facilities to come, one in Brazil, one in Pescia, in 2024, and as well focusing on our CO2 emission roadmap. We are going to be around 10%.

For your question about midterm guidance we presented at the Capital Market Day at the end of 2021, I would say that we are on track. On every key KPI, we are ticking the box. The margin is obviously one which is a challenge, the 28-30% margin, due to the fact that the market environment is totally different coming with this inflation environment. However, the implicit EBITDA value in euro is our commitment on that. Do we have to adapt this 28-30%, this is something we are going to work on at a point in time and come back to you after certainly having delivered 2023, and having a good view of 2022 plus 2023 and then the environment of 2024. What is more important in my mind at the end of the day is the absolute value of the euro, which was behind, is going to be delivered.

Jean-François Granjon: Okay. Perfect. Thank you very much.

Guillaume Muros (Societe Generale): Hello, everyone. Thanks for taking my questions, and I have three and some follow-ups, but as well two questions on ESG.

The first one, it is on the North and Eastern Europe region more specifically. We are seeing some volume growth, and as you said, despite the energy crisis but also war going on there. Could you specify a bit where this volume growth is coming from? Is it from debottlenecking capacities and/or underlying demand growth? That is the first question.

Then my second question will be on ESG. Could you give a bit of a view on the outlook on glass versus other materials at the end of 2022 and 2023, particularly regarding the decrease in some raw materials for some switch to glass between the end of the year?

The third and last question is regarding your furnaces, energy consumption more specifically. You commented on a fuel transition for the first half 2023. Could you give some colour there. Do you expect this temporary fuel transition to last a bit longer during the year? Are there some gas shortages as well? What kind of CO2 emissions should we expect in 2023 related to 2022 because of this fuel transition?

The last question – I have four – is on the rationale for the technology of the 2025-26 furnaces in Spain and Italy. Why have you chosen the oxy-combustion technology for the Spain furnace instead of using electricity or hydrogen? Many thanks.

Patrice Lucas: Okay.

Nathalie Delbreuve: I will take the first one. Hello Guillaume, thank you for your question. In North and Eastern Europe, I mentioned that there was some volume growth despite the war in Ukraine. It was not a sharp growth, let us be clear, but our market was supportive. It is not linked to any new capacity. I would say it is very stable. No specific investment in debottlenecking that we have commented to you the specific impacting ones. Of course, we work on efficiency all the time in all our plants, but no specific point to mention here.

Patrice Lucas: On your question about glass packaging market and compared to others, quite difficult to answer, Guillaume. We don't have the latest information, so obviously, we are willing each time with business intelligence team to get additional data. What I would like to remind you is that you remember in 2021 glass packaging in Europe was a record with 23 million tonnes of glass compared to the past, so it was a forever record. I have just commented with the latest data we have from the European Federation of Glass. However, H1 2022 was strong again, because after a best-ever in 2021, H1 in 2022 is 8% in tonnes and 8.5% in units above 2021. We see a market which is very dynamic in glass.

About substitution, quite difficult again to answer to that. Maybe with some marginal cases, but we see as well the opposite. We see with some customers, especially the ones who are willing to position our product on the premium side, moving from some other substrates to glass packaging. Especially on the food side, we see that happening.

About energy, you are right; we commented last time that we were ready to operate with some additional fuel, and the objective of that was really to ensure business continuity in an environment where a shortage could be at the door. As I commented last time, we decided to anticipate to be prepared on the technical side, but as well on the supply chain side to some fuel. We have ramped in Q4, I gave you a value of 20% of fuel usage. We know the current situation. I think the shortage is not a likely scenario for this winter at least. We are going to see what is going to be the situation next winter. We started to use this fuel in Q1 and we are going to run down quicker than what I was commenting – means that I will not use 20% of fuel during the overall first semester. Here you see, this is all about what I was mentioning – agility and adaptation with the current world we are facing.

Fourth, your question about the furnace technology for 2025, I think what we decided is to use the best technology which is fully, I would not say validated, but fully proved and will launch.

Because we are speaking about 2025 here, and we are launching our electrical furnace in 2023 and our hybrid furnace in 2024. A hybrid furnace is going to be for coloured glass.

2024 means that we are going to get some experience, some time to value and validate all of that. It means that we need to make a decision right now of the technology, and it was the best decision to move or spend for in a condition because it is going to be a colour furnace, so hybrid furnace will not totally and fully-validated. This is why we have decided to go with oxy-combustion with this one, to be ready as soon as possible to have this additional capacity in Spain.

Guillaume Muros: Many thanks for these answers. Just one small follow-up on the CO2 emissions in 2023 versus 2022. I notice that you are going to decrease the fuel usage quicker than initially expected. However, should we expect an absolute increase in CO2 emissions in 2023?

Nathalie Delbreuve: In fact, we will not increase the usage of fuel; we will decrease. It was really a fuel usage which we prepared to any shortage if we would have. As we do not see the risk any more, as we always said, we will be agile and go back to a more normal need, to be clear. Then, all in all, as we included a portion of fuel and we are now decreasing, in the end, the total impact is very limited to additional fuel to emissions.

Guillaume Muros: Thank you.

Nathalie Delbreuve: Okay.

Fraser Donlon (Berenberg): Yes. Hi, Patrice, Nathalie, congratulations on the results. Just to questions from my side. Obviously, with the guidance which was given at the Capital Markets Day, in absolute value you are expecting to be I think well above that in 2023. My question is do you view 2023 as a super normal year for Verallia, and where is your comfort level in terms of what is a sustainable level of EBITDA or whatever to show to your customers?

Then the second question was just I would be interested to have your assessment of the capacity which is coming online in European glass. You have obviously announced some yourself, and some in Belgium, UK. How do you see that relative to the demand growth in the market between now and 2025? Thank you very much.

Patrice Lucas: Thanks a lot for your questions. I do not know what you call a super exceptional year or whatever. For us, we are on the road of profitable growth. It means that we do not foresee 2022 and 2023 as extraordinary. We see that as a path to keep on growing, keep on developing the company and make it profitable. At a point in time, I will come back to you, to present a new strategic plan. Too early to make an appointment today, let us say. However, if we are delivering in 2023 what we have committed, obviously, I will be back to you to present what is our next steps for maybe up to 2030, but will come back on that.

Bottom line, we do not see that as an exceptional year. We see that as a good year. We are delivering on our commitments and this is a path that we want to keep on taking. If we have announced lately some additional capacity for 2025 and 2026, especially in Europe, it is because we strongly believe that we have a path for that and this is a clear demonstration of how we want to grow faster and make this company even much more profitable and delivering much more EBITDA euro.

About capacity, I have commented the expected growth of the market. We are cautious with a +2% compared to 2.9%. We just see the figures of H1 in 2022 which were more than 2021, and the additional capacity which has been announced, for me I am just running as per the market grows. We still see a tight supply environment at least over the next two, three, four years.

Fraser Donlon: Perfect. Thank you very much.

Alexandra Baubigeat-Boucheron: Thank you very much. I think most of the questions on the web have already been answered. Maybe just one question from Inigo. How is the Allied Glass acquisition evolving? It is probably more about integration.

Another one from Inigo as well. Why are you assuming that the market will grow less, 2% versus +2.9% over the last few years?

The other have really been answered.

Patrice Lucas: Thanks, Inigo, for these two questions. About Verallia UK, the integration is progressing well. First of all, since 1 January it is no anymore Allied, but Verallia UK, and we have an integration plan making it topic by topic, priority by priority. They were already quite autonomous, and this is the part we like about the business. For me, this is how they keep their autonomy, how they evolve, deliver the growth they have been able to demonstrate in the past year do to, so to keep on growing that way. Obviously, being part of Verallia, how we can support them and provide some synergies. The idea is for everything which is related with strategy with our purchasing power, being part of the UK, being part of a bigger group; and secondly, which I think is related to industrial CAPEX, technology side.

It is moving in the right direction at a good pace but with a very positive mindset. I am very glad about it.

About the market, when it comes to market provision by definition when you make a forecast you are wrong. We have the data from the past years, and you are right, 2.9% growth. We have stated maybe in a cautious way 2% minimum, and this is what we are working with, making sure that any capacity we are going to put in place is going to be fully-utilised. This is why we have taken 2%.

Thanks a lot for your time. Hopefully, the information we provide and just covered were clear. Please, have a good day and see you. Take care. Bye-bye.

Nathalie Delbreuve: Bye-bye

[END OF TRANSCRIPT]