Verallia Q1 2023 Results

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Patrice Lucas: Good morning, everyone, and welcome to our Q1 results call. As always, it is a privileged moment for Nathalie and myself to have this call with you to present our results and to answer to your different questions.

So to start with our ID card that has been updated obviously with the last news. So you see right now we have 63 furnaces worldwide, an additional one coming from Jacutinga and plus a fourth coming from the Allied acquisition and then now Verallia UK. So it means that 34 glass plants. We are seen as number one in Europe, number two in Latin America and number three worldwide.

I do propose to share with you a few highlights before going to our financial numbers. So we keep on moving on our journey and application of our ESG roadmap. So here you have two key examples of achievements. So we communicated already that solar panel was one of the solution for us to keep on moving forward. So after Mondego plant in Portugal last summer, here in April we are going to have in Gazzo in Italy a new installation with solar panels and this installation having a capacity of 4.7 gigawatt will supply up to 5% of the plant consumption.

And per our plan, this deployment is going to – is going on in other factories of the Group. Again this is one of the solutions we are implementing to keep on decarbonating our company.

Second topic, we commented that in Pescia that we are launching a new furnace next year in '24 that we have chosen the Oxy-combustion technology to reduce our CO2 emission globally compared to a traditional furnace. It means that emissions will be reduced by 18%. So this technology is requiring an oxygen production facility on our site and we have selected Air Liquide, a well-known worldwide leader in this technology for this project. So meaning that we are going to partner with Air Liquide to get this oxygen and to contribute again to the implementation of this Oxy-combustion technology.

Next topic. You remember that last year we had a reuse – what we call a RE-USE LAB in France with the objective to gather the overall ecosystem to understand and move forward on this topic, which is one of the solution, which we will offer to the market to our customers. So this year we did the same with Italy rolling up this workshop. So it was an event organised in 16th March. The event was with more than 85 attendees, 30 customers, 12 speakers, several workshops, roundtables.

Again, here, objective is really to exchange, to understand the overall ecosystem and to see how we could implement and propose solutions to customers. So next step here as a conclusion of this RE-USE LAB in Italy is to develop a pilot project in '24, which will be a first experience in Italy and obviously to test the market and to be in the test and learn situation. So again we are moving forward with our ESG roadmap implementation.

Next highlight. Just want to share with you that we have restarted our second furnace in Ukraine. You remember that with the current situation in Ukraine. Last year just after the war, we stopped our two furnaces. After few weeks, we restarted one furnace. And we take the benefit of the start of the second furnace to make some partially repair. And then since 7th April, the conditions being made to restart. We have decided to relaunch this furnace. It has been a great activity, a great teamwork, first, to be able to make this partial repair, given the condition – the local condition in Ukraine. And now we can say that we are going to enjoy this additional capacity. First, mainly dedicated to keep on supporting the local market and then having some opportunities for export if it is as well seen as an opportunity. So want to congratulate the Ukrainian team for what they have done and all the support which has been provided to the Group to have such good news to present to you.

Few words about Verallia UK integration. So we can say that we are on track. Very satisfied with how we are moving forward. So this integration has started day one. Since 1st January, we name it Verallia UK, so it is totally now part of the Group. Obviously, many integration projects are going on. Since day one, we have included all the procurements topics in the purchasing contracts and policy of the Group and we are getting some nice first purchasing synergy. For instance an obvious one, which has an impact on the synergy is what we have been able to do with soda ash contract, including them in our contracts and purchasing power.

And on the industrial side, very good integration moving forward as well. What is key for us is how we are going to be involved in the PAP methodology. So right now under PAP, this is everything which is related with our efficiency on the shop floor with production cost reduction we are looking for with a clear objective at Group level to get 2% minimum per year.

So here we are in the training education of the methodology and we should start to see some first actions to be launched in H2 to be at full speed in 2024. So in a nutshell, very satisfied with how we are moving forward, how the teams are integrating the groups with positive mindset and nothing – everything is on track.

Finally, before to go into the details with Nathalie with the numbers – with our financial numbers. So we can say that we have very good start of the year. So revenue plus 40% to more than €1 billion, representing a plus 34.7% organic growth.

On the adjusted EBITDA, more than €300 million, plus 68% compared to Q1 '22 with a margin – EBITDA margin at 29.2% compared to 24.4% last year. And on the net debt, so we continue to deleverage the company closing Q1 at 1.3 times adjusted EBITDA compared to 1.6 times at the end of December.

So I give the floor for – to Nathalie.

Nathalie Delbreuve: Thank you, Patrice, and good morning to all of you. Very pleased to present to you these good numbers for the first quarter of 2023. So you see here the bridge for our consolidated revenue from €750 million in Q1 2022 up to €1,052 million in Q1 '23.

So the organic growth has reached 34.7%. It was strong organic growth fuelled, as you can see here, mainly by price and mix. I'll come back to that. So the volume pillar here is slightly negative at minus €39.2 million. We have seen volumes lower than last year. Just let's remember then that Q1 last year had enjoyed a strong growth in volumes plus 9% versus prior year.

And in the quarter 2023, the first quarter, we've seen some specific events like unfortunately France being penalised by national strikes. We've seen a soft start in the year across Europe and especially in Germany. And in LatAm, we've seen growing volumes in Brazil and – which is good. Let's remind that we started a new furnace in Brazil so we're fully loaded.

But in Argentina and Chile, lower volumes than expected where we see inflation and local political situation impacting the consumption and the export for both countries. For the price and mix, so you can see that is a very strong contribution to this quarter. Here again comparison basis especially for prices, if you remember in 2022 we rolled out several ways of price increases, and in Q1 we're just starting.

And so we have the carryover impact of last year's selling price increases, plus we have the new selling price increase linked to the rise in production cost '23 versus '22. And the mix, it's important to say, is still positively contributing to both top line and EBITDA.

The FX pillar is negative and this is mainly due to Argentinian peso. And the perimeter effect that you see here for €63.1 million is the turnover of Allied Glass, the – I mean, now Verallia UK. The acquisition was done in November 2022, so we'll have this perimeter effect until end of the year. And this new business is mainly contributing to spirits, so it's boosting our sales in spirits.

So basically the top line is enjoying a strong organic growth and the contribution of this newly acquired UK business.

Now if we look at the adjusted EBITDA. So you can see on the top right that our adjusted EBITDA margin improved moving from 24.4% in Q1 last year to 29.2%. You have the bridge on the left with the usual pillars. So if we start with activity, so you see minus €16.6 million, so slightly negative. This is directly linked to the volumes I commented, and again here comparison. In fact if you look at last year's Q1 bridge, you will see a positive activity and a negative spread. So we are here in the exact opposite, and we had again a strong Q1 2022 in activity.

For the price mix/cost spread, you see it's very positive, so again a comparison versus last year and positive mix contribution going on, which is very positive. The net productivity brings €12.8 million to the EBITDA of the quarter. Very satisfactory to see that we reached the target to reduce cash production cost by 2% and this despite specific situation, for example, the French strikes impacting the plants. So a good performance for the net productivity in the quarter. And this is an important pillar.

Foreign exchange is adverse and mainly due to Argentina. The other pillar is positive with €6.8 million. Here if you include the specific one-off of around €10 million that is linked to the fire we had in Argentina in 2021, in fact, it's the end of the insurance reimbursement took some time to close this file. So it's really a one-off that is impacting the EBITDA and the margin as well by around one point. We have here also included the contribution for UK business that is still impacted in the quarter by some IFRS booking. But otherwise it's fully in line with expectations in terms of profitability and we have some other negative one-offs as well.

So this leads to an adjusted EBITDA of €307 million that is showing a significant increase versus prior year.

Now looking at cash. The Group's net debt evolution that you can see here. So the net debt is €1,304.4 million with – this is leverage of 1.3 times. So we continue to deleverage the Group, as you can see since December where leverage was 1.6 times and it was 1.7 times in March one year-ago, end of March.

Pleased to say that and to remind that Moody's has upgraded Verallia's credit rating from Ba1 to Baa3. So the Group is now investment grade with Moody's with a stable outlook. This is a sign of the strong credit metrics of course of the Group and very nice to see that.

Now, as usual, you can see here the financial structure and the liquidity. So the available liquidity is comfortable at €837.7 million and the structure – the financial structure is – I mean, there's nothing specific at the end of March.

But if we move to the next page, I'm pleased to announce that we successfully refinanced the term loan and the RCF that we had for €500 million each. So we have here in fact the maturity profile now of our debt and we enjoyed material oversubscription for this refinancing, which pushed the maturities to '27 with options to push to '28. So you have here most of the details.

We also took the opportunity of the oversubscription to enlarge – increase the facilities from €1 billion to €1.1 billion. That is reinforcing our liquidity. This term loan and RCF are also sustainability linked. Now we have linked them with KPIs – three KPIs related to CO2 emissions. But also water consumption, that is an increasing matter that we're working on as well; and the proportion of women managers to have a social component.

The pool is broad and with international banks and all the documentation is upgraded to investment grade style.

Patrice Lucas: Thanks, Nathalie. So based on this Q1 start of the year, we have reinforced our guidance for the full year. So revenue, we still see revenue more, above 20% compared to last year. And an adjusted EBITDA, which will be more than €1 billion. And we see a market, which is supported to do so. So thanks for your attention. I propose now that we open the Q&A session.

Questions and Answers

Operator: Thank you very much. As a reminder, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We'll now take our first question from Matthias at Deutsche Bank. Your line is open. Please go ahead.

Matthias Pfeifenberger (Deutsche Bank): Yes, good morning, ladies and gents. First of all, big congrats to the outstanding results. Very well done. My question would be firstly on volumes. So how do you think about the rest of the year with a bit of weakness in Europe, still some growth in LatAm, but also kind of a potential to get new volumes from the second furnace in Ukraine and from the restarted furnace in UK? So would flat volumes be too ambitious for this year?

Patrice Lucas: Thanks a lot, Matthias, for your question. And thanks for your congrats. So volume and market going forward obviously is a golden question. And what we see, what I can say today based on the data we have and obviously being very vigilant and attentive to all the weak signals of the market, we see volume for the full year with a slight growth and we believe that we're going to – we could benefit from positive impact moving forward.

First of all, in France, we all hope that this national social tension coming from the pension with – in the new scheme is going to end, so this will benefit from that. Italy with the repaired furnace going – restarting in production in the weeks to come should be a positive – should have a positive impact. Ukraine furnace is an opportunity as well as you have mentioned. And obviously the full impact of Jacutinga 2 getting at full speed for the rest of the year.

So we see a slight growth. We are betting on the fact as well that some specific situation like the beer market could recover, but again being very vigilant. So this is what we see today, slight volume increase full year compared to last year.

Matthias Pfeifenberger: Yeah. Cool. Thanks a lot. And the second one would be on pricing. Obviously, new hikes implemented, but the spill-over will obviously get smaller the more we progress because you have obviously started to raise prices much more substantially from the second quarter last year. So how do we think about pricing? I mean what's your thinking, more hikes or are you done? I mean the spread is huge, the spread is bigger than last year. So are you also prepared to give something back of that on a positive price cost, or how would the pricing trajectory look like for the rest of the year? Thanks.

Patrice Lucas: Yes, Matthias, you're right when you're speaking about spread and Q1 spread is benefiting obviously from the basis of last year and all the carryover of pricing policy, which was implemented during the full ’22 year. So you're right to say so.

About pricing, first what we need to say is that we have – we still have inflation in '23 compared to '22. This is a given. You know our policy, which is based on full year spread being positive, so it means that we will be rigorous on executing according to this key objective. We have done some price increase at the beginning of the year according to the inflation, we estimated for the year '23.

And being fair with our customers and being fair with our again policy of this spread being positive, obviously we could have to adapt and make some price adjustment and again with a clear commitment objective to be spread-positive on full year basis. So we have certainly something which is going to be implemented here.

Matthias Pfeifenberger: Just a small add-on. Is France your biggest concern at this stage with the strikes, but also with gas storage at 30% of your spread? Is that probably fair to say?

Patrice Lucas: France socially is a concern with what is happening nationwide obviously. But to be clear, this is an upside to come compared to what we have done in Q1 with some – mainly disruption in production. So I see that as an upside.

On gas shortage, we will see. You remember that we have this ability to switch back in case of any shortage and we tested that. So I'm quite – I’m not so concerned about that.

Matthias Pfeifenberger: Yeah, okay.

Patrice Lucas: I'm not so concerned about the kind of shortage situation in the second year. We will make and implement our business continuity plan ensuring agility as we did at the end of last year.

Matthias Pfeifenberger: Great. Thanks a lot and congrats again.

Patrice Lucas: Thanks, Matthias.

Operator: Thank you. We'll move on to our next question from Francisco Ruiz at BNP Paribas. Your line is open. Please go ahead.

Francisco Ruiz (Exane BNP Paribas): Hello. Good morning, and congratulations for the numbers. I have, well, some follow-up questions on Matthias. So the first one is, could you give us an idea of how much your prices have increased in Q1, not the carryover, but also just the price increases?

I have another question on the breakdown of others in the EBITDA. So mainly you said that you include the perimeter, which we assume that UK margins are similar, as you said, to the company that should add something like around €14 million plus or €10 million positive impact of the fire. That means that the one-offs are €15 million. Could you detail what this €15 million are coming from?

And also if you could give us an idea of the evolution of working capital and CapEx in this quarter as also the cost of the new debt? Thank you.

Patrice Lucas: Thanks. Thanks, Francisco. So on Q1 pricing, I'm going to be straightforward. I do not want to comment any price increase. So obviously Q1 is benefiting from the pricing we did last year plus an additional price increase we did according to the inflation of our cost base.

And as I said, we have inflation again in '23 compared to '22. This inflation is lower than what we expected when we built our assumptions, but we have inflation in '23 compared to '22. And again keep in mind that what we are working to get this spread being positive for full year. Positive spread full year, this is our goal.

And again, our objective is to be fair with our customers. So if cost is going down, we adjust price accordingly maintaining this positive spread. And this is the number again here.

For the others, Nathalie?

Nathalie Delbreuve: Yes, I would take over. Hello, Francisco. So for the others in the – so the contribution first of the UK business, the profitability is fully in line with expectations. But we still have significant impact – negative impact in fact in Q1 for the UK contribution that are purely linked to the IFRS 3 norm.

You know that you have to revalue all of the opening balance sheet at basically market value. So it means that all the inventories were revalued as well almost at selling price. So you don't benefit from the margin on the inventory that you are taking over and that we took over end of the year. So in Q1, the impact of this IFRS 3 was around €5 million negative. So it's significant. It's over. So it means starting Q2 we will have the true, I would say, profitability. We enjoy the contribution of the full profitability. So that's one.

And then yes, we have some negatives as well in the bridge. So first, with comparison with positives that we had last year and also some provisions. We have 12 countries so we have several topics, some provisions on that full debt; for example on some risks that are then offsetting part of the positive impact that I quoted, so the insurance premium reimbursement in Argentina and UK contribution.

Francisco Ruiz: Okay. Just a follow-up on Patrice’s answer. You commented that your inflation has been below expectation. It's just only for energy or there are other items in the P&L that has surprised positively?

Patrice Lucas: Sorry. Say that again, Francisco.

Francisco Ruiz: You commented that the inflation in Q1 has been below your expectations or your initial expectations. So it is just because energy, only because energy, or there are other items that has been below your expectation as well?

Patrice Lucas: Energy is a big part of it compared to the assumptions we made at the end of last year, but with a lot of uncertainties moving forward, especially on the spot price. And we have – on the other side, we have some I would say bad news – not bad news, but we are facing some higher inflation. If I'm speaking about raw material, raw material is still increasing and if I want to mention one example is cullet. Cullet supply is showing inflation in some countries.

So energy – you're right, energy is one of the big part of it. But on the opposite, we have some higher inflation, especially in raw material.

Francisco Ruiz: Okay. Thank you very much.

Operator: Thank you. We’ll now move on to our next question.

Nathalie Delbreuve: I think there were – there was still a question for – about CapEx, right, and the new debt.

Patrice Lucas: Working capital.

Nathalie Delbreuve: Yes. So on CapEx, what can I say, we are on track with our CapEx roadmap and there was – I mean nothing specific to mention in Q1 in that respect. So we're still in what we told you, so around 10% of sales for the full year and you know the main projects that we have for the year. So nothing really specific to mention here. And your last question, sorry, was on the new – can you repeat your last question, Francisco?

Francisco Ruiz: Hello?

Operator: Francisco, you might want to unmute your – yes, go ahead.

Francisco Ruiz: Yeah. I mean, my last question was on the cost of the new financing and the new debt?

Nathalie Delbreuve: Yes. So on the new financing, we'll release a bit more information when we have fully finalised because we just signed Monday. But basically, so the agreement has been signed. The closing is for end of this week. And all in all, we are very close to the conditions that we had on the previous term loan and the current term loan and RCF. So there will be not so much – which were very interesting, you should remember they were negotiated at the IPO time.

Francisco Ruiz: Okay. Thank you.

Nathalie Delbreuve: Thank you.

Operator: Thank you very much. We'll now move on to our next question from Jean-François Granjon at ODDO BHF. Your line is open. Please go ahead.

Jean-François Granjon (ODDO-BHF): Yeah, thank you. Jean-François Granjon speaking from ODDO BHF. The first question comes on the spread expected. So do you expect a positive spread for the Q2? And for the full year, do you expect a spread higher than you have reached in – during the first quarter so higher than €135 million?

My second question concern the mix impact. So could you give us more colour about the mix impact during the first quarter?

And my last question concerns the UK contribution. So I understand what you explained for the Q1 with a negative impact from the –

Nathalie Delbreuve: IFRS.

Jean-François Granjon: – yes, IFRS 3. Do you confirm the full contribution expected at an average €50 million for the EBITDA for the full year? Thank you.

Patrice Lucas: Thank you, Jean-François. So back on the spread. So obviously the Q1 spread is benefiting from the comparison of Q1 last year. You remember that Q1 last year, we were negative – spread was negative. And if you remember during '22 year, we moved from negative spread to positive spread at the end of the year and crossing the positive line, I would say, in Q3.

And as I've mentioned already, '23 is going to be a profile which is totally the opposite. And you can understand why when you are making the comparison between quarter-by-quarter compared to last year. So the profile of the spread is going to decrease over time during the full year period, but we are working to make it positive full year at the end of the year. This is what we are working on, managing closely and wisely our cost base inflation on one side and the pricing policy on the other side.

So in a nutshell, Q1 '23 is benefiting from this base of last year, which was negative. Two, the profile of the spread in '23 is going to be the opposite of '22. I take maybe right now UK question and I will let Nathalie answer the two others.

On UK, yes, we do confirm the numbers we shared with you. As I have explained in my key highlight presentations, we are very satisfied with the way the integration is progressing with good businesses being pragmatic focusing on the key topics, which are delivering results and building the future with the UK team. So we do confirm, Jean-François.

Jean-François Granjon: Okay, perfect.

Nathalie Delbreuve: So on the mix, so several comments. We see a positive mix, especially in some geographies like South and Western Europe, South Europe mainly. Now we also have another effect linked to the softer volumes in beer to be very honest, which is less, I would say, Verallia driven. So we have I believe both effects. You know that we are pushing, of course, the most premium product and still, of course, I mean, in not – it's good to address all the segments. So we do it wisely I would say. But we try to do some value-add and we are doing some value-adding – added pricing, sorry, and pushing the positive mix. But there is also a kind of mechanical effect linked to the softening of the beer volumes in this beginning of the year.

Jean-François Granjon: And could you quantify or not the impact for the first quarter just to have a magnitude of the positive impact compared with the 40% global mix/price effect? I suppose that the price effect is more important, so just to have an idea about the impact of the mix.

Nathalie Delbreuve: Yeah. You know that we don't give the detail of price, sorry for that. But you are right, the price effect is the main one. But it's good to see that this mix effect is still positive and part of it is a result of our policy.

Jean-François Granjon: And do you expect also a positive impact from the mix effect for the full year?

Nathalie Delbreuve: So in fact we are always very prudent on the mix component to the EBITDA in our forecast. So far there is no sign, but we do not – yeah, we are prudent in our forecast by design, I would say, more by design.

Jean-François Granjon: Okay. And my last question regarding the guidance. You improved the guidance for the EBITDA above €1 billion versus an average €1 billion previously. So could you give us a magnitude of that? Plus 5-10%. Is it – plus 10%, is it reasonable due to the huge Q1 published?

Patrice Lucas: Jean-François, I mean what we said at the beginning of the year was approximately €1 billion. Now with a good Q1, we are very confident that we'll be above €1 billion. But at this stage very complicated to give you an order of magnitude. So we stick to our €1 billion, obviously a very good start of the year and we'll maybe have a better view later on at the end of July, I mean, with H1 and a better visibility on H2 due to the volatile and uncertainty of the macroeconomic parameter.

Jean-François Granjon: Okay. Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. We'll now move on to our next question from Muros Guillaume at Société Générale. Your line is open. Please go ahead.

Guillaume Muros (Société Générale): Yes, hello. Good morning, everyone. I have four questions on my side, follow-ups on the ones asked before. The first one on volumes, some more on capacity side of things. You commented on the market dynamics, which, if I'm correct, you mentioned that should be positive for the full year or slightly positive on the supply side, given the furnace repairs in the second half of 2022. Should we see a favourable comparison basis for volumes in the second half of the year? That's my first question.

My second question will be on the energy mix. There was a question on gas shortages. Would you comment perhaps on the evolution of your energy mix on the first quarter 2023?

My third question will be on restocking. Have you started to build back inventories at Verallia Group level?

And my fourth question, given your still – not still, but record high liquidity levels, are you still looking at many opportunities, also given current volatility in the market. Are there still opportunities? Are you looking at that? Many thanks.

Patrice Lucas: Thanks a lot, Guillaume, for these four questions. So starting with volumes and much more related to capacity. What we – what I've just said is that we see some potential upside in front of us. So again, first, France with less strike or no strikes at all in the second part of the year. We have the Jacutinga furnace in Brazil, which is moving full speed.

Italy will have a positive impact from our scheduled maintenance programme because one furnace was stopped since the beginning of the year for total repair and will be – would resume production in a few weeks from now. So all of that should have a positive impact on our capacity compared to Q1.

On the energy mix, so you remember that as a business continuity plan strategy, last summer we decided to move to a reduction of about 20% of gas usage and to replace that by fuel. So we prepare and we test all our furnaces to do so. We ramp it up at the end of last year. And in Q1 this year and even in the semester, our initial objective was to run with 20% fuel.

Based on reality and current situation without any risk of shortage of gas so we have decided to ramp down our fuel usage. So we are moving on and we are back to normality in Q2 except in German where we have some contracts for the full semester. So we are back to normality. And as it was a question previously, if there is any further risk of shortage, obviously, we will react and do what is needed to ensure business continuity.

Nathalie, about liquidity level. Well, maybe what we can say is nothing new on that. Our cash flow allocation is always the same. First of all, we focus on our own investment for capacity for decarbonisation programme. Two, M&A, if we see a M&A opportunity, again as we have said, we are open. Each time it's going to make sense. Each time it's going to create value and it's going to be aligned with our purpose and values. We will see the opportunities.

And the last one is about shareholder returns, you have seen what we have done for the dividend for – with the full year result '22. So we keep this same policy with this clear ranking.

Operator: Thank you. We'll move on to our next question from Lars at Credit Suisse. Your line is open. Please go ahead.

Lars Kjellberg (Credit Suisse): Thank you. Apologies, I joined the call a bit late. So if some of these questions have been answered, please tell me. So just coming back to demand. A lot of consumer products companies, including beverage companies, have talked about destocking in the supply chain. Did you see any of that? And if that was the case, where do you think we are on the destocking cycle? Also if you can comment on your furnace rebuild schedule because it was rather light last year but – in H1, but very heavy in H2. Should we expect that also this year?

And then the final point, I'm just trying to again understand a bit about the guidance. Of course you had an exceptionally strong Q1 and any normal seasonality would normally see Q2 and Q3 being the biggest quarters and Q4 similar to Q1. But you're talking about of course the price/cost spread now. But just to be clear on that, if we look sequentially out, how should we think about cost inflation? Does that continue to rise through the year and at stable prices or do you expect falling prices to reflect energy for example? And really what I'm asking what is – how should we think about the exit rate heading into '24 because it seems as if the market is taking today's statement as we're now at peak and we're starting to fall from here onwards? That's all my questions. Thank you.

Patrice Lucas: Thank you for these questions. So back in demand and we have commented a few facts about that. What we have seen in Q1 is a slower start than expected beer market in Europe, mainly in Germany, but globally in Europe is quite low.

We have some specific situation like France with the national strike impact, which will be really not supporting the overall demand and production. And in Latin America, we have some specific situation. In Argentina, we are below – the market is quite low compared to expectations, mainly coming from this year is going to be specific. So there is a kind of wait and see situation in Argentina with exports falling down because of devaluation certainly to come.

And with this between – the gap between the official and the blue dollar in Argentina – and by the way, the Argentinian government has decided that few weeks ago to create a specific agro dollar in order to boost a little bit the exportation. So we're going to see if it has an impact. But in Argentina we have a kind of current situation which is in my mind the worst situation we could have and it should recover down the year.

So quite complicated to see what is next. Again we are vigilant. We are working with all of our customers to have a good understanding and get all the signals of how the demand is evolving. But for us, we still see a slight growth in '23 compared to '22.

About furnaces, so – about furnaces, we're going to see for the second part of the year a similar situation as last year as far as furnace repairs. So no big expectations to come from that, except Jacutinga, which is an additional furnace compared to last year and except obviously the UK perimeter. But compared to Q1, we do see some positive impact to come again with especially in Europe with one big furnace in Italy, which was stopped.

And the other question was?

Nathalie Delbreuve: It's on the guidance. So on –

Patrice Lucas: Okay.

Nathalie Delbreuve: So on the guidance, I mean yeah, we have reinforced our guidance based on the stronger – I mean strong quarter we have delivered in this Q1. Now as we said, we still see cost inflation and we see cost inflation in some specific areas like raw material and cullet that is even stronger. So this is something that we see keeping going throughout the quarters indeed in our forecast.

Even on some other elements, inflation is easing I would say. But for sure in raw material, this is not the case and you have some delayed effect like on labour, etc. So that's what I comment on – what I can comment on the inflation as you were asking. And in Q1, we have this specific one-off of €10 million on the insurance that we won't have also every quarter. So that's what I can comment further.

Lars Kjellberg: All right. So just to be clear on demand, I don't necessarily – you referred to of course and you put in a bit in comment this morning, right, or yesterday, but specifically around destocking because we've seen significant destocking comments from a lot of consumer companies. Have you not seen that in your customer base, which, of course, would suggest at some stage destocking will end, which would underpin volume growth? So where do we stand on that specific comment?

Patrice Lucas: We see part of that, you're right, from our customers, and I will say especially in the beer segment and we have to cope with it. This is integrated in our forecast to come. And just maybe to mention as well that we have an opportunity as well on our side to rebuild some inventory and good inventory level in order to better serve our customers in the months to come. So I think this is as well the potential opportunity. As you know that we were quite globally low in inventory level.

Lars Kjellberg: Got you. And a final point from me, apologies, I forgot this one question. Last year you called out packaging prices being part of the meaningful cost inflation, and of course we saw huge increases in corrugated packaging which you use. What are you seeing in that particular part of the cost inflation? Is that starting to move down as we've seen some of the materials used to make corrugated have come down quite a bit? So are you seeing any changes to that market or pricing?

Nathalie Delbreuve: Lars, you're right. On packaging, already when we commented Q4, we started to say that we see some ease in the packaging inflation, and this is the cost nature was spot. In some cases we see even a slight deflation or at least a plateau. So this is true.

Lars Kjellberg: Got you. Thank you very much.

Nathalie Delbreuve: Thank you for your question.

Operator: Thank you. We'll now take our last question once again from Matthias at Deutsche Bank. Your line is open. Please go ahead.

Matthias Pfeifenberger: Yes. Just a follow-up. I mean looking at the share price and the 2.5 notch discount to your main peer, wouldn't you want to rank a share buyback a bit higher and extend the share buyback to, I don't know, 10% of the cap? Thanks.

Nathalie Delbreuve: So for share buyback, we are in the middle of – actually very really close to the middle of completing a share buyback programme that we started end of last year. So we will first roll out and execute this programme. And then we've always said again coming back to capital allocation that we will do some buyback on an opportunistic basis if we have room for it, if it makes sense.

But after the first the strategy being first to focus on our organic growth, on our internal CapEx, decarbonisation, then M&A opportunities and then further return to shareholders including share buyback. But we are already in the middle of a share buyback programme.

Matthias Pfeifenberger: Yeah, thanks again.

Nathalie Delbreuve: Okay. Thank you, Matthias.

Operator: Thank you. There are no further questions in queue. I will now hand it back to Patrice for any closing remarks. Thank you.

Alexandra Baubigeat Boucheron: I think we have few written questions, if I may.

Patrice Lucas: Okay.

Alexandra Baubigeat Boucheron: So we have – most of the questions from Inigo have been answered except this one. Why aren't you increasing the top line guidance after Q1 top line of more than 40%? I see you slightly increased the EBITDA guidance. So why not the top line?

Patrice Lucas: I mean if I'm quite simple, €1 billion in Q1, by €4 billion so we're going to be above 20%. This is what we are hoping today. I mean the economic environment is volatile and uncertain and we want to stick to that and we will confirm that and we will have better visibility again in few months from now with H1 down with the better visibility for the rest of the year. So we stick to our guidance more than 20% revenue and we have just reinforced the fact that we'll be above our €1 billion EBITDA – adjusted EBITDA.

Nathalie Delbreuve: And the 40% when we look at the percentage is really comparing itself to Q1 last year that was at the beginning of the price and mix.

Patrice Lucas: Yeah.

Nathalie Delbreuve: So there is a comparison basis impact as well Inigo for the – when you move on throughout the year.

Alexandra Baubigeat Boucheron: Thank you. Another question, how do the OpEx maintenance costs of Oxy-combustion furnace compare with the traditional furnace?

Patrice Lucas: Well, it's quite early to answer to that question. I mean let's start first in production with this technology. This technology will be in place in comparable mid of next year. So we'll have a better view or realistic view on that. But we do not expect any big variation to be clear.

Alexandra Baubigeat Boucheron: Thank you. And the last question, what is the current capacity utilisation? How much capacity is sold out already for the next 12 months?

Patrice Lucas: Well, nice question. So first of all, we are running full capacity. We are running full capacity. So it's not – and obviously we are taking the benefit from time to time depending on the region to rebuild some inventory when it's making sense. So we are running full capacity, to remind you that except the furnace in Zorya in Ukraine for the conditions you could understand, we have never stopped any production lines. So we are running in full capacity.

Alexandra Baubigeat Boucheron: I think we are okay now.

Patrice Lucas: Okay. So thanks a lot for your time. Thanks a lot for your relevant questions. And I wish you all a very good day. Thank you. Bye-bye.

Nathalie Delbreuve: Thank you. Bye-bye.

Operator: Thank you. Ladies and gentlemen, this concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

[END OF TRANSCRIPT]