H1 2023 Results

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Operator: Hello and welcome to the Verallia H1 2023 financial results analyst call. My name is Caroline and I will be your coordinator for today's event. Please note, this call is being recorded and for the duration of the call your lines will be on listen-only mode. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your questions. If you require assistance at any point, please press star zero and you will be connected to an operator. I will now hand over the call to your host, Patrice Lucas, to begin today's conference. Thank you.

Patrice Lucas: Good morning, everyone and welcome to our H1 2023 results. As usual, it is a pleasure for Nathalie and me to have this privileged moment with you for a nice exchange. We will go as usual with some key highlights and then Nathalie will present in detail our H1 results. Then we will be back to the guidance and then we will move forward with our Q&A session.

Key Highlights

Patrick Lucas: Moving to the first chapter with the key highlights, as usual a reminder of who we are. Verallia is a global leader in glass packaging. We are number one in Europe, number two in Latin America and number three worldwide. We have strong assets with a diversified customer base and with diversified end markets. Here you have the snapshot of the sales split at the end of 2022 being present in still wine at 35%, sparkling wine, spirits, beer at less than 15%, soft drink and food. Who are we? We do operate in 12 countries with 34 glass plants, 12 cullet recycling centres and five decoration plants, all with 10,000 employees. We are producing more than 17 billion bottles and jars.

About our capital structure, here this is a picture at the end of June so no major change with BWSA at around 28%, Bpifrance at 7.5% and the free floating close to 56%. The key highlight of H1 is again the success of our eighth employee shareholding offer. We offered our employees an amount of 0.5% of share capital with a 20% discount. This was eligible to nine countries, including notably for the first time the UK. More than 3,600 employees invested in Verallia which is more than 40% of our eligible headcount. The good news is that thanks to this eighth employee shareholding offer, now we have more than 48% of employees as shareholders of Verallia. It is to be noticed that in France it is 88% leading to now 4.2% of Verallia share capital owned by employees. This is totally in line with the announced objective to be at 5% by 2025. This is an important topic for us. This is part of our DNA, to make sure that we are sharing values with our employees.

Next is an update on ESG. You know that ESG is at the core of our strategy and we are keeping on moving forward implementing our decarbonisation roadmap with some key topics. The first one is our new furnace technologies. We have two new technologies that we are developing which will allow us to reduce our CO2 emissions moving forward. The first one is the electrical furnace which will be launching in Cognac at the beginning of next year. The pilot is on track. I do remind you that is going to be a world premiere in the sector. We are on track to be ready for next year. The second technology is the hybrid furnace. Here again this project is on track. It will be located in Zaragoza in Spain and start of production is scheduled for 2024. These are the two key new technologies.

However, this is not just about that. Implementing our decarbonisation roadmap is also about being creative and being able to look at all the different solutions. Here you have two solutions. Bio heating oil, which is an alternative to natural gas and will support the reduction of CO2 emissions. Since 2022 we have been running in Zaragoza with bio heating, meaning that we are replacing 20% of the natural gas with bio heating which is allowing us to reduce CO2 emissions by 10%. This was a first pilot and this will be implemented as well in all the divisions within Verallia. The second project is what we call batch preheaters. It is about use of fumes energy to heat raw materials before introduction into the furnace, which is making melting easier and less energy intensive. We had the first application in Bad Wurzach in Germany at the beginning of 2023. We have two more to come, one in Portugal and one in Italy this year. This is again a nice solution which makes sense, allowing us to reduce our CO2 emissions by 12%.

Then, as you know, we are working on some additional capacity to fill market growth. We have right now two ongoing brownfield projects, one in Brazil in Campo Bom and the second one in Pescia in Italy. They are progressing according to plan and startup is expected to be done in the first semester of 2024. Both projects obviously would be opportunities as well to reduce CO2 emissions with the oxy-combustion technology.

Reuse is a strong social trend and will certainly be pushed by regulations. We want to be a frontrunner on this matter. As a matter of fact, we have taken initiatives in H1. Here you have three initiatives taken in H1. The first one is a partnership with Bout à Bout which is a French startup which has 220 point of sale collections. They collected 700,000 bottles in 2022 and they are targeting to go up to 16 million bottles as a capacity. We are partnering with them moving forward to understand the business model. The second initiative is a partnership we have signed in France with CITEO. CITEO is reporting to the French Ministry of Ecology. This is the organisation which is managing all the collections in particular. Here again we have signed a partnership where we are going to develop reusable standards for large scale operation by 2025. Lastly is a specific opportunity we see in Germany to develop reuse in the wine market. We have signed a first agreement with Riegel, a German customer. Here we plan to fully operate the supply chain, the logistics, the washing and this will be live first semester next year. For us it is all about the test and learn phase to understand the business model for something which is going to come and something which is a strong social trend which we have to cope with.

As usual, you know that we are not just delivering bottles. In our mind we want to create value, supporting our customers so here every year we have what we call the Verallia Design Awards. These ones took place in France and in Iberia. You see that we are using the creativity of young talented people. If I take just the example of France, 130 schools participated in this contest with more than 600 students and we are delighted with the different proposals. Again, this is creativity we are able to offer to our customers and mainly focusing on premiumisation.

Last but not least and before leaving the floor to Nathalie, I would like to tell you that I am very glad and privileged to announce our excellent half-year results. This is the opportunity for me to warmly thank our teams for the agility and the adaptation they have demonstrated. About our revenues, we see a growth of +30.7% leading to more than €2.1 billion which is an organic growth of 28.6%. Our adjusted EBITDA closed at €659 million, +54.9% compared to H1 2022, leading to a margin of 30.8%. About our net debt, we maintained our leverage at 1.3x and our net income is showing a nice value of €311 million. Again, I am very pleased with these results and they are very positive for the company and very positive moving forward. I will leave the floor to Nathalie for the results.

H1 2023 Financial Results

Nathalie Delbreuve: Thank you Patrice and good morning to everyone. Let me present to you these strong results for the first half. You see here the bridge to[?] the sales or revenue. We moved from €1,639 million up to €2,143 million which is an organic growth of 28.6%. You see in the bridge the different elements as usual, volumes, price/mix, foreign exchange and perimeter. As for the volumes, we have seen soft volumes in H1, even though we see a better trend in Q2 than in Q1. In Europe we have seen a decrease in beer volumes mainly and also to a lesser extent in still wine. Latin America, as commented already at the end of Q1, we have lower activity in Chile and here we start to see slight recovery at the end of the quarter. However, the full semester was down. Overall we believe there is destocking down the chain that is impacting those softer volumes.

As for sparkling wine, we see continued growth, so positive volume growth and a good resilience in non-alcoholic beverages and food jars. Again, our diversified portfolio allows us to mitigate some stronger decreases like beer. Price and mix we have the carryover from last year's selling price increases and we increased as usual the prices in early 2023. We have now started to do some moderate and selective price reductions in Europe as the cost inflation is softer than we anticipated. The contribution from mix is still positive to the topline and you will see as well to the EBITDA which is a very positive point. The FX is mainly from Argentinian peso and in the perimeter effect you see the Allied Glass contribution that will be shown as perimeter at the full year and up to 8th November. It is contributing to the growth in sales and also the EBITDA of the company, €114.3 million for the top line and mainly high premium spirits.

Moving to the regions, the geographic segments. In Southern & Western Europe we have reported revenues growing +23.6%. We see here volumes down year-on-year but the decrease again is slowing down in the second quarter, mainly in beer, as I commented already, for the Group. We have softer volumes in still wine but we see really good resilience in Italy and Iberia. We have a strong positive price impact in this topline and again here the mix is significantly positive, remains positive and mainly coming from Italy.

If we move to Northern & Eastern Europe you have here a combination of organic growth and scope. We have the contribution of Allied Glass that is now Verallia UK. There is a volume decline, mainly in Germany which is impacted by beer. Germany is more exposed to beer. However, this is partly offset by Ukraine where we restarted the second furnace of Zorya earlier than planned, which is very good news. If we look at non-alcoholic beverage and food jar contributions we see indeed a positive contribution here. We have a strongly positive price impact and the negative forex impact is coming from the Ukrainian hryvnia. You have the Allied Glass impact for €114 million.

Now moving to Latin America. We see here broadly flat sales volumes. We have growth in Brazil but again offset by lower volumes mainly in Chile. We see a continued growth in the Brazilian beer and spirits volumes and Chile is again impacted down mainly by of course wine where the whole volumes on the market of Chile were down. Distributors were destocking and there were lower exports. Again here a slight improvement at the end of the half year. We have, and this is usual for LATAM, a strong increase in selling prices to cover inflation and local hyperinflation in Argentina. Just to remind you, we successfully launched the second furnace of Jacutinga, a new furnace in Brazil which started to produce good glass at the end of last year. The foreign exchange impact here is negative due to the Argentinian peso.

Moving now to the EBITDA bridge, the adjusted EBITDA bridge. We have significantly increased our EBITDA moving from €425 million to €659 million. You can see on the top-right that it means that our margin moved from 26% up to 30.8%. Looking at the different pillars and the usual pillars that are our strategy, you can see that the activity/operating leverage pillar is slightly negative. This is directly linked to the comment I made on volume, even if partially offset by inventory rebuild. The softer volume in H1 allows us to rebuild inventories that were low. If you remember, one year ago we were struggling very strongly with inventory levels.

The price-mix/cost spread is significantly positive, €231.1 million. This is a combination again of the carryover of different price increases throughout the year in 2022 and the price increase of 2023. Also, mix contributed positively to this pillar which is also very important.

It is good to see that the net positivity is on track with €26.7 million delivered in the half year. We have here a steady performance of our net PAP programme, reducing cash production cost by 2%, exactly in line with our target. FX is contributing negatively. Again, mainly Argentinian peso and also some hryvnia effect. In other as usual you have several pluses and minuses but in the end, if you look at the €21.4 million it is mainly the contribution from Allied Glass to our EBITDA after some IFRS 3 impact that is a negative impact in the first quarter which we do not have anymore. It was €4.6 million.

Looking at the adjusted EBITDA by geography, in Southern & Western Europe, we have moved from 25.2% margin up to 31.1% adjusted EBITDA margin, improving the adjusted EBITDA by 52.6%. Here you have the pillars contributing as you have just seen in the Group one; the positive price cost spread and positive mix from Italy, as I said, and the PAP delivering in line with our cost reduction objective.

Moving to Northern & Eastern Europe, here we have moved our margin from 19.5% to 27.5% and increased the absolute value from €60 million up to €142 million. Here we have in Northern & Eastern Europe the contribution of Allied, so we have some perimeter and scope impact here. We have the spread impact. Also it is important to note a strong industrial performance and cost reduction ahead of the objective in perimeter. Here you have the Ukraine EBITDA as well. Thanks to a very strong and impressive commitment and performance of the local team we restarted our second furnace and we increased the adjusted EBITDA from Ukraine from one year to the other, which is of course very good to see. The negative FX impact is from Ukraine.

Latin America adjusted EBITDA evolution, here we have a slight increase in the absolute value of the adjusted EBITDA, €79 million moving up to €81 million. If you look at it excluding FX, you have of course a stronger increase as FX is impacting negatively. When we look at the contribution of the pillars, we have a strong organic growth on the activity and price/cost spread. Again, we reported that we have a lower activity in Chile. You see on the top-right that the margin is slightly decreasing. It was 40.8% and is still very strong at 36.3%. The 40% was really strong and we have the impact of the lower activity in Chile with fixed cost absorption. Remember we have also the second furnace of Jacutinga that is ramping up with additional fixed costs. However, still the overall margin is strong and [inaudible].

Let us move to capex and free cash flow. The capex evolution that you see here we are moving from €96 million up to €150 million, representing 7% of total sales. We have a better balance this year between H1 and H2 but we are on track for capex to be 10% of total sales. As you know, that is our objective for the full year. We can see that strategic capex moved up from 1.7% to 2.6%, totally in line with our strategy. We have a capacity increase, as you know very well, so after the second furnace of Jacutinga, we are building another furnace in Brazil in Campo Bom. As Patrice mentioned, we also started the Pescia project. In terms of CO2 reduction capex, we have around €19 million dedicated to CO2 reduction, including the projects such as the batch preheaters that Patrice mentioned. We continue to roll out our strategy and deliver our ESG roadmap.

Cash flow generation for the Group remains strong. We have of course the increase in the adjusted EBITDA and we continue to invest, as we have just seen. With higher capex the cash conversion is very much in line with the previous year at 77.2%. We have a significant negative change in operating working capital in this first half. You see that €78 million is due to the capex WCR variation and remember in Q4 last year we had a strong capex build with payments in the first quarter of this year. We also have an impact in the semester mainly of the inventory build that is impacting our change in operating working capital. This leads to an operating cash flow in line with last year at €316.3 million and after other operating impact, interest paid and cash tax, you have a strong free cash flow of €248 million.

If we move to the net debt evolution and the leverage, the net debt is pretty stable compared to the end of the year but that is after €164 million dividend payments to our shareholders and a €38 million share buyback. We continue to roll out our open programme. We have a leverage that is 1.3x to be compared to 1.6x at the end of the year. Just to remind everyone, we have been upgraded by both agencies now to investment grade level, and the last upgrade was from Standard & Poor's in May 2023.

Here you have the financial structure and liquidity as usual and there is not much change here compared to the previous quarter. You know that we have now balanced very well the source of our financing. We have well positioned maturities and the nominal rates, especially for our bonds. We renegotiated the term loan, as we already commented on for Q1. We have now a well-balanced funding source and nice available liquidity of €837 million at the end of June. You have to remember that all our financing are now sustainability linked, even our latest term loan.

2023 Guidance

Patrice Lucas: Thanks Nathalie. About out guidance, based on the excellent results of H1 plus the visibility that we have for the second semester, as well as the strong fundamentals of Verallia, I am very happy to announce that we have decided to upgrade our guidance. On the revenue side we confirm our growth of more than 20% and for the adjusted EBITDA we are now targeting to close the year at between €1.1 and €1.25 billion.

Before moving to the Q&A session, I would like to take the opportunity to share a few facts with you. The strong message is that Verallia is committed to improving its profitability over time. Period after period. Here you see two graphs which are track records of the last 12 months' EBITDA in value and margin from 2017 to H1 2023. I would like to remind you of a few takeaways.

The first one is whatever the situation thanks to the agility and adaptation of the team, Verallia has delivered consistent results whatever the context, facing a deflationary period or an inflationary period. We are walking the talk, delivering year after year a continuous profitable growth. This is a result of our business model. This is the result of the way we operate. Our business model is based on a diversified customer base with more than 10,000 customers and the top ten representing about 17% of our sales. With a product offer in all the key segments, with a clear focus on premiumisation and representation in key profitable geographies. Therefore, our customer base, our product offer, our focus on premiumisation and our geographies are strong assets for resilience and growth.

Our business model is also based on the way we operate and we have three levers we operate on a daily basis for continuous profitable growth. The first one is activity growth which means additional capacity with new furnaces or de-bottlenecking actions to seize the market growth we see in our business. Two is positive spread which is a result of the dynamic pricing policy to cover cost inflation and to reflect the value which we add for customers with our products and services. The last lever is our performance action plan, so-called PAP, to generate continuous cash cost reduction of 2% every year which in an order of magnitude represents about 1.2 points of EBITDA margin.

The second takeaway is that our hedging policy is a competitive advantage for the benefit of Verallia and its customers. It is absolutely non-speculative. This competitive advantage is fact-based whatever the context. The visibility and the volatility absorption, thanks to this policy, are paramount to deliver consistent and growing results over time. This will be the case for the semesters and years to come.

The third takeaway is that 2023 is well supported by our new Verallia UK acquisition delivering what we were expecting. As we have always said, M&A opportunities will be seized whenever it makes sense for value creation and if aligned obviously with our purpose and values.

Finally, I would like to remind you that at the same time as we are delivering robust profitability, we want to be the frontrunner in the industry on ESG, especially with the implementation of our decarbonisation roadmap. All of that is key to understanding clearly who we are, how we do business and why we are delivering profitable growth period after period. Thanks a lot for your attention. I think it is time to move to Q&A.

Questions and Answers

Lars Kjellberg (Credit Suisse): Good morning and thanks for all the details. I just want to get straight back to guidance. Of course, you have a track record of being on the cautious side and I just wanted to hear you out a bit on how you think about the lower end of the guidance range. Is your sense it would be completely flat year-on-year profitability in H2 given what you said about good visibility and the good base on the cost base solid fundamentals near-term and longer term in your business? I just want to hear you out a bit what that lower end of the guidance is or what could potentially drive that?

When you are talking about moderate price declines, I appreciate that you need to share cost benefits with your customer base but can you share with us how those prices are reflected in the cost base or are you still on a positive spread or are you reducing prices more with a backdrop of soft demand?

A final question then is where you talked about improving trends. Q1 was weak in volume terms and Q2 somewhat better. Can you please quantify that and if you also want to talk a bit about what you are seeing heading into Q3? Thank you.

Patrice Lucas: Okay, thanks a lot for these questions. First of all about our guidance, we would just like to say that we are very confident that we will meet this guidance. If I am quite bold I would say that the low part of the guidance, the €1.1 billion, is a given for sure. What I can tell you is based on the visibility we have, H2 EBITDA results will be greater than last year. I guess with these comments I think you can guess where we want to be but this is a mission we have and we are very confident that we are going to deliver it.

Nathalie Delbreuve: Regarding your question, Lars, about price reductions. We have been running moderate and specific price reductions to our customers. It is exactly what you said. In fact, the inflation of our cost base is lower than we anticipated when we planned the price evolution campaign for 2023. In fact, we moderate our prices as inflation is lower. It is a sequential decrease in prices and the spread remains positive. As you can see in those figures, it remains strongly positive. It is really adjusting because we have lower costs. Again, no impact on the spread there.

Lars Kjellberg (Credit Suisse): To answer the volume trajectory Q1 to Q2 and what you are seeing into Q3, please.

Patrice Lucas: About the volumes, as it has been commented by Nathalie, we have seen a strong decrease in beer and to some extent still wine, probably caused by destocking down the chain which is what we strongly believe now. We had a start this year below our expectations especially a slow start which is visible in Germany and France, and a specific one in Chile in Latin America. The good news is that we have a better trend in Q2 compared to Q1. Certainly because we are less impacted in beer in total sales compared to others. Moving forward in H2 we see some recovery. Let us say that we see a slight increase compared to last year, which at the end of the day will lead us to a flattish volume for the year. When I am saying that, it is excluding the UK. It is a pure comparison with last year perimeter. However, what is key here to be clear is that regardless of specific trends we see for H2, we continue to see very strong fundamentals for the industry going forward. For us it is not just a question of how it is going to go in the next month. Obviously, this is important and we are taking that into account to be agile, to adapt and to be flexible. What is much more important for you guys and for us is what is the trend of our business. We see strong fundamentals moving forward, as it has been demonstrated for the past ten years.

Lars Kjellberg (Credit Suisse): Got you. Just to calibrate, could you share with us what your volumes were in H1 in terms of percent change?

Nathalie Delbreuve: No, we do not communicate the actual split of volume. We did view the bridge already. It is very detailed, but again you can take the comments from Patrice for the full year volumes being flattish.

Lars Kjellberg (Credit Suisse): Very good, thank you.

Francisco Ruiz (BNP Exane): Good morning and thank you for taking my questions. I have three questions. The first one is now we have talked about pricing, it is about cost because cost has been significantly reduced from Q1 to Q2, from 23% increase in Q1 to 11% in Q2.

Could you guide us on what should be the sanctions that we should take for the following H2 and next year given the hedging[?] you have?

The second question is on Russia. [Inaudible] has made a big write-down of its Russian business; so could you give us an indication of what value that you have in Russia and if you are thinking along similar movement than this one? I know that the situation is totally different.

The third question is a recurring one, which is on the use of cash. With the current level of leverage of 1.3x you are far away from your mid-term guidance of 2.0-3.0x EBITDA. What are the alternatives and could we see something in the short-term? You have not announced anything yet. Thank you.

Nathalie Delbreuve: Okay, hello, it is difficult for me. The cost we have seen softening inflation in the second quarter, and let us all remember last year's pattern as well with inflation moving up particularly over the year, so the comparison base is important there of course. We see softer inflation but we still see inflation in the second quarter, and for the full year we still see inflation even if again it is softening. We estimate that it will go below 20% but again there is no deflation here that we see on any component of our costs. We have an increase in the cullet that is now a raw material. Here we are above our assumptions of last year, so again overall softer inflation but inflation.

For 2024, you were mentioning hedging, let me be very clear here. As we said, our hedging policy is non-speculative. Remember, it is over a three-year period. As we speak today for 2024, we do not see any negative impact versus current market level of energy prices, even the opposite. We are well-positioned here so far and we continue to roll out our hedging policy as usual, benefitting now from the softer energy cost of course.

Regarding Russia, we are exactly in the same situation as before. You know Russia is around 3% of our total sales. We continue to upgrade and the profitability is absolutely in line. Russia has the cash to operate its business on a normal basis so we have nothing specific to say here.

Francisco Ruiz: Nathalie, could you give us an indication of how much their book value of your Russian assets? Just in case.

Nathalie Delbreuve: In fact I said it is around 3%, so it is even less in our net book value. It is really a limited impact. Again, today there is no sign of anything for us and it is a profitable business. It is very local.

Francisco Ruiz: You never know, probably that depends on you, no?

Nathalie Delbreuve: You never know what tomorrow is for anything. Okay, what can I answer?

Patrice Lucas: Limited impact.

Nathalie Delbreuve: Yes, very limited impact. Anyway we have only two sites there and let us not forget about the size of Verallia.

Regarding the cash, we will continue as always to roll out our strategy there. You have seen in the first half the way that we are reinvesting part of the EBITDA in the capex and in the strategy capex. The first cash allocation is rolling out our capacity increase and CO2 decarbonisation roadmap. Internal growth and strategy is exactly what you see in the free cash flow generation and allocation.

The second target, and we have done that last year, would be M&A. We are still looking very actively and we will take opportunities that make sense for the Group whenever they come.

Then the third allocation is of course returns to our shareholders. You have seen that we significantly increased the dividend this year. We are rolling out a share buyback programme. We are again rolling out our strategy here.

Regarding costs and hedging, you will find in the presentation in the appendix a specific page that maybe we can show, where we have illustrated exactly what our strategy means for 2024 in terms of percentage, just to help you see how we have the impact. Now you see this page which is page 29 of the presentation. Here it is just really putting figures behind the usual page that we always say that is we aim at hedging 85% of our needs over a three-year period. On this slide on the left, it just reminds everyone about the market and you see the TTF natural gas spot price over the period. It is really the market and 2022 levels. Look at the scales, it is really to remind everyone of the levels that we are in and to see that at the end of the graph you see today we are still at a higher level.

On the right side of the slide you have a pie that is just explaining for a year, taking any year, how much percentage of your energy cost is coming from which year. You have the illustration on the right of 2024. When you put yourself in 2024 for Verallia, we will have 15% of our energy cost coming from 2024. This is the portion that we do not hedge. For the hedging, it is the years before and it is stemming from three years. It means in 2024 43% of our energy cost will come from 2023, so we benefit from the lower and softer energy costs. 21% is coming from 2022 but also 21% is coming from 2021. Look again at the graph on the left. In 2022 remember we took a portion every quarter and we did not take a portion at the peaks. Again, the strategy allows us to average and to move and mitigate the volatility. It allows us never to have to take on peak sides which is very powerful. In the end coming back to the overall cost inflation for Verallia, energy is 22% of the cost, and then for the other portion, we will be very much in line with market inflation.

Francisco Ruiz: Thank you very much. That is very helpful.

Patrice Lucas: This is again just to illustrate what I was saying at the end of the presentation, how strong and competitive this hedging policy is. Here you have a clear demonstration. Thanks.

Ephrem Ravi (Citigroup): Thanks, just two questions. Firstly on the cash flow, the working capital increase in terms of requirement was pretty strong at around €190+ million and ate into all your EBITDA increase. Can you call out any particular reasons for that working capital increase? I know inventories were higher but also the payables were lower, so in a downturn on EBITDA, should you expect all the working capital to get completely released or some of this is going to be sticky going forward?

Secondly, just in terms of the way you are thinking about pricing for next year, I know 2024 and 2025 is a little bit further out but are you in principle planning to maintain your price cost spread flat on a per bottle basis or are you looking to increase it? Or will you have to give something back, given general market competition?

Nathalie Delbreuve: Thank you for your questions. Regarding WCR variation, yes indeed, as I explained in the first half the capex WCR you have seen for €78 million negative, so we are paying part of last year's capex in the first half. If we focus on the operating working capital, we have mainly the inventory increase. As we said, the half-year softer volumes led us and allow us to rebuild inventories so that is a very strong negative impact in our working capital variation. It is minus €111 million. And what we target for the second half is basically to stay very close to these inventory levels.

Also in the year, we have some timing with furnace repairs where we had one in the first half year and we have five in the second half. We have some timing here as well. Then you have also another effect that is linked to our spread, I would say, which is that we still have high receivables and we see some lower payables. This is due to the inflation softening that we commented on.

To come back to the second part of your question, in the second half of the year, we should not see the same strong negative impact of inventory in the variation.

For pricing, for 2024, you exactly said it, our target is really again and again to reach a positive spread. We will continue to benefit from the three levers to improve EBITDA. The activity pillar, here if you project yourself into 2024 after a year of 2023 with softer volumes, it should and could be better. The second pillar is the spread, and here our strategy is to have it positive. It is very significantly positive in H1 but if we move to 2024, it is too early but anyway our strategy will be to deliver a positive spread. Then the third lever as always is net PAP, net productivity delivering at least 2% net production cash cost reduction.

Patrice Lucas: To be clear, to say it in another way, we do expect to keep growing our EBITDA next year. This is the way we want to operate. The profile and the contribution of a different level compared to 2023 should be different, may be different. PAP we still aim to deliver our 2% cash cost reduction but we do expect to confirm and maintain a positive spread and have a better contribution from the activity level compared to this year. The good news is that even with the market being lower than our expectations, we are showing strong resilience in 2023. This is going to be an upside for next year.

Before moving to another question, I would just like to come back to Russia because it is obviously better to say it. About Russia we are respecting the sanctions and we are complying with the sanctions both ways. We have organised ourselves to do so and this is why it is important that in Russia we are local for local with local management and they are doing quite a good job delivering what we are expecting. It is better to say it; sanctions obviously are paramount and it is [inaudible] for us.

Ephrem Ravi: Thank you.

Patrice Lucas: Okay. No more questions?

Speaker: I think we have one more question from the internet. There are no more questions on the line. Okay. So, we have a question from Inigo on the web. The first question is can you explain the dilution in LATAM margins versus H1 2022?

The second question was on pricing for 2024 but I think that Nathalie covered it already. The third one is on volumes. Just to be sure that Inigo understood, he has just asked when you say flattish is it for Europe volumes or for the company including LATAM? Thank you.

Patrice Lucas: Okay. So, for volume when I say flattish, this is for the company and this is excluding UK.

Nathalie Delbreuve: For the margin in Latin America, it is really coming from less absorption of fixed costs, as I mentioned. We have a significant decrease in volumes in Chile, as we commented in Q1, and we had the same in Q2 even if the end of the quarter looks better. However, we will see. Also remember we have a second furnace in Jacutinga so there is a ramp-up phase always in order to fully absorb the volumes. It is the main comment I can make. Also let us remember that it is more than 36% of margin which is still above our Group average and the 40.8% was very strong, as was the year last year. Mainly it is fixed cost absorption.

Speaker: Thank you, Nathalie. We have a last question from Quentin Hoareau. I am not sure that we will be able to answer it but I will read it. Can you please share your outlook on the spread going forward in H2 and 2024? I think 2024 has been covered. Is a scenario of negative spread (even short term such as one quarter) is something you can envisage ?

Patrice Lucas: About spread, again for 2024 I think we have already said it. It is going to be positive. This is one of the levers which are driving our profitability. For the outlook in H2, we are not managing the spread quarter-by-quarter. What we are managing is on a yearly basis. You see where we are at the end of H1 and obviously in 2023 spread will be highly contributive.

Speaker: Thank you. I think we have a last question on the call.

Operator: Yes, we do have one more question from [Inaudible]. The line is open now, please go ahead.

Speaker: Hello everybody and thank you for taking my question. I have just one question for next year 2024. What is your current view regarding the balance between the manufacturing capacity in the market and the market volumes? Just to have your view about what is coming in terms of capacity and is it in your view matching the regular growth of the market in Europe? Thank you very much.

Patrice Lucas: Thank you for your question. First, when you speak about capacity, you do not have to be short viewed. We need to look at the mid-term. What is fact is our business is very resilient and has shown regular growth year after year. If you take the last ten years, the market is growing about 2% per year. Maybe one semester, maybe one year you can have a reduction on the growth or a decrease but the trend is there. If you remember, even during the Covid period the market was down minus 1.5%. Less than 2%. What we take to manage capacity is what we believe is quite a secure growth which is about 2% growth over time. If you take 2% growth in Europe it is about 4-5 additional furnaces every year and this is why we have announced that we are going to implement additional capacity at this pace in Europe for the years to come.

We do not see, to be specific for next year, any overcapacity compared to the market. This is not what we see. If it would be the case, we will be able to flex, to adjust and to adapt. However, what is much more important when you are making a decision about capacity is the medium and long-term view you have. Again, we see based on the data we have, based on the growth we estimate, a 2% growth year-over-year.

Speaker: Okay. Many thanks for this. Thank you.

Patrice Lucas: You are welcome.

Operator: Thank you very much. There are no further questions at this time. I will hand it back over to your hosts for closing remarks.

Patrice Lucas: Okay. So, thanks a lot for this session. Thanks a lot for the Q&A. Again, very proud of what we have achieved for the first semester. Very confident for the second semester and much more for 2024 and the years to come with all the action plans we have in our pocket. Thanks a lot. Have a good day and see you soon. Bye, bye.

Nathalie Delbreuve: Thank you. Bye, bye.

[END OF TRANSCRIPT]