Verallia Q3 2023 Results

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Introduction & Key Highlights

Patrice Lucas

CEO, Verallia

Welcome

Good morning, everyone, and welcome to our Q3 conference call. And as usual, it is always a pleasure for Natalie and I to have the opportunity to make this call and to exchange with all of you.

A global leader in glass packaging

To start with, as usual, I would like to remind you, what is Verallia about? So we are a global glass packaging leader. We are number one in Europe. We are number two in Latin America and we are number three worldwide. We benefit from diversified and balanced end markets, which is a strong asset, with our customer base of more than 10,000 customers.

We do operate in 12 countries with 34 glass plants, with 63 furnaces, and we have as well to support our operation, five decoration plants and 12 cullet recycling centres. And we do all of that with our 10,000 employees producing more than 17 billion products.

Cullet, a key resource: Verallia accelerates long-term investments across Europe

Before moving to our financial numbers, a few highlights. First, about cullet. So you all know that cullet is a key resource. It is part of our ESG roadmap to increase period after period recycling and our cullet use in our furnaces.

At Verallia, we accelerate our long-term investments across Europe, and here you have some examples of what we are doing. So first in France, we have completed the upgrade of two treatment centres to maximise colour separation. In Portugal, with our partner ALCUDIA, we are finalising the construction of a new cullet treatment centre, and this new entity named Revimon is starting to operate in October and will support Verallia plant with an additional capacity of treatment of 70,000 tonnes.

In Spain, we have completed the acquisition of a treatment centre close to Seville. This new entity named Infiniver, with a capacity of 60,000 tonnes per year, will prioritise supply to Verallia Portugal plant, and others if needed. And last, in Germany, Verallia, with a partner, Remondis, will finalise the renovation of a treatment centre in Bad Würzach, and this will allow to achieve a state-of-the-art treatment efficiency and as a result, increase the cullet output and cullet availability to our facilities.

ESG: Verallia decarbonisation roadmap on track

About decarbonisation, just to tell you that we are moving forward. We are on track with our roadmap, with, you remember, our two new technologies for the future, the electrical furnace in Cognac, and the hybrid furnace in Zaragoza. The electrical furnace in Cognac will start at the end of Q1 next year, and the hybrid furnace will start at the end of 2024.

And I am pleased to announce today that we are going to build our second hybrid furnace in France, in Saint Romain-le-Puy. This furnace should go into production early 2026. It will be dedicated to coloured glass, and it will replace the current End Port furnace, the current traditional furnace, when it reaches its end of life. And if you remember what we have already shared, this is totally aligned with our strategy. It means that when our traditional furnaces come to the end of life, we will replace them with our new technologies, contributing to our CO2 emission reduction.

Verallia at the forefront of innovation: Launch of Bordelaise Air 300g

Another important topic for us is to keep on being and moving at the forefront of the innovation. And here I am pleased as well to announce that we are launching a new Bordelaise Air bottle with a light weight, 300 grams. So this is for us the reinvention of the classic Bordelaise, lighter and more aesthetic. And it is obviously, as a consequence, less weight and less CO2 emissions. And it is really to go along, to accompany our customer journeys toward decarbonisation.

This will be available at the end of 2023. It will be available in many of the countries and we will start production and delivering to some customers from France, Germany, Spain, and even in Chile, in Latin America. So this is a clear and robust answer, again, to lower CO2 emissions and for our competitiveness.

Very good nine-month results

Now moving to our financial numbers. So thanks to good financial numbers in Q3, despite market volume slowing down during the Summer, we are delivering good and robust Q3 numbers, leading to very good nine-month results. And here you have the main numbers.

So revenues, we are at plus 22.1% versus last year, presenting a 22.5% organic growth. Our adjusted EBITDA is at €950 million, so an increase of 39.9% compared to last year, with a margin closing at 29.8% compared to 26.0% last year. And we keep on delivering good leverage. Our leverage is now at 1.2x, versus 1.3x at the end of June, and compared to 1.1x at the end of September 2022.

I let the floor to Nathalie, who is going to present in detail our financial numbers.

9-Month 2023 Financial Results

Nathalie Delbreuve

CFO, Verallia

9-Month 2023 Consolidated Revenue Variance Analysis

Thank you very much, Patrice, and good morning to all of you. So let us move to the key figures. So as usual, you see our bridge for consolidated revenue. So our total reported revenue moved from €2.518 billion to €3.075 billion, and that is an organic growth of 22.5%, as Patrice just said.

In the bridge, you can see that the volume pillar is negative, with minus €161 million. So as explained, we have lower year-on-year volumes, with a more difficult market than expected in Q3. And it really started in August, so we have seen a weaker August and September than expected. And this is mainly due to slower consumption, we believe, and still destocking down the chain that takes longer than expected.

In Europe, beer for us is still the segment that is most suffering, and on the contrary, we see a good resilience in sparking, in non-alcoholic beverages and also food jars. In Latin America, we have volume up in Brazil, and for the other countries, I mean, Argentina is still affected by the political and macro environment.

If we move to the price mix, you see it is very positive, €728 million. So here we are really on the continuation of H1, with a carryover impact from last year's selling prices and this year's selling prices, and with really specific and moderate price decreases that we started in Q2. We have still a good contribution, positive contribution from the mix.

The exchange rate impact is negative, and this is mainly coming from Argentina. And you can see in the perimeter pillar, the effect of Allied Glass acquisition, so Verallia UK that was acquired in November 2022.

So as a conclusion, a strong organic growth and enjoying the additions of the new UK business.

9-Month 2023 Consolidated Adjusted EBITDA Variance Analysis

So how does this translate into adjusted EBITDA? So we see a very nice improvement in our adjusted EBITDA in euros, moving from €654 million last year to €915 million. And you can see on the top right that the adjusted EBITDA margin is significantly improved from 26.0% last year to 29.8% this year.

Moving to the bridge, the activity as we saw is contributing slightly negative, minus €39.2 million, so this is the effect of the lower volume that I just commented. The spread is significantly positive, contributing to €296.2 million, so it is a continuation of a positive spread and also a positive spread in Q3. And again, the mix is positive also on the EBITDA, so sustainably.

The net productivity, our performance action plan programme continues to deliver steadily, so we are again in the 2% reduction of cash production costs, that is our target and a strong pillar of our EBITDA value addition.

Exchange rates are a negative and this is mainly coming from the Argentinian peso. And in the other pillar, that is positive by €28.2 million, you have specific one-offs like accruals and positive one-offs from last year that we don't have this year. But the main point is the Allied Glass EBITDA contribution that is in line with our business plan before acquisition, and that is just to remind everyone that we have a pure accounting effect here, a negative one-off minus €4.6 million that is also included in this pillar, linked to IFRS 2 application for the acquisition.

So as a conclusion, a strong increase in the adjusted EBITDA and also in the margin.

30 September 2023 Group Net Debt Evolution and Leverage

When we look at the net debt and the leverage, the net debt reduced from €1.4 billion at the end of June to €1.3 billion at the end of September and the leverage is also reducing at 1.2 times. And just to remind that we turned investment grade both for Standard & Poor's and Moody's in H1. So a strong cash generation and continuous deleveraging for these nine months.

30 September 2023 Financial Structure and Liquidity

And here, a reminder of our financial structure and liquidity, so no specific change in the quarter. Just to remind that 89% of our total long-term debt is fixed either by being fixed as bonds or being hedged. And the available liquidity we enjoy is comfortable at €947 million at the end of September.

2023 Outlook

Patrice Lucas

CEO, Verallia

2023 Outlook

Thanks, Nathalie. So a word about our outlook to close the year. So despite a more difficult market environment since August, and you have understood through slower consumption and destocking transition, but thanks to our strong fundamentals and agility, meaning positive spread, PAP contribution and capacity adjustments to the demand we see in Q4 to prepare 2024 for good economic and industrial conditions, we plan to close 2023 within the range of our last EBITDA guidance, meaning we plan to close above €1.1 billion. So this is what I wanted to convey as an outlook for this year.

So now it is time for Q&A. So please feel free to move your questions to us. Thank you.

Questions and Answers

Francisco Ruiz (BNP Paribas): I have three questions. The first one is on the FX. Because Nathalie, you commented that the big impact on this FX headwind comes from Argentina. But remember, or remind us, Argentina is only 4% of the sales, so it looks quite a strong impact in the quarter isolated just for Argentina. And can you give us an idea of what do you expect for the Q4?

The second question is on the sales guidance. Patrice, you have now mentioned you are above 20% sales guidance for this year. Is it still valid, or are we going to see a lower top line growth?

And last but not least, you have commented on some curtail on production in order to adequate your supply to the current demand. Can you give us an idea of the size and the impact on profitability that this could have?

Nathalie Delbreuve: Thank you, Francisco, for your question. So I will start with Argentina. So you are right, Argentina is not a large part of the Group. So you are right about your comment.

Now there is a specific political situation in Argentina, meaning we are in the middle of the elections. So it started in August, and will end in December. So what we have seen is already a kind of devaluation of the Argentinian peso in August by around 20%. So even, if the size of the country is limited for Verallia, that is why we see this significant FX impact.

And in our year-end guidance outlook, yes, we do include an additional negative forex, which is covered in our outlook, as the end of the elections are not yet.

Patrice Lucas: Okay. So Francisco, about our sales guidance or sales orientation we gave this year, it is right, we are expecting to exceed 20%. As we see the trend right now, and with the volatility of the market, we are seeing much more to be close to 20%. But what is much more important for us is to focus on the profitability of the company and focus on delivering our EBITDA guidance. And you have understood that we are maintaining our EBITDA guidance within the range; the low part of the range, but within the range. And this is the focus we're going to have.

Francisco Ruiz: So Patrice, a follow-up on this. So maybe what's your assumption in terms of volumes for Q4?

Patrice Lucas: Well, in terms of volume for Q4, I mean, we do not see recovery as we were expecting before the Summer. So we see something which could be aligned, but again, you see the high volatility, you see our customers' communication. I guess you have seen, for instance, LVMH on the wine and spirits business unit communicated in Q3, minus 14% in revenue, which is much stronger, obviously on volume.

So it is hard to be assertive, again, given the low visibility. But again, we do not expect a significant recovery in demand at this stage, as we believe that most of the customers may continue to optimise their inventory and cash until the year end. So this is the assumption we have taken for our reforecast, and this is why, again, with this low demand, we have decided to adjust capacity to the demand, and we are adjusting capacity to the demand in the smartest way.

So globally, I can tell you that we are going to adjust around 20% of our total capacity production in the smartest way, because it means that you know that we always have some furnace repairs in our schedule. So here, what we are doing in some cases, we are anticipating some maintenance with cold stop, and we will restart accordingly with the demand, when we will see the demand back.

What is very important for us is to act with rigour and professionalism, is to keep the control of our inventory, and this is what we are going to do. So we are going to adjust our capacity to the demand.

Jean-Francois Granjon (ODDO BHF): You already answered some questions. But nevertheless, I just want to come back on the adjustment of the capacity. Could you be more precise on what you want to do to adjust the capacity, is my first question. The second question, how do you see the volume trend or evolution next year in 2024? Do you expect for the volume a recovery or better trend for the volume next year in 2024?

The third question, how do you expect the spread effect in Q4? It was a good surprise for Q3 with a positive spread effect, but what do you expect for the spread effect for Q4? And for sure, what is the trend for the prices? Do you confirm some decrease of the price in Q3, and what do you expect for Q4?

Patrice Lucas: Thank you. So about capacity adjustment, again, we are adapting to the demand. We are doing that in a smart way to limit fixed cost impact as much as possible, and we have some maintenance which was scheduled, and we are anticipating some of it, which means having some cold stop and maintenance. And for others, we are stopping one line. For instance, we have some furnace which is running with four lines, we are stopping one line, and so three will run out of four, and we will reduce the pool of glass from the furnace.

So all of that, I mean, is good news. It is showing our ability and flexibility to adapt to the demand, to keep the control of our inventory and cash generation. And what is much more important is that by doing so, we are preparing ourselves for good economic and industrial conditions for 2024. Still with the objective to close 2023 with a good EBITDA and financial performance.

About volume for 2024, I mean, what I want to convey is that, again, we are very confident about the fundamentals of the market. So it means that medium and long-term, we see the market growing. There is no doubt in our mind about that. As we already said, maybe we have to go through some quarters with variations depending on the microeconomics, depending even on some geopolitical situation in some cases. But to be a little bit more precise, we clearly expect demand to improve in 2024 as the destocking impact by nature is temporary. The question is the speed and the extent of the rebound and that will depend on end market trends and the macro environment, and the termination, as I have just said, of the 2023 destocking.

It means that certainly we will see the recovery of volumes of market over time in 2024. We can certainly guess that Q1 is not going to be an easy one, but we see some recovery during the year. And regardless, I would say, of short-term demand trends, we remain very comfortable, again, with the industry, with our fundamentals, and just want you to be conscious of the fact that we can deliver strong performance even in an unusual weak-demand environment. And this is, for me, a very strong satisfaction with the work we are doing with the team. It is a strong asset for Verallia and a clear demonstration of our resilience.

So to make it simple, fundamentals are still very positive, medium and long-term. We see a recovery in 2024. When is it going to take place? Difficult to be definitive on that due to the volatility, but it will come back. And at least, we will benefit from the destocking effect ending, I guess, at the end of this year.

Nathalie Delbreuve: So just maybe adding to the volume questions and being a bit more specific for the previous question from Francisco, on Q4, indeed, as Patrice said, there is not so much visibility, but in our outlook, to be more precise, we did consider a slight decrease still versus last year, knowing that last year was already with a lower H2 than H1.

Coming back to the question on the spread, so indeed, you very well noted that the spread in Q3 is positive, was positive. And for Q4, as we speak today, we see also a slightly positive spread. So of course, with the comparison and going throughout the year, we do not have the same magnitude of spread as H1, but we still see a slightly positive spread for Q4, and for sure, we will end the year with a nicely positive spread.

And so for prices, actually, what we are doing now is, I would say, smart pricing. We explained in July that we are applying some specific and moderate reductions, and we explained that our assumptions of inflation one year ago for 2023 were higher than what we see, so we are just giving back part of the difference. So we are still in that move in Q3 and in Q4.

As for 2024, I mean, we are preparing currently our budget. We are preparing our assumptions for cost inflation. And today, we do not see a massive deflation in cost, but it is really depending on the nature of cost. And we will, again, prepare to have the price evolution in 2024 with our customers to deliver a positive spread.

And just to remind that our portfolio is with limited predetermined formulas, so price adjustment formulas. So every year, we assess the inflation of our cost, and we then prepare our campaign for prices.

Jean-Francois Granjon: Just one point, a final point. For the spread effect, so if I well understand, you expect some positive spread for Q4. So you are comfortable to expect more than €300 million spread effect for the full year? Is this okay?

Nathalie Delbreuve: I said that it would be limited and it is getting very close to zero. So we will see. And again, let us be a bit cautious because you have seen the volatility of the costs, but yes, that could be close to it.

Alessandro Cecchini (Equita): Just to understand the trend in volumes, so over the last years, at least looking at the European market, we had plus 3% according to your figures in terms of volumes. Then 2022 was plus 1.7%. So it seems to me that, I mean, this short-term historical period, the industry was not so hugely positively influenced by some factors and so on. So what is probably difficult for us to understand, and probably also for you, given this sudden slowdown in volumes, is to understand destocking effect. If you could elaborate a little bit more on this, because it seems harder to understand this kind of sudden destocking from clients in Europe in the food and beverage business? So this is my first question.

The second question is about your qualitative assumptions for next year. So you are probably assuming positive volumes and positive price/cost spread. So basically, you are still expecting that your EBITDA can expand in 2024. So just to understand your point.

Patrice Lucas: Thanks a lot for the questions. So about the volume trend, I think, first of all, we need to step back a little bit and look at the data, not just 2021, 2022, 2023. I think historical data, again, are showing that we see a food and beverage market being on a regular growth. And what we see is about a 2% growth.

To say it differently, we see it growing per GDP, as GDP is evolving. What we need to recognise is that COVID has disturbed everything. And we have seen in 2020, the market slightly going down, but not so much. It was down below minus 2%. And then post-COVID, we have seen a strong reaction of the market in 2021, so strong recovery. So this growth between 2020 and 2021 could not be seen as regular growth. And then in 2022, again. And then we are now in 2023, I see the market going down.

And on top of that, there is obviously something which is related with the shortage of glass, which was taking place last year, and everybody trying to secure some supplies. If you remember in H2 last year, we were, the overall industry, running after the demand to be able to well serve the demand.

We were in a situation where there was a flight of gas supply, meaning some customers could have in mind that at a point of time, there will be a problem with business continuity. Even if ourselves we are well-prepared and we had expressed a clear plan, how we would be able to ensure business continuity. But this was in the mindset of some customers. And we can guess as well that some of the customers maybe increased stocks at the end of last year before moving to 2023 and with some additional price increase. So all of that for me are three levers, which have led to increase in stock of our customers.

And then we have 2023 market, which is slowing down, and especially with the Summer, which was not at the expected level. So which is creating this slowdown. And this destocking effect, again, is going to end. It is going to end at a point of time. And we believe that it is going to end at the end of the year. Because I do not see most of our customers increasing their stock or buying before the end of the year, but much more focused on cleaning their balance sheet and reducing as much as possible their inventory level.

For assumption for next year, as it has been explained by Nathalie, obviously it is a little early to discuss about it. So we will be back to you in February with our assumptions and with our guidance for 2024. But you are right, what I can say at this stage, first of all, we have the ambition to keep on growing our EBITDA. And for sure, we are going to use, as usual, our three levers.

Activity, we believe we will see some activity growth, at least coming from this destocking impact we have in 2023. Spread, we are going to do what is needed to manage our spread, meaning mix plus price minus cost to be a zero price. And then, as usual, we will get our PAP activity, which will contribute to our profitability growth. Keep in mind that each time we are making 2% of cash cost reduction, which is the objective of our PAP, we are increasing our margin by 100 bps, 120 bps.

What we can say, compared to this year is the profile and the impact of these three levers is going to be different. We can expect activity and PAP to contribute and spread to be a zero plus, not as what we see today. So this is what we are working on again with all the divisions, working on the assumptions, trying to understand better the market and what it could be next year, and then we will be back to you at the end of February 2024.

Speaker: Okay. I think we just had two written questions. One relates to the pricing outlook for 2024, but I think we have more or less covered that. And the other question relates for Q3 to the volume split between Europe and Latin America.

Nathalie Delbreuve: So in Q3, in fact, I would say the surprise of the lower volumes is really from Europe. If we focus on Latin America, we have an increase in volumes in Brazil, as I commented. And in fact, we're in the same situation as H1 for Chile and Argentina. We already told you in July that we saw some slowdown in both countries. So it is a little bit better in Chile and Argentina in the continuity. But in Brazil, we see an increase in volumes in this geography and we benefit also from the additional furnace that we started at the end of last year. So very happy.

Speaker: And I think that's that in terms of written questions. Wait, one more. Apparently, there is one more question on the phone.

Jean-Francois Granjon: Just two questions. Could you give us the split of the sales for the LATAM between Brazil, Chile, and Argentina? And the percentage of the contribution for the EBITDA? And the last question concerns the one-off. You mentioned some one-off for the other impacts on the EBITDA. So you mentioned the positive contribution from Allied Glass, but you also mentioned some one-off costs. Could you come back about that?

Nathalie Delbreuve: Yes. Hello, Jean-Francois. Good morning. So we do not give the split that you ask for, for sales by country. But in LATAM, Brazil is by far the largest country. That is the only thing I can tell you. And the growth is in Brazil and this is where we are adding capacity. So we already added one furnace, again, that is now fully contributing.

And same for the contribution of the region. LATAM is around 10% of our activity, but I cannot say too much more.

In the other pillar, actually, when I mentioned some specific negative one-offs, it will be some accruals for some quality topics or on the Petrópolis topic that we had in Brazil. That is a customer where we booked some provisions. So that is this type of one-off. So it is not so significant but we currently show it in the Other column.

And then you have the minus €4.6 million, still of the IFRS 2 accounting on the UK acquisition. That is, of course, a temporary one that we won't have next year.

Patrice Lucas: Okay. So if there is not any additional question, so thanks a lot for your attention. Thanks a lot for your questions. And please, let us see each other in February next year. Take care. Bye-bye.

Nathalie Delbreuve: Thank you very much. Bye-bye.

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