Verallia FY 2023 results – 15 February 2024

PATRICE LUCAS

Good morning, everyone, and welcome to our Full-year 2023 result call. As usual, Nathalie and I will go through our presentation, and we will have our Q&A session. I will share with you some key highlights. Nathalie will present in detail our numbers, and then I will present our guidance.

To start with, just to remind you that Verallia is a global leader in glass packaging. We are number one in Europe, number two in Latin America and number three worldwide. One of our strong assets is our customer base, more than 10,000, and the diversified and balanced markets in which we operate. On this chart, you have an update of our ID card with our 2023 numbers. Compared to 2022, still wine moved from 35% to 31%, minus four points. Spirits increased from 13% to 16%, plus three points, explained mostly by the acquisition of Allied Glass at the end of 2022. And finally, food increased by one point.

We do operate in 12 countries with 34 plants and 63 furnaces, and we have increased our cullet treatment facilities from 12 to 19, plus seven, with the latest acquisitions in Iberia.

Let us move to key highlights of the year. In 2023, we did a lot, and we had major achievements to well prepare our future. One is obviously our financial performance EBITDA is the highest ever crossing the bar of €1 billion. And another way of looking at it is 2023 EBITDA has been multiplied by two since 2017, and we were also able to generate again a strong cash performance and to continue deleveraging.

Two, thanks to team commitment and agility, we are able to control our inventory level. Meaning in H1, we took the benefit of a low demand to rebuild our inventory at standard level, and we decided to adapt strongly in H2 to well-prepared 2024. Meaning we accepted to take some bad news on production cost, closing some lines, but we did also some smart management of furnace repairs, anticipated the stop and/or delaying the restart on a case by case.

Three, we also strengthen our financial structure with €1.1 billion refinancing, meaning that we do not have any significant maturity until 2027.

Four, we successfully integrated Allied Glass, implementing synergies and preparing the future, implementing our industrial standards and for instance, that methodology is now in place in UK and first results should be recorded in 2024.

Five, we kept our focus on implementing our ESG and decarbonation roadmap, a key lever and differentiator for the future with new light products. And here I am referring to our *Bordelaise Air* product, 300-gram bottles, minus 17% less weight and CO2 than a standard bottle. And we are also focused on our new furnace technologies.

So despite the challenging market environment in 2023, especially in the second part of the year, we continue to deliver a strong performance. Revenue is up by +16.5% to €3.904 billion, organic growth +21.4%, adjusted EBITDA €1.108 billion, +28% compared to 2022, with a margin at 28.4%, +256 bps compared to last year. Net income is at €475 million, +33.7% compared to last year, with an EPS of more than €4.00 - €4.02. And we kept on deleveraging the company compared to 1.6x end of 2022, we ended at 1.2x after all the cash-out coming from dividends, share buybacks and the acquisition of our treatment centres.

As far as dividend, we are proposing a dividend of €2.15, which is an increase of 54% compared to last year. And finally on our extra-financial indicators, we keep on progressing on CO2 emission reduction minus 5.6% compared to 2022, which is giving us a cumulative reduction of 15.8% compared to 2019. And external cullet was still at a high level at 54.1% even if below last year.

In 2023, we continued our progress in ESG performance, and it is rewarding to see that it does materialise in the evolution of our ratings. With CDP first, we maintain our A-rating despite expectations increasing year after year. Also, for the first time, we participated in the water security category and we received a B rating. And finally, with MSCI our rating has just been upgraded to A, showing a continuous progress over the past four years. All of that is just demonstrating the robustness of our actions and our commitment as a leader to pave the way on ESG. There is no doubt that by doing so, we are well-positioned for future growth.

On CO2 emissions reduction, we are on track and progressing toward our target of minus 46% compared to 2019. In 2023, we reduced our Scope 1 and 2 emissions by 5.6% compared to 2022 and compared to 2019 we are already at minus 15.8%. To do so, we continued to roll out our energy consumption reduction programs, and please note that in 2023 our share of low-carbon electricity reached 60% compared to 50% in 2022.

In 2023, we invested again in cullet.

Glass packaging is having a significant advantage compared to other substrates in the circular economy, as we are closing the loop and we are committed to play a key role on this matter.

In LATAM, we invested in boxes to increase the collection rate and our external cullet usage went up to 36%. In Western Europe, our usage percentage was down almost two points, but still at very high level. We invested in France and Germany to modernise our treatment facilities to better master quality and improve efficiency. And in Spain, we made the acquisition of five additional treatment facilities at the end of 2023. This will support our sourcing plan to keep on increasing cullet rate usage.

In 2023, we are also focused on innovation with our new furnace technologies, which are a key pillar in our decarbonation roadmap, and I can tell you that we are on track. We have three ongoing projects to replace traditional furnaces, and we will have two launches in 2024, our world premiere in Cognac with our 100% electrical furnace to be launched in Q2, and our hybrid furnace at the end of 2024 at Zaragoza. And as already communicated, we will launch at Saint Romain-le Puy a hybrid furnace beginning of 2026.

About additional capacity, I want to share with you a decision we have made to adapt our plans to current market conditions. Firstly, we confirm the additional capacity in Brazil at Campo Bom and in Italy at Pescia. Industrial phase of these projects is going on, but we have decided to postpone the start of production. Campo Bom will be delayed by six months and will start in Q3 2024 and Pescia will be delayed by nine months to start in Q2 2025. This is to reflect current market reality and to be ready for the second part of the year.

Two, at the beginning of 2023, we announced additional capacity in Spain, in Montblanc for 2025 and in Italy for 2026. I want to inform you that we have decided to put them on hold. We are still working on the technical studies, but technology and timing will have to be confirmed; and as we speak, we do not see the need for a launch in Montblanc before Q1 2027.

To conclude this first part, just want to remind you that we are on track, on track to deliver our target of our 2022-24 midterm plan. On organic growth, we are above 20%, looking at 21-23 CAGR compared to +4%-+6% announced, obviously in a different configuration, in a different environment. Adjusted EBITDA margin, we closed 2023 at 28.4%, within the range provided at that moment. And please keep in mind that the implied 2024 EBITDA in Europe was between €800 million and €950 million.

Cumulative free cash flow, when we look at 2022 plus '23, we are above €700 million, €729 million, which is totally in line with the objective of €900 million over three years. EPS excluding the PPA, so 2023 is showing a number of €4.40 compared to a commitment of €3.00 in 2024. And about shareholder return policy, our commitment was a DPS growth of 10% or greater than 10% per annum and when we look at 2021-24, we are at +31%. Share buyback, we did one in 2022-23, €50 million. So again, we are ticking the box on these five KPIs. We are delivering our numbers. We are walking the talk.

Now, I hand the floor to Nathalie to comment in detail our 2023 financial performance.

NATHALIE DELBREUVE

Thank you, Patrice, and good morning, good afternoon, everyone. Let me lead you through the 2023 numbers, and we start with the consolidated revenue. So you see on this chart, as usual, the bridge between our sales of 2022 that were €3.352 billion up to €3.904 billion in 2023. So this represents an organic growth of 21.4%. And please keep in mind, I will come back to that, that we have Argentina in our perimeter, and we have some specific impact this year with the devaluation. Excluding Argentina, organic growth is +14.3%. In Q4, the organic growth for the Group is +18.1%, but is very close to 2% if you exclude Argentina.

Negative volume, so pillar that you see here, we have seen negative volume impact, especially in H2. We commented in October that we were seeing a significant reduction in volumes, slower consumption and significant destocking down the chain in the whole second semester.

If we look by product category and make some comments here. So the strongest decline is in beer and to a lesser extent in still wine. We see more resilience in the spirits, especially in H1. However, we have also seen some reduction in H2. And in fact, over the full year, the more resilient segment categories are food jars, non-alcoholic beverages and sparkling wine. You see in this bridge that the price mix pillar is very positive. And we have specific comments here. So in Latin America, let us start with that, we have the selling price variation to adapt to local inflation, with again the specific one in Argentina that is significant, especially this year. And in Europe, if we look at the year, we have increased prices, if you remember already at the end of 2022 and then early 2023, and then we started to have some moderate price reduction in the second half.

We also can note a positive mix contribution to this pillar, and also, you will see through the EBITDA bridge throughout the year. So the foreign exchange is negative. And here again, Argentinian peso mainly. And then nice to see the contribution of Allied Glass. So Verallia UK now, for €203 million. Just to remember that we made the acquisition of Allied Glass on 8 November 2022. So it is a nice add-on to the Group.

If we look now by geography, so South and West Europe revenue evolution +13%. Here again, we have basically the main comments I did for the Group. So we have especially in H2 lower year-on-year volume. The beer is most affected in the categories, and we saw some slowdown in the spirits, for example cognac, in H2. But again resilient markets also, food jars and NAB and sparkling wine. If you remember, we have a very balanced product portfolio, mitigating the lower trend in the beer and spirits in this region as well. And the positive mix is especially in this region, as it is mainly driven by Italy.

Moving now to Northern and Eastern Europe revenues. Here we have a Scope impact as we had the UK perimeter impact. Again, nice to see that. And here volumes are also down. Just a mention about Ukraine to say that we reopened the second furnace in early 2023. But we see unfortunately the decline in beer and still wine, especially in Germany, that is weighing on the volumes.

If we move to Latin America, here you can very well see the impact of the foreign exchange impact of Argentina. Just to remind everyone that we have hyperinflation accounting in Argentina for many years now, which implies that you use the exchange rate of the last day of the period to value the full P&L. In fact, we have the impact of this revaluation that is weighing on the top-line and much less on the EBITDA.

If we look now at constant exchange rate and Scope, we can see that we have an increase in the sales, and it is both volume here and prices.

Moving now to the consolidated adjusted EBITDA. We are moving from €866 million in 2022 up to €1.108 billion in 2023. Indeed, above 1 billion. If you look at the different pillars in this bridge, you have a negative activity minus €155 million. And this is just the result of the previous comments. We have seen again volumes down versus 2022, especially in H2. And we have made some capacity adjustment accordingly in H2, after the rebuild of the inventories in H1.

Now the spread is contributing very positively. It was also positive in Q4 and ends at €392.8 million, mainly driven by price and cost but also by the mix. You can see the net PAP, our continuous improvement of production cash cost in all the plants, is contributing like every year, and we succeeded into reducing our cash production cost by 2.1%. That leads to plus €52.5 million to the EBITDA.

The exchange rate impact is significant and here it is mainly driven by Argentinian peso. And in the Other pillar +€41.6 million, you have in a positive way the Allied Glass contribution and some negative items like provisions or some inflation on SG&A spread over the regions. And overall, important to mention that Allied Glass EBITDA contribution for the year is absolutely in line with our expectations before the acquisition.

If we move to EBITDA by region, South and West Europe adjusted EBITDA evolution, nice to see that the adjusted EBITDA margin, on the top-right, is increasing from 24.8% up to 28.7%. And here you have basically the same drivers as what we saw for the Group bridge, including a good industrial performance.

If we move to Northern and Eastern Europe adjusted EBITDA evolution, also an increase in the margin from 21.1% up to 24.9% with here included a relative impact of Allied, so UK integration and improvement in also the rest also driven by the pillars that we have seen previously, and we have here some negative effect impact coming from the ruble and Ukrainian currency.

If we move to Latin America, adjusted EBITDA evolution, here we see a reduction in the adjusted EBITDA margin and the absolute value, and I am coming to that. So the margin, if you remember, in 2022 was really high, 39.2%. We are still in 2023 at a very nice margin level, 34.9%, but a bit less than 2022. If we move now to the left and see at the FX impact, you can see that in absolute value we are reducing the adjusted EBITDA, but corrected from FX, we have a nice increase here again, driven mainly by here the three pillars, but mainly the spread, and we have a strong industrial performance again in the region.

Now, let us go to cash elements. Here, as usual, you see the CAPEX evolution. We have kept CAPEX well under control despite the reduction in activity in the second half of the year. So we end the year with 10.7% of sales of CAPEX, and you can see compared to previous year that in fact we are increasing the strategic CAPEX. And to remember, strategic CAPEX comprise the additional capacity plus the CO2 emission reductions. Here we have ongoing the construction of two new furnaces for 2024, Campo Bom and Pescia. And in the CO2, of course, we have the impact of what Patrice presented, and we have the Cognac electrical furnace coming soon.

That leads to a Group cash flow generation of €365.3 million, that is very much in line with previous year. And you can see that it starts with strong adjusted EBITDA, contained CAPEX, so a strong cash conversion. The change in operating working capital is mainly driven by the inventory in H1 and was well kept under control in H2. And then Other operating impact, nothing really specific, it is mainly IFRS 16 adjustment. And we see some increase, but here again contained, in the interest paid and financing cost, mainly driven by our short-term financing. And let us remember that 89% of our long-term debt is fixed. And in the end, the cash tax is increasing alongside the increase of the results. So another year of strong free cash flow generation.

That leads to net debt leverage of 1.2x, and this is after €209 million cash return to the shareholders in 2023, so the dividend and €42 million of the €50 million share buyback program. And again, we have had the investment-grade rating upgrade in H1.

In the financial structure and liquidity, no change here compared to previous quarter. However, just to remind that we have a well-balanced financing structure with well-spread maturities, and we enjoy a liquidity of €866 million.

PATRICE LUCAS

Thanks, Nathalie. For our guidance, let me share first our view of the European glass market. Here on this chart you have from 2012 to H1 2023 the official data from FEVE, the European Glass Producer Federation. Historical data from 2012 to 2019 are showing that annual growth was regular with a CAGR of 2%. Then, in 2020 with COVID, we entered in a different era with a different pattern compared to previous years. After a moderate drop in 2020 due to lockdowns, we move from +2% to +4.4% CAGR between 2020 and 2022. More precisely, and to step back, in 2020, despite the lockdown in different countries, market was very resilient with just a market decrease of minus 1.5%, and you remember that consumption at home increased a lot, which was totally unexpected. And for us glassmakers, to follow this unforecasted demand, facing non-optimal conditions to operate with absenteeism at that time, we started to decrease under our inventory level.

Then in 2021, post-COVID, we faced a strong growth due to high end-demand and we were running production at maximum and inventory kept on decreasing to serve our customers. Then in 2022, demand was again high and the conflict between Russia and Ukraine has further disrupted the supply chain. Many of our customers were afraid about not getting their glass packaging to do their own business. And remember that at the end of 2022, we were talking about gas supply restrictions in Europe due to embargo measures with Russia; meaning that many customers reacted in a way to secure and inflate some inventory to ensure good business continuity.

And then 2023, and 2023 is a totally different story. After two years of high inflation in Europe, unprecedented for the past 40 years, the demand was impacted by a lower consumer consumption amplified by high level of inventory in the overall supply chain and on top in a context of high interest rates. As a consequence, H1 2023, according to FEVE numbers, is showing that the market is down by minus 9.5% in H1. And we know that it has further decreased since Summer 2023.

So what does it mean for the semesters to come? Good news is that this destocking will end at a point of time, and we believe that at the end of H1 it should be normalised. And inflation slowing down, we foresee consumer purchasing power recovering in 2024 and beyond.

In a nutshell, our assumption is that 2024 will be a year of normalisation. Volume will gradually recover during the year, with H1 certainly being lower than last year, but H2 higher. And we see sequential improvement quarter after quarter, Q1 2024 being better than Q4 2023 and Q2 2024 progressing compared to Q1. This normalisation being effective, we believe that 2025 and beyond will be back to historical and normal performance of +2% growth per annum.

We remain very positive and confident in the medium- and long-term resilience and growth of the food and beverage business and on glass packaging. Given this gradual rebound in activity and volumes up year-on-year, combined with our strong performance action plan, our objective is to deliver an adjusted EBITDA of around €1 billion in 2024 with a sequential improvement through the year. Due to the basis comparison, H1 2024 will be lower than 2023 and H2 will be higher than H2 2023.

To finish and complete our presentation, I want to share with you how we see the contribution of our operational pillars, our three operational pillars, impacting our EBITDA bridge. On the left, as a reminder, you have our 2023-22 EBITDA bridge, and on the right an illustration of what we project for 2024 and 2023 bridge. In 2024 compared to 2023, our first pillar of activity, activity recovering through the year, we see a positive contribution of the activity, and it will start being red and then turn green through the year, with the activity again recovering gradually along the year.

Two, about spread, we maintain our policy of spread management to be spread neutral in 2024. Meaning that compared to end of 2023, prices will be reduced in the same order of magnitude than our costs in 2024. However, obviously, in the bridge, the variation of spread will be negative due to the high level of comparison and due to the carry-over effect of price reductions done during the year in 2023, which will impact 2024.

Three, we do expect, as usual, our performance action plan to deliver a minimum of 2% cash cost reduction for a positive contribution.

Based on these three pillars and the way it is going to impact 2023, we see again our 2024 EBITDA around €1 billion in 2024.'

Thanks for your attention, and I think we can move now to the Q&A session.

QUESTIONS AND ANSWERS

Operator: Thank you. Ladies and gentlemen, as a reminder, 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 Patrick Mann with Bank of America. Please go ahead.

Patrick Mann (Bank of America): Thank you very much for the presentation. Good day, guys. I just want to ask a little bit more about the price mix and cost spread. Obviously, it has been very successful over the past two years in increasing EBITDA, and you have hit your 28 30% EBITDA target. Is that sort of structural shift higher in your EBITDA margins from this done now? And I think you alluded to that, Patrice, where you said you are targeting a neutral from here. Just trying to understand if we should assume that you have reached the peak of your pricing power or your margin expansion. And then maybe related to that, can you just talk a little bit about mix, the impact that mix has here? How much further do you think you could drive mix as a way to improve the spread and increase margins? Maybe what percentage of your production or revenue is going into higher margin, better mix products, and where do you think you can take that over the next few years? Thanks very much.

Patrice Lucas: Thanks a lot for your question, your two questions. About spread, maybe what we could say is that we see a low-single-digit decrease in cost base with a decrease in energy, certain raw materials, and offset by moderate growth in personnel costs. So we see our costs going down low-single-digit in 2024. As a consequence, you know that our management is to align our price reduction within the year according to our cost evolution. So cost reduction for 2024. Our objective is to retain this neutral spread for 2024. And as you have understood, due to the high comparison in 2023, and the carry-over of what we did as price reductions in 2023, it will have an impact in the variation of spread in 2024.

Pricing power is a question on how we manage that. It means that this is our policy. So if cost goes up, we need to push for selling price up. If costs go down, we manage the reduction of our pricing, and then we need to consider as well that there is a competitive landscape. So this is all a balance that we have to manage here. And delivering €1 billion profitability in 2024 would be a nice result, nice profitability, high level profitability. And this is what we are going to shoot for. And we see the way to get there.

About mix, it is always difficult to predict mix due to the market, due to the number of SKUs, due to the demand we have. However, this is a clear objective we have to improve our mix, and we have been quite successful lately to do so. And we are going to keep on doing that. Premiumisation is a target for us. We have high-end valued products that we are focusing on. The acquisition of Allied in UK was a clear purpose for that. So we are going to keep on working on our mix on a daily basis. However, as you know, we are quite cautious on mix because very difficult to anticipate. And the assumptions we are always taking when we are projecting ourselves is to be kind of neutral, and then we try to get the upside from the mix

Patrick Mann: Thank you.

Nathalie Delbreuve: I think when you ask about the margin, just to remember that the margin improvement does not only come from pricing power. And this is also what we wanted to show with the last slide on the pillars with the bridge. We have the activity pillar, and it is suffering now, but it will come back, and we have the PAP pillar that is really our internal pillar to reduce production cash cost over the year, and we have been delivering that for years now and we will continue.

Patrick Mann: Thanks. Maybe one follow-up if I can. Allied Glass seems to have been a very good acquisition in terms of your strategy and slotting in. Do you see opportunity for more M&A like that?

Patrice Lucas: First of all, stepping by, I think what it was interesting with Allied. So it is a positioning new territory. And we have demonstrated in 2023 our ability to make good integration of this bolt-on acquisition. Obviously, it is giving us some ideas, and as we have always said, we are continuously making some screening of some opportunities and there are ones, we will try to get them. Each time it has to make sense, it has to create value, it has to be relevant and consistent with our strategy. However, yes, we are looking for that. It takes time. It needs to be aligned with a target. However, as we always said, we are looking for opportunities. And if there are some, we will take them.

Patrick Mann: Thank you.

Francisco Ruiz Martin: Hello. Good morning. I have three questions if I may. The first question is, if you could give a little bit more colour on what has been the impact of the cut in production in Q4, in your activity in volumes in EBITDA?

The second question is, if I look at your nine-month figure in terms of volume contribution in sales and at end of the year, the Q4 result in a positive volume contribution. Could you explain us what was the impact of this?

And last but not least, also I saw that receivable has declined significantly. So if you could give us also a reason for such a big decline? Thank you.

Nathalie Delbreuve: Okay. Thank you. Thank you, Francisco, for your questions. Please do not hesitate if I forget something, especially about the first one. I think your question was about Q4 and adjustment of production and production cost. In fact, we had the Q4 very much in line with Q3, in terms of activity, in terms of volumes. And I will come back to your next question about the activity impact in the sales. However, if we look at Europe, we had a volume reduction in Q3. We commented that was around 10%. And basically Q4, that is not a surprise, that is what we anticipated, was a little bit better, but very much in line. And so what we already said in October is that we adjust our production level in order to keep our inventory basically at the level they had at the end of H1 because we needed to rebuild inventory. We did so in H1 2023. And then we are keeping the right level of inventory and the right quality also of inventory to address 2024. So basically, in Q4, we did exactly the same as in Q3, regarding to that.

And now regarding the sales bridge and the nine months versus the full year. In fact, when we look at the Group sales bridge, Q4 is basically polluted by Argentina with some hyperinflation bookings. If we would see a Europe bridge there, you would see a negative Q4 in the activity pillar. So Latin America is offsetting, in fact, the effect.

And regarding your last question about receivables, yes, they reduced at the end of December. We had a low month of December. It is always a low month, but here it was lower than usual. And especially December, us and our customers had a longer, I would say, Christmas break. So receivable decreased indeed significantly at the end of December.

Francisco Ruiz Martin: Just a follow-up. How it is possible that Argentina hyperinflation impact volumes? Should not be in FX or in pricing?

Nathalie Delbreuve: Yes, it is a presentation topic. In fact, Paco, we have always presented part of the hyperinflation bookings in the activity in order to have the right level of price measurement. So it is really a specific one that in Q4 it has an impact because there is a retroactive calculation. So it is not a new presentation, but usually, it has a very limited impact. And in Q4 especially, we have this specific impact. So that is why, in our press release, we always comment organic growth with and without Argentina. And this year it is unfortunately polluting because the devaluation was in December. It is 53% devaluation on the Argentinian peso in December.

Francisco Ruiz Martin: Could you please give us the figure, in terms of volumes, I mean, what is the tons?

Nathalie Delbreuve: Underlying volume in Argentina is in line with Q3. So volumes in Argentina are below 2022, they are lower since actually Q2. And it was very much in line. So it is not at all a drop in volumes or a big up in volumes. It is purely accounting here.

Operator: Thank you. We currently have no questions coming to the audio line. I would like to hand over for the written questions. Over to you.

David Placet: Okay, good morning. This is David Placet speaking. I am the Head of IR for the Group. I am going to walk you through the written questions. And we do have quite a few of them this morning. First question from Inigo Egusquiza, is about – there's four or five questions there. The first is about the quarterly volume evolution, so, how about the volume evolution in Q4? I think that basically is the same as the previous question, more or less. And the answer, I guess, is just that underlying volume trend, like Nathalie said, was more or less in line with Q3. The second question, which may have been covered as well, is how much one-offs are linked to under-utilisation of capacity in Q4.

Nathalie Delbreuve: Hello, Inigo. Thank you for your questions. Indeed, yes, sequential volume evolution, as we said already, in Q4 was very much in line in Europe with Q3, a little bit better. I think this is answering the question indeed. In terms of under-utilisation, in the activity pillar of the bridge, you have, in fact, the impact here of the fixed costs that are not covered by the activity. So the answer is basically in the red pillar in the bridge.

Patrice Lucas: Maybe Inigo, just to complete because I said it during our presentation; when it comes to volume, Q3 2023, you remember that we said that we are around a little bit above minus 10%. What we have seen is that Q4 was slightly better, but in the same order of magnitude. And the good news is that we start to see recovery gradually down the year. And this is why we said that we see Q1 2024, it will be slightly higher than Q4 2023, even if it is going to be below last year. And then we see again, Q2 2024, much better than Q1 2024. So we see this gradual improvement in terms of volume, demonstrating that – and confirming that we will get a market recovery, a gradual recovery along the year.

About the production, you remember that we said that we were running at 80% in Q4, and we decided to do so again to be well-prepared for 2024 and not to end the year with high level of inventory, so to keep inventory at good level. And in January, during the month, we have started to restart some of our lines, which were down here and there, depending on the country, depending on the demand. And we see that we are going to restart. And now let us say that if I can provide a number, we are running at 90%, and then we will go up, down the year.

David Placet: Thanks, Patrice and Nathalie. Three more questions that are more forward-looking from Indigo. One is, what pricing evolution can be expected in 2024?

The second question is more mid-term. So after the 2024 normalisation, if we see 2% growth again in 2025, will Verallia's EBITDA grow again?

And the last question is, so DPS is up substantially to €2.15 with a 53% payout, what is your dividend policy for the future? And do you plan to keep increasing shareholder remuneration?

Patrice Lucas: Okay. So, about pricing evolution for 2024, again, we are sticking to our policy, which is neutral spread or zero plus spread on the year. So again in 2024, as we see a deflation in our costs, we are going to reduce pricing in the same order of magnitude, comparing the ending point of 2023. So cost will be down low-single-digit. So pricing will be down, let us say same order of magnitude, keeping a neutral spread in 2024.

About 2024-25 and beyond EBITDA growth, yes, our objective is to keep on growing our EBITDA in value. And for that, we have our three pillars. So first will be the activity. So again, after an unprecedented 2023 year with a negative and no contribution at all of the activity, we expect the activity contributing to our EBITDA growth. So starting in 2024 and beyond, 2025 and 2026.

Second, we do expect to keep on applying our spread policy. So it means it will be at minimum zero plus. And three, our PAP, which is what we have in our hands, clearly, to keep on delivering with rigour, our methodology in each single production line to contribute for a 2% cash cost reduction. And keep in mind that when we are speaking about that, it means roughly it is 120 bps margin improvement, roughly more than €50 million, 120 bps based on our cost. So yes, this is going to be our policy, our objectives or our strategy.

About dividend policy, you have well noticed what we are proposing and what it does represent. Capital allocation is still the same for us. This is what we have always said. First is we invest in the company, we invest for the growth of the company, we invest in the decarbonation roadmap, which for sure will be a key pillar for future business. Two, M&A, if any opportunity, and it makes sense, we will allocate our capital for M&A. And three, shareholder return policy. Here, in the last Capital Market Day 2022-24, we committed to a growth of 10% per year. So we will have to come back to you at the end of the year, certainly, depending on the conditions, the market conditions, all of that. But we plan to come back with a new Capital Market Day explaining how we see our future, what will be our commitment for the future. And part of it, obviously, will redefine our dividend policy or shareholder return policy.

David Placet: All right, thank you, both. One question from Lorenz Manthey regarding share buyback versus dividend. Basically, given multiple discount versus historical average, shouldn't capital allocation be more focused on share buyback versus dividend? What is your view on this?

Patrice Lucas: Let us say again, what we defined as a shareholder policy for 2022-24 is, first, dividend growth above 10% per annum. This was a clear commitment. And then share buyback as an opportunity when it is going to make sense. So last year, and you have a number, we did both, and we returned full dividend €163 million. And we did a share buyback program of €50 million between 2022 and 2023. This year we have decided to put the emphasis on dividends, and you can notice a significant growth we are proposing. Last year the dividend plus share buyback was more than €200 million return to shareholders. €209 million to be precise. And then this year we are going to return €250 million. This was a choice to make it tangible to our shareholders, to have them appreciating this dividend we are proposing. And then we will see what will be next. However, it was clearly decided here to put priority on dividends. And we will see, obviously, if we have some opportunity next.

David Placet: Thank you, Patrice. One, well, I guess switching to the CAPEX topic, two questions from Juan Jimenez. One is the view on the share buyback. I think that has just been addressed. And the second is, will strategic CAPEX decrease substantially with the postponement in new furnaces?

Patrice Lucas: Obviously, compared to initial plan, it means that we are going to delay some CAPEX expenses, which is a good management of our cash. And what we keep in mind, or what we keep as an objective, is globally to be around 10% of capex to revenue. And obviously, what is important for us is to make sure that we have a good balance between recurrent and strategic. However, with a clear focus on strategic because strategic is clearly preparing the future with new furnaces when it is going to make sense according to the demand evolution. And this is why we have stepped down a little bit here, as I said. And obviously, is everything which is related with CO2. So, yes, compared to initial plan in 2024, we are going to delay and reduce CAPEX expenses according to our plan.

David Placet: Great, thanks. Well, two questions from Jean-François Granjon with ODDO. One is about, well, again, the CAPEX. So I think that has just been addressed. In other words, will there be a decrease in relation to the postponement?

The second question is, okay, looking at the EBITDA margin in Q4 of 23%, should we look at this as a normative level for the future?

Patrice Lucas: The answer is no, obviously. This is not the future. This is not what we want to deliver. You need to consider that in 2024, again, we have made some strong decisions to adapt, which has an impact on the margin. When you are running just at 80%, even if we did the maximum to make that efficiently, you have some operating costs which are not fully optimised. So it has an impact. And this has an impact, obviously, in the margin. So no, you cannot consider that as a normal. We take all the bad news in Q4, again, with the strong willingness to not impact the future, and to be well-prepared for the future, and especially starting in Q1.

David Placet: Great, thanks. Three more sets of questions. So, one is from Fernando Vigon. It relates to the share buyback. I think the question was, with the share buyback finished at the end of 2023, do you expect to continue in 2024? I think that has been answered.

Two questions from Francis Prêtre. The first is, what is the inventory situation at Verallia and at its customers' sites?

And the second question is, if spirits consumption recovers, how long will it take to clear the inventory surplus?

Nathalie Delbreuve: A good question.

Patrice Lucas: Thanks a lot, Francis. So what is sure is that I can answer for the Verallia side of it because we have the numbers, and we control the numbers. As explained, we took H1 last year as an opportunity to rebuild our inventory and to be back at what is our standard. And since then, we are not moving from that. So it means that we are planning production accordingly into demand, and we adapt, and this is what we want to keep on doing. So we are very well-positioned with our inventory level, country by country, segment by segment, to be ready and to deliver a good service level. Our customers, what is outside of Verallia, I have some guess, I have some estimates, but I have, obviously, no firm data on that. And this is what we said. And it depends from one segment to the other. It depends from one country to the other. However, we see the destocking being effective. We see the destocking ending, worst case, at the end of H1. And I think that in Q2, most part of it should be done. However, we are betting on the fact that at the end of H1 it will be done. It means that we will reconnect the real end consumer consumption with the glass packaging demand, whereas we had this decoupling for the past six months with the stock effect.

On Spirits specifically, I think it is going to take some time, and I think maybe longer time than the other segments. And I am reading, and we are in contact with our customer to understand, but it is going to be as well somewhere in Q2. This is our guess, depending on how US is going to react and if China is going to rebound. However, in a nutshell, to make it simple, we do believe that this destocking will end at the end of H1.

David Placet: Thanks, Patrice. One last written question from Marc Ventura Segura. Congrats on your 2023 results. Thank you. Can you please explain why, with higher year-on-year EBITDA in 2023, free cash flow is in line with the previous year? I think that has been partly addressed, but Nathalie, I do not know if you want to elaborate on that.

Nathalie Delbreuve: Yes, thank you for the question. I presented, in fact, the walk through the free cash flow generation, and indeed compared to previous year, we have a higher EBITDA indeed, but in absolute value first, we have also higher CAPEX. And main point is, as you could see on the slide I presented, is the WCR variation that is negative. Let us not forget that end of 2022, we ended with still low level of inventories in quantity and also in quality. And so we had to rebuild these inventories. So we kept then the level in H2, but at the end of H1, we increased inventory. And this is basically most of the negative WCR variation that you can see. And then more marginally, we have also a higher interest cash out and higher tax cash out as well, but again, more marginally.

David Placet: Thanks, Nathalie. I think we've reached the end of the written questions. So, I will hand over back to the operator as I think there's a few more questions on the call. Thank you.

Operator: Thank you, David. We'll now take our OD question from Alessandro with Equita. Your line is open. Please go ahead.

Alessandro Cecchini (Equita): Hello, everybody, and thank you for taking my questions. I have just one question about the competitive landscape that you expect for 2024. So you are reducing production capacity or adjusting your production end of this year. You are postponing new capacity. It seems at least very smart, very good for the pricing discipline in the industry. So I would like to understand your view about the total market, if you see other players do that, if you see price discipline that will continue in 2024. I think that it is a very important variable for your P&L next year or for the P&L of the industry. Thank you.

Patrice Lucas: Thanks a lot for this question. But I cannot really comment about that because, first of all, I have no real fact-based data, and this is a competitive landscape. What I have read is that some of our competitions are adapting for the ones who are publishing. So obviously, we are looking at the public data, but I have no specific data about that. Again, we are focusing on doing our job with our three pillars, which is activity, which is spread management and which is PAP, and then observing the demand through all the contacts we have with our customers, forecast that we get from our customers, we are adapting. And for sure, what we want to do is to make sure that we are not opening production capacity, which does not make sense according to the demand and the market evolution. So this is what we are doing. This is where we want to be disciplined, again, to make sure that we are smart with production and CAPEX related to the demand.

Alessandro Cecchini: Okay, many thanks.

Operator: Thank you. And we'll now move on to our next question from Manuel Lorente with Bank of Santander. Your line is open. Please go ahead.

Manuel Lorente (Santander): Hi, good morning. My first question, sorry to come back again to the Argentina adjustment. My full sympathy because I perfectly understand that, first, getting the number is complex, and secondly, putting the number in a bridge in the correct manner to gain traceability is also very complex. But to be perfectly honest, when you look at the nice comparison versus the full year, on the revenue side, the number just looks too low, that positive impact of €10 million. And as Nathalie was perfectly explaining, there has been some methodology issues. But when you apply the same methodology at the EBITDA level, you just get the different direction, because the delta in terms of the EBITDA of nine months versus full year was minus €116 million. Anyway, regardless of that, which is complex, I would like if you can give us some sort of indication, what has been the real impact on Argentina on sales on an EBITDA level on Q4, standalone.

Nathalie Delbreuve: Yes. Apologise for the difficulty in comparison basis. So what you have on the sales bridge, and that has no effect, in fact, on the EBITDA, is really some booking in the hyperinflation. It is purely accounting in hyperinflation. And again, it shows in activity. And it is about €100 million that you see here as a positive, and you have as a negative in the foreign exchange part. So this is basically what you need to correct in the sales bridge. And if we move to the EBITDA bridge, it is not polluted in the same way. So you have a mitigating impact that is fully in the forex pillar. And basically the negative impact of the FX in the EBITDA is around €20 million, to give very clear figures for the better understanding of everyone.

Manuel Lorente: Much more clear. Thank you very much. And my second question probably is on the 2024 bridge of the EBITDA guidance, right. You mentioned in that, the green bar of activity will be somehow on red territory in the first half and green territory in the second half. But I would like also some order of magnitude, right. This is something that will start flat, slightly negative on H1, and then flat, slightly positive in H2, or it is more something that on H1, we will see more or less the same dynamics than H2 this year, and on H2 this year, then we will see a significant rebound because of the end of the destocking in a context of easing? So a little bit more colour on the phasing of that negative versus positive would be great. Thank you.

Patrice Lucas: Okay. As we said, we will see a gradual recovery during the year. What we can say right now is that we see Q1 slightly better than Q4 last year, but still down compared to 2023. We see Q2 going better. So, in a nutshell, we see an H1, which should be lower compared to last year, but in sequence recovering. And in H2, we expect to be much higher than last year. All in all, what we could say is that we see a full year, we see low- to mid-single-digit growth in terms of volume, and obviously with a totally different pattern, H1, H2. So good news is that we see a good sequence and stocking ending at the end of H1, and a recovery in H2, leading to a full-year low-to mid-single-digit increase. Is that clear?

Manuel Lorente: Yes. And your positive view regarding H2 is something that is based on conversations with clients, overall macro conditions, the fact that the technicality of the destocking should help, or also easing comes? What is the different levers?

Patrice Lucas: It is a little bit of that, all of that. First of all, destocking part, we should get the full benefit of it in H2, as our hypothesis is that it will end at the end of H1. We could imagine as well that end consumer consumption will recover down the year because we could imagine that purchasing power of our consumers is going to be recovered in 2024 and then in 2025. And obviously, this is part of a discussion we have as well with our customers and with some forecasts we get. However, being cautious, obviously, what is the forecast. So it is a little bit of all of that. However, we can be quite positive on the fact that at least the destocking effect will be recovered in 2024.

Manuel Lorente: Okay, thank you very much.

Operator: Thank you. There are no further questions in queue, so I'm handing it back to Patrice Lucas for closing remarks. Thank you.

Patrice Lucas: Okay. So thanks a lot to all of you for your attention. Thanks for all the relevant questions that you put through. And I wish you a good day, and let us meet again when it will be necessary, especially for Q1 results. Thanks a lot. Have a good day. 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]