H1 2024 Results

Operator: Hello and welcome to the Verallia H1 2024 Financial Results Analyst Call. Please note this call is being recorded, and for the duration of the call your lines will be on listen-only. 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. If you require assistance at any time, please press star zero, and you will be connected to an operator.

I will now hand you over to your host, Patrice Lucas, to begin today's conference. Please go ahead, sir.

Patrice Lucas: Good morning, everyone, and welcome to our H1 2024 results call. As usual, Nathalie and I will go through our presentation, and we'll have our Q&A session. I will share with you some key highlights and focus on market information. Nathalie will present in detail our numbers, and then I will come back on our guidance for full year.

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. On this chart you have our ID card, you have on the left the 2023 split of our sales by segment. One of our strong assets is our customer base, more than 10,000, and the diversified and balanced markets in which we operate. We do operate in 12 countries, and as of today, we operate with 35 plants, plus one with the acquisition of Vidrala Italy, and with 64 furnaces, which is plus two with Vidrala Italy and minus one with a closing of one furnace, we decided, at Essen in Germany.

One of the key highlights of the semester is the completion of the acquisition of Vidrala in Italy. Closing was achieved on 4th July for an enterprise value of €230 million, financed with a three-year term loan. This acquisition is about one production site near Milan with two furnaces for a capacity of 225 ktons per year, with about 200 employees. In 2023, the company generated a revenue of €131 million and an EBITDA of €33 million.

This acquisition is allowing us to expand our offer to the food and beverage industry in Italy for the benefit of our customers. And after the acquisition of Allied Glass in UK at the end of 2022, this acquisition confirms our desire to continue to develop and invest in key markets.

About our financial performance of H1. As expected, due to market conditions and the high comparison base of H1 2023, our results are down versus H1 2023. We had a positive gradual recovery of volumes during the semester, but slower than expected. In Q2, we are expecting to be close to last year in volumes. However, with this context and our ability to adapt, we are still delivering a solid EBITDA margin performance, and we closed H1 with a revenue of €1.765 billion, -17.6% versus last year, with an organic growth of -10.4%, an adjusted EBITDA of €431 million, -34.6% vs last year, giving an EBITDA margin of 24.4%, a leverage of 1.9x compared to 1.2x at the end of 2023, and a net income of €123 million.

Nathalie will comment in detail our H1 results in a few minutes, but before I would like to share some market data as the activity is the main driver of our guidance adjustment for 2024 full year announced on 9th July.

To start, let's step back. Here on this chart, you have the official data of the glass container sales from FEVE, the European glass producer federation, data from the last ten years. Historical data from 2013 to 2022 are showing steady and regular growth, with a CAGR of +2.2%. With COVID in 2020, we entered in a different period with different pattern compared to previous years. It has been the starting point of supply chain disruption. Then in 2021, post COVID, we faced a strong growth due to high-end demand. Glass market went up 6.9%. We were running production at maximum capacity, and inventory levels were constantly being reduced in order to serve our customers.

Then, at the beginning of 2022 demand was again high, and the conflict in Ukraine has further disrupted the supply chain. Many of our customers were afraid about not getting their glass packaging to do their own business, meaning certainly, that many customers reacted in a way to secure and inflate some inventory level in the overall value chain to ensure good business continuity.

And finally, in 2023, it was a totally different story, impacted by two years of high inflation in Europe, unprecedented for the past 40 years, and with a context of high interest rates. So, the glass market went down by -12%, -9.5% in H1, and -14.5% in H2. And Verallia performed better than this negative variation, confirming the fact that we have not lose market share globally.

From the different analysis we have, we have not seen any material shift in glass to other substrates, despite some down trading due to macroeconomic situation. And with the data we have from Euromonitor for 2023, we know that the variation of the end consumption of glass in units between 2023 and 2022, was around -1% in Europe. If we put in perspective the -12% of glass demand reduction and this end consumption variation of -1%, we confirm that the decline in 2023 glass demand was led by destocking in the overall value chain. And due to this high stock variation in the overall value chain for the past semesters, the glass market has become much less predictable.

Obviously, the positive point is that destocking will end at a point and that the demand for glass will align again with the end consumption. The difficulty is to predict when destocking will end, and, as you know, our initial assumption was end of H1 2024. The destocking endpoint or the speed of the destocking, to say it differently, must obviously be put in relation with the end consumption demand. And if the end consumption is lower than expected, the destocking impact will be delayed.

On this chart, we have a Euromonitor end consumption forecast in glass in Europe for 2024. The graph is showing by segment the forecast of 2024 full year as it was projected mid-2023 and as it is projected now mid-2024. And you see that the end consumption is revised down on NAB from a growth of +4.8% to +1.8%. We see no change for Sparkling. Spirits revised from +1.6% to +0.5%, Beer going down from +1.1% to -0.4%, and Still Wine down also. Just Food consumption is up from +1.2% to +1.5%.

Considering our mix of sales, this is giving Verallia a downward end consumption revision of 1.3%, from +1.7 to +0.4% now. Therefore, this revised forecast of end consumption will lead to longer-than-expected destocking period across the chain. Destocking will still impact H2 this year.

Our main takeaway on the activities is: 2023 decline in glass demand was unprecedented and led by destocking; Post-COVID supply chain disruption has given low short-term visibility in a usually predictable industry. For 2024, with the latest information we have, we confirm a gradual recovery from 2023, but at a slower pace than expected due to the end consumption forecast revised down, meaning that destocking will still impact H2. This is why, having this new set of data in hand, we have decided to revise our forecast for 2024 based on this lower activity. And to be more specific, our initial assumption for 2024 was to have a Q2 close to last year, an H2 up low-teens, giving a full year up low-to-mid single digit. Now, based on Q2 being down low-to-mid single digit, our new volume assumption for H2 is up high single digit for full-year being flat to slightly down.

However, the important point for the semesters to come is that glass demand is expected to return to more stable growth and visibility as it reconnects with the end consumption.

Facing this lower activity recovery, we have strengthened our action plan with determination a nd here you have as a summary some of the key actions in place.

On pricing, despite the challenging environment, we are maintaining our tight pricing policy. We are continuing focus on value-based pricing.

On capacity adjustment, right now, we are running at 10% capacity down for inventory control. And we are doing that in a smart way, with a mix of extended cold repair and temporary line shutdowns but taking mostly the benefit of our cold stops.

On capacity shutdown, we have decided as well to stop one furnace in Essen, because here we see something much more structural, and we have close to 90 redundancies for a one-off restructuring cost of €10 million.

On productivity, we are delivering a strong PAP result with 2.6% cost reduction in H1. And we are renewing our focus on productivity at a profitable level, obviously.

On SG&A, we are doing the job to flex through some saving measures taken at all levels of the organisation and, obviously, as well, strong focus on cash.

We are also adapting our CAPEX, you see that in H1 we are ending at 8.9%, and a strict inventory control.

You can count on the management team to keep high focus on this execution.

Now, I would like to hand over to Nathalie for the details of our H1 results.

Nathalie Delbreuve: Thank you, Patrice. So let me lead you through our H1 2024 results in the light of this introduction.

So, first slide is about the consolidated revenue variance. So, we moved from turnover of €2.143 billion last year down to €1.765 billion. And you can see, as usual, the pillars. With this, the first pillar is down by €168.5 million. These are the volumes as we shared in the introduction. Remember that H1 last year was a high comparison, a nd organic growth is 10.4% in the semester and -17.8% if we exclude Argentina. We have lower volumes, so we are down high single digit in H1. And I will give you more colour by region later on.

The price mix pillar in the bridge is -€53.5 million, and it's more -€100 million if we exclude Argentina. Just for everyone to remember that Argentina is still distorting significantly, especially in H1, because there was a significant devaluation in the currency last year; so this will smooth in H2 and at the end of the year. So the price mix is negative and in the price mix pillar, the mix element, I will come back to that in the EBITDA, is negative in the semester. Here again, very strong H1 last year, and we can see that there is some consumption trading down, so quality of the consumption is currently down versus prior year.

We have exchange rate impact and a small perimeter impact coming from our acquisition of cullet treatment centres last year in Iberia as a continuation of our policy to decarbonise and have a good control of our cullet supply base.

So now if we give a bit more colour by region, and also, I'll comment the segments. In the South and Western Europe region, the reported revenue is down by -15.7%, and it's here, as well, driven by lower volumes and some price. There is a decline in the non-alcoholic beverages as we spoke in the region and there was clearly an effect of the poor weather conditions in H1 2024 compared to last year. The mix impact in this region is where we have the main variation versus previous year. Last year we had very positive mix impact, mainly driven by Italy and here we have a trading down impact. But overall, here you see the H1 and this is true for all regions, we see a sequential improvement in volumes Q2 versus Q1, which is what we expected.

If we move to Northern and Eastern Europe, you see here a stronger percentage in decline, -25.8%. In the region, you have two countries that are more suffering than the rest, Germany and UK. Germany, we already shared in the first quarter and since last year, is suffering from beer volumes being down and this is a country where we decided to shut one furnace in Essen, as Patrice reminded, in Q1, and we are in the process of this adjustment of capacity.

UK is much more conjunctural as the spirits segment is currently suffering more than others. Let's remember together that last year, segments did not react at the same pace. Spirits segment was holding very well during the year 2023 and started to decline in November/December, so Q4. There is a lag basically in the adjustment of spirits volumes. The destocking in this segment is clearly not over and taking longer than anticipated. Then we have some negative price impact, mainly coming from Germany, not the UK and here mix is more flattish. As I was saying before, it's more in Southern and Western Europe that we have the mix impact, but here, again, sequential improvement from one quarter to the other.

In Latin America, we have a decrease in reported revenue, but an increase when we correct the forex impact. We have some slightly negative volume year-on-year, but all in all, pretty good activity, and a strong rebound in volume in Chile after a low H1 2023. And we still follow, of course, in Argentina, the hyperinflation by increasing prices, which is why we give you now all the figures in Argentina.

So, how does that translate into consolidated adjusted EBITDA? So, as usual, you see the bridge here. We move from a very, very strong semester last year, with an EBITDA of €659 million, and if you look on the top-right, a margin that was at the highest at 30.8%. And we end in H1 at €431 million, and with a margin that is still really strong at 24,.4%, and very much in line, actually, with the first quarter as well.

So the usual pillars to bridge from one year to the other. So the first pillar, the activity, is down by €162.9 million, and it's basically half the conversion of the lower volumes that we just commented and the second half is linked to inventory variation. If you remember, last year in H1, we were in the process of rebuilding inventories and reaching, at the end of the semester, a better level to supply the right service to our customers, starting from a very low point at the beginning of 2023. And since then, we are monitoring and holding the inventory at this level, which is the right one. So we benefited last year from the inventory increase, and we don't have it any more in H1. And this comp will, of course, disappear in H2.

The spread pillar is negative by -€53.4 million, and here, again, excluding Argentina, it's more -€100 million. And this is the result of the price mix element that I already commented, and with a significant impact of mix that is, all in all, close to -€30 million. So it's quite significant when we compare again a semester, when we see down trading with H1 last year that was very, very positive and strong.

The net productivity is delivering very much in line with, and even above, our target, at 2.6%. So it means we reduced our cash production cost by 2.6% in the semester, which is contributing to €32.6 million to our EBITDA, and mitigating part of this adverse trend versus prior years, resulting in a very satisfactory result and that we can see in all regions.

The FX is mainly linked to Argentina, and you have some positive other points by €3.2 million, his includes the SG&A improvement that Patrice was mentioning in his presentation.

So when we move in the regions, we have, in South and Western Europe, an EBITDA of €288 million, so down versus last year, and an adjusted EBITDA margin very much in line with the Group average at 24.3% of the total sales. And here, okay, the pillars variation is exactly the one I presented for the Group, with a good industrial performance.

When I move to North and Eastern Europe, I have an adjusted EBITDA of €76 million, to be compared to €142 million last year, and a margin of 20%. So here a lesser contribution of UK, as the Spirits and UK are temporarily down and especially compared to last year, and the lower activity in Germany. But what we can say here in this region is a very strong industrial performance with a very strong PAP contribution, and including UK being now very well-trained and integrated into our programme and contributing significantly. And here again, decline versus last year, but sequential improvement in activity from Q1 to Q2.

If we move now to Latin America, we have an adjusted EBITDA of €67 million, to be compared to €81 million last year, and still a very strong adjusted EBITDA margin at 33.6%. We see, in fact, the EBITDA decrease is mainly driven by Argentina and forex, and we have here as well a stronger PAP performance. And the spread, excluding Argentina, is pretty neutral, so we continue to be able to follow the inflation in all the countries with our price evolution.

If we move now to the cash elements. CAPEX, as Patrice shared with you, are very much kept under control in this environment. We have CAPEX at 8.9% of the total sales, and we can see that we do not give up, of course, on our strategic CAPEX. So it's a tight monitoring, but, of course, we keep with our long-term strategy. We have CAPEX with two new furnaces, one in Campo Bom and one in Italy, but remember, we delayed the start of these furnaces to adjust to the demand, as we always do. And we have, very important in 2024, two significant investments for our decarbonisation roadmap with the first 100% electrical furnace in Cognac that we started in April, and we are preparing our first hybrid furnace, so 80% electricity, in Zaragoza for end of the year.

If we look here at the Group cash flow generation, so the free cash flow is negative at -€49.2 million. But if we split Q1 and Q2, remember, we had more than €100 million negative in Q1, so we did generate positive free cash flow in Q2, it's important in the sequence, and we started especially in Q1, but in the semester, with a lower adjusted EBITDA than last year. We see that CAPEX are kept under control, and the cash conversion is good at 63.6%. The change in operating working capital is negative. There is seasonality here if we look at semesters in the operating working capital, excluding CAPEX WCR, and on top you have the CAPEX WCR that, as you see here, is -€81.7 million. That leads to an operating cash flow of €90.5 million. And below that we have the usual other operating impact, including IFRS 16 and some elements in EBITDA with a cash effect. In the semester f or example, it includes the purchasing CO2 quotas. Interests paid and other financing costs at -€47.5 million, the increase versus last year is not surprising to the increase in interest rates mainly. There are also some FX losses for €8 million embedded in this amount and the cash tax that is lower than last year.

The net debt evolution and the leverage. So the net debt is at €1,645.7 million. And this is after the dividend payment that occurred in the second quarter for €252 million this year. And the leverage is at 1.9x after this dividend payment. And just reminding our ratings from S&P and Moody's that have been confirmed, investment-grade rating and stable outlook.

Here, as usual, you can see our financial structure and liquidity, so nothing new here, u sing our programme on the NEU CP, up to €408 million in the semester. Reminding you that most of our long-term debt is hedged and/or fixed, and we have a nice available liquidity of €591 million.

So that's it for the H1 and before turning to Patrice, just to remind you what we see for H2 and our assumptions leading to our guidance. So, in activity, as Patrice already said, we see full-year sales, mainly a volume story, mainly flat to slightly negative, when we were before that more optimistic. So that's the main driver, clearly, of our new guidance and the softer consumption that Patrice explained. And this is leading, of course, to some lower fixed cost absorption that are also an upside for the coming semesters when volumes are improving. In the price-mix cost or in the spread, as I shared, we see that the mix is impacting negatively. This is, again, a kind of cycle of down trading which we have seen before. And this is again an upside when consumption will come back to more premium levels. We see selling prices reduction full-year up to low-teens, and, – because of our energy hedging policy, we are benefiting fully from the lower current spot rate in our spread for the full-year. In the productivity pillar, consistent PAP delivery through the year is embedded, of course, for the full year, and as you could see, H1 has been very strong in that respect.

Patrice Lucas: About our guidance for full-year 2024 and to sum up what we have just shared.

For the market recovery, we just see the shape of a curve being delayed. Destocking is taking more time, and, consequently, the glass demand is impacted, as explained before. It has a short-term negative impact on activity and spread, but we are maintaining a strict and disciplined pricing management. As always, we are focused on execution to get the most to protect the profitability and the cash generation. Our focus is to adapt to this environment, being disciplined on adapting temporary capacity in the most efficient way. By doing so, again, we have about 10% of our capacity not utilised, and our objective is to keep inventory level under control.

We have also decided, again, to shut down one furnace in Essen, where we see it's much more structural. CAPEX control is also active to keep the value below the 10% of revenue. And finally, we are continuing our PAP actions for a positive impact above the 2% minimum standard we are aiming.

Based on this situation, we revised on 9th July our guidance for 2024 for an EBITDA level comparable to the one delivered in 2022, which was the second-best year of the Group. Just to put that in perspective, this 2024 result will be still a good result, confirming our track record since IPO. After a period of profitable growth in a steady market evolution, we delivered between 2018 and 2021 an EBITDA CAGR of +7.7%. In 2022 and 2023, obviously, we delivered an outstanding performance, and in 2024, by delivering an EBITDA comparable to 2022, it will still be a strong performance despite adverse macro conditions and lower volumes. It will give a CAGR of +8.5% of EBITDA between 2021 and 2024. Please note as well that since IPO, cumulative return to shareholders was a dividend of €6.40 per share and a total amount of €271 million of share buyback.

To finish, a few words about 2025 and beyond. We foresee a gradual recovery in activity with the end of destocking, and consumer demand improving following lower inflation, and a market much more predictable. Meanwhile, we will continue to adapt to the market environment to do our job with good capacity management, cost reduction action plan and CAPEX control. With a gradual activity recovery, operating leverage will be an upside to fuel our profitability. We know also that premiumisation is still a market trend and that after down-trading impact in 2024, as explained by Nathalie, premiumisation will contribute positively. We are convinced that our leading market position, our ESG decarbonisation roadmap and our strong balance sheet and cash management are strong competitive advantages which will support our growth. And we'll be ready for potential M&A each time it will make sense, creating value for Verallia. All of that is making us confident in resuming sustainable and profitable growth track.

Thanks a lot for your attention, and let's move now to the Q&A session.

Questions and Answers

Operator: Thank you. If you would like to ask a question, please press star one on your telephone keypad. To withdraw your question, please press star two. We will take our first questions from Louise Wiseur from UBS. Your line is open. Please go ahead.

Louise Wiseur (UBS): Hello, thanks very much for taking my questions. I've got three questions, please. I guess, the first one is related to the price cost spread. I was wondering, how do you think about the price cost spread on EBITDA for this year and next year? Is there a risk of maybe negative carryover of prices into next year? So I guess, that's the first question. And if so, do you have the ability of quantifying that?

The second question is around volumes. I wondered if there's anything you can say around maybe the most recent weeks, what you're seeing in terms of volumes. It does seem that beverages volumes were very weak in Europe in June. So any comment would be helpful.

And the last question is with regards to the upcoming capacity increase. So you've got two projects, I think, Campo Bom and Pescia too. I do think from the presentation it seems that there's no further delays, but I just wanted to check on that, please. Thanks very much.

Patrice Lucas: Good morning, and thanks for your three questions. I'm going to take the volume and capacity, and Nathalie will comment on the price cost spread.

About volume, we are just confirming what you have said. In mid-July, we see the trend going up again. This is what I have been explaining, we see the good gradual recovery, but at a lower pace. And this is mainly due to the consumption which is a little bit lower than our initial assumptions, so leading to this delay in the destocking endpoint. But we see so far July moving in the good direction compared to last year.

About capacity increase, you're right, we did not say anything about that, but as I commented, as a general trend, we are going to be disciplined and manage capacity according to the demand, to manage our inventory. For capacity increase, the Compo Bom 2 project which was supposed to start at the end of this year, will be delayed, as we speak at the beginning of Q2 2025, to be confirmed at the end of the year. And the one in Pescia is about the same: last time we said it will be Q2 2025. Maybe we'll delay it a little bit, a few months in 2025.

So again, what's important for us is to stick to the demand, not anticipate any capacity increase, to control our inventory and to control and optimise our fixed cost. This is key.

Nathalie Delbreuve: On your question about the spread, so already for this year, if you remember, if you were in our call in February, when we started the year and gave our first view for 2024, we shared, indeed, that the spread pillar in the EBITDA bridge would be negative and mainly coming from the carryover of price increases from previous year. So this was already embedded from the beginning, in our view for the year. And in our revised guidance, we have a bit more negative spread, mainly coming from H2. In the price-cost-mix spread pillar, let's remember that we have the mix element that I was commenting previously in the call.

On the cost element, as I was saying, we see a bit of further deflation, which is good news, and this is also good news for next year. But in this year, in 2024, with our hedging, we don't fully benefit from this deflation, that we benefit more from next year.

Moving to 2025, yes, it's a bit early to predict ourselves. Clearly, we will have some carry-over impact from prices as well, but much lower, nothing to do with the I very negative impact we have in this year, because it was really linked to the very strong increase and decrease afterwards, so very strong inflation. And now, as we all see, this is more normalising, so the size of the fluctuations, inflation and deflations will normalise gradually. For 2025 also, we expect a more positive position on energy, because step by step, we will have less and less impact of our hedging taken in the years when energy prices were higher.

Louise Wiseur: Thanks very much.

Operator: Thank you. We will take our next questions from Francisco Ruiz from BNP Paribas Exane. Your line is open. Please go ahead.

Francisco Ruiz Martin (Exane BNP Paribas): Hi, good morning. I have three questions as well. The first one is: you commented that you expect negative price on mid-teens for the year *[Note: actually low teens as referred to in the presentation]*. But correct me if I'm wrong, you have an 8% decline ex-Argentina in this first half. So confirm that it's going to be around high-teens in the second half of the year, or I'm doing something wrong.

The second one is, I don't know if you could help me with this, if we assume no incremental volumes from the one in H1, but helped also by the easy comparison, how do you see the volumes at the end of the year? Because you are seeing this progressive recovery. But if this does not happen, how do you see the volumes at the end of the year?

And last, if, Nathalie, you could give us what's your estimate on inventory conversion impact in activity for the second half of the year? Thank you.

Nathalie Delbreuve: Okay, so on the price element, yes, your calculation is good. In fact, we have, and we said we have some delay in the application of some price decreases. So already we saw that in Q1, it was a bit better than anticipated in terms of pricing and timing of application of price decreases. And then the impact is a bit more in Q2, and also then in H2. That's about the pricing.

About the inventory conversion, in fact, in H2, we should have a small variation versus H2 of previous year linked to the volume, to the quantity. There will be a bit of valuation impact, but much, much more reduced. So, in the activity bridge, it will be very small. And it was, as you could see, very significant in H1.

Patrice Lucas: And on the volumes, so we see the full year being flat to slightly down compared to last year, and with an H2, which is going to be up, high single digit. This is what we see. So, confirming the recovery since late 2023, but leading to a year which is going to be flat to slightly down. This is the assumptions we are working with.

Francisco Ruiz Martin: Okay, thank you very much.

Operator: Thank you. We will take our next questions from James Perry from Citigroup. Your line is open. Please go ahead.

James Perry (Citigroup): Hi. Thanks for the presentation. Just a couple of quick ones. Again, on inventory, do you have a sense as to the level of customer inventories? And secondly, I'd just like to ask about the new electric furnace that you started up in May. I know it's early still, but do you have any preliminary comments as to performance, how it's comparing with other furnaces in terms of efficiency and cost?

Patrice Lucas: Thanks for your two questions. The topic of inventory is not really between us and our customers, because there is low level of inventory between us and our customers. Or if we had some, it's very marginal. The topic of the destocking, or the stocking and destocking in the overall value chain is much more between our customers and all the intermediates going up to the final customer. So difficult for us to have the different view on these intermediate steps, but again, there is no inventory level between us and our customers. What we see is that again, this end consumption being lower than expected, it's delaying this destocking in the overall value chain.

On the second topic about the electrical furnace, so we went live at the end of March, ramping up in Q2. Performance is okay. We are still learning on optimising all the OPEX standards, but this is quite promising, and we'll enjoy this in our decarbonisation roadmap and as a contribution to our CO2 reduction. So we are on track on that, to make it simple.

Operator: Thank you. We'll now take our next questions from Jean-François Granjon from ODDO BHF. Your line is open. Please go ahead.

Jean-François Granjon (ODDO BHF): Yes, good morning. I have five questions, please. The first one concerns the spread impact in 2025. I understand what you mentioned, Nathalie, but do you expect, in fact, a negative spread impact lower compared to 2024, but a negative impact for the spread in 2025?

The second question, could you mention the utilisation rate of the units? You mentioned a low point at 80%. So, can you confirm a slight improvement for the utilisation rate during the first half?

Third question, could you come back on the mix? You mentioned a negative mix effect. Not mentioned the price, but the mix, you mentioned a negative mix effect. Could you explain more precisely how to justify this negative mix effect and what you expect for the second half?

The fourth question, you mentioned, yes, for the guidance, the similar level for the EBITDA compared to 2022. But if I understand, for this year you integrate six months of the units coming from Vidrala. So in fact, if we have a look on the same scope, you confirm the fact that it should be lower than in 2022, due to the fact that you included the Vidrala contribution.

And the last questions, if I look on the consensus for 2025, I see €1 billion EBITDA level expected. What is your opinion about that? It seems to be quite high or challenging for my opinion. What do you think about that? Thank you.

Patrice Lucas: Thanks a lot, Jean-François. Utilisation rate, you're right, last year in Q4, we were running at around 80%, meaning 20% underutilisation. In H1, we are around 10% underutilisation, so running at 90% compared to our standard. And this is what we see as well as a forecast for H2, again, with our volume assumptions.

About the mix, just the mix effect. Let's remind that for the past years, mix was always positive, and we're focusing on that obviously to get the benefit of it. What we see in 2024 is obviously that with the current context, the inflation, the purchasing power of the final customer, we see some down trading. So down trading leading to a mix being negative and not supporting this year, but again, after three years in a row of a nice contribution. So this negative mix is coming from this down trading. What is sure, and this is what I said in my conclusion, is that we know that premiumisation is still a trend, it's still a social trend. So, we are fully convinced that this normalisation of inflation, purchasing power of the final customer being recovered, that mix will contribute again, and it will be an upside for the future.

About the EBITDA for the six months, you're right, Vidrala is embedded, because now we are consolidating since 1 July. Let's keep in mind that, even if it is a very good acquisition for us and that will get the nice benefit of it, for the second year, we are just speaking about a low double-digit EBITDA contribution in value in 2024. And when we are saying comparable to 2022, we are saying comparable to 2022. So, it does not represent any material effect compared to the guidance, being with or without Vidrala.

For the consensus for 2025, I mean, too early to call, too early to comment on that. Let’s do the job in 2024. Let’s start to see confirmation in Q3. And obviously, it will be the time for us to come back. And by the way, we will come back certainly beginning of 2025 with a new mid-term guidance to give much more view of what we see next for Verallia. So, we'll come back on that.

About the spread, about the same.

Jean-François Granjon: Thank you. Thank you so much.

Operator: Thank you. We will take our next questions from Mengxian Sun from Deutsche Bank. Your line is open. Please go ahead.

Mengxian Sun (Deutsche Bank): Thank you very much for taking my questions. So three questions from my side. So the first one is just to confirm your current assumption of slightly down in volume and the low-teen price reduction, is this including Argentina?

And the second question is on free cash flow. So you have posted a quite negative free cash flow in the first semester. As you have commented, there are several seasonal factors affecting the free cash flow. How should we think about the cash flow generation for the second half of the year?

And the third question is on your capital return policy. Can you give us some of your thoughts on the dividend payment for next year? Is a stable dividend payment for next year still possible? Thank you very much.

Nathalie Delbreuve: Okay, thank you for your questions. I will answer the first two. So when we comment pricing, it's excluding Argentina effect. So we take it out so that there is no distortion. And for volumes, I would say as well, but it's not so significant. Let's remember that Argentina, there is some calculation effect because of the devaluation of the currency. That was very strong last year. There was 20% in August and then again, a 50% in December that had a retroactive impact, this is purely accounting. So it's mainly on the price and FX element. Outside of that, Argentina is not such a big country in the Group. So, for the Group, it's a very small impact.

Regarding the free cash flow, so we foresee a positive free cash flow in the second semester after a positive free cash flow in the second quarter.

Patrice Lucas: Okay, about the dividend, so, to be clear, this is too early to speak about it. This would be a Board decision to be considered early 2025. You know that our policy was not defined as a pay-out ratio to reduce volatility, and the dividend paid this year for more than €250 million was not meant to be one shot. So yes, stable dividend is possible, but it will be the decision of the Board and to be decided beginning of next year. So let's see, early 2025. What is key for us is to deliver, is to do our job, and then the dividend will be a consequence of it.

Mengxian Sun: Thank you very much. That's very clear.

Operator: Thank you. As a reminder, if you'd like to ask a question, please signal by pressing star one on your telephone keypad. We will take our next question from Manuel Lorente from Santander. Your line is open. Please go ahead.

Manuel Lorente (Santander): Hi, good morning. Most of my questions have already been answered, but maybe let's start with one related, the fact that backdrop is demanding, and you are facing demanding times, and profit warning has been there now for two or three consecutive quarters. So, my first question was, are you thinking on changing something? I was thinking maybe to have an approach regarding raw material hedging or your footprint maybe in Argentina, which is complicating the results. I don't know. Are you at this point thinking of any strategic shift to things that have you been considering now?

Patrice Lucas: Thanks for your question. Just maybe, and with all the respect, when I'm hearing two or three profit warning, I mean, again, with respect, this is not the real situation. I would like to remind everybody that in 2023, we started the year with an objective of €1 billion, that we upgraded it with H1 to be between €1.1-1.25 billion and that we ended – we deliver within – obviously, within the low range and mainly coming from the activity reduction. So we did the job.

And the second one was much more technical, and we were, with the objective to be fully transparent, to communicate to all our stakeholders, the impact – the impact of Argentina devaluation and, obviously, which is leading to something which is much more readable. But Nathalie, I think, is doing the job explaining what is, each time, the impact of Argentina.

About the strategic topics, this is something we are reviewing on a regular basis. With the Capital Markets Day, we'll come back with what is our view. But just to make clear, I do believe, and I strongly believe that the strategy we have is a good one. What we are just facing is something which is, to be honest, not totally under our control with this high stocking, destocking variation introduced since COVID. So, and what we are doing is to adapt to that, to do our job with responsibility for the benefit of our stakeholders and for the benefit of the company – adapting, facing reality and still delivering good profitability.

What we could be blamed on, and, I mean, I can accept that, is that maybe we were too optimistic in the recovery down 2024. I mean, nobody has a crystal ball. We are optimistic, and the good news is that we see this gradual recovery. But I mean, it's going slower than expected, which is a good upside for the future. This is what I was saying in my view for 2025 and beyond, the gradual recovery being confirmed, the better visibility to come with the destocking ending, meaning we align with the end consumption, so we'll get additional volume, we'll get the full benefit of that. And this will be an upside. Premiumisation will come back again. And what I can tell you is that everything we are doing on ESG and decarbonisation roadmap is going to pay.

Maybe, today, by some of our stakeholders, it is seen as a kind of cherry on the cake, but I can tell you that within the company, aligned with our purpose and aligned with the view we have with the key customers, is going to pay. And tomorrow it's going to be a condition precedent to do business. So this is why we are very confident, and the activity is the activity. We are facing it, doing the job, adapting and delivering the good results.

Manuel Lorente: So, regarding the activity recovery, the high single-digit volume growth expected for the second half of the year, can you give us an idea whether those numbers are already incorporated in July trends?

Patrice Lucas: Yes, we see that in July. Again, this is the trend we see since the beginning. Month after month, we see this recovery. Obviously, it is quite normal with the destocking going on. We see, and it has been explained, so from one country to another country, it could be different. Nathalie explained that on the Spirits, for instance, which was the last segment to go down last year, obviously is the last segment which will recover, nd we are suffering on Spirits right now, and it is totally aligned with the different customers' communication we have seen lately. So yes, we confirm that it's going in the right direction. The topic is a question of speed of recovery.

Nathalie Delbreuve: And let's not forget that last year in H2, volumes went down very strongly in all the markets in Europe, the comparative base is not the same.

Manuel Lorente: And just one thing on pricing. Maybe, I think Nathalie make a good job explaining the down-trading pressures of Q2. Then we have all the Argentina impact. So my question was whether, let's say, underlying core prices are stable Q2 versus Q1, or are you facing some, let's say, additional pricing pressure because the demanding demand backdrop from your client is, let's say, forcing them to revisit some pricing conditions?

Nathalie Delbreuve: So there, again, we have two things. We have some delay in application of price increases. You know that we are with 10,000 customers. We are in a case-by-case negotiation. So on the price pressure, for sure, in a deflationary environment, and where overall volumes are lower or demand is lower, customers have more leverage to come to us and negotiate prices. But as we explained, we are tightly monitoring that and case by case. So there is no general answer here. It's more a case-by-case reduction on pricing and tight monitoring that we do.

And as you know, just remember that we don't have so many – we are not so much exposed to formulas in our portfolio. And if you remember, it's 10-15% of our total sales or contracts, not more. So it's really negotiation that is going on here.

Manuel Lorente: Okay, thank you.

Operator: Thank you. We will take our next questions from Fraser Donlon from Berenberg. Your line is open. Please go ahead.

Fraser Donlon (Berenberg): Yeah, morning, Patrice, Nathalie, it's Fraser here. Just two questions. I wondered if you could quantify the benefit you can see on energy and other hedging into 2025, given you said you're obviously moving there this year? And then secondly, just on the Essen furnace, are there any other costs that we should anticipate relating to the closure of that furnace in the coming months? Thank you.

Nathalie Delbreuve: Okay, so on the energy and hedging, just to remind everyone that we are hedging on a three-year basis. So every year, our energy costs, just before year-end, is hedged at 85% of our forecasted need, with a mix of hedges taken from the three previous years. What happened this year is that as we are reducing our capacities to adjust to this lower-than-expected demand, basically, when we usually have 15% of not hedged energy, and so spot prices, this portion is significantly reduced because we said that we were running 10% below our normal capacity. So what I was saying is that spot is decreased since beginning of the year. And spot energy, spot prices are pretty low currently. And we are less benefiting from it because the 15% are not 15% anymore.

On the energy hedging, let's remember how strong an advantage it was when energy prices went up crazily in 2021-22. So we have benefited a lot. Now we have a slight disadvantage here, but again, on overall, the strategy is very positive for Verallia. And again, moving into 2025, we will have, as I say, less portion from hedges coming from the high energy levels, a nd so we will decrease again and advantage – take more advantage from the energy price level.

Patrice Lucas: Okay. And about Essen furnace in Germany cost, so this is related with the shutdown, with the definitive shutdown we decided. And so it's about €10 million restructuring cost, one-off restructuring cost. And 80% of that is related to the severance cost for the 90 redundancies.

Operator: Thank you. We have now no more for the questions in the queue, so I will hand over to the web questions. Please go ahead.

David Placet: All right, well, thanks a lot for this. David Placet, I'm the Head of IR for the Group, and I'm going to talk you through the – walk you through the few questions we have in writing. First question from Alain Ourvoy. 'After the Vidrala, Italy acquisition, what is your market share in this market? What is the global picture of the Italian market in terms of level of consolidation, etc.?'

Patrice Lucas: Thanks for this question. You know that we are not used, and we don't speak about market share, especially by country. What we can say is that in Italy, it is still a fragmented market with many players. I think this is a market in Europe where we have more players. We have six furnaces today, plus one with the post-Vidrala acquisition. So you see that it is a small part of what we have. I said 225 kilotons capacity. And we see Italy as a key market, totally positioned in what we are doing – still wines, sparkling wines, spirits. It's a big player in Europe, a big player exporting worldwide. So this is typically the kind of market we want to be in, and a market which is going to support and fuel our growth. But again, we are not speaking about market share specifically by country.

David Placet: Thank you, Patrice. Next question from Inigo Egusquiza from Kepler. Three questions, actually. One is about pricing and what can we expect for 2025? I think we've commented on that quite a bit. Second question is, 'What can we expect in terms of leverage by the end of the year with the new EBITDA guidance?' And the last one is about when we are planning to organise the next Capital Markets Day and provide some mid-term guidance?

Patrice Lucas: Thanks, Inigo, for the questions. So, Nathalie will comment on the two first ones. So on the Capital Markets Day, as I said, we will be back beginning of 2025, so that to be scheduled in 2025 and to give this mid-term guidance. What's important for us again is to deliver 2024 to confirm the assumptions we had and this alignment to come between end consumption and glass demand in order to give much more visibility and predictability. And then we will come back to you. So, early 2025.

Nathalie Delbreuve: So on pricing – prices for 2025 as usual, when – I mean, in the autumn, we will look at our assumptions for inflation or deflation in cost, and we will build our pricing strategy based on that, as we always do, to start negotiation with pricing. So again, early to say more at this stage.

For the leverage end of year, again, we have the acquisition of the Italian business coming down now in July, but we also forecast positive free cash flow generation in H2, as I said. So leverage should stay around 2x at the end of the year.

David Placet: Thanks, Nathalie. Thanks, Patrice. Next question from Paul Manigault. 'How do you explain your underperformance versus Vidrala, which is quite visible in two comparable regions, SWE and LATAM, in both volumes and EBITDA margin?'

Patrice Lucas: Well, so normally we are not commenting peers' performance, but obviously, I have read what was published in the release yesterday. I'm not sure I agree with what was said. First of all, in LATAM, we are not on the same perimeter. They are just on Brazil. And when I'm comparing what they are delivering and what we do, it's very similar. But in our perimeter, we have Argentina and Chile. So this is quite similar.

When it comes to Europe, it's about the same, because what we see is that perimeter has changed. So very difficult for us to understand. But my interpretation is about the same. And at the end, to compare, we should compare the different segments we are playing in. So for sure, my guess is that they were seeing much more bad news last year compared to us, especially Beer being the first segment to suffer, starting in Q2 last year. For us, it has less impact. And this year for us, obviously, if we can say something, Spirits has much more negative impact. So what is important is not just to look at the performance on a quarter by quarter, but much more to look at it over time on the long run.

David Placet: Great. Thanks, Patrice. And I think we have two more technical questions to end the call. One is from Saul Casadio. 'Could you please explain the inventory impact on EBITDA,' or inventory variation, I guess? 'Explanation is not entirely clear to me.'

Nathalie Delbreuve: Okay, so it's pretty simple. When last year we were running in H1, basically we were producing more, but part of this production was going in inventory. So we were covering our fixed cost partly by selling and partly by rebuilding inventory, which is not the case for the inventory part in H1 this year. Basically, if I try to really simplify, so it means that you have fixed cost covered last year, that are not covered this year, and this is the negative impact in the activity pillar – really simplifying a lot.

David Placet: Thank you. Thank you, Nathalie. And one last question to finish the call with our favourite topic of Argentina. Two questions, actually, but basically both going in the same direction from Michele Campagner and Ludovico Latmiral, basically asking us to elaborate on FX and the peso devaluation, and basically just asking to check the share of Argentina within our total revenue. And then how is that possible that, basically, such a small revenue can create such a large revenue reduction, and then so such a big impact?

Nathalie Delbreuve: Okay, so all in all, it's really in the bridge that it creates distortion, but in the total sales and the total EBITDA, you're absolutely right, it's not significant. And that is why we clearly give now the numbers in the bridge. So if you just sum up the elements that you see on the pages for sales and EBITDA, you will indeed end up with a very small variation. But it is distorting because when you compare at last year's FX, then, of course, last year's FX was much, much lower than this year because, in the meantime, you had two devaluations, one 20% in August and one of 50% additional in December. So it was very strong. And anyway, this is a high inflation country. So again, net is very small impact. It is distorting the bridges, which is why we give, very clearly, all the amounts impacting the bridge elements.

David Placet: Thank you, Nathalie. That's it for me in terms of written questions. Thanks, all.

Patrice Lucas: Okay, so I guess that we are at the end of our call. So again, thanks a lot for your attention and see you. Bye-bye.

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

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.

[END OF TRANSCRIPT]