# Verallia Q3 2024 Financial Results - 23.10.2024

**PATRICE LUCAS**

Good morning everyone. Welcome to our Q3 2024 Financial Results Call. As usual, Nathalie and I will go through our presentation and we will have a Q&A session at the end. I will share with you some key highlights. Nathalie will present in detail our numbers, and then I will be back on our guidance.

Just 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 customers 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, with 64 furnaces, including the acquisition of Vidrala Italy, completed early July, and the closing of one of our furnaces at Essen in Germany.

Please note as well that we are running 19 cullet recycling centres, allowing us to control about 50% of our needs for external cullet.

Let us move now to the key highlights of the quarter.

The two first key highlights are illustrating our move towards decarbonisation. First one is about Verallia Air Range, to implement a breakthrough offer with the lightest product on the market. You know already the Bordelaise Air 300G launched at the end of last year, and I am satisfied to share with you that close to nine million units have already been sold and that this product is getting a strong customer and industry recognition, with many awards in France, the UK and other countries.

Our objective is to keep on developing this breakthrough offer with new products for other segments. And lately, we have launched our Air Jars offer, with seven jars, from 37 cL to 265 cL. This offer is an opportunity to supply to our customers the best packaging in terms of sustainability and modern design, with a weight and $CO_2$ emission reduction between 10% to 27%, depending obviously on the size.

The second key highlight is our world premiere with our electrical furnace. It is a strong move toward the implementation of our ambitious decarbonisation roadmap. The furnace is running with a pool of 180 tonnes per day, producing about 300,000 bottles per day. And what is much more important, being operational now, running at full speed, we are confirming the minus 60% $CO_2$ emission reduction.

Next step will be the launch of our second technology brick, with the hybrid furnace at Zaragoza in Spain, replacing a traditional end port furnace. This launch is scheduled for H2 next year, and I am sure it will be again a success as the one we have just launched in Cognac, the electrical one.

Next, I want to share some market information.

The market environment is still soft. Consumption in Europe is soft. The poor summer weather and on-trade performance have impacted the Q3 selling-out performance. We see the destocking coming to an end in the faster-moving segments, but still under way in the more premium and export-oriented segments.

We also see cautious customer trends and adverse geopolitical environment. On the opposite, we have a good market momentum in Latin America, and in Q3, we had a significant double-digit growth there.

As expected, our Q3 volumes are up compared to last year. Our current trading and outlook for the year-end is consistent to the low-end of our last July 2024 revised assumptions. And we do expect the full year volume to be, as commented last July, slightly negative compared to 2023.

Good news is that despite a slow market recovery in Q3, we are returning to organic volume growth and delivering a solid profitability. Q3 revenues are minus 6.6% year-over-year, with a minus 4.7% organic growth. EBITDA is €210 million, with a margin of 24.1%, minus 336 bps versus last year. This is giving a nine-month revenue variation at minus 14.3% year-over-year, with an organic growth at minus 8.7%.

For the nine months EBITDA, result is €641 million, for a margin of 24.3%, minus 543 bps versus 2024.

And finally, about our net debt., at the end of September, leverage is at 2.3x compared to 1.9x end of June and 1.2x end of last year.

Now I am leaving the floor to Nathalie for a detailed presentation of our results.

**NATHALIE DELBREUVE**

Thank you, Patrice. So let me lead you through the quarter results and the nine-month results as a consequence.

So in this presentation, you will find two changes. So first, we have highlighted the Q3. And second, in the bridges, we have separated Argentina as a whole. If you remember, due to the strong devaluation that occurred last year, it was disturbing to keep Argentina in all the pillars of our bridges. So now, as you can see on the screen, you have one separate pillar for Argentina. And you can see that on the Q3 sales, for example, the variation is a positive plus €1.6 million.

So for our Q3 revenue variance, we move from sales of €932 million in Q3 2023 to €871 million in Q3 2024. Organic growth for the quarter is minus 4.7%. And this is minus 9.7% excluding Argentina.

The volumes are up year-on-year organically. So this is the good news of the quarter:we are back to a positive organic growth on volumes. And this growth is combined with the contribution of newly acquired Vidrala Italy operations. We closed the acquisition in July, so we consolidate this activity in the full third quarter.

In Europe, we have a positive volume growth led by beer, and to a lesser extent, food. And in Latin America, we see a strong year-on-year increase in volumes, here as well led by beer and also non-alcoholic beverages. As Patrice mentioned, Latin America is more dynamic.

Price and mix, broad-based price decline with a full impact of H1 price negotiations now running in the third quarter. We have a negative price-mix impact, minus €92 million, but with a positive contribution from mix from South and West Europe. In the quarter, we see mix step-by-step going to a more neutral effect after a stronger negative one in H1.

And FX impact that you have here is mainly from Brazilian real. And you can see in the perimeter column, the contribution of mainly Vidrala glass business in Italyand to a lesser extent, some of the cullet treatment centres acquired in Iberia last year.

So if we move to the nine months, you can see that the volumes here are back to a negative number, minus €185 million. This is mostly from H1, as just explained. For the full nine months, the organic growth is minus 8.7% and minus 15.3% excluding Argentina. So lower volumes down mid-single digit despite the year-on-year increase following Q3 that I just commented.

In Europe, overall, for the nine months, the volumes are down mostly in spirits, non-alcoholic beverages, and impacted, if we remember, by a strong comparative basis in H1. In Q3, we still have quite a strong comparative basis as well for spirits. If you remember, last year, spirits started to slow down in Q4, so after the other segments.

In Latin America, we have a strong positive year-on-year volume evolution again. Price mix is strongly negative with a contribution driven by lower selling prices, and this is mainly in Europe. In Latin America, we continue to follow inflation. And the contribution of the mix, as I commented, is negative but with a better trend in Q3.

The foreign exchange impact, again, mainly from Brazilian real, and the perimeter effect coming from acquisition and cullet treatment centres in Iberia. That is why the amount is very close to the Q3, of course. And you can see that the full impact in Argentina variation is only plus €1.1 million.

So how does this translate into a consolidated adjusted EBITDA. So we move in the third quarter from an adjusted EBITDA last year of €256 million to €210 million this year. You can see on the top right the margins. So we maintain a margin above 24% in the quarter, so 24.1%, to be compared to 27.5% last year.

So how do we go from €256 million to €210 million. You see in the bridges, we have an activity pillar that is negative with minus €35.4 million. So in the quarter, despite the positive volume impact we have here, this is entirely due to the inventory variation. Last year, in the third quarter, we had a significant increase in our inventory due to, I would say, the surprise of the lower volume came after the Summer, and we started to slow down our inventory for the year-end. So we have this negative impact as a comparison in the third quarter. This is a very specific one.

In the spread, we see a minus €33.7 million, so same drivers and lower selling prices, not fully offset by a lower cost, even if we have deflation in our cost. And the mix contribution, mainly in South and West Europe, is neutral to positive, which is good news.

We can see that the net productivity continues to deliver strongly, 2.9% of cash production cost reduction. You know that our target is to deliver a minimum of 2% every year, so we are above that. That brings €14.8 million to the party, and this is, of course, very important: we push our net PAP contribution to offset the adverse trends on sales.

In the other, you have €9.2 million, this includes the perimeter impact, if you remember. So a large part is coming from Vidrala Italy acquisition but we also have a nice reduction in SG&A cost that we also had in H1 in the nine months, and that is as well steadily contributing to our EBITDA.

The forex is negative by minus €3 million, and this is, again, mainly to Brazilian real. And the Argentina EBITDA variation is plus €1.9 million in the quarter.

So for the nine months, you have here the summary. So the main negative pillar remains the activity one. So sales volume down year-on-year, especially in H1. And we have here, as I explained from Q3, the negative comp on the inventory variation. We were restocking at the end of September 2023, and since then, we keep our inventory very much under control by adjusting our capacity to the current volume level.

The price-mix cost spread is negative by minus €136.7 million, driven by the lower selling prices and negative mix, despite, again, the deflation in cost. For the nine months, the net PAP is €44.6 million positive, and that is a 2.7% cash production cost reduction.

The forex for the nine months is a minus €6.3 million, and the total variation of this year for the nine months of Argentina is minus €6 million, as you can read here.

For the leverage, as you can see here, our leverage is 2.3x at the end of September. The variation between June and September in the debt is mainly driven by the acquisition of Vidrala's Italian business in July. We financed it by €250 million debt, this is the main variation of the debt.

We did have a positive free cash flow in Q3, and then some adverse FX impact on the debt also in the quarter if we want to bridge the two debt levels.

And, of course, as a reminder, we did pay our dividends for €252 million, that was in May, so already incorporated into the June data.

And our long-term credit rating has been confirmed by Moody's and S&P.

Now if we look at our financial structure and liquidity as usual. So here the new line is for the acquisition of our Italian activity from Vidrala Italy. We have a total of borrowings of €2,388.7 million, and total available liquidity which is €649.2 million at the end of September.

As you have read in our press release, we are contemplating a bond issue that would help us again re-diversify funding sources and extend debt maturity.

**PATRICE LUCAS**

Thanks a lot, Nathalie. About our view for full year 2024 results. So we confirm our guidance to deliver an adjusted EBITDA at a level comparable to 2022. All the teams are mobilised on execution for 2024, and at the same time on preparation for 2025.

Meanwhile, we are keeping on strengthening our market intelligence to detect any signal from the market environment. Business focus on agility, cost discipline and cash management are paramount in such a context. And as always, we are focused on execution to get the most of what we control 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. We still have about 10% of our capacity not utilised to keep inventory level under control.

PAP, our performance action plan for productivity, is a must and is delivering. And CAPEX control is also active.

To sum up in a few words, we are walking the talk on what was presented to you in July. Thanks a lot for your attention, and let us now move to the Q&A session.

**QUESTIONS AND ANSWERS**

**Louise Wiseur (UBS):** I have got three questions, please. The first one with regards to the destocking. So you mentioned that you still see destocking in Europe in some categories. Do you have an indication of when that destocking might end based on maybe what you hear from your clients and maybe what they hear from their own clients?

The second question is, could you give us some colours on the trends that you see in the data switch by category? Is there any maybe improvement in spirits? I mean, you mentioned that spirits started to slow down in Q4 last year, so just wondering.

And then the last question is around the price/cost spread for 2025, and just general outlook for 2025. But how do you think about the price/cost spread on EBITDA for next year? And is there the possibility for you to quantify maybe what the potential negative impact could be?

**Patrice Lucas:** Thanks a lot for all your three questions. So first one about destocking., what we see is that in Europe, we are at the end of destocking for the fast-moving products, let us say when we are speaking about beer, non-alcoholic beverage, food. In other words, for the products which are produced, bottled and consumed locally, we do not see any destocking effect anymore.

On the opposite, for the segments which are export oriented, and here we can say spirits, wine, still wine and sparkling wine, we do believe that there is still a destocking effect, which is affecting our market.

And if I am looking at the different communication on our customers on that, it seems to be confirmed. When it is going to end on this part of our segments, we are monitoring that. I mean, each week we believe it is reducing, obviously, it is moving in the right direction, but we still see maybe some impact in the first part of 2025. But this is why we are functioning here our market intelligence to get a better understanding between all the selling out of end conception and the glass market.

But you know that everybody is quite cautious, especially on top of that with the geopolitical potential topics. So we know China, for instance, the tariff certainly to come and to be confirmed on spirits and specifically on Cognac. And we have a US election, which could be as well a game-changer. So we see a big part of our customer being very cautious, any kind of wait and see situation.

For 2025, first we are just in the process, as usual. This is an intensive period to prepare for 2025, So working on all our budget assumptions, cross checking that with all our teams in the different divisions. Negotiation is ongoing with our customers. So it is too early to be definitive.

What we can nevertheless say is that, first, as far as volume are concerned, we do expect to keep on seeing a recovery as we have started to see during the year, and especially in Q3 with volume higher than in Q3 last year. So we do expect volumes to recover and to keep on growing.

Two, on pricing, the big part, the most part of the pricing, selling price reduction has been done and is behind us, and it was mainly in the first semester. And as we said, we are going to be a low-teens on selling price reduction this year. So obviously, we will see a carryover effect next year.

And as far as 2025 selling price reduction, I would say that we are going to be in a kind of normalisation, inflation being controlled, back to standard level. For 2025, the price reduction or increase we have to do will be as a standard of what we have done in the past, in the industry. So this is what we see for 2025. But obviously we will be able to give much more colour when we present our full year results at the end of February.

**Francisco Ruiz (BNP Paribas Exane):** Also three questions, if I may. The first one is on 2024 guidance. In order to reach this around €860 million on EBITDA, you need to grow 15% in this quarter. Also taking into account that Q4 has never been bigger than Q3, could you give us more clarity on what are the main drivers on this quarter, mainly on FX and activity?

The second question is on cost. If you look at the quarter, the cost reduction has been significant, according to my calculations, something like around €60 million. Is this something that could be sustainable also for Q4 and for next year? And what is driving this? Is it just the Essen facility or is there something behind?

And last but not least, Patrice, you talk about destocking. But how you know that this is destocking and it is not a weak demand that it is here to stay?

**Nathalie Delbreuve:** Thank you, Paco. I will start and Patrice will complete. So for the EBITDA guidance, let us not forget that we said we will be around 2022 adjusted EBITDA. So it does not mean that we will stick exactly to the 2022 value.

Second comment is that Q4 last year was also still very weak. Let us not forget that we were in the full H2 with a much lower volume and a lot of shutdowns, especially in December.

And the third point is that we have also the addition of the acquisition of Corsico, so the Italian business that will contribute this year to the EBITDA in the quarter.

For the cost reduction and the PAP, but also the reduction in SG&A that we see, yes, it is sustainable. I mean, the PAP, we have a high value here, but you know that this programme is really continuous improvement. It is not a very big programme that we would launch, especially because of the situation this year. It is really the continuation of our usual PAP actions.

And it now includes fully our new acquisitions, especially in the UK, where we see a good contribution this year. And it is a good synergy that we have here.

**Patrice Lucas:** On your second question about cost reduction, and I guess you are mentioning PAP, sustainable performance of our PAP. So first of all, we see a sustainable performance for Q4, no doubt about that. And as you know, this PAP methodology is something which is very standardised in each of our facilities. And we have a strict and rigorous methodology to identify all the inefficiency and improvements we can make on each of our lines.

We are using the big database with a nice benchmark, internal benchmark, with all our 64 furnaces, which is filling productivity project portfolio. And you know that our objective is to deliver a 2% cash cost reduction figure. So we do not see why this will not be active again next year.

And obviously, this year, it was quite paramount for us to strengthen and to put much more, I would say, positive pressure on delivering additional cost reduction. To make it simple, yes, in Q4, we see something similar to what we have delivered so far after nine months. And for next year, no reason to not keep on delivering a minimum 2% cash cost reduction.

For your last question about destocking versus weak demand, the first comment I can make on that is facts and data for 2023.

The first fact, Francisco, is if you remember what we shared already together, selling out or end-consumption in 2023 was down minus 1%, roughly. So this is representing really the consumer demand. And the glass market was down by minus 12%. So this was clearly the fact that there was a disconnection.

What we see as a recovery today, as we speak, is not totally back to what I could call a coupling between what is real demand in terms of volume and the glass market. We see that recovering. And on top of that, this is what we get as information from some of our customers. And again, it depends on the segment, it depends on how they are exposed to export.

I said that everything which is related with local production, local bottling, local consumption, there is no more destocking effect. But on the rest, we believe that we are back. We are very cautious on the demand, as you mentioned, and very vigilant to look at that. But we believe that destocking, again, is still on, in spirits, still wine and sparkling wine.

**Francisco Ruiz:** Can I do a follow-up? So on the Q4 bridge, could you tell us what was the effect of the inflation expected in Argentina taking into account such a negative impact that you had last year? And also on the Corsico contribution, taking into account that you are valuing stocks at a market value, how much could it be the contribution in EBITDA in this quarter?

**Nathalie Delbreuve:** Okay. So you are right. Last year, we had a strong negative impact in Q4 from Argentina. Basically, the EBITDA was divided by two. So it was several million euros impact in last year Q4.

And as for your second question on our new entity in Italy, you are right, with the valuation of the opening balance sheet that is still in process, our inventories, basically, you do not benefit from the margin of your inventories, but we are not only selling on inventories. So still, we have a positive contribution in the second half from this new business, where we need to be, I mean, just to mitigate the comments. Anyway, this is a bolt-on acquisition, so it is not a game-changer, but it is still an additional contribution, just as a few millions in the year are brought from our new cullet treatment centre in Iberia that we are fully benefiting.

So all of that are not very significant impacts, but they are positive in the Q4 when we compare ourselves to last year.

**Patrice Lucas:** Is that okay, Francisco?

**Francisco Ruiz:** Yes, thank you very much.

**Patrice Lucas:** You are welcome.

**Lars Kjellberg (Stifel):** Two questions remaining. Of course, activity has been a major drag this year. Could you give us any colour on what you expect in the final quarter in this bucket? It has directionally been improving, of course, through the year-to-date, but what should we expect in Q4? The other component that, again, was raised, meaningful cost reduction outside the performance action plan in Q3. Is that anything to do with energy hedges becoming in the more support versus the sort of negative impact you had in H1?

And also, could you share with us how you see energy based on your hedging policy now progressing into 2025 versus 2024?

**Nathalie Delbreuve:** Thank you for your question. So to answer to you, in the PAP, we do not have at all any impact of our hedging policy. What we record, what we add in our PAP actions are without any inflation impact because the inflation impacts, of course, are in the spread pillar. It is really purely a reduction on costs, meaning I am using one forklift less, I have less people in the plant. So productivity actions.

And if I have some energy impact, it is because I have a lower consumption of energy, but it is not linked at all to hedging. So that is why we consider that sustainable because you see these are real actions, continuous improvement in our plants. It is hundreds of actions that are rolled out now every year in the plant. And just as a reminder for everyone, we have a very powerful tool there by benchmarking all our plants on several KPIs of efficiency in the production.

And the idea is really to lower everywhere our production cash costs. So this is pure productivity. And again, no impact of the hedging here.

For the energy, so current energy and the impact of our hedging, you know that we do not give the detail of our hedge levels. What we said, and this is still valid for Q3, is that we have a decrease in our energy costs in 2024 versus 2023, all included with our hedges as well. And what we see today is a kind of stabilisation of energy crisis anyway. So we are still in that trend.

**Lars Kjellberg:** The activity bucket, how should we think about that in Q4? And then I guess on the hedging front, if I can ask just a follow-up. Obviously, you have more expensive hedges in the box in 2024 as they roll out. Can you share with us directionally how energy should be faring based on your hedge policy in 2025?

**Nathalie Delbreuve:** So for the activity in Q4, here we would not have, again, this negative impact coming from stock variation that we commented in Q3. In fact, last year, we did have an increase in inventory in the third quarter. And this year, we maintained basically our inventory level to the current level, by adjusting our capacity of production. So we would not have this adverse impact on the inventory.

And for volumes in Q4, we should also be better than last year, because remember, last year was, as I commented, very, very low. So we are seeing today high single-digit growth. So we will have growth again in volumes in Q4, and we would not have this adverse inventory variation.

**Lars Kjellberg:** And you do not want to comment on the hedge change in 2025?

**Nathalie Delbreuve:** 2025, so it should be pretty stable or some slight decrease versus this year, overall.

**Patrick Mann (Bank of America):** Just two questions left for me. So just to follow up on the volume. I think, obviously, we are seeing positive volume momentum into the end of the year, but you also said that you have still got about 10% of your capacity offline. I mean, how do you see that evolving? Do you think if the destocking comes to an end, that you will be back to full capacity? Or do you think that potentially you might still have to take some capacity out permanently or wait for somebody else to take capacity out?

And then the second question is more broad. So you gave us three-year forecasts. I think it was October 2021. And we are at the end of that period. Just wondering when you might be in a position to give us your next medium-term goals for the business? And how we should be thinking about what your strategy and ambitions are for the business medium-term?

**Patrice Lucas:** Thanks a lot, Patrick, for those two questions. So about our capacity use. So you are right, what I said, we are still not running 10% of our capacity as we speak. This will be the case till the end of the year. And what is very key for us is really to control our inventory level, because I do not want the operation to get out of control and to be with the inventory, not serving the business. And we have obviously a premium cost on whatsoever. So as we speak, we are controlling this and we are in a good position to close the year.

And about when we will be back to full capacity, this is a question related to the volumes we will see next year. As we speak, we do not have any plan to shut down definitively additional furnaces. We did it in the first part of this year with Essen in Germany, because here, as I explained, it was for us a structural change for our German market.

It is not the case on the other regions. We see that much more conjunctural. So this is why we are much more taking temporary measures. What we have decided as well, for instance, in Italy, with our new furnace, obviously, is to postpone the launch of the additional capacity, which was planned beginning of 2025. This, as we speak, we see that much more at the end of 2025. So this is, I would say, a daily monitoring for our scheduling process according to the demand we see in front of us with our forecast, and will adapt production accordingly.

So again, to make it simple, 10% not used today, till the end of the year. For sure, maybe Q1 will be about in the same proportion. And we do expect with volume recovery in 2025 to better use our capacity. But again, with high monitoring, and to keep our inventory under control, and no definitive additional shutdown scheduled as we speak.

On your second question about much more mid-term visibility and guidance to the market. So as we said, we will come back to you next year for Capital Markets Day, giving a mid-term guidance. And we will do that somewhere in Q2. So we really want to finish 2024, to well prepare 2025, and obviously, as you can understand, to get a little bit better visibility on this top line, and on the growth, and what was mentioned about destocking versus the weak demand. So this will be our target to come back in Q2 next year.

**James Perry (Citigroup):** I would just like to ask about mix. So I know you said there is still destocking in wine and spirits. But within wine and within spirits, would you be able to give any more commentary on how the premium and super premium segments are faring relative to the non-premium? Or to put it another way, how much of the minus 5% price mix in Q3 or the minus low teens in 2024 is driven by mix?

**Patrice Lucas:** Thanks, James. So you remember that we said in H1 that for quite a while, premiumisation was down. We are seeing a down trading. And that is the first time the mix effect was negative in our results.

Good news is that we see that in Q3, the mix is neutral. So it means that we start to see, but again, we are very cautious, but we start to see no negative impact on the mix. Nevertheless, we are still very low on the spirits segment and on still wine and sparkling wine. This is where we are lower than what we could expect. So there is much upside to come for us in 2025 on this segment, and as a result on the premiumisation and positive mix effect.

Because we all know and we know and we are convinced that premiumisation is still a trend and that what we are facing in H1, which is starting to reverse, was the result of some arbitration from our customer, plus obviously the spirit market impact. So we still see that as an upside for next year and the years to come.

**Philippe Lorrain (Bernstein):** Thanks as well for giving us a different presentation on the bridges and incorporating Argentina now. I would like to ask a couple of questions, please, on volumes and as well on prices. I understand that your point on the mix effect that is quite neutral in Q3. If I strip out Argentina, I have the impression that part of the price mix has become worse in Q3 versus H1. Would you agree with that and what is the reason behind that?

And then the second question is more on the volumes. I calculate that excluding Argentina, the volume is up maybe slightly more than 0.5% year-on-year in Q3. How does that square back with your comments regarding the different regions seeing that Europe was up and to some extent as well, LATAM was up?

**Patrice Lucas:** Thanks, Philippe. So Nathalie will speak about the price. About volumes, say that again? I am not sure I understood your point.

**Philippe Lorrain:** I was just wondering if you could shed a little bit more light because in your press release, you were mentioning strong volume growth actually in Southern and Western Europe, strong volume growth in LATAM. But overall, it seems like the volume impact if we exclude Argentina was somewhere around 0.5% or 0.6%. And if we include Argentina was just slightly less than 1% year-on-year in Q3. So I just wanted to understand if my view is correct or whether I have done something wrong with the calculations.

**Nathalie Delbreuve:** Okay, so just to say, we commented the volume growth in the third quarter. When you look at the euro in the activity pillar, you have a bit of country mix, I would say, depending on the selling price for countries. Because overall, we have growth, but we have some countries that are seen with a flat or a slight decrease.

So it is a bit difficult exactly back to our comments on the pure volume. And the main increase versus last year is really coming from Latin America. Here we have also additional capacity we are benefiting from.

If we move to Europe, I think that is the colour we gave in the press release is that we have a bit of positive. It is not very, very positive overall in the third quarter. So LATAM still remains the most dynamic overall for the Group.

And for the prices, on your question, you have mainly the carryover effect of H1 decreases and Q2 decreases in prices. So we are again in a year where we have had several rounds of price decreases, unfortunately. So the reading is a bit more difficult than when in the past we were running one price evolution at the beginning of the year. So in Q3, for the pure price, it is really coming from that, because now we are moving into the preparation for the 2025 price negotiations. So we have limited impact now on prices. You always have some case by case, but nothing on the full extent of our portfolio in Q3.

**Philippe Lorrain:** Okay. Just to follow back on your comment on the regional mix. So the regional mix is included in the volume pillar, in the sales bridge?

**Nathalie Delbreuve:** Yes, in each pillar you have variations in euro per tonne, for example, by country, it is pretty different from country.

**Jean-François Granjon (ODDO BHF):** Four questions from my side. The first one is, I just want to come back on the volume for the Q3, plus 0.8%. It seems quite limited. I understood that you mentioned some mid-single-digit growth expected for the volume in the second half. Do you confirm that? And could you give us more colour around the strong growth for the volume in Q3 for the South and West Europe?

The second question, I just want to come back, I do not understand why we have so limited growth for the volume in Q3 and a negative impact at €36 million on the EBITDA. I do not really understand the reasons. You mentioned some destocking, but I do not understand very well.

Third question, you confirm the guidance for the EBITDA, so around the same level on 2022 for the EBITDA. So that means a strong Q4 at €225 million higher than we have for the Q3. Generally speaking, the Q4 is probably less compared to Q3. So do you expect so huge Q4 in terms of EBITDA to reach the guidance? Or should be more cautious?

And the last question, could you give us some colour about the free cash flow for the Q3? We have a negative free cash flow in H1. What is the trend for Q3?

**Patrice Lucas:** Thanks a lot, Jean-François. I am going to comment the volumes. I will give you much more colour on Q3 volumes. And here, I am speaking about volumes, not revenues.

Our volume in Q3, we have a mid to high single-digit growth in volume, all Verallia, including Corsico, including the acquisition of Vidrala Italy. If I remove the acquisition, a kind of like-for-like comparison to last year, the total growth is low to mid-single-digit.

We have some contrasted situations within the different regions. Southern and Western Europe is up high single-digit, close to low teens. Removing the perimeter effect of Vidrala Italy, we are low single-digit. Northern and eastern Europe is down mid-single-digit. And here we are impacted by Germany, which is so-so, and UK with the spirit market. Remember that UK is much more dedicated to spirits market. 75% of what they are doing is for spirits.

And then in LATAM, we have a strong double-digit. So I hope it is clarifying the volume situation. And for Q4, we do expect, again, high-single-digit growth compared to last year, keeping in mind, again, that last year, we had very low comparison basis. I hope it clarifies on volume situation.

**Nathalie Delbreuve:** So on the EBITDA, on the Q3 activity pillar, it is a bit strange to see a negative pillar when you have a positive one in the sales. It is really due to a variation of stock variation. So what does it mean? It means that last year, we were producing more, and we were increasing our inventory. So this has a positive impact on your EBITDA. You have production cost covered by putting inventories, raising inventories, while this year, we have less production, we adjust our production, and we do not increase our inventory. So we do not benefit, I would say, from this.

So when we compare ourselves, bridge to bridge, we have this negative impact of what we call the stock variation. I hope it is more clear now. And it is very much linked to this quarter. That is an important one.

For the full-year guidance and the Q4, you are right. Usually, Q4 is not stronger than Q3. Again, let us not forget that we said we would be in the area of our 2022 EBITDA. So yes, let us be a bit cautious about that. Even if, as I already said, Q4 last year was not very good, and we have some impact of acquisitions and also additional capacity in Latin America.

For the free cash flow, so thank you for asking. In Q3, as in Q2, we are back to a positive free cash flow generation. You remember in July call, I said we did generate a positive free cash flow in Q2 after a very negative Q1. And I was expecting to have a positive free cash flow in H2. So we are on track with that, starting with a positive free cash flow in Q3. And we expect also a positive free cash flow in Q4.

**Jean-François Granjon:** Okay. But as mentioned on the press release, compared to what you expect for the previous plan between 2022 and 2024, you expect a cumulative free cash flow lower than €900. That is right?

**Nathalie Delbreuve:** Yes, we are close to that, but we will be lower. Exactly, you are perfectly right.

**Fraser Donlon (Berenberg):** I had two questions. So the first is on pricing. So what gives you, I guess, confidence that it is only a negative carryover effect, which you should expect in 2025, given industry utilisation still probably on the low side? And then the second question was, could you maybe comment a little bit how you see the structural positioning of your German business? Because that seems to be a business which has been suffering quite a lot in the last few quarters. So is there any kind of major changes we should expect there, other than the closure of the Essen furnace, which you already made?

**Patrice Lucas:** Thanks a lot, Fraser. So about pricing. So first of all, as you know, we want to be disciplined on that, and we want to base that on our value based pricing. What is sure is that the big part of this post-inflation or inflation period and then a correction, it is behind us. And in 2024, we have done the bulk part of it.

What we are seeing now is that we are just in much more psychological, tactical pricing variation. For 2025, again, as I commented, we are working on all our assumptions. We are right now dealing with the customers for negotiations and contracts for next year. So we will see where we end but as the inflation and the price position are behind us, we will be back to something which I do see normal. And we will have to adapt capacity, if we need, compare to what is the market demand, as we are doing right now.

The only impact for sure for 2025 will be, or the biggest impact will come from the carryover of what we did in 2024 to 2025. No doubt about that. And then we could expect to monitor the price variation in 2025 according to our cost variation in 2025.

About definitive adaptation, capacity adaptation measure, as I said, so far we are just picking Essen in Germany. We do not see anything else out as I speak, and we will adapt temporarily if it make sense. And if we see something structural, we will not hesitate to make the appropriate measures, again, as we did in Essen in Germany.

Specifically in Germany, it is right to say that it is quite a difficult situation. And we will see what we do. If we have to adapt one more, again, we will not hesitate to do it, to adapt to shut down one additional furnace.

But we want to be responsible and to look at what is needed according to the market demand. I hope it answers your questions, Fraser.

**Fraser Donlon:** Yes, that is perfect.

**Ephrem Ravi (Citigroup):** Most of my questions have been answered. Just one on your lightweighting glass strategy. Could you give us a sense as to the pricing premiums that you can expect for this? Or is it more a $CO_2$ reduction drive that is driving this? And again, in terms of mix, I mean, you mentioned 8.8 million units, and I think you sell about 16 billion bottles. So, I mean, what percentage of the mix do you think this particular product line is going to be, let us say, in three to five years?

And then finally on that as well, in terms of additional costs, either CAPEX or OPEX to make this kind of product line, what would be the investment that is required for a given level of volumes?

**Patrice Lucas:** Thanks a lot. So about this important topic, is it $CO_2$ or is it something else? I would say it is everything. It is $CO_2$ reduction., this is the opportunity to give competitiveness to the glass packaging to our customer versus other packaging solution. And it is a way as well for us to preserve profitability as with one tonne of glass, you are making much more bottles at the end.

I do see that as a strong trend. Obviously, we see that it is ramping up. We see that there is some demand coming and appetite on this kind of product, and this is why we have decided to propose and to define a full offer for each segment on some breakthrough in terms of weight.

It does not require any additional CAPEX. It is just about having the appropriate skills to design, so to make the mould with good simulation to make sure that we are going to the minimum of thickness in the wall of the bottle, but still sticking and respecting all the technical specifications we have. And it is about having a strong process control because it is much more difficult to produce a light bottle than a heavy bottle. You need really to control it as well to have strong capability in your production means to reproduce and control the thickness of the wall, to make it simple.

So, no additional CAPEX, just using the best know-how and the skills of our engineers being product engineering or process engineering.

**Ephrem Ravi:** And any expectations of volumes in three to five years or we will see as the market develops?

**Patrice Lucas:** Difficult to say. We can say that the standard product could move significantly in that direction. For the bespoke product, obviously, it will be much more difficult. But for standard products, especially in wine, I think we could see a big move. Difficult for me to give a percentage, I mean, or a mix.

**Alessandro Cecchini (Equita SIM):** Just one question. You spoke about your utilisation level, that is right now 90%. Do you have a feeling about what is happening, I mean, at the industry level in Europe? So you are a market leader, so you probably have a feeling of what is happening in the market. Just in order to understand what is the current discipline of the market in terms of capacity utilisation or stoppage for the furnaces for the next year or end of this year?

**Patrice Lucas:** Thank you. Well, to correct again, we are not using 10% of our capacity as we speak. Well, the information I have and the feeling I can get is everything which is public and from our peers. What I know is that, again, globally we see a kind of discipline to adapt capacity. We see some peers taking much more definitive measures, maybe much more impacted by some segments where there are some definitive moves, I would say.

And what we see is that most of the industry is thinking twice when they have to rebuild a furnace. So each time you have a furnace which is coming to the end of life, and then you have to make a new investment to keep the capacity. Obviously, this is a big question. Do you make the investment now? Do you transfer the capacity? Do you postpone the CAPEX to get the capacity? And this is what everybody is doing with a good business sense. This is the feeling I get.

**David Placet:** All right. Thanks a lot. This is David Placet speaking. I am the Head of IR. Well, we have had quite a long list of questions on the phone. We only had, I think, four written questions. Two, I think, have been covered already. That leaves us with just two quick questions to be answered. One from Claudio De Ranieri at Albemarle, which is, okay, given the decline in profitability that you have seen in 2024, are you considering extraordinary cost-saving measures besides the PAP?

**Patrice Lucas:** Okay. So the answer is yes, and this is what we are doing already, because we are not speaking about SG&A adaptation of these kinds of topics. So, obviously, we are doing it already, trying to flex the SG&A according to the top line. So we are quite successful on some topics in our members so far, but this is what we will have to do if needed, obviously.

What is important for us is that we are still confident for 2025 and beyond. Is it going to be 1st January 2025? Certainly not, but we believe that in the course of 2025 and beyond, we will recover. Keep in mind that as we communicated in July, this year we are facing quite strong headwinds compared to the previous year, and this will reverse at a point in time, being market, being energy cost, being premiumisation, being utilisation of our capacity, and all of that.

But be sure that if we were to face some structural change, some structural impact, I mean, without any doubt, we will take the appropriate measures. But we are doing that today in order to protect profitability and cash, as I said, and this is part of the optimisation and the improvement of the efficiency of the business we are doing on a daily basis, I would say.

**David Placet:** Thank you, Patrice. One last question from Roberto Casoni at Otus Capital. Could you please give us a sense for CAPEX in 2025 and beyond? Where will it be focused in a context of presumably limited capacity additions?

**Nathalie Delbreuve:** So in terms of CAPEX, remember that our view is to stay around the 10%. Today, we are below 10% of our sales, so that means that when your sales are reducing, we also reduce the CAPEX spend. This is already what we are doing in 2024. And second comment, for 2025 and beyond, we had in the past two years additional capacities, so investment for additional capacity in Brazil, in Italy. This is now behind us. And we would be, of course, not adding any new capacity unless the market is there.

And also, last comment, we will keep our decarbonation roadmap, CAPEX is embedded into around 10% of sales as we did this year. So strict control on CAPEX, not giving up, of course, our decarbonisation roadmap. That is very strategic.

**David Placet:** Thanks, Natalie. That is it on my end.

**Patrice Lucas:** Okay. So thanks a lot for your attention, again, during our call and for all the good and relevant questions you had. So I wish you a good day, and please take care. Bye-bye.

[END OF TRANSCRIPT]