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DS Smith Q3 Trading Statement Conference Call Transcript

Speaker Key

CO Coordinator
MR Miles Roberts
BD Barry Dixon
AM Alex Mees

MR Firstly, good morning, everybody. Thank you very much for joining us today. I'm Miles Roberts, the CEO of DS Smith. I'm joined here by Adrian Marsh, our CFO. Our trading statement, released this morning, relates to the period of trading since 1st November 2017. We're very pleased with the progress of the business in the period, reflecting the increasing relevance of sustainable packaging and our compelling customer offer.

Box volume has remained strong continuing the positive trends seen in the first half of the year, reflecting ongoing good progress with our multinational and ecommerce customers. Integration of our North American business is going extremely well. The business continues to perform ahead of our initial expectations with packaging volume growth significantly ahead of the Group average rate and the improved paper productivity.

Recovery of recent increases in paper prices is also progressing well, fully in line with our expectations. This, together with our operational leverage coming from the strong top line growth, means that the return on sales is expected to increase in this H2 period as compared to H1 and the full-year return on sales is expected to be in line with that of the prior year, with trading overall fully in line with our expectations.

In addition, we're delighted to have completed yesterday the acquisition of EcoPack and EcoPaper in Romania. The acquisition will significantly enhance our capacity to serve customers in this very high-growth region, as well as supporting our substantial wider Eastern European presence. So overall, I'm very pleased with how our strategy's delivering for customers and producing strong results.

We continue to gain market share by delivering packaging that adds value to our customers as they look to improve the efficiency of their own operations. The excellent reaction from our US customers reflects the differentiated offer we bring, including our expertise in retail-ready packaging and ecommerce. At the same time, the benefit of the global supply platform for paper and fibre is being seen in the improved operational efficiency of our US assets and greater coordination across the Group.

We continue to be excited by the structural drivers that support the growth of sustainable packaging and the opportunities for DS Smith. Our outlook, therefore, is positive and we remain confident in the future. I'd now like to invite any questions people have, which either myself or Adrian will answer.

BD Good morning. Miles and Adrian, it's Barry Dixon here from Davy in Dublin. A few questions from me. Miles, you talked about further progress on box

prices. You'd previously indicated that you expect to get around the eight to 10%. Can you give us any sense as to where you are in terms of achieving that target?

Secondly, the box volume growth, I think, was 5% you reported in the first half. Is that roughly what you've seen now in your fiscal second half? Maybe you'd give us some sense as to where you think the underlying market is growing and how much then you're getting from that increased market share?

Finally, any update on the synergy target from Interstate? Thank you.

MR Thank you, Barry. Box prices, we said previously that paper prices have increased roughly from about 80 to €100 a ton depending on the grade. If roughly packaging is €1,000 a ton that means an eight to 10% pay rise. That was obviously up till last year. As I say, we have a lag, typically, of three to four months, but we're fully in line with recovering that.

Should note that since the... Since we last spoke, it looks like paper prices will probably go up again. Therefore, there'll be a further increase required. But we are getting the increases that we have targeted. I should add that's on the back of very strong volume growth as well. Our volume growth has been slightly better in the second half to date than the first half. That trend has continued to improve.

On the underlying market, we see it's running at about... It depends on the exact lines of business, but for our geographies, it's running at about just below 3% like-for-like growth. That's what we estimate for the calendar year to December 2017

We have not said anything else on the synergies on the US business. It is just a trading update. But I would emphasise that the business is going extremely well. We are delighted with the customer reaction. We're delighted with the integration with our people there, and – I have to say – the supply chain as well that we're establishing between Europe and the US. So we continue to be very, very pleased with that.

BD Thank you very much.

MR Thanks, Barry.

CO The next question comes in from the line of Alex Mees of JP Morgan. Please go ahead.

AM Morning, Miles. A couple of questions please. Firstly, with regard to the organic growth, obviously continuing the very strong level, and given that the ecommerce is one of the key drivers, I'm wondering if you can just comment as to whether you think an elevated level of organic growth is possible to be sustained into 2019 as well as the rest of this year.

Secondly, given all of the negative publicity around plastic packaging recently, I wonder if you saw any opportunities there for corrugated.

MR Thank you, Alex. If we look at the growth, as you know, we have an absolutely leading position in ecommerce. We invested very heavily into it a

number of years ago and, indeed, we are delighted with the relationship we have with many very large e-tailers. They continue to grow. But we've also seen the emergence of the eBay customers; we're getting very strong growth there in the mid- and small tier as well.

I should say, when we look to our structural growth, that is one element of it, but let's not forget that ecommerce in goods represents less than 10% of total goods sold in Europe. We are seeing – I think we highlighted it at our half year – a continuing structural move to our sorts of packaging, firstly because of its recyclability. I've already mentioned about the ecommerce. We're seeing people shopping more frequently and therefore buying smaller pack sizes, which drives the use of our packaging.

Of course, it's not just about ecommerce. We've got a whole changing consumer shopping landscape. The continual development of convenience, of discount, multiple formats. Again, that drives more packaging. So we are seeing an underlying strong growth; it is flattered by ecommerce, but it's by no means the only story at all.

It's always difficult to call it, but it does feel as if we are operating at a higher structural growth figure. That's partly why we announced the construction of two new box plants. Obviously we're cautious on investment. The recovery in Europe is certainly underway, but it's far from certain. We have announced two, and frankly, we can't bring those two factories on quickly enough such is the demand that we're getting for our solutions.

You asked about plastics. There is a strong, I would say, consumer – not necessarily customer – but certainly consumer awareness, not just in the UK with... Following programmes like Blue Planet, but just generally across Europe consumers. We do a lot of research with final consumers; we can see a reluctance of people to buy products in single-use plastics. That's translating to our customers. We are working hard with a number of them, thinking how can we replace single-use plastics.

That's not just the bottles for water. These are things like trays that go inside food containers, just simple, single-use plastics. We all see them all the time. How can we replace them with fibre-based solutions? We've obviously got the... Things like the coffee cup issue and we're working hard at the solutions for that. Indeed, we're trialling a number of very innovative solutions that... I have to say the initial results are extremely encouraging.

But it's up to all of us to do more here and get people out of plastics and into fibre.

AM That's very encouraging. Thank you, Miles.

MR Thank you very much for your time as always. All I'll say is we remain very excited and confident about the future. Thank you for your time.