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DS Smith Half Year Results 17/18 Conference Call Recording

Speaker Key:

MR	Miles Roberts
AM	Adrian Marsh
BD	Barry Dixon
AMees	Alex Mees
RC	Robert Chantry

MR A huge welcome from myself and Adrian Marsh, our Group Finance Director. As always, we are very appreciative of the time you've taken to come and listen to our results, the results for the six months to the end of October so just over a month ago.

By way of introduction, we're pleased. We're pleased with what's happening in the markets. As you know, we feel very passionately about packaging and the benefit that it can offer our customers. I'm delighted about how we're growing with our customers, how we're succeeding with our customers, how we're working more in partnership with our customers and we've seen that come through in our volume growth.

You'll have seen a difficult economy for many years. We've seen a fifth year of growth, taking market share and in this six months it's no different. We've taken more share by working with our customers. The focus on our big pan-Europeans is really working very well for us but we're seeing some real structural changes in the way our customers and the final consumer is using packaging, our packaging, sustainable packaging, fibre-based packaging and that is driving growth in our markets.

In terms of our profits, they're absolutely where we expected them to be and we're very pleased with that, delivering against all of our financial KPIs. Our net debt to EBITDA is at two times. We've obviously made a large acquisition in the period. You see how this deleveraging of the group is coming through very quickly.

We've had very substantial increases in raw material costs but the recovery of those costs is absolutely where we expected it to be and we're very pleased with that. And the US business; let's cut to the chase here; we're absolutely delighted with the way our business has started with us.

Strong trading performance in a strong market; the integration is frankly even better than we thought it was going to be; that level of engagement with everybody there - these are wonderful people we've joined with - and the customer, the customer reaction to us. So we're seeing growth of that market in fact ahead of where the group is and on the back of all of that we've raised our cost synergy target. It was 25 million; we're now very confident of achieving at least 30 million and because of our continuing growth in Europe, because of our confidence in that market we've acquired into Romania as well. We hope to complete that acquisition at the end of

January. Romania's one of the fastest-growing markets in Europe and we're delighted to have taken an acquisition there.

And because of the continuing growth our customers want us to add more capacity. We're seeing very strong growth in some regions and we're announcing our intention to put down further new box capacity to really support our customers and as we enter 2018, the second half in the run-up to Christmas, there's good momentum; we've got a lot of Christmas presents to deliver over the next month and we're going to deliver them and we're delighted to do that. Adrian.

AM Thank you, Miles, and good morning, everyone. As always I'm extremely honoured to be presenting our half-year results today, particularly in light of our recent acquisition of Interstate. As we described in our full-year results, this half will bear all the impact of the paper price rises which occurred towards the end of our last financial a year and early in this financial year. As we've previously guided, our business model is well calibrated to recover these input prices and as our results will show we've made very good progress so far and will continue to recover these price rises through the second half and also, as you will, I'm sure, be aware, start recovering the further price rises that have been announced recently.

We remain focused on delivering consistent and sustainable return on average capital employed and growing our dividend in line with earnings growth at actual exchange rates. Although as always, in order to explain what's been happening in this business I'll be talking about the constant currency changes as I go through the presentation. You'll also notice from our results that in line with best practice we have moved our reporting away from detailing further items as exceptional and instead describe items which are now termed adjusting in order to continue to give a comparable guide to our underlying performance.

Our volume growth of 5.2% represents a significant validation of our business model and is an extremely pleasing result for everyone in the business. Whilst we've obviously benefited from a slightly more positive macroeconomic environment in our European business we've also made strong market share gains, particularly in acquired businesses and continue to build on our full service offering and European customers and are harvesting the benefits from our early investments in e-commerce capabilities. We're again able to report growth in every region.

In terms of our financial measures, our main metric of return of average capital employed is at the top end of our range, reflecting both the diluted impact of higher capital employed, particularly from the Interstate acquisitions, but also the stability of our profits following a material increase in input costs.

Our margins are exactly as we expected, at the midpoint of our range. Whilst the impact of cost increases is being mitigated through box price rises this obviously has the effect of increasing revenue and optically reducing margin from this time last year. Our gearing is at our target level of two times EBITDA and we remain focused on deleveraging in order to free up capacity to invest for future growth. This is a good indicator of the cash-generative nature of our business and continues to give us confidence to pursue further value-enhancing opportunities such as our recently announced Romanian acquisitions which we hope to complete in the next month or so.

So to our financial highlights; revenue's up 14% and operating profit up 6%. I'll take you through these bridges in a moment. This growth describes earnings per share up 2% on a constant currency basis and up 6% in actual exchange rates. The reason that the EPS growth is lower than the profit growth is clearly due to the equity we raised in June for the Interstate deal, which then completed at the end of August. This has meant that we had four months of extra shares with only two months' contributions in the acquired business in the period so the dilution impact is pronounced in this period but obviously will be more spread out come the full year.

Dividend per share is up 6% in line with reported EPS growth and asset turnover is another lever of return on capital and you can see that this measure has held constant over the year despite the paper price rises.

The overall picture for revenue is one of organic and inorganic growth with an added tailwind from FX translation in the period given the continued weakness of sterling, our relatively small UK business when compared with the rest of the group.

There is the usual detailed slide at the back of your pack with more information on our currency exposure and our debts. You can see the benefit of the businesses acquired in the last 12 months in the £40 million uplift, which relates to the incremental contribution from some of the small acquisitions we've made in Europe.

There's also been a £110 million contribution from Interstate in the two months of ownership, which has performed at least as well as expected when we valued the business, if not slightly better but I'm sure more on that from Miles later.

Corrugated box volumes contributed £76 million of uplift with a further £34 million from other volumes printed in our packaging services business so the price mix is up £81 million, reflecting the increase in prices that we've so far delivered in response to the change in underlying paper prices.

Turning to profit, there is the continued translational benefit from FX, the flow-through from strong organic growth and of course the benefit from acquisitions. The £15 million from Interstate since ownership is a pretty decent start and I'm sure that you will all do the maths and compare it with their reported 2015 and 2016 results.

The access we received prior to the deal announcement gave us the confidence to describe our expected financial returns and this underlines our assessment. It's worth noting that the results for the two months include costs which were estimated at around about £1 million relating to the effects of the hurricane, which resulted in a mandatory evacuation of our Riceborough paper mill for four days. For me it was a completely awe-inspiring experience about how our management and staff took all of this in their stride and the pride they took in the speed with which they prepared for and then operated these emergency plans before, during and after the hurricane passed.

During our post-acquisition review we've evaluated and since impaired an EBITDA loss-making energy operation. This gave about a million depreciation benefit in this period with a full-year effect of around seven million. Seven million pounds is the 12-month effect that that depreciation will get from the assets written down.

On volumes we're seeing the usual revenue benefit coming through to profit. I've talked about the sales price mix and here you can see in the input column the size of the trend we've experienced. It's certainly a first for me but a credit for the business about how well we're recovering. As I'm sure you've heard from others, when the industry's faced with such a large increase in input prices the whole market is fully focused on price recovery. It also gives us a perfect opportunity to work with our customers on using performance packaging to mitigate it, which then gets reflected in our volume growth and market share growth.

I'm not going to read out each line item on the split of margins but the structural difference between divisions tends to come down to balance between packaging and paper. The UK, which stands out here, has also benefited from the acquisitions of Creo and TRM and was ahead of the curve in price recovery given the weakness of sterling driving up prices earlier.

You will also see the point I raised earlier about consistency of absolute profits versus the object of margin during recovery of paper price through selling prices.

Turning to cashflow, we continue to focus on tight cash and capital management and benefit from working capital improvements in newly acquired businesses, particularly through putting their suppliers on our group payment terms.

You can see from these bars that despite the cost of the Interstate acquisition we're back to our target, two times net debt to EBITDA. We were overwhelmed by the response of our shareholders to the equity-raise in June; a big thank you for all your support. This partially funded the deal and is reflected in our continued investment-grade credit rating.

What isn't shown in the cashflow is the value of the consideration shares, which were issued to the sellers at completion, which also had a prudent effect on gearing. In order to both finance the deal and to create headroom in our banking facilities and provide flexibility in the future we raised €750 million for seven years of 1.375% coupon and £250 million at 12 years at 2.875% coupons shortly after the equity-raise.

This is our usual technical guidance slide for the year to April 2018 and we're updating at this stage because the one at the time of the full year didn't include the impact of Interstate being part of the business so there are some changes here. Interstate will be part of the group for eight months this year, hence these figures are not necessarily reflective of the yearly run rate.

Capex has gone up to £280 million, reflecting pretty much the full year run rate for Interstate, part of which will be adjusted back in the purchase price and also an element of the integration capital and further investment opportunities in the core European business will be brought forward due to our strong growth potential and the general macroeconomic environment.

Depreciation will be between 175 and 185 million, up from previous guidance as you would expect but please do note that, as I described earlier, year to date depreciation pre the additional capex investment has been positively impacted by the opening balance sheet impairment of that energy operation; ie, it's lower than you'll be expecting.
Adjusting costs now reflects the transaction costs and fees relating to Interstate of around about £20 million in the period. The remaining items - I won't read through that; I'm sure they're broadly as you'd expect.

As always, this is clearly my favourite slide, which requires no further narrative. Our dividend is a key measure of return to shareholders. Today we've announced an interim dividend of 4.9p, consistent with our progressive dividend policy. This matches the growth in earnings at actual exchange rates.

So to conclude, this has been a financial period where we've delivered our results as we expected, all in line with our financial metrics despite severe cost pressures and of course with a contribution from Interstate too. I'm now going to hand you back to Miles.

MR Thank you, Adrian. In my section I want to talk firstly about the market that we're in and what's happening and some of our growth potential in Europe and I then want to come on and talk about the US and Interstate and just taking you through where we are, how we're seeing that market, further opportunities for growth there.

If I just start with the overall market, as I said, we're growing with our customers and in our fibre-based, fully recyclable, fully sustainable packaging solution we're seeing a number of real structural changes here. You'll have noticed that a lot of the larger FMCG companies; you could be looking at their top line and thinking, that was a little bit static. These are world-class companies and I'm sure they'll come back but what we're seeing is the emergence of a lot of new brands coming through. A lot of these brands could be solely created on e-commerce, they bypass the bricks-and-mortar outlets. That's a full e-commerce solution.

Even in some of the more established brands we're seeing shopping habits changing so that shoppers are going to stores more frequently and as demographics are changing and households are becoming smaller pack sizes are reducing so we're seeing a growth, a structural growth in the demand for packaging because of the smaller pack size, because of the more frequent shopping, because of the growth of e-commerce, because of the growth of these emerging brands coming through.

So there are a number of structural drivers there. In addition to that there's an ongoing topical debate about, what does all this packaging mean for the environment. As you've heard us say over many years, the sustainability of our solution is unparalleled. We're also Europe's largest recycler of fibre. We have our lorries and our vehicles travelling throughout Europe every day to pick up this fibre. We collect and trade over six million tonnes a year so this gives a security to our customers that that packaging is going to be properly dealt with and be properly recycled. As you know, it takes 14 days from the box to be collected to making new paper to making another box and being back on the shelves; 14 days, often within country so you're not having to send that packaging halfway around the world to have it recycled. It's a wonderful model, it's a model that we lead and we promote and it's one that's gaining traction.

So there's a strong underlying growth to packaging and in addition to that at DS Smith we're also benefiting from some of our customers' trends. They increasingly want to consolidate their supply chains so that the solutions that they need can be consistently supplied across all of their operations so again it is half here; our growth with our pan-European customers, based on our unparalleled footprint across Europe, has been very strong and those customers are looking to reduce the total cost of supply by improving the packaging. If you think about e-commerce, a lot of our customers, the analysis we're doing with them, are showing that the delivery of their product in the last mile could be 20 to 30% of the total cost of that product delivered to that customer, including the cost of the product.

So you can see how important logistics and the packaging of that product so it arrives in perfect condition at the minimum cost is so important to our customers so some strong structural drivers there and that's why over the years we have seen, despite the very difficult economic conditions in Europe, we've seen our growth in 2013/14 of 2.2%. That of course was the first full year of the SCA acquisition and some of you were here at the time; it doubled the size of the business. When we bought that business it had been losing 3% volume per annum. It joined in to DS Smith and with DS Smith pulling that business back into positive territory; that's why you had a 2.2%, leading up to 3.1 in the following two years, 3.2 last year but 3.5% in the second half of last year and now 5.2%. The structural drivers of fibre-based packaging, the structural drivers of our exposure to that pan-European market and undoubtedly an improving financial economic position in continental Europe; still early days but it's quite a strong trend across a number of our countries. All of our regions are in growth.

To back that, you know we've seen very strong growth in eastern Europe over a number of years. Romania is a market that has 22 million people. As a market in terms of population it's the second country in eastern Europe behind Poland. The economy's growing at over 5% per annum. Packaging is growing ahead of 5% and we have consistently grown considerably ahead of that so we want more exposure to this market because our customers want us to have more exposure there.

So we've announced the intention to buy a business, a family-owned business. We've been talking back to them for quite a long time, looking back to our first meeting in Bucharest, 18 months ago. It's taken a while to bring it to completion and that's completely normal for these types of businesses. Unparalleled access to the company so we feel very confident about what we're buying; an excellent owner.

It fits extremely well with our existing operations, which you can see on this map. We've built our eastern European business over the last five years with that SCA acquisition, with the Duropak acquisition, with the acquisition of Cartonpak in Greece and now with this further acquisition so we have a very strong, market-leading position in this region.

This asset includes a brand-new lightweight paper machine. We're growing so fast that we do need access to paper in the south-east of Europe. There isn't any real independent paper capacity there and it has lightweight paper which we need for our performance packaging solutions that are working so well with our customers.

It's immediately earnings-enhancing. The synergies are excellent and we're really looking forward to its completion in January 2018. But it's not just about acquisitions, it's also about organic investments. We built a new plant in Germany – Erlensee - last year. Many of you have been to that factory. We're delighted with the response we've had from our customers there. That factory is filling up very nicely and on the back of that success we're announcing our intention to build two new box plants, one in southern Spain and one in Poland. The markets there are growing very strongly.

We have been growing very strongly as well. We needed capacity but we also need our technology there. We're finding that as we invest more in our solutions around the performance packaging, digital print, etc, it's not every acquisition that can offer us those opportunities and in these cases the financial returns mean it is better that we invest and grow rather than acquire. We're very focused on the returns. They should be above cost of capital within 12 months of the factory opening and they should have a payback of between five and six years. That's ahead of an acquisition but obviously it's a slightly slower ramp-up because you've built the assets but you don't get the earnings immediately but we're very excited about those.

Turning to Interstate, you know we announced this acquisition at the time of our full-year results back in June. It completed at the end of August, a few months ago. The US market's strong. It has some very good suppliers in already who we have a lot of respect for. They've built a strong market. It's a very high-margin market and it's growing quite strongly. It also has a very, very attractive cost base, with access to kraft paper, which is made from virgin fibre. The southern states of the US - we thought it was the best place in the world to produce and what we see; it's absolutely the case. The trees grow very quickly in that warm environment and in a really pro-business environment, energy costs are very attractive; we're delighted to have entered that market.

As I've said, in terms of the employees, it's how we join together, how collectively we make a stronger business, not only for them but for us as well in Europe. The integration is ahead of expectations. The degree of understanding and co-operation here is better than we thought and the implementation plans are well advanced and are now starting to be implemented for the first time and they're very encouraging.

If we turn to the financial performance, the packaging growth is ahead of the group, is above 5.2%. We've had very encouraging discussions there and the EBITDA for the two months is 15 million. If you look at the current run rate of EBITDA it's above $150 million. If you think about how much we paid for the business, $1,376 million, you'll see that's a multiple that's just less that nine times; pre-synergy EBITDA multiple. We said to our investors this was an attractive asset. We said it had an attractive return and we're now starting to see that come back and repay the confidence our shareholders have given in us.

At the time of the acquisition; these were the three real issues that we're trying to address, opportunities that we think we could get hold of. Firstly, that strong customer pull; secondly the global supply chain benefit, how we build a stronger business by having access to the US, and of course the financial returns. So on the customer pull, these are the slides that we put up back in June about why we wanted to enter the market, about the performance packaging opportunity, how we can reduce the grammages of the packaging that's used in the United States, how the US customers, the big retailers want to see the solutions that are in Europe for retail-ready packaging and they can slide their products straight onto retailers' shelves, which significantly reduces in-store cost, they improve the presentation of that product as well.

Lastly about that huge growth in e-commerce. We said these were the opportunities and when we got over there we started talking to our customers. That's exactly what is there, that's exactly what's happened. Talking to them, they really want to see this performance packaging come through. We're talking to people there who have operations in Europe and they cannot understand why the boxes in the US are sometimes double the weight of the European. They know what we supply them there and the reaction to us has been everything that we wanted it to be; it's exactly the same as shelf-ready packaging and e-commerce.

So we're seeing quite a bit of growth with the existing customer base. Regarding new customers; we've already got customers there and we're talking to them and the reaction from them is very positive. I've talked about the volume growth and we are very encouraged in the future and I have to say with our global customers - it's early days but very, very encouraging; it's good news for the whole of the US market and we're determined to be part of that.

When we turn on to the global supply chain benefits we've said we want to prove something, how we can strengthen our business in a way nobody else does and we talked about the opportunity to start flowing material between the US and Europe, bring it across the Atlantic because of course what we found is bringing it across the Atlantic is cheaper than bringing it from northern Europe down to southern Europe as an example. It's actually a lower cost than taking it from the southern states up to New Jersey, etc. That flow across the Atlantic is everything that we thought it was going to be and the flows of product between the east coast of the US and Europe is starting to work very well for us.

On procurement as well, standard specifications; this is where we have started to see the opportunity to benefit from the expertise we've built in Europe and applying it to the supplier base in the US with their better, attractive cost base; I'd say it's looking very positive and that's why with synergies we are confident. We thought it was there but we had some reservations so we bought a contingency and we're now starting to release that contingency. So from $25 to $30 million, the integration seems to be working. The team we've had for many years has been expanded a little bit because we're having to work on a number of fronts. They've proved their track record and I have to say, the world class integration. Being perfectly honest, I think it's about the best we've seen today in the sector.

We’re confident of growth in the market; we have a paper long business here. It's great we can bring it back to Europe but that is an exposure for our shareholders. We're determined to close that long paper position out. We see

the growth in the organic business but we're also seeing the opportunity with our customers to put down further box capacity; two plants, circa $40 million each. Those plants together for the growth will take out that paper long position and the market's now very strong but we have the confidence to do that. The financial returns are very similar to those that I've just outlined in Europe so we're starting to build our position in the east of Europe.
There are also acquisition opportunities there. We have to demonstrate to our shareholders why this business model works. We hope to be doing that but there are some very attractive further acquisition targets once we've demonstrated how strong this business model is.

So in summary we're winning in the marketplace, we're consistently taking share, we're succeeding with our customers and we're very pleased and very grateful for that. We've delivered against all of our financial targets. The results are absolutely in line. We're raising our dividend by 6%. The US is going well. There are a lot of opportunities for us to grow further on the back of that growing demand for packaging and I've said, we've got Christmas coming. At the end of this conference call we'll be back at work and making sure the second half of 2017 continues the very good momentum and is every bit of the success that we expect it to be. Thank you very much. We're very happy to take questions that anybody may have. .

BD Good morning, it's Barry Dixon from Davy. Two questions if I could; firstly just on box prices, going through the numbers, it looks like you've got about a 3.5% price increase to date; just if you might say if that's broadly in the region. You've previously indicated that you need to get eight to 10%. Is that still the target?

Secondly you announced recently an increase in recycled container prices; I think it was $60 from January 1st. Are you confident that we're going to see another round of paper price increases and then will that necessitate you having to push through further box price increases in 2018 and again how confident are you around that? I suppose in the context of the demand environment it would seem as if that's going to be successful.

Then maybe finally a question for Adrian; on the capital employed base, there's a 666 million write-down on the capital employed base in the period, which obviously had a significant impact on the return on capital. Would you mind just going through the elements of that? I think there's some currency there but also some other - if you might just explain what's driving that write-down in the capital employed base; thank you.

MR Absolutely, thank you, Barry. The box prices are actually slightly better than the 3.5. If we think about the increases that have come through, the last one was in August. Obviously our half-year end is October so we previously said we need to get at least 8%. We're better than 3.5, in fact we're slightly higher than four and it's exactly where we expected it to be and that's on the back of very strong demand for our packaging as well so we fully expect to recover promptly. We don't see any reason why we wouldn't.

I do think that the demand is very strong. We have announced a further increase in paper. We'll obviously have to see. Paper pricing is always uncertain but we expect that increase to go through and then that obviously has to be recovered but on the back of very strong demand so we expect the increases to go through on paper but it's always an uncertain market.

AM Yes, Barry, I'll have to get back to you on that. I'll go through it with you or we'll go through it afterwards but of course we've had the acquisitions coming in, that open balance sheet movement and there'll be FX but I can take you through that.

AMees Thanks, it's Alex Mees here from JP Morgan Cazenove. Just firstly I wonder if you can give a sense of capex for the new box plant investment. I think you said $40 million each for the US ones but just ones at Europe as well and when that will phase.

Then secondly two on Interstate. Firstly I wonder if you could give a sense for whether you think the very strong volume growth has been to do with revenue synergies at this stage; do you think there's more to come there? And then on cost synergies, obviously good to see an upgrade. I think you mentioned that you are starting to release the contingency. I wonder if you'd like to quantify what the contingency is and how much more to do there is.

MR Yes, the last questions first. Yes, on the capital on new box plants, ultimately one of the European box plants is going to need about €50 million. That's when it's up and running fully. Obviously it's not up and running fully from day one so you have to put a certain infrastructure around it, corrugator, etc, but then you start to build the other assets as they're demanded.

It's slightly higher in Europe because you tend to have more automation in Europe because of the higher labour costs so it's a slightly lower cost in the US. They're typically $40 million, maybe €50 in Europe but it does take us a while to build up on that but as I said, from when the factory opens it should be above cost of capital within 12 months as we start to build the volumes.

If we go into year three then you're up to return on capital which should be about 20% and full pay back in about five to six years. In terms of that profile of return it isn't particularly different between the US and Europe. There's no technology for us. What we're doing is really selling into the market our technology. Not every acquisition can offer this so we do need - so these new box plants are quite important for us from that point of view.

As I said, the capital light model is such we can move these assets around. Some of the Europe investment comes from moving machinery from Europe to the US. You can you ship them over and we reinstall them so there's quite a bit of capital that moves around the group.

The volume in the US; obviously the first thing is you work with your existing customers there; they have a nice customer group. They have a lot of local customers, they have some larger customers and some of those larger customers have been very encouraging with us and that volume growth is partly as a result of our entering the market. It has significantly increased their volumes since we announced the acquisition. It's been quite noticeable and the response of some of their existing customers; they're there today and it's very easy for them to switch production to us, or in our case actually start to want to see a new offering around the shelf really that they hadn't been able to get before so that's been very encouraging.

I feel on the cost synergies we're here to hit the targets that we've set, that our shareholders know that it's consistent delivery, that if they put money into us they're going to get the returns. Being very honest, there is a range and we do hold contingency back because things can happen you don't expect but our shareholders expect us to produce a profit. So there is a contingency and as time goes on we'll be re-evaluating that, new opportunities will emerge but equally there's still risk there that we are working through but we are very comfortable with the target that we have set there.

I should say, a lot of it comes from the way that we're working. So how can we generate 30 million of synergies in a company that we are operating in a completely new market, ask what is it about us? Over the years we've put a lot into how we operate around best practice. When we acquire businesses we don't just leave them and do a bit of procurement around it. This is about real integration and as we become larger we're able to build world-class best practice because we have hundreds of factories to compare to and that gives us a competitive advantage.

So we've gone for this company and it's a super company who had a wonderful family ownership but they were 12 packaging sites; that's what they had. They don't have hundreds like we have so it's how you work with them and say, let's look at your waste, let's look at your labour efficiency, let's look at your procurement, let's look at your logistics, let's look at the way you run your paper operations and let's work together on what's the best opportunity there; how can we optimise? Having been able to work with them to bring it all together in a plan over a number of months, that work concluded last week and we can see that we can generate these benefits and frankly they're already starting. There's not much in the first two months but that's why we feel confident about this and our shareholders can feel confident in the returns.

AM Barry, back to your question, I think obviously you managed to slip one between bat and pad. I was expecting a lot of questions; but not one on capital employed. That was an averaging effect; I just re-read the notes so taking the closing capital employed that includes obviously everything from all the acquisitions as of the period end and that's the impact of rolling out an LTM averaging back so that will get smaller obviously at the full year, down to zero. It's just because it's reconciling capital employed at the balance sheet date to average capital employed which is in our metrics. There's not a write-off or anything like that.

BD Thank you.

AM Tricky opener, thank you for that.

RC Hi, Rob Chantry at Berenberg. Can you just discuss a five-year view, do you see yourselves primarily as a corrugated packaging firm in five years, have you got any desire to go into other areas of packaging such as plastic?

Secondly what percentage of your business would you class as e-commerce now please? It's growing very quickly but what percentage is that number if you disclose?

Thirdly, have you reassessed your view on the idea paper hedge given the movements and the volatility, has that changed how you think about the world? Thanks.

MR We're primarily a corrugated business. The reason, we think, is because that's the place to be and we think that market has great growth opportunities. So we think we're going to be a corrugated business going forward and I don't think you'll see much change in that. Some of these other rumours are surprising. They often come to me and I genuinely - could you spell that company's name for me?

E-commerce is growing strongly. We had the capital markets day a while ago, eight, nine months ago and we said, if we look at the total e-commerce exposure - that's not just e-tailers, it's also retailers and brands who are using it and if you look at the total proportion of our business it's somewhere around the 10% and we have been growing strongly there. It's a big growth driver. We expect it to be going forward.

The question is where do we think retail can get to in e-commerce, what proportion of total retail we think it will be. It's the same in Europe; last year it was 8% of goods sold on e-commerce. Could it get to 20%, 30, 40, 50%? If you listen to some of the e-tailers they think it's going to go further. If you listen to bricks-and-mortar suppliers they think it's going to come out at between 20 and 30% but when you look at it it's going to be a massive growth medium and you can see that structural driver for growth.

The beauty of e-commerce is not just of volume. For us it's a margin opportunity because the quality of the packaging has more opportunity for us to add value to it than in traditional packaging for bricks and mortar because you've got to have it delivered to your home so the content has to be very well-protected. They need better-quality packaging. The shopping experience when you're deciding whether or not you want to keep that item that you've bought, bearing in mind that 80% of fashion is returned that's bought on e-commerce, suddenly it's about the whole shopping experience and that's about the packaging.

So it's a huge opportunity for us so for us to say, let's hope it gets to 30%, and we're aligning our business behind that so you're not going to have stranded assets with us, or people saying, well, I know it's a growth driver but we didn't think it was very good. How can you say it's not very good when it's going to be probably over 30% of the market? It's up to us as the leading company to make it a success, to show the value that we can add to our customers and get that value back into DS Smith and that's exactly what matters.

So we're pleased with this driver, I don't think it's going to go away and for us we see it as a growth and a margin opportunity. It's really very, very exciting. When a brand-new brand comes to you and says, we're going to start this up, we're not going bricks-and-mortar, we're going solely e-commerce and it's all around the packaging, and you see that brand grow and grow and grow and grow and you know that it's going to be taken over by a strategic at some point and they're going to learn from that experience and we're their sole supplier.

The engine that's feeding this e-commerce opportunity is, modestly we say that we are the enabler of e-commerce but it's a very exciting place to be. That's a long answer to your question.

Look, we're growing and we believe a short paper position is right. We don't want to have a long paper position, for all the reasons that everybody knows; the history of the industry. It's one of the reasons, I think, that we've been successful and we're going to keep it that way. The US market is slightly different; there is far less independent capacity. I think there is going to be more mixed and in Europe you'll see us maintain a short paper position.

Some differences between regions; if you're in eastern Europe there's less independent capacity so you need a little bit more yourself; obviously around central Europe there's a lot of independent capacity, more capacity coming on stream. We've seen the ups and downs continuously happening so you'll see us maintain a short position but with some slight regional differences because we believe that gives our shareholder the best return on capital and I'll say nothing has changed in our opinion and we challenge ourselves. Adrian, what do you think?

AM Yes, I'd say the same. We're looking at this constantly. We evaluate, particularly within the regions in Europe. You take continental Europe or central continental Europe; there's an abundance of supply; there's lots and lots of different people adding new capacity relatively regularly. It's a good market to be a buyer into so nothing will fundamentally change.

MR More questions? Okay, well, as always, thank you, everybody. We've good volume growth, we are winning with our customers, we're recovering on our prices, our acquisitions are going right and we've announced that we're going to grow further, partly through organic investment. Let's get back to delivering Christmas.