

## DS Smith AGM Trading Statement

### Speaker Key:

MR	Miles Roberts
AM	Adrian Marsh
BD	Barry Dixon, Davy
KF	Kevin Fogarty, Numis Securities
CH	Cole Hathorn, Jefferies
AMS	Alex Mees, JP Morgan
RC	Robert Chantry, Berenberg

MR Good morning everybody, and thank you for joining us today. I'm Miles Roberts, the CEO of DS Smith, and I'm joined here by Adrian Marsh, our CFO. Our trading statement released this morning relates to the period of trading since 1 May 2018. We continue to be excited by our prospects. Our focus on sustainable packaging in resilient and growing sectors including FMCG and e-commerce is consistently driving our market share gain.

We are seeing good like-for-like volume growth in the year to date, with progress in all geographic regions. Recovery of input cost increases from earlier in the calendar year is in line with our expectations, with the consequent positive margin effect. Cash flows also remained a focus in the period as we maintain a disciplined approach to working capital and capex. Trading remains in line with our expectations.

It is now a year since we acquired Interstate Resources in North America, and it continues to perform very strongly. Integration continues to go well and we have added additional capacity and further enhanced our customer offering via the acquisition of Corrugated Container Corporation, which completed on 1 June. We're delighted with the customer reaction, with a number of our major customers seeking to and partnering with DS Smith for their packaging solutions, not only throughout Europe but now in the US as well.

And turning to Europac, you'll recall that we are partway through the acquisition process. The required regulatory approval process is progressing as expected and we anticipate completion in calendar Q4, 2018, as previously indicated.

So in summary, I'm pleased with our momentum in the year to date. Corrugated packaging continues to demonstrate excellent growth prospects driven by changing shopping habits, e-commerce and the ever increasing relevance of sustainability. And DS Smith is in a wonderful position as the market leader to capitalise on these opportunities, and the board looks forward to the future with confidence. Thank you. I'd now like to invite any questions either for myself or Adrian. Thank you.

Op So if you would like to ask a question please press star, one on your telephone keypad. And the first question comes from the line of Barry Dixon from Davy. Please go ahead.

BD Yes, good morning gentlemen and thanks for the update. A couple of questions from me, Miles, if you don't mind. Firstly just in terms of the volume. You're talking about good like for like growth across the piece. You might just maybe give us a bit more colour around that, particularly I suppose looking at the underlying market. What you think the underlying market is growing by and then how much you think e-commerce and that whole move from plastics to paper is adding to the volume growth environment for you?

Secondly, just in terms of raw material costs, we're hearing a lot about OCC pricing and the impact of Chinese tariffs, particularly on US imports of OCC. Maybe just your own thoughts around OCC costs in Europe. And then finally on corrugated pricing, you've previously guided 8% to 10% increase in corrugated pricing. Are you still happy with that guidance or do you think that there could be more from a pricing perspective that you can achieve from those levels? Thank you.

MR No, thank you Barry. Yes, volume continues to be very good. Historically we've been doing around about 3% like-for-like. Last year it moved up to 5% and I expect us to be somewhere between the two of those. Hopefully more towards the upper end of it. We're only through the first quarter but demand is still very strong. You've talked about e-commerce in there. E-commerce overall for us in terms of percentage of our sales is in the 12%, something like that, range. That's growing steadily at about 15% per annum. So you can see 15% of 12, that's going to give us a like for like growth of well over 1%.

On sustainability, it's been difficult to understand exactly why people have chosen our product. Is it sustainability? Is it the service? Is it the innovation? Etc., etc. But there's no doubt that it's a good tailwind. I think we're still at the early stage of it. There's a lot more that can be done here. It's not the complete replacement of plastics, but it's that steady erosion of the plastics market share, taking plastic out wherever possible.

What does it give us? It's really difficult to say. We've actually started asking customers exactly why, and let's just understand how well we're doing in this area. I wouldn't be surprised if it was probably 0.5%. This is purely a guess. It could be another 0.5%, 1%, something like that. Perhaps 0.75. But it is difficult to know as there are a number of things obviously in our offer. But it's certainly a tailwind and I have to say it shows absolutely no sign of abating at all.

I think in some ways a number of customers have been surprised just how easy it is just to change to a much more sustainable solution. And once they've changed a lot of it is quite sticky I think. I think we've got an excellent chance of really retaining this over the long term. Nice structural market growth there.

When you come to OCC, this is a very fluid area. You're absolutely right, Barry, there have been tariffs put on between the US and China. What's going to happen? We expect these very tight restrictions on imports into China to remain there. Interestingly, China isn't importing the amount of OCC that it actually has licenses for, and it's all around the quality. So we expect volumes of OCC into China to remain low.

What does that mean for OCC pricing? Well, collection rates generally continue to improve. If I had to guess, and it is an extremely volatile area, I think we're going to see the next six months I think OCC's going to remain very subdued. It's difficult to see why that would change in the absence of a change in China. But of course China could change. They've just introduced these new regulations. They could move back. So it remains a volatile area, but I think OCC is probably likely to stay low probably over the next six months.

And that leads us - the other side of this obviously has been very strong demand for paper, both in the US and in Europe. The demand remains strong, prices are stable but obviously much higher than they have been. As I said previously we're looking, depending on the exact region, 8% to 10%.

Prices on paper generally have been pretty static now for some time, so we remain on that 8% to 10% level and we are recovering absolutely in line with that. And it's rebuilding the margins from I think second half of last year were 9.4, so full year 9.2. So it's having a positive effect on margins with that volume increase as well and the operational leverage we'll get from that.

BD Okay, thank you very much guys. Well done.

Op The next question comes from the line of Kevin Fogarty from Numis Securities. Please go ahead.

KF Morning guys. Just a couple. Just firstly on plastics. I appreciate there's nothing conclusive you can say on it, but I just wondered if you could talk around level of interest and a bit more detail on any progress you've made there. And just secondly, North America continues to perform very strongly. A couple of months ago you talked about transcontinental deals and just the customer reaction there. I just wondered if you could put a bit more colour on that at this point, if you've anything further to add there.

MR Look, with plastics we have started the whole review. As you can imagine, there's quite a bit of work to do on the asset to fully review it and prepare it for what we want to do. That work has gone extremely well. At the same time we've had a lot of inbound interest. It's a very attractive business, it's growing quite nicely. There are a number of other players out there who have smaller positions but really quite synergistic.

So we remain really very optimistic about the attractiveness of this asset, and I'd say the work is going absolutely as we expected. And to be honest with you, it's going well.

Yes, North America. As I said, the performance has been very strong. We are delighted with the reception that we've had from our customers, I should say plus all of our new employees there as well. We've really been delighted with that. We have now signed up a number of customers in the US where the relationship has been in Europe. Looking for the same solutions, all the shelf ready packaging, all of the performance based packaging that for us has just been such a differentiator in Europe and it's been very well received there. So we have signed up a number of them.

We have, interestingly with some larger customers, working on and developing these framework agreements. And we really do like these. They

just set the overall parameters about what we're both trying to achieve. It sets our objectives together, how we're going to work etc., and we've been working on these with some customers. We're very pleased with that.

It's really driven some of that very strong volume growth we saw in the US last year. Obviously we'll talk about North America at this half year. But it's all around the service, the innovation, the performance packaging, and we remain very optimistic about it. It's one of the reasons we bought the CCC, that Container Corporation business. Again, very well received. It's just these areas we want to go into, as you know we're taking the lightweight paper from Europe across to the States, we're bringing paper back from the East Coast. It's working very well for us indeed.

KF Okay. All right, very helpful. Thanks very much.

Op The next question comes from the line of Cole Hathorn from Jefferies. Please go ahead.

CH Morning Miles. I was hoping you can call out some of the bright spots within Europe. Which regions are doing particularly better from a volume growth perspective? And then also on the Europac acquisition, what are the main outstanding points that need to be done before the deal will complete? And then finally, with the big gap between OCC and testliner at the moment, I just wanted to confirm that you're not seeing any push back from FMCG customers etc., on passing through the box price increases.

MR In terms of the volume, across Europe all of our regions are in good levels of growth. The areas that continue to perform well for us, Eastern Europe continues to be a very good, strong performer. The more mature economies, places like the UK and France, are continuing to improve but not at the rate of Eastern Europe. But some of the other markets that we've entered into, places like Portugal, have been strong.

But I think the standout for us over a number of years continues to be Eastern Europe. People, our big customers, continue to expand there. We've seen a number of companies, some of them are obviously moving production from the UK to Eastern Europe with all the political uncertainty in the UK and we're benefiting from that quite strongly in that region. So I think that would probably be the standout over the last six months really. It's been very good.

Just on Europac, we've had all of our approvals from our shareholders. We're working with the European Commission now on the anti-trust clearance. Again, all the questions etc., as we expected, once we get through that we have to go through this Spanish CNMV. It's basically the equivalent of the UKLA really. Where they oversee, administer takeovers. We have to go through their process which is a little bit more undefined in terms of its timetable. Is it five days? Ten days? Two weeks, etc.? But everything's going as we expected.

Very good dialogue with Europac obviously as far as we're allowed to. Quite pleased with the trading of Europac. It continues to go well. You've probably seen their last statements, their Q2 etc. that all seems to be progressing very nicely. So we expect clearance towards the end of this calendar year. That's always been our view and it remains our view today.

There's been no surprises to date. Obviously the big thing, we are as always extremely grateful for the support that we've had from our shareholders. You probably saw the way the votes came out for the Class One and the take up of rights. We're extremely grateful for that massive level of support that we've received.

And OCC, testliner etc, it is low. You're right, if we look at the margins in paper they have certainly increased. But we have our deals with our big customers. A lot of it is indexation. Prices go up, they go down, the indices move and all of that has gone as we expected. Clearly where we're outside of those index deals, all customers are always looking for the best deal. All of them will always be negotiating as hard as they can where you're outside of these index deals. And we expect that. It's always been the case and I think it always will be the case.

But equally we're very confident about the offer that we give. About the service, about the innovation, about our coverage. About our continued investment into our business. And on that basis we've been able to recover exactly as we've expected and, as I said, rebuild the margins. Second half of last year we were 9.4. We haven't often been better than that. So you can see we're certainly moving in the right direction

CH Good. Thanks very much, Miles.

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

AMS Good morning Miles. Just one question on Interstate. Obviously the growth has been very strong since you acquired the business and you've commented as to the reasons for that. I'm just wondering where you are with capacity utilisation and whether, notwithstanding the acquisition that you've done, there's some bottlenecks that you need to address either through organic capex or further M&A.

AM Yes, I think I'll just answer this, Alex, it's probably easier. Miles mentioned the Corrugated Containers giving us the additional capacity we needed in the short term. I think looking forward we've definitely got a requirement to maintain the organic growth. Inorganic growth always remains an option and we've always got an eye to that.

But in as far as what's in our control we're currently working up a new site, a greenfield site, which will come into play some time in the next 12 to 18 months, depending on when all that permitting takes place. And we've got the site in mind. So that comes out in capex, not this year, will be out in next year and we'll talk about that probably at the half year and the full year. But nothing that changes our overall capital direction of travel is - it's a reallocation issue.

But, yes, there's undoubtedly a need for some capacity. The growth has been very strong, the demand's been very strong. It's a decent problem to have and the key for us now is where we locate it to maximise the impact, and the team's been working exceptionally hard on that and has a plan for the first one and potentially going forward at some point in time a second and a third one. It's just how we're looking at where we grow the business and where the demand will be.

But it's a question of building out where we've got the strong demand. Southeast, Midwest. Very good business, very good level of interest, very good supply chain that we've got in place. So I don't know if that's what you were looking to hear, Alex, but in terms of where we are, Corrugated Containers was the first part. We remain committed to the greenfield we described before. Likelihood next year. Next financial year. And then going forward we'll review over time, and clearly North America will be discussed at our capital markets day too.

AMS That's very clear. And I suppose just a follow up. I wonder if you can just comment on the competitor response in North America. Obviously Interstate doesn't have a huge market share at this stage, but I'm sure the major players there are very aware of what you can do. So have you detected any competitor response to your entry?

MR Just generally we have many competitors. Obviously we think we are absolutely head and shoulders above everybody, but we've chosen a region, we've chosen a part of the US where the demographics, the economies are growing very strongly. It's a great market to be in. Its growth and margins are high. We are there to enhance the knowledge and the use of corrugated packaging. We think this is a great product that customers need to use more in the US.

So we're not out there doing me-toos. We're not running around talking to these American competitors. They've been there a long time, they're good companies in the US. We're trying to offer something different. And as long as you do that, you're not just doing a me-too and running around just focusing solely on pricing then I think it creates an environment that customers like and obviously we like and I think other people respect.

So the response to date is always competitive, it always is, but we're very pleased with the position that we're in and the reception that we're getting. And you can see that in our numbers that continue to move forwards. It's a great market, we've had a great initial entry there, and as I say we're really trying to further the development of corrugated packaging there.

There's a lot of opportunity in the US for us, and I have to say probably the whole industry there. I think the performance based packaging, the whole thing about e-commerce, the sustainability agenda. I think it's very attractive to be there.

AMS That's very helpful. Thank you.

Op As a reminder, if you would like to ask a question please press star, one on your telephone keypads now. Thank you. We have a question now from the line of Robert Chantry from Berenberg. Please go ahead.

RC Hi guys. Morning everyone. Just a question on the long term paper strategy, really, because obviously you've got an integrated model. You were short about 1.4 million tons before Europac, that will bring some more paper production into the business. But given you've seen such very high growth rates, given the capacity issues talked about in North America as you continue to grow strongly there. I just wondered if you could outline on a three, five year view how you're thinking about dealing with that. Will that

require more acquisitions? More greenfield? Will you go more upstream? I just wondered if you could talk about that. Thanks.

MR Look, as a company we're absolutely committed to our short paper position. We think without question that's the right position for shareholders throughout the European market. We absolutely recognise that the Europac acquisition completes, subject to the regulatory side, that will bring on more paper. We're growing our packaging volumes strongly. That will start to increase the short position.

And as I said previously, we're also looking at our paper assets and we're just looking at having a review of some of our paper assets. There's going to be more capacity coming on, particularly in and around Germany over the next couple of years, and we're very cognisant of that and this whole issue of where we put our capital.

Looking forward, we've given capex guidance for the current year. We gave that at the time of the full year, and I think we'd said about £270 million. That's absolutely where we expect to finish up. We have announced that we're going to build a number of greenfields. Originally said two in Europe, that's now come down with the Europac acquisition, but we'll still be going ahead with the other one. It's in the region where we're growing very strongly. And we've also announced some further investment in the US.

But that's all in the guidance that we've given people going forward. So we're not expecting an explosion in capex at all. We've been investing in the company for many years, in our asset base. It's a very good asset base, and we think broadly we have enough capacity to carry on growing organically. However we do think there are opportunities for us to grow through acquisition.

The first, the primary objective is to get Europac in, produce the synergies. Hopefully we'll delight our shareholders in terms of the returns we get from that business, and then we'll have another look at the market. But there are still a lot of opportunities for DS Smith to grow in Europe and the US, but the first thing is get Europac in and any additional capex etc that we need is all in the guidance that we've given shareholders already.

RC Thank you.

MR As always, thank you very much for your time to listen to us today. But in summary, we're pleased with the momentum in the year to date, there's a lot of opportunity and we look forward to the future with confidence. Thank you very much.