Mayr-Melnhof-Karton-AG-Conference-Call
File Length: 01:03:05

M Moderator

SS Stephan Sweerts-Sporck

PO Peter Oswald

FH Franz Hiesinger

RP Richard Phelan

MW Mark Watts

MR Markus Remis

MM Michael Marschallinger

CH Cole Hathorn

SC Saul Casadio

XV Xavier Vandoorne

M Good morning ladies and gentlemen, and a warm welcome to the Mayr-Melnhof Karton conference call. At this time, all participants have been placed on a listen only mode. The floor will be open for questions following the presentation. Please note also that this conference will be recorded. Let me now turn the floor over to your host, Stephan Sweerts-Sporck.

SS Good morning and welcome on the part of MM. It is a great pleasure to have you joining this Q&A conference call on our '24 annual results, which we released just this morning. Besides the press release, a video statement of our management board, CEO/CFO has been published on our website mm.group. In this call, we want to provide you now with a possibility to direct [01:00] questions on today's communication to our CEO, Peter Oswald and our CFO, Franz Hiesinger. Since this call addresses an international audience, we would very much appreciate your questions to be asked in English in the following Q&A session. Before we go for that, Peter, may I ask you to start with a short summary of our key messages?

PO Thank you Stephan and welcome everyone. I assume you've read our announcement and therefore I just want to summarize the key points before we then go to the formal Q&A Session. '24 was a challenging year for the whole industry, and I'm very pleased to say that we've made significant progress by focusing on self-help. In our food and premium packaging division we've, again, achieved market leading returns, [02:00] and we could show at least some volume growth. In Pharma & Healthcare packaging we are now halfway through the successful turnaround of the former Essentra packaging business. We have picked the low hanging fruits, and now we have to advance the division towards MM's market leading operational standards. And here we are well underway, but equally we have significant further potential.

At MM, Board & Paper, we have made good progress in terms of volumes, which were up by about 17%. However, the results were flat compared to last year, however, with a positive tendency if you look at the quarterly development. Importantly looking to the whole group, we've reduced our net debt. We have now a strong cash cushion. We have made great progress in sustainability, reducing our CO2 emissions [03:00] significantly. We have also in tough times and this I think, sets us apart from some other participants in the industry, increased our training and development intensity, and we've strengthened our management teams with a particular focus on technological knowledge. And I would want to use this opportunity to thank our employees for their great contribution. We'll propose a dividend increase of 20% to one year and 80 cents per share in line with the net profit increase.

We've launched a share buyback program at the beginning of this year, and as per yesterday, we've successfully repurchased more than 350,000 shares, which represents 1.7% of all outstanding shares. And as we've announced in December, we signed an agreement to sell our TANN business, a tipping [04:00] paper that limited to a no synergies with our packaging operations. And this will be closed in the second quarter. So what is the outlook for '25? Of course, always with the caveats that it's impossible to predict the future in any way. So what we see at the beginning of the year is a flat order intake in both packaging divisions and a slightly increased order intake in Board & Paper. Prices show a very heterogeneous picture with some prices increasing, some decreasing, but overall marginally increasing. In recycled cartonboard, we have the positive news that a small mill will be closed down during this year, which will somehow improve the supply demand balance.

Unfortunately, virgin cartonboard we see the start-up of a new mill, also a closure of the mill, but a [05:00] much smaller mill. And so here we will see even more over capacity going forward. Now, looking ahead we will again concentrate on self-help and we will do whatever it takes to improve our long-term profitability. CapEx in '24 was at a surprisingly low level. We had indicated a higher number. Some of that was obviously a rollover to this year. And so we expect for this year CapEx of around 300 million euro. So we will continue to invest in our business in order to increase our competitiveness. And with this brief summary, it's now your turn. Franz Hiesinger and myself, we are looking forward to your questions. Thank you.

M [06:00] So dear ladies and gentlemen, we will now start with a question and answer session. If you would like to ask a question, please press nine; enter the star key on your telephone keypad now, to enter the queue. If you find that your question is answered before, at you turn to speak, you may press then three and the star key to cancel your question again. But to state your question, please press nine star now. One moment for the first question, please. [07:00] So the first question is from Richard Phelan of Deutsche Bank AG. One moment please. So please now go ahead, Richard.

RP Good morning. Thank you for taking my question. Just a specific question on WLC markets. I know that a price increase was attempted on January 1st. Could you give us an update in terms of where the pricing environment stands, especially in light of a major competitors closure announcement in Spain? Thank you.

PO So we got part of the announced price [08:00] increase. So we have gone for 50 euro. We've achieved all of that, but the significant part our competitors did not follow. But we basically don't see an erosion of our market share because our products are better and I think the market has expected some increase.

RP Great. And so has the closure accelerated the ability to implement more of the price increases through the year? Is that sort of the direction of travel?

PO Yes, it should have a positive impact. What is a bit strange about this announcement is that it was announced for the end of this year. So we see some customers changing to us, but one needs to be very careful. [09:00] This competitor has announced once already another closure. So you never know whether it's really executed. So we will wait and see if the closure really happens. And again, it's a bit strange because it doesn't take normally 11 months to execute the closure.

RP Understood. Great. Thank you so much.

PO Thank you.

M Thank you very much also from my side. The next question is from Mark Watts of Citi. Over to you.

MW Hi there. Thanks for taking the question, guys. Just one question on market consolidation. As we understand it, there's perhaps obviously quite a lot of pricing pressure. Do you envisage any kind of the smaller players potentially falling into trouble? Would you consider, or have you heard anything here and would you consider potentially looking to [10:00] acquire those competitors I guess mainly more in Southern Europe? Is that something that you are looking at?

PO So, I think we have to differentiate between our board mills and our converting plants. As for board mills there are some small competitors where it is very difficult to understand how they continue. But some of them might have very specific niches. In the board area, I think we would not touch the smaller mills. On the packaging side, we are open-minded. We also see some bankruptcies and of course we look if there is any value for us, customer relations, knowhow [11:00] machinery which would make sense to be taken over. But I think as it looks in the European landscape the typical owners seem to be very optimistic people who always wait for the big jump in say, the very next day. And so probably the past time of waiting for some people to make these decisions is still outstanding.

MW Got it. And can I ask on capacity utilizations on the Board & Paper side, what are you running at kind of now maybe versus the end of the year or where do you envisage you will be given that you're now (11:47)?

FH We are now at roughly 90%.

MW Roughly at 90%, okay. And then the other one I guess is just on the Board & Paper side. I see a little bit of a [12:00] reduction in free cash flow year on year. It looks like a bigger decline on the cash flow from operating activities. So is this mainly working capital driven, given that you did report a sizeable increase in EBITDA or how would you explain the weaker year on year comparable for operating free cash flow?

FH Yes, you are right. It's I would say almost exclusively a working capital reduction where we simply had the bigger scope in, let's call it the first year of crisis than in the second year.

MW So it's not a sign of the stocking, it's rebalancing? Or what was actually the driver of the inventory?

PO No, I mean, one driver was factoring and the other driver that we systematically reduced inventories [13:00] to all sorts of industry inventories from raw material to finished goods, intermediate materials, I think that was a big focus. Another focus was to cut some receivables so the terms with our customers. And the third leg, as I said, was factoring.

MW Got it. And sorry, one last one if I could. Just regionally how you're seeing the Italian market versus maybe German, like any kind of discernible differences in demand on the customer side?

PO We see probably in Italy… So the Italian market is typically an even more competitive market in terms of somewhat lower prices, also, more input pressure for instance, from Turkey if one refers now to the WLC market. So there is a gradual difference, [14:00] but equally not a big difference.

MW Thanks very much.

PO Welcome.

M Thank you very much also from my side. The next question is from Michael Marschallinger of Erste Group. Please go ahead.

MM Good morning. Thanks for taking my questions. First question, Board & Paper, what brought the EBIT back to positive? You said this is mostly due to the higher CO2 compensation one off. Could you give us a number around these payments or let's say, would it be EBIT positive in the quarter without this effect?

PO We see actually a very smooth development if when this regard of what spread, however you want to take it the annual shutdowns, which we had in third quarter, so we were [15:00] more or less breakeven plus 2 million in the second quarter. In the third quarter it shows 20 million. However, our costs were I think around 24, 25 million for the shutdown. So if you excluded that it would be plus 4 million, and now it was 11 million, and yes we got some more higher CO2 credits or we booked them, so to say in the fourth quarter, which also helped. So there is a positive underlying trend. However, I would also not overstate it because the issue of prices is still pending.

MM Okay, understood. Then follow up with the question on the market consolidation. You talked about this over capacities in the [16:00] markets, and what would be your best guess when this will resolve itself?

PO Sorry to ask. So what is the extent of the over capacity? Is that the question?

MM Yeah. How long do you think the market will take to absorb this capacity?

PO I think with an over capacity in FBB of around a million tons and in WLC of around whatever, 3, 400,000 tons, it's very difficult to judge when some of the weaker players will decide to leave. I always expect it sooner than it really happens because as I said before, this industry, there are a lot of visionaries who see the big market increase around the corner and wait [17:00] for the question then often becomes if they can afford to do it. So I think during this year, I do expect some over capacity reduction.

MM Okay, understood. And last one on Pharma & Healthcare. In the leader statement, you said you are halfway through restructuring, et cetera. So when do you assume this restructuring will be finished? Will this be already in each one? Can you assume already some margin improvement throughout the year or? What's the timeline on this restructuring measure?

PO It is overall when acquired it with the timeline of four years. So two years are gone and two more years will be needed, if you ask the question why so long? There were some low hanging fruits, which we picked very quickly, and that went ahead of expectations in '23. Now that we really have to [18:00] improve the underlying business, it's about qualification of people. We had to install new, more modern machines and just to order the machines took more than a year, and then you need to install them, then you need to train the people, then there are start-up curves, et cetera. That's basically what we've seen in '24. So we expect steady progress both in '25 and in '26 towards a profitability level, which is at the level of our food and premium packaging business. And hopefully then, but we will see once we are there we can make it even more profitable.

MM Thank you. That's also my thought.

PO Welcome.

M Thank you very much. Ladies and gentlemen, just a reminder to state your question, please press nine and the star [19:00] key. And to cancel your question again, please press three and the star key. Moving on. The next question is from Markus Remis of ODDO BHF. One moment. Over to you.

MR Good morning, gents. Thank you for taking the questions. I would like to start with the Fit-for-Future program. If you could outline the incremental cost reduction measures that you have in mind, which areas you have specifically targeted where you see the untapped potential given that cost cutting has been the name of the game for a couple of quarters now. And I would also appreciate if you're willing to indicate the earnings [20:00] impact that you expect from these measures.

PO So it might take a bit long longer to answer that. So a Fit-for-Future is now a new cost reduction or profit improvement program. We started with this program one year ago in (20:26) with an external consultant. And I was personally extremely surprised almost how well it worked. So it's basically nothing peculiar that the difference is maybe that it's really only focused on sustainable cost production. So it's not the normal cost reductions you get just from declining input prices, et cetera. And this project was very successful. It meaningfully [21:00] contributed already in 2024 to the results of this mill. And we started then already some months ago, a roll out in two other mills. Now in the fourth mill, it's in the headquarter and central group services, divisional services. And basically it will be rolled out throughout the group. I know it's always very difficult to assess the impact, but we had a meaningful two digit million impact in '24. And at the end of the day it has to be a three-digit number which we might get, let's say next [22:00] year.

MR Three-digit savings accumulated '24, '25, '20…?

PO No, not accumulated, per annum. But we ramp it up because once you implement the measure, so to say, your running rate improves and the end, depending if the running rate starts in January, then you have to benefit the whole year. If it starts in September, then obviously it takes another year or 12 months to be fully in the numbers. So it will be a meaningful contribution. And it comprises everything from a different technical solution, also sometimes with short term payback projects to be the procurement fixed cost savings. So step by step [23:00] we are moving forward in a highly structured process where we work partly with external consultants, partly with our in-house transformation.

MR Did I get it right that it started in the 4th of April segment and the findings are now also applied to the packaging divisions? Is that what you're saying?

PO Yeah, exactly. That's what it is, yeah.

MR And then you mentioned continuous structural optimization. And this is something that the group has been doing for quite some time. Should we take this term as a prolongation of what we've seen in the past that you might take out capacities here or there? Kind of close smaller plants but that also entails bigger restructuring measures?

PO It depends on [24:00] what bigger means, but I would say like taking out smaller plants. And I think we've started now with one process in France and further to come. So at the end it's really about our real commitment stay only with well invested strong assets and some of them can be improved, and in some cases, unfortunately, it would be too expensive, take too long, or it's simply impossible from the setup of a middle-way plant.

MR Then I would have two finance questions. Firstly, regarding factoring and remembering one year ago we had a major cash flow surprise because you've massively stepped up factoring. I think it was 267 million last year. Can you give us the year end '24 figure [25:00] please?

PO Net position was slightly below 400 million, so around 380 million.

MR (25:16) again a punch increase is that a rate that you feel comfortable with going forward or do you still see the potential to further increase factoring level?

PO No, it is on the stable level. It'll be a little bit reduced due to the disposal of TANN Group, but otherwise we expect that it'll be fairly in line with this level.

MR Very clear. Thank you. And a question related to the buyback. You've limited the upper threshold to, [26:00] if I'm not mistaken; 83 euros which I guess the current stage limits your ability to buy back. Is there any reason for this threshold and then do you consider an increase of the level as optionality?

PO So first of all at least according to the (26:27) we have to give a range, which is always very strange because you also have to give a minimum number and a maximum number, which is published. And we have to discuss in the management board together with the supervisor's board whether we change it, but for the time being, it's a longer term program. It was a reasonable amount when we were at the level of even below 70 euro. And now [27:00] we have to consider is the money wisely spent to increase this number or should we rather use it so to say free cash flow to reduce net debt or make capital expenditure? So it's open.

MR And then related to packaging and the margin outlook in 2025, you've indicated that price increases in Board & Paper are coming through. How should we think about the impact on the packaging segments considering that order intake is flat, which suggests a rather muted demand development? Is there a margin pressure to be expected from a price cost narrowing?

PO [28:00] I think as it looks now, the price increases on the Board & Paper side were limited. And we will see how much. They should be reflected in the UV and also in the PPI index numbers, which is again, an important reference point for a number of larger contracts we have on the packaging side. Like with WSE, as our competitors have not followed our price increase, we will see what the actual mix is. So there is some increase reported, but it's lower than on our side, and this is easy to pass on to customers. So by and large, I would expect, without making now forecast that margins will be rather flattish. Like this meaning now there's some [29:00] price increases which in Board & Paper can be passed on but also not more.

MR Very clear. And then a clarification, coming back to the Q4 development in Board & Paper. So this 12 million of positive EBIT, when you gave the guidance of a positive development upon the Q3 release, was that already including this inflation from the CO2 compensation or was it actually Board & Paper being a bit more on the weaker side compared to initial expectations? Because (29:44) correctly the underlying EBIT excluding CO2 would be slightly negative. Is that correct?

PO No, that would not be correct, but the number would be lower. And I think this is where we [30:00] stand. So let's say what you can't expect is that we have a big increase. The rate will really depend on the overall development also of our costs. So obviously the fact that our competition did not follow in the WLC market with our price increase, obviously puts so to say, has reduced the outlook for much improvement.

MR Thank you very much. I'll get back into the line.

PO Welcome.

M Thank you very much. The next question is from Cole Hathorn of Jefferies. Over to you.

CH Morning, Peter. Thanks for taking my [31:00] question. I'd just like to follow up on the Pharma & Healthcare markets. Are you seeing any kind of green shoots from the customers on order books and improving demand there? Because we've seen destocking from that segment for a while now. Some of the flexible plastic packaging players like Amcor, talking about stabilization there, small improvements. I'm just wondering what you're seeing at Mayr-Melnhof?

PO We see at the moment not so many green shots as you call them. So it's a rather flattish development. However, there is no doubt that the GLP1, so this slimming product will finally get momentum. And there we know that this will entail growth and we will over proportionately participate in that [32:00] growth. Unfortunately, the real big movements are out because the capacities are still under construction. So this development will help us more than in '26 and mainly '27. Otherwise, in the rest of the market, it's rather flat.

CH Peter, and then I would just like to understand how you're focusing on your mill system at the moment on the board side, and I'd like to look at the recycled carton or the WLC and the FBB side pretty. Am I right in thinking that in the WLC side you're trying to invest energy reduction, move down the cost curve and try and be cost position advantaged while everyone else has got elevated debt levels and not able to invest in your mill system, or you're effectively going for lower cost production as the only way to survive [33:00] in WLC at the moment? Is that the key focus for you and mainly energy investments?

PO Yes. I think our strategy so far has been, we have made two to closures. One was already a couple of years ago in Austria, a smaller mill. One was a small machine in Slovenia operation in Količevo. So we have answer to say the first step to take out those assets where we… The fact we couldn't see that they would be come close to any cost leadership in the market. Now we have a good network with good products. We have due to the rebuilds also still some one off cost which we have to carry, but that gets better and better. And now we have to further bring our costs down. Also, there are many ideas, also, [34:00] some products are over specified in terms so much better than the competition, but we don't get the respective premium. And the focus is absolutely as you say; it's mainly on energy costs, but also on fibre costs, personnel costs. So we have to really take… I don't know if it's in English, but we have to take every penny around and look at it from every site and reduce the costs. And that will finally make us… So to say, will finally lead to improved profitability.

CH And then, I don't know if this is the right way to think about it, but you do have an advantage being forward integrated into your converting side of the business. Is there any way to… Will any opportunities for you to further optimize your logistics and better [35:00] utilize your mill operating rates by prioritizing your product for your converting assets? I know it works differently versus the container board market, but I'm just wondering if there's any opportunities to improve the utilization of your mills and prioritize your board volumes into your converting assets.

PO Yeah. In WLC, we are already very highly integrated. Maybe the numbers don't look like that but we've obviously also converting operations in Chile or Colombia, which are not integrated. Otherwise it's integrated to a very high degree. In FBB, there is still more to do and we will of course do that. So there is more to come.

CH And then maybe shifting to the FBB side. What is the focus there for ensuring cost competitiveness in a market where storing those, adding new [36:00] supply, I suppose you're getting (36:01) taking out some supply, but it's still a challenge? So I'm just trying to understand the cost positioning of one like your Polish mill, which has probably got lower wood cost versus your Finnish mill. So just understanding the focus there for the business.

PO As you said, our Polish mill does have cost advantages, not so much maybe in wood also, maybe some in wood, but it's mainly logistic costs and personnel costs. So I think this mill is very well placed but has the disadvantage also to be in the graphic segment with uncoated fine paper, which we move now gradually to packaging paper. But that's overall a very competitive mill. And as I said before, we have the opportunity there to take a lot of costs out. [37:00] In Finland, it is after the start-up of the new machine, the second biggest FBB machine in the Nordics and overall in Europe, the third biggest. So it's a big sizable machine with a lot of capabilities and US technology.

But otherwise, let's say in terms of wood cost, et cetera, we are the same boat as other Finnish players. And then we produce also some in Količevo, where it's more focused on each product. But the proximity to some customers in Southern Europe is again, an advantage. But overall, despite all that as you say, there's over capacity in the industry, which will increase and we'll see both consequences [38:00] will be taken also by our competition.

CH I mean, hopefully we get some capacity rationalization from the peers. But in the interim before then, is there any commentary that you can give on how you're thinking about the potential US tariffs and how that might impact the European market, both in WLC and folding box board?

PO So our exposure to the US is fairly limited even though it's also for us a strongly growing market, but from a small base. Our main competitors are very strongly exposed to the US. So the positive scenario is that there are more import duties in the US for a product from China, which might be on the margin helpful because [39:00] then continuing to export and even increasing exports to the US is a good business. If we get tariff on European imports that would have very negative repercussions for the industry because the US is a very important market for some players, and they then have to redirect these volumes to Europe because the rest of the world, so to say is also a difficult place because of the Chinese.

CH Good. And then the final question is on Russia, Ukraine potential peace discussions. How could that impact your business firstly from a wood cost dynamic? And then secondly, if the market did open up would the Russian market ever be open again to folding often [40:00] do you think?

PO If the situation normalizes again and we could import and export, it would be very positive for the wood market in Finland. Especially Kotka, which is less than 100 kilometres away from the Russian border, it would be a definitive strong advantage. Also from an energy perspective, it would be an advantage the markets themselves, because Russia has started the (40:42) mill shortly after the or shortly before the Ukrainian war started. The market opportunities, I'm not so sure how big they would be, but definitely there would be some opportunities and our [41:00] group both especially high exposed to Russia, so we lost very significant oil there.

CH Understood. And then just on the Poland wood markets would you get Belarussian wood coming back that might support you there and improve the Kwidzyn mill as well?

PO Yeah. And opening would also be highly beneficial for Poland.

CH Perfect. Thank you very much.

PO Thank you.

M Thank you very much. The next question is from Saul Casadio. Over to you.

SC Thanks very much for taking my question. So let's go back to your comments about doing whatever it takes to improve profitability. And also in your outlook, you talk about structural optimization measures, and you singled out over capacity in FBB and [42:00] WLC. So wondering whether at this stage you can offer more specific plans in terms of how you're planning to optimize your footprint and in which grades? Thank you.

PO I've already alluded to this with another question. We think that our footprint is very competitive. So when we say we'll do whatever it takes, of course it could, it would, if it makes sense. It could also mean that we close a cartonboard mill if necessary. I just don't see from a competitive point of view that this would lead to anything, because logically, those on the higher side of the cost curve have to do something before. And this is not out of... Yeah, it would be just [43:00] economically not justifiable. So at the moment this is so to say is not an open option, but if market everything changed we don't exclude anything because in this market environment, it's really important that we return to a much higher profitability or to a very clear profitability, one has to say for Board & Paper. But a closure of one of our mills is something I can't see today.

SC So when you mention in your outlook structure optimization measures, this is not something on the table today. That is just for packaging. Okay, I understand.

PO Yeah, for packaging. As I said, we are in the process now of closing a smaller plant in France. [44:00] And we are investigating some other possibilities. It can also be downsizing of a plant. And the importance of the message should be that we do not shy away also from tougher questions because the industry has over capacity and so you really have to look at all your assets and be on those which can long term survive and not spend useless money in supporting those who at the end of the day will have very limited chances to supply. And that's just our strategy, which seems to be unfortunately very special in this industry.

SC And you mentioned your capacity utilization is around 90%. I was wondering whether you could split that between WC and FBB, if that's (44:58).

PO It's pretty similar.

SC Pretty [45:00] similar. Okay. Thank you very much.

PO Thank you.

M Thank you very much. Moving on. Next question is from Xavier Vandoorne of Homeport Family Services. One moment please. Over to you.

XV Hello, good morning. Thank you for taking my question. In your press release, you're talking about highly competitive asset base. We talked a bit already about it, but can you explain a bit more as margins are not following the volume recovery in Board & Paper, and why do you think you're better positioned than the competitors? I don't know if they have some other advantages also as cheaper electricity prices or some other things. And why would you think that margins would recover and to what level would you be happy at the moment in the next few [46:00] years?

PO Look, we have a number of benchmarking status, which are available from service providers. Then we can, in some very rare cases compare our performance with competitors, for instance, because they're listed and all that indicates, or we see also from acquisition targets for example, where the competition is. And obviously also people move from us to our competitors and the other way around. So overall, we feel that if we start with packaging have a culture which is very operationally driven, that has always been a high mark of our group. And when we've acquired now [47:00] Essentra packaging we have found operational numbers to be weaker by effect of two or three, so not just 10% but really weaker. Equally we see how difficult it is then to bring things up because it's linked to investments, it's linked to infrastructure, it's linked to people and what they're used to do, et cetera, et cetera, and the whole organization to work efficiently.

But we think from all what our comparisons tell us that there we are on the packaging side. So our traditional legacy, food and premium packaging is really highly, highly efficient. And we see now in Pharma where practically 80% has been acquired or more than 80% has been acquired, that we are on a very good way to do it. And in Board & Paper we [48:00] also do some benchmarking. We are taking costs out like energy, et cetera, where we dramatically reduce energy consumption, as we see then from our annual report we've not just reduced CO2, but energy consumption per se also on a (48:21) basis. And this follows sometimes just a different organization, sometimes minor investments. In some cases we also need some bigger investments which we'll do. And so overall we feel we are in a good space and with the spirit to be here at the top. Of course, there are other very good competitors, or they have individual plants or mills, which might also be better than we are over. [49:00] Was this answer satisfactory for you?

XV Yes. Thank you.

PO Welcome.

M Thank you very much. As there are no questions in the queue, I'm handing the floor back over to the host.

SS So I think we've had a number of questions covering a broad range of areas. Thank you Peter for your in-depth answers. Thank you for participating and your interest in the company. Just for your information, our annual report will be published on the 9th of April, Q1 results on the 29th of April. And with this information… Well, we have two more questions pending, I think. Do we see that?

M Yes, [50:00] exactly.

SS I think the moderator can take the questions.

M Yes there were two.

SS If (50:03) answered those.

M Perfect. Thank you very much. There are two follow ups. The first one is from Mark Watts of Citi. One moment please. So Mark, over to you.

MW Hi there guys. Sorry for the later questions. So the first one was just on the CO2 credit impact. Do you mind just elaborating? Is that a rebate that all peers would receive in the WLC cartonboard side or is that specific to you? And the second question was just on the margins. When we're talking about the raw materials, again on the WLC, what are you seeing on the OCC side and the input costs? Because we have been hearing across industry that maybe on the container board that there'll be increased demand on that side. So did you think that's going to have [51:00] an impact on input prices going forward in terms of it potentially going higher or what's your view there or what are you seeing so far?

PO Thank you. So let's start with taking part, I mean, to predict paper for recycling is obviously always very difficult. We have seen overall strong increases which we could not pass on in the market, different to the corrugated board market. Now we've seen them softening a bit. I would also tend more to see the upward trend than a further downward trend. But yeah, it's always very, very difficult to predict it. Then of course, if they move up, the question comes back; can we increase prices and pass these costs on? [52:00] The first question you asked is… I mean we have in every country different regime, so it's nothing special about what we get, but they're also very different.

So Germany, Poland, Finland, Slovenia are for us, and Austria, the relevant markets. And they have all sorts of different CO2 energy, maybe subsidizes the wrong way, but they are subsidized in one way or another with caps or refunding or if you use the network. So it's a very complex thing, but we didn't get anything… That's your question, anything special, but we just run in the normal schemes of these countries. And it's complex to follow up on the rules and on the prerequisites one has to get them. [53:00] And we got last year more than we got in '23.

MW Got it. So I guess directionally probably a little bit less expected for '25, if at all, versus '24 given overall energy prices trending down.

PO Yes, that's correct.

MW So the final question, could I just clarify when you answered my question earlier about cost prices from competitors, was it the case that they had imposed those and they hadn't stuck with customers or you've just been hearing they haven't actually increased prices? I just wanted to clarify.

PO What we hear from customers is that they, let's call it this way, in the majority of cases, which we learn about, and it's only a certain sample of everything, they have announced it, but not followed through on it. So at the end of the day, they could get a bit more volume. They'd rather [54:00] pick the volume than the higher price.

MW Got you. Thank you.

PO Welcome.

M Thanks very much. The next question is a follow up from Cole Hathorn, again. Over to you Cole.

CH Peter thanks for taking the follow up. I'd just like to ask on the long term demand trends for carton board and your longer term views on the export market, am I right in thinking that the export market will probably continue to remain quite challenged just considering competition from Asia, et cetera? But on the domestic European market, we're still well below what I would consider trend line demand, be it from more discount retailers using more plastic or various different items from a consumption perspective. But I'm just wondering what could be the green shoots to demand? What do you think [55:00] could ultimately bring us back towards the trend European demand? Or are we not going back to a trend level?

PO As of my opinion is we're not going back to a trend level. And I would see a growth of 1 to 2%. So to make it a bit more detailed we have a rather demographic flat development. We see the growth rates of main customers, which are fast moving consumer, good companies, pharma companies, et cetera. There is an in-tech trend, which is replacing plastic with cartonboard, which is positive. However, I believe that many market participants far overstate the practical effect. We do not talk about huge volumes. So there's always what can be… There are also a lot of studies [56:00] and a lot of marketing talk about what could in theory be replaced, and these are fantastically high numbers but we just have to acknowledge that plastic is cheaper. The European Union has failed. They've introduced the plastic tax, but it's paid by everyone instead of by those who bring the plastic into usage in Europe.

So this is simply a wrong policy but it is what it is for the time being. And so as people will always be at certain pressure just to… But people have limited money, so to say, which they want to spend. So with all whilst they might be in theory, very enthusiastic about moving to cartonboard products, maybe if they're at the shop, they forget about it and take the cheaper product, which is packed in plastic. And therefore [57:00] the substitution of plastic to board is happening, but it's not happening for the time being as fast. Of course, if the economy improves and people are more willing to spend again which is a cyclical effect, this will become better. But I think to believe growth rates of 4, 5, 6% is something I wouldn't put my money behind. And for exports, I see the US market generally… So the world market, Middle East Africa will be difficult because of the Chinese. The US is an attractive market unless Mr Trump changes this from one day to another. Otherwise, I can see that the product which we sell to the US is a [58:00] superior product and it's well received by customers, and there is some growth opportunities definitely in this market, replacing experience.

CH Thank you. That was clear.

PO Welcome.

M Thank you very much. Then another follow up from Markus Remis of ODDO BHF.

MR Thank you. Just one clarification, this Fit-for-Future cost cutting program, does that trigger any charges of meaningful size, or will it go rather unnoticed?

PO In this way, it's rather unnoticed, and I don't… Sorry, also to say this because also for our internal communication, it's important. I wouldn't necessarily call it a cost cutting program. It's really thinking out of the box, our philosophy of [59:00] think next. So what can we do in a smarter way? This can be insourcing outsourcing, this can be normal cost cutting, but it can also be less… There are also projects how to increase sales, how to cover special niches. So it goes well beyond... First we had this, what we call the cash and profit protection program. That was really about putting a break on cash outflow and lowering costs just where you can. Now it's a bit more sophisticated, forward looking, out of the box thinking, so to say project by project developing ideas, screening them and finally then putting them into practice and doing it. But there are no, with this project, generally bigger [01:00:00] implementation costs involved, except for some projects, but these are not major costs.

MR And then a question for Mr Hiesinger, you indicated a standard tax rate of 19%. Is that to be understood as the P&L effective tax rate going forward?

FH Yeah. In average, we had a tax rate of 3.4%, which consisted of an on-going tax rate of 19% in this year, also fairly low. And that was compensated by tax assets, which we have capitalized of the tax loss carried forward of some of our Essentra plans, especially in UK and US. So to make it clear, when we bought Essentra with a number of loss carry forwards, which we ignored because the business was, break even or in some cases loss making; now we've achieved the turnaround. So we make [01:01:00] profit, and so the loss carry forwards have become valuable, let's call it this way. Bit of a one-time effect. There's nothing to do that we've moved to another jurisdiction or anything like this. So we decently pay our taxes, but we assume now that we can use a lot of our lost carry forwards from the extra Essentra packaging business.

MR And that will bring the P&L effective tax rate down from the route of 25%, that was the benchmark in the past to 19% on a more sustainable level?

FH No, in 2024 we had 3.4% on a total average taking into account our on-going tax rate of 90% plus tax asset and going forward, it'll be slightly [01:02:00] above 20%.

MR Okay. Thank you very much.

M Thank you very much also from my side. So, as there are no more questions coming in right now, I am finally handing over the flow back to you.

SS So if I may pick it up, Stephan already said his goodbye. And we are running over time, so just summing up. We believe that despite this difficult market circumstances, given our competitive asset base, a strong management team, winning spirit and solid financing, we are very well positioned to successfully navigate the challenging market situation in '25. And we believe in the long term financial and strategic value of our sustainable [01:03:00] and innovative packaging. Thank you.