DS Smith Full Year Results 2015/16
Conference Call Transcript

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AM Adrian Marsh
AMees Alex Mees
BD Barry Dixon
JJ Justin Jordan
HF Hector Forsythe

MR Thank you very much for coming here this morning, on a difficult morning, and a particular thank you to everybody who has swum across swollen rivers, climbed over fallen trees, clambered over mud slides to be here. I can promise you it's worth it. Our results for the year to the end of April, nearly a couple of months ago – in summary, we're delighted. A year of growth, growing returns, but building momentum into the business. So our customers are clearly with us, we can see the growth – 3.1% on a like-for-like basis on our box volume – growth in all regions and a very, very encouraging performance with our large pan-European customers. So the market's with us.

We've invested in the business. Not only have we bought a number of businesses during the year which are performing very well, we've also invested strategically in our company as well, internal investment, which we'll talk more about later. This morning, we've announced two further acquisitions, not only building our presence more into Iberia, but also into a particular business in the display market which, again, we'll talk more about. We're delighted with the investment, investment I know will give very exciting financial returns in the coming years. The results for last year, you can see for yourself they're very strong, and we're particularly pleased about the momentum in the business, the confidence not only in ourselves, what we're delivering, but from our customers – there's momentum in our customers, for what we are able to offer.

So a year we're pleased with, but that's about the what we've done, and I'd just like to remind you about the how, because it's who we are, what we're trying to do, how we're doing it which underpins our confidence. We set out, in 2010, the business that we wanted to be. Many of you will recognise that slide. We make no apologies, it's absolutely the same slide we talked about in 2010, how we drive the business forward, delivering growth and returns. And it's working. It's worked very well, and I know it will continue working for us in the future. That model, a short paper position, we're limiting our investors' exposure to a what they think is a less-attractive business model; long recycling position, where we own the source of the fibre, the source of our product; and then, really building in packaging.

But packaging aside, customers have very consistent demand – and growing demand. The big FMCG, the food and drink industry, other areas that have very similar characteristics, such as, today, 78% of our volumes go to customers with that consistent growing demand, in a fragmented market where there's a huge opportunity for growth and innovation. That's

why we've grown, again, our volumes on a like-for-like basis, despite the uncertainty that we've faced over the last 12 months, and how we've built a pan-European network. All major economies in Europe are covered, it is an unparalleled coverage, a huge opportunity for further growth, as it still remains fragmented. The returns – six years I've put on this graph, here, the red bar, the return on sales, start off at 4.7%; we're now 9.3%. That's the value-add coming through. This is about the solutions we're giving to our customers. So a 460-basis-point improvement, and our return on capital employed, our principle measure, up from 10.1% to 15.4%, despite the initial diluting effect from acquisitions. So that's about the how, and Adrian's going to take us through much more about what we've done.

AM Thank you. Miles, and good morning, everyone. As always, I'm delighted to be presenting our full-year results today, and not even the mild distraction of the in-out vote can cast a shadow over what has been another good year of delivering against all our financial targets. Currency translation has, again, had a negative impact on our translated financials for the year as a whole, and in order to explain what has been happening in the business, I will, as usual, be talking about the constant currency changes as I go through the presentation. To recap on what Miles has just set out, our highlights are sustained volume growth of 3.1% which, for me, is the best yardstick in terms of our growing of the top line. Further improvements in both margin and return on capital. We're delivering in the upper half of our margin target which, as I'm sure you remember, we upgraded only last year.

Return on capital is above our target range. Although this is measured on average capital employed throughout the year, we do not yet have the full effect of our recent acquisitions. Our balance sheet is still strong, and even after the acquisitions, we remained at our target gearing level. Earnings per share, following both organic and M&A-driven activity, has grown this year by 16%, which we feel is a decent result by any measure. You're all familiar with our five financial key performance indicators which describe our medium-term targets. Once again, we've delivered on each and every metric, demonstrating real consistency in our business model. Volume growth is ahead of our GDP+1 target, which we calculate to be 2.8%. Our volume is also ahead of the corrugated market, which grew 2.3% on a weighted basis.

Return on sales, as I mentioned before, having increased by 50 basis point, to 9.3%, is in the upper half of our target range. Return on average capital employed improved 70 basis points, through both increased profitability and also balance-sheet discipline, especially over working capital. This ratio is calculated on an average-capital-employed basis at the end of every month. Cash conversion has come in at 112%, reduced from the prior year, and is, as expected, moving down, closer to our target of at least 100%. Cash management remains a priority and an area of constant focus. Net debt is higher driven by both the cash paid out and debt brought in on our new business acquisitions. It now stands as two times EBITDA, and I'll talk more about cash flow and our balance-sheet strengths shortly.

This slide summarises our financial headlines. Revenue is up 9% and operating profit up 16%. I'll take you through the bridges for these key-line items in a moment. Dividend share is up 12%, in line with reported EPS growth at actual exchange rate. Asset turnover is a good measure of

asset efficiency, and whilst we're targeting this to improve over time, I'm not too surprised that we've only managed to hold it constant, given the significant acquisitions made in the year. As always, it's difficult to set out in a slide exactly how revenue has progressed for us, given the impact of our largest input cost, paper, has on the overall selling price of packaging, which is why I always prefer to keep attention on volume growth and added value. That said, currency translation's taken £101 million off our reported revenue, which reflects a substantial headroom in half one, and some unwinding in the second half of the year, as sterling has weakened, for reasons we're all very conscious of, particular today.

Taking a starting point of £3.7 billion, the largest impact is from acquisitions, and here we have 11 months contribution from Duroapack, nine months from Lantero, six months from Cartonpack, four months of Milas and a little less than a month from TRM. It's fair to say we've not been sitting on our hands when it comes to M&A, and we're delighted with the performance of these businesses. This figure is also net of disposals such as StePac and, of course, does not include the two further acquisitions we've just announced today. From there, you'll see that on an underlying basis, revenues grew by 1%. Our 3.1% corrugated box volume delivered an uplift of just over £80 million, while sales price and mix reduced revenues by around £10 million, reflecting the impact of slightly lower paper prices over the whole year. Other volumes relate to external sales of paper, recycling and corrugated sheets.

Moving, now, to the operating profit bridge, our growth has been driven both originally, through volumes, and inorganically, by acquisitions. FX was a headwind, as I've just described. Regarding acquisitions, the new businesses are all delivering and have fully embraced the challenge to deliver our anticipated synergies over the next couple of years. Input costs have been favourable by £10 million, coincidentally equally matching the impact of lower paper prices reflected in sales price and mix. I say coincidentally matching exactly, given external factors do not usually respect our reporting time frame. As you by now expect, volumes have been the largest drive of our profit growth. We have a similar amount of drop-through on additional volume, as in previous reporting periods.

Margins have improved, across the group as a whole, by some 50 basis points. Of the corrugated packaging regions, improvements have been broadly similar across all the regions. All have had benefit from operational gearing and our continued emphasis on delivering higher-quality, value-added packaging to our pan-European customers. What is worth me highlighting is that the regions which have had large structural changes. Western Europe, now with Lantero, and Central Europe, now with Duroapack, have both managed to improve their margins despite the pressures that come with integrating large new businesses. This is a real credit to our teams on the ground and the way they have remained focused on their customers, and also driving forward the integration task with pace and assiduity. We highlighted some of the team at our last Capital Markets Day, and it's no fluke that they've continued to deliver. Integrating a new business requires significant planning, and then multifunctional teams to work alongside our new colleagues from the first minute they become part of the group. I've tremendous admiration for work all parties put in, and great confidence going forward, given we've done it a few times now.

In Plastics, our margins have improved by 160 basis points, in line with our expectations and what we set out when we described our restructuring programme, and we expect more to come. When I joined the business, Miles was very clear that our continued success and earning the right to grow depended on tight cash management. This year, we can again report that this intensity has not diminished. We've had another working capital benefit with the ratio of average monthly working capital to sales down to 1.6%. We've now improved this ratio from a 3.6%, which we were very pleased with three years ago, but we're still not satisfied. Clearly, we cannot always expect inflows at the same level as last year, which was material, or this year which was still pretty decent, however when we make an acquisition, we always see an opportunity.

Capex of £201 million reflects a confidence to build on and strengthen our excellent position, and I'll cover this a little more fully in a moment. Our leverage has increased as expected by both the effect of new acquisitions and the weakening of sterling towards the end of the year. Without both of these effects, we would have continued to deliver. Taking our starting point last year, we had the benefit of free cash flow, cash exceptional costs relate, primarily, to previously described restructuring, and broadly track the income statement charge. The acquisitions and disposal expenditure cost is a cost including the acquired debt of Duroapack, Lantero, Cartonpack and Milas and TRM, net of our StePac disposal proceeds, received at the very start of the year. Our track record of sustainable dividend growth is a key tenet of our commitment to shareholders, and this year we paid out £108 million in dividends.

As I pointed out earlier, we've had a negative on FX. We seek, where possible, to hedge our balance-sheet exposure by proportionally matching the currency of debt and assets. The weakening of sterling towards the end of the year gives us this negative effect. Our strategy on investing in the business is relatively simple. We have a strict returns criteria for both organic projects and new acquisitions. We tightly manage our balance sheet to create the headroom to invest, and where the projects we consider are in line with our corporate plan, and exceed our returns criteria, we will invest. This year, we've invested more than £70 million over and above depreciation. Of total investment in capex, of around £200 million, about 35% was spent on growth initiatives, around 30% on efficiency projects, and the balance on health and safety, IT and maintenance.

Health and safety expenditure is always greater when we acquire a business, and not an area we're prepared to shy away from, given our commitment to create a safe working environment for all our employees. On efficiency capex, it's worth noting that this, like our growth capex, delivers future benefits. In my estimation, our like-for-like SG&A expense is less than two years ago in absolute terms, and if you consider inflation, it's some £30 million to £40 million lower than it would have been if we'd not invested in improving our efficiency. You can see a photo, there, of a brand new greenfield site in Germany for our point-of-sale and display business, and I'm sure Miles will talk a little bit more about that later.

On acquisitions, when we evaluate a new business, we consider the purchase cost, the amount of additional capital investment required, any cash inflows from working capital management and outflows for restructuring. Against this, we have a good track record in identifying synergies we can generate, and all of our acquisitions are in line with our

medium-term objective, taking into account all of those factors. Whilst it's easy to focus on an acquisition being earning-enhancing, especially given these historically low debt-cost levels, this is of little concern for us when evaluating opportunities. We're proud of our strong balance sheet, and even prouder of our investment-grade credit rating, which gives us access to a diverse range of providers of liquidity. This year, we extended further the duration of our debt by issuing a seven-year euro bond with a coupon of 2.25%.

Here's the usual guidance slide. I'm not going to talk you through each of these lines, you can read the figures. The majority of the figures are very similar to this year. If anyone, as I'm sure you all have, has got specific questions, we'll take them in the Q&A. So to wrap up, for me, our business model is built to create sustainable value. It's about being able to deliver on our commitments to shareholder year in and year out. Miles will be talking about how we're driving further growth in a minute. Our ambition remains fairly and squarely to continue the journey highlighted on this graph. Actions speak louder than words and, as you can see, over the last six years, we've consistently grown EPS and dividend with a compound annual growth rate of 30% and 26% respectively. On that note, I'd like to hand back to Miles who is going to talk more about how we're continuing to invest in growth.

MR Thank you, Adrian. Excellent. That's last year; let's talk about how we see the future. I should stress that some of the things I'm going to be talking about will be covered in a lot more detail at the coming Capital Markets Day, particularly around what's happening in store and in e-commerce. It's a very exciting area. I'm going to set out an outline here, so everybody's very clear about how we see the future. We've delivered in the past, but we're very excited about the future. It's because of these changes with our customers and their requirements of us. That vibrancy allows us to grow and add more value. The demands from the customers are in two principal areas. One around the innovation, the product and the service, and the second is on the geographic expansion, about consolidating the supply chain.

I’d like to talk about the first area of the consumer trends. This is about our innovations in service and product. As we can see, in the retail sector, our customers, those large, consumer-facing businesses, are facing continuing and sustained change in the consumer trends, aided by the communication that consumers have through smartphones, etc. And it's gaining momentum. I've just put down four high-level examples of these changes in the consumer trends. The first two, about how the power of advertising outside of the store is eroding. It just doesn't have the effect that it used to. And brand loyalty is also falling. So if you're one of our customers, you realise that 60% of the consumers decide which product to buy at the point of sale. Not before they come into the store but at the point of sale. And if your product isn't available on the shelf, whereas, previously, 25% of your customers would choose another brand, today it's over 50%.

So the whole image, the in-store packaging has never been more important. Packaging is the new advertising. That's what it is. With the change in the proliferation of retail outlets – convenience, discount, supermarket – it's very dynamic, and this proliferation means the packaging has to adapt to those different formats, again building in additional value. Very excitingly, the trend we're all seeing, we saw it

very, very strongly last Christmas, the rise of e-retail. 43% of consumers are now buying on the internet. We're investing heavily behind these trends. I'm going to talk a little bit more about the retail-ready packaging in store and display, and then we'll come on to e-commerce, but then we'll also talk about our leadership in implementation. So thought and creativity leadership, and leadership in implementation across Europe.

I show a picture, there, about display. We're seeing the footfall on the high street fall consistently: in the UK, between 4% and 5% per annum. People are not going to the high street to buy in the same frequency they used to. The average till value, the average amount a consumer is spending in the shop, is falling. So what the retailers and our customers have to do is attract the consumer whilst they're in the store. This is an example of a display. A 3D display is becoming more and more prevalent, as retailers, as our customers, attract that consumer at the point of sale. And we're investing heavily behind that. Here is a new site, as Adrian outlined, in Germany. It's an absolute state-of-the-art facility, unrepeated across Europe. This has the ability to supply over a very wide geographic area because of the value that's in the display business, and we're confident that this will give us a very strong leadership position across central Europe. We've also acquired, today, another business called Creo, which gives us a leadership position in the UK. The UK and central Germany are the largest display markets in Europe, and we have a leadership position in both. This is going to provide a lot of value to our customers and to us as well.

Let's look at e-commerce, because there's a lot of talk about this. In Europe, 273 billion euros of sale in 2015. It is growing at least at 10% per annum. Only 43% of consumers currently use the internet to buy, but if you go back three year's that was less than 20%. So we're seeing growth, going forward, of at least 10% per annum. That is 24 billion euros of additional sales. So what? 4.2 billion packages. What does that mean for us? Is it just a volume game? It's everything but a volume game, because what you're seeing today, in the solution of packaging and e-commerce is not the solution that you will see over the coming years. Our customers need the packaging to suit their future requirements.

Here are some of their requirements. The void-fill. The average void space in a box that's delivered through e-commerce today is 50%. Half the packaging is empty. The cost of delivery, on average, for our customers, is 10% of their sales, so 24 billion euros a year are spent on delivery of e-commerce, of which 12 billion is empty space. 12 billion euros last year on empty space. If we can save half that space through right-sizing the box – which needs a lot of technology, which we lead – you can save 6 billion euros a year, growing at 10% per annum. If we had, let's just say, 20% of the market, that's 1.2 billion euros of cost we can save our customers. Now it's not about the brown box, it's about the opportunity with their delivery and the void space, and that needs technology. That's the value that we're able to create.

And branding – it's just a brown box. Why not cover it with the brand we're supplying? Packaging is the new advertising. But to do that, you need the capability to print, print whatever the brander wants. And we absolutely lead in digital printing. We're the only supplier of corrugated digital print on a wide-web format. It's a box of one for us. So whichever customer you are, however big you are, each box can be individual. So the growth of a micro-brand, etc, we can deal with. Micro-brand through e-

commerce, bypassing bricks and mortar, straight through the internet. We can deliver that.

What about retention? 10% of sales go on distribution. Product retention, rates of return – if you buy fashion items, a third can be returned. It cost 10% to distribute, yet a third is coming back. How much is that costing? So it's about retention rates. This is all about the inbox experience, when you receive the product, that you want to retain it. You don't want to return it. This is all printing and in-box experience, it's the box. And solutions of the last mile. Urbanisation, the growth in e-commerce, how do you deliver the last mile? It's going to be somebody on a bike coming to your house, and they've got your pizza on that bike and there have been some potholes. You don't know the condition that's going to be in. We can all imagine, particularly as we've ordered a coffee as well. Not a nice mixture. You've got to have the right packaging.

How can you add value? It's not the box, it's about the product it's protecting. It's about serving the consumer. So you can see why we're excited. You can see why we put such investment into this. We have the thought leadership, the solution leadership as well. About the implementation leadership, how are you going to deliver these solutions to all customers, wherever they are in Europe? This is the network that we have built and are building. Every time we apply, we put our innovation services into that market, so no more customer is more than two hours away from one of our centres – a consistent centre, the same skills, the same access to technology, held centrally, developed centrally. It's a consistent part of our theme, and it's a major part of why we've been able to grow so strongly.

That's about the innovation in the service, our next customer's demand is about geographic coverage. They can consolidate their supply chains. It absolutely fits with our strategy. We had a step-change in the last 12 months, moving into Iberia and, again, another acquisition announced this morning, into Portugal. Just over a year ago, we had nothing in Iberia; we now have 10% market share, and growing well ahead of the market. We've acquired right the way through the Balkans, central Europe, eastern Europe and into Istanbul, and we further built our position in the UK as well. 13 new or expanded countries. We're the consolidator of choice. All of them are exclusive bilateral negotiations.

We're delighted with the reception we've had from our customers and all of our new employees, yet we're only 15% of the market; it's highly fragmented. We're our customers' supplier of choice and the consolidator of choice. When we find that it's not attractive, then we'll invest internally. Many of our customers are very large, very large indeed. Wonderful, wonderful customers. We've got, up here, a small selection. Mondelez, you know the success we've enjoyed there, global customer, and obviously Nestlé, again a wonderful company, and recognising us as their very best supplier. So we've grown 3.1% in the current year, slight initial dilution from the acquisitions and then coming back very strongly, well ahead often market. Consistent growth.

That's Europe, and we've talked about this previously, our global offering. The solutions we're providing, technology led. We have established these offices. The only thing I really want to say is it's really giving us very good visibility into those markets. It's giving us a greater relationship with many of these customers, in understanding not only their regional but their

longer-term needs. How do they solve these consumer trends that continue to change? They're giving us that access to their customers right at the centre of their thinking. We continue to invest in those offices and we're absolutely delighted with the feedback and the success that they're enjoying. So in summary, we're very pleased with the growth in our volume, market share gain, the financial returns, the additional investments that we've made. Most importantly, it's about that momentum. Confidence internally and confidence from out customers coming right into 2016/17. Thank you very much.

AMees Alex Mees from J.P. Morgan. On the plastics division, Adrian, clearly good margin expansion, is the restructuring complete there now? Is there more to come? What sort of quantum of margin uplift can we expect in the current year? Secondly, with regard to the organic growth – 3.1% obviously much better than the market as a whole – I wonder if there's any colour you can give us as to the relative performance of the FMCG side compared to the industrial and the other consumer segments of your business? Then, thirdly, on the e-commerce side, Miles, clearly when you personalise a box for e-commerce, it's going to cost the customer a lot more. Are you able to give them evidence that that leads to greater repeat orders, which would justify the extra expense?

AM Thanks, Alex. On plastics, the restructuring programme, in terms of the asset movement was completed roughly a year ago. Clearly, with that, it was a large transition, particularly in the European business, between moving manufacturing from northern Europe down to south-eastern Europe, and it's all about now rebuilding and driving sales based on the new facilities. The low-hanging fruit have dropped through now, in terms of our margin, so if I go through the budget and how the business plan is for that division, what I expect now is, again, another period of good margin progression, as we get operational leverage through from that business. But it is doing very well.

MR On the organic 3.1%, 78% of our volumes are in categories that exhibit very short, medium, long-term consistency and growth opportunity, and that 3.1% is predominantly in that 78%. So, therefore, we've grown much more in those areas, but that sort reflects the economies, really. I think Europe as a whole has been quite challenging. If you look at housing, if you look at industrial investment, some of the uncertainty has brought demand down, but that's why we focus in the areas that we do. In those sectors, there's very consistent demand, and particularly on the pan-European. The growth there, again, has been quite significantly ahead of the 3.1. There's plenty of other volume out there, we like to think we're quite picky. You can see our margins going up, so if it's not what fits our assets, then we won't do it.

E-commerce is such an interesting area, looking at this whole issue about the value created and about customers sticking and how you just get repeat and repeat and repeat orders because they've because very efficient because of low returns, etc. We've been doing some work, and the evidence is when you personalise, when it has your name or your picture on it, it can become very sticky. The sort of thing we've been trialling, on pet food, when they've got a dog, they particular like their dog, they think their dog is very attractive, so they order their pet food every week, sometimes it's speciality food, and they like a picture of their animal on the box. And they never move away. They order again and

again, electronically, every single time. The efficiencies build because the box has a picture of their dog on it.

That's just a very, very simple example about how you start to add value, but, of course, it's got to have that box with that picture, so you need that technology, and that's what we absolutely lead. It's only an example, but you need these examples to get the confidence, so we can start to… What we're seeing, particularly in e-commerce, new brands are avoiding the bricks and mortar, they're going straight to e-commerce, and therefore you can get a proliferation of brands, and how we manage that. I've absolutely no doubt with the repeatability, the electronic nature of it, etc, when you're getting it right, it will lead to much greater customer retention, and there's some very good evidence. Let's face it, it's still early days for e-commerce.

BD Hi, it's Barry Dixon from Davy. Two questions, please, Miles. You might have helped us through, in terms of the whole pricing environment around corrugated, and you see a negative price mix in the bridge, Adrian, that you presented, but you might just help us in terms of what you saw in corrugated prices during the year, because I think some of your peers talked about an increase in corrugated at the turn of the year, which doesn't seem to be coming through in your own numbers. So is that part of the reason for your superior growth, relative to the industry? Related to that, Miles, at what point, or how, do we start to see the impact of all this innovation? Do we see it in terms of higher corrugated prices, or do we see it in terms of greater volumes as your customers become more dependent on you and, therefore, pay you for your R&D through higher volumes. The second question, you were quick off the mark in announcing a testliner price increase about a month ago, the industry followed you, we've seen proposed increasing in kraftliner, maybe just talk through in terms of how successful or otherwise those attempts to increase prices have been? Thank you.

AD In terms of price environment, Barry – and bear in mind we're out of kilter with calendar year, so we're in our financial year which will be different to other companies you may follow – in our financial year, we saw an increase of about 40 euros a ton on testliner earlier in our financial year, and we saw that erode in the second half of the financial year. We saw the price rises, the input costs, being passed through, and then, obviously, as prices start to soften, customers are aware of what's happening and we work with them to recover the fall in input prices. I don't really know what competitors have done, neither should I, in terms of their pricing, however, what I do know with us is the rises we went through at the beginning of the year were passed, and as we've now, through our financial year, seen input prices coming down, we've naturally worked with our customers on those too.

More than that is quite difficult to predict. You mention testliner prices going up, or price rises being announced at the moment, it's not abnormal when you have a period of tight supply and big demand, which is what we're going through at the moment. What will that result in? Will it be a similar situation? It's very difficult to judge it. For us, it's really still fundamentally about the added value, working with customers on performance packaging, working with them on what value we can add, looking at pan-European customers and being able to price, consistently, on an AV basis across Europe, with targets on quality, targets on service. That's really the focus. In terms of what it means at unit-price level, there

is a proportion of the business, of course, locally, where that has an impact, but it's insignificant, really, to how we're driving forward, and it doesn't really show through.

MR In pricing in general, of the raw materials, we can only talk for ourselves. We're such a size now, we can source globally and the individual market is perhaps less relevant than it used to be. So if you look at things like Kraft, you see a reduction. Why not? Because there's unused capacity. We can bring it in from the States and other countries. And that's what we're doing. I don't know if other people are doing the same, but that's where we are. I think that's a feature of our model: as we grow, we've invested a lot in our back-office functions. Whilst we are European, it's very important to build resilience into the company, that different regions support each other, and build in these back-office functions. One of them has been on procurement. We're now sourcing more globally, because of our size, consistency of demand. I think it's put us in good stead. There's been a small reduction. To be honest, how it goes in the future, we just don’t know.

AM But it's all about scale. The opportunity you get through scale is enormous. The choices of markets, the ability to arbitrage, the ability to source. Having a central procurement team that are purely focused on that, having a fibre sourcing team that's purely focused on that, you see the results. Just even over the last three or four years, it's been impressive, year on year.

JJ Hi, I'm Justin Jordan from Jefferies. Firstly, well done on a difficult '16. You're just raising the bar for expectations going forward. Can you just remind us on cap allocation, what you think in terms of returns expectations? I'm thinking about you guiding to £200 million of capex going forward, do you have higher returns expectations on your growth capex projects versus 12% to 15% return for the group, overall? And do you have higher returns expectations for that vis-à-vis what you might expect for M&A spend, for example? Secondly, on the £50 million restructuring charge in fiscal '17, is that entirely related to the M&A completed in fiscal '16, or are there any internal restructuring projects within, should I say, core DS Smith?. Thirdly, in terms of your new slide on page 30, on global offering, are you signalling anything to us here about further non-European expansion plans?

AM I didn't quite catch the second question, Justin. How much of that was to do with acquisition [overtalking]?

JJ I'm assuming it's all M&A related, but I'm just questioning is there anything that you're doing internally.

AM In terms of capital allocation, yes, of course, on an internally-funded project, we have a higher expectation of return – a shorter payback, more certainty, it's your own businesses, you're investing in an area you have absolute knowledge of. If you look at our growth capex, we said roughly 30%, 35%, we would have a good return target on that, to come through over the next two to four years. Average payback is around three years, more likely on classic capex. Where it's a big factory like Eriensee, obviously that’s a greenfield site, whilst we will have the similar returns target, it's over a slightly longer term. But again, it's in an area we know well, so we're very confident over those returns. On M&A, we obviously risk-adjust a bit more and we look a little bit more at country-specific risk,

where it's a new country we have no expertise over. In terms of the exceptional restructuring, this year's restructuring charge included the closure of Wansbrough, which we talked about at the half year, we also closed a site in Bristol and a site in Pulheim, so there's a proportion in that. In the annual report, we give a very full description, so when that comes out, that'll give you a very clear breakdown.

MR Everybody can see our business model is focused on the solutions for our customers and how we can differentiate them and add value to our customers and make a return on them. We find that it's as develop more, as we invest more, those solutions are more and more unique, and there's more technology in them, so suddenly, as a business model, you're not just a bricks-and-mortar and a manufacturing business you have technology. And the technology is transportable.

Where it takes us, I just don't know, but there is quite strong customer pull to look at the technology and the solutions that are being developed, particularly in companies that are almost starting up and creating themselves, so they don't have existing infrastructure. How are they going to work with, partner with, when they're moving at pace? We don't know. We are investing a lot, and the response in Europe is excellent. All the costs of the development are all written off, and you've seen the margin growth on the balance sheet, it's all just expensed. Where can this take us in the future? The truth is we don't know, but we're excited about it and our customers are quite excited as well.

HF Good morning. Hector Forsythe from Stifel. Can you talk through management of energy costs and other input costs? You alluded, I think, in the statement they are clearly lower at this point. How far and how visible have you locked those in. Is there more benefit to come?

AM Energy costs, we have an energy procurement and hedging team, based in Holland. We look at it, Miles and I go through it monthly, there's a specialist team which some of our team are involved with, also on a monthly basis. I think this year we'll hedge about 70%, something like that. We actively hedge it, so we look at it on quite a dynamic basis. We have a strategic partner in an energy company as well, which looks at the risk management execution. Do we expect it to change much this year? It's going slightly against us, but as I said we're hedged, so it's slightly more expensive so far but the summer has a major impact. Gas reserves are still at all-time highs, it was another mild winter, a very mild winter on the continent, which drives prices. You never know because energy has a geopolitical aspect as well, but at this stage we don't expect anything too different year on year, and we're hedging the extremes of that.

HF Can you scale the energy costs for us?

AD We set it out in the annual report. This year the benefit's about £9 million, year on year.

HF Thank you. On the exceptional items for the year, going forward, where is that being spent? You've got £50 million of guidance and if you break that out, are there any trimmings to the portfolio that we might expect?

AM Within the £50 million guidance, there's an element that we know with absolute certainty because it's a roll-over of some existing programmes. More than that, at this stage, Hector, obviously with acquisitions coming

in, we know they'll be an element of that, but I can't sit and break it down, other than the fact that it is a reasonable number to guide at. Do I think it will be more than that? No, at this stage, I genuinely don’t. Do I think it could be less than that? Yes, quite possibly, but I think it's reasonable to put a number out there that we feel makes sense, given that we've just been through a lot of growth, we've got some more growth coming this year, and with all of these you have levels of restructure and reorganisation costs.

HF Thanks for that. On working capital, a great performance in terms of the working capital you've got at the moment. Can you give us an indication of the delta year-on-year, is that more inventory efficiency, and where can we see that going? Could it possibly go below zero?

AM This year, I think it's about £50 million inflows, it's around that level. It was around double that the year before, so you do get into areas of diminishing returns. When you make an acquisition, you get a great opportunity because generally speaking it won't be an area that's that well managed, and certainly when you buy a private company, it classically hasn't been. So we always see that as an opportunity. We think, as we progress with our footprint, our blueprint review, each side operating in the same way, managing through paper sourcing in the same way, we see opportunities all the time in inventory. Our head of paper and recycling is running a quite sophisticated project at the moment, to look at just what more we can take out of inventory.

In terms of finished goods, classically we say it's not a major item within a packaging business, because you're producing just-in-time a lot, however, with a lot of sites you do build up a level of finished goods that probably higher than where Miles and I want it to be today, so we think there's something to go at, there. Managing receivables, it's just business as usual, and we look at that monthly. Then, how you manage your creditors, again, it's a discipline. The more you have around central procurement, the more procurement contracts we get, year on year, the better we get on that. We are rolling out technology on procurement across the group, so we expect to see some benefits on that too.

But it's always difficult to sit here and think, we'll get the same again next year, because it's still a pretty decent ratio. When we talked about 3.5% three years ago, we said that was industry-leading at the time, but we felt we could do better. We have done better, but do I feel we can do much more? It's the art of the possible, but I don't think it will be materials steps, and zero would be quite ambitious – I think maybe we'll set that as the target now – but it's just constant initiatives, it's not letting it lose focus. You have to be on it all the time, and we've got some really good teams who are on it all the time.

MI I'm glad it's one of Adrian's personal objectives.

AD Not the zero, by the way. For the avoidance of doubt.

HF We'll keep a note on that. When you look at the packaging volumes between FMCG type and others, is it possible to give a guide in terms of the differences in return between the FMCG and the other side of it?

MR We do look at all of that. Very broadly, we are a return-on-capital business, and the FMCG and similar which make up 70%, generally have a

margin that's slightly below the group average. However, the asset utilisation is extremely good, so we have some products, particularly in that 22%, where the margins are extremely good. But you hear from them on a Monday, you don't hear from then for another month and the machine's sitting there. So the margins are slightly lower, generally, but the asset utilisation is very, very strong, and that's what we have to focus on.

I think when you look at the strength of business model, getting the right balance, it's an uncertain economic environment that we've worked through in the last six years, and I think this focus on that consistency has served us well in terms of the cash flows and returns on capital. But the challenge is not technology to get that FMCG margin up above the group. We can talk about averaging and maths, but what's happening is the FMCG margin keeps on rising, the group average keeps on rising, so you're kind of always chasing. As you get more and more in that category, you're forever getting closer to the average, so it's just the maths of that. But the margins are improving, but they will always be slightly lower than the more speculative work.

HF Could you define for me, and for us, exactly what box volume growth is, what you're measuring, given the light weighting, given more sophistication, etc.

MR This is a measure in terms of the boxes that we are supplying. As you can imagine, it's published, it's all checked, it's reported on, etc, and it's looking at the area that we are producing for our customers. There are different ways; we find this is the most accurate measure. If you were actually to look at the number of boxes, it's actually growing far more than that, because you have a smaller average pack size because of smaller families, smaller shopping trips, spending less each time. But we look at it on a square metre basis for boxes. Not sheets, but boxes.

HF Thank you very much.

MR We've been an hour, and I'd just like to thank everybody again for coming today. We're very pleased with the results, with the growth, the returns and momentum. Thank you very much.