

**DS Smith Interim Management Statement – Transcript of investor call
September 7, 2010
8:15 Greenwich Mean Time**

Operator: Welcome to the DS Smith Interim Management Statement Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to your host, Miles Roberts. You may begin.

Miles Roberts: Good morning, and thank you for joining us today, for a run through of our IMS that was released this morning. After highlighting some of the key points from our statement, I'm very happy to take any questions you may have.

So firstly just a few words on trading where trading to date has been fully in line with our expectations, with continuing good volume growth, led by positive demand trends in paper and corrugated packaging, but in particular in the FMCG sector.

The FMCG area of the market now accounts for over two-thirds of our packaging revenue; and our continuing focus on service, innovation, and efficiency in this market is clearly paying off. We're also benefiting from key investments made to increase our capability, particularly in the area of shelf-ready packaging, which is growing slowly in the U.K. but strongly in France. Spicers' profitability is also improving due to a better product mix.

But more generally, the Company, I'm very pleased with the progress we're making on our review of strategy. Our aim is to create a more focused business producing higher margins and returns with less cyclicality. Achieving these high returns will come through improved in the mix of the business towards products with a high value added component and less commoditisation, improving our differentiation and driving operational and capital efficiency in the Group. The conclusions of this review will be announced at the time of our interim results on the 9th of December where we'll also give an update on the progress on the integration of Otor.

And with Otor, the completion took place ahead of schedule on the 1st of September. We're delighted to have completed its acquisition, which will create a platform with significantly enhanced capabilities to address the needs of key corrugated packaging customers both in France and Continental Europe, particularly in the FMCG sector where Otor has over 80% of its sales. We expect Otor to be accretive to both earnings and margins in the first full financial year of ownership, with return on investment above our weighted cost of capital. We also expect to realise annual cost synergies of €9.3 million in the second full financial year of ownership. The integration teams are well set up, and we're pleased with the progress they're making.

So in conclusion, I'm pleased with the start for our financial year. Demand trends are improving in our packaging market and our focus on innovation and customer service is clearly paying off. Since joining DS Smith in May, I visited more parts of the Group and its customers. It only goes to reconfirm my view that there is

significant potential within DS Smith. These are exciting times for the Company as we go through our review of the business portfolio and the integration of Otor and we look forward to the remainder of the year with confidence. The Group has continued to build its market position in corrugated packaging, particularly in the FMCG sector across Europe, which has an excellent platform from which we'll develop and grow the group.

Thank you. I'm now happy to take any questions people may have.

Operator: Thank you. We will now begin the question-and-answer session. If you have a question, please press star then one on your touchtone phone. If you wish to be removed from the queue, please press the hash key or the pound sign. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star then one on your touchtone phone.

And the first question today comes from Myles Allsop from UBS.

Myles Allsop: **Yep, a few quick questions. Could you give us some numbers in terms of what demand growth you're seeing in Europe today or in U.K. and Europe today?**

Miles Roberts: Ah yes, we're seeing the overall economies, as you know, have moved down to a recession, but we've seen the FMCG sector, which is extremely... has been extremely resilient over the last years, continue to grow ahead of the GDP growth. I should add that we're also taking share within that sector, so our growth is somewhere north of the overall economies. In generally, we're looking 5 - 6% like-for-like growth in our main markets, more growth in the emerging markets, particularly in Poland and Eastern Europe.

Myles Allsop: **And that 5 - 6%. Is that in the first quarter of your year or is that year-to-date?**

Miles Roberts: That's the first quarter of this year, but it's not untypical of what was experienced in the calendar year-to-date. This is a continuing trend as the FMCG customers, the larger... our large customers take share. But I have to say, we saw growth within that market. We're growing slightly ahead of the market there and I believe it is our enhanced focused on service and innovation and quality, which is doing very well for us.

Myles Allsop: **And have you seen any signs of a slowdown in demand? I mean... obviously there's macro headwinds and sort of concerns at the moment, but are you seeing that in terms of your order book or any other signs?**

Miles Roberts: No, we aren't. It's strong, but I think it's very important to segment the market into the various elements. Now we have seen in the industrial side there was quite a significant improvement six/seven months ago. It continues to improve, but not quite at the rate that it has in the past. But I say, the people don't stop eating and drinking. We're very focused in the FMCG sector. It's been resilient, and we've seen absolutely no let up in the demand at all.

Myles Allsop: **And inventories, they're still reasonably low we're hearing from some of your competitors. Is that as you see it as well?**

Miles Roberts: Yeah, I mean we... when we look at inventory in our finished goods into these customers, we're only talking about a few days of stock. We really do aim to supply on a just in time basis, so the stock is always very tight in these markets. That's a key part of that service offering. But, no, demand has been strong, and I say the outlook is for that to continue in this sector.

Myles Allsop: **And one of the things I find surprising is how quickly the European containerboard market has turned around from kind of the worst ever market in the summer of last year, 12 months ago, to what is clearly a very robust market. Do you... How confident are you that I mean this oversupply that yourself and Steve and so on have talked about, has gone... I mean obviously you've got a lot of internal measures that give you the confidence as well. But in terms of the overall market, do you think the oversupply issue has now been addressed or is that still to be tested?**

Miles Roberts: Yeah, I mean it really is into the segmentation. If you look at the supply of basic packaging to the FMCG sector, there is no overhang in capacity. We are extremely busy. It's continue to grow. We have leading positions in U.K. and France. Capacity is tight. If you just look into some of the paper capacity, I know that the German economy has been growing much faster and that has taken some... taken up some capacity in straight sort of paper. But in terms of the FMCG sector where high quality packaging, all the shelf-ready packaging, the printing, all the recycling, et cetera, it's... I mean generally there's little capacity. We are investing in terms of our capital. We are investing heavily in this sector.

Myles Allsop: **And with this portfolio review, which it's good to sort of have an idea as to when you're going to sort of give your conclusions, I mean how much of a hurry are you to implement the changes and actually refocus the portfolio and so on? I mean is this kind of sort of 12 months and hopefully will have a better visibility on the DS Smith or I mean I guess it's all subject if you want to divest assets to what buyers are there, but how much of a hurry are you in?**

Miles Roberts: We obviously want to deliver as much value to our shareholders as possible in as short a period as possible, but that is commensurate. We're looking at implementation risk. It's a capability that we are currently building in the group to make a number of changes, not just in the mix, but in the way we run the business all around that efficiency area. So it does - - we do need - - we are and we do need to continue to build our capability there. But I can assure all of our shareholders, we'll be moving ahead at the fastest pace commensurate with the - - with managing the risk. We've just made a significant acquisition and actually I'm very pleased with how that's gone, is get the cost of out that, as we've talked about. It's a great platform for further growth. We're talking to our existing customers about now how we can supply them more uniformly, more fully across on a European basis, so there's an awful lot of work going on. As I say, overall I'm pretty pleased with the progress, but it won't - - Rome wasn't made in a day so we need a little bit of time.

Myles Allsop: Okay, that's fine. Thanks.

Operator: *As a reminder, if you have a question, please press star and one on your touchtone phone.*

Miles Alsop from UBS is online with a question.

Myles Allsop: Well I had one more question, but I thought someone else might want to ask them first. **But on the pension, when you sort of closing the future accrual to current members of the scheme...**

Miles Roberts: Yes.

Myles Allsop: **...then how we should read into this? Is the first step towards trying to take and obviously manage the sort of liability going forward, but can you sort of reduce the overall risk of the Group even further above and beyond this you think in the future?**

Miles Roberts: Yes, the pension fund, I think, it is an issue that a number of shareholders have raised, and I fully understand that. We've taken the first step closing to future accrual to limit the ongoing volatility of the pension fund. I have to say all the announcements dealing with the - - all of our employees who are active members discuss with the union, again I'm pleased with the way it's been handled. It's been... To date, it's been fully in line with our... with how we wanted it to go. It will reduce shareholder exposure. We're running through a triennial valuation at the moment where we're looking at funding and investment policy, and again we'll be doing everything we can to limit the volatility and the exposure our shareholders have to this liability, so it's certainly not over yet.

Myles Allsop: **Okay. And then maybe just on the integration of Otor. Is it right that nothing basically could happen until the deal completed, till you got the competition approval in France?**

Miles Roberts: Yeah, that's absolutely right, you're under these competition law is very, very clear in that you can't actually do anything until you get clearance. It's obviously to stop companies integrating and then be turned down in the clearance. They basically can't unwind the integration, so they do have to hold separate. But that was always in our plans, so we knew about that. So when the deal was cleared, then we could get off to get the teams established almost immediately. We know what to look at and obviously starting to implement the changes that are necessary, and it's... I mean it's slightly ahead of schedule, so again we're very pleased with that.

Myles Allsop: **And then in terms of I guess a large part of the savings is the fixed or the head office cost in France, is that basically over the next couple months shifting?**

Miles Roberts: Yeah, I mean we do have to go through... talk to individuals, et cetera. We have outlined the savings. We are... We're very comfortable with the figures that we've given. And the timing that we've also given as well, we're very comfortable with. We got off to a good start. We know this business well. We understand what we thought. We know where the money is, the value is, and we're going after that obviously as quickly as we can.

Myles Allsop: Okay great. Thanks.

Miles Roberts: Thank you.

Operator: *Harry Philips from Evolution is online with a question.*

Harry Philips: Good morning. A couple of questions please. **On Spices, I was just... obviously encouraging comment. I was just wondering how you are in terms of performance against the underlying market? Are you gaining share there? And secondly, just in plastics and raw materials, how you coping with rising sort of raw material prices and how quickly do they get reflected in your pricing?**

Miles Roberts: Yeah. Well let's just take your second question first because we want to create a business that is less cyclical, et cetera, and a large part of that is how we structure our contracts. In plastics, polymer prices have been rising, but we are - we're doing very well in the recovery there of those increasing raw material costs. So plastics is doing well. The recoveries are coming through pretty quickly. I actually think there's more we can do in this area, moving away from these fixed term contracts, more into negotiated. It gives you less certainty on the volume, but it gives you the opportunity to price for that more quickly.

Harry Philips: Yeah.

Miles Roberts: So that is an area which we're putting a lot of work, focus into and I'm pleased with the progress in plastics. It's... We've got some nice positions there. Obviously, we've got the increasing paper prices coming through the... into the packaging business, and again all the recovery there is all as we expected to achieve.

In terms of Spicers, the availability of market data isn't quite as in other sectors. I think it's fair to say we probably slightly grow in share overall. There's some sort of ups and downs, et cetera, but overall we're certainly holding ourselves in the market. The important thing is we sell the right products at the right margin, and that's really where we focus. So I'm less concerned about overall market share, but I'm more concerned with are we growing shares in the categories we want to grow, and that's really behind this comment here: We're growing where we want to grow.

Harry Philips: **And one of the sort of common themes sort of coming out of DS Smith at the moment is this whole greater focus across the piece on pricing. I mean is this a particular... Do you have a sort of team of people around the Group or is this sort of self-enlightenment of existing management teams? I mean how much of it is a group sort of top down theme?**

Miles Roberts: Yeah, I mean it's... I said, we need to improve our margins. We need to improve our returns and reduce cyclicity. And if you start at the top of the P&L and you start with your promising... and you got to sell the right product and charge the right price. And it sounds crude, but that's the truth of it. And if your service and quality is right, then you've got to have the confidence to charge for it, and I think that is something we're putting a lot of focus on. It is work. We are a large group in many parts of the world, et cetera, so you really have to be working with the management teams, and that's what we're doing. I know we covered this at our full year announcement. If that's what it is, then that's what it is.

Harry Philips: Yeah.

Miles Roberts: We have to get the right price, and that's... and I'm... Actually I'm actually quite pleased with the way people responded. There's certainly more to go, the right product at the right price to the right customer, and it's where Otor is very strong and they understand as well. That's why their margins are so much higher than the average for DS Smith, and we can learn from that.

Harry Philips: Great. That's very kind indeed.

Operator: Once again, if you have a question, please press star/one. There are no more questions at this time.

Miles Roberts: Well thank you very much, everybody, for your time. I certainly appreciate it.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. You may now disconnect.

Please Note: * Proper names/organisations spelling not verified.
[sic] Verbatim, might need confirmation.
- - Indicates hesitation, faltering speech, or stammering.