

9 March 2017

## DS Smith Plc – Trading Statement

### Speaker key

OP Operator  
MR Miles Roberts, DS Smith  
AM Adrian Marsh, DS Smith  
DO David O'Brien, Goodbody  
BD Barry Dixon, Davy  
KF Kevin Fogarty, Numis  
HF Hector Forsythe, Stifel

OP Good morning, ladies and gentlemen, and welcome to the DS Smith Trading Update Call. My name is Josh, and I will be your co-ordinator for today's event. For the duration of the call you will be on listen only, however at the end of the call you will have the opportunity to ask questions by pressing star, one on your telephone keypad. If you need assistance at any time please press start, zero on your telephone keypad and you will be connected to an operator. I am now handing over to your host, Miles Roberts, to begin today's conference. Thank you very much.

MR Good morning, everybody, and firstly thank you very much for joining us today. I'm Miles Roberts, the CEO of DS Smith, and I'm joined here with Adrian Marsh, our CFO. Our trading statement released this morning relates to the period of trading since the 1st of November 2016. And in that period the business has performed absolutely in line with our expectations.

It continues to build on the progress we made in the first half of the year, with sustained good volume growth. As before, this growth has been particularly strong from our e-commerce business, which is an area of considerable focus for us, as some of you saw for yourselves at our capital markets day earlier this year. Pan European customer volumes continue to grow ahead of the average rate as customers recognise the benefit of a co-ordinated multi-national solution to their packaging requirements. Packaging has never been more relevant to them.

And we have strengthened our business with a number of small acquisitions this year, as previously announced. The strategy behind these acquisitions has been to expand our position in key markets such as Iberia and to build on our pan-European point of sale capability. And our outlook remains positive. Despite ongoing challenging economic conditions, for instance recently seeing some volatile import costs, but our business model is designed to deal with these and we adjust prices to reflect changes in import costs to and from our customers, albeit with a short term lag.

Volumes continue to grow well and we're pleased with the sustained, consistent progress of the business, both organically and from a contribution from acquired businesses. Customer and consumer trends continue to drive the requirement for sophisticated, innovative packaging,

and we have the scale and expertise to invest behind these trends and consistently drive our growth. And accordingly we remain confident for the future. Well, thank you for that. thank you for your time. I'm now very happy, with Adrian, to answer any questions people have.

- OP Ladies and gentlemen, if you'd like to ask a question please press star, one on your telephone keypad. If you change your mind and wish to withdraw your question please press star, two. You'll be advised when to ask your question. And our first question comes in from the line of David O'Brien from Goodbody. David, please go ahead, your line is now unmuted.
- DO Hey guys, thanks for taking the call. Firstly, Miles just mentioned import costs have been pretty volatile. We've seen from releases now that DS Smith has announced €80 a ton import price increase. Can you give us a sense of how much of that price increase has been driven purely by OCC higher costs? And secondly, as the largest collector of OCC in Europe, how far do you see pricing going there and what are you seeing in terms of your own exports into China? And I suppose related to import costs, this time last year on your trading update you noted that return on sales have progressed year on year. Is it reading into things too much, given that it wasn't in the statement this year?
- MR Right, so firstly as we know the price of paper unfortunately doesn't particularly reflect input costs in the short term. It's a supply demand issue, and the demand for our paper is very high. The demand for our paper internally is high. As you know, we work on performance packaging and we need papers that aren't readily available, which our customers very much value. But the demand from overseas for paper has really changed since the beginning of this calendar year. We all know paper is quite a volatile market. That's why we have our particular position, and it's a short position.

And just before the end of the calendar year 2016 we had our half year and everybody was talking about reductions in paper price and lower and more capacity coming on stream in 2017. Well since the start of this calendar year, overseas demand has been really quite unexpectedly high. Now there are lots of reasons for this, and I'm sure you're as aware of them as I am. As you know we're one of the world's largest buyers of paper, so we see these trends, and the export markets are extremely strong and that's what's gone into our pricing.

It is true that OCC costs have gone up. I think more people are switching into testliner. That could be an increase in the... A reason for the increase in demand for our papers. And OCC has gone up quite considerably when you look at the export price at the port etc. Now, that doesn't reflect all the costs of OCC throughout the whole market, because obviously when you're collecting locally etc., and as you say we have a very... We're Europe's largest collector and recycler of fibre, so we have a very good view on this market. But OCC costs to the export market have increased quite considerably.

Where they go in the future, we never really know on these things. It's quite a volatile market. If I had to make a guess, I think demand is very high. We'll see where we get to in the summer. After that we'll wait and see. It may come off, it may stabilise. My hunch is it's probably going to start to come off, but we really don't know. As you say, our business

model is designed to deal with this volatility, and it is dealing with it. You raised about [unclear]. No, I wouldn't particularly read anything into that. We're saying we're trading absolutely in line with where expected. Good volume growth. We do have acquisitions coming in. we'll have the full 12 month effect of that. But I wouldn't read anything particularly about the ROS statement at all.

DO Okay. Thanks very much.

MR No, thank you.

OP Our next question comes in from the line of Barry Dixon from Davy. Barry, please go ahead, your line is now unmuted.

BD Good morning gentlemen. Two question from me if you wouldn't mind. I think, Miles, in December you talked about volume growth of about 2.9% in European corrugated. Can you give us some sense as to whether that scale of growth has been maintained? And also maybe any commentary you had around the e-commerce, the growth in that business. I think you had talked about 10% growth in that before. Is that still tracking, that level of growth rate? And then secondly on corrugated pricing. There's obviously a lot of pressure coming from OCC. We're seeing lots of announcements on containerboard prices. Can you give us some commentary or any thoughts around what's happening with corrugated prices? Where they are now relative to two months ago, and how quickly you think these increases in raw material cost can be passed through to the corrugated price? Thank you.

MR Well, we're pleased with the growth. We're really quite encouraged. We'll wait to see where we get to at the end of the half year. We don't comment on quarters. But we're pleased with it. It's been strong. And that comment is made with regard to the first half of the year. E-commerce has been very strong over Christmas, and I have to say continuing into the New Year as well. So we're seeing a good, sustained volume growth. Have to see. We'll wait to see on the outlook. But if we just look forward, I'd say the order book's pretty healthy. Pretty healthy.

When it comes to corrugated, you're absolutely right Barry, there have been a number of increases in raw material costs. It typically takes us about three months to adjust prices up and down. Some contracts are immediate, we can change things, other contracts we could have an indexation which could be say three months, something like that. But our profits are in line with our expectations. We do have some import costs, but the volume's been pretty good. So let's see what happens over the next few months. But our mechanisms, our pricing is changing.

I would say just one last comment on this. We work an awful lot on what we call performance packaging, and the strength and performance of our boxes is guaranteed, but the specification, how we make them, is typically... Not in every case, but in a large number of cases it's really up to us and it's just at this time of volatility which for us in our business model how we can start to move different papers around, giving our customers the quality they want so that they know that their packaging will be perfect. But it gives us the flexibility to start to move around into different papers and source, and this is exactly what our customers want us to see. So maybe that's partly behind the volume growth. But it's, yes, steady as she goes despite the volatile markets.

- BD Okay, thank you.
- OP Okay, so we have no further questions on the line at the moment, so if you would like to ask a question it's star, one on your telephone keypad. Okay, so our next question comes in from the line of Kevin Fogarty from Numis. Kevin, please go ahead, your line is now unmuted.
- KF Morning guys. Just two questions if I could. One obviously you've pointed to where you're seeing demand growth. I just wondered, from a macro perspective, some of the European indicators obviously have improved. Do you think that's fed through as yet or is there potential for that to come through? And just secondly on M&A, reasonably quiet period I guess in terms of larger transactions. I just wondered if you could give us a feel for what the pipeline looks like. What you're seeing there in terms of availability of potential deals. I know in the past you've talked about building presence outside of Europe. Has there been any progress on that front really?
- MR Well, look, if I take the first question. In terms of demand... If you look at the GDP indicators, there is a slight tick up on the Continent. Equally, the UK is quieter from where we expected a year ago, obviously following this referendum. Well, who knows why, but it's slightly quieter. But overall Europe is slightly more positive, but we are talking about is it a 0.1 or a 0.2 increase in rates. There's no doubt some of the Southern European markets, particularly places like Spain, continue to do well. Had a very good last year and the expectation for growth this year has ticked up a little bit.
- We do have some elections coming along, particularly in France and Germany, the two biggest economies on the Continent. So I think there will be a little bit of a hiatus after that, but once that's settled down we think Europe will continue to slowly recover. We don't expect a huge rebound. There's a lot of QE going in. So we think steady improvement. Have to say, as you know in our business we're very focused on the consumer, and if it's consumer expenditure then it's going to help us. If it's things that are more cyclical in recovery then we're just not so exposed to that as the market. That's another reason why our volumes are so consistently strong.
- So the outlook for us does remain quite positive on the opportunities for packaging, but I do think it's got more to do with the role of packaging, how our customers are using it, how we are targeting particular sectors rather than the overall economy. Albeit the overall economy is certainly looking a little bit more positive on the Continent. With all the hiatus in the world I just think... It's only a personal view, but I think the central governments, ECB etc., will continue to support the economies and try to get this unemployment down over the coming years. So probably cautiously slightly more optimistic on Europe than we were, albeit at a low level.
- KF Okay, great.
- AM In terms of M&A, slight broken record because we say this every time, but the pipeline is extremely good. If anything we're getting an increase in volume of inbound enquiries. We remain very focused and financially disciplined, so a lot of what we do now is in prioritising the areas and the

types of business that we're looking to grow. Clearly we get a lot of customer pressure to move outside of our existing territories, but we're not about flag planting in weird and wonderful locations. To repeat the point again, we keep financially disciplined. We do have an increasingly stronger packaging services presence outside of our existing market and we've been supporting those businesses in their growth, but in terms of the overall outlook on M&A, there just genuinely is no shortage of opportunities at the moment. The issue is how do they improve our business and do they fit within our financial returns criteria?

KF Right, okay. Okay, fine. Okay, that's helpful. Thank you.

OP Okay, so the next question comes in from the line of Hector Forsythe from Cypher [sic]. Hector, please go ahead, your line is now unmuted.

HF Morning guys. Obviously it's from Stifel. A little question from me here. You make the point in the statement that pan-European customer volumes are growing faster than the group average. You're clearly also hinting very strongly that that is also very true, if not greater, for e-commerce. So that means there's a residual. What is happening to the residual in terms of growth rates and what are the decisions that you're making around those customers and those groupings which would suggest... Is there any sort of you shedding those because the returns aren't sufficient etc., etc.?

MR Look, it depends on how you segment. One of our criteria is looking for segments that have structural growth behind them, and when we look at the way we segment, pan-European is one way. We look at e-commerce and indeed there are various other attributes in there. And it's not every, but most of our categories are in growth, and it's about the different rates of growth and about the timing in the economic cycle. The growth in e-commerce is extremely strong. It's double digit growth. We think that could get a lot stronger, but of course it is roughly 10% of volumes. Roughly. So you've got double digit growth or 10%, and that's sort of 1% for like for like for the group. Our pan-Europeans are typically around about 30%, and they are growing very strongly. So you can see on the averages it means that the rest is still growing, albeit less than the overall group growth rate, but nevertheless in growth.

We just think that the smaller sector will continue to grow but at a lower rate to the pan-Europeans. What's very important though is even in the smaller customers they follow the trends of the bigger customers, so as we start to introduce new concepts, new designs, new innovations to our big customers, then they start to be mirrored by the smaller customers. It's typically playing in a regional market. So again getting growth there but it just doesn't have quite the same attributes as the large customers.

I'll just indulge myself a little bit further. With everybody we are finding this whole turn to this point of... The interaction with the consumer at the point of sale and this just increasing awareness of packaging. I was with some customers last week and it was absolutely super because when we were there it wasn't just operations and engineering there. You had the marketing people there. It wasn't just one or two, it was quite a few people. Again, they want to hear what we're saying and how we can help them grow sales. And they said: Well, it looks like we're going to reduce our mass marketing, television advertising. I think we're probably going to cut 40% out of that budget and we're going to put much more at the

point of sale. And obviously we like to hear these sorts of things. So, anyway, I'll stop indulging myself on that, but it's quite a nice trend when you get these sort of audiences with our customers.

HF Miles, thank you very much. Just a last bit there. Can you just talk through how the Parish Manufacturing acquisition fits in the grand scheme of things?

MR Yes, it's... So Parish is a plastics business in the US. We have a plastics business that predominantly makes the bags that go inside cardboard boxes for the transportation of liquids. We pull out the plastics business in our segmentation, and it's not exclusively but it's pretty much organic growth over the last five years, and I think our profits have quadrupled basically. We focus on that customer and what do they really want, how can we support them?

And we've really seen very strong growth there, such that our US business where we have three factories is getting a bit short on capacity. So we bought a business that's in Indiana. Our main facilities are in Illinois. And this gives us more capacity. So it's modest, but we really wanted the capacity that they have so we can go on growing. It is a modestly sized market. We are a very good supplier and innovator in that market. But it does have a limited size. So it's just a capacity rather than build a load of new capacity, we'll just buy somebody and use their latent capacity. So it's actually going rather well. Even though it's modest we are... The customer reaction was absolutely fantastic, so I think that's going to be... Although it's small, we think that's going to perform very nicely for us.

HF Did you consider going greenfield for that?

MR Yes we absolutely have. We've already built a greenfield site over the last few years in the States, again in Illinois. It's gone extremely well, but we ran out of capacity in that as well. Now, we talked to a lot of people, and indeed this company we spoke to at the time that we were thinking about building a new factory, but they didn't want to sell. Well in the intervening time, the old boy has... I shouldn't say that. The owner has decided to retire, set up elsewhere, and therefore he came back to us and said: Can we talk? And we were absolutely delighted to talk. So it did actually prevent us from building another factory. But I think there is more growth opportunity there. It's not huge, but it is... There's some nice growth opportunity there.

HF Okay. Miles, thank you very much.

MR Oh, not at all, Hector. Not at all.

OP Okay, so there are currently no questions at the moment, so your final reminder if you'd like to ask a question please press star, one. Okay, if there are no further questions so I'll hand back over to your hosts for any concluding remarks.

MR Firstly, thank you everybody for your time. We do appreciate it. Just to say that our business continues to perform in line with expectations, the growth is good and the outlook remains positive despite the ongoing challenging conditions. Thank you very much everybody for your time.