DS Smith Half Year Results
3 December 2015
Conference Call Transcript

Speaker Key

MR	Miles Roberts
AM	Adrian Marsh
AL	Alex Mees
BD	Barry Dixon
TB	Tom Burlton
HF	Hector Forsythe
CH	Cole Hathorn

MR Well, good morning, everybody, and thank you very much for coming to hear about our results for the last six months but also about the future and what we're building here. I'm joined, as always, by Adrian Marsh, our Finance Director. We'll be running through a presentation and then we have plenty of time afterwards for questions.

And in this presentation we're going to talk about three things. One is about our results, how we've done over the six months; secondly, about our ambition, our absolute consistent ambition to further drive our leadership position in recycled packaging; and, thirdly, about how we're going to get there. What are we doing that's going to bring that leadership position out?

So, the last six months. Overall, progress across a wide number of measures has been good. There is momentum in the business. This is another set of strong results. We've gained market share again. We have further differentiated our offer with our customers, adding more value to them and that growth and that differentiation has further improved our financial results, a good set of underlying financial results.

And during the six months we've continued to acquire a number of businesses and we're delighted with how they're going. And today we've also announced our intention to acquire into Istanbul, Europe's largest city, and what a city it is. But we haven't just been acquiring, we've been rationalising our existing assets and we've also, in the six months, announced the closure of the Wansbrough paper mill, reducing our exposure to these very cyclical paper markets. The acquisitions are performing well. We are pleased.

So, a good set of results, a good improvement in our asset base and momentum in the business with plenty of opportunities to go for. So, what are those results? Firstly, volume on a like-for-like basis was up 3.1%. Our return on sales at 9.4%, that is double where we were when we first started talking about this. It’s up another 50 basis points on last year and when we look at the balance sheet the return on capital with the acquisitions has improved by 110 basis points to 15% before tax. The cash flow is good, so the balance sheet is strong. The net debt to EBITDA is below our 2 times target at 1.9 times and at constant currency our results before restructuring are up 13% across the Group.

Adrian, will tell us a bit more detail.

AM Thank you, Miles, and good morning, everyone. I'm excited to be presenting the first set of results following our recent acquisitions. The strengthening of our Group following Duropack, Lantero and Cartonpack has by no means diminished the efforts being made in our underlying businesses and we can report progress again made on all fronts. In order to explain what's been happening in the business, I will as usual be talking about the constant currency changes as I go through the presentation.

Let me start with the five financial key performance indicators which are our medium-term targets. As you can see, we've continued to deliver on all metrics this period. Volume growth has been comfortably ahead of our GDP plus 1% target which we calculate to be 2.8%. Our volume is also well ahead of the corrugated market which grew at 2.2%. Return on sales increased by 50 basis points to 9.4%. You remember that at the full-year results in June this year we increased the target from 7% to 9% to 8% to 10%. This improvement represents a good step forward towards achieving our new medium-term goal. ROACE improved 110 basis points, reflecting the benefit of increased profitability and also continued focus on our capital base.

As a reminder, this is calculated on average capital employed each and every month. Cash conversion has come in at 126% due to our good cash flow and further working capital inflow, albeit as we anticipated at a slower rate than we closed last year. Lastly, our gearing ratio of 1.9 times still remains within our target of being at or under 2 times covered, despite the acquisitions taken in the period, and I'll talk to that a little later.

Here are our financial headlines. Revenue is up 6% and operating profit up 12%. I'll take you through the usual bridges for these key line items in a moment. The result of this rise in operating profit is the increase in return on sales by 50 basis points. Earnings per share is up 13%, in line with profit growth. Dividend per share is up 8%, in line with reported EPS growth which is where you can see the impact of FX translation on our results. Return on average capital employed is also up, as I described before.

The overall picture for revenue is one of growth from underlying operations, complemented by our recent acquisitions and partially offset by FX translation and further integration of our paper operations. Going into a bit more detail, you can see that FX translation has a big effect, over 6% reduction in the period. That's due to around two-thirds of our profits being earned in euros. There's the usual slide at the back of your packs to help you assess this translation impact.

You can see the benefit of the businesses acquired in period, in the £101 million uplift. That relates to five months of Duropack and three months of Lantero, six months of Andopack and just a month of Cartonpack, and Andopack, as a reminder, was bought 12 months ago. There's an aggregate £54 million uplift from organic - price, mix and volume growth. The £40 million reduction from other volume comes from choices made around the balance of production and integration of the paper mills in the cycling businesses within our total supply chain.

Turning to profit, you can see how the growth of the business is driving our margins and returns. We've just spoken about the FX translation effect in acquisitions, which you can see followed through here. Organic profit growth is up 7%, showing the benefit of the drop-through of sales and volume while the lost volume had a minimal impact. About midway through the period there was a rise in paper prices, which is not unusual, and we've already significantly recovered. As you know, the business deals with both positive and negative rises in paper prices by well-established pass-through mechanisms and in any reporting period this can either be a benefit or a penalty, depending on how close the reporting date of the change occurred.

Margins have improved across the Group as a whole by 50 basis points. The largest single improvement of which has been in plastics where the benefit of the structuring that we've been undertaking for the last 18 months is showing benefits. Looking across the businesses more generally and recognising the dilutive effect which a new acquisition would normally have, then we can be pleased with the continued progress. Western Europe reflects our existing French business and newly-acquired Iberian businesses, which we can expect margins here to improve as we further integrate them into the Group.

Turning to cash flow, we remain focussed on tight cash and capital management and our results show this, with average monthly working capital to sales and an all-time low of 1.5%. This focus remains critical, especially given our recent expenditure on acquisitions. As I noted earlier, despite these acquisitions our leverage is still under our target range of 1.9 times. Taking our starting point last year, we have a significant benefit of free cash flow. Cash exceptional costs were less than the P&L charge, predominantly as there is a larger non-cash impairment from the closure of Wansbrough mill. The acquisitions and disposal expenditure cost is the net of the acquisition of Duropack, Lantero and Cartonpack and the disposal of StePac, including cash paid and debt assumed.

Dividend is clearly an important component of our return to shareholders and with an interim dividend of around £35 million, the total to be paid out this year will be over £100 million. The only area where we benefit somewhat from a weaker euro is in matching the currency of our debt obligations to cash flow and this result has been included in the £5 million benefit. During the year we utilised our investment grade credit rating to issue a debut Eurobond with a maturity of seven years and a coupon of 2¼%.

This is the usual guidance slide. I'm not going to talk through each line as you can read the figures. This guidance includes all businesses acquired to date. The majority of these are the same as at our full-year results in June with an update to the exceptional charge now that the decision has been made on the future of our Wansbrough paper mill. Our dividend is a key measure of our returns to shareholders. Today we've announced an interim dividend of 4 pence, consistent with our progressive dividend policy.

So, to conclude, although this has been another period of volatility and downward pressure in various economies in Europe, we have continued to drive up margins and returns across the business and at the same time we've started the integration of our newly-acquired businesses which have expanded our pan-European presence and strengthened our business model, which is designed to deliver sustainable returns to our shareholders each and every year.

I'm now going to hand back to Miles who's going to talk a little bit more about how our actions in the period have contributed to our increase in margin and will help it to grow further over the coming years. Thank you.

MR Thank you, Adrian. I said at the start we'll talk about the results and the good progress we're making off a wide front; and about our ambition to further drive our leadership position, further drive the differentiation of our offering and further drive our financial returns. Eight weeks ago we had a Capital Markets Day. Nestlé came to that presentation and many of you who were there would have heard them talk about the absolute uniqueness and the value that they put behind our offer. We're delighted to receive that kind of feedback and the confidence that they have to come and talk to our investors about our business.

So, differentiation, easy word but difficult to do. Really understanding our customers' demands, demands for the right packaging, no matter what the retail outlet is. Develop the solutions, unique value-adding solutions, and be able to supply that consistently across all of their factories. Differentiation, implemented at pace and scale, will drive our financial returns.

So, firstly about the geographic footprint. Everybody knows how we have expanded over the last years up until April 2015 but over the last six months we've made significant further progress. There's nobody that comes near our coverage, covering so many parts of Europe. There's nobody else. We said six months ago the opportunities were there. These are some of them but the pipeline remains strong. At the Capital Markets Day we discussed our acquisitions in Spain and Southeast Europe at some length, a detailed presentation, and about the really exciting returns that are available.

Turning to the acquisition we announced in Greece, very recently completed, this acquisition, £80 million of turnover, is virtually all in FMCG. Very high exposure to the food and drink market. It's been remarkably resilient when you think of the economic conditions there. Its volumes have remained very consistent, as has its profitability. It is the market leader by some way. We have excellent synergies with our business and we're confident, in line with Duropack and Lantero, post-synergy it'll provide a multiple of between five and six times EBITDA to purchase price.

But it's not just about being bigger. You've got to be bigger and much, much better. Anybody can be big but are you really setting the standards of leadership in the industry that our customers are so keen and want to see developed? So, for us it's not just a financial play with a few synergies sprinkled on the side, it's how you build a stronger business. So, when we acquire, we fully integrate to ensure we can support our customers consistently, and drive those synergies, but it does require an alignment of the way we work, the way we communicate and work with each other so you can bring out a better, stronger business, not just a bigger business.

And it's been very successful. Our communication, the training, the support, it has to reinforce itself and this has allowed us to significantly improve our health and safety score. Significantly. Over the last few years, since we started reporting this, it's improved by over 80%. We have one of the best measures of any company in Europe. Our carbon disclosure, our carbon footprint, again it's allowed us to significantly increase it, so now that we are at the level of many of our leading customers, those are the people that we reference ourselves to. And with our customer, the customer satisfaction scores has allowed us to build revenue synergies out of the acquisitions.

So, there's a strong track record, so we're seen as the consolidator of choice in Europe, a market where we only have 16% share. So, this has led to an announcement today of the acquisition, the intended acquisition, (there are a few regulatory issues we have to go through but we're confident they will be achieved), for buying a high-quality business which is virtually all FMCG. High quality assets focused at display and point of sale. Istanbul, next door to our Greek business. Istanbul, Europe's largest city. 20 million people with a projection of 40 million people in the next 15 years. That's more than the population of Poland today.

Good synergies, good assets, strong customer support. We think the returns are going to be very attractive. And how do we continue to make the business better? The scale that we're getting from our enlarged footprint gives us the confidence to have raised our return on sales target to 10%. The ongoing benefits are being liberated from the Company. In operations the ability to compare and contrast and develop real best practice, learning across the organisation, absolutely tremendous. And in sourcing, as one of the largest sources of many raw materials and paper.

We are very, very large, have a very large requirement and on many of these we're choosing our own specifications and now we're starting to source globally. I think that'll have a major effect on our profitability. And with our pan-European customers, the large ones - the Group grew at 3.1% - we grew at 7% with our largest customers last year, continuing the strong trend over a number of years. And on innovation, the impact centres will be rolled out into the new territories. And we are picking up the areas of best practice that they have as well so we're building the geographic footprint around the innovation and the technology.

Understanding our customers' requirements to improve the rate of sale. It's not just about the box. We share in the uplift in our customers' rate of sale, in their profitability, from helping at point of sale with things like SalesFront, which we demonstrated at length at the Capital Markets Day. Absolutely tremendous effect on our customers' like-for-like sales. Our manufacturing systems are being installed, not just in Europe but in other jurisdictions as well. I'm very pleased with the progress that many of our large customers do with our machine systems across the US following that licensing agreement with WestRock. And into Japan following our licensing agreement with RENGO, we're very pleased how we protect the product for our customers, protect the product by having the right technology, protect the product during transportation, particularly as we move into some new areas where the transportation system can be a little bit more challenging, so the product arrives in perfect condition to reduce the rate of damage and rate of return. More sales at a lower total cost, managing the risk.

So, how do we look with these acquisitions? We have the benefit of bringing in Lantero, Greece and Turkey, which are virtually all FMCG, plus our ongoing organic growth in FMCG has grown the proportion of our sales up from sort of 62/63% up to 68%. We've always said that what we're after is consistency of demand to drive the asset utilisation, the asset turnover to support our return on capital. The demand in the FMCG sector is known to many of you. It's been absolutely tremendous.

But there are other sectors that are coming out and we highlight one here. Following the acquisition of Southeast Europe it's given us a greater exposure to consumer semi durables. Hairdryers, televisions, toasters, irons, spare parts for cars, these sectors are displaying the sort of cyclicality or the low cyclicality that we're very interested in. They now represent 10% of our box volumes and it's an area that we'll be giving increasing focus to. So, today our resilient part of a business is 78% and we think we can grow that very nicely.

How have we grown? We have the like-for-like box volume growth in the last six months. 3.1%. Of course, the acquisitions we brought in weren't performing anywhere near where we were, so we've had an initial headwind in the like-for-likes as they've been brought in but they're now all producing strongly positively from that customer reaction and our 3.1% uplift this year compares to 3.1% in the full year last year but 2.3% in the first half of last year, so again good confidence in our end demand.

So, in summary, the results. We're pleased with the results and they've delivered across many factors, across many measures. There's good momentum being built into the Company. The customary response to us, which is seen in the volumes, is because of that differentiation we're offering. The business is being improved, reducing our exposure to more cyclical assets, such as the Wansbrough mill and increasing our focus in the packaging sector in new regions where it can bring our technology and the opportunities for us going forward remain very healthy, and this is all backed by our customers. Thank you.

We're now very happy to take any questions that people have.

AL Good morning, it's Alex Mees here from JP Morgan Cazenove. I have two questions. Firstly, on plastics quite a significant increase in the margins. It was expected, you did flag it, but I wonder if you could give us some colour as to what you've done to improve the margins so much and whether you see any further upside.

And then, secondly, I wonder if you can give us any more colour on the M&A pipeline if you continue to be busy in that respect.

AM We talked this time last year, you obviously remember, Alex, on the restructuring charge that we're putting through on plastics. We basically moved manufacturing from the UK, so we shut down our UK operations and set up pretty much from scratch new plants in Eastern Europe. Now, inevitably with that there's a transformation of the business and you have to do things differently and there's a process of ramp-up. Clearly once you are fully through that cycle, you get the benefit of efficiencies you're going to get from a new production facility in any case, one has also got the better efficiencies from the fact that these are in markets where it's a more balanced cost base for the rest of Europe compared to the established businesses that we had in the UK. And they're much closer to where our customers are.

I think what we've seen so far is a very good improvement dropping through on the cost base. We've seen a decent margin return. We still think, and the business is heavily challenged and tasked, to deliver further on that. We want to see more on the sales line and that will follow as we build out that business. And we want to do better on the cost line because we're still lapping some of the start-up business that you inevitably always have. But, yes, you're right; it's a good margin improvement. We're happy with it but we're not satisfied.

MR That's absolutely right. And with M&A you can obviously see the success. I think the important thing here is we are seen as a preferred partner.

These acquisitions, we have very good access to the businesses and it is about making stronger businesses afterwards. And I think that's recognised in the market. It's quite an uplifting experience for everybody who comes in. And because of that, the pipeline's good. If we look at the recent acquisition in Istanbul, the people we've recently acquired have been a big part of that. Our customers have also actually been a big part of it. They're the ones that want us there and in some ways helped in the first meetings. So, we feel confident about that. The teams that we use for integration, you've seen the effect they've had on many areas. It's quite a process now and we are 16% of Europe.

In some markets where we are clearly the market leader with some big shares, it's more difficult but there's still a lot to go for. There are some more niches, there are some more in the central areas of Germany and Northern Italy, and we also have some opportunities in Iberia as well, following our 10% market share that we've built over the last year. So, it's focussed on Europe and we're encouraged with the possibilities. You never know for certain but we're encouraged by the possibilities there.

AM And we said a year ago these things take a long time. We said two years ago they take a long time. And they do. You run through the process and the important thing is that there is a pipeline. We've got a very professional M&A team we've brought in over the last couple of years and it is a real focus of the business now and the inbound enquiries is phenomenal.

BA Barry Dixon – Davy. Can you talk about the pricing environment – do you expect to fully recover price rises? What makes up the goodwill – it seems high / how does it relate to returns? And the 40m of negative other volumes – is this a change in strategy?

MR So, if you're happy, Barry, I'll take the pricing and Adrian will take you through the M&A and the volume there as well. So, generally in pricing we just think of the end markets, the consumer. We all know the pressure that is there. So, if you've heard us say many times it's not just a question of going out and increasing prices... You've had a €5 increase and you go to customers and say, well, I'm just going to pass it on to you, then I think in the environment you have to add more value.

We've talked previously about all of our performance packaging. Again, using Nestlé's words, it's moved them further forward in the last two years than they've moved in the previous 30, which is absolutely unique. So, we are confident that with increases where necessary and the introduction of the added value approach about light-weighting, because we aren't so integrated, we just buy a different grade of paper. We haven't got to worry that we've got a load of stuff further upstream that's got to be kept busy and because of that sourcing we can source it globally now. So, we think we absolutely will recover any cost that comes up to us. But it is a volatile market.

You're absolutely right, Barry, there was an announced price increase. One of them went through and I think the other one didn't and who knows what's going to happen in the future but that's what gives us the confidence in terms of our outlook. I think it's a very uncertain environment on paper.

AM In terms of the balance sheet, obviously you're right, it's an arithmetic calculation. Clearly when you buy a business, you buy a set of fixed assets and those fixed assets will have a value and you will attach a fair value to those and the difference between what you pay and what the book value of those assets are or the fair value of those assets are goes to balance sheet and goodwill, both of which appear in our return on capital. So, it doesn't change our returns up here, it's clearly just an accounting split of the difference between the multiple of cash flow versus the asset value. So, we will go into more detail in the annual report. But it's an accounting exercise and you go through it with third party valuers and then clearly your auditors but it's in the returns calculation.

In terms of integration, it's not a change in strategy at all. What I think has happened more in the last couple of years, certainly since the SCA acquisition, is looking to better optimise the mill footprint that we've got. So, getting our paper mills to make high-quality lightweight paper that we use as opposed to purely having capacity to put onto the market. Where we have capacity that doesn't fit with our criteria and isn't useful within the business and classically it's not making a particularly good return, we look at either disposal, as you saw more than six months ago now with the Nantes paper mill in France, and with Wansbrough now.

It's an unfortunate process to have to close a mill. We've looked at the returns and unfortunately there's no sustainable business model. Energy costs are high in the UK, something like twice everywhere else in Europe. We can benchmark all of our cost bases. We can't integrate Wansbrough. It's not making sufficient of the paper that we will use, so therefore it's not getting a fair return in the market. It's difficult to sit within the portfolio. So, when we talk about integration, it's simply using more of what we have where we can and clearly there's a benefit in doing so and it does impact your external selves.

Likewise with fibre and OCC, our recycling business now has a really strong European presence. It's built that over a period of time. In the last three years a lot of the business, when it was being built up, was traded externally simply to build the presence. Now we optimise our fibre platform internally. So, again, you're seeing a reduction in external sales of recycling, which is pretty limited margin, but it's being utilised within our business, which we think strengthens our model and it gives us a good differentiator in that paper manufacturing site.

So, where we have internal supply, we want it to be as efficient as it can, making the best quality material that can be used within our business and where we're long on the raw material, we're wanting to optimise that as far as we can through our own fibre platform.

TB Hi, Tom Burlton from Bank of America Merrill Lynch. I had a couple of questions, please, the first one relating to one of the comments in the statement about the competitive retail environment in the UK. Could you just offer a bit more detail around that, if you're seeing different behaviour from your customers and increased pushback on pricing? And then the second one just a bit further on. The outlook for input cost that you mentioned, specifically on energy and then on OCC which, having been stable for a period of time, is now moving or has moved quite quickly in each direction and how you're thinking about that.

MR So, we are facing a very dynamic retail outlet and the UK tends to be a proxy for what's going to happen elsewhere in Europe. You can actually look to some other markets further away, in places like South Korea and Japan, etc. They can also give you a number of leads and, indeed, we do look at all of that because a large part of us in our offer to our customers is about this shopping insight - where are people going to be buying, how are they going to be shopping - so to provide the solutions for our customers.

We quite like that because other people can't do it. Is it going to be discount? Is it going to be convenience? Is it going to be online? Our online sales are growing very, very substantially. As you change the mix we're trying to and we are adding more and more value and you can see that the overall returns that we're getting are improving. So, we like that. We think it's going to continue. We think we'll see the rest of Europe respond in due course and we're comfortable that we can add real value to that. It's a very dynamic market. This sudden growth in online this Christmas is really very exciting. Very exciting. Everybody's buying their presents in a box and we like that.

AM In terms of input costs, I think you almost answered the question yourself. It's very hard to predict what happens going forward and in any period, unfortunately, where you get significant benefits, you get significant costs as well. So, ups and downs can be relatively material when you deal with it. Certainly on fibre, you're right, there was an increase through the period. As it's turned out, the average increase through the period isn't the size it could have been at one point but fibre and the way it operates is probably as a global commodity now, so we'll see.

If you look at the East Coast of the US, depending on what happens with FX, if the East Coast prices go up, China take less East Coast volume. If it doesn't, it comes to the UK. If the UK seems expensive, it comes to Europe. So, it's very hard to predict. That is the reason why having a fibre platform now, which we've got, is so important to us because it allows us not to arbitrage the market but at least to manage as much as we can the sensitivity. So, where we have change in input costs, the thing that impresses me most about DS Smith is how people respond to it internally. So, we saw it on fibre when we saw prices going up. All of a sudden there's even more energy, as in effort, around how we can optimise our use of mixed papers in the mix. So, what is it that we can do to extract better fibre quicker, cheaper? How can we be less dependent on the prices?

We have had a benefit in energy. We also sell energy as well, so the benefit is always less than you might imagine. Likewise we have hedging of energy. So, the impacts are softened one way or another. But another good example on how things can move, we've had an increase in starch. Just recently starch prices have been pushed up 5% at the moment. It doesn't mean we've accepted it but that's where the market is going. So, the energy in DS Smith is around how to manage our uses of starch and what can we do differently.

In one of Miles's slides you would have seen we describe our global procurement platform. Having the scale and the reach now really gives us opportunities to look around globally on what we can do to optimise our input cost as much as we can. And you will get big moves up and down in a period and the challenge we have in the way, I think, our business is executed, is managing that in order to be able to deliver sustainable returns. It doesn't mean it's easier and it doesn't mean it's not an hourly focus within the business in a lot of areas, because it is.

MR That global sourcing, what we buy, it's a very exciting area. There's nobody else doing it.

TB Perfect, thank you. If I could just follow up just one last... on the final input cost, perhaps on the Virgin containerboard side, which you're short of, the outlook for pricing there.

MR Yes. It's interesting. With Kraft we've seen what's happened in Europe but, of course, across the world it's rather a different position. We buy a lot and prices have gone up but there is excess capacity overall, quite considerable. We've seen some announcements in other markets about flows into those markets and we'll see what opportunities that gives us. Let's see what happens. We feel we're in a quite good position.

TB Perfect, thank you.

HF Hector Forsythe from Stifel. First one for you, Miles. You used to refer to the closed loop as part of your strategic narrative. I haven't heard that for a while.

MR It's because we've got so much else to talk about. We focus on recycled packaging. That's what we are. We have grown our fibre sourcing/recycling quite significantly. We have made a number of acquisitions on the Continent and we're by far Europe's largest collector and recycler. It is very important to our customers, and increasingly important. It's one of the areas of adding value to them in terms of the carbon footprint. So, we did a lot of carbon footprint work for big retailers and for our customers. It remains central to our business. And as we've closed our paper capacity, we've been increasing recycling capacity. Fundamentally Europe needs to use more of what it's already used. You can see where things like the euro are. It has to use what it already has and we're very pleased not only with our position but in some of the technology that we're also developing to extract fibre from sources that previously haven't been available to us or, indeed, anybody, and that's an area causing quite a considerable amount of work.

So, you have to excuse us. We will bring it back but it's just... there's just too much else to talk about.

AM If you follow us on Twitter, Hector, you'll see regular closed loop messaging coming through.

HF In terms of the MA pipeline then, is there recycling in that?

MR There absolutely is. The actual businesses are more modest in their size. The returns are very attractive. But it is just more modest.

HF And with Turkey on board, where will you be in terms of own production versus consumption?

MR With the South east Europe we have brought in two paper mills there, so at the moment we're around about that sort of 60% integration level. As we have the best practice, it's allowed us to get more out of the paper asset, so actually the production is up but we've grown our packaging business very considerably, so we are around that 60% at the moment.

HF A couple of quick ones for Adrian. Working capital to sales - fantastic ratio. Is that sustainable down there? And then on the exceptionals, they've ticked up. You knew it was coming.

AM I did.

HF They've ticked up a little bit. You've just added Wansbrough on top of what the guidance was previously.

AM Yes.

HF Has there been any change in the mix and is there any further visibility through... beyond the period end, etc., for additional exceptionals?

AM Okay. I was guessing that was coming, Hector. On the capital to sales ratio, we think it is sustainable. What we've done consistently over the last few periods now is to focus the business on a monthly basis. So, that's why we're getting the averages down. In any industry you get the classic dive for the line and everyone working capital, hey presto, in the last month of the year is brilliant and then the first month of the next period is not so good again. For us it's about engraining it within the business. So, Miles and I, we have a trading meeting every month with all of our divisions. It's high on the agenda. We have a separate meeting that looks, once a month, again, at where we are in terms of our overall supply chain and inventory is a huge part of that and it gets monthly focus when we acquire a new business.

So, I think if you look at the absolute numbers on our balance sheet, working capital is higher, obviously because we've made acquisitions. I think there's an opportunity there. That said, maintaining it at this level won't be a cake walk. It requires constant focus. I think the moment you stop internally engaging management on it on a very, very routine basis, they focus on something else. So, we keep it there.

When we buy a new business and we have an integration event and we describe to them what our values are, which Miles went through, and we talk about, as importantly, what our financial metrics are and how and why we measure them, the most important ones for us... Because companies that we acquire may have been short of capital or they've not had a very thorough investment process for a number of years, so one of the real pleasures for them, when they join us, is actually if you can manage a cash flow, if you can drive your working capital down, we will invest in the business and it's making those connections so people understand why cash is important within the business. Because it is our currency of growth, both M&A and internally.

In terms of exceptionals, obviously we will go in detail again at the year end. In terms of the broad mix now, it's broadly as we said. So, the guidance was 40 in Duro plus 7 for Lantero, which is 47, plus 30 for Wansbrough, which we didn't describe, for which obviously the cash element's a lot lower than that, so that's 77, and we've had 18, broadly, in the period plus Wansbrough, 48. So, that hasn't changed, Hector. We haven't included anything for Cartonpack or Turkey in there. They're both small businesses. Do I expect it to materially change the number? No. But I haven't factored that in because we're only just going through it now. And if there's another big acquisition we'd describe something different, I'm sure. If you want some more colour, Rachel can pick it up offline.

HF Okay. Thank you very much.

MR One last question.

CH Cole Hathorn from Jefferies. Could you give a bit more colour on your strong organic volume growth in Western Europe, particularly France and Iberia? Secondly, on the synergies from Duropack, are you still comfortable with the £15 million? And then on pricing environment, I know you described £14 million benefit from price and mix. Can we think about that as a 1% box price increase with, hopefully, further to come? Because that's a third of the volume.

MR What was the first part of your three questions again, sorry?

CH The first part on Western Europe for strong organic volume growth.

MR Absolutely. Apologies. So, Western Europe in the business incorporates predominantly France. That business is heavily overweight in FMCG. It's about food and drink. The volumes in that market in our business have never gone down. We can trace it right back to the year 2000. So, obviously the French economy has been in a very challenging position. On a like-for-like, on a six-month on six-month it has never reduced. That shows you the resilience in that business. But we have built that - that's what we talk about food and drink. That resilience in volumes allows that return on capital to come out. The cash flow to allow us to invest and pay dividends, even though the markets are difficult.

So, in Western Europe we've had continuing growth in France. Actually, over the last six months it has actually ticked up in food and drink as we take more market share. We've got some quite nice innovation coming through and the market's responded accordingly. Now, the other side of it is Spain and during the period it's a very modest Spanish element because it was only the Andopack acquisition. For the final part of the six months we brought in the Lantero, the much larger, acquisition. Lantero was negative. That's been losing a bit of share. In the first month it was negative, now it's strongly positive.

South east Europe as well, it was negative for a while. Now it's very nicely positive. So, we have seen a slight reduction because of the incorporation of Spain. It's absolutely going where we want to. Customers are coming... They want the offer that we have and they simply can't get it from anybody else around the performance, around understanding the customer, around understanding the total cost. So, we're really very encouraged and that gives us confidence for that market in what is, and I think it's probably likely to remain, certainly in the Eurozone, as it has for the last years. It'll be challenging but we recognise that.

AM Duropack synergies, fine, I think we can be very confident about those. Again, when we make an acquisition we go through a process and then 90 days after the acquisition, all of the teams from the acquired companies, because we keep pretty much everyone in place, intact, with our integration team working with them, go through a series of projects. We pull out a target and they present back against that target and that gives us confidence in the number that we'll declare.

Clearly it will come as no surprise that we stretched the target so that we're looking always to what is it that we can do better. For Duropack and Lantero, we had the first session on that the other day, it's been exceptional, the level of engagement, the enthusiasm behind it. I'm very confident about that number. And I think the last question was can you extract everything to a 1% increase in box prices and clearly it's never going to be that simple but if the question is have box prices gone up, yes, they have. Is it 1%, is it 2%, is it 3%? I don't think we can be precise.

MR No. We are absolutely comfortable that the increases, the headwinds that are coming to us, that we can deal with that. I don't think it's just as straightforward as saying you had an increase and therefore it goes straight on. Because those products are sold to the retailers. Imagine going to a retailer and say, look, I've had an extra pound coming my way, so I'm going to give it to you. What do you think they're going to say? Get somebody else. It's about adding value. So, we know that we can recover. We have always recovered the increases that are coming to us but I think in this environment, we have to think broadly. That's exactly what we're doing. Our margins have gone up, our return on capital has gone up and Europe hasn't changed and that's where we are.

CH Thank you. Just one last follow-up. You've taken out a lot of your Kraft liner in the business over the years. Could you just give us a guidance of how much Kraft liner tonnage you still use and where you're hoping that to go?

MR Absolutely. With the new acquisitions we are using over 800,000 tons per annum of Kraft. We are the largest sourcer of Kraft paper in Europe, because we have nothing internally, so that's an area that we're very looking very closely at. There have been some historic agreements that no longer apply and we're looking at how we solve that problem. But the reduction in Kraft, the light-weighting, the use of the best paper, not old habits, is a very exciting area for our customers and we're determined to exploit it. Great question.

CH Thank you.

MR Well, look, it's now just gone half ten, been here for an hour. I'd just like to say thank you very much, everybody, for your time. You've seen the results, you know our ambition and you know the real momentum behind getting it. Thank you very much.