23Q4 Transcript

Presentation

Geoffroy Raskin, Investor Relations

Good afternoon, everyone, and thank you for joining us today. I'm Geoff Raskin from Investor Relations. I'm pleased to have Gustavo, our CEO, and Geert Peeters, our new CFO, with us today to present the full year and Q4 results.

Now, before that, let me remind you of the safe harbor regarding forward-looking statements. I will not read it out loud, but I will assume you will have duly noted it. You are well aware that since 2022, our P&L is based on continuing operations, which consists of our Core Markets activities only. The Emerging Markets are reported as discontinued operations, and while in the process of being gradually divested, they do still contribute to total debt and cash flow figures. Regarding cash flow, please note that we changed our definitions of reported cash flow, which used to be free cash flow before financing, to free cash flow after financing, or free cash flow to equity. With that cleared up, Gustavo, over to you.

Gustavo Calvo Paz, CEO

Thanks, Geoff. I'm delighted to be here with Geert Peeters, our new CFO. By now, I have a complete team in place to deliver on our strategy. They have a tremendous amount of experience and complementary skills and are highly energized. With no hesitation, I can't dream of a better team. Now, turning to an encouraging set of numbers for 2023 that we published this morning. This confirms that we are well on the way to restoring Ontex's financial health, notably with a positive earnings per share and free cash flow. Of course, there is still more to do. Yet, in 2023, we crossed a significant milestone on our cash flow generation, allowing us to accelerate our investments.

Let's move to Page 4 now. A year ago, I shared with you a series of activities on which we would focus such as decomplexification, value innovation, operational efficiencies, focusing (on) Core, selected growth categories, divestments, et cetera. These are all critical to execute the transformation of Ontex and driving cash flow and balance sheet improvement. This slide is showing the result of the focus and hard work the Ontex team has done. A 10% like-for-like growth top line, to the high end of our year-ago expectations for 2023. A 10% EBITDA margin, also to the high end of our expectations, which allow us to return to a positive earnings per share. And a strong turnaround of cash and leverage, critical to restoring financial strength, deleviring a positive EUR9 million of free cash flow and deleveraging down to 3.3x at Group level. On the next page, I will elaborate more on these strong results.

Now, 9 out of 10 percentage point like-for-like growth came from pricing as a result of our strong pricing management throughout the last years, with peaks and downfall drops in commodity prices. In this context, we have maintained total volume stable, yet, based on our focus strategy, we have achieved a double-digit volume growth in selected categories in Europe and have established a solid growth platform with retailers in North America.

Moving to Slide 6, as you all know, we took a hit in 2022 with an unprecedented input cost inflation impacting the industry significantly and bringing our margins of Core Markets down to 6.2% in orange in the chart. Mid-2022, we managed to turn the corner. Today, for six consecutive quarters, we are very pleased to report sequential improvement of adjusted EBITDA, as seen in the blue bars, driving margin up to 10%. Pricing was a key driver, allowing to partially compensate for the additional cost inflation over the last two years. The structural drivers behind this recovery are the volume mix improvement and the strong delivery on our cost transformation program, which leads me to the next slide.

In green, the gross savings we deliver from the cost transformation program, achieving EUR72 million in 2023. This includes continuous improvement measure on OEE and scrap level in the plants. It also reflects the ongoing decomplexification and asset harmonization efforts, with a strong contribution from our procurement team, having selected, qualified, and negotiated alternative raw material sources. Last but not least, it also includes the continued efforts we are taking to optimize our overall footprint and logistics. These structural high-impact efforts require a strong team execution and high level of investment, which you can see on the next Slide 8.

Our business expansion initiatives and our cost transformation program require higher investments, up to a level of EUR96 million mostly in our Core Markets. The orange line illustrates the CapEx intensity in our Core Markets, with more than 5% in 2023. While this is a large number, we strongly believe in the returns that these investments are delivering. Importantly, is that we are able to self-fund these investments, while still generating positive free cash flow and while strengthening our balance sheet, as it can be seen on the next Slide 9.

In green, the net financial debt of the Total Group, which we brought down to EUR665 million during 2023, mainly resulting from the successful divestment of the Mexican business. Improving EBITDA is the key to reducing Ontex leverage. The growth in our EBITDA in '23 nearly halved our leverage to 3.3x, down from 6.4x at the end of last year. Critical business levers, such as returning to positive cash flow and improving balance sheet are on the path to the levels we aspire to. With this, I leave it to Geert for the detail on the financial review.

Geert Peeters, CFO

Thanks a lot, Gustavo. First of all, good afternoon everyone. I'm really excited to have started in Ontex on the 1st of December, and I absolutely love the good vibe and passion in the team together with Gustavo. A little bit of my background. I started in PricewaterhouseCoopers being a Senior Manager in the Corporate Finance and Business Transformation teams. And then afterwards I worked in three large and fast-changing corporations as a CFO. My last assignment was in Greenyard. It's the number two in the worldwide in fruit and veg. And like Ontex, it's also listed in Belgium. It has a European/U.S. footprint, and has a focus on retail as its main customers. And we were also very successful in making a transformation. I feel really blessed today to be able to present the strong Ontex figures over '23. All figures moved significantly into the positive direction. Let's have a look at the first financial slide on revenue.

On this slide, you will find on the top the revenue bridge for the full year; at the bottom, the quarter four. It's each time for continuing operations, so that means the Core Markets. As you see on the top, it shows respectively a 10% like-for-like growth for the year. And at the bottom, you see a stable revenue evolution over the fourth quarter. As Gustavo pointed out already, price was the main revenue driver with an impact of 9% on the full year. Quarter-on-quarter in '23, prices were up in the first half and started to gradually decrease in the second half of the year, in line with the lower raw material prices. But year-on-year, we were still up in the fourth quarter by 3%. As to volumes, the overall markets in Europe and North America were down, with only adult care still growing. But if we look at the retailer brands, however, those gained market share. Indeed, consumers, they are looking for better value for money as inflation impacted their purchase power. And this is not yet the case in North America. Full year was stable overall. We grew double-digit in selected categories, resulting in a positive mix impact. In quarter four, volumes were lower, but actually, we did not lose any market share nor any customers. It's mainly a timing impact. The timing impact, because there was some pre-buying of a U.S. customer at the end of '22, and at the end of '23 there was a low promotional activity in Europe. So we are confident that the coming months, this will recover. Differently from last year, ForEx had a negative impact and it's because of several currencies. It's devaluations on the U.S. Dollar, the Australian Dollar, British Pound, and the Russian Ruble. How does this translate in EBITDA, which you find on the Slide 12?

Again, it's for the Core Markets with on top the full-year, and at the bottom quarter four. Full-year, the adjusted EBITDA rose from EUR104 million to EUR174 million, or an impressive 67% growth. In the left yellow box, you will find what drives our EBITDA up. And mainly it's a cash transformation program that was already mentioned by Gustavo with a second year in a row where we delivered savings of around 5% of the operating cost base. You'll also notice a positive mix impact showing for the full year. In the right brown box, you will see how we manage the prices. And this is almost fully offsetting the increase of raw materials, the inflation on the operating costs and SG&A, but also the adverse ForEx. As to raw materials, year-on-year increase is mainly due to higher fluff prices and to a lesser extent also SAP in the year. As prices gradually came down throughout the year, we have for the first time in Flong, a positive effect in Q4, but not enough to offset fully for the continued inflation of other operating costs and SG&A. As to ForEx, of course, we first have the revenue impacts of the currencies I already mentioned before. On top, we have the Mexican peso that rose, costs up in our Tijuana plant in the west of the U.S., and the U.S. dollar, including the hedging, had a slight negative impact on the results.

Let me now present how that adjusted EBITDA of EUR174 million translates to bottom-line positive net result. Because actually we achieved indeed a positive profit for the period of EUR35 million. Per share it's EUR0.43. This reflects the profit recovery, but remember also that last year the result included large impairments taken on goodwill and assets. So we clearly turned the page. How did we get there? Let me explain line by line. First, the depreciations, they remained around EUR70 million, in line with last year, despite stepping up the investments. Secondly, we have some adjustments. They're all non-recurring of nature, about EUR50 million, all related to optimizing the European footprint and the product portfolio, and it includes a EUR5 million non-cash impairment. Thirdly, we have the finance costs. As you will see in the table they decreased with EUR5 million to EUR45 million, despite interests that increased. But of course, we are protected by our fixed rate bond, and our interest declined because of the lower indebtedness (due to lowering the leverage ratio). Fourth, we have the tax cost. Also the tax cost decreased to EUR16 million. It represents an effective tax rate of 38%, which is of course the mix of the different geographies in which we are active. And we were still very conservative in the treatment of our deferred tax assets. And then last but not least, we have the discontinued operations, it's our Emerging Markets, they contributed EUR8 million. And in that EUR8 million, we also still have some divestment-related costs and impairments for EUR27 million and there's also some hyperinflation in Turkey costing EUR8 million. So if we correct for those impairments and the hyperinflation, you notice that the Emerging Markets really had very strong results.

Moving then to the cash. The Slide 14 shows how we generated EUR9 million of positive free cash flow. And that's with the definition, as Geoff said, including the debt service, so including the interest. The starting base is EUR223 million of adjusted EBITDA, that's the adjusted EBITDA for the Total Group. That includes all the Emerging Markets, but also four months of Mexico which is, in the meantime, divested. I want to highlight some important components in that cash flow build-up. First of all, we invested EUR36 million in working capital. The latter increased due to inflation of course, but at the same time, we used lower factoring. Further, I can confirm that as (a) management we are very focused on working capital improvements, but at the same time, implementing the transformation also leads to temporary inefficiencies, for example, in inventories. The largest block you find in the cash build-up is the investments with EUR121 million, including the EUR25 million of leasing. And Gustavo explained already, I will further explain on our plans of investments. And then we have tax and finance costs just in line with the P&L items. Non-recurring, we had some non-cash impacts, so what was left was EUR18 million in our free cash flow.

And then the last financial slide is on the net financial debt. The net financial debt on Page 15 came down by 23% to a level of EUR665 million. This brought our leverage ratio to a safe 3.3x from 6.4x last year. So it's quite clear with the 3.3x we're well within the leverage maintenance covenants. The deleveraging was achieved, of course, first of all due to the free cash flow of EUR9 million, but also because of the disposal proceeds of EUR200 million which are mainly related to Mexico. These proceeds include all the transaction costs, also working capital closing accounts that were settled at the end of '23, and we still have a deferred receivable coming in the future which you find on the balance sheet for about EUR30 million. If we then look to the gross debt, the gross debt ended up EUR834 million and is composed of three elements. We have of course a fixed rate bond for EUR575 million, we have leasings for EUR133 million, and the RCF was only partially drawn for EUR115 million. The term loan is not there anymore. The EUR220 million was repaid mid-'23. The difference between the gross and the net debt is the cash, of course, it's EUR168 million. And together with the part of the RCF which has not been drawn, it's EUR155 million, so an amount of far above the EUR300 million is a nice liquidity buffer for Ontex. Now I will pass the word back to Gustavo, who will tell a bit more about the outlook for this year.

Gustavo Calvo Paz, CEO

Thank you, Geert. Before getting into the details of the outlook, let me share with you a broader picture of what we are directing our energy on and how it fits within the three-year transformation plan of Ontex that we started to deploy when I joined Ontex a bit more than a year ago. At that time I mentioned that my mandate is to accelerate the execution of our existing strategy, not to change it.

The next page is a refresh of that. Our focus is fully put on our Core Markets, while divesting our branded business in Emerging Markets. We aim for solid leadership in Europe and North America. We are the largest worldwide player today, already strongly positioned in Europe and building scale in North America. We established solid partnerships with our retail and healthcare customers by providing high-quality, affordable hygiene products in baby, feminine and adult care.

On next slide, the execution of our strategy is based on three value-creation drivers. The first one, business expansion. We ambition to grow share in selected categories in which we have a strong competitive advantage and bring higher value for our customers. In these categories, we aim to drive high-single-digit top-line growth in Europe. In North America, our greater source of future business expansion, we plan for a double-digit top-line growth. First, by gaining market share in retail brands, leveraging our unique selling proposition coming from our experience in Europe. Secondly, by partnering with our customers to build and grow their own retail brands in the North American market, where these have a significant potential. The second value creation driver is competitive and sustainable innovation. We want to be recognized as the fastest provider of A-brand equivalents to our retail customers, while also developing more sustainable products. And the third value-creation driver is low-cost, best-in-class operations. We aim to deliver operational efficiencies and services excellent across end-to-end supply chain. A major enabler for this is the overall decomplexification of our operations, including harmonization of product platforms and equipment.

Turning now to Slide 19, let me give you a real example on how these drivers complement each other. DreamShield is a back pocket for improved leakage protection on our baby pants that we developed in 2023. By combining it with other improvements on our product design, we reduce carbon emissions by 5% per unit. DreamShield is a fast-following innovation of a feature recently launched by a large A-brand player. This innovation boosts our competitiveness in baby pants, one of our selected categories, and can be a game changer to strengthen the attractiveness of retailer brands on the shelf. As we plan to equip all our baby pants lines in Europe over the coming months, we will be able to roll out this innovation at scale and harmonize our portfolio of product platforms and reduce complexity in our operations. Harmonizing our product platforms also allows us to reduce complexity in the portfolio of finished products and raw materials, meaning less changeover, higher runnability, higher output per line. All these actions are structural changes in our way of working and partnering with our customers and suppliers. Unlocking these value creation drivers requires investments, which brings me to the next slide.

(In 2023,) 2023 was our first of our three-year planned journey, in which we need to accelerate the level of investments in order to achieve our aspirations. Business expansion and best-in-class operation value creation drivers will be boosted by a top-up investments throughout the period. While we realize that these investments are temporarily exceeding run rate depreciation, they come with healthy returns, driving growth and higher margins. But let me assure you that raising the level of these investments will not come at the expense of cash value creation and further reduction in leverage ratio, because we will self-fund our investments by increasing our cash flow generation. What does this mean for 2024?

Let's move to the Page 21. In our Core Markets, we expect revenue to grow by low single-digit like-for-like, supported by strong double-digit like-for-like growth in North America. Prices will be actively managed in function of input costs and market dynamics. The adjusted EBITDA margin is anticipated to improve further to between 11% to 12%, fueled by continued delivery of our cost transformation program. Free cash flow for the Total Group is expected to improve from the EUR9 million in 2023, while further accelerating the Group's transformation and with investments in our Core Markets in excess of 6% revenue. We expect to be able to announce further progress on the divestment of the remaining discontinued Emerging Markets activities in the coming months. Meanwhile, these are foreseen to contribute positively to adjusted EBITDA and free cash flow. As a result, our leverage ratio is anticipated to reduce further to below 3x by year end, giving us comfortable headroom on the covenants. Now, Geert and I will now be available for the Q&A session.

Q&A

Geoffroy Raskin

Before handing over to the operator, could I ask you to state your name and firm and limit your questions to two. I repeat, two. If time allows, we'll do a second round for additional questions, and if not, feel free to get in touch with Investor Relations afterwards. Operator, over to you.

Operator

Thank you. *[Operator Instructions]* Our first question comes from the line of Charles Eden from UBS. Please go ahead.

Charles Eden, UBS

Hi, good afternoon. Thanks for taking my question and welcome Geert. I'll keep myself to two.

So firstly on the North American business, the strong double-digit like-for-like sales growth that you're targeting for 2024 is very impressive. Can you help us understand what's driving that optimism? Have you signed a significant contract with a large retailer in the region? Or is there another explanation that you could share? Also, can you talk a little bit about your ambitions for this business, this region over the medium term? Where do you think North America could get to as a percentage of Core Markets sales, say in five years' time or any other time horizon you feel is appropriate, versus the 10% to 15% of Core Markets sales it represents today? That's my first question.

And then second question, just on credit rating and the agencies. Can you remind us your current ratings here? Are you in constant dialogue with the providers to try and get them to revisit their ratings and outlooks for Ontex? You've got the leverage down to 3x. You're guiding to below 3x for '24, which, if I'm doing my maths correctly, is likely to be closer to 2.5x than 3x for '24, given the guidance you provided this morning. So things are certainly moving in the right direction. But how much scope is there for you to expediate a change on the ratings, or is it simply a waiting game for you? Thank you.

Gustavo Calvo Paz, CEO

All right. Thank you, Charles, for the questions. I'm going to take the first one on North America, and Geert we'll take the second one. As I've been saying, we have made significant changes in our team in the U.S., and since that, we have been able to really have a more important approach with customers, meeting with them, and discussing strategic ways to grow not just our business but their own retail brand business. We're strong. 2024 is a strong double-digit growth that we are forecasting. And it's based on, I would say, already aligned business with new customers in the retail environment: Dollar Tree, Dollar Family *[Family Dollar]*, and some others, which I, perhaps I would not disclose all of them due to competitive reasons. But yes, we have aligned already, and that strong growth, double-digit strong growth that we're expecting for next year, for this year, sorry, '24, we feel very, very comfortable. Your question about our ambition, our ambition is very, very big in the U.S. I have my team here that will kill me if I express my ambition totally, but our ambition is quite big because the opportunities in U.S. market is huge, not just from us gaining share within the existing retail market, but from us using our expertise that we have, that we have developed for many, many years in Europe, helping retail markets in U.S. developing their own retail market. And excitement between them and us is huge, I can tell you. And we are investing behind that, creating more capacity for them to feel assured that we will supply them. So big ambitions there. Geert?

Geert Peeters, CFO

All right. Charles, for the second question on the ratings, first of all, the current ratings are very similar, with S&P we are at B, and Moody's we are at B3. We strongly believe that there is some headroom to go up for us. So we hope they share our enthusiasm on the results. What we will do of course is in the coming weeks to have contacts with them to further explain the results and to see whether they have any concerns. But I think from a CFO point of view, if you look on how the company has been de-risked with this result and with the outlook we have as compared to what it was one and two years ago, I think there should be really potential to move up. We, of course, all know that rating agencies, yes, they take some time to do that. So yes, we are also realistic, I think the potential is there, and we will work together with them to go there.

Charles Eden, UBS

That's very clear. Thank you very much. And sorry to push you, Gustavo. But when you say very big ambitions on North America, could that business be half the size of a European business, the same size? How big could that be? Just sort of ballpark numbers, just trying to understand where that business goes.

Gustavo Calvo Paz, CEO

Yes. So, look, if we think on being, on having, to getting closer to our fair share in U.S. and thinking in opportunities on the U.S. market to grow, that business for us could represent $1 billion in five years.

Charles Eden, UBS

Very clear. Thank you very much, both.

Gustavo Calvo Paz, CEO

You're welcome.

Operator

Our next question comes from the line of Wim Hoste from KBCS. Please go ahead.

Wim Hoste, KBC

Yes. Good morning or afternoon. Wim Hoste, KBC Securities. A couple of questions also from my side.

Maybe first on the CapEx plans for the coming years. You will now step up CapEx to above 6% of Core revenue in 2024. Is that also the rate we should assume for '25 and beyond? And then can you maybe also be a bit more specific on what the investments will include? Is it mainly capacity expansions for products like baby pants and others? Or is it, yes, mainly the modernization of old factories? Can you maybe help us understand what the increased CapEx is about?

And then a second question would be again coming back on North America versus Europe. Can you also shed a light about the current profitability of Europe versus North America? Where do you see the biggest upside in terms of margins, yes, in this year given the guidance that there is and also in the coming years?

And then a third question would be an update on the divestments. How much interest do you see from financial parties? Is it from trade buyers? Is it, and also, yes, what kind of value do you believe you can extract? I think book value is around EUR160 million. Do you see any risk of having to take impairments on that? Can you maybe also give some comments on that? Those were the questions. Thank you.

Gustavo Calvo Paz, CEO

Thanks, Wim. I'm going to start. I'm going to try to keep all the questions in my head.

So the first one, which is related to the CapEx plan. Yes, you're right. Our investments are going to raise. And as I mentioned, we have a three years planned period of time in which we are going to be adding capacity, so for business expansion and investment also behind efficiencies in our operations. So it would be, when you were asking the question, it would be almost all what you expressed, which is capacity and you call it modernization, but it's efficiencies and harmonization of our asset base in Europe. It's much more specific in Europe. So yes, our investments, they're going to be in a high level of investment in these three years' period of time.

Regarding the profitability, we don't disclose exactly that, but let me tell you this. Let me explain this. Europe is a much more mature market, right, in terms of we have a solid, a very solid leadership in Europe. And the scale is in our hands today. What we are doing in Europe is bringing efficiencies by harmonizing our technology and updating that technology to be capable or enabler for the next innovations to come. However, in North America, we are building scale. And I am sure that you are aware, North America is a big market. You need scale, but we are growing, we are progressing on this scale year-by-year. And as the scale is growing, profitability is growing. So it is the full three years plan. And we are now in that middle of the plan. So yes.

In terms of the divestments that you ask, we are in the process. We are very enthusiastic because the companies are delivering EBITDA and free cash flow. So they are very positive. So they are working very good. We have strong teams in place. And we are in the process of that. You ask a question that is very, at this moment, is sensitive because we are in the process, so it would be very difficult for me to answer directly the question, so I apologize for not being able, but you would understand that it would disrupt the process in which we are today. But I can tell you that the two businesses, the three businesses, every business that we have in the Emerging Markets today, they are delivering good EBITDA and good cash flow. So that is our positive there.

Geert Peeters, CFO

And perhaps one small addition there because you asked, Wim, about impairments. So all impairments have been taken and the position has been reviewed with PriceWaterhouseCoopers, so we don't, based on the nice results we have now and the progress, there are no, nothing foreseen from an impairment point of view.

Wim Hoste, KBC

Okay. Very clear. Thank you.

Operator

Our next question comes from the line of Sophocles Sophocleous from Veraison

Capital. Please go ahead.

Sophocles Sophocleous, Veraison

Hi. Two questions.

Regarding CapEx as it's been elevated, what sort of payback do you expect?

And second question is regarding North America, can you be a little bit more precise as perhaps give us some sort of range or an indication, is it above 20%, is it 20% to 30%? Thank you.

Gustavo Calvo Paz, CEO

Allright, so on the CapEx, again, our way to measure our investments today, we have a rule definitely that is a payback of lower than a three years payback on our investments, in all investments perspective, lower than a three years payback.

And in terms of U.S. North America growth for 2024, if I have to give you a range on today, on our forecast for '24, it would be between 30% to 40% growth.

Sophocles Sophocleous, Veraison

Thank you.

Gustavo Calvo Paz, CEO

You're welcome.

Operator

Our next question comes from the line of Karel Zoete from Kepler Cheuvreux. Please go ahead.

Karel Zoete, Kepler Cheuvreux

Yes, good morning. Thanks. Or good afternoon. Thanks for taking the question. I have two questions.

The first one is on what you're seeing in the European market today in terms of price volume dynamics. What can we anticipate? And, that's the first question.

The other one is on cash flow. Happy to see that factoring came down by EUR28 million. Is that something we should anticipate to continue going forward? And then what's still the outstanding factoring in the books? Thank you.

Gustavo Calvo Paz, CEO

I'm going to take the first question, Karel, and leave the factoring to Geert.

The European market today on the price volume, so it's evolving. The entire market is a little bit down, while at the same time, retail brands in our categories are growing, signaling very clear that the consumers are looking for more value for money products. And also it's a result of continued improvement in the performance in the retail brand business. In terms of what to expect in volume, we're expecting volume in selected categories for us, we're expecting volume to grow in selected categories, where we really have a good competitive position, and we want because we want to win volume there and continue growing market share as it is a trendy type of category and value – good value for the customers. In terms of the pricing, well, , we are since, I would say, initial four or between the last days of the quarter 3 of '23, we continue in a price decline momentum. How long it will last due to the price decline in terms of the raw materials price decline, so it is expected to volume growth but not pricing for us, growth. We are not expecting pricing growth, significant pricing growth next year.

Geert Peeters, CFO

And then the second question, Karel, on the cash flow and more specifically on the factoring. First to explain about '23, how to look at the factoring. First of all, for us, looking at cash conversion cycle, it's very important, it's part of all our management objectives, so that means also DSO, so that means in all the discussions we have with retailers it's not only about pricing mechanisms but it's also to be paid in time. So that's something that will continue over the coming year. And of course, if we can bring our DSO down, it helps also the factoring. Second consideration is the factoring itself. We look in our financing, of course, what is the cost of all the finance instruments we're using. So we also, from that point of view, take factoring into account and if we believe, because prices of factoring increased a lot because of the increased Euribor, that's another consideration. If we look to '24 because you want me to be more explicit on what will be the factoring, I would assume that it will be more or less in line with what we have now. I think that would be a good estimate.

Karel Zoete, Kepler Cheuvreux

Okay. Thank you. And Geert, just to be sure if you think about capital allocation going forward, reducing factoring is not like an important thing. It's based on -

Geert Peeters, CFO

It's a good efficient instrument to finance your receivables, so that will continue to be. But as I say, we try to reduce the DSO, we will always take the costs into account and consider all that together. Yes.

Karel Zoete, Kepler Cheuvreux

Okay. Thank you.

Operator

The next question comes from the line of Markus Schmitt from ODDO BHF Corporates & Markets. Please go ahead.

Markus Schmitt, Oddo-BHF

Yes, thank you. It's from the Credit side actually. I have two questions.

First one if you could please comment on your input costs and how do you expect some trending in '24, particularly fluff, which I understand is rising again. So in other words, so what supply-demand situation and positive or negative trends do you see in fluff, acrylic acid, caustic soda, and non-woven fiber, fabrics, for instance?

And the second question is on the adjusted EBITDA margin improvement. I think you guided for 180 basis points improvement at the midpoint for 2024. And the question is if you could break that down into components. So what is coming from volumes, pricing, raw materials and OpEx savings from today's point of view. OpEx is about clear when you aim again for 5% savings. But what about the other buckets, that would be interesting. Thank you very much.

Gustavo Calvo Paz, CEO

I will comment something on the raw materials and then leave you Geert for the second question.

On the raw materials, after a peak on inflation on the raw materials during the first half of last year '23, most of them, they started to go, to reduce and to go down. And what we see towards the end of the fourth quarter of '24, they started to stabilize and stop that declining. And forecast today, it's not all the way so positive. Because we can see that it could go up in some cases, down in some others. So it's, I would say, overall stable. You asked the question, particularly, on the fluff. And we see, well, of course, that depends on what we compare. If we compare with the lower point of the fluff at the beginning of the fourth quarter of last year *[2023]*, it would be an increase. If we compare to the average, it would be average, it is a decrease. But we are thinking that it's more stable for us. That is what we are seeing.

Geert Peeters, CFO

Then on the build-up of the 11% to 12% EBITDA margin, Markus, yes we're not going to be more specific by components, but I can repeat the components itself without giving any figures. Of course, you referred already to the savings, we will continue adding attractive savings in line with last year, but you were already referring to that one. And it's all very operational driven. It's improving scrap, improving operational efficiency, improving buying power, it's all that type of elements. Then the second element is, of course, the expansion in the U.S. I think that Gustavo already explained it quite well. We're still at a sub-optimal scale. We have two big plants, one in Tijuana, one in Stokesdale. And there we, if we, with interesting projects we have in the pipeline, can gain economies of scale that will contribute a lot to the margin. And then of course we continue repeating, we invest in selected categories, high added value categories. So also there we have a mix impact. And a combination of the three will make up our, will build up that margin. At the same time, of course, like all companies, it's very important we stay extremely competitive, so also in managing the prices that will go along in our strategy to remain competitive and to win tenders.

Markus Schmitt, Oddo-BHF

Okay. Then one quick follow-up on this, please. So the pricing raw material net, is this then assumed rather to be neutral in '24 or slightly negative?

Gustavo Calvo Paz, CEO

The what, sorry?

Markus Schmitt, Oddo-BHF

The net of pricing and raw materials, is that assumed to be rather neutral in the current year or maybe negative, a negative contributor to EBITDA?

Gustavo Calvo Paz, CEO

The net of the two, pricing is…

Markus Schmitt, Oddo-BHF

And raw materials.

Gustavo Calvo Paz, CEO

Yes. We manage to balance the two things.

Markus Schmitt, Oddo-BHF

Okay.

Gustavo Calvo Paz, CEO

I have to say, balancing the two things because you know that in our mix, we have healthcare business, which has a lot of contracts that are tied to raw materials, ups and downs. We have the retail business as a different situation between Europe and U.S. So without, I know that I'm trying to, I'm not trying to avoid your question at all, but the net of that, I would say that we are balancing.

Markus Schmitt, Oddo-BHF

Yes. Okay. It's difficult to know at this point in time, I think, but thank you very much for your explanations.

Gustavo Calvo Paz, CEO

Yes. Yes.

Operator

The next question comes from the line of Fernand de Boer from Degroof Petercam. Please go ahead.

Fernand de Boer, Degroof Petercam

Yes. Good morning. It's Fernand de Boer from Degroof Petercam. First, welcome back, Geert. It's good to see you again.

Geert Peeters, CFO

Fijn van jou te spreken.

Fernand de Boer, Degroof Petercam

Yes. Thank you. And then I have a few questions. First of all, if I look at the sales growth guidance of low-single-digit like-for-like sales growth and I take the comments of Gustavo on North America to see 30% to 40% sales growth, then that implies a negative growth for me in Europe. Is that a correct assumption?

Gustavo Calvo Paz, CEO

That's your first question. Do you want to go ahead?

Fernand de Boer, Degroof Petercam

Yes.

Gustavo Calvo Paz, CEO

Okay. So

Fernand de Boer, Degroof Petercam

Maybe the second question I have, I'm sorry, go ahead, please.

Gustavo Calvo Paz, CEO

No, no, go ahead for the second, yes.

Fernand de Boer, Degroof Petercam

And the second question is on the cost side. If you see the EBITDA bridge, the other operating costs minus EUR13 million, the SG&A minus EUR7 million, so a total of minus EUR20 million. I think that compares to minus EUR8 million in the Q3 bridge. So where does this step-up in cost come from, and how do we have to look at that forward? Because actually, the cost increases are now bigger than the gross savings you had in the fourth quarter.

Gustavo Calvo Paz, CEO

Okay. I'm going to take the question on the low-single-digit like-for-like. And the Europe, yes, when you think on Europe in terms of total sales, there is a price, negative price impact there. There is a positive volume mix in, a mix, a positive mix due to selected categories volume growth. The total volume in Europe, as I mentioned several times, we are selecting, right, where to grow, where we don't want to grow, and perhaps where we are smoothly exiting. And the expected European growth is going to be in the low-single, total, in the low-single-digit, not declining. But the growth in Europe, that it will be mix and volume in selected categories. So that would be for Europe, low-single-digit growth. Impacting the low-single-digit, you have a range, unfortunately, that we are not giving you the range. But that, yes, our base today in U.S. is small. So, a 30% to 40% increase in U.S., the impact is very significant for the U.S., but the result of that group is different. That answering that question. And then, Geert?

Geert Peeters, CFO

Yes. The second question, Fernand, I'm not 100% sure I fully understood it, but I will try to answer, and tell me if I'm miss on a point. But on phasing of savings and costs. First of all, as to the phasing of the savings, there, we can say they are very, we deliver every quarter a nice improvement. That will continue. And there are really many actions behind. It's a very detailed program covering all the different areas, all the different plans. So it's constantly delivering. And also new initiatives are added. So that's on one hand. If you look, of course, to the cost side where you have your operating costs and your SG&A, there you see sometimes that might be more, a bit more erratic. So the phasing might from quarter-to-quarter be a little bit different. But if we look at on annual run rates, there we're very confident in the assumptions we take. For example, in SG&A, there are of course elements that like bonuses they are more in one quarter, we have inflation impacts that are hitting other quarters. So that's the way you have to look at it. Did I answer your question with that?

Fernand de Boer, Degroof Petercam

Yes. But I still see SG&A indeed was up minus EUR7 million in Q4, and for the full year it was minus EUR10 million. So I think Where would you be if you are working on a kind of cost saving program.

Geert Peeters, CFO

Yes. But it's not something I can tell you will have very balanced figures against.

Geert Peeters, CFO

We can always follow-up with…

Fernand de Boer, Degroof Petercam

Yes. Very good.

Operator

The next question comes from a line of Rebecca Clements from Fidelity International. Please go ahead.

Rebecca Clements, Fidelity international

Hi, there. Thanks for taking my question. A clarification on the factoring question from earlier. What was your reason for reducing factoring in 2023? It seemed like it was a conscious choice.

Geert Peeters, CFO

Yes, that's right. Yes. It's what I explained, we are improving the DSOs with our retail example. We look at the financing mix and the cost. So it was indeed a deliberate choice. We have sufficient lines, so perhaps that's another thing I want to stress. So we could have done much more if we liked. It's not because we don't have the lines, we have sufficient lines to increase.

Rebecca Clements, Fidelity international

If you choose. And the reason you chose not to is because you figured you could actually, you would rather not pay the factoring fee and…

Geert Peeters, CFO

Yes. That's right.

Rebecca Clements, Fidelity international

- the full amount. Okay. Okay, that helps. And then just two housekeeping from me. Do you have any of your balance sheet cash, is any of that trapped overseas or less accessible?

Geert Peeters, CFO

Yes. It's not trapped because otherwise, it would be IFRS rules forcing us to do a different accounting. So our cash is available. Only if we take emerging countries, we keep, we love to keep the cash in those countries because often to get it out, there might be some leakage on taxes, et cetera. So it's something we constantly look at whether there are cheap ways to get it out. But currently, the cash is very spread and available in our businesses.

Rebecca Clements, Fidelity international

Okay. And then last question, I appreciate that your bond maturity is not until July of '26. But do you have any thoughts on your bond refinancing? Would you like to wait for the agencies to maybe give you some credit? I'm personally a little surprised the S&P still has you on negative outlook. Any thoughts or guidance on what the timing might be around a bond refi?

Geert Peeters, CFO

Yes. We don't have a guidance on timing, of course. But for us, the first priority as a management was to show good results for '23 and to have them dribble into the market and with the rating agencies. So that will be an important focus for the coming months. And then we will consider the timing. Luckily, we still have time. And we will give information once it becomes more concrete. But there is nothing urgent at this moment in our opinion.

Rebecca Clements, Fidelity international

From a sort of funding perspective, would you prefer to stay in the bond market or potentially use the term loan market?

Geert Peeters, CFO

We will review all the options, of course, to have the best financing costs for the company and the most secure financing. So we will consider everything.

Rebecca Clements, Fidelity international

Okay. Thank you.

Operator

There are no further questions, so I'll hand you back to your host to conclude today's conference.

Conclusion

Gustavo Calvo Paz, CEO

All right. Thank you very much for your participation on this call. Let me conclude. We accelerated our three-year turnaround plan over the past year, and I'm very pleased with the excellent momentum achieved and the encouraging results delivered in 2023. The solid level of activity, continued cost reduction and efficiency improvements all contributed to delivering positive earnings per share and free cash flow for the first time in several years. This marks a major milestone for the Group, and it's a huge credit to the entire Ontex team to deliver on our commitments. The solid improvement in our financial performance and cash flow generation allow us to ramp up our investments for future growth, innovation, and further efficiency gains. Our momentum puts us well on track to restoring value creation for all our stakeholders, whom I would like to thank for their support as we continue our journey. Thank you.

Geert Peeters, CFO

Thank you all.

Operator

Thank you for joining today's call. You may now disconnect your lines. Host, please stay on the line and wait for the instruction.