

# 24Q1 Transcript

## Presentation

### Geoffroy Raskin, Investor Relations

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

Before that, let me remind you of the safe harbor regarding forward-looking statements. I will not read them out loud, but I will 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 consist of our Core Markets activities only. The Emerging Markets are reported as discontinued operations, and while in the process of being gradually divested, these do still contribute to total debt and cash flow figures. Please note that we have slightly adjusted the definition of savings in our EBITDA bridge as to better reflect net savings, netting them with the implementation costs, whereas we previously reported gross savings. With that cleared up, Gustavo, over to you.

### Gustavo Calvo Paz, CEO

Thanks, Geoff, and hello everyone. It is definitely good to start the year delivering a strong quarter one. This gives us confidence in the outlook we provided you in February and brings us further on our transformation path. Our results are summarized on the next slide 4.

We continue expanding our business, 4 percent like-for-like revenue growth in the quarter. While last year our growth was largely price driven, now it is based on volumes, especially in North America being our main source of growth. And in Europe, we continue growing in selected categories such as adult care and baby pants, leveraging our competitive advantages. The adjusted EBITDA margin rose to 11.5 percent, 2.4 points higher than a year ago, and 1.1 higher than the previous quarter. Again, a strong delivery of the cost transformation program was at the base, while we are managing prices in function of input cost and market dynamics. The strong EBITDA delivery in the quarter allowed to further reduce the net financial debt and increase the last 12 months adjusted EBITDA, which brought our leverage ratio to drop to 2.8 times. This is already below the 3 times we guided to be reached by year end. Our financial position is thereby continuously strengthening. Our delivery in quarter one is largely the effect of our strategic roadmap that we are implementing starting in 2023, and enabling value creation. Moving to the next slide 5, now.

As we have expressed multiple times, our vision is to be the number one trusted partner for our retail and healthcare customers. Our leadership position in Europe is well established in the baby, feminine, and adult care categories. And we know it is not a given, so we need to work every day to nurturing that. In North America, we are rapidly building this position, focusing first on baby care. To create value equity, we have identified three main drivers, and in each of these, we have made further progress this quarter. First, by competitive and sustainable innovation, bringing value to our portfolio, we have rolled out new products like our new line of swim pants and SatinSense tampons among others. It feels good to also receive recognition to our efforts with the Carbon Disclosure Project awarding us an A minus rating for leadership in climate change and B for forest disclosure, and thereby also listing us on their Supplier Engagement Leaderboard. Also in innovation, we remain a leader and have now been listed for the second year in a row among the top ten applicants in Belgium. Second value driver, business expansion, with the biggest opportunity being North America, where we ambition a strong double-digit growth this year and beyond. The growth will come from existing and new customers, and we are already delivering a strong quarter one. This will contribute more in the coming quarters as we are preparing for new launches in quarter two and quarter three of this year. And third, best-in-class operations, with further implementation of our cost transformation program: innovation, manufacturing, supply chain, and procurement, gradually transforming our European operations into best-in-class. The operating cost base reduced by 5 percent, as we did in the last two years, enabling us to regain competitiveness. And finally, let's not forget that we have further progress on the portfolio

refocusing, with the finalization of the Algerian divestment early April. With that, I hand over to Geert for a more detailed analysis on our financial results.

## Geert Peeters, CFO

Thanks a lot, Gustavo, and also from my side, hello to everyone. Let me go into more detail in the elements that drove our results.

Revenue grew 4 percent like-for-like in the first quarter of 2024, mostly driven by volume growth. Volumes grew strong double digits in North America, which currently focuses on baby care products. And as Gustavo explained, growth came from additional contracts secured in the second half of last year, and new contracts that kicked in this quarter and are ramping up. In Europe, adult care grew by 10 percent with retail brands gaining market share and Ontex strengthening its position. As to baby care, we noticed stronger competition from the A-brands trying to recover market share with promotional activities. We, however, managed to compensate decline in diapers with double-digit growth in the selected category of baby pants. Pricing, and that in line with expectations, ended slightly lower than a year ago. Prices have been coming down since the second half of last year, subsequent to the raw material price decreases. As to forex, we continue to have a slight adverse impact, bringing the total growth to 3 percent. Let's move to EBITDA on the next slide.

We managed to increase adjusted EBITDA by 30 percent year-on-year. Let's explain step by step. First, there's a slight positive impact from volume and mix, as I explained on the previous slides with the revenue. The most important driver, however, remains our structural cost transformation program, which continues to deliver important structural net savings, yet again, 5 percent of operational costs. And as explained in the revenue bridge, prices were slightly lower, reflecting the positive evolution of raw material indices. They came down sequentially last year, with year-on-year impact turning positive in the last quarter of '23. We do not expect further raw material price improvements in the coming months. Operating costs continue to be impacted by inflation, but at a lower pace than last year. This includes energy costs and salaries primarily. The latter also mainly explains why SG&A costs are up. On top, this SG&A includes the actualization on variable remuneration at the start of the year, which is actually more a one-off in one quarter, and it's based on the solid performance of '23. Finally, the forex impact on EBITDA turned positive for the first time since a while. This is largely the effect of the US dollar, which weakened in Q1, impacting positively our US dollar costs, and this more than offsets the adverse revenue impact. And as Gustavo already explained, the strong growth of the adjusted EBITDA led to a further margin increase to reach 11.5 percent.

If you then take slide 9, you can see the quarter-on-quarter evolution of the adjusted EBITDA. It has been improving since mid-'22, and this quarter, it's already the seventh consecutive sequential increase. That EBITDA improvement has also been the main driver supporting the leverage reduction, as we can see on the next slide.

The leverage ratio on this slide is presented as the bold orange line, and this has been continually coming down since September '22, and now drops below 3 to 2.8. The drivers of this balance sheet strengthening are as well the decreasing net debt as the increasing last 12-month EBITDA evolution. Presented as a blue line, the LTM adjusted EBITDA is growing significantly, already up to 229 million euro this quarter. On one hand, as explained before, this is driven by the strong adjusted EBITDA delivered by the continuing operations, but on the other hand, the Emerging Markets also contribute this quarter another 12 million euro. Therefore, the total group EBITDA in Q1 amounted to 65 million euro, taking into account also a minimum of non-recurring items. Presented as a green line, the net financial debt came down in the first quarter to 646 million euro. As to cash flow generation this quarter, working capital was slightly up with growth of the business, but capital expenditure spending was lower than expected due to phasing. We, however, still expect our investment levels to reach 6 percent of the Core Markets revenue for the whole year. Looking back on the graph to the mid-'23, and again at the green line, please be reminded that this was impacted by the proceeds of the Mexican divestment, which pushed down the net debt. Moreover, the adjusted EBITDA was taken out from the scope of the LTM EBITDA. Since then, net financial debt has been relatively stable as we temporarily reinvest the cash flow in the transformation of the Group to drive mid-term value creation. I will hand over back to Gustavo for the outlook.

## Gustavo Calvo Paz, CEO

Thank you, Geert. While I'm pleased about the further progress, we all have it very clear, that much is still to be done and the Ontex team is determined to do it. The delivery so far continues giving us confidence in reaching the outlook we gave early this year, as we confirm on the next slide 12.

We expect Core Markets to grow revenue by low single digits like-for-like in 2024. Adjusted EBITDA margin of our Core Markets is anticipated to step up from 10 percent in '23 to in between 11 and 12 percent this year, driven mostly by continuous delivery on our cost transformation program. Looking at the Total Group, we expect free cash flow to improve year on year, and this while stepping up investments to more than 6 percent of our Core Markets revenue. And finally, we expected our leverage ratio to drop from 3.3 times at the start of the year to below 3 times by end of year. With 2.8 times end of March already, we anticipate to do even better by year end. And with this, Geert and I are ready to answer your questions.

## Q&A

### Operator

Thank you, sir. ...

We will now take our first question from Wim Hoste from KBCS. Please go ahead.

### Wim Hoste, KBCS

Yes, sir. Good morning. I have two questions, please. The first one would be on North America and the outlook there. Can you offer some clarity on how much of the new contracts you've recently signed have already contributed in the first quarter and how much more is to come in the second and the third quarter? Also, how much clients you have, if you can talk a little bit around that. That's the first question.

And the second one would be on the competitive environment in Europe. You mentioned to see increased promotional activity from the A-labels. Is that continuing also in Q2? Can you maybe also comment a bit on that? So those were the questions. Thank you.

## Gustavo Calvo Paz, CEO

All right. Very good. Thank you. And yeah, so in North America, this quarter, first quarter '24 compares with the first quarter '23. There is a change in the mix of customers in our portfolio. And that is due that we have started to deliver to new customers that we didn't have last year. And continuing delivery to the existing customers of last year. You ask about the proportions there. Well, majority, majority still in the existing customers that were existing before. But we just started to deliver on the first quarter on new customers. What I can say is that as the year progresses, we will continue delivering on those new customers of the first quarter, we are going to add new customers, delivering in the second quarter, and we're going to keep adding in the third quarter. So as much as were progressing on increasing our capacity for supplying customers, that is what we are facing in our sales as well. So the outlook is promising. That's regarding the first question.

The second question, which is quite good. Yes, it is very clear that the market in Europe has been highly competitive coming from the A-labels, increasing their offering, promotions started from, I would say, November, December last year very clearly, and continued throughout the first quarter. And that, of course, that brings more competitiveness to the retailers brands of our customers. But I would love to emphasize that we are side by side with our customers, working with them on bringing back bringing value to their retailers brand and improve their competitiveness of their brand through our performance for our innovation. And, yeah, what we are expecting for the second quarter don't know really but we are expecting retailer brand to be highly more competitive in the marketplace.

## Wim Hoste, KBC

Okay understood, thank you.

## Operator

We will now take our next question from Charles Eden from UBS, please go ahead.

## Charles Eden, UBS

Hi, thanks for taking my questions again, I'll limit it to two. First one, with the Q1 Core Markets EBITDA margin, I guess, already at the midpoint of the 11 percent to 12 percent range for the full year, cost savings to progress through the year, should we not be seeing the top end of the guidance range as pretty much the base case here and I guess, if that's the case, is it a bit of prudence for not raising the guidance given we're still only three months through the year.

Second question and I appreciate this may be a little bit premature, but we've leveraged now below 3 times for the first time in quite a while. Have you given any consideration to what level you'd want to see this drop to, before you'd consider reintroducing an ordinary dividend. Or do you think that the sort of organic investments capex accepted to fund the North American expansion really is a priority over reinstating the ordinary dividend?

## Gustavo Calvo Paz, CEO

Those are my two, thank you. Thanks Charles, I will take the first question. So, we are very pleased with the results on the first quarter, but we have to understand that this a first quarter. So it's very early in the year, and although it could sound prudent, with guidance we want to confirm those, and when we are saying between 11 to 12, being in the first quarter in the middle of that range is very encouraging. So I would say let's be encouraged by the results and we have to continue working very hard and that is what we're going to do. We are not at this time of the year, we are not changing any of our guidance.

## Geert Peeters, CFO

Hi Charles, I take the second question on the leverage. I hope you're also encouraged by our leverage coming down. So we are at 2.8 and definitely we go on. The purpose is to go definitely further down, and even down below the 2.5. Currently you know that we are fully focused on our journey, the three-year transformation plan we're executing, with a lot of investment this year, but also next year. So there we have the focus. There we look at. And of course purpose is to have value creation and to come to much higher cash flow also in the coming years. So that's our focus now as a management. In one or two years we can then see what this means, as other opportunities, and also dividends, might be proposed at that moment. But it is not the focus we have at the moment.

## Charles Eden, UBS

Thank you both and congrats on a strong quarter.

## Geert Peeters, CFO

Thank you.

## Operator

Our next question comes from William Dennis from Bank of America. Please go ahead.

## William Dennis, Bank of America

Thank you for taking my questions. I have two. Firstly, could you provide more detail on the drawn status of the RCF, if you can?

And then probably you've mentioned it already but any clarification on raw material cost, expectations for the year. That would be all for me, thank you.

### Geert Peeters, CFO

I will take the question on the RCF of course, William. But what exactly is your question on the RCF?

### William Dennis, Bank of America

Can you provide the drawn status as of now, as of the end of the quarter, thank you.

### Geert Peeters, CFO

How much we took the consumption of the RCF, yeah. You know you can see the cash levels in our press release. So we are gradually repaying the RCF. We were slightly higher in cash, but it was mainly cut off. So that means that RCF, if you take our free cash flow, that gradually it will come down quarter to quarter with the repayments we are doing with the free cash flow. I don't have the exact figure of the RCF now that we took, it would be about 120 million euro, something like that.

### William Dennis, Bank of America

Thank you.

### Gustavo Calvo Paz, CEO

On the raw materials, what we are expecting for the outlook, I can say that raw materials, there are some part of the raw materials that they are having a slight increase in the market place and some others are stable but what we are seeing is that finally we are approaching a time where raw materials are following more the supply-demand curve than an inflation type of curve, that it was experiencing a couple of years ago that was very, very challenging. So now it's raw materials, when we are saying that they are stable, there are variances depends on the supply demand. Some of them could go a little bit up, some of others could go down. The important also matter is how we see our cost transformation program, in which we work significantly with our procurement teams and R&D teams, and to continue improving our position on the average prices of those raw materials.

### William Dennis, Bank of America

Okay. That's very clear, thank you.

### Gustavo Calvo Paz, CEO

You're welcome.

### Operator

And we will now take our last question from Markus Schmitt from Oddo. Please go ahead.

### Markus Schmitt, Oddo-BHF

Yes, thanks for taking the questions, I have two. Firstly, could you please provide an update on your divestment process and if you think something could be announced in the next month? Any updates there would be helpful.

And secondly, are there any plans to call a refinance 2026 bond already? There should be some time, but your performance is quite sound now, and maybe an advantage when you would come to the bond market and present your current credit story. So maybe any plans on that side. Thank you.

## Gustavo Calvo Paz, CEO

All right, I take the first question on the divestment process. So, as I mentioned before, we already finished the divestment of Algeria. We are close and, yeah, very close to finish the Pakistan, although it's very, very small. And we continue working on our strategic options for Brazil and Turkey as they are in that process. And of course that we will communicate, as soon as we have any progress on those, we will communicate. At this point, we are working on those strategic options.

## Geert Peeters, CFO

Then, Markus, I will take the second question on the refinancing. As you know, the RCF expires at the end of 2025, the high-yield bonds mid-2026. So we feel still that we have plenty of time, just one year and a half before the RCF expiring. In the meantime, we're strengthening the results, we're strengthening the balance sheet. You have seen also that Standard & Poor's took the first step to take the negative outlook away. So, we only hope that the rating agencies further acknowledge the improvement and can also reflect that in upgrades of the ratings. We also see the yields on our bonds, which is becoming better and better. So, that's the journey we're in. And we're, of course, exploring the options towards doing the refinancing in time and we're very confident it will be successful.

## Markus Schmitt, Oddo-BHF

Okay, thank you very much.

## Operator

Thank you and we have a question from Ferdinand de Boer from Degroof Petercam. Please go ahead.

## Fernand De Boer, Degroof-Petercam

Yes, yes, good morning. Thank you for taking my questions. One question I have is on the operational leverage. You had very strong volume growth, volume mix, but your EBITDA contribution of this mix of volume was only 1 million. So that's my first question.

And the second question, we have seen recently a very strong dollar, where in the EBITDA bridge actually the dollar impact of the forex impact was positive. So with your current hedging, what could we expect in the remainder of the year? Those are my two main questions.

## Geert Peeters, CFO

All right, I take the first question on the, you know, volume mix impact on the EBITDA of 1 million. It is regarding our mix in the portfolio mixing as a total. We have in our... While we're growing significant volumes in North America, we are bringing our scale up in that business and improving our margins while we are building the scale. But it's an investment period of time. And therefore, that mix of geographic mix is what you see that is a lower impact in the EBITDA. But without me giving you any different guidance, what I'm saying is, that while we're building that scale in US, at the same time, we are making it more profitable, that business, as you can imagine. So it is highly, highly promising for the following quarters.

## Geert Peeters, CFO

Okay.

## Fernand De Boer, Degroof-Petercam

I'm sorry, I'm still puzzled on that. Because you have a higher EBITDA contribution in the US, So, but the volume decline in Europe is then causing that it is only the balance is only 1 million euro. That's the way I have to look at this. Because it's absolute figures. It's not to do with margins.



### Geert Peeters, CFO

Yeah, okay. I, I can try to explain it in my words. Of course, the margins, as you know, in the US are currently lower than in Europe, because of our economies of scale. We did not scale up sufficiently. So that means it's still coming. You heard Gustavo on new contracts, ramping up in Q2, Q3, also the existing ones are not at full speed, so that gives us, of course, a country-mix impact currently, so that we have only a limited impact. But throughout the coming months and quarters, that margin will come up by building the economies of scale.

### Fernand De Boer, Degroof-Petercam

Okay.

### Geert Peeters, CFO

And then your second question on the forex impact of US Dollar. We checked again in the end, if we look to the US dollar in Q1, the movement was limited also. It became a bit stronger last month, but it's very limited. We are currently with all the forecasts, we are always updating to see where we are. And we see, with the hedgings we have, the impact towards the end of the year, with the current rates, is not meaningful.

### Fernand De Boer, Degroof-Petercam

Okay, and maybe one follow-up question, if I may. You mentioned also that the costs went up because of the remuneration, where you now have to account for. You have quite some shares for the long-term incentive plan. Does it mean that with every euro share price, we have to take into account around 4 million cost increase on that side? How does that mechanism work?

### Geert Peeters, CFO

No, no, there's no impact. So I think you're referring, Fernand, to the SG&A, which was higher.

### Fernand De Boer, Degroof-Petercam

Yeah, yeah. And where you actually meant the account for ...

### Geert Peeters, CFO

No, that's really a one-off related to the provisions we had on the '23 bonuses and the actual pay-outs, because it was a great year last year. And that's the main impact. So it's short-term impact. You will not have any more in Q2, Q3. Thank you.

### Fernand De Boer, Degroof-Petercam

Okay. Okay. Thank you.

### Operator

Thank you. And there are currently no further questions at this time. With this, I'd like to hand the call back over to our speakers for any closing remarks.

# Conclusion

## Gustavo Calvo Paz, CEO

Okay. So we deliver a strong start of the year. We finalized Algerian divestment, allowing us to focus more on our Core Markets. We rolled out new products and grew volumes by strong double-digit growth in North America. And our cost transformation program has delivered structural savings yet again. Our achievements so far and the dedication of the Ontex teams give me confidence to make further way on our strategic journey to be the number one trusted partner of our retail and healthcare customers. So thank you very much for your participation and have a great weekend.