24Q3 Transcript

Presentation

Geoffroy Raskin, Investor Relations

Good afternoon, everyone, and thank you for joining us today. This is Geoff Raskin from IR. I'm pleased to have today with us Gustavo, our CEO, and Geert Peeters, our CFO, to present the third 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 assume you will have duly noted it. You're well aware that since 2022 our P&L is based on continuing operations which consists of our Core Markets activities only. While the Emerging Markets are reported as discontinued operations. We have already divested, or are in the process of divesting, most of these, but meanwhile these activities continue to contribute to our results. Please note that since the start of the year we have changed the definition of free cash flow, to reflect free cash flow after financing, and the operating savings in our EBITDA bridge, where we have adjusted it to a net figure after subtraction of implementation costs. We have now also adapted the presentation of the year-on-year bridges for adjusted EBITDA, isolating only the translation impact of foreign exchange fluctuations both for Q3 and for year-to-date figures. With that cleared up, Gustavo, over to you.

Gustavo Calvo Paz, CEO

Thanks Geoff. I'm proud of the Ontex teams with a solid delivery in quarter three as summarized on Slide 3. First, we continue to grow volumes by 4%, with double-digit growth in adult care and double digit volume growth in North America baby care. Two of our focus areas supported by a strong sustainable innovation pipeline. Sales prices were lower reflecting past raw material price decreases, leading to a revenue growth of 2% like for like versus quarter three last year, and 3% more sequentially compared to quarter two this year, showing continued growth in the year and making quarter three the highest revenue generated in Core Markets since 2021. Second, the adjusted EBITDA margin rose to 12%, 2.4 percentage points higher [than] a year ago, and adjusted EBITDA rose 29% driven by volume growth and continued strong delivery on the cost transformation program. Third, with lower debt and increased EBITDA, we brought our leverage down further to 2.4 times, strengthening our balance sheet. These solid results are the outcome of the laser-focused execution of our strategy through the defined three value creation drivers.

On next slide now and before digging into this, let me highlight the agreement we reached to sell our Brazilian business to Softys. We expect the deal to be closed during the first half of 2025, by which we will receive net proceeds of about €82 million. This transaction will thereby not only allow us to focus even more on retail brands and healthcare in Europe and North America, but also give us additional means to transform the company further, building on the three value creation drivers that you see described on this slide.

Next, starting first with competitive and sustainable innovation. This quarter we launched our next generation of baby pants, Dreamshield 360, with our unique and patented pee & poo barriers and a 360 fit for all around protection and comfort. We anticipate a strong uptake from this product as we already see with our latest baby diaper innovation launched in quarter two with integrated and patented Stop&Lock anti-Leak technology. In feminine care we introduced SatinSense tampons, improving comfort with its silky coating, ensuring smoother insertion and removal. And in adult care we are deploying our Channel X-CORE technology, a new core design that meets the top three needs of adult consumers: protection, comfort, and discretion. These innovations also are environmental benefits, reducing plastic consumption. On that topic, I would like to congratulate the Ontex collaborators and the sustainability team in particular for the EcoVadis Gold rating in ESG

transparency awarded recently. They are doing a terrific work in that field. This innovation pipeline is the fuel for our business expansion ambitions shown in next slide.

We recorded double-digit volume growth again in [the] adult care category with our strong position in Europe supported by consumer trends. We also continue to grow baby care volumes by high double digit with retailers in North America, with new contracts having started in the last quarters and continued onboarding of new customers: two in the first half of the year and now two more in quarter three. The combined effect of a strong innovation pipeline and our commercial initiatives are helping us to build solid long-term partnership with our customers. And [the] third driver is best-in-class operations, where we reduced our operating costs again by 4%, gaining competitiveness by a relentless implementation of our cost transformation program. A key milestone to pursue this effort, is the conclusion last week of the social plan regarding our Belgian footprint transformation. We will close [the] Eeklo plant by year end and we will transform [the] Buggenhout [plant] over the next year and a half into a center of excellence for research, development and production of medium and heavy incontinence products. While these are very difficult decisions to make, they aim to strengthen our operational cost efficiency across Europe, enabling us to improve our competitiveness further. That being said, I leave you over to Geert for the details of the financials.

Geert Peeters, CFO

Thank you Gustavo. So we are now on Slide 7 with the revenue bridge for Q3 versus last year showing like-for-like the growth of 1.7%. As Gustavo already mentioned, out of this 1.7%, volume and mix grew 4.4%. The main contribution came again from adult care with volumes growing double-digit, as it did in the first two quarters. Adult care is now the largest category in our portfolio. We have a very strong position in Europe, especially in the institutional channel where we gained this year new contracts. Also in the retail channel we noticed further growth supported by societal trends with a growing and more active aging population. Volumes were up in baby care as well. In Europe they were stable, thus we outperformed the market. Over market demand continues to reduce slightly in line with the lower birth rate, and at the same time this quarter retail brands are not gaining share due to continued intensified promotion activity by branded players. Then in North America, however, baby care volumes were up double digits with a steep ramp up in production. This is supported by several new contract gains this year with two large new retail contracts that started up in Q3. While retail is growing fast, we are more selective in contract manufacturing where we mainly focus on a limited number of lifestyle customers. We've also been more selective, keeping focus in feminine care which explains the lower sales volumes in that category in the quarter. Sales prices were 2.6% lower year on year, reflecting the drop of raw material prices in the past periods. The sales prices thereby normalized after the huge increase in '22 and '23. Compared to Q2 this year, our sales prices have stabilized, as did raw material prices. Sale prices remain of course an instrument to strengthen our competitive position, combined with innovation, reliability, quality, and of course excellent added-value services. So we will further engage in limited price investments, but this will be more than compensated by higher efficiency.

This brings me to Slide 8 with the adjusted EBITDA bridge. The adjusted EBITDA grew 29% to reach €56 million in Q3. Let me go through the different building blocks. The strong volume and mix as explained on the previous slide contributed €8 million. Our cost transformation program continues delivering significant savings, this quarter amounting to €40 million net of implementation costs and as before, this comes from multiple improvement initiatives in purchasing, manufacturing, logistics and product innovation. These reduced our operating cost base year on year by 4%. Next you see the €12 million impact from lower sales prices, but as I explained before, this is more than covered by decreased raw material prices. The indices driving these prices have been normalizing gradually after the peak in '22 and currently raw material prices are stabilizing. If we look at the impact year on year, this is still a significant positive. Other operating costs were up €10 million. This is explained by continued inflation of wages, energy, and logistic costs, but also, and this quarter more than before, by inefficiencies in our supply chain due to production ramp-up and asset transformation. These are of a temporary nature and we expect these to bring important savings in the future. Finally, SG&A costs were also slightly up with inflation and forex translation effects had

a limited negative impact. All in all, the adjusted EBITDA margin further strengthens, growing from 9.5% in Q3 last year to 12% this year.

And finally we can see further strengthening of the balance sheet on slide 9. Net debt which is presented in green here, landed at €579 million at the end of September which is €9 million better than in June and even [an] €86 million improvement compared to the start of the year thanks to strong adjusted EBITDA generation and the disposal of Algeria and Pakistan. This lower debt drives down our refinancing costs thanks to a minimum use of the revolving credit line and a lower margin which is based on the leverage grid. The adjusted EBITDA for the total group generated in the last 12 months, and adjusted for scope changes, further rose to €241 million which is shown in blue. And then in orange, the leverage ratio dropped further to 2.4 times improving compared to 2.5 times in June and 3.3 times at the start of the year. This brings us in an even stronger position to realize a successful refinancing which we are actively preparing. I hand you back over to Gustavo for the outlook.

Gustavo Calvo Paz, CEO

Thank you Geert. I'm pleased about the further progress we are making on our transformation journey. We confirm our 2024 outlook, which we revised upward in July, for our adjusted EBITDA margin at about 12%, for free cash flow with more than €20 million, including payout of about half of the Belgian social cost, and for leverage ratio to remain below 2.5 times. On revenue growth, we were probably a bit over-enthusiastic raising the outlook in July. The onboarding of new customers in North America, combined with the ramp-up of additional capacities resulted in the phasing of our orders and deliveries. This led us to review our revenue growth guidance, now expecting it between 2% to 3%. We are in the middle of our transformation journey and I feel more comfortable now to say that Ontex is back and may be stronger than ever before. We compete in a very attractive market. We have a best-in-class experienced team. We have successfully executed two major milestones this quarter, all while consistently delivering improved financial performance. And with this, Geert and I are ready to answer your questions.

Q&A

Geoffroy Raskin, Investor Relations

Before handing over to the operator, could I ask you to state your name and firm, and limit your questions to two? If time allows, we'll do a second round for additional questions, and if not, feel free to contact IR afterwards. Operator, over to you for the practical details.

Operator

Thank you Mr. Raskin. (Operator Instructions) Our very first question today will be coming from Wim Hoste of KBC. Please go ahead. Your line is open.

Wim Hoste, KBC

Thank you and good morning all. I have a couple of questions around the US business. Can you maybe elaborate a little bit more about a couple of things? First, how many contracts are there still to ramp up, and what kind of ambition do you have for Q4 and beyond? Is that still strong double digit growth also for Q4? And then continuing in '25, if you can elaborate a little bit around that? And then also, yeah, in light of the ramp-up efforts and the capacity expansions, how is the profits evolving in the US business? So those were the questions. Thank you.

Gustavo Calvo Paz, CEO

All right, thank you Wim, for the question. In US, the onboarding of the new customers is as we were expecting since the beginning of the year. At the beginning of this year, I mentioned that we, at the end of '23, we were doing very good meetings with new customers and we were expecting this onboarding [of] customers sequentially throughout the quarters of this year. So there are two effects here. One is the onboarding of new customers is happening exactly in the way that we were expecting and also the orders in the way that we were expecting, and our ramp up in terms of capacities and deliveries is what we are spreading throughout the quarters. So what we can expect towards the fourth quarter is us definitely continue growing, because we are ramping up all those sales quarter by quarter and [the] fourth quarter will continue to be a strong growth in baby care North America. And as you can imagine, that is also continuing now in 2025 and also 2026. And because our relationship with the customers are a long-term relationship there. So this onboarding of new customers, the existing ones, which were exactly aligned as we were expecting for this year, has happened, and we are ramping up on the deliveries to them. And once we are in 2025, we will compare with 2024, and we are going to have much more increased top line sales in 2025 versus 2024, because we are increasing deliveries to customers quarter by quarter. That is in terms of the revenue, in terms of the top line. On the profit side, Geert?

Geert Peeters, CFO

On the profit, Wim, I can briefly comment. First of all, we always said that US was still very dilutive for the overall profits, which is of course still the case because we're ramping up. The driver is of course the important economies of scale that we will realize in the coming months, step by step, and on top currently with the ramp up it comes of course with a lot of inefficiency costs at this moment. So we will have a double impact next year. Those, of course very profitable contracts, they will bring us economies of scale and there will be less inefficiencies. And we also will go more and more in that cost transformation program we have in Europe. We always also will have US. So the purpose is that that dilution will not be dilutive anymore in the future.

Wim Hoste, KBC

Okay, and is that the case in '25 already that you should reach similar margins? Or is that a general statement more towards medium term that you just made?

Geert Peeters, CFO

I think the steps will go very fast, quarter by quarter, but reaching the levels in Europe, there we will definitely need more time. It's not a question of quarters, that's a question of a longer period.

Gustavo Calvo Paz, CEO

And if I can add to that here, Geert, it [is] also one of the points that we mentioned. [It] was the inefficiencies, because we are increasing capacity in US, meaning that we are starting up machines? And while we are growing, we will continue increasing capacity, we will continue [to] start up machines. So it's not yet fully reaching and it all depends on how much we are going to keep growing the business. But definitely the scale the business in US is already reaching, it will start being a big driver in our profitability on that business. So the growth is on, in terms of not just top line, but in terms of profitability is going to be impactful.

Wim Hoste, KBC

Okay, and last question. Are you willing to share a kind of revenue target or ambition for '24 and '25 in the US business?

Gustavo Calvo Paz, CEO

No, not yet.

Wim Hoste, KBC

Okay.

Gustavo Calvo Paz, CEO

Not yet, unfortunately. Sorry, but no guidance today for '25. But

Wim Hoste, KBC

Okay.

Gustavo Calvo Paz, CEO

As I was mentioning, I'm trying to be very clear. So imagine I'm going to be as much as transparent as possible. We have added in Q3 and Q4, actually. in Q3 and Q4, we are adding new deliveries to new customers that were not existing before so. And those customers are starting right. And imagine that they're going to be fully in starting in Q1, Q2, Q3, and then you're going to compare versus the previous year where those customers were not there. And I can tell you that the size of the customers that I'm talking about are sizable customers in US.

Wim Hoste, KBC

Okay, I understand. Thank you very much for all the explanations.

Gustavo Calvo Paz, CEO

You're welcome.

Operator

Well thank you, sir. We'll now move to Fernand de Boer of Degroof Petercam, please go ahead.

Fernand De Boer, Degroof Petercam

Yes, good morning, it's Fernand de Boer from Degroof Petercam. I'd like to come back because, Gustavo, you said that the onboarding of these new customers is going according to what you were expecting. Where is then the delay? And if you then have to warn for the sales growth for the full year, is this then due to lower volumes or is [there] also a negative price component which is stronger than you expected? And also maybe, it's all related to the same question, what about Europe? Is that still according to your expectations? Or do you have the feeling that because of the efforts of the branded companies, that you are having less growth than expected? So that's actually my first question. And then the second one is on the price outlook because it was now minus 2.6%. Any comments on that one for the coming quarters? And then maybe [the] last question. You mentioned in your presentation the refocus of feminine care, which also had quite some negative growth in the quarter. Could you elaborate a little bit on what you exactly are doing there and what we could expect in the coming quarters for that one?

Gustavo Calvo Paz, CEO

Yeah. Hi Fernand. Thanks. So I'm going to go in the order of the questions, perhaps, or mix in a little bit. So your first question is about if the onboarding customers are going as expected and why the deliveries is a consequence of less volume or is a different type of consequence, why we are

changing the guidance that we raised in July. And there is not because we have lost any type of customers or nothing about that. It's on the contrary, we did all the onboardings of the customers as expected. All the expected also contracts and long term relationship with the customers are going very, very well. And what I'm saying very, very well is because we have a true partnership with them, we are working with them. And through that partnership also, we realize in combined way that spreading the volume through the quarters, it was better than facing altogether. So It is so big, the volume growth in US is impacting on our total expected volume growth, but it's still significant volume growth. So it's more about spreading this growth through the third quarter, fourth quarter, and first quarter next year, not more. It's only that instead of that we have any particular problem with not onboarding any of the expected customers in US. So all that front is going well. We are delivering the right quality, we are delivering the right timing. So I'm saying that I'm very, very happy in the way that we are ramping up this growth, significant growth in US. But of course that perhaps there is always some bumps in the road. In terms of the pricing, no, it has no pricing impact in [the] US. The pricing is not the impact. We are delivering the pricing. There is no pricing problem there. And then you ask the question about Europe. In Europe we are delivering based on our outlook in terms of volume growth. I know that in our presentation it was said that baby care in Europe is steady, while the market trend perhaps is not. So we are regaining something there back in terms of share, but it is steady positively, not steady negatively. So I'm very happy as well how our innovation pipeline is helping us to keep growing this relationship with existing customers in Europe and also how this innovation pipeline in baby care and in adult and in feminine, we are having in Europe. The prospects there are very, very good. In terms of pricing, that you were asking, also. I guess that you're referring by lowering the pricing: 2.6% lower pricing. That is because it's carryover from the pricing. Because this is compared: third quarter of '24 versus third quarter [of] '23, which I would say that was almost a peak of the highest price that we have had. Starting in fourth quarter '23, I don't know if you remember or not, but we already started saying that we were adjusting the prices based on the new material price decreases. So then, when we compare this quarter, quarter three, versus the previous year quarter, then it shows the biggest gap. But when we compare quarter three this year versus quarter two this year, that pricing is stable. So we are not facing lowering prices anymore. Although, that I just want to say that all of our cost transformation program is helping us to deal with the ups and downs potentially on the cost front, or the ups and downs on our competitiveness. That's why it is so important [to] continue with this cost transformation program. In terms of feminine care, several times, I was talking about selective categories, that we focus on selective categories, like baby pants, like adult care pants, to push forward strong growth. And we are delivering those, not just because they are trends in the markets. Consumers trends indicate that. But also we have good competitive advantages in terms of those lines. So our focus is there. In feminine care we do have also focus on tampons. We have focus on certain lines of feminine care. But the consequence of our decomplexification program that I have been also referring [to] in the past, which gave us the opportunities for big cost transformation savings, this decomplexification came… As you can imagine, in feminine care, there is [a] huge amount of SKUs, [a] huge amount of portfolio spread. And in this process, of course, that we, all under our criteria and initiatives in this process, we know that we were going to lose and adjust some volumes in the feminine care. But we are prioritizing in those that we want to make a difference. So it's a matter of stabilizing that business. But we are stronger now than before in how we compete there and the margins that we're getting in those business. I hope that I was answering you, otherwise let me know.

Fernand De Boer, Degroof Petercam

Yeah, no, very clear. Thank you very much.

Gustavo Calvo Paz, CEO

You're welcome.

Operator

Thank you, sir. We'll now move to Patrick Folan calling from Barclays, please go ahead.

Patrick Folan, Barclays

Hey, good morning or afternoon, how should we think about the baby care like-for-like development in 2025 when stripping out these phasing impact, I guess? And what I'm kind of asking is the headwind we saw here in Q3, the uplift we should expect to reverse next year, and is that kind of the bridge basically between your new guide and the previous guide? Is that like a good way to view it? And just my second question, just on adult care, can you just give a little bit of color on the share gains in the institutional channel? And the support of retail market you saw in Europe. Thank you.

Gustavo Calvo Paz, CEO

Okay, so in terms of the baby care, I guess that your question was referring to US, Is that right, Patrick?

Patrick Folan, Barclays

Yes, yes. Correct.

Gustavo Calvo Paz, CEO

Yes. Okay, so in baby care, yes, we will continue to see strong high double-digit growth in [the] US Retail market. And that is as a consequence of onboarding new customers, important customers. And those onboarding new customers are a long term relationship. So it's not a short-term thing. So '25 will continue to see that significant growth. In terms of adult care that you ask as well. It's a good question for us. It's very relevant. Adult care is a very growing segment, aging population, active aging population, which is very, very important that point that is active. We are getting more and more active at longer ages. This type of product supports that activity of the aging population. And also the trend of the adults are less, what we call perhaps the shame factor. They are more into the category accepting the help that this category gives in terms of having a normalized life. So our growth is both in the institutional channel, as well as in the retail channel. Because this market trend, these consumer trends, goes in both ways, and especially in the retail growth. And retailers also support this growth. And it's quite interesting to see how we are operating together with them, with our plans, working together in the strategic plans to develop more and more this category. Which the categories is formed by three segments. You have the light incontinence, the medium incontinence and the heavy incontinence. And [on] one of the questions before from Fernand, that was related to feminine care, (also) we have to understand that there are people transitioning from feminine care products into light incontinence products. Because there are a lot of consumers, women using feminine care for incontinence reasons or incontinence needs, and now they are more and more into light incontinence products. So that is another reason of the growth in incontinence products and less in the feminine care products. But then you have the medium incontinence, which is a product that gives you the opportunity to enjoy your everyday life in a much more comfortable way. And you feel protected and assured that you're not going to have any type of accidents while you enjoy your life in the outdoors. So, it's a very, very solid category and we have a very strong pipeline that customers are appreciating. And we are developing good growth strategy enhance with them. In [the] institutional channel, sorry that I'm doing long but I'm excited about this category, in [the] institutional channel, Ontex holds a very strong capability, internal capability, to compete and to be a very, very strong competitor in that institutional channel. So I'm very, very pleased with the work that our teams are doing in terms of that, giving solutions to consumers through that channel. So, very important category for us.

Patrick Folan, Barclays

Super. Thanks, Gustavo.

Gustavo Calvo Paz, CEO

You're welcome, Patrick.

Operator

We will now move to Markus Schmitt calling from Oddo-BHF. Please go ahead.

Markus Schmitt, Oddo-BHF

Yeah, thanks for taking the questions. I have actually one question on what was just said, and that was that you are actively, when I got that it right, that you're actively looking at refinancing the bond. Maybe you could clarify what you mean by that, if you deem, obviously the current window which is open in the market, maybe as a point for you to refinance the bond. And apart from the second question would be, unless nothing happens with the refinancing. But you said you have net proceeds of €82 million next year when you sell the Brazilian business, the RCF was at €32 million. So assuming we will pay down the RCF, what would be the capital allocation for the other €50 million? These are my two questions. Thank you.

Geert Peeters, CFO

Okay, thanks for asking. I will of course take that one. On the refinancing, we said what we said. That means we started preparing. It doesn't mean that we're going to jump the coming month or two months on the high yield bonds. We still have quite some time and we believe it would be good to realize the refinancing between now and mid of next year, well ahead of the expiration date, which is (we will be) more than 12 months before. But of course we started preparing all that. We noticed that there's also quite some appetite. So we feel in a good position. It's of course, thanks to our important, successful transformation we're going through, and the deleveraging we did. So that's also, we try to find the right balance at this moment between improving further the company, because what we explained, we took the two big steps now also on the social plan and on Brazil. So we are looking for the right moment. So you will see it coming up in the period between now and half year. On the capital allocation, I don't have an exact allocation, of course, I can mention to you now. But we will take care, of course, going for the lowest costs for the company, because we're of course, very much cash flow driven, at the same time to have sufficient headroom. But we are sure that with the current cash flow generation, of course, also the proceeds of Brazil, we can work with a much lower gross debt than we have now. So we will bring down the gross debt significantly, and then allocate it in a smart way between the different products.

Markus Schmitt, Oddo-BHF

Okay, so just to clarify one question here, so when you see until mid year, then it would obviously mean when you go by that rather July than June, because then the call price steps down to 100, right? I mean, but you will not clarify more, I guess, if it' rather a sooner call or later call, right.

Geert Peeters, CFO

No, you will see it happen and we will do it in a smart way, which is the best for the company, of course.

Markus Schmitt, Oddo-BHF

Okay, good. Thank you very much.

Operator

Thank you very much for your question, Mr. Schmitt. We will now move to Mr. Reg Watson calling from ING. Please go ahead.

Reg Watson, ING

Afternoon, Gustavo. I just like to come back to your answer to Fernand's question about this change in the guidance and the ramp up of new customers and their orders in the US. If I've understood the answer correctly, it sounds to me like what changed between the first half and the guidance upgrade and now the third quarter and the guidance downgrade, is that you are not able to deliver as quickly as you had originally expected. I'd like to understand the reasons for that, please. That's the first question. And then the second question is related to that. It sounds to me that as a result of this, you're going to lose sales. Can you quantify please, how much sales you will have lost as a result of the slower than expected ramp up? Thank you.

Gustavo Calvo Paz, CEO

Yeah. So (what) in terms of the US, Reg, I mentioned that all the onboarding of new customers is as expected. Not exactly, perhaps, everything in the same timing, but all of them, they have happened already and they are secured with us. Right. So that is a very important point. Then when I refer about the timing, sometimes it's not, you know, very quickly. (And I'm not.) It's very borderline what I'm saying. But imagine that this is a partnership that you do with a customer, and there are things that the customer needs to do, things of course that we need to do, in order to start deliveries, or start production. Actually start production and then start deliveries. And this type of, you know, fine tuning, last time, last moment is what (it) creates some delays and not lost, (I would say) I will not call it loss of sales, but I would call it delay on the deliveries. So I'm trying to express as much as possible, and just I would say blame to my overenthusiastic moment in July when I raised the bar, is because they were coming, everything, all the planets were aligning that moment. And, then based on our partnership of working with the customers beginning the third quarter, we found a best way to deliver and to ramp up all this onboarding to spread the volume throughout third quarter, fourth quarter and first quarter next year. So it's more about that. I know that it's disappointing, because the guidance was one thing, then we changed it and now we are going back to the initial guidance of 2% to 3%. So I understand, but believe me, that is for the good of this company and not for the bad …

Reg Watson, ING

Okay, if I might jump in there, Gustavo. So am I understanding this correctly, that essentially that two quarters of your previous expectation of two quarters of volume delivery, is now going to be spread over three quarters?

Gustavo Calvo Paz, CEO

Yes.

Reg Watson, ING

Okay. And you say that's to optimize the ramp up. Can you give us some color on why the ramp up is more optimal over three quarters than two?

Gustavo Calvo Paz, CEO

Well it is… First of all, there are some things that there are many, many. It could be raw material, could be packaging, could be starting up machines. It could be also even spacing in these little centers of the customers. Believe me that there is a combination of many, many things. And as I said before, I don't want to cross the line on the things that I share in this call, but I try to wrap it up

in terms of that. The volume is good. It's huge. It's a super growth volume altogether and for us and for the customers.

Reg Watson, ING

Okay. Understood. Thank you. I appreciate your color, Gustavo. Thank you.

Gustavo Calvo Paz, CEO

You're welcome.

Operator

Our next question will be coming from Karel Zoete of Kepler Cheuvreux. Please go ahead.

Karel Zoete, Kepler Cheuvreux

Yes, good morning. Thanks for taking the questions. I have two follow-up questions focused on the European stronghold. The first one, can you speak a bit about the benefits of mix you see in the business and going forward. You highlighted some of the innovations you're launching or have launched. What's it contributing currently, and then how do you see that developing? The other point is somewhat related because an interesting time comes up, of course, for the discussions with European retailers at the end of the year, early next year. How are you entering that discussion? In a sense that you highlight that the cost environment looks okay, innovations look okay. But at the same time, we see that many of the branded players are stepping up promotion and marketing budgets. So, yeah. Will you be sharp on pricing continuously next year, or what's the expectation on the negotiation season for the European retail side of things? Thank you.

Gustavo Calvo Paz, CEO

Yeah. So in terms of the mix that you were asking first. So mix is positive and so volume is positive and mix is positive. And the mix is positive (is) because the innovation pipeline, those selected categories (that) [where] we have our competitive advantage and a strong product performance in those selective categories. So in terms of baby care, I imagine that we are switching consumers from baby diapers to baby pants. So that is another impact on the baby diapers business, right? That perhaps the baby diapers as a market is going down, but baby pants is growing on the mix, perhaps on the total baby care. We sustain our volumes and we are improving the mix. So total volumes is sustained and mix is improving. So that is very positive. Also in the mix, you have to think that it's not just about the products, but also the mix, in the geographic mix, channel mix. So in the channel mix, (and) we have also positive news. In the geographic, even talking about Europe in the geographic mix, well, some quarters we have good positive impact, some quarters not so. But all of that is part of the mix. It's not just the product mix. As is today, our mix is positive and (we are keep) definitely we keep expecting to be positive because [of] our focus that we have in the specific categories. So we are expecting positive mix in the next quarters to come. Then your other question was about how we see the market in Europe in terms of the branded business trying to regaining market share and the push that they are. If we are referring to Europe, yes, the activity continues. It's not about pricing, it is at the end the net pricing, of course, but it is the promotional activities. What the branded business are doing is promotional activities. And today I would say that they have not been able yet to regain the market share (there is) that perhaps they are looking for. And here we are talking, I don't want to mention it, but we are not talking about too many branded business. So it could be very easy to do that. So it’s not getting [stronger]. Because the retail brands are getting stronger. And that's the reason. Retail brands are not just a cheap product. The retail brands are high-quality product, [with] performance very good. And they have their own promotions and they have their own activities. They are sustainable. So consumers are highly attracted to for those retail brands. And it's a geographic thing. Right. So it's per country. It’s locally. So it's not going to be easy for the branded business to try to regain very quickly as it perhaps (it) was in the past. Pricing, what

we see, no, we don't see any major huge fighting pricing because also branded business, they have their own targets on delivering their profits as well.

Karel Zoete, Kepler Cheuvreux

Yeah. Okay then. So the pricing should in theory remain positive then, unless things.

Gustavo Calvo Paz, CEO

And if they are, I'm going to say, Karel, something very, that I'm convinced and that's why we put so emphasis. Our caution formation program is a continued program. It's a continued improvement and we have a lot to continue going on. And that should give us all the time the flexibility to be, to stay, competitive in the market and so the flexibility to manage times of ups and downs on cost, without risking (or) big changes in our margins. So that's why it's so important that we continue to invest behind efficiencies in Ontex.

Karel Zoete, Kepler Cheuvreux

Sure. Thank you.

Gustavo Calvo Paz, CEO

You're welcome.

Conclusion

Operator

Thank you very much, sir. Ladies and gentlemen, as we have no further questions at this time, I'll turn the call back over to Mr. Gustavo Calvo Paz for any additional conclusion remarks. Thank you.

Gustavo Calvo Paz, CEO

So thank you very much for your questions. I'm not going to make it long. I'm just going to say the questions were very good because (they) gave me the opportunity to explain what's going on in the revenue. I feel super confident in the way that the teams in Ontex are executing our plans. Very, very challenging and very high bar type of plans and they are executing very, very well. So I appreciate also that this requires a lot of trust from many stakeholders. And yeah, I'm counting to keep building that trust by delivering on our expectations. So thank you very much and we will talk soon again. Yeah, bye-bye.

Operator

Thank you, ladies and gentlemen, that will conclude today's presentation. Thank you for your attendance. You may now disconnect. Have a good day. And goodbye.