26Q2 Transcript

Presentation

Geoffroy Raskin, Investor Relations

Good afternoon, everyone, and thank you for joining us today. I'm Geoffroy Raskin from IR, and I'm pleased to have with us Laurent Nielly, our CEO, and our CFO, to present the outcome of our strategic review and the results for the first half year of 2026.

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 have duly noted it. With that cleared up, Laurent, over to you.

Laurent Nielly, CEO

Thank you Geoff, and good afternoon, everyone. Today, we have several key messages to share: of course, our H1 2026 results and our outlook revision, but also the change of CFO, we just announced. And I want to take the opportunity to thank Geert, not only for his numerous contributions in the last 2.5 years, but also to be there with me today as we guide you through some of the key changes at Ontex. And in fact, today I will spend my comments on the strategic review first, before moving to highlights of H1 and our outlook. Then Geert will cover the financial analysis of the half year. I will come back to give you our priorities for the remainder of the year.

When I took the helm of the company, my first mission was to ensure we would stabilize our business. This task remains with us as we face a difficult environment. We have been very fast in deploying pricing actions while at the same time pushing for more cost initiatives. In parallel, my first six months as CEO have been dedicated to taking a fresh and objective look at every aspect of our business. With the support of the board, we did a deep review in both North America and Europe, leveraging external advisors and our full team. The outcome of this work is leading to a fundamental transformation of the company to resume both top and bottom line *[growth]*. We have not waited to enter into execution mode. Actually, the consequences of the Middle East crisis made it all the more urgent for us to act. As you can see here, we have taken already many steps. Finally, I have made several changes in our leadership team. In addition to the new CFO we announced today, we have backfilled the Head of Europe and have a new Head of North America.

But let me now explain a little bit more what is behind our fundamental transformation. It is articulated around four major shifts. The first shift is to increase structural productivity by launching an ambitious expanded program, which we label *Focus to Value*. It will be a central pillar of the transformation. And I will come back on the next slide with more details. Second, we are resetting our approach in North America to transition from volume-led expansion to a disciplined value creation model, focused on profitability, asset efficiency, and returns. Third and fourth relate to Europe, where we will both accelerate adult care, the cornerstone of our future profitable growth, while adopting a more targeted approach to protect our important baby and feminine care positions.

So let me expand on the Focus to Value program, which encompasses all productivity initiatives of the company. Reflecting on what we experienced in the past few years and building on the work with advisors, we have set clear and ambitious targets with a scope that goes deeper and broader, including cross-functional initiatives to further reduce complexity and waste, and with a focus on a performance-driven culture. We aim to deliver €240 million of savings over 2026-2028 versus our 2025 baseline, which represents €40 million more than the €200 million we had committed for. Actions have already started to further adjust the cost base, amplifying product and logistic savings through simplification, lean manufacturing, and network optimization, with a streamlined organization across white-collar functions. There, at the end of the program, we aim to reduce white-collar positions outside manufacturing by more than 20%. To achieve the incremental €40 million identified, it will require additional restructuring costs of about €(30) to €(35) million, leading to a total of about €(60) to €(65) million in restructuring for the total program, to be phased over the next 24 months, of which about €(20) million is impacting the second half of 2026. To ensure we do not lose any time and are able to adjust as the business evolves, we have put in place a transformation management office, which is operational today.

Let me now take you through our changes in North America. There, we have a clear case for change. Market dynamics have evolved in the past few years in the baby market. We have a complex setup that is suboptimal to drive cost leadership, combined with a business that has not delivered the returns expected on the high investment we realize. This is leading us to fundamentally reset the approach to prioritize profitability. We have a new leadership in place, we have already adjusted our plans, and have started to simplify our operational setup, which includes a thorough review of our assets and capacity. This resulted in a significant non-cash impairment to adjust both the historical goodwill and the asset base. What we are pursuing: progressively shift our portfolio where we can generate profit, and we believe there are many opportunities to do so; deliver a simpler operating model, all aiming to return to sustained cash flow generation.

Let me now touch briefly on Europe. Adult care is a structurally attractive, growing category where we already hold a strong position. It will become the cornerstone of our future growth. We will increase focus and investment in capacity, innovation, and go-to-market. That will reinforce our leadership and allow us to grow volume and volume share across retail and healthcare channels. This is obviously a topic that we will share more elements of in future interactions.

But at the same time, we intend to protect our very important position in baby and feminine care. But we concluded here too that we had to approach it in a different way. As the market declines, especially in baby, *[and]* as we still have legacy assets that drive complexity despite our many recent efforts, we are reviewing our approach to ensure we allocate our resources where we can best unlock value to our customers and to us. At very specific times, it might mean relying more on an outsourcing partner. At other times, it might mean that we define our innovation strategy much more in tune with our asset capability to optimize investment. In all cases, this is to best position us to continue to serve our priority customers the best way possible. To execute this shift, we have identified selective opportunities to simplify our asset base, *[and]* retire some old lines to again drive efficiency. This explains why we have recorded some non-cash impairments here as well. All that to pursue clear goals: Protect our volume share by focusing where we can make the difference for our customers; unlock innovation, speed, and productivity to improve return on capital. To enable the transformation. We have mentioned additional restructuring costs and alluded to non-cash impairments, which will total €(144) million, that Geert will detail this more in the next part. This is consistent with our ambition to simplify our operations, *[and]* to focus on segments best placed to improve returns, thereby shaping a more resilient, cash-generating, and value-driven Ontex.

Let me now transition to our second key topic and share highlights of H1 and our revised outlook. Our H1 performance was mostly characterized by year-on-year lower demand leading to lower volume. It drove revenue down 2.2% like for like and adjusted EBITDA margin by 0.7pp. *[This is]* the result of the lower volume, while cost inflation was offset by productivity. Nevertheless, we generated positive free cash flow and combined with some M&A inflows. This brought our net debt down to reduce leverage over H1 to 3.2x.

Let's look at the quarterly evolution on the next slide. What is encouraging to see is that we have managed to stabilize the quarterly performance since the fourth quarter of last year, and this despite the more challenging environment. While year-on-year, our Q1 performance was well below last year, in Q2 revenue was in line, and adjusted EBITDA is stable. In fact, adjusted EBITDA is stable over the last three quarters. The good outcome of our singular focus on stabilizing the business, albeit we all agree at a level we would like to see higher. We will keep this maniacal focus on stabilizing our business. Yet, we know that in the Middle East crisis, *[the]* impact will be more severe in Q3.

So that leads me now to look at H2, where indeed we expect to continue to operate in an equally challenging and volatile environment. The demand side has softened a bit further, compared to what we expected, and we believe it is going to remain mostly unchanged, with still the opportunity that we have and the headwind that we have. On the cost side, however, the geopolitical situation remains uncertain and is pressuring our margins. It is fair to say that the speed and the intensity of the cost increase in Q2 was more than what we had expected, but we are taking actions, and as we explained earlier, we expect to fully recover the cost impact over time, yet with time in delay. The situation remains fluid, as you all know, which changes every day, every week.

Based on the evolution so far and the latest assumptions, we are revising and broadening the outlook as presented on the next slide. Adjusted EBITDA is expected to end up in the range of €165 to €180 million, which midpoint of which is broadly aligned with prior year result and latest consensus. Driving this, we expect revenue to be broadly stable and some margin recovery as we enter Q4, as the pricing actions and efficiency initiatives start to more than offset the cost inflation. We expect a negative free cash flow between €(10) and €(25) million. The decrease versus the previous positive outlook is the result of the lower expected adjusted EBITDA and the higher restructuring costs, partly offset by better working capital management results. The combination of both is to keep leverage below 3.5x at the end of the year, a point that Geert will comment further. So, a perfect transition to our H1 financial review, Geert, over to you.

Geert Peeters, CFO

Thanks a lot Laurent. Let me go through the year-on-year performance of our H1 2026 results.

As Laurent pointed out, revenue declined 2% like for like, driven by volumes, although Q2 showed a mild growth. On top FX, being mainly the US dollar depreciation, added another 1% decrease. Baby and feminine care volumes came out 4% lower. Both can be explained by the decrease in contract manufacturing volumes, *[and]* as well some contract exits in overseas regions, which were anticipated. When we only look at retailer brands, we actually did better than the market. Our baby care volumes were largely stable in Europe and even slightly increased in North America, while both markets for retailer brands actually showed a mid-single-digit decline. Ontex mainly benefited from a strong position in baby pants, which continues to grow double-digit. Adult care also continued to show growth, albeit more modest, by 1%. This is due to a robust performance in the healthcare channel, whereas in retail, volumes were down linked to Ontex customer exposure and temporary capacity constraints. Although we have committed price increases in Q2 to mitigate the cost inflation, this will only impact the second half of the year. The negative price impact you notice in the revenue bridge of H1 is still a carryover from last year as a response to raw material price decreases in that year.

Moving to adjusted EBITDA on the next page. The lower volume and revenue pushed our adjusted EBITDA €(12) million lower. We managed, however, to reduce costs by €2 million net, thanks to savings offsetting the rising input price environment. Raw material prices started to go up due to the Middle East crisis, especially from June onwards, as the contractually delayed impact of indices kicked in. This was primarily the case for oil derivatives such as backsheets and certain packaging materials. Other input costs rose as well, but earlier, from March onwards, in particular, transport costs, driven by the higher diesel price. Supply chain inefficiencies, which started in the second quarter of *[last]* year, are improving but still impacted the comparison, especially in the first quarter. Our cost transformation program has been continued, but at the same time, deepened and broadened under the new name *Focus to Value*. It contributed significant savings in cost of goods sold and SG&A. Last but not least, the translation impact was slightly positive. Altogether, adjusted EBITDA came down by 9% to €78 million and margin by 0.7pp to 9.1%.

Let us dive a bit deeper into the full P&L on the next slide. The adjusted profit for the half year was plus €9 million, slightly better than last year, despite the lower adjusted EBITDA. The main reason are the net financial costs, which amounted this year to €(19) million, but were inflated last year by unrealized negative forex impacts that were temporary and mostly recovered in the second half of 2025. Adjusted tax was somewhat higher than last year due to the higher net profit before tax. The adjusted figures exclude two buckets of one-off costs, being on one hand, the restructuring costs, and these amount to €(9) million net, and consist of partial provisions of €(21) million for the *Focus to Value* program, of which a small part was already expensed in H1. That was partly offset by a positive €12 million accrual for tax that we expect to reclaim in the future in Brazil. And then on the other hand, we have the non-cash impairments for €(144) million, triggered by the strategic review, as has been explained by Laurent. €(51) million is the impairment of the goodwill on the North American business, where we have reviewed our ambitions. And the other €(93) million is on assets, mostly equipment in baby and feminine care categories, where we adjust capacity and focus on our core assets. This brings us to a total loss for the period of €(143) million, which compares also to a negative amount last year of €(115) million. But last year we also had a non-cash impact, but for different reasons, namely due to the divestment of the Brazilian business, the cumulative translation reserves were recycled from the balance sheet into the P&L in 2025. As you notice, the P&L is impacted by several non-cash effects.

Let us now look into the cash flow of the first year half, which shows a much brighter picture. We managed to realize in the first half of the year a positive free cash flow before interest of €27 million and including interest of €7 million. Our continuous focus on improving working capital delivered results. Indeed, net working capital over revenue dropped by 0.6pp to 4.5%. The improvement is a combination of optimizing payment terms and inventory levels. We had a positive impact from employee benefits. This is due to the difference between the accrual for variable remuneration related to 2026 and the actual lower payout on the performance of 2025, which occurred in the first half of 2026. As to CapEx, that amount was €(29) million, which is 3.4% of revenue and is relatively low, but is linked to the phasing over the year, because in the meantime, we have commitments so that CapEx levels will catch up in the second half of the year. We paid out €(11) million in restructuring costs in the first half of the year, which are mostly related to the finalization of the Belgium footprint optimization. Also, some initial actions have been executed on the *Focus to Value* program. And then the tax and financing cash-outs were slightly lower than last year.

That brings us to an overview of the net debt on the next slide. Our net debt further reduced by 6% or €37 million, of which free cash flow contributed plus €7 million, as explained on the previous slide. We also had a €29 million positive impact from M&A activities, mainly thanks to the repatriation of the cash in Algeria. This cash comes from the divestment of the Algerian business in 2024, which took time to repatriate until Q1 2026 *[corrected from 2025]*, and was classified as a financial asset at the end of 2025. Within the M&A block, we also have some limited post-closing adjustments related to the Brazil and Turkey divestments last year. Net debt thereby amounted to €540 million at the end of June, and gross debt to €619 million. Debt included €68 million drawn on the RCF *[Revolving Credit Facility]*, which represents 25% of the total capacity. And we finished the first half year with a cash position of €79 million.

And then the last slide on finance. Our prime focus as a management remains, of course, reducing net debt and keeping sufficient leverage headroom despite pressure on the LTM *[Last Twelve Months]* EBITDA. Thanks to decreasing net debt, as explained before, we managed to reverse the uplift of the leverage ratio at the end of 2025 by reducing it back from 3.3x last year to 3.2x at the end of the first half of the year. This keeps us well below the 3.5x threshold of the RCF covenant, and we expect to remain below that level going forward. Our liquidity position remaining strong with about €280 million, based on our cash position and 75% of the RCF being undrawn. So we can conclude that we have the financial flexibility needed to execute our plans. With that covered, I hand over to Laurent.

Laurent Nielly, CEO

Thank you Geert, and before we move to Q&A, let me close with our priorities for H2.

It is very clear that we need to focus on delivering the outlook that we just shared, and to put in motion the strategic transformation we announced. But first, we will continue the pricing actions to pass through cost inflation. We will also continue with our saving initiatives, helped by the start of our *Focus to Value* program. The third focus is to ensure that the capacity that we have put in place in the last two years, especially in adult care, is ramping up to its full potential. Of course, we will continue to work to preserve our balance sheet strength and financial flexibility, which again, we see sufficient to execute our transformation agenda. And finally, we will continue to evolve the organization to future requirements, be it as a result of the streamlining actions that we are taking, or to ensure our operating model is best suited to deliver on our ambition. With that, Geert and I are ready to take your questions.

Q&A

Geoffroy Raskin, Investor Relations

Thank you, Laurent and Geert. For the Q&A session, if you wish to ask a question, please dial the pound key followed by five, and that will allow you to enter the queue. If you wish to withdraw your question, please dial the pound key followed by six. And please, of course, limit your questions to two. The first question comes from Karine Elias from Barclays. Karine, the floor is yours.

Karine Elias, Barclays

Thank you Geoff, and thank you Laurent and Geert for the presentation. I just had two questions, if I may. Looking at the Q2 performance, I saw that the net cost, obviously benefit, was €7 million, and I was just trying to understand what the impact of this would have been. I think you mentioned it would have impacted June. So I am just trying to understand what the building blocks were for that. And I suppose, you know, related to that, should we think that this obviously will annualize in Q3 and Q4? Because obviously, your Q3 EBITDA last year was a bit higher then, at €51 million, if I remember correctly. And then my second question was, if you can just remind us of what the minimum liquidity *[is]* that you need to run the business. Thank you.

Geert Peeters, CFO

Laurent, I will take these questions. The second one is a very easy one because we have no covenant anymore on the liquidity. It was one we had in the past, but not anymore since the renewal of the RCF a year ago. On the Q2 performance, the net cost impact, we started having an impact from the Middle East, but as I said, it started in June based on the indices. You know there is a delay on indices. In Q1, we still had some limited positive impacts. And if you take all together, our net cost, it is a sum of some negative Middle East impacts, also, some diesel costs, of course, that kicked in from March onwards. And on the other hand, there were some inefficiencies we had in Q1. And at the same time, we of course, we continue our cost transformation program, which we broadened now into the *Focus to Value* program, and all of that together gave you the net cost impact that you find in our bridge.

Laurent Nielly, CEO

But I think, Karine, to give you an element on the question, we estimate that we had at least €(10) million of additional inflation in Q2 due to the Middle East crisis.

Karine Elias, Barclays

That's very helpful, Laurent. And should we expect a similar impact in Q3, or because of the fact that the timing was end of June, we should expect inflation to be a bit higher than the €(10) million?

Laurent Nielly, CEO

As I mentioned, we expect the biggest impact to be in Q3. And then to slightly decrease as we go into Q4.

Karine Elias, Barclays

Okay, that is great. And just for the liquidity points, I am aware of the covenant point, but just in general, what sort of like cash balance, you know, you would like to keep to run the business typically? I mean, it has been stable at approximately 70 to 79 million. And obviously you have the availability under the RCF, thinking that you need about €150 million typically to operate the business?

Geert Peeters, CFO

No, it is lower. So we can run at about €50 million. And important is, as you said, is to stress the fact that we still have huge headroom on the RCF, so we can easily increase our cash position if we like. So we typically keep it between €50 and €100 million, but €50 million is sufficient.

Karine Elias, Barclays

That's great. Thank you so much.

Geoffroy Raskin, Investor Relations

Thank you, Karine. The next question comes from Sanjay Bhagwati from Citigroup. Sanjay.

Sanjay Bhagwati, Citi

Hi. Thank you very much for taking my question and also presenting the strategic review outcome. My first one is on the cost savings program. Are you able to help us understand how much of the €240 million saving target actually is likely to flow into the P&L, that is a net impact? And what could be the phasing of that? I mean, I can imagine some of this is already showing up in H1 2026. So how should we think of this for 2026 and 2027 of the total €240 million? That is my first question, and I will follow up with the next one after this.

Laurent Nielly, CEO

Okay, maybe I'll take that question, Sanjay. Thank you for the question. You know, the €240 million is our total saving program, and it is used to cover inflation, to cover also some targeted investments that we do in some categories and geographies. And then obviously, the rest will go to margin expansion. This is a relatively complex equation, which we do not disclose precisely. We will provide more details later when we share our mid-term financial ambition. But what we mentioned here is that the €40 million incremental that is in these €240 million, we intend to flow it through to EBITDA expansion.

Sanjay Bhagwati, Citi

Thank you, that is very helpful. And I think the second is a bit more of a housekeeping question on this one-off tax benefit. So, what could be the cash timing of this? And on the €12 million I think you mentioned, this reclaim, when should we see the cash coming in for this? And if this cash has already been baked into the full-year guidance or not for the cash flow.

Geert Peeters, CFO

No, thanks also for that question, Sanjay. *[It is]* very good you ask this, because it will take some time. It is because in Brazil, things are taking time in order to recover tax from government, so it can take another 2-3 years. So it is not a part of our guidance. We do not expect this to materialize this year. The reason we booked it is that we have the positive outcome of a court case. So we have a very strong position.

Sanjay Bhagwati, Citi

Thank you. Very clear.

Geoffroy Raskin, Investor Relations

Okay, thank you, Sanjay. The next question comes from Maxime Stranart from ING Bank. Maxime, it's up to you.

Maxime Stranart, ING

Hi. Good morning. Two questions on my side, if I may. The first one would be on restructuring costs. You have announced now that you will spend €(60) to €(65) million over the next 24 months. Could you maybe a bit elaborate on the payback period you see on that investment and how basically you see the phasing of those savings in the short to medium term? That would be the first one. And then secondly, if I look at the new guidance of the company, and obviously, given the difficult history of Ontex with regards to guidance, can you maybe elaborate on the building blocks and what basically assumptions are behind the low and the upper end of the guidance? That would be all for me. Thank you.

Geert Peeters, CFO

Yeah. Okay. Thanks, Maxime. I will take the first one on restructuring. I will explain it in a little more elaborate, because I can imagine there are from the other analysts also questions about that. So, before, we mentioned that we would have restructuring costs of €(10) plus €(30) million. That was what we explained a couple of months ago. The €(10) million was related to the footprint of Belgium. That is mainly the cash-out that we had in the first half of the year. So that €(10) million is gone, and the other €(30) million that we increased now to €(60) to €(65) million. So that means it is another €(30) to €(35) million. Out of that €(60) to €(65) million, we believe, that is what Laurent said, that €(20) million will be in the second half of the year. The remaining parts of the amount we will try to, of course, accelerate and realize as much as possible our transformation program in the course of 2027, what means that most of those costs, the cash-out will be in 2027. From a P&L point of view, it might be that we take decisions now that it will be in the P&L of 2026. Cash-out will be mainly the part on top of the €(20) million of the second half of this year, *[which]* will be mainly in 2027. Is that clear?

Maxime Stranart, ING

Yes, but that was not the only part of my question. My focus was mainly on the payback period, you see. So, basically, if you invest those €(20) million today, what basically timeline do you expect to catch up those €(20) million investments? That is basically the focus I have.

Laurent Nielly, CEO

Well, you know, maybe, Maxime, what we can share is that we communicated that we are committed to €40 million incremental productivity, to flow through, and for which we are going to spend €(30) to €(35) million. So you see, that is the kind of payback that you have there, right? So it is slightly below one. Now, from the exact timing perspective, some actions are already in implementation mode, and some will take to 2027. So, you know, but roughly this is the map that you can use. And maybe I will take your second question on the guidance revision and why *[we are]* broadening the range or creating a range. And the key reason is really linked to the volatility and the uncertainty on the outcome and the impact of the Middle East crisis with the changes in oil prices and raw material indices by the week. And so what we did was to look at the two key factors that are impacted by that volatility. On the one hand, it is the cost that we have. And so, we created a series of scenarios. And on the other hand, it is the speed at which the pricing will be executed. Because while we are progressing very well on executing our pricing, sometimes we still work with our customers to find the best timing to reflect that pricing so that we can find the right solution to protect the volume and their position in the market. So when you combine those two variables, this is why we thought it would be more prudent, given the visibility that we have on the cost evolution, to create a range.

Maxime Stranart, ING

That is very clear, thank you for your answers.

Geoffroy Raskin, Investor Relations

Okay, thank you, Maxime. The next question comes from Rebecca Clements from J P Morgan. Rebecca, the line is open.

Rebecca Clements, J P Morgan

Hi. Thanks for taking my questions. Stepping back a little bit with the strategic change. Could you just elaborate on what exactly does protect mode mean for baby and femcare in the context of … Do you have relationships with the same customers across all of the categories you are in? How should we think about this? Because protect could mean many things, but does it mean you are actually probably going to end up being a smaller business in those two divisions going forward? That is my first question.

Laurent Nielly, CEO

No, otherwise we would not have been called *[it]* “protect”, right. So protect is really to defend and to hold on to our position. But in order to do that, to be more forceful on where we allocate resources. So if you think about it, it is to really consider where we have the best chances and the best segments to be able to create value for our customers. So for instance, if you talk about baby, we know that baby pants and large sizes of diapers are the two growing segments on which we want to help our customers to fully benefit from the opportunity. It might mean, on the other hand, that on some of the subcategories of femcare, we protect and we protect our position, but we are going to find solutions with some co-manufacturing partners, so that we can be much more forceful on where we put our own capital across the different segments and assets. But we aim to defend that business, Rebecca.

Rebecca Clements, J P Morgan

Okay. And that carries over as well to North America, given the capacity expansion.

Laurent Nielly, CEO

In North America, for alle sake of understanding, is mostly a baby market, right. We have a very, very tiny position in femcare. There, as we expressed earlier, what we are doing is reviewing the full portfolio of products and customers and really understand where we have the best chances to win. It is not that we are going to proactively exit markets. It is that you have to make a choice on where you allocate resources to win those contracts and to be the best partner for those customers. And I think what we have concluded is we cannot do it across the entire portfolio blindly, and we are going to be more choiceful. But that does not mean that there are not opportunities for growth. There are many opportunities for growth. It is going to be approached in a different way.

Rebecca Clements, J P Morgan

Okay, that is extremely helpful. And then just in my second question, in the context of that, is there any change in expectation to the amount of CapEx? I do not know that you really gave formal guidance, but I think I had it running at around 4% of revenue. Is that an appropriate way to look at it, or is there going to be retrenchment on CapEx as well?

Geert Peeters, CFO

I can take that one. Rebecca, indeed, in the past, we always said we would be around the 4%. Actually, we most of the time were talking about 3.5% to 4.5%. Now, we believe it is important that we continue investing in the business. We also see a lot of opportunities. And the first one is, of course, in adult *[care]* where there is significant growth that we still expect, but it is also about automation. We see quite some automation opportunities with a nice payback. We are also in a large digitalization program as a Group. So actually, if we find the right business cases, because we will assess everything, of course, individually. With the good paybacks, then we aim to be at the higher end of the range. That means more to the 4.5% on a case-by-case basis to be assessed.

Laurent Nielly, CEO

But maybe to complement that, I think, you know, versus the recent past, you could assume that there would be proportionately less CapEx in North America, because we had invested heavily to build that capacity, you know. And then in Europe, you would assume that, you know, most of the CapEx would go to either those productivity opportunities or digitalization opportunities, or to adult *[care]*.

Rebecca Clements, J P Morgan

Understood. Thanks very much.

Geoffroy Raskin, Investor Relations

Thank you, Rebecca. So just as a reminder, if you wish to ask a question, please dial the pound key followed by five. And the next question comes from Wim Hoste from KBC. Wim, up to you.

Wim Hoste, KBC

Yes. Good morning and thanks for the opportunity to ask questions. I have a couple ones. First on North America, can you offer a bit more granularity on the ambition levels you still have there with regards to revenue? Also, the kind of margin potential that that market would offer? And then also regarding the operational setup with the production in Mexico and *[in the]* US, how should we think about that operational setup? If you can offer a bit more granularity, then that would be nice. And then the second set of questions would be more on the overall level of competitiveness and promotional pressure with the A-labels, certainly in Europe. Can you offer a bit of granularity there on the start of the Q3? How that is kind of evolving, and what kind of signals are you getting in each of the individual countries or markets? Where there is an easing or not? And then also, not against the pressure from A-labels, but more inside the retailer brands, what kind of competitive fight is going on over there? Is there relative pricing discipline in that segment? Is everybody trying to increase prices given the inflationary trends, or are some people kind of trying to gain some market share or tenders by postponing that a little bit. Could you also offer a bit of granularity on that? That would be helpful. Thank you.

Laurent Nielly, CEO

Thank you Wim. Pretty broad questions. So I'll start with North America. No, I don't think we are at a time where we will offer granular plans. I think, we aim later this year to be able to share more of our financial ambitions. But I think what I can share is that we are going to probably not expect the same level of absolute growth in North America that we initially reflected in our long-term ambition. So that is one, but still growing, maybe not at the same rate. And the margin, I think what you should expect, because we said that the focus will be on profitability, that we would expect a higher pace of margin rebuild in North America, which we have disclosed several times that it was a highly dilutive business, which was the consequence of us being in this aggressive ramp-up mode. On the European dynamic versus the A-brands, we haven't really seen a shift in the approach. You know, we are not in the boardroom of P&G and what they do for Pampers, but you have probably read that Essity, on one hand, was happy with the push they're doing on their brand *Libero*. And that P&G also was relatively happy with the share gains that they had on Pampers. So what we observed was that those A-players retook a more aggressive stance to defend their position. We do not see a key change on that, and, you know, this is something that is part of our strategy and how we fight. So that, you know, is up to us to bring solutions to our customers in this environment to be able to be more positioned, which is what is our focus on. Versus the other manufacturers and the pricing dynamics, you can understand that, you know, I cannot comment on pricing and relative pricing, I am not, you know, previewed on what, you know, our competitors do. We are, you know, sitting with objectives and factual approaches with our customers where we share the evolution of our cost. We look jointly at what we can do regarding the mix, on the product, on pricing, if we have to do choices. Because we understand that the best way to preserve and build partnership and collaboration with our customers is through transparency. So it is a case-by-case situation. And I cannot comment on our competitors' approach and strategy.

Wim Hoste, KBC

I understand. Thank you very much for the answers.

Laurent Nielly, CEO

Thank you.

Geoffroy Raskin, Investor Relations

Thank you, Wim. The next question comes from Floris Dijkstra from BNP Paribas. Floris.

Floris Dijkstra, BNP Paribas

Hi. Thanks for taking my question. I will ask them one at a time. So very quickly in regards to the input cost inflation, due to what is happening in the Middle East, is everyone in your industry hit similarly, or are there differences between you and your competitors and some of the A-brand players because of how you source them?

Laurent Nielly, CEO

Thank you, Floris. Our understanding is that everyone in the industry is impacted. Of course, it will depend on whether they have a hedging strategy in place and the structure of the contract. But most of the contracts for all of the players in the industry usually work with price formulas which are adjusted when the indices or the energy costs evolve, and all of them will have a slight lag because of the inventory position that you may hold. So that I would expect would be pretty similar, except if there were a very different hedging strategy in place. So, that is for your first question.

Floris Dijkstra, BNP Paribas

Okay, that is helpful. And then, just on the updated guidance. So I think you know, it says you are close to a 3.5 times net leverage number. From my understanding, that is the leverage covenant on the RCF. Could you just give a bit more information on how that covenant works? I understand you get a one-off spike. And then what does it exactly prevent you from doing? Is it some kind of stopping on the draw? Any clarity would be appreciated. Thank you.

Geert Peeters, CFO

Floris, thanks also for this question. Indeed, we have a one-off spike. That means that each half year we have a testing of the covenant. That means the next testing is on the full-year results. And that means that we believe that we will be below the 3.5x. Actually, if it were at 3.6x, for example, it would be below that 3.75x *[threshold]*, so it would not trigger a covenant breach. Now the question you are asking is: imagine we would have a covenant breach, which we do not expect at all, because otherwise we would have come with a different communication. Then you typically sit together with the banks, present your plans, and discuss a new covenant path. So that is how it works. But that is not the case at this moment. Does that answer your question?

Floris Dijkstra, BNP Paribas

Okay. Thank you. That is very helpful.

Geoffroy Raskin, Investor Relations

Okay. Thank you, Floris. The next question comes from Fernand de Boer from Degroof Petercam. Fernand, up to you.

Fernand de Boer, Degroof Petercam

Yes, good morning. It’s Fernand de Boer from Degroof Petercam. I have a question on the impairment charges. And let's look at your strategy. So why do you have to take these impairment charges related to your strategy? Because actually, if you take the impairment charges, my understanding was always that in the future you do not expect the proceeds anymore of the EBITDA. But on the other hand you say, okay, maybe *[the]* US is a little bit scaling down, but, of course, less growth, less ambition, but still higher margins, etc. So why then to take these impairments. I don't understand. And also, if you are using third-party players, you also have to pay them. So you have your own production. You ae cutting your production lines and then you are going to outsource them. I am totally lost in this.

Geert Peeters, CFO

Obviously, the one on impairments I will take, because indeed it is a bit of a technical matter from an accounting point of view. You have to make a bit a distinction. In the €144 million, you have the goodwill and as you can read in the half-year report, but also the full-year report, you have to do a kind of impairment test. It looks at your future plan. First of all, *[it is]* important to know that goodwill in North America, it exists already for many years. It is based on past transactions that were done. It is the total structure that was built up at the time. So, there is no clear specific origin related to recent M&A, for example. What are you doing then? You look at your plan and, of course, because we go from a volume strategy, and you know that what was the intention to grow in sales, to a more selective profitability strategy. That comes, of course, the coming years, with a cash flow which is more *[or]* less modest than we expected before. And based on that test, we decided to take out the goodwill. So it is related to the ambition and the change in the strategy. On the assets, for me, there are two parts. Some of it are very concrete, like in Europe. For us, Europe includes Australia. You have seen that we stopped the operation locally in Sydney. It will become an export business. You have perhaps seen in the H1 report also that we have an intention to restructure some activities in Mayen. That brings some asset impairments, because some assets will not be used anymore. For the rest of the business, and it is partially in North America and partially in Europe, and with the main focus on baby and fem *[care]*, because there, as Laurent explained, we focus on protecting the business *[and]* defending the business. And there we say, okay, we looked at our asset base and we said, okay, if we take our assets we want to simplify, we will also focus on the core assets that are most efficient, the newest ones. And then we said, okay, then it is better to take the old ones out, because we want to go for full efficiency within our transformation. And that brought another bunch of impairments. So that are the buckets we are looking at.

Fernand de Boer, Degroof Petercam

But sorry, I thought Mayen, Germany production was already closed down a few years ago, where you also took a lot of restructuring charges. So I understand Australia, but …

Laurent Nielly, CEO

Fernand, It is a reorganization of … Fernand, maybe … The intention in Mayen relates to some innovation and R&D activities and engineering activities that we are reorganizing. So that is why. Yes, it is not linked to a manufacturing production site per se, but we also had pilot lines as you may know.

Fernand de Boer, Degroof Petercam

And then to come back to North America, these lines are quite new. So …

Laurent Nielly, CEO

Thank you for the question again on North America. The North America business is a mix. You know, we have two sites and it is a mix of new assets that, of course, are fully operational and fully used, and some older assets that we had, that some of them we were keeping as part of having eventually capacity available *[as]* part of our previous high-volume growth plan. As the market evolves as well, some of the product requirements to win in the market have changed, and we have concluded that some of those assets will no longer be in use, because these are too costly to modify or, frankly, because we could not be competitive to find the right contract to serve that volume. So when you reach that conclusion, it is the right approach to adjust your asset base.

Fernand de Boer, Degroof Petercam

Okay. Thank you.

Geoffroy Raskin, Investor Relations

Thank you, Fernand. The next question comes from Usama Tariq from Oddo-BHF. Usama, up to you.

Usama Tariq, ABN-AMRO / Oddo-BHF

Hi. Thank you for the opportunity. Good afternoon. I have just one or two general questions. With regards to the review, could you provide just a bit of more color on, for example, feminine care going forward. And specifically on that, where do you see that going in 1 or 2 years? My second question would be more of a clarification. With regards to contract manufacturing, did you, I am sorry if I missed something, did you indicate something on it with regards to the review? Is it going to stop completely? Those will be my two questions at the moment. Thank you.

Laurent Nielly, CEO

Thank you, Usama. On the first question, our feminine care business is almost 95% plus a European business. That is a relatively stable business, and we intend to keep it that way. So, no change there. When we say that we go with a more targeted approach, it is how we serve that business, but not the absolute sales of that business, which, you know, we believe plays a very important role, and for which we have a key role for many of our customers. Under contract manufacturing, no, we didn't indicate any changes on our stance on contract manufacturing. What we mentioned is that in some very selective situations, we might go with an outside partner to source some products, if we believe it is a better use of resources than putting our own capital.

Usama Tariq, ABN-AMRO / Oddo-BHF

All right, thank you. That will be all.

Laurent Nielly, CEO

Thank you.

Geoffroy Raskin, Investor Relations

So thanks. That concludes the Q&A session. Laurent, you want to finish off with a couple of words?

Geert Peeters, CFO

Yes. Thank you. Thank you everybody for joining, especially on the eve of a summer break and on a very heavy week for many of you. Today, we have communicated three important messages. First, our progress on stabilizing the business, which includes the liquidity and the leverage, which is a very solid achievement. However, we also communicated a revision of our outlook given continued uncertainty and deeper impact from the Middle East crisis. And third, we shared the key outcome of our strategic review with the fundamental transformation at shaping a new Ontex. We have a very clear direction, a team in full execution mode, and while the market is challenging, all our associates are working very hard to pave the way to a more resilient, cash-generating, and value-oriented Ontex. Thank you for attending this call. Have a great rest of the day and summer vacation for those who will benefit from it. Thank you.

Geert Peeters, CFO

Thank you.