22 June 2021

DS SMITH PLC – 2020/21 FULL YEAR RESULTS

CONFERENCE CALL TRANSCRIPT

Participants

Miles Roberts - Group Chief Executive

Adrian Marsh, Group Finance Director

Miles Roberts: Good morning and welcome. Welcome to our presentation of the financial results for the 12 months to the end of April 2021. I'm Miles Roberts, the group's chief executive and I'm joined with Adrian Marsh, our group finance director. Our clear vision is to be the leading supplier of sustainable packaging solutions, and it's never been more relevant. It is built on an FMCG and e-commerce focus with sustainability and a circular economy at the heart of our model. And as you all know, we don't do plastics. We're fully fibre focused because that's where we think the opportunities are. And our key strength, how are we going to drive this forward? Well, first, it's our scale, servicing over 34 countries, our distribution capability, and this is particularly relevant when aligned with our digitally enabled offering. Our culture of innovation, our relationship with long-term customers, all built on a sustainable platform.

Miles Roberts: Turning to the performance for the last 12 months. These 12 months, they've been completely affected by the COVID pandemic. We've had a good performance, albeit in a very challenging environment, an environment that's seen rapidly changing conditions and a lot of volatility, and we started the year by saying, we'll focus on keeping all of our people safe and we're pleased with how we performed. All of our factories have remained open and fully operational throughout the pandemic due to the care and the focus we've put in. And we focused on our customers, focusing on maintaining high levels of service, being very responsive to their changing needs, and we've seen a significant progression in our volumes.

Miles Roberts: In the first half, we were down 1% on a like-for-like basis, but on an improving trend. So in the second half, again, on an improving trend, we were at 8.2%. Clear market share gain not only in Europe, but we're really pleased how the US is coming through as well. And this has helped us, that service and the focus on our customers has helped us get really good initial progress on recovering the significant increase in input costs that we're now seeing. And we've continued to invest in our business. We believe in the long-term outlook and future for our company. We've announced two new box plants, and they're proceeding very well.

Miles Roberts: And in the US, where we put in investment over the last years, we are very, very pleased to see how our customers are responding, how the volumes are building, the price is building, and a very, very strong increase in profitability. And during the year, after the difficult Q1, we have seen our profits responding very positively, really on an upward projection, I know Adrian will be talking more about later, as well as with our working capital and our very strong free cash flow performance in the year. But I think, most importantly, we're entering the new year with real momentum in

our sales, in our volumes and momentum in pricing. Thank you, Adrian, would you like to take us through the financial results?

Adrian Marsh: Thank you, Miles, and good morning, everyone. Ordinarily, as I'm sure you can appreciate, it's never a good feeling to be describing a 24% reduction in operating profit. However, as we've all experienced, this has been no ordinary year. I'll do my best when I take you through the results to highlight the significant positive momentum we're now experiencing despite the year-on-year impacts of the pandemic. As usual, the results are set out in constant currency. Revenue is essentially flat with adjusted operating profit, as noted, down 24%. I'll take you through bridges for these key line items in a moment. Behind these headlines, as I'll attempt to describe, it has very much been a year of two halves with both heavily impacted by the pandemic, albeit in very different ways. Operating profit fell in the first half to £230 million and rose to £272 million in the second half, a £42 million increase sequentially.

Adrian Marsh: Earnings per share fell a broadly similar amount of profit. The actions we took at the start of the pandemic to protect our balance sheet and liquidity at the height of uncertainty contributed to a very strong performance and free cash flow with an inflow of £487 million. I'm also delighted to report the final dividend fully in line with our policy of 8.1 pence. This represents a total dividend of 12.1 pence, which is covered exactly two times. Return on capital performance of 8.2%, and return on sales of 8.4% are clearly below our target range, with the full effects of the pandemic showing in both measures. I am very pleased that both measures improved in the second half with good momentum to prove again going forward. The Board is committed to restoring both measures to the medium-term targets, which you are all familiar with.

Adrian Marsh: Walking through revenue, while this is a full year bridge, the key is understanding how it has changed through the year as the business has built up momentum. Divestment relates to two small Europe remedy disposals in the previous year. Volume from boxes contributed £123 million, reflecting the very strong volumes in half two of over 8%, more than offsetting a modest negative in half one. The negative balance and other volume is principally from increased integration in paper and recycling and slightly lower sheet volumes. The reduction from sales price, a mix of £135 million for the full year compared to negative £149 million in the first half, meaning that in the second half, price and mix actually had a £17 million positive effect. £137 million reflects the impacts of lower paper prices on packaging and selling prices prior to the increases in paper prices that started in the second half of the year. From the fourth quarter on which we're seeing rising box prices reflecting the recovery of paper and other input costs.

Adrian Marsh: Turning to EBITDA, as described earlier, second half profits came in £42 million higher than that in the first half. And I'll use two slides to better describe the underlying performance. The first slide sets out the full year effects with sales price and input costs more than offset in the contribution from higher volumes. We now move to the next slide. You can clearly see sales, price and mix turning to a positive £12 million and the impact of higher paper and OCC costs in the £121 million increase in costs. When we get to the half year next year, we fully expect to see the sales price mix bar to significantly improve as these costs are recovered in box prices. You can also see the significant contribution of the second half volumes.

Adrian Marsh: We have an excellent track record and price recovery, and it's worth noting that packaging represents a relatively small element of our customers' cost of sales and demand is extremely strong for packaging in general and our sustainable and innovative closed loop solutions in particular. We remain fully confident in our ability to benefit from the pricing of our unique solutions and also recover our inflationary input

costs. Our margin has improved through the year, moving from 8% in half one up to 8.4% for the year as a whole, which means we exited the year closer to 9%. Margins have improved in all regions with the exception of Northern Europe, where the majority of our test line mills sit, and hence where rising OCC costs have had the highest impact in this year before price recovery has the opposite effect next year. This region has had a greater share of the £30 million of COVID specific costs.

Adrian Marsh: In the other regions, the benefit of strong volumes across Europe and our most recent acquisitions in Southern Europe and North America helped drive improving margins. I'm particularly pleased to see North America back at margins near the top of our group target range. And the returns in this business have significantly improved in line with the actions we described last year. As a reminder, the improvement is a direct benefit of the Indiana Greenfield site and other operational improvements across our packaging business with the full effects of our integration program and acquisition synergies coming through, as well as more favourable market pricing.

Adrian Marsh: The Indiana site has now been operating for about 18 months and is on track to be at full capacity in fiscal year 2023 in line with our three year plan. The site has won good customer contracts and with a specialism in e-commerce, is extremely well positioned to take advantage of the market opportunity there. The additional capacity it has given us allows us to operate the whole estate much more efficiently and to showcase our customers' excellent capabilities. Cash flow performance and volume growth clearly stand out performances this year, and I'm extremely proud of the efforts of everyone in the business to deliver on both. Working capital management during the pandemic has been excellent, with another record low in terms of overdue debtors.

Adrian Marsh: Inventory has also been managed extremely tightly, and our creditors' balance has benefited significantly from the higher prices of OCC and paper at the year-end. At the same time, as I previously advised, we again reduced our invoice factoring from last year's balance. This is now being reduced significantly over the last few years from a high point of £565 million in 2018. We expect going forward the balance to be between £350 and £400 million. Capex was fully in line with our guidance and below the prior year, following our decision to hold back on non-essential capital expenditure at the start of the pandemic. Tax and interest reflect lower profitability and lower debt balances. Moving to the cash flow bridge. Following the effects I have just described, net debt reduced by £306 million with our reported leverage rising by just 0.1 times to 2.2 times. The main inflow was the free cash flow performance, as I previously explained.

Adrian Marsh: The £71 million on acquisitions and disposals is principally the payment of buyout of half of the interstate resources put option. Just to note that the overall payment was structured as £84 million in the year just reported and with the remaining £24 million to pay this October. This now leaves half the original 20% put option outstanding, which can be exercised either this August or in August 2022, which marks the fifth anniversary of our acquisition of that business. Were this to be exercised in full, our reported leverage would have increased by another 0.2 times to 2.4 times, which is the same level as our actual reported leverage at the half year. Our banking covenants are 3.75 times, giving us considerable liquidity headroom and we remain committed to our investment grade credit rating from Standard and Poor's.

Adrian Marsh: Given the extremely uncertain economic outlook we had this time last year, I'm very pleased with how well we've navigated our way through the last 12 months and the very robust balance sheet and exceptionally strong liquidity we have going into the new financial year. Lastly, the technical guidance. These are the usual

line items you've come to expect. Of note, you'll see the Capex before any disposal is expected to be around £430 million, an increase on the year just gone and ahead of depreciation as we invest with confidence in new sites in Europe, which Miles will talk more about in a minute. Adjusting items are as we previously committed to now expect it to be negligible, less than £10 million. Lastly, approximately 85% of our revenue is non-UK, so 1% move in sterling equals around five million pounds on operating profit. As I'm sure you realise, sterling has materially appreciated through the last few months. And were it to remain at current levels, they'll be around a £20 million headwind in the coming year. I'd now like to hand back to Miles.

Miles Roberts: Thank you Adrian for taking us through the financial results and really highlighting some of the key opportunities and the key trends that we've been seeing. And I guess, as I said in the first slide, we are well positioned, we're ideally positioned to meet new growth opportunities. We've built a business over many years that's really at the intersection of key trends. Firstly, the changing consumer and retail environment. That digital enablement about how customers, suppliers want to work differently and of course, about sustainability, replacing plastic, reducing carbon. And COVID has accelerated these trends. Turning to the first item with e-commerce. We know how e-commerce has already thrived over the last 12 months. We've seen exceptional levels of demand overall increasing by about 30% over the previous year that has been in all countries with many different types of retailer and brands.

Miles Roberts: But importantly, what we've seen post lockdown in a number of countries is that e-commerce has continued to grow. We've seen particularly strong growth continuing in France, Italy and Spain. We've seen very strong growth over the last year in the UK, which is being maintained. And the key themes we've seen coming out during the year has been a requirement for high levels of service, shorter lead times to meet that very changing or volatile market and are putting more sustainability into the product and how the product can be recycled, working on new areas for us as well. The explosion in takeaway food and how corrugated boxes can keep the food at the right temperature. And, of course, security and traceability. High value items have been bought and distributed with e-commerce, and they know exactly where that product is. There's been a significant increase in demand for more services on e-commerce, which continues to drive margins as well as volumes into that sector.

Miles Roberts: And we are the e-commerce partner of choice. We have over 10 years of significant expertise and innovation in this area. We serve all of Europe's leading e-retailers, but we've also been investing to support all customer types as they venture into e-commerce, sometimes for the first time. Whilst the large e-tailers have done well, their overall share of the market has remained broadly similar to where it was over 12 months ago. We've seen a significant growth in new entrants into the e-commerce market, branded companies starting their own platforms for the first time. Traditional stores who have always focused on bricks and mortar outlets are now turning to an e-commerce platform and they're turning to us, they are using our new digital platforms so they can order and have all their products branded and distributed to them wherever they are in Europe.

Miles Roberts: And taking this digital enablement into more detail. Yes, it's about how customers can order products from us using our platforms on a European scale. Wherever the customer is, they can order off our platform, bespoke, branded, packaging. But it's also how we interact with our customers in the innovation debates, in the whole creation of new products, our customers and ourselves can see how, in fact, a different digital environment can actually enhance the speed and the depth of new product innovation. And I'll put on here just an image of a virtual reality space that we

are using today that actually have penetrated more deeply into our customers to engage more departments within our customers because it's so easy to do business with us. Real co-creation of new products in what has been a very challenging environment and I think will continue to be very challenging in the future.

Miles Roberts: And that next trend about sustainability. Yes, it's about delivering against the carbon and water use targets, how we make the product, but it's also about the product that we make. And we have engaged, we are a global partner with the Ellen MacArthur Foundation. And the opportunity that gives us is to work with retailers, consumers, governments, NGOs, about how we build in more recyclability and reuse into our product. And that in itself has tremendous opportunities for the environment, as well as, of course, reducing carbon and water. And if I turn to the first of those about how we make the product delivering for the environment, we've seen a 23% reduction in our CO2 per tonne since 2015. Very pleased with that performance. It's a very strong performance, but we recognise that we have to go further. And we're very pleased about our commitment to the science-based targets in line with the Paris Agreement and the race to zero. At the same time, how we have reduce water usage, replaced plastic, biodiversity programs, etc.

Miles Roberts: And turning to that circular economy, what does that mean? For us it's designing in the ability to reuse and recycle the product from the start as Europe's largest recycler of fibre, where we collect more used packaging than we make. We think that's the right thing to do. That's the responsible thing to do, designed a system where our customers can evaluate the circularity of their product with a set of metrics in an accreditation system that we're rolling out with our customers that is becoming an increasingly important part of every renegotiation we go through. And I set it out here, looking at the recyclability, looking at material utilisation, looking at the recycled content, looking at carbon so our customers can evaluate the sustainability of the product enabling them to get rid of plastic. And we're starting to see a real acceleration here. I think after a few years where there's been a lot of talk and a lot of discussion about how we replace plastic, it's now really starting to happen. And we're seeing corrugated, fine flute corrugated starting to replace plastic in the primary packaging, as well as all of the support categories such as on-shelf displays.

Miles Roberts: And I put a very good example here. It is a product that used to be sold in a plastic pouch. It's now in corrugated. And as they proudly say to their customers, no plastic, 100% recyclable, no hassle, no waste. So what does this all mean for us in our relationship with our customers? We've seen over the last 12 months our relationships have deepened. Our customers have been looking to us even more so than in the past for the security of supply, about our responsiveness to their changing needs, responsiveness to the changing needs of the final consumer. And we've been there to help them, to support them, to work collaboratively with them.

Miles Roberts: And we've seen an extension of the average contract period. Contracts now are typically between three and five years, where previously a few years ago, maybe they have been more like two years. Some of our largest contracts now are running between six and seven years, giving time for us to work collaboratively with our customers on those new product and service development that they need, helping our customers be more successful, helping them sell more product in a more sustainable way. And we've seen that translate into with our large customers an over 10% volume growth over the last year. And when we translate that to the overall business, we've seen an acceleration of volumes from Q1 to Q2 to Q3 to Q4.

Miles Roberts: That's the whole year we grew at 3.5% on a like-for-like basis, but on a really improving trend, the second half was plus 8.2%. Now, that's not just for Europe.

In fact, our US business grew significantly ahead of that. We have new capacity there. We've got relationships that have deepened from our European customers. And this is translating to a significant improvement in volumes in the US. And, of course, how do we enter the new year? Well, we're entering the new year and we are very busy. We're lapping some weak comparatives so the numbers are very good, but we're also confident of continued growth during the current year and meeting the needs of our customers in the future. Investing for growth all in our existing sites. We often have spare capacity, spare capacity coming from putting in new shifts, putting the third shift to work at 24/7 basis where possible. About utilising that spare capacity that we have invested in when we've made acquisitions.

Miles Roberts: Some of the new sites we built, such as the site in Lebanon, but of course, we are very pleased with the progress that we're also making in two new sites, which we announced a few months ago, one in Poland and one in Italy, plus a major expansion in Germany. We show here a picture taken last week of the new Italian facility. And all of this is focused on supporting our FMCG and e-commerce customers. But it's not just about capacity, it's about the products as well. And we've announced a doubling of our investment in innovation and R&D, new materials and barrier technology, all about the plastic replacement, designing out waste, all part of our circular economy. And how do we provide a better service to our customers? So investing in digital capability, driving growth not only in e-commerce but in a different way of transacting and innovating with our customers.

Miles Roberts: It's been a challenging 12 months, but I'm very pleased how we responded. We focused on our customers and we focused on our people. So as we leave the old financial year and enter the new, we start with an enhanced market share. We start with all of our factories, our operations being fully operational, a strong volume momentum and rising packaging prices to recover the increase in costs we're facing. And I'm very pleased how the US is really coming back building its strength with its customers, growing volumes. And of course, you have the new investment coming through as well, investment in new capacity, but also in new R&D and in service provision. And this all gives us confidence for the future. Thank you. I'm now happy together with Adrian to answer any question you may have. Thank you very much again.

Operator: Thank you. So if you would like to ask a question, please press star one on your telephone keypad. Should you wish to withdraw your question, you can press star two. You will be advised when to go ahead. So our first question comes from the line of Lars Kjellberg from Credit Suisse. Please go ahead.

Lars Kjellberg: Thank you. Good morning. Obviously, you had as you called out, a very strong momentum in H2 in particular with 8.2% growth. Can you call out for us the moment you saw in Q4, which I believe you say that that continues in the new kind of fiscal year? The other question is more of can I say compare to your peers, your 25%, 24% erosion in adjusted operating profit does not compare particularly well to your peers. How would you like us to think about that as we look into the recovery? And where do you think you had a bigger pressure than your peers to work down in sort of 11, 14% respectively? Talk about the European peers. And a final question Adrian is about cost inflation. You called that out, of course. I mean, we know the OCC, you called out a number of other factors, but you seem also quite confident about your ability to price over cost being a material benefit for you, I guess, in the full year, in the current fiscal year. So how should we think about cost inflation as a number if you can share that with us and we can think about the other moving parts, the top line, et cetera? Those are my questions. Thank you.

Miles Roberts: Thank you. Thank you, Lars, for those questions. I think if it's okay with you, I'll take the first question about volumes and then Adrian can talk about the sort of comparisons in different years and periods, etc., cost of inflation. In terms of volumes, as I said in the presentation, we've seen the volumes increasing on a like-for-like basis and an absolute basis throughout the whole period including the - I think we're in the right sectors. And I clearly see that gain in market share. You can see how our customers are really focusing in on just the security of supply and how we have responded, about our levels of service. But it's also about this increasing requirement for new innovation, for all the challenges that they have coming from consumers, et cetera.

Miles Roberts: So Q4 in absolute percentages, the growth was better than Q3. And as I said, coming into the new year, our first quarter, we expect to be at the absolute level of growth to be certainly well ahead of Q4. And when you look in percentages over last year, you start to lap the first quarter of last year was actually negative. It's the only quarter we've had that was actually negative in growth, was the first quarter last year. So clearly the comparisons are very strong. But we tend to now be looking at the absolute quarter-on-quarter growth and we can still see that coming through quite strongly. And we do expect there to be continued momentum in our sales, certainly over the first half into the second half. And then we'll see where things are. But Adrian, on those comparatives and the cost inflation.

Adrian Marsh: Yeah, thanks, Lars. In terms of the comparatives, obviously there's only really one similar packaging and paper business across Europe that we can compare to. And for me, I've got to look at the timing of year end, really, and when the impacts were reflected in their numbers. I haven't stripped them out. But I have to admit to compare on a like-for-like basis. But if I did, I wouldn't imagine there'll be wildly different. And certainly if I read the market commentary, everyone's saying broadly similar things in terms of the impact of OCC, in terms of paper pricing, in terms of price recovery. So I wouldn't necessarily draw any distinction around that at all. In terms of other things that I can compare to, I don't think there's anyone else that's sort of like-for-like fibre-based business either. So if I compare to somebody I was then they've got a reasonably sizable plastics business. So I don't know off top of my head exactly what performance that has been, but I imagine reasonably good as oil prices fell, probably tougher as oil prices are rising, polymer prices are rising but I don't know.

Adrian Marsh: And then the other business you could compare to is substantially paper, also has plastics and has uncoated fine non-packaging grades. So it's extremely difficult to make an assessment across. But I don't think on the underlying that there'll be anything wildly different on a pure packaging play, fibre-based packaging play. In terms of cost inflation, you're absolutely right. We're starting to see a number of areas experiencing inflation at the moment. I can't put a precise number on it. We're seeing it across every aspect of the cost base. At the moment it's not significant but you've seen oil prices rising, you've seen commodity prices rising generally, we've seen energy prices rising, distribution. We're seeing a very strong demand situation globally at the moment. So I fully expect to see inflation rising through the year. It doesn't change how we recover our prices. And we look at not only the cost of paper, obviously the OCC driver into that, but equally, all other costs within our cost base. And we work to recover those in exactly the same way. Thanks.

Miles Roberts: Next question.

Operator: The next question comes from the line of Cole Hathorn from Jefferies. Please go ahead.

Cole Hathorn: Morning Miles, morning Adrian. I'd just like some colour on the box price negotiations at the moment. I mean, could you just describe the backdrop where I mean, demand's pretty good. Inventory levels in paper are low and paper prices are still rising. So how are your negotiations with raising the box prices with customers going? And if you can quantify any of that percentage increase there would be very helpful. Secondly, on your wastepaper cost and wider cost inflations, how do you think OCC costs will trend? I mean, at some point, box demand is probably going to have to do some easing. Do you think if there's a bit of easing you're going to see lower OCC prices as there's less kind of pull through the chain? And then final question on the North America division, you had a strong recovery there. Can you just kind of remind us of the road map to kind of get back to that above 106 million? Thank you.

Miles Roberts: I shall take the first country in Europe and you'll take North America Adrian.

Adrian Marsh: No problem.

Miles Roberts: On the negotiations with our customers over pricing, this is something we've got very, very well worked procedures and those processes are clearly understood with our customers. And some pricing has moderated over the last 18 months. They clearly benefitted from that. And now the discussions are the other way. Over 40% of our business is purely indexed and those increases come through. We're also it is not just on the price of paper. We're also seeking to recover some other elements, energy and distribution that we all know about. And given our service and over the last year and our innovation platform, we will say we're pleased with the response that we're getting in price I mean, with those customers, there's no doubt about that. We're making good recoveries.

Miles Roberts: And similarly, on the rest of the business, where the contracts are more what we call freely negotiated, typically if the customer or ourselves go back at any time and discuss pricing again because of our service and the strong demand, those negotiations are going well. I think when we look at the negotiation, this is quite interesting. You analyse all of the negotiations, as I said in the presentation, what we're seeing is people seeking longer-term contracts. They want to understand more about the innovation. They're asking much more about the security of supply, but also how we work. What is our supply chain like? And as you can imagine, we have an extremely robust supply chain into ourselves with a lot of governance around that so that our customers can be confident of getting the product they want made in the right way.

Miles Roberts: And all of that builds into good and successful discussions, negotiations over those prices. Because, as you said, Cole, we're hearing things about the price of paper going up in the future and the strong demand, I think, for July, that's looking more and more likely. Demand is strong. I mean, we never know. But inventory levels remain tight and demand is strong, steady. So there's likely to be further price increases. Wastepaper costs, they have increased significantly. We know there's no doubt there's a bit of friction in there, just as Europe and the US, the economies are starting to come back as lockdowns ended. There's still some friction in there and demand is strong, not just domestically, but from outside of Europe and US as well.

Miles Roberts: So OCC, I think really will increase very dramatically. Over the last six months, it's been actually more than recovered in the price of paper. It's very difficult to know. We're seeing some moderation in the price, a bit of moderation as lockdown ends. But I have to say demand remains quite strong. So if we were here in six months and the price was similar to where it is today, I wouldn't be surprised. But clearly, it's an unknown. I think demand is good. Hopefully, lockdown will - the end of that will

start to ease some of the restrictions. But I wouldn't be surprised if it's where it is today. But as I said, it's very, very subject to all sorts of changes. Adrian, on North America.

Adrian Marsh: Sure, thanks, Miles. Yes. So in terms of North America, you can see the recovery coming through this year, particularly through the second half. We set out this time last year what we expected. We felt that the increase in utilisation of Lebanon as demand grew with the benefit of strongly using more of our long paper position domestically. That's what's happening. We're seeing a very strong performance there, seeing obviously, as I mentioned in my notes, on my commentary, the impact of synergies that we've built over the years coming through. We're getting a strong operational performance. And let's face it, to be honest, we're getting the benefit on paper prices with a strong paper market. We're now exporting less. And even if we were, the export price is now relatively high.

Adrian Marsh: And domestically, I've just seen a thing ping up on a few seconds ago that another couple of big US producers announcing paper price rises in the states again. So America is a very hot market. Demand is very strong. We're extremely well-positioned in that with the capacity we've got. We're picking up business with existing customers, as was originally part of our business case, but also with local customers as well, particularly new customers that may have been let down by some of the bigger businesses there that just are simply running so hot at the moment. So I can bridge very well to the types of numbers you're describing if I look at those individual drivers. But the key thing for us was utilising and cutting up paper locally with our packaging business, with the greenfield development that we announced a couple of years ago. So I'd say it is going as planned.

Miles Roberts: If you look at the second half, in a COVID this year, you can start to see actually the margins and the actual profitability. This is absolutely getting back to where it was previously. Thank you.

Operator: Thank you. The next question comes from the line of Eoghan Reed from Bernburg. Please go ahead.

Eoghan Reed: Morning guys. It's Eoghan here, just a few for me. First, you kind of talked about 40% of contracts being index-linked. I guess, how does that compare to a few years ago? Where is the sort of optimal level of that trending to a higher percentage? And then secondly, you previously discussed sort of disposal of non-core assets, the paper mills, I guess how you think about that now in a tighter paper environment where the prices are quite strong. Is that something that's still on the agenda or are you really focusing on security of supply at the moment? And then lastly, on the sort of next leg of growth in the US so now that the start-up costs have gone, the integration is going well and the synergies are coming through, what are the next sort of topics on the agenda for growth in that region? Thank you.

Miles Roberts: Thank you. We're over 40% on these large contracts. The growth of big customers has been very good consistently. So we're now actually over 40% of the index contracts. We're absolutely fine with those types of contracts because they are linked to long - they tend to be much longer-term contracts. And therefore, the efficiency in the way of working is quite - is a very sort of attractive way of working on much of a long-term partnership. I think that will take up over the coming years as we continue to grow, maybe get to 50%. But equally will always have a big a significant share of the freely negotiated contracts as well. But it is trending to high level, and that's where we are but we're good with that. If I just talk about the next leg of the US then Adrian will come back on the disposals. But just on US, we still have good capacity

in Lebanon. It's very profitable when we grow that business and we bring that paper that's being exported back to the US market at that continuing pace.

Miles Roberts: Adrian talked about particularly the second half before. So we can see further growth coming back in the US. The US is the highest margin market in the world. I think we've built some very good positions with a number of global customers who want the same sort of packaging in the US as they get in Europe. They want a consistent supply, consistent standards, often for the same product. So the challenge for us is really let's see, let's continue to improve what we've got and get more capacity out of that, drive the returns higher and continue to support our customers. And then I think in the future, if that's subject to performance, I think you're going to see further opportunity for us to grow and develop in that market. Exactly how and when we'll come back with but it looks I think it looks a very good opportunity for us built on those customer relationships. The non-core aspect, Adrian.

Adrian Marsh: Yeah, thanks. In terms of non-core, you remember this time last year with the way the pandemic had hit and particularly where paper prices were at the time, we consciously down tools for a period. You'll have seen recently, I'm sure, a whole spate of small mill disposals and acquisitions in the market. Our strategy remains the same. It hasn't changed. Where we have paper assets that aren't supplying the grade that we use, i.e. they're not very well integrated within our estate, we will still look to sell them at the right price. And going forward in terms of security supply and to the extent that we do have any requirements from them, albeit small, that will be tied up with an off take agreement. So we have had a lot of interest back again on those assets. We're looking at a few different proposals at the moment, but it's definitely a very different environment than how it was this time last year.

Operator: The next question comes from the line of Mikael Doepel from UBS. Please go ahead.

Mikael Doepel: Thank you. Just coming back to the equation of box price increases vis-a-vis cost inflation and how that's going to pan out for you. But I guess my question there is more on the margin recovery overall. I think you had an EBITDA margin of 8.4 now for the full year. Do you think it's fair to assume that you're going to get back to the targeted range of 10 to 12 already this financial year, or do you expect that it'll take a bit longer than that to fully recover the cost inflation through higher box pricing?

Miles Roberts: We can absolutely see ourselves getting back towards 9% in the second half, we can see the operational leverage coming through from the high volumes and we can see the amount of a cost that we expect to recover in the current year, in our new financial year. So I think you should expect there to be a very meaningful recovery this year. But absolutely, I think I can stay committed to getting back to a 10 to 12% margin target built on the dynamics I've just described, plus that growth in the US. And look at that US second half margin. That gives us real confidence to get that. Not only in that, in our other medium-term targets as well, we're absolutely committed, those are getting back to those levels of returns that we previously enjoyed, albeit on obviously a larger business.

Operator: The next question comes from the line of Sam Bland from JP Morgan, please go ahead.

Sam Bland: Morning, I have two questions, please. The first one is on these box prices. I think the terminology you use, you'd like to fully recover the cost inflation. Is that how you look at it or can box prices be actually a profit driver and a profit tool in their own right? And if it's possible to more than fully recover the cost of inflation, that's what you'd like to do. And the second question is kind of linked to that last one, which is I

think you just did six billion of revenue. Presumably, that's going to go up in the year ahead with rising prices. You sort of take the midpoint of that 10 to 12% margin and you're kind of heading towards 700 million of operating profit, which I think is a bit ahead of consensus. Are there any sort of ongoing drags and negatives to be aware of that might make that 700, let's say, a bit of a stretch at this point? Thank you.

Miles Roberts: Thank you. On the box price, you're absolutely right. The issue in the past, we have always recovered our - fully recovered these box costs, but continue to grow the business. So there's two slightly different things. And you've seen over years our margin progress and progress. It has come back in this year. I would add that we invested, we kept all of our teams together, all of our people. When our volumes were down in the first quarter, we carried all of that cost because we felt the market would come back. And you've seen the response in the margins in the second half. And obviously, we can see the progress that we expect to make in the coming year. So it's about recovering the costs, but it's continuing to drive the growth and get the operational leverage as well and continue our growth story on margins that we've enjoyed over many years.

Miles Roberts: But when we do look ahead, we're not - there is an element of caution. We're very pleased with how we've come out to the bigger market share, less debt, rising prices. But we recognise that there's still some uncertainty in the environment in which we are working. We're seeing some volatility and some cost that we will do that. But we just have that background that we have to navigate through. But I think, as Adrian said, we're looking in our 10 to 12% range. We're absolutely committed to getting back there. Exactly when, I think we'll make very good progress this year. No doubt about that at all, but exactly when we break into that, we'll get to the 11%, we're just mindful that we are still in a slightly uncertain market. And therefore, there's just - we just have that at the back of our minds. Is there anything else you'd say, Adrian?

Adrian Marsh: No, I explained the effect impact in my technical guidance. I think the other thing obviously is the full year effect of price rises they don’t happen day one at the beginning of the year and you get the full year effect. So you have to spread that through this year and next year so you can see that growing trend. And as you say, Miles, I mean, we proceed with an abundance of caution in terms of we're very, very positive about our outlook. But we're not out of the pandemic yet.

Miles Roberts: No, no. Thank you.

Sam Bland: Thank you.

Operator: The next question comes from the line of Jolyon Wellington from Peel Hunt. Please go ahead.

Jolyon Wellington: A couple of questions for me please. The first question is just on the mix of the business. Just wondering how you're seeing the business mix evolve in terms of the corrugated volumes, the mix between sort of FMCG, industrial, e-commerce, etc., how you sort of see that evolving over the next year or so and what the different margins are of those different pieces and how that influences the overall gross margin. And then second question is just on cash, the strong amount of free cash flow coming through in FY21. Clearly, there was some benefit from working capital and you got a bit of profit recovery coming through in FY22. So just wondering, Adrian, what's your view on free cash flow for FY22? Can it be sustained around that level or if it can jump back slightly? Thank you.

Miles Roberts: Thank you, Jolyon. And again, I'll take the first and Adrian if you talk about the cash. In the mix of business, we've really grown very strongly in FMCG e-

commerce business. That business represents well over 80% of our corrugated volumes, it continues to improve. And I think over the coming years, we're going to get that up to about 90%, not from coming out of the industrial necessarily because we have some factories that specialise on that. It's just that we are just so strong in that market and the market share gains that we are making will drive that further. We are seeing some recovery in industrial business. There's no doubt about that, that is coming back and that's certainly supporting our business and it is good to see that. And we expect the industrial business to be positive during this next year. And we've said that for some time and indeed, that's exactly what's happening.

Miles Roberts: In terms of margin, we look at margin and return on capital, the asset utilisation, they both go hand-in-hand. If I look at FMCG, if you look at the different retail outlets, whether it's e-commerce or straight FMCG, there's very little difference in the margin. I would say that the margins on FMCG e-commerce are slightly lower than the average margin on industrial. But the FMCG e-commerce, it's about the asset turnover, it's about the consistency of demand so that we can drive our returns. And that's a big issue in our cash flow performance. When you look at the business, you look at asset turnover, you look at the utilisation, this business can generate cash even in a very difficult environment. And that's what we've demonstrated this year. So looking forward, we think our margins are going to grow, we think. But the FMCG e-commerce part will take a greater proportion of our business. And that's been resilient throughout the whole of our year. And I think that gives us a lot of confidence in terms of our financing the cash flow. Adrian, on cash and working capital for the future.

Adrian Marsh: Yeah, thank you. In terms of working capital or cash this year, as Miles said was a good performance by any measure. Obviously there's been a big benefit coming through on working capital. A part of that, as you'll remember when we talked about half-year was through efforts being made. We have very good focus within the business. But part of it and you can work out pretty much was coming from higher paper prices year-on-year and higher OCC prices year-on-year when you compare the end of the year this year to the end of the last year. And that gives us a benefit on our payables. Now, to the extent that that will reverse at all, you have to take a view again on where you think the year will close, in terms of pricing. And likewise, as paper price has come through to receivables, we have a headwind on that front as well.

Adrian Marsh: What I can say is when we look at it and we manage it internally and we set our budgets and our targets, we're looking at a strong continuation of the efforts that have gone on this year. But for sure, unless we have a pretty unique set of circumstances, again, as we exit the year with significantly rising paper prices and OCC again, you won't expect or one wouldn't expect the working capital performance, anything like that level. And obviously Capex I've described and that's a gross of any disposal proceeds that I've given so then may well be a netting down with the proceeds, as I talked about a little bit earlier. So hopefully that gives you some colour and obviously, EBITDA, you can look at your own forecast and see what you expect that to increase by.

Miles Roberts: Thank you, Adrian. I think because of time, time for one more question.

Operator: Of course, thank you. So our next question comes from the line of Justin Jordan from Exane. Please go ahead.

Justin Jordan: Thanks. Good morning. And in the interest of time, I'll keep this brief. I've got three questions on capital allocation. I guess firstly, DS Smith has return on capital of 8.2%. It's now been falling for five successive years and it's now some 600 to 700 basis points below similarly COVID impacted peers like Smurfit Kappa or Mondi.

What are the lessons for the board for future capital allocation? That's my first question. From five years of falling return on capital employed. Secondly, I know some of the 13 analysts covering DS Smith forecast DS Smith delivering even a 12% return in the next 2%to 3% - sorry, two to three years to April 2024. Has in reality DS Smith abandoned any aspiration of getting back to its 12 to 15% return target? And thirdly, assuming you're actually retaining this 12 to 15% return target to be delivered according to a new report through the economic cycle Can you actually provide us a timeline to deliver this 12 to 15% return target, which you're prepared to be accountable for? Thank you.

Miles Roberts: Thank you very much, Justin. As you know and everybody, return on capital is one of our primary measures. We have changed the business significantly over the years. We've sold a number of businesses that produce very high returns like plastics, but we think that's the way forward. They're older businesses and we invested in the technology in the areas that I think have real growth. And I think we can all really see that. We can all really see that our allocation into businesses about sustainability, about growth and consumer things. I think we can all agree we're absolutely in the right position. And I think in terms of our returns, I think Adrian was very clear about the 12 to 15% return on capital, we remain absolutely committed to that. You can see the improvements in the second half. You can see the improvements in our cash flow despite the investment.

Miles Roberts: And you can also see the improvement the City is expecting in the future years, which we are very comfortable. And I think we can all see ourselves getting back to that range. But our strength in businesses with real growth opportunity rightly positioned to the right customer groups, the right product rather than I think, old formats which can produce a high return in the short term, but ultimately I don't know. But thank you for your question. Thank you. Look, I'm very conscious that we've gone over our hour and thank you, everybody, for your time. And obviously, we're always here to answer any questions other people have. Thank you very much again for your time today, we appreciate it. Thank you.