Q1 Investor Call – 28 May 2014

Chairman’s Opening Remarks

Introduction
Welcome to the Ardagh first quarter 2014 investor call, which follows the publication yesterday of our results for the quarter. I am joined on the call today by Niall Wall, our CEO, David Matthews, our CFO, and John Sheehan, our Investor Relations Director.

Macro Environment & Overall Financial Performance

Macroeconomic indicators in the Group’s main markets showed a modest improvement on the prior year. However, in North America, ongoing gradual economic recovery was largely offset by the impact of severe winter weather. In Europe, signs of stabilisation and modest recovery were increasingly reported, though demand remained generally subdued.

In this environment the Group recorded a good start to the year, with constant currency growth of 2% in revenue to €968 million and 10% in EBITDA to €155 million, compared with the first quarter of 2013. At constant currency, sales and EBITDA improved in both of our businesses, reflecting increased volume, chiefly in Metal, as well as cost efficiencies. EBITDA margin for the quarter improved to 16.0% from 14.8% in 2013.

Cash flow was in line with the prior year, as higher profitability and a reduced working capital outflow offset an increase in investment spending on our Metal business growth project in North America. The Group experienced a seasonal operating cash outflow of €24 million in the first quarter. This was in line with the prior year, despite a €48 million increase in capital expenditure, largely related to the US metal business investment. The higher capital expenditure outlay was offset by a €34 million reduction in the seasonal working capital outflow, as well as by the €13 million increase in EBITDA for the period.

Glass Division

Our Glass division reported revenues for the first quarter of €488 million, a 3% increase on the same quarter of 2013 at constant currency.

Glass Europe revenue of €327 million for the quarter was 1% higher than the previous year at constant currency. Glass container manufacturing revenues increased by 1% compared with 2013, when volumes grew by 2%. Revenue growth was driven by the commencement of sales from our special European investment project in 2014.

Revenue in Glass North America grew by almost 2% to €161 million in the first quarter, with a constant currency increase of 5%. Volume was little changed compared with 2013, with continued sluggish beer demand offset by growth in other end markets. Selling prices increased by 5% to recover higher input costs, partly related to severe weather effects during the quarter.

Glass division EBITDA of €101 million was up by 10% on a constant currency basis. This improvement was due in broadly equal measure to improved volume/mix effects and a strong cost performance. First quarter EBITDA margin in the Glass division was 20.7%, compared with 19.4% in the same period last year, with increases recorded in both Europe and North America.

Metal Division

Revenue in our Metal division of €480 million for the quarter rose 2% over the prior year on a constant currency basis. In Europe, where we have over 80% of our total metal business, constant currency revenue grew by 2%. Volume rose by 3%, due to strong growth across our food businesses. Our much smaller Other Metal region reported a 3% decline in constant currency revenue.

First quarter Metal division EBITDA of €54 million was 10% ahead of the same period last year on a constant currency basis. EBITDA in Europe Metal was €47 million in the first quarter, a 21% improvement on the prior year due to 3% higher volumes and a strong cost performance. We are targeting further cost improvements in our European Metal business in the forthcoming quarters. EBITDA in the much smaller Other Metal region declined on lower volume.
EBITDA margins in our Metal division were 11.3%, an improvement on the 10.2% achieved in the same period last year.

**Development Projects**

Our development projects, involving a combined investment of over $300 million in 2013/2014, made significant progress in the quarter. These arise from Ardagh’s relationships with global brand owners and our record of delivering innovation, quality and service. These development projects are underpinned by long-term customer contracts.

Our European glass project was completed ahead of schedule in late 2013. It involved the shutdown of a glass furnace and production lines and the re-building of a previously shuttered one, creating a new state of the art facility that is significantly more efficient. It has contributed to profits since the start of this year and is fully meeting our expectations.

The construction of our two new state of the art North American Metal production facilities is progressing well, with commissioning later this year. These plants will more than double our North American metal revenue and contribute to earnings from early 2015. Ramp up of commercial production will begin in Q4 2014, with the plants fully operational from January 2015.

**Verallia North America**

Following agreement with the FTC we completed the acquisition of VNA on April 11, 2014 and on April 12 we entered into a definitive agreement to divest six former Anchor Glass plants to an affiliate of KPS Capital Partners. We are pleased with the outcome of the divestment process and hope to complete the sale by late June or early July. Sale proceeds are expected to be of the order of $490 million.

Prior to the completion of VNA, we settled the dispute with the Pension Benefit Guaranty Corporation on terms satisfactory to Ardagh and a contribution of $207 million, or $125 million after tax, was made to the pension scheme. This contribution had the effect of putting the scheme into surplus on a MAP-21 basis. The net of tax cost of this pension contribution was funded by VNA from its cash flows accumulated during 2013 and early 2014.

The acquisition of VNA is a key strategic step for the Group, diversifying our revenue and earnings base, geographically and by end market. VNA’s asset base and market position are attractive, with strong positions in beer, food, wine and spirits. Post completion of the acquisition and the related divestments, and taking account of the expansion of our North American metal business, approximately 40% of Group revenue will be generated in North America, which will become by far our largest region.

We are now fully focused on integrating VNA into the Group and delivering the well-defined $75 million of cost synergies within the first three years of ownership. These synergies represent some 70% of those originally envisaged without divestment being required. However, the cost of achieving the synergies has also been reduced materially from that originally envisaged. Detailed integration plans are already being implemented in order to deliver these synergies. John Riordan, our previous Finance Director, has taken up his new role as President of Glass North America. We are pleased with the progress to date with VNA.

As VNA was not acquired until after the end of Q1, its results for the first quarter of 2014 are not included in Ardagh’s Q1 results. VNA’s constant currency revenue in the first four months of 2014 is in line with the prior year and showed growth in the month of April. Constant currency EBITDA in the month of April was also ahead of the prior year but the harsh weather experienced across much of the US during the first three months of 2014 led to significantly increased operating costs, such as spikes in energy prices. As a result, despite the year on year improvement in April, constant currency EBITDA for the first four months is some €9 million, or 13%, lower than the same period in 2013. This shortfall is attributable to these increased operating costs. We expect to recoup most of these increased costs (through cost pass through mechanisms) over the coming months.

Given that VNA spent all of 2013 and the first quarter of 2014 in an ownership limbo between Saint Gobain and Ardagh, we are pleased with its performance and believe that it provides our management team with the expected foundation to develop a very significant, efficient and profitable North American glass business.
Financing and Investment Activity

As previously reported in January 2014 we replaced the original funding for the VNA acquisition. The average interest cost of this new funding (of 5.4%) compared favourably to the 6.0% interest cost of the original funds raised in 2013.

We intend to make a repayment of debt in an amount equal to the net proceeds from the divestment of the six Anchor plants.

We are currently assessing the merits of refinancing some of our existing debt which is callable now or in the near future (including payment in kind debt). We will seek to use this opportunity to re-organise our funding base and further reduce our interest costs.

Raising of Private Equity

As you know, we have been exploring with investors the possible raising of private equity before an IPO. We have now completed a review of the options open to us regarding equity funding. We have concluded that, although private equity is available to us, it is in our best interest to proceed exclusively with our plans to IPO the Group in the second half of 2015. Detailed planning for the listing of our shares in the US is now fully under way and we are committing considerable internal and external resources to achieve this objective.

Outlook and Conclusion

We have made a good start to the year in Q1 and this progress has continued into Q2.

LTM EBITDA to 31 March 2014 was of the order of €750 million. This LTM number includes VNA but excludes all VNA-related synergies and excludes the six Anchor plants which are being divested. We anticipate good improvement in overall performance in 2014 compared with 2013. As we look into 2015 and beyond we anticipate significant growth in revenues and EBITDA arising from the building blocks which we have put in place. This growth will come from the realisation of synergies and other improvements at VNA, from the operation starting early 2015 of our new North American metal plants, from cost cutting measures and efficiency improvements in our European metal business and from our European glass project. We are targeting these initiatives to provide an uplift in EBITDA (from the 31 March 2014 LTM level) of some €200 million over the 2014 to 2016 period. Some 20% of this €200 million uplift is targeted for the last three quarters of 2014, with a further 50% in 2015 and the balance in 2016.

Our focus over the coming years will be to further strengthen our leading market positions in North America and Europe in glass and metal, and to make full use of our well-invested asset base and excellent customer relationships.

Having made these opening remarks, we will now be pleased to take any questions that you may have.