ArdaghGroup

Ardagh Q4 2016
Loan & Bond Holder Call

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Paul Coulson, Ian Curley, David Matthews, John Sheehan

Transcript

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Operator: Hello and welcome to the Ardagh Fourth Quarter Investor Call. Throughout the call all participants will be in listen-only mode and afterwards there will be a question and answer session. And just to remind you, this conference call is being recorded. Today I'm pleased to present Paul Coulson, Chairman of Ardagh. Please begin your meeting.

Paul Coulson: Welcome everyone to Ardagh's fourth quarter 2016 investor call which follows the publication earlier today of our results for Q4. I'm joined on the call today by Ian Curley, our CEO, David Matthews, our CFO and John Sheehan, our Investor Relations Director.

Revenue and EBITDA for the fourth quarter recorded advances of 49% and 50%, to €1.83 billion and €306 million respectively. This chiefly reflected a full quarter contribution from the beverage can business which was acquired on 30 June, as well as continued progress in the rest of our business.

Looking at the financial highlights for the quarter compared on a pro forma basis with the same quarter in 2015:

- Revenue of €1.83 billion was in line with the prior year at constant currency, as organic growth of 1% was largely offset by the reclassification of charges for ancillary services in 2016.
- EBITDA of €306 million in the quarter represented an increase of 5% at actual exchange rates and 7% at constant exchange rates, with growth driven by our Metal Packaging Americas business and our Glass Packaging business in Europe.
- We had strong cash conversion in the quarter, with operating cash flow increasing by 41% to €438 million and free cash flow growth of 46% to €287 million, compared with the same period last year.
- For the full year 2016, pro forma EBITDA increased by 5% at constant currency to €1,333 million, which was in line with our prior guidance.
- Full year operating cash flow increased by 36% to €950 million, and free cash flow rose by 63% to €519 million.
- Cash and available liquidity at Saturday, 31st December 2016 was €1,022 million compared with €826 million at the end of December 2015.

Turning to each division.

Metal

Total Metal Packaging revenue of €1,094 million for the quarter increased by 134% compared to the same period last year, primarily reflecting the beverage can acquisition. Pro forma revenues grew by 1%, with growth in the Americas offsetting lower revenues in Europe, where lower input costs impacted revenue as they were passed through to customers.

Fourth quarter EBITDA of €155 million increased by 7% on a pro forma constant currency basis, largely reflecting a strong performance in Metal Packaging Americas, where EBITDA increased by 19% compared with the same period in 2015. In Metal Packaging Europe, EBITDA increased by 1% compared with the prior year period.

Integration of the beverage can business, together with the delivery of the associated synergies, continued to progress well during the quarter.

Glass

Total Glass packaging revenue of €732 million was 4% lower than the same period last year at actual exchange rates and decreased by 1% on a constant currency basis. Underlying revenue was in line with the same period last year, with 1% growth in Europe being offset by a 1% reduction in North America. The reclassification of recharges for ancillary services to customers reduced revenue by approximately 1%.

Fourth quarter EBITDA in Glass Packaging increased by 7% at constant currency to €151 million, compared to the same period last year. Modest volume growth combined with a continued focus on efficiencies, led to EBITDA growth of 18% in Glass Packaging Europe. EBITDA in Glass in North America was unchanged compared with the prior year with improved mix offsetting lower volumes.

Cash Generation

As we noted earlier, cash generation was strong in the quarter and over the course of 2016. This is evident in that net debt on an LTM basis was at the end of the year was 5.4 times EBITDA, an increase of just 0.2x EBITDA since December 2015. This was a very small increase in leverage, despite us having completed an all-cash acquisition of €2.7 billion during the year. Strong cash generation also allowed us to continue to invest in our asset base, with capital expenditure in 2016 of €318 million, bringing the total investment to €1.5 billion over the past five years.

Capital structure

In recent months, we have continued to pro-actively manage our capital structure, with a view to optimising cost, maturity profile and flexibility.

- In October, we extended maturity of our Term Loan B facility by two years to late 2021.
- In November, we repaid our $135 million 7% Senior Notes due 2020 from cash resources.
- In January 2017, we used $300 million of our own cash resources, together with $1 billion in newly issued 6% Senior Notes due 2025, to repay in full our $415 million 6.25% senior notes due 2019 and $845 million of our senior secured FRNs, which were also due in 2019.

Following these transactions, Ardagh's only debt maturity arising before 2021 is the balance of $265 million Senior Secured FRNs due in 2019. As ever, we will continue to monitor market conditions for further opportunities to enhance our capital structure.

IPO

As you are aware, we filed our F1 with the SEC on 17 November last, and we will very shortly update our filing to include the 2016 full year results. This process with the IPO/SEC is well advanced and our objective is to IPO on the New York Stock Exchange later this quarter. As previously outlined, whilst the funds to be raised in the IPO are expected to be relatively modest and will be used for deleveraging, becoming a publicly listed company represents a very logical progression for the Group, given our global scale and diversity. It is also the second leg of the transformation of our overall capital structure, which started with the issue of our Holdco Toggle Notes last September.

As long-term and continuing owners, we look forward to the next phase in Ardagh's development.

Conclusion

To wrap up my remarks, 2016 was a year of very significant progress for our Group, with strong growth in earnings and cash generation, as well as the completion of the strategically-important beverage can acquisition. We are very pleased with the performance of the beverage can business. This acquisition increased the size and scope of our business by some 50% and, putting the scale of our business in context, Ardagh now produces approximately 85 billion packaging containers and components annually.

In 2017, we remain focused on the delivery of further earnings growth and cash conversion, pursuing the integration of the beverage can business, deleveraging, and completing our planned IPO.

Trading to date in the first quarter has been satisfactory and is in line with our expectations.

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

Operator: Our first question comes from the line of Roger Spitz from Bank of America Merrill Lynch. Please go ahead. Your line is open.

Chris Ryan: This is Chris Ryan, on for Roger. Thanks for taking my questions. My first question, is if you could give 2017 Capex guidance?

David Matthews: The guidance for 2017 is around €450 million. That breaks down into two principal elements. We've got an underlying capex of around €400 million in the business, which is around 5% of sales, and in both 2017 and 2018 we will have additional capex of around €50 million in each year. That basically represents a couple of projects we are doing in the beverage can business - one time projects to convert one of our plants from steel to aluminium, and also to increase our ends capacity. The arrangement with Ball was such that we need to actually build some more ends capacity. So, the underlying is €400 million, but this year it will be €450 million.

Chris Ryan: Great, thank you. And for 2017, if you could give any cash tax guidance, or maybe a cash tax rate?

David Matthews: Yes, the cash tax guidance is around 100 million.

Chris Ryan: Thank you. And for Glass Americas beer volumes, down in Q4 2016 year-over-year, would you be able to give any split between mass beer or micro beer?

Ian Curley: No, we wouldn't give a split-out at that level. All we'll say is craft beer was actually up overall.

Chris Ryan: Oh, okay. Thank you. That's all my questions.

Operator: Our next question comes from the line of Andrew Keches from Barclays.

Andrew Keches: Good morning. Congrats on the quarter. This question is just in North American Metals. Obviously some pretty strong year-over-year growth in sales and EBITDA. Are you able to just highlight some of the drivers of that strength?

Ian Curley: In Metal North America? On the beverage can side of things, overall we saw some good volumes in beverage can North America, but overall in the market itself, we saw some softness, as we said before, on the food and speciality side, but beverage can overall in good shape.

Andrew Keches: Great. Thank you. And then just a question on the balance sheet. Are you still planning to target about a half a turn of deleveraging annually?

Paul Coulson: Yes. I think where it's probably coming out is about 0.4x, because when we gave the previous guidance of 0.5 it was before any dividends were paid and we do intend to pay a dividend up to Holdco and to outside shareholders following the IPO. So, within Opco itself, it's probably closer to 0.4x of a turn of EBITDA rather than 0.5x, the difference just being the dividend.

Andrew Keches: Okay, great. And then just one more general question, just on the free cash flow. As it does grow in 2017 and 2018, can you highlight just some of the key uses of that excess cash, be it M&A or further debt paydown?

Paul Coulson: I think we would use it to pay down debt. I mean, M&A will be as it always is with us: we will be opportunistic, if it makes sense. If it doesn't make sense, we won't do anything. But, absent doing anything, it will be used to pay down debt because we're moving into a de-leveraging phase in the business now.

Operator: Our next question comes from the line of Richard Kus from Jefferies. Please go ahead, your line is now open.

Richard Kus: Hey guys. Thanks for taking my questions. So, can you guys reiterate your guidance for 2017 adjusted EBITDA? I think you had said it was going to be around €1.4 billion. Do you still feel comfortable with that?

Paul Coulson: Yes, that's fine.

Richard Kus: Okay. Very good. And then currently, how much RP capacity do you guys have under your agreements?

Paul Coulson: €270 million. And that will of course increase by the amount of the IPO proceeds.

Richard Kus: Okay. And then lastly for me, I'm curious to hear how synergy realisation has been going. How much cost synergies did you guys end up realising in 2016 and then what's the expectation for 2017?

Paul Coulson: Well, as you know, our guidance on synergies has been at least $50 million overall, spread largely between 2017 and 2018, about $30 million this year and $20 million last year. We had some synergies last year; very small, completely immaterial. The thrust of them will be in the current year and next year.

Richard Kus: I got you. All right, great. Thanks a lot.

Operator: Let's move on to the next question, from the line of Bob Amenta from JP Morgan Asset Management. Please go ahead, your line is open.

Bob Amenta: Thank you. Just trying to recall the leverage ratio. Did you say something in the past about 4.5 times pro forma for the IPO, and was that Opco or Holdco? I just wanted to refresh.

Paul Coulson: No, I think the guidance we would have given you was that IPO is expected to be around five times Opco.

Bob Amenta: All right. So, five times after the IPO?

Paul Coulson: Yes, after the IPO.

Bob Amenta: All right. So, and then with respect to the dividend, just taking your guidance and, I don't know, just ballparking a €3 billion-type market cap on euros. Some of your competitors like a Ball might pay a 1% dividend, Crown doesn't pay a dividend. Are we somewhere in that 1% yield, or do you have any idea on what you're thinking on that?

Paul Coulson: No. It's materially higher than that. It's somewhere in the order of $130 million per year. I wouldn't comment on market caps and things like that. That's for the market to decide when we take the Group public, but it's something of that order.

Bob Amenta: So, going forward, you're going to pay about $130 million a year?

Paul Coulson: Yes $130–135 million, approximately.

Bob Amenta: All right. So, I know your capex is temporarily maybe a little elevated, but with interest of €500 million, maybe a little more, and…

Paul Coulson: No, interest is €400 million.

Bob Amenta: Okay, I'm assuming you pay the cash interest on the Holdco notes. Are you not planning to continue to do that?

Paul Coulson: That would be paid out of the dividend.

Bob Amenta: Okay. I guess I'm lumping everything together. I'm looking at the entity and seeing everything. So, I'm talking about the dividend. Once you're public, and if I'm a common shareholder, what kind of dividend, like, am I expecting, like a yield?

Paul Coulson: Well, I think obviously, the yield is a function of what the market cap is.

Bob Amenta: But the $130 million is meant to cover the interest expense at the Holdco?

Paul Coulson: The interest expense for the Holdco's share of the dividend and there's obviously the share of the dividend which goes to the public shareholders.

Bob Amenta: Right, okay. So, you do still plan to pay cash interest on those bonds then, going forward, at least for now?

Paul Coulson: Absolutely. For the avoidance of doubt, yes.

Bob Amenta: All right, so those add up to 110 million. So, that leaves only 20-odd million of what I would call true dividends going out to shareholders, not to cover interest, based on your 130 number.

Paul Coulson: Yes, but, you know, there will be a buffer there as well to make sure that we're comfortable, taking account of currency fluctuations as well. So, that's the guidance on the number.

Bob Amenta: Okay. And then just last question on dividend. Refresh my memory. I see in the financials and the cash flow statement €270 million paid this year. I just don't recall; when was that paid, and was that earlier in the year? I just don't remember when that was paid.

David Matthews: It was in September.

Bob Amenta: Okay. And then I guess lastly, someone might have touched on the synergies; I was writing something down. Where did you say you stand, $50 million?

Paul Coulson: Unchanged guidance on synergies, at least $50 million, $30 million arising – dollars that is – this year, $20 million arising next year.

Bob Amenta: Okay. And then lastly – and this may not be relevant any more – but capex for the year, you came in around €320 million. Can you just give me a ballpark of what I might add to that number for Ball/Rexam, if you had them for the whole year? Would it be about $50 million more, or…?

David Matthews: I think what we're saying is, the underlying 2017 is around €400 million, which is 5% of sales, but there's going to be a bump in 2017 and 2018 of around €50 million per year, as I highlighted earlier.

Bob Amenta: Okay. All right, that's all I had, thank you.

Paul Coulson: Thank you.

Operator: And we have a follow-up question registered from the line of Roger Spitz from Bank of America Merrill Lynch.

Chris Ryan: Hi, yes, thanks for taking my call. Would you be able to give Metal Americas volume growth in Q4 2016 year over year on a pro-forma basis?

Ian Curley: We'd have to come back to you on that, because Metal Americas, will include the beverage can, and I need to go back and check the pro forma on that. John Sheehan will get back to you on that one.

Chris Ryan: Sure. And what was driving the 2% volume growth in Glass Europe?

Paul Coulson/Ian Curley: A strong performance in beers. The market is strong in Europe. Capacity is tight. So, the overall growth in Glass Europe was 2% year on year. In October, growth was 1%, followed by 7% in November and then effectively flat in December. So overall, Glass Europe was up 2%.

Chris Ryan: Thank you. And just to clarify, was that 2017 EBITDA guidance of €1.7 billion? Did I hear that?

David Matthews: €1.4 billion.

Chris Ryan: Yes, thank you.

Operator: Our next question comes from the line of Jayanth Kandalam from Lucror Analytics. Please go ahead; your line is now open.

Jayanth Kandalam: Yes, thanks for taking my question. I just had one. This is kind of a follow-up. You were talking about a €270 million pay-out in September, a base that is not reflected in the Q3 numbers, when I look just at your bond report. Is it Q3 payment pay-out, or is it a Q4 pay-out, actually?

David Matthews: It was in September, so it should be reflected in the bond report.

Jayanth Kandalam: And just to clarify, €270 million was paid from the Holdco group to the PIK parent. Is it how it works, and that money was used for the payment of the PIK toggle interest? Is that how it worked?

John Sheehan: The €270 million was paid by ARD Finance S.A.. The entity that's been presented today is the former Ardagh Finance Holdings S.A., so the €270 was paid from that entity, which will be the new ListCo. So, happy to pick it up if you want to clarify it offline.

Jayanth Kandalam: Sure. Maybe I'll just contact John. I'll have a chat on that. Thank you so much.

Operator: We'll move on to the next question from the line of Tanveer Abbas from Hutchin Hill Capital. Please go ahead. Your line is now open.

Tanveer Abbas: All right, thanks for taking my call. I had two questions. One was when you issued the PIKs; I think you said that at that time it was bridge to an IPO. And obviously, now that IPO is near I just kind of wanted to get your thoughts in terms of what you plan to do with these PIK notes? Is the plan to call them on the first call date or anything or any colour you could provide there would be helpful.

And the second was, with respect to your rating, obviously, when you did the recent US dollar bond deal you know your first lien bonds were upgraded. I'm just wondering, post the IPO or just running up to the IPO, if you have had a conversation with the rating agencies about the entire capital structure being upgraded potentially post the listing?

Paul Coulson: Well, I think in relation to the Holdco notes and when they might be called or when they not might not be called, we have made no decision on that. I mean nothing can happen until September 2019 anyway. That's the first call date. It's a long way away. We haven't made any decision at all. But, as I said earlier on this call, our intention is to pay interest on the notes. What we do at a later stage is not for decision now.

In any event, they are not callable at the moment and so we don't plan to do anything with them at the moment. In relation to the second question, on ratings, we are in touch with the ratings agencies on a regular basis. We provide them with updates. It's for them to decide either after the IPO or in the future what they want to do with our ratings. But we have no comment to make on that other than that. It's a matter for them except to say that we obviously keep them appraised to all our plans.

Tanveer Abbas: Okay great, thank you.

Operator: Our next question comes from the line of Alexander Hutter from Jefferies. Please go ahead. Your line is open.

Alexander Hutter: Good afternoon and thanks for taking my question. First, with regards to the conversion that you outlined, am I correct in assuming that that the steel to aluminium conversion is in Europe? And, if so, can you help us understand which country that will be in?

Ian Curley: It is in Europe and it's in the UK.

Alexander Hutter: Okay. And then from a timing perspective, will that be coming online in 2017 or 2018? And is it a net increasing capacity or is it a straight one for one?

Ian Curley: It will be in 2018. As with any sort of new machinery that goes in, there will be some element of an increase but it's been done for moving from steel to aluminium.

Alexander Hutter: Great, thanks and then just one last one for me. As you look at the global capacity in metal beverage cans, are there any other areas where you think you need to add capacity to grow or do you have sufficient footprint right now to kind of continue to expand over the next few years? Thank you very much.

Paul Coulson: We're comfortable with our footprint.

Alexander Hutter: Great, thank you very much.

Operator: Our next question comes from the line of Karl Blunden from Goldman Sachs.

Karl Blunden: Good morning guys. Thanks for taking the question. Just a quick one on the customer consolidation ongoing and how is that progressing right now in terms of price discussions? Do you feel confident in terms of your margins or pricing? Is there anything you can share on that?

Paul Coulson: No, that's not something we share. I mean we're very comfortable with our relationships with our customers. As our customers have got bigger so have we and those relationships have strengthened and grown bigger and wider. But nothing other than that, but we're very comfortable with our customer relationships.

Karl Blunden: Okay got it. Thank you.

Operator: We have a question registered from the line of Robert Fawn from Citi.

Robert Fawn: So, to the IPO, obviously when you did the PIK, you were talking about primary proceeds being in the region of sort of $300 to $350 million. Is that the right number that we should be working with?

Paul Coulson: Yes, I think $300 million is probably a good number. The guidance on that hasn't changed.

Robert Fawn: Fine, okay. And am I right in understanding that that $300 million – let's take it as the same in euros – would add straight to RP capacity. So RP would go from €270 million to kind of whatever you want to call it, €550 million-ish?

Paul Coulson: Yes, that's a correct assumption.

Robert Fawn: And, then, am I then right in assuming that essentially, unless you go negative net income, which obviously wouldn't be your base case, that would mean that the PIKs would have to be cash paid substantially all of their duration?

Paul Coulson: Absolutely. Our whole planning is that there will be cash paid throughout the duration. We obviously have the safety net of PIKing them, but we're not planning it.

Robert Fawn: Great perfect. That's fine. And then the IPO would it come – would there be a 180-day lock-up after that in terms of secondary sales?

Paul Coulson: Yes, but remember the secondary sales are all in the Holdco. They're not in individual shareholders' hands, they are in our Holdco. And, yes, there will be a lock-up.

Robert Fawn: Right, so any secondary sales would have to pay down the PIK?

Paul Coulson: Yes, proceeds of that have to be used for that.

Robert Fawn: Fine, okay good, okay. Thank you very much.

Operator: There are no further questions. I'll hand back the conference to the speakers.

Paul Coulson: Well, thank you very much everyone for joining us today. We look forward to talking to you in a few months' time when we discuss our Q1 results. Thank you very much for joining us.

Operator: This now concludes our conference call. Thank you all for attending. You may now disconnect your lines.

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