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Full Year 2023 Vesuvius plc Earnings Call

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PRESENTATION

Patrick André *Vesuvius plc - Chief Executive Officer, Executive Director*

Welcome to Vesuvius's full year 2023 presentation. My name is Patrick André. I'm the Chief Executive of Vesuvius and to my right with me this morning is Mark Collis, our Chief Financial Officer. I will start with some updates on our performance during the year. Then Mark will give you more details on our financials. I will conclude at the end of the meeting with some perspectives on the year 2024 and beyond before opening the floor four questions.

We delivered robust results in 2023 despite difficult market conditions in particular in the second half. Thanks to a positive pricing performance, our revenues decreased only 3% on an underlying basis despite significantly lower volumes. Our trading profit also remained robust, reaching GBP200.4 million, a decrease limited to 6.7% on an underlying basis as compared with last year. Our full year return on sales at 10.4% remain very similar to the one achieved during the first half despite the lower volumes in the second half.

Despite also the high level of our strategic expansion CapEx, we could achieve a higher cash conversion ratio than last year at 93%. We generated more than GBP128 million of free cash flow during the year. And we could maintain a very solid balance sheet structure with a stable net debt-to-EBITDA ratio of 0.9. This strong cash flow generation and the perspectives for the coming years made the Board confident to propose a final dividend for the year of GBP0.162 per share, bringing the total dividend for the year to GBP0.23 per share.

This represents an increase of 3.4% as compared with last year. We delivered a strong operational performance in 2023, which explains why we could maintain robust results despite the difficult market conditions. First, all three business units continued to successfully implement very solid pricing strategy during the year. We could not only cover all of our cost increases in a still inflationary environment, but in flow control and foundry, we could also share with our customers some of the value we created in their manufacturing process with our technologically differentiated products and solutions.

At the same time, our flow control and foundry business units could increase market share in most important regions, demonstrating again the strength and relevance of our technology-based business model. This was made possible by the progress we continue to achieve in 2023 is the efficiency of our R&D organization.

We could launch 21 new products in 2023 against 15 in 2022. And we could progress further our new product sales ratio to 17.6%. This ratio represents some percentage of sales during the year, which we realized with products and solutions which didn't exist five years ago.

And to improve our profitability further, we launched at the end of last year an important cost saving program targeting GBP30 million of cash recurring cost savings by 2026. This program will only deliver around GBP3 million savings this year in 2024, but we expect to reach a run rate at the end of this year of GBP10 million to GBP15 million, which will positively impact our 2025 results.

All of our strategic expansion programs in flow control worldwide and in Asia for all three business units are fully on track and should all be operational by the end of this year. This new investment will start positively impacting our operating cash flow as from 2025.

And the completion of this growth investment program will also enable us to significantly reduce the level of our capital expenditures as from 2025. Thanks to the strong operational performance last year, we could generate very significant free cash flow. This enable us to improve return to shareholders by simultaneously, increasing dividend, and launching our first share buyback program end of last year.

Let's now have a look in more details of the performance of the steel division. You can see on this slide where the size of the bubbles is proportional to Vesuvius's steel division sales, that the division operated in a difficult environment in 2023. After a limited improvement during the first half of the year from the very low level of the second half 2022, we were expecting a further improvement in H2.

And in fact, it was the opposite. With a significant weakening of the steel market in the second half, in particular in Europe. On a full year basis, all major steel production regions saw a decline in 2023 with the notable exception of India. The weakness was particularly pronounced in the EU plus UK where the steel production declined 7.3%, reaching a lower level than in 2020, the worst year of the pandemic.

South America was also strongly affected with a decline of 6.5% in Brazil. North America registered better and in particular the US, whereas Mexico was affected by the bankruptcy and stoppage end of 2022 of one of the important steel producer in the country. China steel production was stable in 2023. However, domestic consumption declined and the stability of production translated into significant increase of net steel exports to the rest of the world putting pressure on all steel producers outside of China with the exception of the US due to efficient trade protections in place.

On the positive side, steel inventories, which we are still excessive beginning of 2023, progressively decrease during the year and are now that's a normalized level. During the year and due to the very difficult situation of the construction sector more or less worldwide, long steel products were proportionately more affected than flat products.

This was in particular the case in China. Looking forward beyond the current temporary weakness, we continue to be very positive on the steel market evolution outside of China in the coming years, which will be a tailwind for Vesuvius in the years to come.

In this overall difficult steel environment, our flow control business units performed well and continue to gain market share in volumes in most regions. This was particularly the case in India. The most dynamic market worldwide, where our new VISO capacity inaugurated a few months ago is already supporting our outperformance.

We continued also to progress nicely in China due to the positive dynamics of the high-quality flat steel sector in the country, contrary to the construction related long steel sector. We also continue to perform well in the US, now a very important market for us, with in particular the first robotic solution successes with some of our key customers.

The only major markets where we progressed slower than the underlying market was EU plus UK, where we were affected by important destocking from our customers. And where we also very significantly decreased during the second half of the year of exposure to customers at risk of insolvencies. We could, however, not totally avoid the consequences of the February 2024 insolvency of ADI Taranto in Italy, which will have a negative impact of GBP3 million on our 2024 results.

The result of the steel division as a whole were resilient despite the adverse external market conditions, thanks to this good performance of flow control, but also to a much lower extent, of course, thanks to improved performances in the sensors and probes business unit. Flow control could slightly increase its top line on an underlying basis due to its pricing performance and parallel market share gains.

Sensors and probes after several difficult years is now firmly in the black and should continue to progress in the coming year. The year was more difficult for our advanced refractories business unit due not only to the general market weakness, but also due to market share losses in India and in the Americas, where we gave priority to pricing over volumes. The advanced refractories business unit, however, continued to progress and gain market share in Asia in 2023 and in particular in India, but also from a low base in China.

Let's now turn to the foundry division. As you can see on slide, foundry the markets were mixed in 2023. In most geographies, the automotive related end markets started to recover last year from the low point of 2022. However, this automotive market represents only around 22% of the overall market of our foundry division and its recovery could not compensate the weakness of other general industrial markets, which after a positive start of the year, weakened significantly during the second half. This was in particular also case in EU plus UK, but also in China and in South America.

Apparent demerging of foundry markets was also negatively affected by the significant de-stocking movement of casting pieces in several regions. On the positive side, India and to a lesser extent, North America saw a positive was last year in both automotive and general industrials. Looking forward, we expect our general industrial markets to start improving in the second half of the year and resume from them the positive long-term dynamics.

After a positive first half, the foundry division's results were negatively affected in the second half of the year by stronger than anticipated market weakness in some of its important end markets, in particular in Northern Europe and Germany, especially in South America, and in China. This negative end market impact was partially compensated by the strong operating performance in the division, with market share gains in all regions and positive pricing everywhere.

The division also progressed strongly in India, the most dynamic foundry market today. Despite this second half headwinds, the return on sales of the foundry division increase for the third year in a row, and we expect this positive trend to continue in 2024 and of course, beyond.

The strong operational absolute performance of Vesuvius in terms of pricing and market share gains was made possible by the efficiency of our research and development organization where we continue to make good progress in 2023. We could, in particular, launch 21 new products during the year. And you can see on this slide a few examples of the products that we launched in 2023.

On the left, this is a new liner that we introduced for our flow control isostatic product line last year. This liner gives our isostatic pieces a higher erosion and corrosion resistance. It minimizes chemical activity when our pieces are in contact with molten steel, and this in turn minimizes the risk of inclusions in the steel and improves the quality of the finished steel products for our customers.

At the center of the slide, you will see our new Supermatrix bricks being introduced by the advanced refractories division for application both in electric arc furnaces and in basic oxygen furnaces. With an improved resistance to corrosion oxidation and erosion, these bricks provide our steel customers with an extension of the life of their vessels in between two linings and doing so greater efficiencies.

Finally, on the right side of the slide is a picture of the new Supermelt crucible which we have introduced to our aluminum foundry customers. By increasing the life of the crucibles and improving the consistency of the melting process at the same time, it enables our foundry customers to both reduce their costs and improve the quality of the final foundry products.

We also made significant progress in 2023 with penetration and adoption by our customers of our innovative robotic solution for continuous testing. Several of our robotic solutions were adopted by important customers in North America and for the first time in India. These robotic solutions present important safety advantages for our customers as they allow them to remove workers from some of the most dangerous areas in the steel plant.

At the same time by reducing incidents due to human errors, our solutions reduce downgrades of steel, improving an improve the overall quality of steel products. Our robotic solutions also supports the development of our recurring refractory consumable sales. We introduced the first of our new robotic solutions to the market in 2012, and we sold 23 installations in the first 10 years up to 2022. Last year alone, in 2023, we won seven new projects, and we expect to do even better this year, with three projects already won since the beginning of the year.

As you can see on this slide, beyond the positive results that we are obtaining today from our research efforts in both material science and robotics, we are continuing to increase our financial commitments to research and development, and this research is becoming more and more productive. We again increased in 2023 our new product sales ratio, again representing a percentage of sales realized with products and solutions which didn't exist five years ago. This was again increased for the third year in a row.

This enables us now to have a full pipeline of products under development which we intend to progressively introduce to the market in the coming two years and which will support both our pricing performance objectives and our market share gains ambitions. All of strategic growth CapEx are progressing well and are fully on track for completion by the end of this year.

Two axis. First, we are extending the capacity of our flagship flow control business unit everywhere in the world to support our total market share gains ambitions in the coming years for this business unit. But second, we are also expanding both the product range and the capacity of our foundry and advanced refractory business unit in Asia to increase our penetration and benefit from the very positive market dynamics in this region, which is the most dynamic in the world.

After completion of this important expansion program end of this year, we will be in a position to decrease of our overall level of capital investment and increase further of free cash flow generation. We are also continuing to make good progress in our sustainability agenda.

We reduced in 2023 our CO2 intensity by more than 20% as compared with our reference year 2019. This enabled us to reach two years ahead of schedule our first intermediary target on our path to net zero. This also positions us favorably towards the achievement of next intermediate target of reduction of 50% by 2035.

Last, but of course, not least, we achieved in 2023, our best ever safety performance with a lost time incident frequency rate of 0.6 million hours worked. This performance is the result of a long-term action plan engaged into several years ago to systematically identify and mitigate the safety risk, not only in our plants, but also in the plant of our customers where our employees are present.

This has not only led Vesuvius now in the group of the best performing companies worldwide in terms of safety, but it has also positioned us as a recognized benchmark and support for many of our steel and foundry customers all over the world. Despite this encouraging progress our ultimate objective remains to become a zero accident company.

I will now hand over to Mark, who will give you more information about our financial performance in 2023.

Mark Collis ***Vesuvius plc - Chief Financial Officer, Executive Director***

Thank you, Patrick, and good morning, everybody. I'll start with our revenue bridge. Our full year revenue was just over GBP1.9 billion. As Patrick said, we had weak markets, particularly in the second half. We are therefore very pleased that our revenue declined by only 3% on an underlying basis. The size of the ForEx impact was significantly at GBP55 million and this reflects our very wide and very diverse geographical footprint.

This again impacted the second half and was mainly from four currencies, the Indian Rupee, the Chinese renminbi, the Argentine peso, and the Turkish lira. Sterling against these currencies has continued into '24, and we have included a ready reckoner within the handout.

Looking at the rest of the bridge, volume is down by 5.5% and this is split 90% against market activity and 10% against market share. So starting with market activity, we estimate that two-thirds from reduction in real demand and the other one-third is from destocking. This is a destocking of both customer products as well as our consumables held by those customers and reflects the stabilization of supply chains in the early part of the year.

Moving to the market share element, which covers the remaining 10%. There are two components. Firstly, there was a reduction in our market share for advanced refractories. This is consistent with the message we gave in H1 where we had lower volumes from the prioritization of price. Secondly, I'm very proud to say we have met our Capital Markets Day commitment, which was to outperform the market by 2% in flow control and foundry.

Finally, you will note a healthy price increase with all BUs contributing. In flow control and foundry, we have once again demonstrated our ability that increased price, gaining market share, this is testament to our focus on R&D and inherent value in our products.

Turning to trading profit. Once again, you see the H2 currency impact with headwinds amounting to GBP12.5 million. After excluding this, our trading profit has declined by only 6.7%. Looking at our return on sales at 10.4% on an underlying basis, this represents a very small decline of only 40 basis points. And this demonstrates very good operational performance when you consider the lower volumes.

On volume, the drop-through impact on trading profit was 44%. This was slightly higher than usual with the greatest impact in foundry. As Patrick said, our European foundry business is heavily weighted to Germany. But despite this, foundry still managed to slightly improve its return on sales to 10%.

As I noted previously, we saw a solid contribution from pricing. All business units managed to achieve price increases over and above their input costs. And this is in part thanks to our commercial teams who can articulate the value of our products to our customers.

Finally, we have the cost impact of the cyberattack, but offsetting this were some positive commercial negotiations. These include some items which may not reoccur in '24. For example, the sale of surplus land, a tax settlement, insurance proceeds, and energy grants. These amounted to circa GBP5.5 million.

Looking at the full income statement, I've already covered the trading elements. The other elements are largely in line with guidance. Of note is the increase in minority interests. As of H1, this is from our majority owned Indian businesses who are continuing to benefit from our position in the Indian market, and they will further benefit from the capacity investments we have made and are still making. Our headline EPS was 46.7. Adjusted for currency, this is a reduction of 11.9%.

And finally, turning to the dividend, we are pleased to advise a 3.4% increase in the total dividend to GBP0.23 per share. The total dividend for '23 is over GBP60 million and in combination of our GBP50 million share buyback, we are clearly demonstrating our through-cycle cash generation and our desire to return value to our shareholders.

As we set out in our CMD update in November '23, Vesuvius has a business model which throws off cash. This year has been no different. Despite our reported profit decreasing by 6.7%, our free cash flow has increased by 4% and our cash conversion ratio was 93%.

Our asset-light business model means our stay-in business industrial CapEx remains at circa 2% of revenue. We also spent GBP10 million on customer installations and this CapEx essentially binds our customers to our consumable sales. We continue to invest in sustainability. These projects clearly aim to improve the environment, but also reducing our operating costs for efficiency such as lower energy consumption.

And finally, our special growth projects. Since inception, we have spent over GBP50 million with the remaining balance around GBP30 million to GBP35 million impact in '24. This will, of course, bring this phase of our growth CapEx cycle to an end.

As you know, working capital efficiency is a key focus area. So let's look at the trends on the next slide. As promised, we reversed the working capital outflow we saw in H1. In H1, we had an outflow of GBP31 million, while H2, we achieved a GBP50 million working capital inflow given a full year improvement of GBP20 million. While of course, an element is due to lower revenues in H2, you can see that we've improved our working capital intensity. Reducing from 24.1% at June 23% to 23.4% at December '23. This is also below the 23.8% we saw at December '22.

Finally, at 23.4%, we are progressing well towards our CMD targets, which is 21% by the end of 2026. Our gearing has remained constant at just over 0.9 times over the year. This is very good in the context of the fall in EBITDA. The other elements on this chart are as you would expect with perhaps the exception of two points.

Firstly, the right-of-use asset. This has increased by GBP20 million since the first year -- since H1 and remains mainly the renewal of our property lease in India. Secondly, there is GBP3 million within the other caption relates to our share buyback program we started in December '23. We expect this to be complete by the end of '24. And therefore, you should expect a further GBP47 million of outflow in this financial year.

Finally, I'm pleased to say we continue to have a strong balance sheet demonstrated by our low leverage and high liquidity. Clearly, we have further capacity for investments for M&A and preferred returns of capital.

Before I hand back to Patrick, a few words on our operational efficiency program. In the November CMD, we announced a target to deliver GBP30 million of savings by 2026. The program in terms of components and size remains as previously outlined, and we are approaching it with vigor.

You'll note that along with ForEx and M&A, we will also exclude restructuring costs within our definition of underlying. This will support the monitoring of our performance. And later in the year, dependent on the size we will reassess whether we treat those restructuring costs as exceptional.

We will, of course, be giving you a full update when we present our H1 '24 results. For now, our estimate of the in-year savings is GBP3 million. But we are expecting to target a run rate of between GBP10 million and GBP15 million by the end of the year. And of course, that will position us very nicely for the ‘25 year end.

Thank you. And now back to Patrick for the outlook and his closing remarks.

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
Thank you, Mark. In line with the end of 2023, the activity in both of steel and foundry markets remains subdued at the beginning of the year. However, we expect some improvements in market activities as the year progresses consistent with external forecast. We expect to continue to outperform of underlying steel and foundry markets in both flow control and foundry business units.

We are progressing the implementation of our GBP30 million cash cost savings program, of which we expect to deliver GBP3 million of in-year savings in 2024 but a run rate of GBP10 million to GBP15 million by the end of the year. Overall, on an underlying constant currency basis, one-off restructuring cost of GBP6 million being excluded, we expect to make moderate progress in 2024.

Beyond 2024, we anticipate delivering stronger progress supported by the benefits of the cost savings program, together with our innovation and significant capacity investment in growing markets. Thanks to our strong operational performance which we intend to maintain and despite the short-term end market weakness, our midterm ambitions remain unchanged with the target a return on sales of 12.5% by 2026 and a cumulative free cash flow generation of at least GBP400 million in the coming three years.

I thank you for your attention. And I now propose to open the floor for questions.

QUESTIONS AND ANSWERS

Andy Douglas, Jefferies

Good morning, gentlemen. It's Andy from Jeffries. Three questions, please, and I'll come back with my other ones. Can you expand a little bit on India? Clearly the market is good. You're good in India. You're adding additional capacity. What is the risk that this is the only growth market in the world in steel this year and we attract more competition, more pricing pressure. Are you guys confident that you can offset any of that?

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***

That's the first one. Okay, I'll start with this one. Thank you, Andy. It's a really good question. As we presented during our Capital Market Day, we anticipate a strong growth of the steel markets outside of China in the coming few years. And yes, it's clear that India is represents a majority of this growth, at least half of this growth.

But it's not the only growth geography. We anticipate significant growth in E-EMEA, the part of EMEA excluding EU plus UK. We see a strong dynamics there for the steel industry. We also believe that the Americas, both Latin America and North America will grow, not as much as India, it unfortunately won't be the same. But we are positive about the growth rate of the steel production in the years to come in the Americas, both Latin America and North America.

However, today as we speak, it was the case in 2023. 2024, I think we should -- I'm not too negative in 2024 for the Americas. And but it's clear that in 2024, probably for the second year in a row, India will be -- will represent the majority of the growth in the global steel market. Our position in India is strong and I would say reinforcing itself progressively.

I believe we have the good strategy, the right strategy in India. We are investing in state of the art new greenfield operation, especially new sites in Vizag in a south eastern coast of India, where we made an acquisition of industrial land a few years ago and we are now progressively investing in this platform which will progressively become in the next 5 to 10 years, not only our biggest plant in Asia, but maybe some of our -- among our biggest plants in the world.

And we invest there with best-in-class technology, best-in-class equipment. We select ourself the people that we are hiring. We take top people, both at the management level and in terms of blue-collar and this create a very competitive platform to capture the growth in India. And we believe that it is the right strategy in a market which will -- which may double in size. It's not 10% or 15%. It is doubling in size of the market in the next 10 years.

So we are paying a lot of attention to do the right thing, to have the best equipment, the best product. We are specializing in products where there is some barrier to entry, not too much in the commoditized part of the business. And this is what allows us -- what has allowed us in '23 for the second year in a row to outperform the market.

And interestingly, not only in flow control. We say flow control, it is usual. We've done it before, and we'll continue to do it. But also in advanced refractories because of these choices where we are progressing very well. India is an area of strong growth and profitable growth. I insist on that. Strong and profitable growth of advanced refractories business unit.

So globally, the steel division is progressing quite well in India and it is also -- we don't talk too much about it. But it's also the case of our foundry division which is also progressing quite well in India and gaining market share. So our ambition is not only to surf the wave, to benefit from the growth of India in the coming year, but clearly to outperform India, to grow even stronger than the market and we are investing significantly in the country for that.

Through our two listed subsidiaries, Vesuvius India and Foseco India, which we have been preparing for years for this hockey-stick. We have been waiting for the hockey-stick for quite some time. Now it's happening, and we are now in a very good position because we have a very strong balance sheet also these two Indian subsidiaries.

These two Indian subsidiaries are in a positive net cash situation, each of them, which is cash that we have kept there for years waiting for the right moment and now we can invest. So we can invest very rapidly. We don't need to increase the capital. We don't need to do anything. We have the cash and we are ready to go and seize the opportunity proactively and rapidly. This is what we are doing.

Andrew Douglas

Cool. On the exceptional charges. Historically, you said you're going to take it above the line. That may well change. What might cause that, and who or what determines it, please?

Mark Collis ***Vesuvius plc - Chief Financial Officer, Executive Director***

So we were definitely recorded underlying, so we can track it and see it. And what determines it is generally size. So at GBP6 million, we're kind of just on the cusp of is it exceptional, is it not exceptional? We are encouraging people to go very hard around restructuring. So there's a possibility we could incur more than GBP6 million, but obviously that the associated benefits from that. So if it's about size -- slightly bigger than I think will be recorded as exceptional. And it's really a matter for the Board and the Audit Committee.

Andrew Douglas

And if you think about the GBP3 million, the run rate of GBP10 to 15 million, can you explain exactly what you've done so far in terms of the cost saving program? And what are the plans for the rest of this year?

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
The cost savings program of GBP30 million, the main levers that we are using to achieve are, first, a very classical lean initiative. We are screening our organization to see where we could be leaner and at the same time as efficient, if not more efficient than what we are today. Very classical. But also a push towards automation and digitalization -- automation of our plants to progressively substitute people with robotics and automation, and digitalization of our administrative processes.

I don't think we are best-in-class, to be fully transparent. We are not best-in-class in terms of how we manage our administrative processes. So it's not only the production unit. It's also the administrative processes. I believe we have too many people needed today.

It's not because they are not efficiently. Because our administrative processes are a bit outdated sometimes and several of them would be a better digitalized, generating also significant savings. So we will engage more than two years ago now in a significant ramp-up of our IT and digital spend and we are starting to see the first impact of that. It will continue in the coming years.

So these are the main levels. So of course, we start -- the one which generates the most immediate impact are the lean savings. The one which necessitates a CapEx takes a little bit more time because you need to study, to do the engineering and to implement on the ground the CapEx. So this goes a little bit later on. And so in 2024, what we will see in terms of impact are mostly lean savings. The positive consequence of the automation CapEx will go further in 2025 and '26.

Mark Collis ***Vesuvius plc - Chief Financial Officer, Executive Director***
So a couple of things I would add, I think, are important. So one is we've set a very high benchmark. It has to be cash savings that we see. No accounting. So it's pure cash. The savings that Patrick and I have communicated need to be net not gross. So you don't get to reinvest the savings. This needs to accrete to our 12.5% margin target.

And lastly, it needs to be hard savings. So when we talk about automation, we talk about FTE reduction, OpEx, et cetera. And I think that's the criteria that Patrick set down that we'll monitor and make sure happens.

Lushantham Mahendrajarah, JP Morgan
Thank you. Lush Mahendrajarah from JPM. I've got a couple of questions. First is on refractories and the pricing. There, obviously, I appreciate in the first half, you took them up and then lost market shares I think you reduced them in the second half. I guess where are we on that journey -- are you sort of happy with prices in refractories and do you expect that business to take share this year?

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
In terms of pricing, so the three business unit had a good performance last year. And I expect the three

business unit to continue to have a positive performance this year. So I do not expect any of the business unit to have a negative pinching effect between cost and pricing this year. This being said, in terms of what are the evolution of prices, I am not expecting a very significant evolution of pricing. These are negative not positive in both flow control and foundry.

There will be, on average, lower prices in general, in the advanced refractories division this year than last year, simply because of cost base is also declining due to the decrease on average of raw material prices in particular. So again, it's very difficult to predict at the beginning of the year what will be the exact level.

But order of magnitude, I am very confident in the ability of both flow control and foundry divisions to maintain an ambitious pricing strategy, at least compensating any cost variation. It will be also the same in advanced refractories, but the absolute level of prices will decline for mechanical reasons in advanced refractories, much less so, if any, in flow control and foundry.

Lushantham Mahendrajarah

Thank you. Second one's on foundries and particularly the Americas. I think the first half was up – and there was quite big change in the second half. Sounds like it's South America. That is a particular region or particular end markets within now that they've softened in the second half?

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***

South America was a very difficult market last year. Already the first half was not very good. But the second half was also quite difficult. We are, however, beginning of this year -- the beginning of the year itself is not that much better in South America. But the feeling, the sentiment of our customers is evolving positively there. It's too soon to be 100% sure, because, for the time being, its more conversations that we are having with our customers. But we are a probably significantly more positive about the perspective in South America today than three, four months ago.

Mark Collis ***Vesuvius plc - Chief Financial Officer, Executive Director***

And the other thing that happened in South America, is that in 2022, there was a big rush for production of trucks. There was a change in regulation which then obviously meant that people produced more than they would typically produce. And then you've come off that trend in '23. So hopefully '23 to '24 is a more stable trend.

Lushantham Mahendrajarah

And just last ones on working capital. So really, really strong performance in the year in terms of getting to the target by 2026. Do you think about a linear progression down or in terms of continue to make those sort of strides every year?

Mark Collis ***Vesuvius plc - Chief Financial Officer, Executive Director***

So we are targeting to get to under 23%. So that's the ambition we've set for '24. So all things being logical, 22% in '25 and then 21% in '26. Fairly linear. But as you can probably imagine, it's quite a tough challenge to squeeze out working capital. We're already quite -- well, we're much better positioned than our competitors, both the Japanese and some of our other UK listed competitors. But yeah, that's the target.

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
But this 23% that we are targeting this year, which is, by the way, a 12 month average. It's not a year end. We believe that we have the opportunity to go further down in the coming years. And we intend to -- and we really intend to do that. We are doing it progressively to make sure that our customers are taking -- that we are taking no risk for the security of supply of our customers. But we believe that we can, without having our customers incurring any risk, reduce further our working capital intensity in the years to come.

Andrew Simms ***Joh. Berenberg, Gossler & Co. KG - Analyst***
It's Andrew Simms from Berenberg. Just three questions, if I can. Firstly, on new products. Can you give any colour around the margin contribution you're getting from those new products that you referenced earlier in the presentation? And I'll come back to the other two questions.

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
New products are very diverse lot, so -- but generally speaking, we follow that now closely on average, our new products, have a higher-level margin than existing products.

But on top of that, our new products allow us to gain market share and of course, the impact on the consolidated P&L whether you substitute an existing product with a new product or whether you -- an existing Vesuvius product. It's a new product with a new Vesuvius product or whether you substitute a competitor's product with one of these new products, the impact on your -- your analytical accounting will tell you that's the same margin.

But the reality of the impact on your general accounting P&L, the only one which matters, is very different because the market share gains with our customers are marginal sales which have a over-proportionate impact on your general P&L.

So this new products have really a double impact. First, they are simply substitute without any market share gain, they would lift up the margin, but they are also an engine to support our market share gains objectives.

Andrew Simms ***Joh. Berenberg, Gossler & Co. KG - Analyst***
Thank you. Just on the strategic expansion, the CapEx you spend there, what are your assumptions around utilization overhead recovery over the course of next couple of years and how that might impact margin?

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
We -- our ambition is to fill our new capacity by -- I hope 2027, somewhere between '26 and '28. And

there are some geographies, my gut feeling is that in India, for example, it will be more '26 than '28. So in other geographies, it could be a bit longer. But our objective is to fill them rapidly.

Andrew Simms ***Joh. Berenberg, Gossler & Co. KG - Analyst***
And then just on foundry, you mentioned or referenced a recovery in general industrial. You didn't really mention anything about automotive, can you give any colour on the outlook there?

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
Automotive are from very low point unfortunately, but had good recovery last year from a low point. We see overall the automotive progressing a little bit this year, but much more slowly in terms of pace percentage-wise. The progression in '23 to '24 should be positive, but less so than ‘23 to -- '23 as compared with '22. And not the same in all regions, not the same in all regions. We are little bit more optimistic on North America or Asia than in Europe -- than on Europe.

Dom Convey ***Numis Securities Ltd - Analyst***
Morning. Dom Convey from Numis. Just firstly on the robotics and clearly, a step change in run rate last year. Is this now the long-awaited inflection point? And can we extrapolate the three new systems in the year to date? And secondly, just want to better understand, maybe clarify around the advanced refractory strategy going forward? Are you suggesting now in terms of prioritizing the value over volume is now done? Or do you think that will still continue to be a little bit of a drag there and potentially further market share losses as you walk away from unattractive business?

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
So on the first point, as is -- it's more difficult to predict for robotics project because they are one-off CapEx project for our customers than for consumables, which are linked to the production level. But we are really feeling that we are at an inflection point.

The steel industry is a very conservative industry. It takes them years to adopt new practices. And they are conservative for good reasons. So each of them before adopting a new solutions they want to see the neighbour has done it, so there is a kind of a catch-22 situation. But now that we have -- that our established base of robots in the world in most regions of the world, we have many robots operating very efficiently for many years.

If I may use this expression, the word start spreading that our solutions work and it makes more and more still customers' confident in the idea of trying. And so we are really seeing an acceleration, so penetration is gathering steam. And I would expect this year to be at least, and I hope, significantly higher level even than last year.

And we have more and more inquiries beyond the project itself. We have more and more inquiries of our customers all over the world. The only place in the world which is relatively a -- which remains very conservative for reasons which personally escapes me that is Western Europe.

But we always have Western European customers on the call but if there could be a little bit more daring, we would appreciate. But nearly everywhere else in the world, the -- all steel customers are going in this -- are going in this direction because they see that as the future of improved safety. It replaces skilled operators which -- for many of them are in a generation which is retiring and they are struggling to attract new generations to work in this most dangerous places for the steel plant.

And not only to work there, but to work there 20 years to acquire the skills necessary to operate this part of the steel plant correctly. It's becoming a nightmare to find people wanting to do that. So it really is a way of the future, I believe, for all steel producers who believe in their own future. And then we see that. We see this belief, this understanding, gathering steel. And we are very optimistic in the penetration, in the fact that we are now in an accelerating curve for the penetration of our robotic solution.

Advanced refractory. The work is not completely done. We are making good progress. But I think we still have some work ahead of us to completely transform the way we want the advanced refractory business unit. There will be ups and downs. But I really see the progress on average. We are focusing more and more on value added projects retreating from areas which are too commoditized. Accelerating in Asia, and in products where we believe we can bring differentiation to our customers.

Advanced refractory will never be flow control, the potential for innovation, it's not of the same order of magnitude, but I really believe we can differentiate much further. And already today, we are presenting very innovative solutions for part of advanced refractory to our customers, which was not the case three, four years ago. And I believe that three, four years from now, it would be a sensibly different advanced refractory business unit than the one we had three, four years ago.

Dom Convey ***Numis Securities Ltd - Analyst***
Just one technical point for Mark. Just help with the modeling. Can you just give us the specific price volume mix within the foundry underlying sales number?

Mark Collis ***Vesuvius plc - Chief Financial Officer, Executive Director***
So I think price for foundry was around about 16 from my memory. Just give me two secs.

Yeah, 16 million was price. 16 million was market share, so both in that positive direction. And then volumes was around about 5%, 6%. And then we also had some destocking in there as well.

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
Are there any further questions from the room first? If there are no further questions from the room, may I ask if there are any questions from the audience from the remote audience?

Operator
(Operator Instructions) Harry Philips, Peel Hunt.

Harry Philips ***Peel Hunt LLP - Analyst***

Good morning, everyone. Just three questions, please. Just very briefly on the bad debt side. If you could maybe provide a little more detail on that? The second, just continuing on from Dom's sort of advanced refractory question and particularly reductions in Europe in volumes and so on, is there an issue around plant utilization and is this sort of price over volume strategy hindering that recovery profile in any way? And does it lend itself to site consolidation in Europe as a consequence of that?

And then lastly, just on the growth and sort of -- because I'm not in the room, I can ask the question more easily. When you look at that sort of WSA or the Arcelor assumptions around growth in the current year, and I'm not going to criticize you for being conservative at all. But obviously, they are looking for quite reasonable growth this year and even more so in India. Just sort of your views on that compared to your own more conservative thoughts about the outlook in '24 in that context?

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***

Thank you. Thank you very much, Harry. Starting with the bad debt. So the bad debt was -- with one of our important customer in Italy, ADI Taranto, the former Ilva. We have now -- probably four years now, but we have a very serious and professional internal organization to look at credit risk. And this -- I would never say that we can see 100% coming, nobody can, but we are now well equipped to monitor the credit risk of our customers.

And it's clear that overall worldwide, the situation in the steel sector today is not the same than what it was three years ago, four years ago, all producers in the world wherever in a good situation from a financial point of view, it's not the case anymore today. Some of them, fortunately, remain in a good financial situation. Some of them. Some others less so.

So we are monitoring this extremely closely. We had identified few months ago, we have identified a few months ago that ADI Taranto was -- despite all the efforts of the local management there, and I think that the local management of ADI has been doing their best to alleviate the situation. But despite all their efforts, this customer which is a -- with which we have a very good relationship was having growing difficulties. So we decided to reduce significantly our exposure to these customers over the past few months.

And to give you an order of magnitude of exposure to the customer, summer last year was around GBP10 million, which we have progressively reduced accepting to lose market share. That we have progressively reduced over the past six -- six months to the level it was when the final insolvency was finally declared second half of February of GBP3 million.

So we reduced from 10 to 3. We would have had a couple of months more, probably would have been less -- even less than that, but we can’t chose the moment. And the -- so we cannot avoid this GBP3 million. But it would have been much, much higher if we would not have engaged resolutely over the previous six months in the strategy to progressively and as quickly as possible reduce our exposure.

And this is a strategy that we – it is a policy, that we are implementing everywhere in the world, we just cannot afford to have too many bad debt. We have to put this under control. And so we will continue this policy going forward very, very closely monitoring. At the same time, supporting our customers as much as we can. But there are some limits to what we can and should do to support our customers. We cannot substitute the normal shareholders and banking world, the job of it is to support our customers. So we -- it's not our job to do that.

On your second question, we -- the plant utilization of some of our plants in advanced refractory is effectively lower than what we would like. And I think that if we look -- if we look back last year, I strongly support the level of pricing ambition that our managers have. I think it's a very good thing. Probably in some regions in advanced refractories, which was particularly the case in Europe, some of our managers may have been overly ambitious in terms of pricing. These happens, we are not perfect.

And this now has been discussed, analyzed. And I think that our pricing strategy today in advance refractory remains ambitious. But I would say, reasonably ambitious, and I expect that in the coming months, we're not going back to a very, very high level. And no, we will not -- we have some way to go before going to saturation of installations in Europe in particular. But I believe that the year '24 should see the positive increase in the capacity utilization of advanced refractory installations all over the world.

Knowing that if you look at on the other side at places like India, we are already we are already at full capacity. So we are really running at full capacity as our teams in India are eagerly waiting for the new capacity under construction to come onstream.

Harry Philips ***Peel Hunt LLP - Analyst***
And then just on the market.

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
For your last question, Harry. You're right. WSA, Arcelor Mittal, CRU have a slightly more optimistic assumption regarding steel market outside of China than the one we are taking into account ourselves. Our guidance is resting on the underlying assumption of, on average, (it will be different from one division to the next). But on average, the 2% volume growth in 2024 as compared with '23.

I would refrain from passing judgement and saying if it is conservative or not, I completely respect your opinion, Harry. But I think it's too soon. You know that we are always a bit conservative and sometimes we have been proven right to be conservative. So it's good to have all these external agencies or companies making a little bit more optimistic provision. We'll see if this really materializes, we will have time to upgrade. But I would like to remain at the beginning of the year, our markets remain subdued.

So the only fact on the ground is this one is that beginning of the year, it's soft. We'll see if the rest of the year is better.

Harry Philips ***Peel Hunt LLP - Analyst***
That's really kind. And I think a very sensible starting position.

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
Any further questions from the remote audience?

Operator
There are no further questions on the conference line. Ladies and gentlemen, that concludes today's question and answer session. I will now hand back to Patrick André for his concluding remarks.

Patrick Andre ***Vesuvius plc - Chief Executive Officer, Executive Director***
Thank you very much. I would like to thank you all for your attendance today. Thank you for listening and asking questions. We remain together with Mark and Rachel at your disposal anytime should you have further question. And I wish you a very nice day. Thank you very much.