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Executives:
Patrick André - Chief Executive Officer, Executive Director
Mark Collis - Chief Financial Officer, Executive Director

Operator: Good day, ladies and gentlemen, and welcome to the Vesuvius Plc Trading Update Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session through the phone lines and instructions will follow at that time. I would like to remind all participants this call is being recorded. I will now hand over to the CEO of Vesuvius Plc, Patrick André. Please go ahead.

Patrick André: Thank you. Good morning, everyone. My name is Patrick André, Chief Executive of Vesuvius. And today with me this morning is Mark Collis, our Chief Financial Officer, and we will update you about our trading performance since the beginning of the year.

We had a good performance since the beginning of the year in line with our expectations. Regarding our markets, the steel market is forecast to remain subdued in the beginning of the year even if global steel production worldwide was slightly up on the first quarter by 0.5%. It remains down in some important regions like the EU+UK where it was down 2%, or NAFTA where it was also down 2%. In fact, most of the growth was concentrated in India, which continues to perform very well in line with the previous period. But also in EMEA, the non-EU+UK part of EMEA which recover significantly as compared with last year, last year having been affected by the earthquake in Turkey.

In this subdued steel market environment, or Flow Control business unit performed quite well both in terms of net pricing, which was positive. But also, in terms of volumes, with volumes growing faster than the steel market worldwide on average. In fact, progressing faster than the steel market in every region with only one exception, EU+UK where we remain extremely attentive to credit risk by customers and where we have a very stringent credit policy, which led us to progress a little bit lower than the overall market in EU+UK. But overall, on average worldwide, our Flow Control business unit volume progressed faster than the world market.

In Advanced Refractory, we didn't regain yet the market share loss progressively over the course of last year when we gave priority to pricing. We have adapted our pricing to the, I would say, prevailing market level. But we are also behaving responsibly in terms of pricing. And our market share regain, which we believe will happen in the coming months are progressing, I would say, slowly but surely, as we keep a responsible attitude in terms of pricing.

Overall, the good volume performance of Flow Control are more than compensating for the slight decline of volume in Advanced Refractory and the overall volume of the steel division are progressing a little bit above the underlying steel market growth.

Regarding Foundry, the market remained weak at the beginning of the year, especially in two important mature areas for our business- EU+UK and North Asia. These two regions combined represent around 44% of the total sales of the Foundry division. So a relatively sizable percentage and these two markets remain at the beginning of the year quite quick, even if especially in Europe, we are starting to see first signs of improvements and we are more optimistic for the rest of the year than as compared with the first four months of the year. This weakness of the market was partially compensated by market share gains in the Foundry division where the division gained market share in all regions without any exceptions. However, it could not be fully compensated, and volume in Foundry are down as compared with the same period last year. However, again we started seeing the first signs of improvement and we expect this to progress positively along the years. And we remain confident that the results of the Foundry division overall, for the full year, will progress as compared with last year despite this weak beginning of the year.

Other important point, we continued to make good progress in our cash cost savings program. We are fully on track for the delivery of our £30 million cash cost savings objective by 2026. We communicated to the markets when we announced our full year result a few weeks ago that we were aiming for £3 million savings in the year 2024 and an exit rate at the end of 2024 of £10 to £ 15 million of cash cost savings. We are fully on track to deliver this by the end of the year. We are also continuing to make progress in our working capital intensity, meaning our working capital to sales ratio, which continues to support our good cash flow generation. The market fundamentals of both our steel and foundry markets remain positive even if in the first quarter the beginning of the year was weak. The fundamentals remain positive, and we are planning for some improvements going forward during the year.

Capital investments relative to our growth initiatives are proceeding smoothly on track for Flow Control worldwide and for all three business units in Asia, all investments and all Capex is on track. We have inaugurated a few weeks ago our Mold Flux plants or new Mold Flux plants in India. We will commission before the end of the year our new aluminosilicate monolithic and basic monolithic plants also in India, which will reinforce our position in this fast-growing country and position us very well to continue progressing rapidly of our sales and footprints in the country. So all in all, all of our expansion plans are proceeding very well. This leads us to maintain and confirm our expectations for the full year 2024 and remain optimistic for the progression of our results beyond 2024.

Thank you. I now proposing to open the floor for questions.

Operator: If you dialed into the call and would like to ask a question, please signal by pressing star one. We will pause for a moment to assemble the queue. We'll take our first question from the line of Lush Mahendrarajah from JP Morgan. Your line is open.

Lush Mahendrarajah: Morning, guys. Thanks for the call and taking my questions.

Patrick André: Morning, Lush.

Lush Mahendrarajah: Morning. Just got a couple if that's okay. On Foundry is very helpful, regional color, but within that are there any particular end markets that are driving that softness? And then you sort of mentioned that you expect the next sort of eight months to improve, I guess. What are you seeing is that sort of inquiry picking up? Is that sort of orders or demand picking up in May, I guess? What gives you that conviction that its recovering? And then I'll come back to the second in a minute if that’s okay?

Patrick André: Okay, for the first one. The end market, which has been the weakest, are not the automotive market. It's not…the weakness is not particularly coming from the automotive market as compared with last year. They are mostly coming from the other end market, general engineering, general construction, especially in Europe and North Asia. North Asia being an exporting region to China, in particular, some of the castings were exported. We've seen weakness probably related to the weakness in the construction sector. So it's not light vehicles, it's not automotive, it's mostly the other market which exhibits weakness at the beginning of the year.

And regarding improvements, we have gone through discussions with our customers, and we have some reasonable expectations that… I would not say that our end market will become good and come back immediately to their full potential. But as compared with the low points where we have been since the end of last year and the beginning of this year, we are forecasting a gradual recovery over the coming months. Again, nothing spectacular, but an improvement which should have a positive impact on our Foundry business unit going forward.

Lush Mahendrarajah: Okay, helpful. Thank you. And the second one is just on refractory and just the market share point, I guess. I think you said your pricing is now aligned with your competitors. I guess, it's like just happened or have you been in line with them for a couple of months? I guess I'm just intrigued why the market share hasn't picked up yet. I guess, if the price is really just going live then, then that makes sense that's coming through shortly. But yeah, just to get more clarification, I guess on the timing of your pricing. Thank you.

Patrick André: We have adapted our pricing to the normal market level, and you know we are not the leader in Advanced Refractory. So we are not the ones determining what the normal market price should be. We have adapted towards the second half of last year or pricing. We had been, I would say, very ambitious in pricing in 2022 and the beginning of the first half of 2023. We have now, I would say, adapted to the normal level of pricing. And once you do that, you have the normal rate of standards, so it takes several months for this to translate into a rebalance of market share. You could accelerate that, of course, by undercutting market pricing. But I don't think that it would be a responsible attitude. We are normally aggressive and competitive, but we do not aim to be overly aggressive. And so it takes… It can take six months to one year before things rebalance. So it's a normal chain of events, if I may, which is unraveling. We believe that it's better to have a progressive approach to the regain of market share rather than too quick one with disturbing impacts on the market. So we expect to have our market share flowing slowly but surely back, probably starting a little bit in the second half of this year and amplifying next year.

Lush Mahendrarajah: Okay. Super helpful. Thank you very much.

Operator: Your next question comes from the line of Andrew Douglas from Jefferies. Your line is open.

Andrew Douglas: Good morning, guys. Three questions from me, please. Hi. Can we start with the capacity additions that you've been putting through? Can you just walk through where we are now in terms of…my understanding is that the heavy lifting has pretty much been done now it's all about delivery and execution. So I guess that's my first question.

And I'm just wondering, have you now started to think beyond the next kind of two to three years, particularly with regards to India, because I think we've set the outlook for the next couple of years with our current capacity expansion. Are we now thinking about anything beyond that? And I guess the question is also amplified to Europe as well, whether you've got any thoughts about changing your footprint in Europe?

Patrick André: Thank you. Thank you very much, Andrew. Yeah, you're completely right. The heavy lifting in terms of capacity expansion is finishing this year. So all of our capacity expansion, some of them are already up and running. The last one will be up and running before the end of the year. So this gives us at least three to four years, depending on the regions of available capacity to face not only the growth of the market, but also to support our market share gains. And I would say that in all regions outside of India our time horizon, today is at least three to four years. India, we are progressing very fast. In fact, we are progressing a bit faster than what we had in mind when we launched these investments. We have increased, for example, our isostatic capacity by 50% in India very recently, but the speed at which we are progressing in India coupled with the speed at which India itself is progressing, we are now starting. We have at least two to three years ahead of us even in India, but probably not much more than that. And as these are important investments, we are already starting to work on what would be the next step of our capacity increase in India specifically and the rest of the world is okay.

But in India specifically, we are already starting to think about the next capacity expansion because if we want the next capacity expansion to be in line three years, four years from now, we need to start thinking already now about how we will do it. So we are starting engineering studies and to make sure that we are in a position to press the button when we will need it so that our expansion in India will never be slowed down.

In Europe. We are very happy to have added the capacity that we have added over the past few years because the EU region is growing fast. And our plants, especially in Eastern Europe are serving both the traditional EU+UK area but also the fast-growing Turkey, North Africa, and Middle East area. And there we are comfortable with the capacity we have installed to support our growth, at least in the coming four to five years. So we don't see…after that, maybe we will need something, but we don't see the need for the next four to five years in the global India area. So if I look forward, India, which is very good news, is the place where we already started to think about the next step of expansion.

Andrew Douglas: Okay. Super helpful. Thank you. On the restructuring side, you're making progress there in line with your expectation. And what kind of next steps and what are the next milestones in order to make sure that we hit that £10 to £15 million annualized number?

Or have you already taken those steps and it's just a question of time now? Or is there more lifting to do that?

Patrick André: We have already taken those steps, now we have put in place an internal organization to monitor hundreds of projects, literally with clearly identified cash cost savings, not accounting cost, cash cost saving, real cost, not accounting tricks say cash cost savings. And we are following that, we say, every week, every month. And we have now the list of projects to deliver our £10 million to £15 million exit rates at the end of 2024 which will mean impacting the 2025 results, and which has already been fully identified and are already in the process of being implemented. And of course, we are adding more every day because our objective is not only £10 to £15 million, but it's £30 million by 2026. So we are filling the pipeline every day with new projects. And the good news is that today, we confirm, we are fully on track for our objective to deliver, this not only again the £10 to £15 million exit rate at the end of this year, but the £30 million cash cost savings by 2026.

Andrew Douglas: Superb. And then last one is plus one for Mark. On the working capital intensity improvement, I'm assuming that's coming through in inventories, or if that's not correct, can you explain where that's?

Mark Collis: Yeah. No, it's primarily inventory. You're right.

Andrew Douglas: Superb. Okay. Thank you very much, guys.

Patrick André: Thank you.

Operator: Your next question comes from the line of Harry Phillips of Peel Hunt. Your line is open.

Harry Philips: Good morning, everyone. Again, three from myself, please. Just if you could give us an idea, Patrick, of how you're seeing the greater availability of Chinese steel in some of the Western markets and how that's impacting your sales and this all?

And just on Advanced Refracture to sort of continue the earlier question, the sort of balance between profits and volume sort of seems quite interchangeable at the moment, and clearly, you're going with the adaptive pricing that gets some volume and market share back. But is there a sort of finite sort of level in that? And just curious as to where that might go.

And then lastly, just on the 12.5% margin target for 2026. Is there any reason for us to be worrying about that? Or are you worrying about that to any greater or lesser extent, please?

Patrick André: Thank you, Harry. On your first question, China is still of course…Chinese still growing export is a problem for the rest of the world. It's clear you've seen the statistics, Chinese still has been increasing. Chinese exports have been increasing significantly. By the way, it's interesting to see that at the same the Chinese steel exports have been increasing, the non-Chinese steel production has also been increasing, and we don't have excess inventory in the system today. So it probably shows that the real demand in the non-Chinese world is not that bad. So if we see the half-full glass, which is important, the real steel demand in the world outside of China is probably in relatively good health and to be able to absorb all this without creating excess inventory. But it remains that these growing exports are creating a problem for the rest of the world, and what we see on the ground is that the rest of the world is starting to react. So with different speed and with different intensity. But you've heard about the decisions made in the US, I'm sure, a few hours ago. But it's not only the US side, it's not only North America, it's also South America.

A few days ago, both Brazil and Chile introduced protection measures versus steel imports; countries like India and Vietnam are in fact already protected today. So what should happen is happening that confronted with such an increase of Chinese net steel exports, the rest of the world is progressively introducing trade barriers. Some regions are faster to act than others, but I believe that either these Chinese steel exports will at some point start to go down or the rest of the world will progressively barricade. I don't think that the rest of the world is ready to accept that this will continue forever. And it's already happening. The region, which for the time being is not really acting is EU+UK, which also explains why the region where steelmakers are in the most difficult situation, relatively speaking as compared with their peers, not only in terms of pressure on volumes but also pressure on margins.

The profitability of steel producers in the EU+UK, of course, are very important differences from one to the other. But it's probably the region where it is one of the most under pressure outside of China and that's also one of the reasons why we are, I would say, reinforcing the rigor of our credit risk management in this part of the world. I believe that at some point EU+UK pressure will also have to do something, but for the time being, EU+UK remains one of the most open area to steel trade flows with, of course, the logical negative impact on the financial situation of domestic steel producers in EU+UK. So for the time being, the world is absorbing, but I don't think it can continue like this forever and we already see the first reactions. And so I don't know how long it will take. It would take one year to two years to rebalance, but I don't see the current situation with the growing steel export from China as sustainable going forward.

Your second question, Advanced Refractory. Yes, I completely agree that balancing this price volume is more art than science as usual. And I think that over the past three to four years, we tried twice to be very, I would say, voluntary in terms of pricing in Advanced Refractories. Each time it has resulted in some market share loss, I think that we are not the leader in Advanced Refractories. And so I think that the right policy for Vesuvius, which what we are doing now is to simply adapt to…we have good production cost. We have a strong competitive production cost base, so we just need to adapt to whatever market price is as determined by the market and those various factors which are more important than us in this Advanced Refractory market. And so we are making sure that our pricing is competitive in the interest of our customers, but at the same time, we are not rocking the boat and we are more price followers in Advanced Refractories than price setters. We are price setters in Flow Control, we are price setters in Foundry, we are not price setters in Advanced Refractory. And we believe now that this policy that we are now implementing will progressively enable us to rebalance our market share and to gain the normal market share we should have on the market. But we are doing this in a responsible way without trying to go from one extreme to the other, after having been, I think probably a bit too ambitious in terms of pricing. We have no reason to go the other extreme and to go below what is the prevailing normal market price. And we believe that it is the right policy, and we are now implementing it everywhere. And we have already first time, but it will take a few more months. That, yes, this will progressively lead to a rebalancing of the market share.

On your last question, 12.5%. No, I'm not worried, but I'm following this closely with my team all the time, and we have no reason to change our objective at this stage.

Harry Philips: Thank you very much indeed.

Operator: As a reminder, if you wish to ask a question, please press star followed by one on your telephone and wait for your name to be announced. And your next question comes from the line of Andrew Simms of Berenberg. Your line is open.

Andrew Simms: Morning all. Thanks for taking my question. So two questions for me, please. Can you provide some on what you think on China, please? Just following on from Harry's question. On the ground, what are you seeing in terms of your customers there? If there's, obviously, lots of exports coming out, what are you seeing in terms of the products that you're exposed to? And can you put some color around Flow Controls performance there if possible? That's the first question.

Patrick André: China, it's a very good question. Thank you. The general steel market in China is not good. Believe that you can see China's steel production is down on Q1 2% as compared with last year. So in fact, what is happening, what we said for sometimes would happen in China that means that the overall steel production would decline in China. It's happening, and you have steel production declining, exports increasing. So it means that the domestic consumption is declining in China, so this could give the impression of relatively gloomy picture. In fact, for us, the picture is not gloomy. Why? Because most of the total decline in Chinese domestic consumption is concentrated on, I would say, the average commoditized part of the steel market going into construction. And at the same time, the production of high-quality steel, high-quality flat steel, or some part of high-quality long steel also, and the demanding technologically difficult type of steel, this part of the steel market in China continues to grow. And this is where we are focused in these views through our Flow Control division. And in fact, our own Flow Control sales in China are growing. We are in a market which is globally declining. We are increasing our sales volume in Flow Control in China by a high single-digit since the beginning of the year. So because we are our customer mix, if I may, is good in China, we are not affected that much. Not to say not at all by what is happening in the construction sector. So China remains for us through the Flow Control division, a growth area and will remain as we have all indication that it will remain a growth area for us in our Flow Control division going forward.

Andrew Simms: Right. Thanks very much. And then the second question is just on India. Obviously, you mentioned in this continues to grow versus last year. But in in terms of sequential trajectory, does that still look the same and is there any seasonality to be aware of in that business? Thanks.

Patrick André: Seasonality in India, not that much. Not that much. And we have all reason to believe that growth is accelerating in India. I don't have that exact number in mind, but we have a very, very large number of new capacity coming on stream now as we speak between 2024 and the beginning of 2025. We have a lot of capacity, more than 20 million tons if my recollection is right, coming on stream in the coming months now, as we speak. So you should expect steel production to continue to increase significantly. I believe that India is having its hockey-stick moment. We've been waiting for that for years, but now it's really happening. And it's really a very sound growth because it's driven by the increase in domestic consumption. The efficiency of investments in infrastructure is increasing, is improving, the speed at which India is able to spend money to build new infrastructure is improving. And this has a direct positive impact on steel consumption. So we don't believe that what we've seen over the past, whatever 18 months or 24 months is conjectural and that we have no signs at all of any weakening or any slowdown in the growth rate of India going forward.

Andrew Simms: Great. Thank you very much.

Operator: Your next question comes from the line of Bruno Gjani from BNP Paribas Exane. Your line is open.

Bruno Gjani: Thank you for taking my questions. I just had one on steel demand and on your outlook for the steel business. So the World Steel Association came out with the recent forecast of expecting global demand ex. China to grow by 3.5% this year. How does that compare with your internal expectations for your steel division? So would you expect a similar level of performance or do you expect some outperformance related to this given some of the net market share gains you've seen at least yesterday?

Patrick André: First, the World Steel Association, they are using demand. They're always very careful in not predicting forecasting production, which is what is important for us. At the end of the day, demand translates into production somewhere after some time. But for us, the main driver is the production of steel. Not apparent demand or apparent consumption. So we ourselves, I would say, because it's our nature, to be a little bit more cautious in our own internal assumptions than the WSA. So we don't directly translate WSA's assumptions regarding consumption into equivalent assumptions regarding production.

This being said, we are not negative. As we discussed during our last CMD, Capital Market Day end of last year, we are seeing a positive trend in steel production outside of China. The pace of this positive trend will of course depend as we discussed earlier about what will happen with the Chinese steel export evolution. But I'm not pessimistic when I see the protection measures which are starting to be introduced. As I mentioned earlier to Harry, I believe that I don't see the world continuing to accept for too long this level of Chinese steel exports. So probably the regions one after the other, we will put in place similar protection measures, and the potential of steel production increase outside of China will then be unleashed even more than it is today. So will it happen in the next six months or one year or two years from now? I have no crystal ball, but if you ask me, I think it will happen rather sooner than later. I think that the world is not very happy with the Chinese steel exports as you may see in the news.

Bruno Gjani: And just on the margin side scale, so it sounds as if net pricing has been resilient, you've delivered some volume growth and at the same time, Flow Control is developing more favorably than Advanced Refractory. So you have a mixed tailwind essentially. Is it fair to assume that margin has developed favorably also in the trading period for the steel division? So could you comment or add any color in regards to the profitability of that division and how it's develop?

Patrick André: We are not commenting on margins during the quarter of the year. This being said, I think qualitatively your reasoning is sound, and we are relatively positive about the evolution of our margins in the cell division mostly because of Flow Control.

Bruno Gjani: Understood. Thank you. And just lastly, I apologize if you touched on this already, but just on the Foundry side, I recall demand softened as we travel through 2023. Could you comment on how demand in the trading period fared with Q4 of 2023? And also, when you mentioned those initial signs of an improvement, those green shoots, where are you seeing those signs? Is it broad-based in terms of regions or concentrated in certain end markets or certain regions? Any color there would be appreciated. Apologies if you really touched upon it.

Patrick André: I would say the weakness of Q4 has been continuing in Q1. So if you remember last year was a year of gradual decline. The Foundry markets were relatively okay, were weak. But on the improving trend up until mid Q2 last year, and then started to degrade during the rest of the year, and Q4 was in particular quite weak. And this weakness has been continuing. We were expecting that it would get a bit better in Q1. In fact, it has not. The weakness is continuing. The Q4 weakness has been continuing in Q1, but now it seems that it's not a dramatic improvement, but coming from a very low point, we seem to have some improvement going forward in particular. Again, I don't want anybody to be over carried away, but even in regions like Europe is getting a bit better. Europe is or less bad, is getting a little bit less bad in Europe, and also South America is getting a bit better. And we also hope that North Asia going forward during the rest of the year will also start progressively getting a bit better. So yeah, there are some offshoots, but small ones, but also clear ones, small but clear ones, I would say in those regions which have been suffering the most, especially in Q4 last year and Q1 this year.

Bruno Gjani: Got it. That's very clear. Thank you very much.

Operator: There are no further questions on the conference line. I want to hand back over to the management for closing comments.

Patrick André: Thank you very much to all of you for your attention and we remain with Mark and Rachel at your disposal anytime. Should you have any questions as usual and I wish you a very nice day. Thank you very much. Goodbye.

Operator: That does conclude our conference for today. Thank you for participating. You may all disconnect.