Vesuvius – HY results presentation transcript

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PRESENTATION

Patrick Andre *Vesuvius plc - CEO & Executive Director*
Good morning, ladies and gentlemen. Welcome to Vesuvius' Half Year 2023 results presentation. My name is Patrick Andre, 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 first six months of the year before Mark gives you more details on our financials. I will then conclude with some perspectives on the year 2023, before opening the floor for questions.

We delivered a solid and resilient set of results during the first half of the year, ahead of our expectations, despite still difficult market conditions and a persistently strong inflationary environment. Our revenue decreased only by 3% on an underlying basis despite significantly lower volumes than during last year's first half, thanks to a solid pricing performance.

Our trading profit decreased by 18% on an underlying basis due to these lower volumes but increased by 14% as compared with the second half last year on comparable volumes. Our first half trading profit also includes an exceptional GBP 3.5 million charge related to the February cyber incident, from which we have now fully recovered.

At 10.5%, our return on sales decreased by 190 basis points as compared with the first half last year on an underlying basis, but increased by 130 basis points as compared with the second half 2022, which was the lowest point of our markets. Despite the strong level of growth-related capital investment and the negative consequences of the cyber incident, which slowed down in the first half our efforts to reduce inventories, we could achieve a cash conversion ratio of 67% and maintain a very solid balance sheet structure with a debt-to-EBITDA leverage ratio of 1.0x.

This good level of cash generation and our confidence in our ability to maintain such performance made the Board confident to raise our interim dividend by 5% to GBP 0.068 per share.

In the Steel Division, the main reason behind these very resilient results was our ability to maintain a strong pricing discipline, fully compensating all of our cost increases, including labour cost increases. This pricing discipline was made possible by the strength of our technology-based business model and the differentiated value of products and solutions brought to our customers. The Flow Control business unit, in particular, showed strong resilience in those adverse market conditions. The Foundry Division, also increased its results as compared with last year, confirming its strong recovery potential in the coming years.

All of our strategic capacity expansion projects are fully on track. The VISO expansion in Poland and India are now operational. The Slidegate expansion in Poland will be operational by the end of this year. Our Flow Control fluxes and basic monolithics expansions in India will be operational by mid next year. We also decided end of June to approve a new aluminum silicate monolithics expansion in India in our new Vizag flagship plant. This will be operational before the end of 2024. All those expansions in state-of-the-art operations put us in a very favorable position to capture the strong expected growth of the very dynamic markets of India, Southeast Asia, Middle East and North Africa.

We also continue to base our growth strategy on technological differentiation with the launch of 14 new products during the first half of the year. Our new product sales ratio defined as a percentage of our turnover realised with products which didn't exist five years ago, reached 16%. Our objective is to rapidly reach and stabilise at the 20% level.

You can see on the top left part of this slide, pictures of our VISO expansion in India already completed and operational since the beginning of the year. We are already using this new capacity to gain market share in Flow Control in what is now the fastest-growing region in the world for steel production. And you can also see on the bottom left part of this slide, pictures of our new Flow Control flux plant currently under construction, also in India within our new Vizag flagship industrial complex. We are planning for this new line to become operational in spring next year. This will enable us to significantly increase our market share in the country.

Besides those investments in the Steel Division, we are also increasing our investment in the Foundry Division, in particular in China to accelerate our penetration of the aluminum foundry market and benefit from the strong dynamism of the electric vehicle market in the country. We expect that altogether, this growth investment will generate an incremental GBP 40 million EBITDA by 2026.

We have also maintained our pace of innovation during the first half of the year with 14 new products introduced to the market to support our margin increase and market share gains objectives. You can see on this slide some of the most important technological innovations we have introduced to the market over the past few months. On the left is the new fully robotized ladle tube changer recently introduced by the Flow Control business unit, enabling not only a significant improvement of the quality of the steel,

but also the operation of the ladle platform in the steel plant without any operator being present. This is a unique and patented product, which only Vesuvius can offer to its steel customers.

In the middle of the slide, you can also see a new and unique robotics offering of the Advanced Refractories business unit. This new robot allows the automatic installation of dry vibratable monolithics in the tundish preparation area with high levels of consistency. It also greatly increases the safety and working ergonomics of the personnel in the steel plant. And on the right side of the slide, you can see a picture of the new water-soluble core binder for high pressure die casting aluminum foundries introduced by the Foundry Division. It enables those high productivity foundries to manufacture sophisticated casting pieces with complex internal structure, not only facilitating weight and cost savings, but also opening new possibilities for these very efficient foundries to expand their activity.

Beyond these innovations, our sustained and leading research and development efforts enable us to benefit from a strong pipeline of new products, which we will continue to introduce at pace to the market in the coming months and years.

We have also continued during the first half to make very significant progress in our safety and sustainability improvement journey. On the safety side, our lost time injury frequency rate measuring the number of incidents per million of hours worked dropped to 0.7, our best results ever. We are planning to continue our efforts to improve even further towards our goal of becoming, as rapidly as possible, a zero-accident company.

We also continue to introduce new products to help our customers improve their own sustainability performance. And you can see on the right side of this slide, the new Semco Coatings solution of the Foundry Division, reducing the energy consumption of our foundry customers by more than 90% for the associated industrial operations.

Let's now look in more detail into the performance of the Steel Division during the first half. As you can see on this slide, where the size of the bubbles is proportional to Vesuvius' Steel Division sales. Steel production declined in all major regions of the world during the first half with the only notable exceptions being India, mostly, and to a lower extent, China. Due to the difficult situation of the construction sector worldwide, long steel products were proportionately much more affected than flat products by this difficult situation.

Looking forward, we expect the steel market to continue to be strong in India, but we are cautious for the other regions. We also expect flat steel to continue to perform significantly better than long products. And on the positive side, steel inventories have now been purged of excesses and appear to be at a normal or sometimes even low level.

Our Flow Control business unit continued, as in previous half years, to gain market share through technological differentiation and quality products. Our volumes progressed more than the underlying market in most regions. This was particularly the case in India, the most dynamic market worldwide,

where our new capacity expansion is already supporting our development. Our sales in the EEMEA region, which is a bit the outlier there, were affected by destocking and payment difficulties of some of our customers and by the earthquake in Turkey.

We expect, however, our sales in this region to recover rapidly going forward.

Let's now have a look at the financial results of the Steel Division. Due to the steel market decline and Ukraine conflict-related sanctions, our volumes declined by 6% and 13%, respectively, in the Flow Control and Advanced Refractories Divisions as compared with the first half last year. As previously mentioned, we continue to gain market share in most regions in Flow Control, but we temporarily lost some market share in Advanced Refractories due to our disciplined pricing policy. We expect to regain this market share again, rapidly in the coming months.

The trading profit of the division decreased by 27% on an underlying basis as compared with H1 last year to GBP 75 million but increased by 17% as compared with H2 2022. The division's return on sales decreased 310 basis points as compared with H1 last year to 10.5% but increased 160 basis points as compared with H2 2022.

Let's now turn to the Foundry Division. As you can see on the slide, most foundry end markets started to recover in the first half of 2023, with the only notable exception being South America due to the negative situation of the trucks sector in this region. The improvement was especially visible in the automotive sector across most regions. The Foundry Division, however, is not yet benefitting fully from this end market improvement due to a destocking movement of casting pieces in several regions and in particular, North Asia. We expect this destocking to be mostly over by year-end.

Despite this negative impact of the destocking movement in some regions, the Foundry Division registered solid results during the first half, thanks, in particular, to a very good pricing performance. The division's trading profit at GBP 30 million increased by 18% as compared with last year. Return on sales increased by 130 basis points as compared with the first half last year and 50 basis points as compared with H2 2022. We are also very pleased with the progress of the division's research and development performance with a strong improvement of the pipeline of new products. We expect the performance of the Foundry Division to continue to improve in the coming years when the destocking movement in the foundry sector will have come to an end and when new products are progressively introduced to the market.

I will now hand over to Mark, who will give you more details about our financials.

Mark Collis ***Vesuvius plc - CFO & Executive Director***
Thank you, Patrick. Good morning. First of all, great to be here for my first Vesuvius results, four months in, and it's definitely been a good stint so far. So I'm going to start with the trading bridges. So as you can see, H1 '23 revenue was GBP 995 million. That's 3% lower, allowing for an FX tailwind. Volume is down GBP 81 million, which is about 8%. 90% is end market related and includes an element of customer

destocking, as Patrick has mentioned. The balance of 10% relates to market share losses, and these are in Advanced Refractories where we have prioritised margin over market share.

There is a price benefit of GBP 46 million, which is mainly in Flow Control and Foundry. So this price rise has had a limited impact on market share, which once again demonstrates our pricing power. And of course, as Patrick said, the differentiation that we offer to our customers.

So turning to trading profit. You can see there was a limited impact from FX to the trading profit line. Trading profit decreased by 18% to GBP 105 million. The return on sales at 10.5% is very respectable given the lower volumes we're currently experiencing. As you know, this includes the cyber costs, and we chose to report this within trading profit and not treat as an exceptional item. Once again, we see the volume and price impact. So the volumes at GBP 32 million equate to 40%, which, as you know, will be a combination of gross margin and under absorption on the fixed costs. Net pricing is GBP 11 million, and that's clearly the difference between price and raw material costs. And there is a small element of mix in there as well.

So the next slide shows our half yearly trends for the group and the divisions and it's in constant currency. You'll note that there's a small element of seasonality. And typically, we would roughly think it's 52%, 48%, which has been the average over the last 10 or so years. But it does highlight the progress in Foundry, and it does demonstrate that we've been very stable over the last 18 months, and we've obviously a slight pickup between H2 and H1 '23.

Looking at the full income statement. The trading profit of GBP 105 million and return on sales is 10.5%, as I mentioned. The net finance costs have actually decreased, which was contrary to our expectations. The higher interest charges obviously are due to the higher interest rates, but we've got some deposits, mainly in cash in India and Argentina. And you also know that 80% of our interest is fixed, given that it's on the U.S. private placement.

Our effective tax rate of 27.5% is in line with guidance. And you also note that we've got a quite a large increase in our non-controlling minority interests, and that really can tell you in terms of how fast the Indian business is growing currently, so it's circa 60%.

Headline earnings decreased by 22% and headline EPS of GBP 0.245 is also 22% lower than last year. And as Patrick has mentioned, we're pleased to advise a 5% increase in interim dividend from GBP 0.065 to GBP 0.068, and that reflects our confidence in 2024.

So looking at cash conversion, it was good at 67%, particularly compared to H1 '22, which was 26%. That includes an outflow of working capital of GBP 31 million and net capital expenditure of GBP 40 million, and that includes some expansionary CapEx. If you add back depreciation, we generated adjusted operating cash flow of GBP 71 million. So working capital is clearly an area of focus for us.

So let's look at the trends on the next slide. So you can see there that on the bar chart, we had a steady increase since December. And the green line is our 12-month average, and that slightly increased from 23.9% to 24.1%. But more encouragingly is the red line, which is our three-month holding average and that's improved from 24.7% to 23.3%. And obviously, the cyber incident had a part to play here.

So while we recovered incredibly well and had a very low profit impact, it did impact the visibility of our sales and order planning processes. And then that basically meant that we had a challenge in terms of getting that inventory down as early as we would have liked.

And in terms of other statistics, in terms of looking at the quarter to June '23 and the quarter to December '22, days sales outstanding improved by almost two days, inventory days improved by one day, and days payable outstanding increased by almost three days. So you can see we're on the right track in the second quarter. And we're obviously going to focus throughout H2 to keep those numbers either on track or further improved.

And lastly, what does this all mean from a net debt perspective. So net debt was GBP 268 million at June '23, which is a modest increase of GBP 13 million from GBP 255 million. The operating cash flow was offset by income taxes and, of course, the final 2022 dividend. I'm pleased to say that we've got a strong balance sheet and that is demonstrated by our low leverage and our high liquidity. And obviously, we expect to have further free strong cash flow in the second half.

So back to Patrick for outlook and closing remarks.

Patrick Andre ***Vesuvius plc - CEO & Executive Director***
Thank you, Mark. Despite difficult market conditions, especially in the steel sector, we have performed quite well in the first half of the year, exceeding expectations, thanks in particular to a very resilient pricing performance. We expect to maintain pricing discipline in the second half of the year, and we are progressing our efforts to gain market share through technological differentiation. As a consequence, noting typical seasonality and despite macroeconomic uncertainties, we feel confident to modestly increase our full year expectations.

I would now like to invite questions first from those here in the room, then from those joining us over the telephone line.

QUESTIONS AND ANSWERS

Andrew Douglas ***Jefferies LLC, Research Division - Equity Analyst***
It's Andrew Douglas from Jefferies. I'll start with the obligatory three questions and then come back with a few more if we're all shy. Can you just give us a feel for where you are with your M&A pipeline? Your balance sheet is really strong. You are doing a good job on cash. It's an opportunity to spend some of that cash on M&A. I know you don't look at distressed assets, but what is the kind of quality of that kind

of pipeline would be helpful.

Can we also talk about Advanced Refractories market share. You've walked away from share given pricing, which is well done. And you talked about getting that back. What happens for that to come back? Do the clients realise that they've done the wrong thing chasing price and then come back to you? Or is it a bit more complex than that?

And then one for Mark. Working capital sales, you've inherited a 22% target from your predecessor. Do you feel comfortable with that? Can you do better than that? Just initial thoughts on working cap?Thank you.

Patrick Andre ***Vesuvius plc - CEO & Executive Director***
Thank you, Andy. Regarding the M&A pipeline, we have an appetite for M&A, but we don't need M&A. So we have an organic growth-focused strategy, but we have an appetite, a selective appetite, for M&A for those and only those potential targets which could bring us something in terms of technology or geographical diversification and which will be available at a reasonable price. So we are prospecting, and we are continuing to prospect several M&A opportunities, but in a very disciplined way. We don't feel the need to do M&A for the sake of doing M&A. So we are continuing to look at those opportunities. Maybe some of them will materialize in the coming months, maybe not, we'll see.

As you have rightly mentioned, we have a very strong balance sheet. In case none of the potential opportunities that we are looking at would materialize in the coming months, I'm pretty sure that the Board will then look at opportunities to get back closer or at our comfort zone in terms of net debt/EBITDA leverage ratio in our balance sheet, which as you know is 1.25x to 1.75x. So we have been a bit below for some time now. So I'm pretty sure that the question will come on the table in case no attractive M&A opportunities will materialize in the coming months, so we'll see.

On the second point, Advanced Refractory market share. Our explanation is very simple is that we have a very strongly disciplined approach to pricing, and we have been giving priority to pricing and margin over the past few months. And because of this, we've lost some market share in EMEA, in particular. And so it's not in all the regions. It's specifically the case in EMEA, where prices in several Advanced Refractory products have been dropping relatively rapidly over the past few months. So we've lost some prices. As usual, if you remember when it happened to us a couple of years ago already, and the same a couple of years ago. I think this will normalize relatively rapidly on the way back up. So we expect to regain that market share in the coming months.

Mark Collis ***Vesuvius plc - CFO & Executive Director***
Yes. So on working capital, we are currently at GBP 480 million. I'm looking to reverse the increase since December. So effectively, I'm hoping to put it back down to GBP 30 million, and that gets us to 23% on a full year basis. As you rightly say, we've got a target of 22%, and I'll be doing everything I possibly can to deliver the target. And then some, if I can, but I think maybe into the 21% to 23% range is probably

planning for '24, but definitely pushing for 22%.

Mark Fielding ***RBC Capital Markets, Research Division - MD & Head of Capital Goods Research***
Mark Fielding from RBC. Can we just talk a little bit more about the expansion projects and the GBP 40 million of EBITDA, and maybe a little bit in terms of the phasing of that, and I suppose specifically from our model, the EBIT part and what is the depreciation basically. And in that context, have you got some of the cost now? I mean, is it a case that they have to ramp up to a certain volume level and then they become much more profitable? Or is it pretty incremental and straight-line profit gains from those?

Patrick Andre ***Vesuvius plc - CEO & Executive Director***
Thank you. So our expansion projects are mostly in India. And India, Southeast Asia is the first target, but also we believe that we will have, going forward, not this year, obviously, for plenty of reasons, but going forward, we expect a relatively strong growth in the EMEA region, in the non-EU plus U.K. part of EMEA. And we have organized to be able to follow that growth in the market, not only follow, but gain market share, which is always our objective, in particular in Flow Control. And it's a relatively low-cost CapEx programme. It illustrates again the fact that Vesuvius is a very low capital-intensive business because we are not integrated upstream into mining, and we don't want to be integrated upstream into mining. We are in the transformation of minerals product. So it's a low CapEx intensity.

The total value of the CapEx program is on or around GBP 70 million, and this GBP 70 million, which are enabling us to debottleneck our existing capacities, which for Flow Control we were in those regions very close to full capacity, has enabled us to follow the growth of the market and to generate incremental EBITDA. So this GBP 70 million, again, mostly India, Southeast Asia, but also in the part of Europe, which allows us to serve not only the traditional EU, U.K., but also the growing part of EMEA markets, Turkey, Middle East, North Africa, will generate progressively over the coming years up to and I expect a bit more than that GBP 40 million of incremental EBITDA. We believe that we will reach the full GBP 40 million EBITDA incremental capacity by 2026, 2027. I'm reasonably hopeful that it could be 2026.

And we are already starting to do this capacity. I was giving, during the presentation, the example of our isostatic expansion in India. The plant started beginning of this year. We are already extremely happy to have it because we are already using a significant part of this new capacity because we are growing extremely fast in India because we are outperforming -- the market is growing strongly, but we are outperforming, as you have seen on the slide, the market. So we are increasing, as rapidly as we can, our capacity in India.

Mark Collis ***Vesuvius plc - CFO & Executive Director***
I think from a phasing point of view, some of it is still to be spent because we've only had some of it recently approved, but there's a chunk that obviously has been approved and is being incurred and some of which is already operational. So I don't know about a straight line, but there's certainly a phasing impact between 0 and GBP 40 million. Maybe it's a gradual kind of curve up as you move towards the back into that last year.

Patrick Andre ***Vesuvius plc - CEO & Executive Director***

And in terms of CapEx, to give you an illustration, the CapEx had been mostly last year and this year. There will be already a decline in our total CapEx program next year. It will be the end of the investment program and a significant reduction as from 2025. So first step reduction in '24, and final reduction in 2025. And at the same time, the incremental EBITDA will ramp up, I would say, more or less proportionately between now and '26, '27. The GBP 40 million will flow into our P&L progressively between now and 2026, 2027.

Mark Fielding ***RBC Capital Markets, Research Division - MD & Head of Capital Goods Research***

One follow-up on that. You've obviously, as you said, got some of the plants already -- or some of the projects already running. Is there a small contribution this year, just to give us a context of, is there a few million of EBITDA from the projects this year given you've already got some running?

Patrick Andre ***Vesuvius plc - CEO & Executive Director***

We already have some EBITDA of this project this year, especially in India. We will not be able to achieve our results in India this year without this investment.

Jonathan Hurn ***Barclays Bank PLC, Research Division - Research Analyst***

Jonathan Hurn from Barclays. I just have a question about the sort of sales and the profit reduce that you had for the first half. I just wonder if you can sort of extrapolate that for the full year and sort of talk us through some of the main moving parts there just in terms of what we're seeing in volume and price on the sales bridge and also mix on the profit bridge, please.

Patrick Andre ***Vesuvius plc - CEO & Executive Director***

Mark will give you more details, but globally, to go from the first half to the second half. First, it may -- I know that in the current context, which is a bit gloomy, it may surprise you, but we expect in the second half very similar volumes than in the first half, including in the Steel Division. Why? Because we are not that much exposed to the construction sector. Of course, we are exposed to steel, but we are not exposed mostly to the part of steel serving the construction sector. We are more exposed to the part of steel, flat steel, serving other sectors which are not as affected as the long sector. And maybe some of you have seen the presentation of ArcelorMittal this morning where there is -- it's really a tale of two stories.

There's an evolution of the steel between the long sector. Stainless was also relatively affected by the situation of the construction sector, but flat steel, flat steel for automotive, in particular, still doing relatively okay. So we expect and we believe that it is relatively cautious and prudent assumptions, stable volumes in H2 as compared with H1, knowing that in H1, our second quarter was better than the first one, so no volume impact.

In terms of pricing, we also expect to maintain a strong pricing discipline. So we don't take into account, we don't expect, and again, I believe this is a cautious assessment, any negative pricing impact on our trading profit in the second half. Our cost will evolve, but we believe that our constant policy of evolving of our prices in line with our cost evolution will be able to maintain that. We are not taking into account possibility to do better than that. We never do that in advance, but we are quite confident that we will not have any negative impact on pricing. So no negative impact on volume, no negative impact of pricing.

If you want to go from first half to the second half, you have to integrate first the GBP 3.5 million of the cyber security incident, which is a one-off of first half, so which you should bring back in. We expect a negative foreign exchange impact of on or around GBP 8 million during the second half due to the evolution of exchange rates. And we also expect, in the second half, to do what we had initially planned to do in the first half, to reduce a bit our inventory and to have because of this reduction of inventories, not because of the reduction of sales, because of the reduction of inventories, some negative fixed cost absorption of, let's say, GBP 5 million to GBP 10 million. So when you put all these together, it should lead us to modest improvement in our full year expectations.

Mark Collis ***Vesuvius plc - CFO & Executive Director***
I mean, that was all the details. Let me just give you the main points again, just in case you missed them because there was quite a lot there. So no change in volume, no change in price. You've got to obviously consider the fact we had GBP 3.5 million charge in the first half of cyber, which is going to obviously not be there in the second half, but it's there for the full year. And then you've got FX headwinds of about GBP 10 million. And then what we're anticipating is if we bring our inventory levels down, we are going to have an under absorption of fixed costs.

But as Patrick said, that's production-related rather than sales volume related. And we would estimate that somewhere to be between GBP 5 million and GBP 10 million, depending on the level of inventory that we manage to pull down.

Lushanthan Mahendrarajah ***JPMorgan Chase & Co, Research Division - Research Analyst***
Lush Mahendrarajah from JPMorgan. Just a couple of questions. The first is on the sort of pricing volume outlook for H2. I think your pricing commentary seems a bit more optimistic than one of your peers that reported. And at the same time, it sounds like you're going to hold volumes, potentially take market share, I guess, how do you marry those two things together? I get the innovative side, but I guess in a softer backdrop, how confidently you can, I guess, maintain pricing and then sort of maintain market share and potentially push it on as well?

Patrick Andre ***Vesuvius plc - CEO & Executive Director***
So first thing, in terms of volume, we are really confident. So we have a very strong relationship with our customers through the quality of service and the technological differentiation of our products vis-a-vis our competitors. And we discuss with our customers and the customers consuming mostly our products. We have some type of visibility of the second half.

Again, it's not mostly the construction sector, it's important to stress. So for example, the flat steel production for automotive should rather increase in the second half in EMEA, for example, which is counterintuitive, which is not what people have in mind when they talk about the decrease of the steel sector. Long sector will be affected, but flat steel, which is important for us and the most sophisticated type of flat steel, less so.

So we are relatively confident. You have some plants restarting, plants which were idle end of last year, beginning of this year, which are restarting. All this makes us relatively confident on our volume prospects for the next half year. And regarding pricing, I'm talking about the impact of pricing of the trading profit. So you will probably have, in the second half, some evolution of the cost. Some costs are going down. And we expect that our pricing will evolve, as always, in line with costs. But we don't expect to have any negative impact.

And again, I believe this is a cautious assessment. We don't expect to have any negative impact on our trading profit, which could result from the cost dropping less rapidly than our prices. So we don't see that. And conversely, out of caution, we do not integrate, in our guidance, any positive impact of pricing.

Lushanthan Mahendrarajah *JPMorgan Chase & Co, Research Division - Research Analyst*
And so one follow-up on that sort of flat steel, long steel comment. Do you have a rough split of the exposure to both those steel divisions? What's the exposure to long steel and flat steel? Just to get an idea there.

Patrick Andre *Vesuvius plc - CEO & Executive Director*
The Advanced Refractories business unit, long steel, flat steel is irrelevant. They are exposed to everything more or less at the same time. And by the way, the real distinction we should make is construction and non-construction. The long steel, flat steel is a little bit of a shortcut. It's mostly construction and non-construction. The construction is on or around 50% of the steel sector. So Advanced Refractory is exposed to steel, I would say. Construction or non-construction doesn't make any difference.

Flow Control is much more exposed to non-construction than construction. So the share of Flow Control products going into steel, which goes into the construction sector, is very significantly less than the 50% of which construction represents in the global steel market worldwide. So an exact percentage is always difficult to give, but it's at least only half that, not much more.

Harry Philips *Peel Hunt LLP, Research Division - Analyst*
Harry Philips from Peel Hunt. Just on Foundry, just again, maybe a little more detail on pricing, just a much more fragmented market and, therefore, slightly different dynamics in play. And then just in terms of what mills are saying, when you look at the tone out of North America so far this results season, it's a slightly more optimistic picture than what we've seen in Europe so far. Is that sort of being echoed in your own sort of business experience at the current time?

Patrick Andre ***Vesuvius plc - CEO & Executive Director***
Pricing in Foundry has been quite good. We have a positive impact of -- net pricing positive impact in our results in the first one. And the majority of this positive impact was in the Foundry Division, so it shows, again, the progress made by the Foundry Division, first in terms of management, the quality of the management, but also in terms of introduction of new products, which also have a positive impact on our margin. We capture that in the pricing impact, but it's product and pricing.

And in fact, the volume impact is still a bit negative in the Foundry Division. So the improvement of the Foundry Division result during the first half as compared with first half last year were not due to volume at all. They were due more than 100% to pricing and performance. This shows again the important progress that the Foundry Division is achieving with its team management. Going forward, we expect volume to improve in Foundry. And so this makes us confident in the potential for the Foundry Division to improve even further during the coming years, '24, '25, and beyond.

Regarding your question about the market. Markets in NAFTA have been better than in Europe in the beginning of the year. It's clear that NAFTA has been holding up quite well. NAFTA is difficult to predict because they have been predicting a recession in the next six months since quite some time. This seems to be a sliding six months. So it does not mean that it will not happen at some point. But the second half doesn't look particularly bad. We remain, again, quite cautious, but we are not overly pessimistic for the second half of this year. Next year, we'll rediscuss later on when we have -- later in the year, but I will not dare to make a forecast for next year at this stage, but the second half will probably not be that bad in NAFTA.

Mark Collis ***Vesuvius plc - CFO & Executive Director***
Just was going to add like another way to look at it is the volume impact is mainly in steel and the pricing benefit is mainly in Foundry.

Patrick Andre ***Vesuvius plc - CEO & Executive Director***
And interestingly, you've seen that Cleveland-Cliffs and Nucor have recently presented some results. And what's interesting, it illustrates quite well what I was mentioning before. Cleveland-Cliffs, very positive. Nucor, a little bit less. And very logical because they are not exactly in the same type of market. Nucor is more exposed to construction than Cleveland-Cliffs. Cleveland-Cliffs is more automotive. So it illustrates quite well this discrepancy in communication, which corresponds to their situation, the differentiation today in terms of situation in the steel market depending on which type of end market you are serving.

Dominic Convey ***Numis Securities Limited, Research Division - Research Analyst***
Dominic Convey from Numis. Two questions, really, if I may. Foundry, you mentioned about the destocking drag in the first half. I wonder whether you could give us a little bit more color on how you expect that to play out specifically through the second half? And perhaps just quantify what you think the drag has been there in H1.

And then I think the second question really, I'm not expecting to draw you on a sort of crystal ball forecast for the market for 2024. But I think the anticipated shape of earnings, '24 versus '23, given the self-help levers that you've got would be useful. So I'm thinking particularly talk about the growth CapEx, just following up from Mark's question, should we be thinking that incrementally maybe this GBP 5 million to GBP 10 million of EBITDA to drop in 2024 versus this year? Or is that too aggressive?

And then the second part really relates to the lower fixed cost absorption and the implied circa GBP 10 million drag in the second half versus H1. Does that basically get you to where you want to be at the year-end for working capital? Or do we think there will be a residual impact into next year from lower fixed cost absorption?

Patrick Andre *Vesuvius plc - CEO & Executive Director*
I will let Mark answer on the destocking and cost absorption part. Regarding destocking in Foundry, contrary to steel, you don't have widely available real-time statistics in Foundry except in some parts of the world. So we don't have the same access to the same quality type of statistical data. However, we have some clear indication by customers, or in those parts of the world where you have statistics, North Asia is one of them, Japan has very good statistics about the evolution of casting volumes nearly and real time. That some significant volume of stocking took place during the pandemic, 2021, even beginning of '22. And in North Asia, in particular, it's very clear, you have a great discrepancy, a great increase of casting inventories and then data is available.

And we are now seeing this inventory starting to reduce, which means that, for example, in North Asia, which is a very important region for the Foundry Division. We are the leader in Japan in the Foundry Division for the products that we are manufacturing. We are not benefiting today in terms of volumes of the improvements of the Japanese automotive industry because of this inventory.

It's a bit of a crystal ball exercise to say exactly when the destocking will come to an end. But our best educated guess on this is towards the end of the year. So we are not counting on the destocking being over for our guidance on the second half 2024. This is why we are expecting Foundry volumes from the sales volumes to remain more or less stable between H1 and H2, but as in still beginning of the year, the simple fact that the destocking will come to an end towards the end of the year should bode well for the year 2024 at least.

For your second question, as you know, we are always resisting giving assessment of the year '24. At this time of the year, it's a bit early, especially in such an uncertain environment. This being said, I don't see anything today, which would make me overly pessimistic on 2024. We will need to revisit this assessment when we get further closer to the end of the year, but I don't see today, I'm not particularly pessimistic for the year 2024. Mark?

Mark Collis ***Vesuvius plc - CFO & Executive Director***

Just on that last point, I think it's fair to say, we're not uncomfortable with the 2024 consensus. And then going to your working capital point. So if we get down to 23% by the end of the year, that is effectively flipping out a GBP 30 million increase in the first half, eliminated in the second half. So that's going to give us this GBP 5 million to GBP 10 million of under absorption. If we push for the 22%, which is what we want to do, because we run the business for cash, that's where you could get another GBP 5 million to GBP 10 million. But then I don't think we've really built the CapEx upside into consensus. So I think it's -- and then I go back to we're not uncomfortable with '24. So arguably, maybe the CapEx returns offset with the under-absorption. Hopefully, we have some upside.

Patrick Andre ***Vesuvius plc - CEO & Executive Director***

And I would like to bring your attention to a very interesting slide in the presentation of a very important customer for ours, ArcelorMittal, when they made this presentation this morning. In the presentation, they made that they are planning to see an increase in demand of 300 million tonnes of steel for the next 10 years outside of China.

And I think it's a very important thing. At some point, we had been living in the world over the past 30 years, where all the growth in steel was in China and the world outside of China was gloomy about steel. We share the vision of ArcelorMittal in that respect. I don't know if it will be 300 million tonnes or 350 million tonnes, but we share the vision that there is a trend for objective reasons why the steel demand in the world outside of China will increase significantly in the years to come, including in region like North America with the infrastructure build IRA being and including in EMEA for the energy transition. So there is a rupture, there is something different in what is going to happen over the next 10 years as compared with what happened over the past 20 years or 30 years in the world outside of China. That's a very important point. We completely share this assessment.

Dominic Convey ***Numis Securities Limited, Research Division - Research Analyst***

Just a follow-up question actually on sort of the more optimistic tone you're obviously making around Foundry tools of the future. Within your for the past 12.5% margin target, there was an aspiration to get Foundry to 15%. There's obviously still a reasonable gap from where we are today. Can you just talk a bit more about what are the key blocks to closing that gap?

Patrick Andre ***Vesuvius plc - CEO & Executive Director***

Our aspiration for Foundry was 15% before central cost. So the numbers we are publishing are after central cost. So we will need this to compare with the number that you know that we are publishing. We will need to bring fund rate to 13.5%. I am personally quite confident that we will achieve this because, again, today, the volumes of the Foundry Division remain extremely low as compared with historical figures. And when markets are recovering and when the destocking movement will have ended in some important regions for Foundry, plus what really is a strong improvement of the technological setup of the Foundry Division. I think the Foundry Division is reestablishing a strong technological leadership month after month worldwide.

And I am quite confident that in the next two, three years, the Foundry Division has the potential to reach this 13.5% return on sale and it's probably not a ceiling. We can probably do better than that even.

Mark Collis ***Vesuvius plc - CFO & Executive Director***
I think we're definitely going to cover that off in the Capital Markets Day and kind of three themes we're currently developing is volumes, moderate growth, operational efficiency and pricing. I think on the operational efficiency point, if you go to a site like Borken and you go to a site like Toyokawa, you can see that the amount of automation that we can still implement in the places like Japan compared to Borken. So I definitely think we've got three avenues of attack to get those margins up.

Patrick Andre ***Vesuvius plc - CEO & Executive Director***
Any further questions? If there is no further questions from the room, may we ask if there are some questions online?

Operator
(Operator Instructions) It seems we have no questions from the conference line. Ladies and gentlemen, that concludes today's question-and-answer session. I will now hand back to Patrick Andre for his closing remarks.

Patrick Andre ***Vesuvius plc - CEO & Executive Director***
Thank you very much to all of you for your attention today, and I would like to invite you all to our Capital Markets Day that we'll organise this year, the 16th of November, here in London. You will, of course, receive more details. This will be our first Capital Markets Day since 2018. So we are hoping to see you all attending this Capital Markets Day. Thank you very much again for your attention this morning. Goodbye.