Selecta Group Q4 & FY 2023 Results Noteholder Presentation

Thursday, 14th March 2024

Introduction

Angela Cinelli

Head of Investor Relations, Selecta Group

Welcome

Good afternoon all, and good morning to those joining us from the United States. Welcome to Selecta's Fourth Quarter and Full Year 2023 Results Presentation. Please note that the call will be recorded. On the call today we have with us Joe Plumeri, who is our Executive Chairman; Christian Schmitz, who is our Chief Executive Officer; and Nicole Charrière, who is our Chief Financial Officer.

Disclaimer

Before we initiate, I would like to refer you to the disclaimer, which can be found on page two of the presentation. As a reminder, after the presentation, a Q&A session will follow.

Agenda

Moving on to the agenda page. Today's presentation will cover the following sections:

- Selecta today;
- Business update; and
- Financial Results.

I kindly remind the speakers to mention when they change slide as they progress through the presentation.

Now I would like to hand it over to Joe.

Selecta Today

Joe Plumeri

Executive Chairman, Selecta Group

Selecta's transformation story: We did what was required along the years…

Hello, everybody. Thank you, Angela. I am on slide five. Welcome to our call. I thought it would be a good idea to review the last four years so everybody would put it in perspective in terms of what we got to say.

We arrived here, Christian and I, in the middle of 2020. So basically 2020 was all about survival and restructuring and keeping the place alive because we were at the height of the pandemic. In 2021, what we found that Selecta was a place that had no strategy, no execution, no purpose. We had to right size 3,000 people. There were just too many people. There were no executives in the place.

First time I have ever been in a place where there were no executives in terms of organisation, solutions or service culture. We had basically a bunch of countries that were companies in and of themselves who basically did their own thing with their own systems, no standardisation and no idea of being a part or associated with a whole.

So, what we had to do is to take all the things that did not exist and basically in 2022 is put all of those things into place. We had to put a CRM system in. We had to train people in the

CRM system. We had to put a business cadence in which we call a ritual. We had created new solutions. You are going to see us talk about that later on that the solutions we have today are much broader than the solutions we had then. That is when we entered the Foodtech business.

And we even created new payout system for our client solutions specialists because all they did was get paid salaries with no motivation to do more or to hit targets so there was no performance orientation.

So after we did all of that, we basically were ready to go with everything we put in place in the second half of 2022, and then in 2023 or beginning of 2023, we actually started to execute the full array of everything we put in place in 2022 and started to actually execute in the second half of 2022.

What we needed to do was to asset utilisation to us is to clean up our machines. There was a lot of unprofitable machines. We had to get rid of a lot of small machines or even large accounts that did not make any sense to us. We did not present ourselves in tenders that we thought did not make any sense. Our pricing initiatives had to be continued because before us, prices were never changed for years and years and years, so we had to make sure we did that.

We had to continue rightsizing because as the economy changed and there were wars, etc., which I am going to go over in a second, we needed to continue to be very efficient with regard to our PEX and very efficient with regard to our other overheads. So our cost base was optimised and our retention culture began to improve.

So when you see the SMD and you see the efficiency of what we did, all of that had to do with representing, putting in place and then actually executing what we put in place and then the optimisation of our machine park, the SMD asset utilization and pricing so that now we put ourselves in position in 2024 to be able to really organically grow the business after we had all those years of cleanup.

So understand that even though we have been here for 3.5 years, we have actually been executing this business and what is in place for a year and a half.

…and we did it all while facing a challenging environment

On page six, I just want to remind everybody what you already know is that all of this was delivered against the headwinds of COVID supply chain crisis, raw material costs, the Russia war with Ukraine, and then 2022 and 2023 inflation, energy shortages, rising interest rates, slowing economic growth, ongoing war, and then of course 2023 and 2024 sticking inflation, couple of countries in Europe with recession that were struggling with higher interest rates, so very little economic growth, if you will. The war continues and now another war.

So not only did we have to rebuild a company in a very short period of time manifesting itself actually in a year and a half because we had to put a lot in place and then execute it, but we had to deal with all these headwinds. We have not had one day, one week where we had normalised economic circumstances so that it could help and it will accelerate the growth that we wanted to see, but we will see anyway, despite all of that.

Our vision for Selecta

On page seven, basically this is our vision. We talked about this before, but I just want to remind everybody. We are in a distribution business. We want to be a world-class distributor with world-class brands with superior service. That is what we do. We are in the distribution service business. We are not in the manufacturing business. We distribute coffee, drinks, snacks, fresh food, and after we do that and we do that through using Joy Needs Analysis so we understand our clients' needs, then if we do that well and we service them well, then what is going to happen is we are going to retain our clients, number one, and we are going to do more with our clients and then we are going to do more.

We want to be, if we do all of that, become the number one or preferred business partner for all of our suppliers because they want to do business with Selecta because they know we have a system, they know we are in distribution business, we are not competing with them. That is what we do. We distribute what they have and we have a system to do it better than anybody else. And all of this execution is driven by technology that did not exist before we got here, at least to the level that we have it now with telemetry.

And this system that I have just described and will continue to be described in this presentation exists in every country. It is standardised. Everybody does the same thing. There is the same vision, there is the same purpose, there is no decentralisation. Everybody is on the same platform. Everybody is on the same page. We all do the same thing and that is what great companies do.

One Selecta Today

Just if I go to the next slide on slide eight, this is Selecta today, I just said it. There is one purpose. Our leadership, our culture is the same as one Selecta. If you see Selecta in one place, you should expect the same thing. Every place that you see Selecta, is not different things, different operations, everything is the same.

And our transformation has been not only the transformation of our distribution systems, the transformation of our service systems, but the transformation from traditional vending to Foodtech. And I am going to explain to you what Foodtech means to us.

Basically, all aspects of our business, whether it is distribution or service or our solutions, is driven by technology. We rightsized and invested in our people at the same time. We right-size the business because post COVID, the business changed a lot, the client changed a lot, but by the same time we invested in people at the same time and built out organisations that were not existent when we got here. So, we did both at the same time.

You just cannot run a business by downsizing all the time. You got to invest in the business, you got to invest in your people. Global model simply means global resources delivered locally. We will do everything on a global basis. We will do everything from the basis of the headquarters, if you will. We will create the solutions. We will create the products, we will create the systems.

And what everybody does in the countries is simply execute. That is their job and that is what the local means. Solution systems, basically, I think we are world class at it, whereas there was no system of selling before. We now do it on a needs basis. Everybody is trained on needs-based selling. We have a CRM system, I think is second to none.

And by driving all of this and being a great distributor, because we know who we are. We know we are a distributor, we are not a manufacturer. Therefore, we are able to retain our clients, talk to them more. And when we do, our partners know that we are close to our clients, they know we are distributors and they want to do business with us. They want to put our products in our solutions, and those partnerships are growing every day and are growing deeply every day.

The digital transformation, which is the investment we made in technology, was very important because the platform before was very de-standardised, very decentralised. Everybody had their own system doing their own thing. Because you got to remember, this company was an accumulation of mergers and acquisitions over 30 years, and when they did it, there was no synergies. They simply did it as a roll up strategy. We have upgraded all of that and we have even invented some in the meantime.

And then, of course, since we got here, the big issue of the day has been sustainability and executing our ESG strategy with sustainability objectives structured around four pillars, which Christian is going to talk about.

Transformation from traditional vending from Foodtech

In slide number nine, the left-hand side of this page is 2020. That is what we found. We found that this was the traditional vending business with vending machines, impulse machines, water machines and coffee machines, and that is it. And basically, a business that was based upon price, not value, was based upon doing the same thing everybody else did. My machine is the same as your machine with no value proposition. And there was no innovation.

As you can see on the right-hand side, this is today much different than it was a short time ago. I just want to make sure everybody understands. We are not talking about 10 years ago. We are not talking about five years ago. We are talking about 3.5 years ago. But the actual execution, it is really a year and a half and you have a platform of solutions, highly digitised and very, very accommodating for today's environment.

The downsized offices where you do not have big cafeterias anymore, you got foodies that now people commit 24 hours a day, seven days a week, which is accommodating to all sorts of sectors, healthcare, logistics, etc. So, if you want to see a picture of what we were and what we are, I do not think anything is more indicative than this.

How do we think about being Foodtech?

How do we think about Foodtech? First of all, innovation, the internet of things and the connectivity on POS systems did not exist before we got here. Self-service food markets were just becoming fashionable and we made that a big deal here at the company.

Smart solutions, the ability to be able to run smart fridges, which did not exist. We had an exclusive on it. Other people have smart fridges but not the way we do it. Attractive product presentations, which I just showed you on the last slide is really cool. It looks good, it is attractive, it is great for all sectors of the business and we are approaching and attacking all sectors of the business.

AI is a big deal because of dynamic routing, and it gives us the ability to be able to go to the right place at the right time. Digitalisation, predictive maintenance, which means we need to go to be able to fix the machines. Multiple options as you have seen. Product suggestions that are on a digitised, ads and promotions, which were never a big deal before, which can represent a lot of revenue for us in the future because now machines can read the consumer and be able to adjust ads against the backdrop of what consumer needs are. That is the data richness that I make reference to. And remote planogram updates is really important so that we can see what assortments we should change in real time.

The consumer experience has cool. Every machine has the same payment system in Fiserv got automated billing, client portals that the billing, if a client wants to go through the portal, we can do it that way, whereas before there was no consistency in terms of doing it. Web shops so that our clients can buy ingredients over the web because we have a big ingredient business and coffee and cream and all of the ingredients that you need, especially in private businesses.

Omnichannel engagement means that you can get to us in a lot of different ways. And obviously digital marketing and lead generation, which we do a big deal of. We have a website which I think is very current, is up-to-date. When we got here, there was not a website and it was outdated. And now it is very, very current and we are proud of it. And we generate a lot of leads through that website and we track those leads through that website.

And of course sustainability, not going to spend a lot of time with it, Christian will. But telemetry enabling CO2 emissions and reduction, data-driven food assortment so that we are refilling and reduce food waste. Very important, because food waste obviously is a big part of sustainability. Supporting farmers. We have a coffee fund. Again, we'll get into that later. I am just giving you an overview, an ingredient, traceability and sustainable coffee, which is a big deal because we can recycle it. And as a result of that, do what is good for the environment and good for our clients.

We continue to deliver what we promised

And then on slide 11 just gives you an idea of what we have done in those years against terrific headwinds. Basically every year we have beaten by a large margin the noteholder plan, 2020, 2021, 2022, 2023. As you can see in 2023, €247 million of adjusted EBITDA against the €239 million noteholder plan. You can see the numbers yourself.

And then as far as liquidity is concerned, again every year beating those numbers by a wide margin. And I might add at this point that when we did the restructuring with the noteholders, with all of you, I do not think any of us could predict that we were going to have three waves of a pandemic. I do not think any of us predicted that we would have the inflation and recessions that we have experienced in Europe since that restructuring, and as a result, anticipated that the world will be more difficult to do business with than it has become.

We did not anticipate that. I think nobody anticipated a war, nobody anticipated the world to be like it was, but yet despite and we anticipated that one wave of a pandemic, that is it, did not anticipate wars and did not anticipate economic problems, but we did have all of those things. And so despite all of that, we overcame and far exceeded what the noteholder plan suggested we should do and that noteholder plan did not suggest that we have the headwinds that we have.

So I think you should have that backdrop and understand where we have come from, where we are today and we are very proud of it.

Thank you. Christian?

2023 Business Update

Christian Schmitz

CEO, Selecta Group

FY23 Update

Well, thank you, Joe. Good afternoon, everyone. Great to be here with you all. I just want to follow up on what Joe said and now get down one level deeper into our results of 2023 starting at page 13.

What you see here on page 13 is the four priorities that we laid out for you at the beginning of 2023 when we said here is what is the company we are going to focus on. We said we are going to focus on:

- Continued Foodtech growth;
- Margining expansion;
- EBITDA growth; and
- Cash conversion.

Now let us take a look how we did against those priority areas.

From a growth perspective, the company has grown 2.4%. We will talk about that later. If you take intentional churn and programmes out where we terminated client relationships that were not profitable that we did not think should be in our portfolio growth would have been close to 6%, and I will talk later about the growth of our food markets.

Smart fridges led growth of nearly 30%. So those are the headlines on the growth and then connected with that, another year of substantial pickup on the SMD on the sales per machine per day up 12.6%. You look at that trajectory where we came from, it has been strong year after year. And it has got a lot to do with what we did here, which is focus on the profitable accounts that matter, create business that brings value, value for our clients and also value to ourselves. And that is how we made the entire transformation happen.

We mentioned the Foodtech growth, which is very strong. Food markets, I am going to give you a couple of examples later of the type of installations that we are currently doing and also a lot of similar business that is sitting in our pipeline for 2024.

From a margin expansion perspective, another year of strong EBITDA margins, adjusted EBITDA margin of 20.4%, reported 17.1%. That is up 2.1 percent points on adjusted and 3.1 percent points on reported. So another substantial step-up, another year cost discipline, driving more productivity, putting more telemetry in the field and driving that. And I think it is an important piece of good news was the years before we have been able to stabilise our gross margin.

In the previous periods when inflation had picked up and we always had to given the contractual arrangement that you are pricing on the indices or the previous year, there was always a little bit of a delay. We are running past that. And now we have got a year where we stabilised gross margin. We are very optimistic, and it comes to gross margin expansion for 2024, off of that foundation baseline that we have built.

From an EBITDA growth perspective, adjusted EBITDA at €246.8 million, up 13.9% and reported EBITDA growth of 25.3% to €206.9 million, which means our one-off have been reduced and the quality of earnings has gone up. And this is less one-offs that are coming through, and then again we'll talk about a little later, we expect another substantial step in that direction in 2024.

Now there is a tail end of a lot of the transformation and things that Joe mentioned earlier that we had to do in this business in order to build the platform that we have today.

From cash conversion perspective, strong free cash flow generation, €86.2 million, which gets you a conversion of 34.9%. We did the exercise and calculated what the free cash flow is from the operating business. If you take out the cash odds that are related to transformation one-offs and if you factor that in, we would get to a cash conversion that is over 60%. So getting to a point where we got a really good business year, and again, substantial liquidity headroom at €144.9 million at the end of last year.

So you look at it, we think we look at the four main priorities that we set out. We think strong delivery on all four fronts and we will continue to be focused on these four priorities that we have laid out here before.

Continued focus on asset utilisation

On the following page 14, just it is an important piece to really understand when you piece together the growth of the business and the SMD growth of the business on the machine part, we have continued to run our strategic programme, which is around asset utilisation, where we went in hard into unprofitable low profitable clients or clients that have a footprint that does not really fit into those synergies with our existing footprint, which led to machine park reduction and also what we continue to do is a correction of what we call historical margin gaps.

Joe mentioned earlier there has been years without price increases in a portfolio of our clients, and we are convinced there is a time this needs to be addressed. When you do that, there is certain things that happen. There are clients that might not continue with you. And if there is no other way to bring value, then that is a decision that you got to factor in, in order to overall be able to lift the boat.

Also what you see is when you do more substantial price increase in individual situations, you see short-term impact on volumes that you have in that year when you make those adjustments and then obviously once you are at the new baseline from thereon onwards, then you get a much more stable situation.

You see here on this page, the SMD development over a three-year period, which I think is pretty impressive, up 70%. I think it tells you how proliferated the machine park was before. It tells you how many assets we had that were totally underutilised. Not only that it was capital put in place but also just consuming a lot of our resources, a lot of our direct labour that can be better used elsewhere in order to serve our clients. And we have continued on that journey, but again, we are now at that point where we think we got the portfolio by and large what it needs to be and now especially when we think about the second half of this year, we will be in a different pattern versus where we have been operating in 2023.

Private

On the following page is just a couple of examples to kind of show you the cool solution that we are bringing into the market that we are really excited about. The first one, page 15 is a private installation, an industrial company in Germany. It is a company that is in hybrid working. It is a company that is looking for an additional solution that is complimentary and really builds the needs on all those times when there is no hot food available. Everything is just a nice installation.

You got hot food, you see our steaming solutions, you got our premium Starbucks coffee which people enjoy. So people can take a nice coffee break in the afternoon. They can grab some food if they have not made it to the canteen, they can take some home. So it is just this flexible, like modern, uplifting solution environment that we are looking for.

Semi-public

On the following pages, you got a couple of semi-public examples, sectors that we are particularly excited about at this moment where we think there is going to be an incredible amount of growth in 2024. First one is a hotel example. You see that like a modern design hotel that is short in staff. They are looking for 24/7 solution that is easy, that is convenient, it has got a nice range and it makes people happy. And that is what you got here.

We picked smart fridge solution for that, works nicely and also just blends in the overall design and kind of feels modern, feels fresh, feels exciting. Just it is great solution for the people who check in. It does not matter that you show up at midnight early in the morning, there is always something for you there to give you a little bit of boost.

Semi-public

Following page 17, another field, semi-public education. This is Imperial College in London. You see a combination of traditional vending solutions emerged with more modern Foodtech solutions to really cater to a broad range of needs here. Great relationship, we are helping a lot of students here expanding the footprint further, so another nice solution.

Semi-public

And then last semi-public sector. We have always got the hotels, we got the education, then we got the entire hospital space. Here an example I think very beautiful but also very profitable and very exciting from performance perspective. This one is the emergency room at the Oslo University Hospital, recently opened.

We mentioned. Here, it is interesting how much you can turn with one little smart fridge here, which is turning more than €1,000 a day. Some of you have been here when we came out. Remember when we came on average per machine, we would do less at that time we would do less than €3,000 per machine but not per day, per year. And here we are doing a €1,000 per day with one installation, which is basically slightly larger than the size of a vending machine.

And you see that it is catering to a whole different range of needs. It has got to mix the fresh and beverages and everything in there. And when you think about it, I mean not many people come prepared to the emergency room with the lunchbox and/or cooked meal, right? You got to go there, you got to wait, you got family take care of. Again, it is situation where we can help out. It is already tough right when you wrestle with kids and everything. It is just this moment where we can do something to help out, which goes back to the purpose that Joe talked about earlier in the presentation.

Public

That is the example I think again shows you a whole new generation of how public can look like on page 19. Those are the Swedish airports where we went into obviously the largest one Arlanda and then also to all the remaining cities in Sweden. You see a combination of fresh food, smart fridges, premium coffee, digital vending. It is like a whole range that we can play with and that is the nice thing about our business model and the solution portfolio that we have built that we are not limited to one solution.

It is modular. And once you understand the client consumers needs in every area you can figure it in a way that it perfectly works in order to make the consumers happy but also for us from a financial perspective.

Strong Foodtech growth

Now in numbers, page 20 in particular, when we look at the food markets and we look at the digital vending, you see strong growth here, 28% up on food market units, almost 2,000 point of sales now. And we expect that growth to continue and accelerate on the segment.

And then also on the intelligent vending digital side, really made some progress this year, 46% plus in units and total amount of units. I think it is important not to forget that the euros obviously when you think about food markets and smart fridges, very different revenue profile, very different economics than a classic vending machine.

So if you want to compare the vending machine and the revenue, you would have more than 10x that you would have to add to that when you look at standard solution that we put out there in one of those instances.

Change please partnership: Brewing change together

So over the Foodtech, I want to talk about a couple of other things here. The first one on page 21 is just an exciting partnership that we are really thrilled about. Actually we hope that some of you on the call will help us promote it and get the word out further.

We partnered with Change Please. I think probably most people in the UK know Change Please. It is an incredible initiative. The most successful initiative out there, really fighting homelessness and getting people back to work. And they do that through providing housing, education and jobs. They become baristas, they work in a coffee space and they really created a huge movement, which is out there.

And we thought, well, this is great because obviously we are excited about the core, but we also think that the product that we can create, it is just fantastic for many of our clients who want to contribute to society, who care about these issues, and at the same time have a great experience for their employees, for their consumers.

Our partnership encompasses three things. We are roasting the coffee for Change Please. We are distributing Change Please into the places. And we are going to join the recruiting and volunteering effort. So it's a win, win, win, win in many instances. We already got the first large Californian tech company I should say signed up that is introducing Change Please in all the offices and places in Europe.

We got a pipeline here. And again, we always think about what new attractive solutions are. In the beginning, it was a lot about the smart fridges and the fruit markets, the big branded partnerships and the Starbucks. And now we are also thinking through continuously what else we can add to this and we think Change Please is just a great addition which kind of matches our values, the things that we care about here and solves a great solution for our client.

Telemetry supporting superior efficiency

Page 22, just to wrap the section up, a little bit on our service capability and how we have evolved here over the last 12 months. Telemetry penetration has gone up further. We have added around another 20,000 devices we added in. If you remember telemetry, we always look at a subset of our machines, where we see substantial benefits through telemetry, that is why 100% is not our total machine park, and that part that we think is relevant for telemetry, where we can drive substantial productivity gains and we are now close to 80%. So again, another step forward.

You see productivity when you look at the revenues in net sales per FTE, when you look at that number, you see again another step up. And you can also see where we are coming from 2020, obviously huge step up, and we think there is additional opportunity in this business where you could continue to drive that further.

Digital transformation has boosted service levels…

Page 23, just a brief look on what does that mean in terms of some call hard KPIs that you can look at from a service perspective. From a productivity perspective, you can see that we were able to visit more machines per Joy Ambassador. That means our routes are getting more efficient. That means our pre-kitting is properly dialled in. It is easy. You get the product drop shipped overnight, you just go to the machine, you fill it and you are onto the next one.

There is a lot of small things in that process. You can continue to improve and drive that productivity, make the process seamless for our Joy Ambassadors and also drive productivity for us as a company.

I think the real highlight here is the work that we have done on client satisfaction. Look, there has been issues in the past when Joe and I took over and we have worked very hard on this. The telemetry knowing where to go is a piece but there are many other pieces to that whole equation. And incredibly proud to when we took stock and said okay, we started in Joy Score, which is our word for a net promoter score at 36% in the beginning of 2022, we were able to bring that all the way to 75% by the end of 2023, which shows us that our formula is working and also makes us confident when it comes to the long-term retention of our client portfolio going forward.

Once we have closed out our strategic programme of intentional churn, we will work through the client relationship and then have a healthy core that allows us to bring great value at a superior EBITDA margin.

The bottom two more technical things because remember our business is always one is around filling and cleaning and making sure the product is there. The other piece of our business is making sure that break fix works and the uptime is right. You see the first-time-fix rates improve, which has got a lot to do with training, the spare parts availability, a lot of nuts and bolts work which is nitty-gritty but needs to happen in order to get a good business and create good experience for our clients.

And you also see that, well, we have given you the absolute numbers with major step forward where we close 73% of our technical breaks we closed within less than 24 hours. Obviously our scale and density helps us with that compared to many of our competitors but we do not stop. We continue to drive that. And we are now getting close to only 10% of our jobs that go longer than 48 hours, which is our first step and then we will adjust the targets again like we always do here and stretch it further and go to the next level.

…and landmark remarkable wins

All that combines then results page 24 in a number of great wins. Those are clients that either we have won or we have had a major extension that we did. Obviously, two very large public clients. The Swiss rail, SBB in Switzerland will continue for another long-term partnership. That was the initial large client of Selecta back in the days more than 50 years ago when the company started. So that is an important client.

Another one probably mentioned is Aena on the top right, which is a large airport [inaudible] in Madrid that we recently renewed for another long period and then obviously a lot more.

Our ESG actions

I want to wrap the section briefly with our actions on ESG. And as Joe mentioned earlier, there is really four pillars that we are looking at and where we have got a programme set up and we are driving progress.

First one is on the environment refurbishment on machines. It has got the substantial impact on our carbon footprint, same improvements on the Roaster facility that we are driving. And then the big one, which is going to accelerate over the years now is the electrification of our fleet. We are obviously coming from a time where we had to reduce our capacity in the company, which also means first when leasing contracts came up we just terminated vehicles and did not bring many new.

And now we at the pivot point this year where we are bringing a lot of new vehicles in which now also allows us to accelerate our electrification of our fleet. We talked before about our product. We already made Pelican Rouge fully sustainable last year so that was the year before. That was the first big effort. And then partnerships like Change Please also allow us to make a big next step in what we call social impact coffee, which we think the combination of fully sustainable product with a great cost combined the two and great case. It is just a winning proposition that is hard to beat from any competitor.

From a supply chain perspective, Joe mentioned that we have really doubled down on a farm-level programme. We have expanded that substantially, given that we have made Pelican Rouge fully sustainable, which means we also have more contributions into the fund. So this is a great programme that we are going and we will publish our next sustainability report in a couple of months, and we will be very excited to share more progress on that.

And then we continue to focus on diversity inclusion in the company. We got baseline of female leadership, 25%, 29% associates, and we target 40% from both of them and we got initiatives in place to kind of make that happen step by step similar to how we have been executing on a lot of other initiatives.

2024 priorities

Page 26 is the wrap up of our priorities, and it would not come to you as a surprise. Those priorities are the four priorities that we have shown you for last year, where I started this part of the presentation, how we did against those. And those will be the same four priorities that we are going to continue to drive this year. We are going to focus on Foodtech growth, we are going to focus on further margin expansion, have the EBITDA with company growth and continue to drive the cash conversion, especially now with the one-off and that part going down to also see that reflected and seeing all that flow through.

Alright. That was pretty fast but tried to give you some ideas on what we´ve been working on the last year.

Now let us get into the financials. I give you the full year overview on page 28. And then Nicole is going to take over and get into more of the specifics.

Reported EBITDA reflecting successful transformation

FY 2023 Financial Summary

The full year 2023, as mentioned earlier, a little bit of repetition of what I said in the beginning. A strong reported EBITDA growth, 25%, right? So that is certainly a big step up after several step ups we had the previous years before. Again productivity gains, just EBITDA margin expansion, 2.1% points. You look at our growth in sales at 2.4%.

I mentioned the elements earlier but I want to mention them again. Everything is important to understand how that kind of grows together. Very strong SMD growth as you have seen. We have implemented some price increases, a little less aggressive than year before but with some amount.

And then we continue to work on the strategic focus on our profitability, which goes to some intentional churn and also some volumes softening in some of the countries. Now the volumes, as said, whenever we do some more substantial price increases, you see in that first year you see some element of impact on the volumes and then it normalises and goes from there. We have also seen a little bit of headwinds in some of the markets, for example, Germany with a recession there in the public business we have seen a little more hesitation. We also expect that that piece will come back.

That sales growth would be 5.5% without that intentional churn just as a reference point, so you can put that in perspective.

Margins stabilised. Free cash flow, talked about that earlier. So we think overall very strong set of numbers for fiscal year 2023.

Strong performance whilst transforming our business

Page 29 just gives you an overview more from a time series perspective on our main financial metrics.

So when you go through, you see continued revenue growth, net sales growth in the company of 6%. You see obviously the steep trajectory that we have taken in adjusted

EBITDA but even more so in the reported EBITDA. We are coming from very low levels. And now got a great business here with the reported EBITDA margin of 17%.

You see how the margin increase. You have got the SMD number at the bottom, 20% per year. We have been able to grow this from €7.5 all the way up to €13. That is almost double when you think about it what we are doing on a per machine basis now with that new portfolio that we have in the company. The amount of cash CapEx that we spend is fairly stable sitting around 5% and we have always said that we see that constantly below 6%. There is sometimes little bit of variation that you see, sometimes you got larger renewals coming in, in the public space that requires more CapEx. So that can happen a year, but we see 6% going forward as a ceiling for what we do here.

And then you see on the bottom right, the trend from a free cash perspective and the cash conversion. Also, here you see the improvements. And what you see here is you see the operating free cash flow and then you see the one-off cash out, which obviously go against that. And we have put that back in here for you to give you a sense of what the underlying business is doing and then obviously there is the one-off component, again initiatives that had to be done.

Nicole will talk a little more in a minute around what the main components of that are and how we are thinking about it on a go forward basis.

Alright, I think now Nicole, it is over to you, right?

Financial Results

Nicole Charrière

CFO, Selecta Group

Strong reported earnings growth

Q4 2023 financial summary

Thank you, Christian, and a warm welcome from me as well to our results conference call for Q4. We are proud to present a strong reported earnings growth with a reported EBITDA of €45.6 million, €18.8 million or 24 percentage higher than last year and leading to 15.2% marching, up 3.3 percentage points versus last year. This demonstrates Selecta’s successful transformation as rightsizing one-offs continue to go down.

Also our adjusted EBITDA of €68 million increased €6.1 million or 10% leading to an outstanding margin of 22.7%, up 2.7 percentage points versus last year. Our focus on profitability meant exciting unprofitable or low profitable contract, which led to intentional churn also in Q4. This has impacted our net sales but has at the same time led to improved profitability and contributes to establish a solid ground for our future growth.

Net sales adjusted for strategic intentional term would have been in the range of last year's net sales. Meanwhile, we are in the tail of this process.

In this quarter, we also saw volume softening in some of the countries due to economic slowdown and pricing. Given the strong pipeline we have in place and the successful conversion resulting in significant new client wins in early 2024, we are confident that organic growth will pick up across 2024.

Gross margins stabilised, driven by our sales price initiatives as well as procurement initiatives. Our free cash flow of €27 million is heavily impacted by one-off payments of roughly €29 million in the quarter, and this leaves only €4 million related to one-offs from 2023 to be paid in 2024, which is another solid ground for our future.

Adjusted for one-off cash outs, our cash conversion reached a remarkable range of 80% in Q4.

SMD continues to grow with new record high in semi-public

Q4 2023 Group – sales per machine per day

On page 31, we see the overview of all our sales per machine per day. Our sales per machine per day matrix continues to grow reaching €13, up 12.6% versus last year, another strong positive proof of the profitability enhancement project. The main element contributing to this improvement is the intentional churn project but also the Foodtech expansion is contributing.

Private segment is the most impacted by our profitability enhancement initiative, reaching a strong SMD of €13.3, up 12.1% versus last year, but also impacted by some volume softening. The strongest SMD growth is in semi-public, 14.4% up versus last year, supported by our approach to asset utilisation leading to a record high SMD of €9.3.

The strongest sector performing in semi-public was HoReCa. The public segment, which is in line with several quarters reporting continues to demonstrate a strong performance, sales up 4.7% versus last year with stable machine park driven by broad-based sector growth but especially strong double-digit growth seen in airports.

At the tail end of clean-up and transformation

Q4 2023 net sales by country vs last year

On page 32, we have a look at the net sales development by country. As we already mentioned, intentional churn is impacting our net sales growth. Q4 growth for the Group is down 3% but adjusted for intentional churn, it is in the range of the previous year. The currency impact was not significant for that quarter.

Let us talk a bit more about the single countries. In Italy, we continue to be impacted by our footprint optimisation leading to a high strategic intentional churn and improved profitability. We have strong signs of new wins in early 2024 and also have improved our service organisation, which will lead to an improved performance in 2024.

Our Nordic countries are heavily impacted by FX headwinds, particularly in Norway and Sweden, and the profitability enhancement project in Sweden. In Switzerland, we saw a mixed volume impact mainly in public with a strong growth in the Foodtech base.

On the positive contribution to growth, year-on-year we can see a strong performance of the UK, mainly driven by the public segment. In Spain, which performs strongly even if significantly impacted by intentional churn, and Germany as prior quarters, continues to show strong organic growth and is a key player in the Foodtech expansion.

Margin expansion across regions

Q4 2023 net sales and adjusted EBITDA by region

On page 33, you can see the regional breakdown, which shows you strong adjusted EBITDA development in south and north region, while central regions remain stable at the already high margin levels.

Continued margin expansion and EBITDA growth

Q4 2023 adjusted EBITDA

Then let us have a look at our Q4 P&L breakdown on page 34. We just discussed the net sales development. On the gross margin side, gross margin is up versus last year, supporting by pricing action, also remains impacted by some inflationary pressure and mixed volume impact.

The PEX ratio is slightly down versus last year as we had some one-time impacts in the previous year. The overhead ratio shows further strong improvement on our cost base driven by our tight cost management and transformation actions.

Regarding our transformation actions, we had to go deeper in terms of profitability initiatives as we had planned and expected, also still lower than last year. Therefore, we invested another €25 million in the quarter, which relates to restructuring initiatives in following areas, so people-related initiatives, footprint optimisation and we also had to do some balance sheet cleanup related to the past.

After 2023, rightsizing investment, we can say that we expect restructuring actions to come down going forward. Overall, our strong reported EBITDA performance is the result of our successful transformation actions.

Working capital will improve as transformation actions normalise

Q4 2023 working capital

On page 35, we see the working capital development. The networking capital position after year end amounts to minus €64.4 million, €51 million lower than last year. The main driver of this development is the payment of prior year one-off and COVID-related deferred government payments of €8 million.

For the one-off recap, we can say the following. From 2020 till 2023, we have invested €230.5 million to strengthen the business, of which €195.6 million have already cashed out and €36 million are non-cash one-offs. And therefore, €4 million remains to be paid in 2024.

Well-balanced ownership model

Q4 2023 asset funding

There is also a development on our balanced ownership/asset funding model. You can see on page 36. Asset funding in the quarter amounted to roughly €40 million, which we finance through three main alternatives. So, the preferred solution is our client leases, which is the first choice and key for the Foodtech growth without being capped by cash CapEx. However, this funding alternative is also available for client contracts with the cash stream from the client to us. As for example, in our free event model.

In Q4, we found it through client leases €13.7 million. And this alternative represents 4.2 percentage of sales of 2023. As an alternative, we have the net cash CapEx available, which amounted to €20.1 million, representing 6.7% of net sales, flat versus last year. And it is impacted by phasing, so the amount we see versus net sales in Q4 is higher than the year end average as phasing I just explained. And then we have finance CapEx through finance leases representing 4.2% of total assets.

As you can see, we continue to progress towards a more asset-light business model, which is crucial for our further success.

Leverage ratio on reported EBITDA down 1.7x

Q4 23 leverage and cash liquidity evolution

On the leverage ratio, we saw an improvement after reported EBITDA leverage continues to decrease from 8.4 times in December 2022 to 6.7 times after December 2023, down 1.7 times.

We have a robust liquidity headroom of €144.9 million, consisting of €52 million cash at bank and €92.8 million available in RCF. The total committed RCF amounts to €150 million, of which €57 million were drawn and €0.2 million were used for bank guarantees.

Robust liquidity after step up of notes cash interest payment and higher rightsizing cash outs in the year

Having a look at the liquidity bridge at page 38, you can see again the obvious liquidity balance of €144.9 million despite the step up in notes interest payment and higher rightsizing cash out. Free cash flow in Q4 amounted to €27 million, despite, as I just said, the higher rightsizing cash outs, and as mentioned earlier, leading to a strong cash conversion of 80%.

The change in working capital including transformation one-offs is, I say it again, primarily explained by the repayment of COVID deferred payment and the timing of invoicing. In this context, it is worth to consider that as our transformation actions normalise, our cash conversion will improve further.

Conclusion

Christian Schmitz

CEO, Selecta Group

Conclusion

Alright, I will take the conclusion here real quick. With all the details that we walked you through today, obviously, lengthier presentation than we usually do for the quarter. Three main messages for us that are important. Number one, we remain focused and profitable growth and free cash in 2024. We expect that gradually over year of 2024, we will see the growth in the business accelerate when the strategic churn programme comes to an end, and also, we have set new baseline from a like-for-like level when it comes to some of the headwinds that we mentioned and the pricing has flown through at the new baseline that we will grow from.

Confident that that is going to happen across 2024, tail end cleanup and the transformation. And then, look, we said that before, we say that again, with all the actions that we have taken and we continue to take, we are confident that we will achieve our strategic plan again in 2024 and beyond and continue on the journey outperforming the plans that we have given all of you when we started all of this a little three years ago.

Thank you very much and look forward to questions.

Q&A

Wolfgang Felix (**Sarria):** Congratulations, first of all, on another set of very strong results, and as you have outlined, I think the transformation so far. I meant to ask perhaps first thing, if I look if back a few years, I think something I am observing and I am not entirely sure how to explain it, is that your material margin, so your gross margin effectively if you just take your material past, has been as a percentage coming down over the years progressively. And I do not know if that is a function of cost inflation, if it is a function of maybe the mix you are driving. And I wanted to see if you could give me some idea on maybe mix or volume or price going forward if you are intending to possibly recover any of that from a percentage point of view or if it is more of volume drive y6ou are tackling going forward? I think that would be my first question.

Christian Schmitz: I appreciate it. Look, let me take the question here. I mean, as you see during the period of strong inflation, it has been a tough ride for us for a number of reasons, right? We have got a contract portfolio that has, when we took it over a lot of different characteristics, some of those increase by index, some contracts do not really have a provision, so you got a negotiate year by year. And there are some contracts that did not have, they are basically a fixed pricing, right?

And then when you have a period of steep inflation, and then there is a mathematical impact here, even when you keep the gross margin, euro dollar amount constant, right? You would then do pass through, you would still end up with a lower percentage and when you have that steep inflation happening.

There is a little bit of mix as well that goes in there, but the predominant impact is really what I described before. And then there is a time lag effect that we have in our business, which worked our disadvantage when inflation went up. When we think about it typically where we have index glosses, they are full year index glosses. And then you look at the average of the year and then in January or February, you are able to adjust. If you have steep inflation coming in, then you still got, you are running a little bit behind with that contract structure.

On the other hand, when inflation tapers off, you got a bit an advantage because you can still price some of the contracts based off the inflation of the previous year, but you do not see that inflation in your cost going forward. That is why I said, look, we stabilised it last year and that is why I said we are pretty optimistic when it comes to the gross margin this year that we will be able to do a step.

It is not going to be a full recovery. We do not see that back to some historic levels, but that is why also when you factor in everything that worked below gross margin, we think we now got a very healthy structure when it comes to overall P&L, I think we have got a bit in upside on gross margin, but then the focus is really going to be more and more on growth.

Obviously now that we are at the tail end of that entire programme with the cleaning and pruning of the portfolio, which was a lot of hard work when you have a contract portfolio as duration of four, 5.5 years, it just takes some time until you really made it to that last contract and then you got it all solidified. Maybe that helps a little bit with your question.

Wolfgang Felix: Yes, absolutely. I have two, three more small questions. First of all, the one-offs that you were describing were going to come down now. You have a little bit of carry over from 2023. Should we be thinking about a gradual reduction here or we are coming now from €20 million in the last quarter plus do you think there is going to be a step down? How do you think about that figure out this year?

Christian Schmitz: Overall, I mean, I got to say, look, when we came here, the business was very broken. I think we had on a page somewhere, I think cash out won us. I think by now it is over €190 million that we incurred. It is just a lot that happened. And even last year, I think we would have wished that it would be less, but then when we see something that we think still needs to get fixed, we still fix it and we do not stop with that.

I would say, look, it is always hard. We are convinced that the number is going to substantially come down this year. We think it is probably going to go down by, I know you are going to write it down, but we will probably see something, we will bring it down by 40%, 50% from where we come last year.

And then that is the final step. As Nicole mentioned, there is still a little bit of cash out coming from stuff that we have already initiated. We have done a little more capacity adjustment in Italy, which is flowing through this year, both in one-off and in cash. There is also two known pieces, and then there is you reduce the capacity and then you got vehicles and you get some other things. We still take some machines out, but that is tapering off. So, I would say meaningful progress we should see over the course of the year.

Wolfgang Felix: Great. I mean certainly 40% to 50% reduction would be quite the crowd pleaser, so very much looking forward to that. Can I just ask, in terms of machine park reduction, obviously we are still having falling numbers of machines and actually I guess our model suggests you are tracking very stably downwards still. Therefore, if you are now reducing your restructuring expenses, also envisioning maybe a bottoming out of that fleet, or should we be looking forward to the same pace of reduction for another year?

Christian Schmitz: No, we are. We clearly expect that. And then, as indicated, we really expect the acceleration of growth and then also getting more net new ads and we are looking at the second half of the year.

Stefan Binder (Palmerston Capital): Definitely congrats on outperforming the plan against the significant backdrop. One question should not be too long to Nicole. Just for me, can you explain detail a bit the difference between the gross and net one-offs and how that is done with the consolidation scope? I do not think I fully understood that.

Nicole Charrière: Yes, absolutely. Pleasure to do. How the Group structure is set up is we have a top-co, which is called Selecta Group AG, which sits above the legal consolidation scope. We also have defined in our noteholder indenture. And that also comes with costs, which belongs to the operations of Selecta. This is why in adjusted EBITDA, we have those costs included to give you the transparent view of our full cost base but for reported EBITDA purposes and that is the amount which is also included in our IFRS financial statements and needs to tie to that. We take those costs.

It is a combination of costs and transfer pricing recharges out, just to give you the transparency of our full cost base.

Stefan Binder: Okay. The next one maybe for Joe, who is understand a significant owner of the business, and as you know, obviously, the bondholders are the important stakeholder of your business. There has been lots of press speculation that you hired, commercial diligence, and are underway with sales process. I would appreciate if you can give any colour on where guys stand there and what is your horizon, Joe?

Joe Plumeri: Thank you for the question. As you can see, we are very happy given the circumstances. As I said in the beginning, we are very happy with where we are. It has been a lot of headwinds, but to clean up this company, create the platform, create the foundations of the business, as you have heard me and Christian talk about it and Nicole, we think we are in great position.

The next step is to organic growth and we are looking forward to the runway that we have created to do that. We are always looking for the best advice that we possibly can, but our concentration is in growing organically in the business because we actually begin, we think that now the good part is coming that last 3.5 years have been extremely difficult under all the conditions and we have exceeded everybody's expectations and we think that the runway now that has been created is the fun part and the fun part is always organic growth, Foodtech growth and the conversion of cash, as Christian said. So, we are focused on that and that exclusively.

Stefan Binder: Okay. So, there is no sales process going on, basically. Sales process going on at the moment.

Joe Plumeri: There is no process whatsoever.

Stefan Binder: Okay. And last question for Christian. A couple of calls back, you mentioned you took over the Mars operations in Germany and you mentioned a couple of similar deals. Just can you elaborate a little bit on how that is going? And also I heard you said sales growth is going to inflect in H2. Maybe if you can comment a little bit on what is the particular driver for that, I guess the Foodtech segment and maybe on the other sides, how can I see if you can elaborate a bit on the sales growth inflection?

Christian Schmitz: Sure. Look, on the partnership, first of all, what we have taken over as part of Coca-Cola's business in Germany, I think you are probably referring to that. Given they made a strategic decision, they thought there is others that can distribute better, then they can do it. By the way, they made the same decision recently in Belgium as another example. I think where there is more realisation of these great brands that they get great product but probably others might be better at distribution.

Look, our optimism for the second half of the year really comes from a couple of sources. The first one is, as mentioned, part of our churn that we had, it is just being just something that we had to do, right? And we have got very clear line of sight in terms of what are the client contracts that are not profitable that we either got to go back to the client and say, look, there is a substantial change in the commercial tier or we can continue to service that business in that fashion.

And we know that that is coming down, and that our retention rate hence is improving when you look at that. Our retention rate has already been strong without an intentional churn. And then with the service improvements that we did, you have seen that in the NPS score that has picked up. We are very confident around the future retention, our portfolio, and currently we are still rolling through the 12-month cycle of a lot of business that we have terminated.

And once you get to the tail end of those terminations, obviously you are running for 12 months against the previous revenues and then you start making a step change. We have got a very healthy pipeline in this business which larger than a billion in business. We have got a very structured methodology, our work with that pipeline. We see what our signatures are that we have already have for growth targets for the year.

And then I would say the last piece is on a like-for-like basis, we would not do as aggressive price increases this year as we did last year, which means we will see less volume impact from price increases and we do not have to push as hard. And there are some, it is hard, you can never quantify it 100% percent in the overall economic context, what is the impact when you look at, think of a country like Germany of recession, maybe people being a little more hesitant how they spend money on the go versus some price increase doing some stuff.

So, we cannot always break that up, but we think that all these pieces should start playing more in our favour. I think you combine that. As long as you get a backbone of strong retention or business and you have got a good portfolio where you do not need to terminate, right, then it is much easier to layer growth on top of that than if you run against too much that you either lose or you have to take out of your portfolio.

So I think those are the pieces that we see. We know we are still running against some of those portfolio losses in the first half of the year and then we think we will see a different trajectory here. Okay?

Stefan Binder: Just one follow up. You mentioned price increases. Obviously with inflation coming down, I mean you said you are taking less price increase, but if you compare the price increase you are getting through with your clients versus your input price increases, like how is that tracking versus each other?

Christian Schmitz: Look, I think I indicated that we are optimistic about our gross margin for the year, right? And that only works if the price realisation [inaudible] our clients is in favour of balance versus what we take in cost increases.

Andre Klotz (Jefferies): I just want to make sure that I fully understand the cash outs now, because obviously you have done a lot of one-offs. The Q4 one-offs I think a little bit higher than people expected and there are talks about remaining cash one-offs of €4 million. And now we have heard that the cash one-offs for next year is going to be down 40%, 50%. So I just want to make sure I fully understand, because this is a key part of the story here. You proving out the underlying free cash flow generation as you have talked about now for quarters and I think you are going the right way. But so for next year, when you talk about it being 40%, 50% down, are we talking about the gross one-off numbers or the €46 million of this year? Are we talking the net cashed out number of €64 million? And how should we think about that cadence in a little bit more detail going forward? That would be incredibly helpful.

And then also the second question, if you can, on the gross margin. You have talked really well on the call about further gross margin expansion. I mean to the extent that you can comment, how should we be thinking about that vis-à-vis your historical gross margin? Because you have lost quite a lot, feels like you are getting back a decent amount, but just trying to understand where we are from today to where you were a couple of years back and how to think about where that will shake out.

Christian Schmitz: Nicole, you want to start on the one-offs, and I will make a comment on the gross margin?

Nicole Charrière: Yes, absolutely. You understood everything rightly when it comes to the one-off, sub-question number one, when we talk about one-offs, we always talk about the gross one-offs, which are the real one-offs we have incurred and not about the consolidation adjustment.

When it comes to the cash out of the 2023 one-off, you also rightly understood there is €4 million remaining to be paid and then you repeated what Christian said on the P&L pieces, which then will also flow through to cash at some point in time expectedly in the same year.

Christian Schmitz: Okay. Look, on the gross margin, I cannot give you any specific guidance I am afraid. It is just what I said. We would not get back like in one go to historic gross margin level. We think we are optimistic when it comes to the year and then we got to let it unfold. I cannot give you any more specific numbers or so here you are looking for that.

Harsh Kumar (PGIM): Just one, just on your CapEx. How should we think about your CapEx going forward from 2024? Obviously, you have seen it reduce from FY21 levels and it has been gradually decreasing, but any guidance there would be helpful.

Nicole Charrière: As we just said during the presentation, we stick to our indication that in average we spend 4% to 6% on cash CapEx. As we plan to grow, particularly in Foodtech, we have also built our client lease initiative, which enables us to grow without significant cash CapEx investment. This is why we stick to that range.

Harsh Kumar: And I am pretty new to the credit, so could you just guide on what that CapEx is largely used for and the return you expect on those?

Christian Schmitz: Look, we put the CapEx into business case accretive, right? And there is no hard cap or anything we do. I think in general what we expect is an 18-month payback on capital that we deploy. That is a horizon that makes sense to us. And then, I do not know how new you are to this, obviously we got different models depending on the type of business we do.

Important is that the stuff that we do in food markets, micro markets, all those innovations, they typically come client lease, so that does not touch our balance sheet. And given that a lot of our growth focus is seeing in that area, the amount naturally reduces. We do not extend deals that have a very long payback time when it is on our own capital. That is part of the reason why you see that dip that we talked about in this call and that we talked about on previous calls business that we do not retain.

We also might have picked up that we are relatively a little softer and semi-public where in some of those instances, like a university or so, you might have a bid that is highly competitive, high CapEx, lending fees and then you got to deploy your own capital. Then those are just deals that we do not do.

We are comfortable with a range of like 5% to 6% when we call it earlier, fluctuates a little bit by the quarter. Typically deploy a little less beginning of the year. We usually deploy a little more at the end of the year. You have seen the numbers I think we call slightly over, I think 6.5% or so in the fourth quarter, but you see that pickup in client leads. I think it was nicely shown to continue to do that.

Look, just want to take the time to thank you all for your continued support. It is obviously being quite a ride. I really enjoyed what Joe said, now the fun part starts. And we are excited that we are now getting into that time window where it can open like a whole new chapter in the fabulous story of the rebirth of Selecta.

Joe, I want to hand it over to you, your final comments.

Joe Plumeri: Thank you, Christian. And I want to thank all of you for your support. Obviously, the last 3.5 years have been challenging, but we think we have met the challenge. And I want to thank all the associates of Selecta. They have been absolutely brilliant. And the transformation and the growth of this business, we have basically changed everything. More than changed, we have transformed. And that is not easy to do, especially in the circumstances we have.

So Christian and I want to thank them. We want to congratulate them because they are the real reason that you hear what you hear today and the results that you hear. We are really excited. I hope you hear that in our voice. We are excited about the future, we are excited about the platform that we built. And this is the business is all about the health and the growth of the top line.

We think we are poised to do that. As the year goes on, we are more and more poised to do that. And the more we do that, the more we want to convert that to cash. That is our story and do it under the umbrella of the fabulous Foodtech that we have built.

So thank you everybody. Thank you to our associates. Appreciate it. Have a great day.

[END OF TRANSCRIPT]