Selecta Group Q1 2023 Results Presentation

Wednesday, 3rd May 2023

Introduction

Angela Cinelli

Investor Relations Manager, Selecta

Welcome

Good afternoon all and good morning to those joining us from the United States. Welcome to Selecta's First Quarter 2023 Results presentation. Please note that the call will be recorded. On the call today we have with us Christian Schmitz who is our Chief Executive Officer and Nicole Charrière who is our Chief Financial Officer. Before we initiate, I would like to refer to the disclaimer which can be found on page two of the presentation. As a reminder, after the presentation a Q&A will follow.

Agenda

Today's presentation will cover financial results mainly and I kindly remind the speakers to refer to slide changes as they progress through the presentation. Now I would like to hand over to Christian.

Q1 2023 Highlights

Christian Schmitz

Chief Executive Officer, Selecta

2023 Priorities

Thank you very much Angela. Good afternoon and good morning everyone. Great to have you on our first earnings call 2023 here. We will keep it fairly brief today. In our last call we gave you a very detailed run through and full update on 2022 and where we stand with the transformation of the business in a presentation I gave with our Executive Chairman Joe Plumeri. After all of that, that we did three months ago we though we would keep it brief to really just focus on the highlights of the quarter, mostly from a financial perspective.

Before I hand it over to our CFO Nicole, we thought we would just give you a little bit of an overview on where we stand with regards to our key priorities that we have defined for 2023. On page five, we defined four main areas that we want to focus on as a team here.

We want to focus on growth and particularly growth in foodtech. We want to focus on our margin expansion coming out of the year with difficult gross margin development, a lot of headwinds from inflation and all sorts of issues that we had to tackle from this crazy war in 2022. Then of course it is going to flow through to the bottom line in terms of solid EBITA growth and then to deliver stronger cash conversion going forward. Now that we are at the tail end of all the restructuring and transformation that we have been doing over the last two and a half years, we are getting into more stable territory on a go forward basis.

I want to share the highlights with you on those four areas before Nicole is going to take you through more details on financials starting with foodtech growth.

Foodtech growth

First of all, the Group has delivered strong overall sales growth of 11.7% in the first quarter. Then related to foodtech, Foodies, the new concept that we are driving, had a growth of 46.6%. You can see that what we have presented to you in our full year update last time as a concept and all the things that we have done there in terms of the brands that we signed up is starting to pay off in superior growth. We are really excited about all the new solutions that we are bringing into the market on a week-by-week basis. I guess anyone who follows us on LinkedIn or other portals sees all the beautiful installations that are going into the market. That continues to be very strong, not only in terms of current installations and existing sales but also when it comes to pipeline and the opportunities that we are currently working through and that are about to go live.

The other point that I want to mention here on the growth side is that we reached another record high when it comes to the SMD, sales per machine per day, of €12.5. This is a very important metric for us because it tells us whether the assets that we have in the field are productive and whether the entire system is working out. It is very hard to have a very profitable business if you get a tonne of assets out there that only deliver minimum revenues and at the same time you have still got to go there, service and clean them. We have a constant focus in this organisation on that metric. Our view on this is we would rather have fewer assets and better performing assets than just having a massive amount of assets out there that are not performing.

Looking at the entire growth piece I think three things, a very strong delivery in the first quarter, overall revenue, foodtech revenue and then also the performance on a machine-by-machine basis.

Margin expansion

Now let us get to the margin piece, obviously a topic that has been pretty challenging for us last year with the record-size inflation and all the things flowing through. Then a certain stickiness in our contract end. We are in the progress of implementing our current round of price increases with the quarter one delivery at 6%, which is as we planned it. You see that we have a gross margin recovery versus last quarter of around two points. You might remember that in the fourth quarter when we gave you the full year and fourth quarter numbers, we talked about some more one-time effects that we had in the fourth quarter that we said would be out of the numbers when we go to the next quarter. That is actually what we see here. You see that improvement of two points, and we are confident that we will deliver on our plan that we set ourselves with how the price increases are progressing and with the inflationary dynamics that we see in the market. We have got good confidence that this is working out the way we expected.

Then I think it is something that we have demonstrated over many quarters in a row now with strong cost discipline. There are restructuring productivity gains. There are still more machines that go on telemetry. I talked about less under-performing machines earlier when I mentioned the record SMD. That piece continues to happen, and you see that in an improvement in the adjusted EBITDA margin of 17.2% which is also up. With that comment on margins let me go straight to the EBITDA side of things.

EBITDA growth

You see adjusted EBITDA up €53.1 million which is up 15%. Against sales growth of 11.7%, adjusted EBITDA growth is up 15%. Reported EBITDA growth, which is obviously very important when you think about it, of €51.3 million, up 22.4%. Now, what does it tell us? It tells us that the amount of adjustments that we have is going down and it is actually fairly limited when you think about it. Right now, we are looking at these numbers net. It is less than 5% of our quarterly earnings that we have adjustments on reported EBITDA. Reported is up strongly and I think the initiatives and everything are kicking in. We are pretty pleased with that part as well we have sales growth and reported EBITA growth which is double the sales growth. Actually a pattern which I think is nice to see.

Cash conversion

Then the last point when it comes to cash conversion there are a number of projects in place that lead us to a good sustainable free cash flow. Liquidity headroom is strong at €133 million. Those of you who have followed us for a longer period of time, which I guess by now is most of you, I think understand the seasonality of the business when it comes to both earnings but also to cash. The first quarter has got interest payments in there and from a seasonality perspective the first quarter is always the quarter where you have got lower revenues but then carry a part of the cost structure throughout the year. Then obviously when the summer kicks in and all the seasonal business gets added, that is the part as well as towards the end of the year when the cash profile of the business is structurally quarter-on-quarter stronger. We think all that works out and obviously it starts with a strong reported EBITDA. If you deliver that throughout the year and you have got working capital and the other cash initiatives under control, then you will have a strong cash delivery for the entire year.

That is the high-level update from my end and with that I want to hand it over to Nicole our CFO to take you through more of the details of the quarter. Thank you.

Q1 Financial Results

Nicole Charrière

Interim Chief Financial Officer, Selecta

Strong Sales and Profitability Growth

Q1 2023 Financial Summary

Okay, thank you Christian. We go to page six and welcome also from my side to our Q1 2023 earnings call. As Christian already said, we are very proud to present a strong quarter across our main financials' net sales growth, gross margin recovery, EBITDA margin expansion and continued strong liquidity. I will now take you through all of them individually.

Our net sales increased by 11.7% driven by a strong performance in our public sector and further growth in private. One of our main priorities in Q1 was the price increase pass-through which has supported our sales performance. Also due to our strong discipline in execution we were able to reach our planned sales price increase in Q1. At the same time the one-offs impacting our gross margin negatively in Q4 have not continued and our gross margin recovered by two percentage points from 57.1% to 59.1%.

We of course continued to manage diligently our two main cost items, personal expenses and other overheads which has led to an expansion of the EBITDA margin pre-IFRS 16 by a strong 1.3 percentage points versus the same quarter last year. As other one-off costs incurred decreased, reported EBITDA strongly increased by 22.4%. The strong P&L performance has also led to an increase in cash conversion and a continued strong liquidity headroom of

€133.4 million and this considering Q1 seasonality and the payment of one-off costs and notes interest.

Continued Strong SMD Growth

Q1 2023 Group – Sales by machine per day

If we go to page seven I will talk you through our SMD metric. In terms of our sales per machine per day metric we have been for some time now delivering a continuous improvement. This metric is especially important to us as it is key for our operational efficiency and strengthens our business to face any challenges that may come. Therefore, we are proud to present again a record high SMD of €12.5, up 30.5% versus last year driven by record highs in both private and semi-public segments. Let me take you through the key elements of the strong SMD development.

Our private segment showed a very strong sales performance in the quarter, 14.7% higher than last year. The sales growth was broad-based in both of our top sectors, Services & Admin and Manufacturing & Logistics. The SMD development was supported by the removal of underperforming machines and reached a record high €12.9 per day, more than 30% versus last year.

In semi-public sales growth driven mainly by Horeca, Healthcare and Education sectors, also here with the removal of underperforming machines, reached record high SMD of €8.8, roughly 34% up versus last year.

Public sales already trade from a strong base and removal of machines impacting in the last years has been have been minor. This segment continues to trade positively and with a strong SMD of €23.7.

Germany and Bene Gaining Momentum

Q1 2023 net sales by country vs last year

Let me now talk about the sales performance per country on page eight. Before we get into the details, I would like to highlight that in this quarter we are hit by a negative FX impact on net sales of around 1%. Negative FX impact has impacted Norway, Sweden and UK significantly. Details are included in the appendices. Regarding UK, at constant currency performance is much closer to the Group average than you can see in the page.

Let me highlight some key developments in the quarter. Particularly the Bene region contributed strongly, in Belgium mainly driven by strong SMD performance. Then also in Germany we saw a very strong development, mainly triggered by excellent net gains and hence strong organic growth. Then in Italy, as we have already mentioned in past calls, trends to be in the lows driven by the clean-up of our footprint, lower consumption and service optimisations.

Also France saw a difficult quarter as it was impacted by strikes but also here we continue to remove underperforming machines. A healthier machine park will ensure a profitable and sustainable base for future operations in France.

Strong Performance in Central and North Regions

Q1 2023 net sales and adjusted EBITDA by region

On page nine you will find the regional summary which captures the performance commentary we just went through.

Gross Margin Improvement Lead to Protect Profitability

Q1 2023 Adjusted EBITDA

Let us now slip to the Group P&L on page ten. On the gross margin side I already explained the main drivers of the positive development versus the previous quarter. Margin remains impacted by inflationary pressure and mix impact, resulting in a decrease versus last year. This is in line with our expectations and as we already indicated we do not expect the full recovery of the gross margin to 2021 levels in 2023.

Due to our strong focus on cost and structural productivity gains, amongst other support from the rollout of telemetry, the personal expenses ratio improved by 1.8 percentage points. Also other overheads cost ratio improved by 1.6 percentage points. As we indicated in 2023, we will not only grow adjusted EBITDA but significantly improve reported EBITDA due to one-offs reduction. A proof of this is Q1 reported EBITDA which has strongly increased by 22.4% versus last year.

Discipline in Working Capital Management and Capex

Q1 2023 working capital and capex

On net working capital on page 11, the evolution of our net working capital is mostly driven by other receivables up due to accrued income and prepayments. Payables were impacted by one-offs and capex remaining to be paid. On net cash capex we took benefit from our successful development of client lease solutions and less IT projects capitalised in the quarter. This allowed us to keep the capex ratio at 3.2% of net sales. Nonetheless our guidance remains at 5-6% of net sales, unchanged from the past.

Strong Liquidity Maintained As We Continue to Deleverage

Q1 2023 leverage and cash liquidity evolution

On page 12 you can have a look at our strong liquidity. As per 31st March we do have available liquidity of €133.4 million, thereof €55.3 million in cash and cash equivalent and the available RCF amounts to €84.4 million. As a consequence of our improved reported EBITDA, leverage ratio decreased to 8x from 8.4x. This is also a very important development.

Cash Conversion Action Plan Contributing to Strong Liquidity

On the next page you will see the development of our liquidity which went from €155.5 million to €133.4 million. You need to keep in mind that we paid note interest in the amount of €13.1 million in January and we still had to pay out one-offs in the amount of €11.3 million. Nonetheless, and I am highlighting again the Q1 seasonality, we land at a very strong liquidity level which allows us to run our operation properly. With that I will hand over to Christian for the final remarks.

Closing Remarks

Christian Schmitz

Chief Executive Officer, Selecta

Conclusion

Right, thank you Nicole for the great and very granular presentation. Look, the conclusion is pretty straightforward. I feel that is a similar page to looking at a quarter-by-quarter basis. We remain focused on profitable growth and free cash flow conversion in 2023. I hope we have given you the key indicators with the quarter one results that this is something that we deal with on a day-by-day basis. We are going to continue to do so throughout the year.

The margin expansion recovery and then the organic growth as well as price increases and critical initiatives among others. The critical initiatives that we are focused on and we expect a continuation of an inflationary environment for a while. When it comes to a lot of the items, components that we have, food prices, there is still a substantial dynamic out there and we do not expect that to go away. It might taper down a little bit but we do not expect that to go away any time soon. We are prepared and ready for that.

Then I think the transformation that we have put in here when we came from 2020 when the business was fundamentally broken, to now where we have a functioning company that is growing in top line, profitability and cash. I think that we have got the foundation now that we are very confident that we will deliver on our strategic plan in 2023 and beyond. It is a plan that we deliver to all the noteholders who are part of the restructuring back in 2020. That is our plan. That is the guideline. We have been outperforming this plan on a continuous basis ever since we sealed the deal and that continues in this quarter. We expect this to continue to happen over the course of the year.

Thank you very much. With that I guess we open up for questions.

Q&A

Wolfgang Felix (Sarria): Hello, first of all congratulations. I think it is a solid set of results. I just had two detailed questions really. One is on your working capital. You have had some outflows. The receivables have risen quite substantially. Payables have come down quite a lot and I was wondering if you could give us a little bit more colour on also the provisions that have come down, etc. I guess the working capital outflow this quarter is a bit more significant than I thought it would be. The other is on your one-offs outflow of €11.3 million. I did not have that much in for this quarter and again if you could maybe shed some more light on it. I thought it might be related to some of your Dutch proceedings or maybe you said what it was and I missed it. Thank you.

Nicole Charrière: Thank you for your question. Let us start with the amount of one-offs. What we had indicated in the year-end earnings call was around what we now delivered so where we said that we would land below 10% of the EBITDA back at that time we are perfectly in line with what we had communicated previously. If it comes to working capital you see that we have an increase in other receivables which mainly comes from the higher operations compared to December and the amount of prepayment of vending fees to one of our clients. Then on the trade payables side basically if you compare the amount of capex you saw in Q4 with the one you now see in Q1, then you see one of the main reasons for the development in trade payables. On top of that we paid out substantial one-offs which have left the balance sheet as well.

Wolfgang Felix: Okay. I think that is it from me today, thank you.

Christian Schmitz: Thank you.

Toby Hanson (Boundary Creek): I wonder if I could sneak three in. The first one is following on from Wolfgang's comment on the exceptionals. Just for clarity, would you be able to reiterate an absolute €millions amount of exceptionals that you expect to cash out this year?

Nicole Charrière: Yes, absolutely. If you recall what we said in the year-end earnings call, we said there are €29 million of one-offs to be cashed out which will happen in 2023. Thereof we have paid €11 million. We have an additional around €5 million in growth one-offs in Q1 that bring us to an amount to be paid of €23 million. Then the payment for the Pelican Rouge tax liability and some government reimbursement come on top.

Toby Hanson: You do not have any clarity on timing on the Pelican Rouge assessment, do you?

Nicole Charrière: On the Pelican Rouge there is a further hearing happening in the course of June and then we expect to understand better how our payment schedule will look.

Toby Hanson: Great, thank you. The second question I had was, in terms of the size of the machine park you are at 270,000. The quarter-on-quarter reduction in that park does not seem to have reduced. I would just be interested to know based on where you see demand if you could get rid of all machines in one go hypothetically what is the ideal machine park size versus where it is now?

Christian Schmitz: Look, I do not think we can give you an exact and the reason is the following. This entire thing when you look at your machine park is a fairly dynamic process. It is fairly dynamic in the sense that we still have assets where we see that they are growing back into the business. Then there is client relationships where we continue to find different arrangements. Right now, you could argue the Covid period is over and a lot of clients have been sitting on the side line and saying, 'Well, we do not really know what we are going to do with our real estate footprint and how that is all going to work out.' Now we are talking with them. Then there is an increased number of clients where we establish a minimum fee or a service fee where there was no service fee in the product. There will also be assets that we would even continue to operate despite the fact that they are underperforming from an absolute SMD perspective. This is something that we dynamically go through.

We are obviously very focused around it and then the last point is there are still a couple of contracts out here which go for longer periods of time that have been committed to in the past with the fixed vending fee on it, actually a couple of which are a little more substantial, which we will have to carry through until the end of the duration of the contract. Which will then obviously generate additional benefits for us over the course of the next couple of years. I think the one thing we can say is that we expect the machine park reduction to taper off. We are not going to continue to see the amount of take-outs that we have performed over time. That number is going to reduce over the course of the year.

Toby Hanson: Thank you very much. The final question was on the €16.6 million in interest and financial costs you had in the quarter. You called out €13.1 million being from the notes. Based on your RCF drawings and you are paying above 350bp and that looks like another €1.5 million which leaves €2.4 million of other interest costs. What is that related to? I presume some of it is factoring but your factoring balance is quite low. I wondered what that was related to.

Nicole Charrière: Bank loans interest, leases interest and factoring are part of that.

Christian Schmitz: Alright, thank you. I just want to say thank you for joining our earnings call today. I guess a straightforward set of results. We look forward to seeing you all back in around three months from now. If anything comes up in the meantime we are here, myself, Nicole as CFO and Angela as the Head of Investor Relations. Please reach out to us and we are happy to help. Thank you very much. Have a great day.

[END OF TRANSCRIPT]