Selecta Group Q4 & FY 2022 Results Noteholder Presentation

Wednesday, 15th March 2023

Welcome

Angela Cinelli

Head of Investor Relations, Selecta Group

Good afternoon, all, and good morning to those joining us from the United States. Welcome to Fourth Quarter and Full-Year 2022 Results Presentation. Please note that the call will be recorded.

On the call today, we have with us, Joe Plumeri, who is Executive Chairman of Selecta Group; Christian Schmitz, who is Chief Executive Officer; and Nicole Charrière, who is Interim 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 refer to the slides change as they progress through the presentation.

And now I would like to hand it over to Joe.

Selecta Today

Joe Plumeri

Executive Chairman, Selecta Group

Introduction

Hello, everybody, and welcome. I am on page five. And I want to use this page to refresh everybody's memory for those of you who have tracked us for the last couple of years of what we found when Christian and I got here in mid-2020.

There was no purpose in this company, there was no vision, there were no principles. Great companies have a vision. They have a purpose. They know why they show up every day. This company did not. It was highly decentralised. That is to say that every country was basically a company unto itself, doing their own thing without a singular vision to go by. Financial systems were different, everything was different.

There was a lack of attention daily to business. We believe that the business is daily, people should be held accountable daily. It was basically a monthly review system that they had, which meant that the month was already over. There was nothing they could do about it. And those reviews were not transparent or as in depth as we think they should be.

The retention was low. In great companies, you pay attention to your clients that you have, because that would create predictable, recurring streams of income. And there was a great deal of dissatisfaction with the client. So, they did not pay attention to the clients they had, contracts were signed, and they basically left them alone. That is not a good idea. And they cared more about getting new accounts, which was really not that good either because there was no organic growth. It was all done by acquisition.

There was no sales or service culture that was in place that was standardised around the business. There was no differentiation. There was no value proposition. And if there is no value proposition, then it is a commodity, and everything is based upon price. And that is a race to the bottom, as you all know. So, we had to change that.

As I mentioned earlier, there was no organic growth. Everything was done through acquisition. So, without value, there was no organic growth. And there was total reliance upon acquisition. And at that, when the acquisitions were done, they were done more of a roll up than they were synergistically. And as a result, when that happens, the emperor is eventually going to have no close. And you are not going to do well, which is what happened to this company. And there was no focus whatsoever on liquidity or cash. And we believe cash is king, cash is everything. But when you are in a commodity business, and you do not have a differentiated value, then you are paying the CapEx, not the client, because you are not providing value. And so that is the way we found the place a couple of years ago, just to refresh everybody's memory.

The one and only purpose of our business is making people feel great.

Turning to page six, we had come up with a purpose. Every great company has a purpose. They have to have a reason to show up every day, and create a business, build a business for the singularity of that purpose.

And our purpose is, "The one and only purpose of our business is making people feel great." What does that mean? We do not think we are in the vending business. We think we are in the business of making people feel good and feeling great every day. As a result of that, we want to be able to give them the right solutions to their needs, whether they be a semi-public institution or private, and ultimately give to the consumer what they want is food, drink coffee, snacks, hot, cold, whatever the case may be.

So, as a result, we believe that anything that has to do with food, drink, coffee, snacks, whatever, we believe if we can deliver that and bring joy to people because we are bringing the right product, the right solution to their need, and we are servicing them well, then people are going to be happy and the sky is the limit to what we can do in this business and how we can grow. So that is the business we think we are in. And everything is around asking the question, "Does this bring joy to the client and to the eventual consumer?" And if it does, then we go down that path and try to deliver it. And that is the way we have built our business.

We believe in delivering millions of moments of joy every day.

On page seven, our belief system is something that we not only believe in, but we actually demonstrate and execute every day. And that belief system is something that we recite before meetings. It is the core of what we do. And in the belief system, which I will run through very quickly with you, is basically starting with joy and how we arrive at the joy, how we arrive at the solutions that solves the problem, how we service our clients. And eventually, if we do all those things well, then we are going to retain 100%, which, from a business point of view, as you all know, predictable and recurring streams of income is what business is all about. And if you can do that in an efficient way, that is what creates the value of a business.

So, when you look at the belief system, we believe in completing a joy. We believe in millions of moments of joy. And how do you do that? We complete a joy needs analysis, which is basically asking our clients what it is that they need, what solves their problems. And from that, we cannot bring joy unless we know what brings them joy. So, we ask them.

And every one of our client solution specialists goes through the ritual of asking them what they need. They have been trained on it, they have been trained on needs-based selling, they have been traded on disc profiles. They have been trained on winning, what is important to you. There was no training before we showed up. There was no culture of training and sales and solutions whatsoever. And all of our client solution specialists now are trained on joy needs analysis, and what the consumer and what the client needs. And then ultimately, how the client can deliver that to the consumer.

When we ask that question, then we go out, and we find innovative solutions that fill the need of the client. Christian later is going to talk about the kinds of solutions we had when we got here, which was water, coffee, and vending machines. And now the array of solutions we have are enormous based especially when you compare it to what we found, all because we found out that our clients need these things. And so, the innovation process that we have been through, in only a couple of years, I think you are going to find it outstanding and very exciting.

And we believe in innovative solutions and services that create those joyful experience is by understanding those needs. So, you got to find out the needs. The training takes place on those needs. And then we go find the innovative solutions that people tell us our client wants. So that is not traditional vending. Again, you got to start with joy. What brings them joy? Food, coffee, snacks, and any way we can deliver it, that is where the innovation comes in. Obviously, it was very important, after all that happens is industry leading service.

If the machines are not filled, if the food is no good, if it is not fresh, if it does not work, then all the joy goes away. That is where the joy is delivered. We have put a big premium on that. We had not only Selecta Solution System, which is our whole progression of the way we find solutions and people are trained, but we have a service system that is also intact that is standardised.

The whole idea of decentralisation is going away. Everything is standardised now. And that is the way we run our business. And so, what you will see happen in one country happens in another country so that you can identify Selecta by virtue of the way we do it consistently throughout our company.

And as you can see, our belief is we act on all inquiries in 24 hours and provide solutions within 48 hours. And we believe if you do that, you will retain 100% of your clients. You will get more from what those clients like about you. You will visit the client and the client will be happy. You will get more business from the client. And then you will get new ones.

In my experience, the bad companies have inverted that. They go after new ones, disregard the old ones they have because they already got a contract, so they will leave them alone. That is not the way you build a great company.

A challenging market environment in 2022

Turning to the next page, page eight. Obviously, the market environment has been very challenging. In late 2021-2022, the COVID impacts, supply chain crisis, rising raw material costs, Russia attacks Ukraine. And then 2022-2023, inflation intensifying, global energy shortage, rapidly rising interest rates, slowing economic growth, ongoing war. You all know this. But I tell you this is that as we are building a great company against the backdrop of what we found, we had to build this company on new while facing the adversity that all of you know about by now.

I can remember way back, when we did the restructuring, which I am going to talk about in a second, and what was expected of us, it was not expected that all these things were going to happen. And we still overcame all of those obstacles and beat all of your expectations of us despite all of that. I just want to put that in perspective for everybody.

We delivered what we promised against all odds.

If you go to page nine, you will see we delivered what we promised against all of those odds. And there were a lot. It is tough to rebuild a company, as you well know, under normal circumstances. But when you throw all that adversity on top of it, and you got to change everything and transform everything, like we had to, we are proud of the achievement. And you can see that on an adjusted EBITDA basis pre-IFRS 16 in 2020, we beat the noteholder plan €36 million to €34 million by €2.1 million. In 2021, we were €155.8 million against the noteholder plan of €128 million, which is €27.7 million over the plan. And in 2022, we came in at €182.1 million, €161 million was the noteholder plan, €21.1 million, despite the adversity that I just made reference to.

So, we are pretty proud of what we have accomplished against all of those odds. So, we not only outperformed what you all expected of us when we did the restructuring, but we did it in the face of all of that adversity while trying to transform a company that had a lot of problems when we got here.

Liquidity is a big deal with us. Cash is a big deal with us. We pay a lot of attention to it. Christian is going to talk about it. The expectation on liquidity into 2020 was €138 million. We came in at €206.8 million, €68.8 million better. €154.1 million in 2021. The expectation was €120 million. We came in €34 million better. And last year, we came in at €155.5 million against an expectation of €119 million or €36.5 million better. And again, all those expectations were against the backdrop of none of the adversity that I mentioned happening.

So again, we got still a lot to do. But we are really proud of what we have done.

Unique portfolio of best-in-class solutions

On page 10, we are going to talk about this. But we have had a very unique set of portfolio best-in-class solutions that I am going to go through in a second. We went from a commodity-based operation to a value proposition, which is embodied in the belief system that I talked about.

Sustainable productivity advantage. Because of the way we track the stages of the CRM, we have a formula in our pipeline of seven times what our expectation target is. 60% of the pipeline we expect to be to result in proposal and half of that in a close. And as a result of that, we were able to build ourselves 13.5% last year in organic growth, rely upon our belief system to do all of that.

We have a key position to distribute and service. We talked about that in belief system, but we think we are distributors. That is what we do. Even though we own a coffee roaster, but what we do is really distribute for other people and we think we do it well. There is a €45 billion food tech market across Europe. And that is the reason why we do not believe we are in the vending business. We believe we are in any business that allows us to distribute food, snack, drink, by the use of technology to access through all of our machines by phone or by card and a lot of the new innovation, it is technology driven.

Selecta's portfolio before & after

If you go to the next page, page 11, you will see the traditional vending on the left-hand side, which basically what we found in 2020, which was vending machines, water machines and coffee machines. That is what we did. That is a commodity. Everybody has got vending machines. There was nothing different or unusual about that. And we do not believe in commoditisation. We believe in bringing value.

The value comes in understanding needs, that creates value. And creating solutions against those needs creates greater value. And therefore, we think we have the ability to charge appropriately for that and be able to ask our clients to pay the CapEx in doing so. And that creates the cash that we are so fond of in this company.

On the right, everything that you see on the right, which is all the solutions that we built since mid-2020, all came out of this notion of finding solutions. And what you see here is everything that we consider food tech. Even the vending machine that you see in the middle, which is Joy To Go, our new branding, is technology-driven, basically AI that can tell the machine who the consumer is and appropriately put advertising on it.

You can see our foodies and our snack market next to it. Those are smart fridges, which they can open by use of a card or a mobile device. And obviously, the sensors can read the weight and charge accordingly. And then the snack market is there. And create for yourself basically a café in a company where canteens or cafeterias, because of the workplace now are not needed, we have that.

On the right, you see a steamer that this company never indulged in hot foods before. Now we have 63 different varieties of hot foods. You see spaghetti, believe it or not, and it is not bad. It is really good. And we offer that as well as cold varieties for breakfast and lunch, in our smart fridges. And in the middle, you see our Shop & Go experience, which basically people access to food, snack, drink, and all the things we offer by going into a store basically, having access through a card or a mobile device, take what you want, the sensors read it. And you are charged as you take it. When you put it back, you are credited back. The technology is unbelievable.

That is what we do today. And that is where we think we are in the food tech business, long gone from the vending business. And that is just a quick overview of our philosophy of what we built here, our belief system, our solution system, and what this company has been transformed from a plain vending company that basically is commoditised, paid for everything and did not charge a lot. So, one where we bring value and solutions, and totally different than what we found.

Christian?

2022 Business Update

Christian Schmitz

CEO, Selecta Group

We have delivered our 2022 plan.

Thank you, Joe. On page 13, I now take the opportunity and talk a little more around our 2022 full year, give you a business update. And then Nicole is going to take you further into the quarter four results.

So, we want to go back to the page and the framework that we have shown you a year ago when we laid out what our priorities for the year have been, exactly the same page. And we set those six themes that are really critical for us, and that we are going to continue to drive forward.

The first one is the growth in food tech. As Joe explained earlier, we have reinvented the entire business from a traditional vending business into a differentiated food tech business with a differentiated portfolio of solution and brands, and differentiated delivery model with a superior cost and productivity position compared to our competitors. We continue to do that. We show you later we got very strong growth in our food tech solution. This is really where the future of our business is lying.

The hypothesis that we had early on that the world would change after COVID, a lot of locations out there with traditional catering, where the business model of traditional catering does not make a lot of sense anymore. That really starts unfolding. And we find a lot of opportunities in captive work environments, manufacturing, logistics, in the public space, in the semi-public space. There is a shortage of labour in hospitality and hotel. So, a lot of opportunities that we are creating here and very proud of what we have been doing here.

The entire food tech is directly connected to our tech-enabled service platform, where we continue to drive up the connectivity of all our devices and leverage AI, telemetry, and algorithms to determine when we visit machines with two major benefits. First benefit, is that we have less missed sales that we otherwise would have due to missing product. And the second major benefit, is a gain in productivity, so instead of going to our assets on a fixed schedule, we can go on a dynamic schedule that is cater to the needs.

I talked about it before. We see productivity between 20% and 25% on that, depending on the backend logistics model. And that is something that we continue to drive and really build out the platform for business and go forward, while we have been fighting in adverse environment and still had to take care off a number of one-off things, clean up stuff from the past that we had to flow through the year of 2022.

Margins, obviously a big topic for us. It has probably been the most challenging environment from that perspective that existed in decades. And even if you are in an environment, I guess I do not need to explain that. You are in an environment where you have strong inflation, even if you capture the same amount of gross profit margin euros, dollars, right, you already see an impact on your gross margin percentage. So, by definition, in an environment like that, we are under pressure.

We talked about in the previous calls that this year has been challenging for us in the sense that a lot of our contracts are CPI-based. And the dynamic that we had in 2022, which is different from what we are going to see in 2023, was one where price increase limited as based on lower CPI in 2021. And then we got hit with very steep costs increases over the course of 2022, which was challenging for us to mitigate. So we have been working hard on that.

But you see that there is within the fourth quarter similar to what you have seen in the previous quarters that this has been a year of transition in that sense where to get adapted to that and also adapt our remaining cost structure to that.

I think the positive news on that is, heading into 2023, we are looking at a very different situation where we can increase our prices off, off a very high CPI of 2022. And while the inflation still remains high, there is certainly signs of a bit of slowdown, which will be beneficial to us in 2023.

We continued to drive productivity not only through the telemetry programme but also through realising additional synergies and benefits to continue to our rightsizing programme. And we reduced capacity further, mainly in three southern markets of Italy, France, and Spain. And those benefits while they incurred one-off costs and cash outs in 2022, it will deliver additional benefits in 2023 onwards.

Switching to the left-hand side of this page, we put a substantial effort behind really a revamping our entire ESG efforts. I think the big milestone that I will talk about in a minute is the turn of our Pelican Rouge brand into 100% sustainable coffee brand that we launched. It is something that is obviously very complex. They only got a large product portfolio but something very proud of, and again, we think it is going to pay off substantially over the years to come.

Last point on cash conversion. Joe has shown the cash performance again, against our noteholder plan, which continues to be better as liquidity position versus what we had previously planned. And I think it is particularly interesting to look at it in the context of the substantial amount of cash outs one-offs that we had to take through the restructuring of this company. And we continue to be laser-focused on cash and are committed to delivering better than planned.

So, with that, I am going to show and just give you a couple of highlights on a couple of areas of the business.

Growing foodtech

On the next page, we just wanted to show you a couple of our foodtech solutions that we have put in place, really highlighting how our business model has changed and how different this is, what we are doing here in terms of bringing value and having a differentiated model.

The first one is an installation from PwC, a large service provider in the Netherlands, where you see in partnership with a facility manager, ISS, we brought this beautiful foodie solution that you see here. The theme was really to create an attractive workplace, to kind of drive and encourage healthy eating and to create a new hub where people feel excited to come back, given it is one of the big themes for PwC to also create spaces where people connect and feel the urge to come back versus forcing people to come back to the office.

So, you see that, beautifully implemented with our Albert Heijn To Go solution, which we do exclusively in partnership with Ahold in the Netherlands, and I think really nicely showcases what we are doing here. Little side note on that. In a pretty short period of time, we opened our 100th Albert Heijn To Go recently, really successful concept and we look forward to opening many more in the Netherlands.

In the middle, you see all the different solution at AkzoNobel, a partner that was also thinking through how to bring more joy to their employees and how to step things up. Here you see a little bit of more economical solution, which is a combination of an open snack market and a smart fridge, together with steam food, because the results are important there to be able to offer some hot ranges outside the core hours. Very economical installation and works really well for people in Sweden.

And then another cool innovation that is new, and we are currently showcasing with our partner Q8 in the Netherlands is a container solution for unmanned gas stations. So, there is a large number of thousands of gas stations across Europe that do not have a solution. And Q8 approached us, and we started partnering and working on something that could be interesting and attractive, because some of these locations really have interesting velocity.

And what you see here is the first unmanned shops that we opened here, with the food, beverage, coffee snacks. I mean, really neat and clean and also very economical solution. When you look at it from a CapEx perspective, can be fairly industrialised and scaled fast with the container modules. So smart way of doing this, we got that live in The Hague and in Schiedam, anyone comes by, check it out, and have a look.

And we think it is an interesting concept, not only for unmanned solution, but also for this massive amount of growing electric charger stations across Europe. We are in conversations with multiple partners to build our concepts, given the amount of time that people in the future will spend at these electric charging stations.

Expanding our foodies solution

Page 15 is just to brief you on our solutions and statistics. You see almost 100% growth on these new markets to get us now to an interesting number of point of sales. So, this is way grown from experimenting and having something cool on the premium end to really becoming a big and substantial part of our business is really interesting growth rates and margins that we are able to generate here.

We ensure that we have a very differentiated business model here. Because we bring value to our clients, this is not a simple traditional, we sell product and take a margin and pay you a kickback model. But it is a model where the vast majority of these markets is done in a capital free economies construct. There is service fees attached to it because we are bringing incremental value to the place.

You got to compare what we bring here in terms of cost when you are a client. You cannot compare it to vending. You got to compare it restaurant that otherwise you would have costs you a lot of money. And we think the solution here you can have convenient 24/7. Something nice at a fraction of the cost of a canteen.

And you see the revenue profile of those, we got a large food market, turns €300,000, the small smartfridge solution turns €35,000. So obviously very different economics than a single vending machine somewhere around €3,000, €4,000 if you get the margin profile right, which is the important thing. And we think we found the formula to really make this happen.

Unique ability to serve European & national clients.

On page 16, we just want to highlight another part. We talked about our delivery system and how we are making it more efficient and what unique opportunities we can generate from this. So, this time around, we made the effort and just map out for you, our entire network that we operate across Europe.

As you know, there is nobody else who is able to service across 16 countries consistently covering the entire space. And we have had the question a number of times, whether we should focus the footprint further or only serve probably in certain regions of the country, or even exit certain countries. And we strongly believe that there is an incredible power in our network and the capability of delivering across all markets. And we think that there are more and more clients out there who really appreciate that having one partner, having one set of solutions that they then can pick from, in a modular way, and make sure that across borders, all these international companies can deliver these solutions for their people.

And the three examples, I just wanted to flag, which I think is show the power of what we can do, and also, in a number of these deals put us in a situation where there is not much competition that we are faced with. One I think certainly good example is our takeover of the entire vending operations at Volkswagen in Germany from Coca Cola. Coca Cola has decided to exit the market in Germany and leave that. And so we started building a partnership here.

And within a couple of weeks, which we have taken over the amount of 3,000 full operating machines, which is not an easy task. There are obviously very few operators that can do that. There is lot of complexity behind it. But certainly, something that with our network set up, we can do make happen and we look forward to doing more of these large deals.

Going to France, we have won a substantial amount of additional business with Vinci on the motorways, where we can serve Vinci's rest stops. There is a lot of great stuff we can bring that in 55 areas. And the reason we can do this in France is that we have a dedicated motorway network that we have built, which is highly efficient, very superior service metrics, which excites our partners and allows us to more and more grow out in transient petrol and motorway business.

And then the last one would go down to Spain, a market where you have a lot of fragmented regional players. We got in touch with a leading nursing home care provider, DomusVi. And again, we were a single partner that was really able to serve across the country. And the alternative for DomusVi would have been to contract with multiple partners, the complexity of coordinating that, the issues with different solutions of not getting to a service levels. We were able to deliver that out of one hand. And we were able to put it all on telemetry to deliver clearer service levels, and also the reporting behind the quality audit.

It is just a very easy and convenient one-stop solution that we can bring to our clients, both in the more traditional businesses of coffee and vending, and then obviously in a much more differentiated form with all our food tech solutions.

So that hopefully gives everyone an idea how this whole system continues to evolve, and why we are convinced that after the transformation years of 2021 and 2022, we now have an opportunity to really executing this, to really grow this business and have built platform that will create a lot of value now that we have through the transformation through the one-offs and all that stuff that we had to do over the past two years.

Great client wins in 2022.

Turning to page 17. We updated our client wins. You see a couple of ones on here. I would say if I look at this page of our clients, clearly, I mean, some of the most demanding companies out there that have chosen us to deliver the service. We continue to grow our business with Amazon. It is more and more of their locations, which is something we are really excited about. We think it perfectly fits the needs of the client.

We have got all clients from tech with Facebook to TikTok. You go to the more traditional industries, I mentioned, Volkswagen; Parques Reunidos, the leading European park operator. So, a lot of opportunity, which we continue to go after and great business that we will be able to continue to develop.

I just want to remind everyone, and I know we talked about it before, how huge the market is and how fragmented this market still is, after many, many years. Talking about the overall market of €15 billion in coffee and classic snack vending, another €30 billion-plus market in catering. So, you take that together and you look at us in the on-the-go market with our size and less than 10% market share, the traditional market being the leader across Europe, I mean, that tells you how huge the opportunity is once you really get this commercial system going here.

Expanding our distribution leadership

I also wanted to take the opportunity and give everyone a brief update on our distribution leaderships. As Joe mentioned earlier, the real value of Selecta is the power to distribute. And we are convinced we can do that better than the brands themselves. I think the brands see themselves are looking at Coca Cola pulling out of the market in Germany. We have had the privilege to take over more and more of the operating estate of Mars in Europe.

I think all partners who look at us as a perfect match, given our size, our footprint, and our ability to distribute consistently 16 countries in Europe. We are very proud of our partnership with Nestlé, which we continue to deepen. We had a 15% Starbucks POS growth in 2022. And now we are up to almost 3,000 units, 3,000 Starbucks coffee shops on the go in Europe, which we think is a great accomplishment. And we think there is a tonne of additional opportunity to bring this great brand to even more people in Europe.

Coca Cola, expansion of the partnership, a great partnership of working together, building out strategic plans. Germany is clearly, I think, an example, where we have been able to demonstrate what we can do. And we cannot wait to grow this further, make more happen, and drive more together in this great partnership.

Again, equally proud, what we have been doing with Mars. We announced that a year ago that we will partner with Mars and take over the operating estate in the United Kingdom. We have done that, and we have successfully converted a lot of these old vending machines into digital vending, modern solutions that show a stronger sales per machine performance, that allow for promotions, for product launches, for dynamic pricing, able to sell bundles... There is a lot of cool things that you can do with it. So now we are looking at a modernised business, which really allows Mars to position their brand properly in high frequency locations in the public. And it is very interesting economically for us. And we look forward to continuing this partnership further.

And then the other piece which we talked about before, which we are big believers in are the retail brand partnerships, where we keep on looking in markets where we have interesting opportunities to partner with the number one player in the market who dominates on the go fresh food. That is our parameter. We do not want to work with number two in the market. We do not want to work with the number three in the market. We want to work with the number one in the market with an amazing fresh food assortment. If we do not meet that threshold, we do not want to partner.

Coop is clearly that in Switzerland, incredibly well-run company, and we are now getting a full swing. We opened 30th Coop To Go recently. And we will get to 100th by the middle of the year. And this one continues to perform. Beautiful assortment we got us here in our office every single day. I enjoyed personally every single day, really excited about that. All the time, I think, I mean undisputed market leader in the Netherlands, great assortment, great performance. You have seen some of those pictures of these installations. They are beautiful. They are exciting. They make people happy. And so we continue to drive that.

Obviously, Albert Heijn and Delhaize, both part of the Ahold Group, great partnership, great performance, great path forward, exciting stuff.

Telemetry is a gamechanger: superior efficiency.

Page 19. That is just a brief update on the whole telemetry rollout and penetration, what we think is really some interesting figures when you think about our business long term on a go forward basis once we got everything cleaned up and we are in full swing. You see that we delivered on a continuation of our build out of telemetry. We mentioned that last year as one of our priorities. We delivered on that.

We actually accelerated the growth of the installation further, because we see the beautiful benefits from it, as I mentioned, both on service level and productivity. And then I think really interesting when you go to the right-hand side of the chart. And I got to help you read that for a minute here.

When we started back in the beginning of 2020, and this business fell to a €1 billion of net sales. And that €1 billion of net sales still had over 10,000 people in the organisation. So, if you did that theoretical calculation, you have ended up with just over €100,000 of revenue net sales per FTE.

Now, we took the first drastic steps already in the first 18 months and basically right-sized the organisation. So if you see the first real step up in productivity, but then what you see in fiscal 2022, and that has a lot to do with what you see on the left-hand side on telemetry, on centralised planning, on getting much smarter how to operate the business, you see a substantial further step up, where both you got revenue recovery, you got volume recovery, you got additional growth, and at the same time, we have been able to deliver that in with fewer people with a higher client retention satisfaction, right.

So when you put that together, I think that really demonstrates the power of the operational system that we are building here next to the power of the concepts that we have been putting in place and we think that is a very solid foundation now when we think about new business, when we think about a lot of business comes up to a tender in 2024. And they can win from competition.

We think they are really in nice spot here to be very competitive and win a lot of that new business with what we got to offer.

Improving service results

Page 20. Just a brief update on our service results. We thought we ought to add a little bit here, and then we will continue to show some of that on a go-forward basis.

Route compliance very important. When you think about it, if you have got an algorithm-driven system that tells you where to go, then important is that actually, once the system tells you where to go, that you go there, and you complete the routes. And then the second piece that is important is that every Joy ambassador, which is our name for merchandisers, that they fill enough machines per hour, so the productivity is there.

And then in case something breaks, right, and there is frustration, because coffee is not there or food is not available, that someone shows up and cannot fix it the first time, because the technical competence is there, and the spare parts are available to fix the job. Those are really when you think about it the most critical pieces that you got to watch and monitor on a day in, day out basis, in order to make sure that your business is functioning, your service is improving every month. And that then in combination with a great interaction with our solution specialists will result in satisfied clients who want to stay with us and grow the business further.

So, you see the performance improvement here. This is certainly not completed. Certainly, more work to be done. It will probably never be completed. But we think the platform that we have built here is very strong and powerful and is not only recovered from service gaps that we had in the COVID times but exceeds the performance that we have from a service perspective compared to pre-COVID times.

Our ESG actions

Last, before getting into our full year financials, I would like to briefly talk about our ESG actions. 2022 has been a huge year for us in order to drive our efforts on the ESG front forward.

First of all, on the environment side. We expanded our telemetry further, which not only had huge benefits, as I described in terms of service level and productivity, it also allows us to substantially reduce our carbon footprint through route optimisation.

We fully electrified the first vehicle fleet in entire cities in Oslo and Amsterdam. And we have implemented additional energy reduction measures on a machine-by-machine level with software upgrades and other measures to ensure that it responds to the global or European needs to save on electricity. By the way in the picture here, you see our beautiful new Volkswagen electric vans in Finland. And I keep on telling people that the battery capacity is enough to drive through icy Finland and drive a park around for an entire day, then it works everywhere. So that is the module now that holds out further.

Going to the right-hand side, I mentioned it before. We have completely relaunched our Pelican Rouge brand. It is fully sustainable. So, there is no unsustainable part not available anymore under the Pelican Rouge brands. It is 100%. We have implemented a zero-waste offering to our clients, which means anything that we bring on site, we take back off site, any stir, any packaging, any cup, we have got specialised recycling centres that recycle every single component. So, as an example, a paper cup with a plastic liner, the two components get taken apart in a specialised facility and then both raw materials get used again.

And we kicked off a partnership to upcycle coffee ground. So, there is exciting stuff you can do with coffee grounds anywhere from everyday items to furniture to bunch of other cool things. And if you can contribute through that, obviously, we would love to do that.

From a supply chain perspective, we have added additional countries under our sustainable supply chain. We increase our effort to support household income of farmers and worked with them towards sustainable agriculture. And we have got an increasing amount of funds on top of the activities we do that we can deploy and use for new projects.

Last on the topic of diversity and inclusion, we set ourselves very ambitious targets to grow the percentage of women in our company. You see that we have a very healthy balance women in our company when it comes to the ratio of leadership of associate, 25-26%, which means the number of women in our organisation are equally represented across the entire leadership in the organisation.

By the way, starts at the highest leadership level in the company. And we continue to drive that forward, and target a percentage 40%, which we are very much focused on with growth coming back into the business and having the opportunity to hire again and increase the workforce. There is a special effort on making that happen.

Pelican Rouge relaunch

On page 22, just a brief look at our Pelican Rouge relaunch, which happened in the fourth quarter. It is a coffee solution that is really cool and exciting from a carbon perspective, a certification and monomaterial packaging, the entire traceability module that we put behind it. So you can find out where your coffee comes from, who grows it and what is happening there, and real quality farm-level project that we put behind it, and where we go all the way down to the lowest level possible, and do not just trust on some partners with some players in the industry to make it happen.

So that is exciting. It is obviously a complex undertaking, when you got a large portfolio of SKUs and hundreds of thousands of machines, and you got to switch this over and get to speak to a lot of clients in an environment where everyone is sensitive to price increases. But we believe it is the right thing. And we believe it is the right thing. And we believe the bold step of going full scale 180 now versus an incremental approach that might have maybe been for some people more suitable in a high inflation environment. We decided to go with it right away, and we think we will benefit from it a lot in the long term.

2023 priorities

So just wrapping this up before we go into the financials, clear priorities for 2023. We simplified it further versus what we have shown you for 2022. So expect this framework here to come back every quarter and us reporting out on it. It is a continued food tech growth. It is margin expansion. Very clearly, we got to stabilise the gross margin this year, and then take that as a platform to grow that. And we got to continue to grow our EBITDA, and we got to see a substantial step up in the cash conversion.

While we are happy with the year-end cash balance and with the overall cash when you compare it to the one-offs and cash off that we had, we understand that 2023 and 2024 will be very different years from 2021 and 2022, where we need to swallow a tonne of transformation adjustment. That time is over. We have made sure that we capture that in our year of 2022. So, we are starting clean and now with a clear focus of cash conversion into 2023.

FY 2022 financial summary

All right. With that, I will kick off the overview of the full year financial results and then hand over to Nicole for the quarter.

Go to page 25, and you see our financial summary, the entire year wrapped up. And I want to highlight a couple of things. Net sales growth of 13.5%, that is obviously substantially above what we have been implemented in pricing programme. It is also on the backdrop of active client terminations that we have implemented, which you have seen that we reduced underperforming assets, which result in a stepped on in revenue first but a build-up of more accretive business that we have been able to add throughout the year and SMD unit growth on our existing assets.

You see adjusted EBITDA up 9%, €216.7 million, well ahead of our noteholder plan, as Joe had outlined further. Reported EBITDA up 4.5% to €165 million. I mentioned earlier, we have a substantial amount of one-offs that we had to flow through. There is still some one-time stuff that Nicole will talk about in our quarter four update that we had to process through.

This has been a bad company, as Joe laid out earlier, and it takes a while to unpack all of that. And there is still an element of that that you find in 2022.

Adjusted EBITDA margin here post IFRS 16, slightly down. When you look at it on pre-IFRS 16 basis, which is really the way to look at it for operating business, it is up by 50 basis points. The main difference here comes from a smaller fleet of vehicles. So, less leasing, that we have, which hence gives you less of a IFRS post 16 uplift.

Free cash flow €86 million, 40% cash conversion. And liquidity, as mentioned, at a very robust level of €155 million.

Strong performance whilst transforming our business.

If we look at the timelines a little more on page 26, we thought we put things little in perspective for you just that you see where our business starts trending. And then you can take that as a foundation and you have probably already done that, to think through what the future of this company is going to look like.

Very modest sales growth from 2020 to 2021, obviously, still heavily impacted by the pandemic, but also us being in the middle of improving the profitability of our accounts, terminating some of the old business that we did not want to continue. And then the first real step up from 2021 to 2022, again, still impacted by client terminations that we have been processing and improvement of the productivity of our asset base.

From an adjusted reported EBITDA perspective, we talked about that. Growth in adjusted reported EBITDA year after year, and overperformance on the adjusted EBITDA versus our plan. I mentioned the margin picture here, where you see the growth of the EBITDA margin when you look at it on a pre-IFRS 16 perspective year after year in 2022, despite the challenges on the gross margin side that I commented on earlier. And you see that trend.

Strong performance on sales per machine per day, which I think really demonstrates the increase in productivity. There are obviously two elements here. There is a recovery element from the pandemic. But more importantly, there is a very proactive approach, where we have taken a lot of underperforming machines out, which results in one-time cost. But obviously, in the long-term pays out through having a much more productive asset base.

CapEx of net sales. Over the year, we were asked a question before, you got to think about a kind of range between 5% and 6%. So, you got 5% in 2022. And we continue to drive for client leads, CapEx free business model as part of our growth of our food tech solutions.

Then on the free cash flow side and one-offs. You see that the free cash flow has been improving from 2021 to 2022 substantially. The one-offs come down, but still being substantial part of the year.

We remain focused on margin protection.

Going to page 27, a brief comment on margins. Obviously, the critical points here and one that we are heavily focusing right now, as we are in quarter one and as we are in the middle of our pricing programme for 2023, we see that the impacts coming from all fronts, foods, drinks, coffees, machines, spare parts have massive cost increases on all fronts. On top of that, a substantial uplift in energy and fuel costs, both in our facilities, our vehicle fleet but also at the roaster, which has been very substantial in some of the months.

And then looking at the wage impact in 2023, we expect a 7% wage increase for 2023. Most of the wage increases have settled by now. And so that gives you a little bit of direction as well as where we go with our cost base into 2023.

On the pricing side, you clearly see that the total amount of pricing that we have implemented in fiscal 2022 has not been sufficient when you compare it to the cost increases that we have had in the business. I have explained before the impact of our index-driven contracts. And it is obviously something that we look at differently heading into 2023. As we speak, we are progressing on our price increase programme, which we think is the right size and amount and gives us the right headroom. And we are very pleased with the progress on that programme year-to-date.

And then other mitigating actions that we are driving, additional productivity improvement. There are still additional benefits to leverage from telemetry. We are still not fully rolled out.

We are still in a position to be able to reduce capacity further resulting of telemetry that we installed in the second half of the year. There is additional room from a category management perspective, where I would say after a lot of heavy lift transformation, we probably scratched the surface and now can go much deeper. And with the help of telemetry and having POS data available in a transparent standardised form allows us to do much more.

And then we got additional work going on clean real estate optimisation, energy saving and other buckets that help us with cost position heading into 2023.

With that, Nicole, I want to hand it over to you to give us more an update on the quarter four financial results.

Financial Results

Nicole Charrière

CFO, Selecta Group

Q4 2022 financial summary

Thank you, Christian. We would go to page 28. And I will take the opportunity to talk you through our Q4 financial performance.

So, our net sales in the quarter grew by 7.8%, reaching €308.6 million. The growth is mainly driven by our continuous effort to put through sales price increases to our clients. We structurally improved the profitability of our client contracts and continued to remove underperforming machines, which has led to lower revenue but improved profitability, which is key to drive performance in 2023 and beyond. On top of that, we saw a weaker consumer environment, particularly in Italy, and during the Christmas break period.

If we go further down the line, then our gross margin was significantly impacted by one-time elements, which are non-recurring and non-structural by nature. And I will talk you through that in a couple of minutes.

Inefficiency in gross margin caused the drop of adjusted EBITDA margin pre-IFRS 16 to 17.5%. And as we already proved in previous quarters, we were disciplined on costs, which allowed us to partially mitigate the negative impact coming from gross margins.

Our reported EBITDA remains impacted by investment in the rightsizing of the company with one-off costs in the range previously indicated, as we have to adapt to the challenges around us and had to go further in terms of FTE restructuring mainly in two countries.

Then, as you are used from us, we stayed very diligent on cash, and that has materialised in a very strong liquidity headroom ending at €155.5 million versus €139 million the previous quarter, despite ongoing impacts from our rightsizing actions.

Also free cash flow was strong in the quarter, bringing us to 50.2% cash conversion on adjusted EBITDA.

SMD – new record high in private and semi-public

Q4 2022 Group – sales per machine per day

If we then go to page 29, we look a bit further into sales and SMD, so sales per machine and sales development. And I must say I am very proud to announce again, record highs in our sales per machine per day metric. This time in the private segment with €11.9 or almost 30% up versus last year, as in semi-public also up 18% versus prior year. And the public SMD is continuing to be very strong, reaching levels above 140% of 2019.

One of the main drivers of the improvement is the diligent removal of underperforming machines. In total, our efforts materialised in reduction of 25,000 machines in full year 2022. And the strong SMD is key for operational efficiency, and hence structural improvement which makes us ready for the years to come.

To further improve SMD is among our core projects for 2023. If we have a more granular look at our private segment, we see that it went strong with a plus of 10% versus last year, with both sub-segments service and administration and manufacturing and logistics contributing to the results.

And together with the reduction of 50% of the machine park, we end up with record pay SMD of €11.9, as just mentioned before. Then the strong SMD developments in semi-public is driven by stable sales with the reduced machine park. Semi-public already saw a strong recovery in Q4 2021 and recovered further in the distribution segment.

Broad based sales growth

Q4 2022 net sales by country vs last year

So, we go to page 30 to give you a bit of colour on how the country traded in terms of revenue. So, we do have a very strong success story, growth story in Austria, where we successfully are about to expand our footprint. That happened already in 2022 as you can see on that graph here and we expect that to continue in 2023 as well.

Then the BeNe region sees a strong broad-based performance with growth supported by not only this price increases but also strong new gains and strong volume increases. And then also the Nordic region shows a very good performance, although they are impacted by headwinds from FX.

Then if you go on the right side of the charts, we see that the UK performance is hit by the historical inefficiencies I just mentioned before and we will again explain further in some seconds, FX headwinds. This is why the growth in the UK here seems to be more flattish. And then we do have a trend in Italy which continues from Q3, where we are about to clean up our footprint and volume losses arising from service inefficiencies which we are in the process to fix.

Strong performance in central region

Q4 2022 net sales and adjusted EBITDA by region

If we go to the next page, 31, we can see the summary of what I have just explained by region. We see strong growth in the Nordic region on a net sales level as the south region being flattish, based on the topic I have just mentioned to you.

Continued productivity gains achieved.

Q4 2022 adjusted EBITDA.

Then if we have a closer look at our P&L, then again, we see here that we lose 4 percentage points in gross profit. This is mainly driven by four factors. So, A, the historical inefficiencies in the UK, then we had a temporary margin drop at our roastery. And we saw inflationary pressure on contracts which are linked to CPI, with a delayed possibility to pass through prices, as Christian just explained. And then we also see a mix impact coming from services.

On the historical inefficiency in the UK, we identified in the course of Q4 that we have not completely killed billing lines from lost clients in the past years. This clean up now happened in Q4 and will not have a roll over impact into 2023.

Then a comment on our roastery. Our roastery has two main business operations. So, it first of all sells coffee to the Selecta companies, but second of all, it also has a global export business. Precisely, this last one is highly sensitive to price volatility and hedging, hitting us in Q4 2022. Although this is a one-time impact, so non-structural, and we do not foresee it will continue in the next years.

On the cost side, we have continued to prove our ability to have strong cost discipline and hence we were able to partly offset gross margin with savings in PEX and other overheads. In personnel expenses, improved the cost to net sales ratio by another 1 percentage point. In the quarter we benefited from some one-time impacts, mainly being pension valuation and furlough in the same amount as we did last year. So, the quarters are comparable. Also, our other overheads improved by 1.2 percentage points, also driven by strong discipline in cost.

Working capital impacted by inflation and one offs.

Q4 2022 working capital.

If we have a look at our working capital on page 33, then you can see versus December last year, our net working capital remains flattish versus September 2022, it became slightly more negative. This is mainly driven by the fact that we do have inflation, one-off impact from P&L, one-offs we had booked in Q4 2022 but not yet paid out. And we also had a higher amount of CapEx incurred in Q4 than we had in Q3.

Then let me briefly recap on the one-offs we have spent over the last three years. And those one-offs were mainly spent for PEX restructuring, but also do have an element in it which is more related to removal of machine. So, it has various components included. Then over the last three years, Selecta incurred €184.3 million of one-off costs related, as I said, mainly to restructuring, mainly being headcount reduction in the challenging and changing environment.

Out of this €184.3 million, €25.5 million do not sit in our P&L. These are costs which relate to Selecta Group AG, which is our management company which technically sits outside our consolidation scope. And this is why those costs do not appear consolidated scope.

Out of that €184.3 million, €131.3 million were paid up to December last year, €29 million will be paid in the course of 2023 and the remainder of the math are non-cash effective one-offs which will not hit our bank account in the future. And as we already said, we are confident we have now done what is needed to succeed in the current environment, and we will see lower one-offs going forward.

Cash CapEx optimised at 5% of sales in 2022.

FY and Q4 2022 CapEx

Then on the next page, we see an update on our funding strategy and our cash CapEx. As Christian already told before, we confirm our CapEx guidance of between 5-6% of sales. You can see full year 2022 net cash capex is 5.1% of sales. And you can also see the importance of our client lease programme, which translates in CapEx avoidance and the elements we continued to push also in the new year.

Then on the right-hand side, you can see the quarter cash CapEx, which has some phasing element as prior quarter was quite low. However, intra year CapEx should normalise.

Resilient liquidity

2022 leverage and cash liquidity evolution

Then if we have a look at our liquidity on page 35, then we see that as per 31st December, we have available liquidity of €155.5 million, thereof €73 million in cash and cash equivalent. We have also reduced our drawn RCF, where we now have €88.8 million available out of the €150 million line. And the reported EBITDA leverage ratio is going back to March 2022 levels due to the one-off restructuring costs.

Strong liquidity maintained.

On the next slide, a look how the liquidity development is composed off, then you can see the strong free cash flow in the quarter of €31.1 million. That includes one-off payments in the amount of €5.1 million, then also interest payments and finance lease liabilities we paid bringing us to the liquidity ending balance.

Conclusion

Joe Plumeri

Executive Chairman, Selecta Group

Conclusion

Thank you, Nicole. I appreciate it. I hope everybody appreciates and understands. I know this is going on for a while. But we have had a lot to tell you. We have done a lot with this company, and we did not want to short-change the discussion at all. So, we ran a little bit longer than we usually would.

In conclusion, obviously, we remain focused on profitable growth and free cash flow conversion in 2023. Margin expansion obviously through organic growth primarily, as well as price increase initiatives resulting in productivity gains. And obviously, we are prepared, as we have shown, to address the needs of the new market landscape in an inflationary environment.

I think we have been pretty flexible to be able to adjust to any environment that is thrown at us and still achieve what we need to achieve. And this transformation action that we have undertaken since 2020 gives us the confidence to be able to achieve our strategic plan in 2023 and beyond.

We appreciate your patience and attention. We want to tell you a lot and we were anxious to tell you so we would be glad to answer any questions that you have at this time.

Q&A

Stefan Binder (Palmerson Capital): Just two quick questions from my side on one confirmation on the one-offs. So Nicole, did I hear it correct, like you expect €31 million coming out this year effectively? Is that in addition to the €90 million Pelican Rouge tax? And then, also did I understand that correctly that you are like done in booking one-offs, so there will be new further one-offs being booked in this year?

Nicole Charrière: So, when we have a look at the one-off payments, then I basically said that we are going to pay out €29 million of the 2022 one-offs. This does not include the Pelican Rouge payment. So, we explained in the layout last quarter that one portion is readily due of which we have not seen that invoiced yet, and neither got anything announced in terms of new court case, this remains pending. It is not part of that €29 million.

Christian Schmitz: Maybe just adding to the second part of the question of the expected one-offs for 2023. We have got a small amount of things that we still continue to do, the most important pieces, a little bit of further rightsizing in a solid country is where we even implement more telemetry, and we are still continuing the rollout of the telemetry.

But when you think about it in terms of gap between reported adjusted EBITDA for the way we are thinking about this for the year, it is going to be way below 10% of our adjusted EBITDA that we are seeing here. We will continue to clean up and finalise the remaining bits and pieces that we have. But you should expect a real step change here compared to what you have seen in the last two years.

Stefan Binder: Okay. And then my second question on the Coca Cola contract, Christian. Does that involve a lot of CapEx, or is that all client lease from Volkswagen? Or how does this takeover of the 3,000 machines actually work?

Christian Schmitz: Well, I cannot comment on the specific contractual agreement for that very client. What I can say is that in situations where we take over an existing fleet of machines that has been on CapEx, this typically comes at very favourable conditions, because the book value of these machines obviously is already substantially depreciated.

So, when we do takeover of existing machines, it could either be in a client lease contract, or if it is CapEx-driven, then it would come at very advantageous payback terms, which are different from a full new install that we were put into the market, but appreciate the understanding that I can comment on that particular deal.

Toby Hanson (Boundary Creek): The first question I had was just if you can give more detail on the €30 million of exception cash costs that you had in Q4. And then related to that, looks like in Q4, there was also about a €7.5 million increase in accrued income and pre-payments. I do not know if you can give more colour on what that was?

Nicole Charrière: So the accrued income basically is what this is saying. So it is accrued income, which picks up and business activity picks up as well. And then on the one-offs we had booked in Q4, as I already said, this is mainly about pack restructuring costs we do have in two of the countries.

Toby Hanson: Okay. But when I look at the full year, the accrued income and other pre-payments line was a cash outflow of €20 million, which is very significant. Is there any reason why it is so high and should we expect any robustness in 2023?

Nicole Charrière: We will come back to you on that one.

Toby Hanson: Okay. The next question was just on page 38 of the slide deck, working capital is shown as a €5.3 million source of cash in Q4. Four slides later, on page 42, while the line item includes provisions, shows €19.8 million inflow. Is the entirety of that difference, i.e., just under €15 million, is that related to provisions? Or are there additional working capital items in there?

Nicole Charrière: That is related to provision?

Toby Hanson: Okay. Final one, if I can sneak one more in. It is just, can you give me more detail on the quantum of the January price increases?

Christian Schmitz: Well, we will report out on the price increase of January in our first quarter results. And then we will give you an update how that is progressing. As said, we have been very thoughtful around how are we going to approach this, part of that is fixed through the contracts which are CPI driven. So you can get a sense by looking through the country CPI from last year, what is in there that will translate into part of our contract portfolio.

And then, obviously, there is another part which we have to tackle with the individual conversations with the clients, but that probably gives you a bit of an idea.

Toby Hanson: Okay, so that is something so some countries you are just able to rely on indexation than others you have to do more manually?

Christian Schmitz: It is really a contract by contract thing. I mean, what we have inherited here is obviously a very fragmented portfolio coming from many different companies that over time consolidated in Selecta. So there is no consistent methodology. There is a very substantial amount has a CPI clause. And then there is other contracts where you have anything from you can just pick it and announce it to, you have to negotiate it to no increase during the duration of the contract, which is luckily, a small minority of our portfolio.

Joe Plumeri: Okay. Thank you very much, everybody. Have a good evening. Good day, wherever you are. Thank you.

Christian Schmitz: Thank you very much.

Nicole Charrière: Thank you all.

Angela Cinelli: Thank you all.

[END OF TRANSCRIPT]