Selecta Group
Q3 2024 Results
Noteholder Presentation

Wednesday, 6th November 2024

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Introduction

Angela Cinelli

Head of Investor Relations, Selecta

Good afternoon all, and good morning to those joining us from the United States. Welcome to Selecta's third quarter 2024 Results Presentation. Please note that this 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.

Before we initiate, I would like to refer you to the disclaimer that you can find in the page two of the presentation. And as a reminder, after the presentation a Q&A session will follow.

Moving on to the agenda page. Today's presentation will cover business update and financial results. Before we start, I kindly remind the speakers to announce each slide change as they progress through the presentation. Now, I would like to hand it over to Joe.

Business Update

Where are we

Joe Plumeri

Executive Chairman, Selecta

Good afternoon, everybody, and thank you very much for joining us. I just want to give a background as to the last couple of years and the economic condition and where we were relative to that condition.

As you remember in 2023, a lot of global inflationary pressures, interest rates at historic highs, economic growth beginning to subdue, consumer spending slowing down and obviously, the Ukraine situation. If you remember for the longest time, we have been trying to get rid of machines that were not profitable. We called it strategic intentional churn (SIC). And we have been doing that for a couple of years. That reached its zenith, I think, in 2023, and we started to see the first indications of like-for-like beginning to decline.

Then in the first half of 2024, the inflationary pressures eased, but the consumer spending started to worsen. And we saw that in our like-for-like and obviously the war continued. The material impact from the churn really saw as I said its continuation, but as you will see that we'll describe that sort of going away now. But the like-for-like began to appear quite vividly especially against country specific factors. And there was just a shift in client and consumer activity. And then in the third quarter, we really saw a nosedive. Inflation continued to soften, but the consumer spending worsened, even suppliers confirm that. And then on top of that, you had very unfavourable weather.

If you look at some of suppliers like Nestle, they reported slow growth in Europe that was impacted by slower consumer demand, that comes right out of their report. Even McDonald's had negative sales in Europe and lower guests' attendance, especially in the UK and France. Coke, a big supplier was down -9.2% in EMEA alone. And Lavazza, which is a supplier, pointed toward inflation and the erosion, I quote, of consumer demand and purchasing power. So, the impact that it had on us, the SIC came down, but the deterioration in August and September was drastic driven by similar factors in the first half, but and then adding the weather. But the first half was just, as it turned out, was a harbinger for what we saw as a drastic decline in like-for-like over the summer, especially in August and September. So that was the backdrop of where we are as it relates to economics and how we were affected by those economics and where we stood with the strategic intentional churn. Christian.

9M Update

Christian Schmitz

Chief Executive Officer, Selecta

Also welcome from my side to our quarter three results call. I am starting page six. I'll start with a brief overview here on year-to-date financials, in which I'll give a little more context on some of the elements, particularly top line. And then Nicole later is going to take us through the details of quarter three.

So overall, it's a solid performance given the economic landscape. However, as Joe described, we are experiencing significant market headwinds and in particular consumption slowdown in quarter three versus first half as reflected clearly in our financials.

So here are the main points. Group sales down -4.8% versus last year, excluding intentional churn that Joe mentioned, down -2.1%. Mainly driven by like-for-like volume deterioration due to consumption and also particularly bad weather at the end of August and September. The productivity of our existing assets continues to increase, with group SMD at €12.6. That's up 3% versus last year and supportive of price increases and particularly strong SMD in the public segment.

We continue to see double digit growth in Foodtech. It's great, 46% unit growth from foodies. And as you know, the growth in food tech is really critical as it underlines the transformation of the business from a traditional vending business to a modern Foodtech business.

On the margin side, we got a positive performance on the gross margin, up half a percentage point, resulting in a margin of almost 60%. We continue to focus on strategic supply negotiations to protect margin and also on passing through cost increases to clients.

The adjusted EBITDA margin at 18.3% reported at 16.1%. That's down 1.4% and 1.7% points respectively, mainly due to the loss of scale. This driven by quarter three and the quarter. We explained more this issue in more depth. Free cash flow of 36.5 million. That's a

23% cash conversion. If we normalize that for higher right sizing, cash outs would be at 38%, and that would be in line with H1 cash conversion. Available liquidity headroom at €76.7 million.

LFL volume deterioration due to weak consumption compounded by unfavorable weather

9M 2023 to 9M 2024 net sales bridge

So, on page seven, we show an update on the net sales bridge that we had shown already last time in our previous quarters' presentation. Just to orient yourselves quickly. On the left-hand side, you have the nine-month 2023 net sales. On the right-hand side, you got the nine-month 2024 net sales.

Let me take you briefly here through the through the critical elements. And first, the already mentioned strategic intentional churn impact, SIC. As a reminder, this relates to our focus on profitable contracts and therefore our exit from low or negative profitability business. That continues to happen, although to a much lower extent. Regarding the role effect of the contracts we exited last year, we have absorbed most of the impact in the first nine months. Then you can see that we have a positive balance of net gains and retention. This includes some intentional churn, as I've explained.

If you exclude the SIC here, then the -0.6% that you see would be positive 2.1%. So, this an underlying positive development as it's an improvement versus what we had in the first half of the year. Against that, you have the like-for-like volume drag of 7.4% negative. And you can see that has deteriorated versus H1. The main reasons for this are, first of all, overall consumer spending as a main driver that has worsened in quarter three. Second, there is country specific topics that we also brought up last quarter and that we continue to work on. Among those two to highlight, the first one is the coffee value proposition in Switzerland, and the second one is the regulation imposed on disposable cups in the Netherlands. And last point on the overall like-for-like, there is a number of other developments here. We got a lower trade business both in coffee and machines and then lower demand in our OCS business. And also, the overlay of particularly bad weather in September, when you compare it to the situation that we had in the previous year.

On the positive side, we continue to focus on Foodtech growth. There is excellent demand here and it's not really impacted by the consumption the same way our traditional business ia. So we see positive like-for-like volumes on the existing Foodtech units. They also give us a lot of opportunity to make further improvements, add more items, rotate assortments. So there is a lot more opportunity there.

Our pass-through price increases contribute positive 2.6% and FX tailwind contributes positive 0.7%.

So, all in all, as indicated, excluding the SIC year to date growth versus last year would be down -2.1%. So, we expect to see SIC coming further down and continue to work hard to get the net gains and retention to improve further. However, on the like-for-like, although we get

a number of actions identified and put in place to offset the impact, we don't expect this negative trend to reverse in the short term.

LFL volume deterioration broad-based

Q3 2024 net sales by country vs last year

Moving to page eight and here you got the overview of the country performance in the quarter despite ongoing macroeconomic headwinds and widespread like-for-like volume declines, which have deteriorated in quarter three. As we have outlined earlier, there are country specific factors contributing to the group top line performance.

Strong performance we see in Spain and Germany both achieving net growth. And particularly Germany faced significant economic pressures, mainly on our industry clients, but yet managed to sustain momentum.

Italy posted an underlying positive trend versus prior quarter, although remains impacted by like-for-like volumes as well.

Meanwhile, Austria, France and the UK have seen a downturn in performance compared to the previous quarter, driven by like-for-like impacts and in the case of Austria, significantly affected by adverse weather conditions, was a major flood in Austria that really brought the business to a stop for a period of time in September.

Similarly, in Switzerland, Sweden and the trade business results were heavily influenced by like-for-like volume declines and Sweden was affected by weaker SME demand, and also a roll impact from our strategic intentional churn on a large contract, which we mentioned earlier.

And then again, as mentioned previously, the Netherlands faced a unique one-time impact with the Paper Cup ban that was implemented in January, which continues to result in reduced coffee consumption and lower sales in cups and ingredients.

Feeding the Future: Growth of Foodtech

To wrap things up, before we get into the financial third quarter just a brief overview on Foodtech growth on page nine.

We continue to make progress across multiple sectors, underscoring our commitment to enhancing consumer experiences through innovative and tailored solutions. Foodies are up 46% versus last year, reaching 2200 units. Let me take you through a couple of examples here as usually we show you a couple of ones that we want to highlight. Among the notable installations was Matmut Headquarters in France, where we introduced smartfridges and began a comprehensive renewal on the machine park featuring the foodies micromarket as modern catering solution. Really exciting to see those solutions get introduced in France. It's a market that responds very positively. We expect a lot more of these great solutions in France to follow.

Denmark, a smaller market for us, also getting more into the Foodtech side collaborated with Alaris leading healthcare provider install the first smart fridge in its facilities. This provides staff, patients, visitors with 24/7 access to fresh food and refreshments.

And then last, we mentioned that before, very excited about the hospitality as a great sector for us. Here, you have got an example from Belgium and broadened our installations here. City Box Hotel in Brussels, where visitors also now have access to on demand fresh fruit, drinks, snacks, coffee solutions and is also a very economical model for hotels who don't want to carry minibars or staffed bars around the clock anymore. So, hospitals, hotels, catering solutions, those are the sectors where Foodtech solutions make a lot of sense. They are accretive and we'll feel very confident that we can continue to drive a very strong growth here in these sectors. All right. With that overview, Nicole, hand it over to you for more details on nine months and then on the quarter.

Nicole Charrière Roos

Chief Financial Officer, Selecta

Holding ground while navigating headwinds

9M 2024 financial summary

Thank you, Christian, and welcome from my side as well to our Q3 results call. I am now on page 11.

Let me quickly recap what Christian already explained on our year-to-date financials. Sales are impacted by the strategic intentional churn and like-for-like volumes with material deterioration of like-for-like volumes in Q3. We saw a positive development in the gross margin, whereas EBITDA margins are down due to the lower scale in topline. As we continue to transform the business, some actions were taken which are captured in our one offs, and our liquidity headroom stands at 76.7 million.

And with that, let us take a closer look at the performance in the third quarter.

Deterioration of LFL volumes impacting profitability

Q3 2024 financial summary

In the third quarter, we see sales down 5.8% versus last year as it has been highlighted earlier. This mainly driven by like-for-like volume deterioration, which is now more severe and broad based and impacted by strategic intentional churn as well. However, this quarter, we have a weather-related headwind that hit us in the second half of the quarter on top of the factors mentioned before.

To put it into perspective, there are countries where we had already seen like-for-like drops in H1, such as the Netherlands, Switzerland, Sweden and Italy. These countries accounted for approximately 85% of the like-for-like decline in H1, while in Q3 they only account for approximately 50%. In other words, this means that like-for-like volume declines have

extended to the other countries as well. Adjusted EBITDA margin reached 15.7%, down 5.7 percentage points, impacted by lower scale in topline and one-time impacts. I will comment in more detail when I get to the Q3 P&L slide.

Free cash flow conversion of 16.3% down versus last year, in line with the EBITDA Performance.

Continued SMD growth & new record high in Public

Q3 2024 Group – sales per machine per day

Now we continue to page 13. Let us have a look at the details of the sales per machine per day. The so-called SMD development the group SMD of €12.6, up 3% versus last year, is driven by our asset utilization actions and supported by price increases despite unfavourable weather impacting SMD performance this quarter, particularly in the public segment, we have still achieved a new record high.

As part of our Strategic Intentional Churn initiative, our machine park is still down quarter on quarter. Nonetheless, we are now in the tail end of this exercise. The private segment, as you know, is the most impacted by strategic intentional churn and hence the removal of unprofitable machines is reflected in SMD growth, landing at €12.5, up 4.3%.

In semi-public performance, is driven by strong growth in Horeca and Distribution and Retail, which led to SMD of €8.1 flat versus last year.

In public, SMD was already standing at a high level with a very strong performance during last year. This quarter, we saw a new record high of €31, mainly driven by Airports despite the weather headwinds.

Topline decline weighs on profit margins

Q3 2024 P&L

Let us continue and have a look at the Q3 P&L breakdown on page 14.

We actually just discussed the net sales development. On the gross margin side, we are lower than last year due to the phasing of strategic negotiation with our suppliers. The development of adjusted EBITDA, down 5.7% points, is mainly driven by total cost ratio, worsening by 4.7 percentage points compared to the previous year, which is explained by one side the personnel expenses, which are impacted by inflation in salaries with lower scale and partially offset by further FTE reduction we drove. And on the other overhead side, we had some one-time benefits which were incurring in the base. Concerning our one offs, we are investing in markets in which we see the most significant top line impact. Strategic investments in these countries are essential for enabling sustainable growth in the future.

All regions impacted by SIC and LFL volume drop

Q3 2024 net sales and adjusted EBITDA by region

On page 15 you see our regional breakdown. And this shows that the net sales and EBITDA have decreased year on year, consistent with the previously outlined factors affecting group performance.

Ongoing optimization efforts

Q3 2024 working capital

On page 16, we see our working capital development. The net working capital position at the end of September amounts to -33.5 million, down -14% versus the previous quarter end. This evolution is mainly impacted if we have a look at each categorisation, and it is impacted by the reclassification from of funding balances of Selecta Group AG from trade receivables to other receivables, this is offsetting each other. And then in other receivables, we see higher cash balances sitting with cash counting companies which has a phasing component in it. And then we see further phasing in accrued income and in inventory as well.

As a reminder, €3.8 million was the outstanding balance of one-offs that remained to be paid from the previous quarter. In addition, we incurred in the P&L €8.3 million this quarter, of which we cashed out €8.6 million. We therefore have €3.5 million remaining to be paid in upcoming quarters, beyond what will be incurred on top in the P&L.

Increased focus on existing business

Q3 2024 asset funding

On page 17, we can see our asset funding in this quarter. Net cash CapEx stood at €17.1 million, 6.2% of sales, which has normalized versus prior quarters. Year to date, net cash CapEx stands at 6.5% of sales allocated to both new and existing business investment, with an increased focus on strengthening our existing business.

In client leases, we have allocated €11.9 million, or 4.3% of sales, stable versus last year. As a reminder, client leases allow us, amongst others, to grow our food tech with very limited cash CapEx. On finance leases, we found that €1.3 million, or 0.6% of sales this quarter stable versus last year. You will then see on the page with the liquidity bridge that we also have done, sale and leaseback transaction. Overall, our funding strategy is crucial for driving asset light and accretive growth.

Profitability development impacting the leverage ratio

Q3 2024 leverage and cash liquidity evolution

On page 18, we can have a look at our leverage evolution. Available liquidity stands at €76.7 million and consists of €33.9 million cash at bank and €42.8 million available RCF cash at bank is composed of €33.9 million cash and cash equivalents, and €6 million cash in point of sales.

Out of the €150 million RCF facility, €42.8 million remain available, as €104.1 million are drawn and €3.1 million are used for bank guarantees. As per September end, our net debt has increased mainly due to interest while adjusted and reported EBITDA last 12 months have come down, which consequently led to an increase in our leverage ratio.

Cash outflow from notes interest payment and one-offs

June 2024 to September 2024 liquidity bridge

On the next page, page 19, we wrap up looking at the evolution of our liquidity position. Quarter on quarter liquidity end of June stood at €108.9 million. The free cash flow in Q3 was €7.1 million, which is mainly driven by the lower EBITA performance. We talked about €8.6 million of cashed out one offs. Net cash CapEx of €17 million and the working capital outflow of €10 million. And as a reminder, besides what we already commented on earlier in the working capital section, we continue to pay Covid related deferred payments, which explains a portion of the €10 million outflow. In the financing cash flow, the main elements are interest paid of €35.5 million, of which €30.2 million was notes interest, €8 million paid on finance lease liability and inflow of €5.8 million due to sale and leaseback transaction. This brings us to a liquidity headroom of €76.7 million as per September end. With that, I hand back to Joe.

Conclusion

Joe Plumeri

Executive Chairman, Selecta

Thank you, Nicole.

I am on page 21. As we conclude, it's important to acknowledge the significant market headwinds impacting consumer spending. I mentioned that in my opening comments. It's been rather astounding, these pressures are driving weakened consumption patterns, as I noted throughout Europe reflected in our like-for-like volume drop, which experienced further deterioration in quarter three. In addition to these market wide challenges, Selecta's encountered some country specific factors affecting our volumes as we have outlined earlier. We have robust mitigation actions, very aggressive mitigation actions in place to address these and continue to deliver value for our clients.

Despite that, we anticipate that these trends will persist and bring continued challenges as the year progresses. Yet, with the robust business model and strong Foodtech footprint, as was mentioned earlier, I think we are well positioned to capitalize on future growth opportunities, and we remain confident in our strategy to achieve sustainable, long-term growth while effectively navigating current market headwinds.

With that, let us open up for questions. Thank you.

Q&A

Operator: Thank you. As a reminder, if you would like to ask a question during today's Q&A session, please click the Q&A button at the bottom of your screen and type your question in the pop-up box. We will now pause, just for a few moments to allow people time to register their questions.

Anton Anikst: Why is gross margin down despite the strategic intentional initiatives? And why are personnel and other overheads costs spiking?

Christian Schmitz: Thank you, Anton, for the question. Let me comment on that. There are two things that you packed in here. First of all, from a gross margin perspective I think there is always there is always a little bit of lumpiness. So, I encourage you really to, first of all, look at more the nine-month number, I think is probably a little more an indication.

What we have seen in the quarter itself is there is, especially in the current market environment, there is a bit of limited capacity to continue to pass price increases. So, we have been a little more conservative on that given that we can already see that there is more consumer hesitation out there.

And on the other side, what you see is, especially in coffee prices, that those continue to increase. And then sometimes over when you get one quarter isolated, they can also sometimes be a little bit of shifts between when you receive some of the supplier funding, some negotiations that you're closing. So those are really the two points that impact the difference that you have seen there.

From a cost perspective, and the challenge that we have in this situation where you have seen most of our revenue drop is volume driven, is that it is harder for us as a company to adjust the cost base when you have slightly lower consumptions on each individual machine. Back in the days, as you remember, where we had a lot of SIC, then obviously you take sometimes entire clients out and then you can reduce the cost base fairly effectively. When you have a like-for-like deterioration during a period where the economy is a little weaker and consumer spending is a little softer, that makes it harder. And then at the same time, going back to inflation, that was there last year that resulted in increases both in wages that we currently have and also overhead costs that are driven up. That is sort of the crunch that we are seeing here in this quarter, which is why you see a stronger erosion on the bottom line compared to the drop that you see in the top line.

Wolfgang Felix: If like-for-likes are negative, SMD positive and vending fees normal, would much of the problem lie with trading revenue?

Nicole Charrière Roos: Thank you for the question. So, first of all, there is not a one-by-one correlation between those factors. Because actually in our operated machine base, which is the basis for the SMD calculation, you have with the growing Foodtech base another dynamic included, you have the strategic intentional churn as well, which helps to improve the SMD,

and then also price flows into the SMD calculation, but I think overall it's a fair statement that the like-for-like impact on trading is higher than we see in our operated business.

Clare McGuckin: Can you discuss the relationship between vending fees and revenue? Why have vending fees not fallen by the same quantum as revenue?

Christian Schmitz: All right, Clare, thank you for the question. Happy to briefly comment on that. There is really two elements here that are that are at play. The first one is a mix effect, right. So, if you have relatively stronger business or less of a volume drop in some of the channels that are high in vending fee, right, then that would have an impact on the overall mix.

And then there is a question of have your vending fees increased overall? The majority of what you see here is driven by the mix effect. So that we have had stronger performance, relatively speaking, in some channels of clients that are high vending fee, so then you don't see the proportionate drop. And the second piece has also been a couple of contracts that went through renewal cycle over the last 12 months and saw an increase in vending fee due to competitive market, and that's a combination of the two that you see here.

Wolfgang Felix: We were at some point counting on the Olympics and football to drive revenue. How much did that impact sales and would like-for-likes have been worse without these events?

Christian Schmitz: Thank you for the question, Wolfgang. I would say it's been it's been a little bit of a wash when we look at it. On the one hand, we have seen a strong uptick on consumptions in our public rail business in the Paris region during the Olympics. On the flip side, there has been a much larger extent of private clients that basically closed their premises during the Olympics because it was hard to travel into Paris. The parameter set and everything, and they basically had given people an extended time to work from home. So the net impact there on the French side, I would say is still slightly positive. But again, some of that increase that we have seen since being eaten up by the lower private consumptions, and then we have seen fairly limited impact on the football side in Germany from that was there.

I think what's really worked against us substantially is I said that before, particularly in France, we have looked at some of the weather charts, you see that there has been a significant difference in in temperature, rain days in kind of starting in the second half of August and then all the way through September. And I would say that's really been the much bigger overlay that we have seen in that business. We had a lot of hot days last year in there, and this year was I mean, probably some of you experienced it, was really lousy in Central Europe and that's impacted it.

Yuka Toyoshima: Why has working capital been negative for cash these years? Do you expect to have a reversal at some point?

Nicole Charrière Roos: So, if you have a look at the net working capital, then this outflow has several drivers. So, one of the drivers is the restructuring costs still being paid. And then as I already mentioned during the presentation, there is Covid related deferred payments we still have to make. So, when it comes to those two points, we do not expect the recovery of

that net working capital going forward. However, there are pieces particularly on the asset side of our net working capital on inventory, and also on the other receivables side where we see some facing components and where we see a recovery in the future.

Clare McGuckin: How you expect working capital to develop in Q4?

Nicole Charrière Roos: On this call, we focus on the performance of Q3, and so we don't comment on forward looking statements or questions.

Christian Schmitz: All right. We don't have any more questions in the Q&A as of now. So, if anyone's got a final question, we'll give it a couple more seconds here. Please type it in just to give you the opportunity. Otherwise, we would be then ready to close the call. But in case anyone's got a last-minute question, please go ahead.

We got a last question here on any potential refinancing of the company. Unfortunately, we don't comment on any of those subjects. And I think that gets us gets us to the end of the call. And Joe, I want to hand it over to you to for final remarks.

Joe Plumeri: Thanks, Christian. First of all, I want to thank all of you for your support, and I want to thank especially all of our associates at Selecta. Obviously, if you have any questions in the meantime, please feel free to reach out to our team through Angela, who's heading our investor relations. Thank you everyone. We really appreciate it. We appreciate your attention. We appreciate your interest and do have a great day. Thank you.

Christian Schmitz: Thank you very much.

Angela Cinelli: Thank you, everybody.

Operator: Thank you all for joining. You may now disconnect.

[END OF TRANSCRIPT]