Selecta Group Q4 & FY 2021 Noteholder presentation

Thursday, 16th March 2022

Introduction

Angela Cinelli

Investor Relations Manager, Selecta Group

Welcome

Good afternoon, all. And good morning to those joining us from the US. Welcome to Selecta's Fourth Quarter and Full Year 2021 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 Philippe Gautier, who is Chief Financial Officer.

Disclaimer

Before we initiate, I would like you to invite to please refer 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:

- Who we are;
- 2021: Business transformation; and lastly
- Financials.

I kindly remind the speakers to refer to the individual page numbers as they progress to the presentation.

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

Who We Are

Joe Plumeri

Executive Chairman, Selecta Group

One Selecta

Good afternoon, and good morning, everybody. I am going to start on page six to talk about who we are and One Selecta.

What I am going to talk about on this page is basically the result of a lot of work that was done in 2021 to build the new One Selecta. This whole presentation talks about all of the things and the foundations that we laid to build the new Selecta that we talked about over a year ago.

Well, headquarters, obviously, is in Switzerland. But we believe we are the food-tech leader. Everything we do in this business is technology-driven. We said we were going to be technology-driven. Access to food is technology driven. Tracking our machines is technology-driven. Tracking our solutions os technology-driven. You are going to hear all about this in depth in the presentation. So everything we do is about technology, our platforms and technology.

We have a GLOCAL model, global resources delivered locally. Our products are created globally and distributed throughout the 16 countries in Europe. Clearly, our business is not the vending business. Our business is the purpose of making people feel great, feeling good, and creating millions of moments of joy every day. That is the business we are in.

And anything that we need to do to make people happy through food and drink and snack and coffee, we are going to do that. And any platform that we think is necessary and possible to be able to do that. We have more than 410,000 machines, generating revenue of about €1.2 billion.

And sustainability is our core. We talk about sustainability a lot in this presentation, and all of the things that we are doing to concentrate on making this a very sustainable company. We are focused on organic growth. We are not in the business of acquisitions. We are in the business of building a strong foundation of organic growth and accretive growth, creating solutions, creating top line growth, making sure that that top line growth is a sustainable growth through our solutions and our solution set and everything we do is focused on doing that.

We have a best-in-class service. When we talk about the vision of this company, we talk about being a best distributor of first-class brands. And our purpose is to bring joy. To do that, we have to do that with best-in-class service through 7,000 passionate Selecta owner-associates and associates.

We say owner-associates because we have a number of our associates that have equity in the company, they are called owner-associates. We like people who feel that they have equity in this business, like it is their own money and that they own the business. We do not have employees. We have associates who work together every day to build a great business.

We believe in solutions. We do not believe in selling when we believe in solving. And we solve problems with creating great solutions well beyond the old vending business or vending machines or just coffee machines, but solutions and concepts. And we believe we are the leader in that, driven by that technology innovation that I talked about earlier. And we are going to talk a lot about that in terms of all the new and great concepts that we have created.

And we are the leading distributor one or number two in coffee and food in 10 markets. So that is basically who we are today, which is a much different business than when we talked a year ago, or even a year and a half ago, when Christian and I got here.

Selecta is the foodtech leader

I am now on page seven. I talk about Selecta is the food-tech leader. We believe we are the food-tech leader. That is our business. We are in the food-tech business.

24/7 accessibility of food through technology. All of our machines are being converted, so that that they are cashless. If we can do that, the machines that create the most vends other than the coffee machines are going to be accessible through technology. So, we can create apps, which we will talk about later on. Even our foodies, our snack, our snackies, all the thing, our smart fridges are all going to be accessible through technology.

When we talk about world class service, we have employed technology, employing technology and telemetry throughout our company. We are in the process of doing that. That means we can see what is in the machines, which gives us the ability to know where we are going, where our joy ambassadors have to go to clean the machines, to fill the machines. So telemetry is the basis by which good service is the foundation.

Superior efficiency. We have built platforms, B2B platform, web platform, our new website, planogram, a new CRM system to be able to grow our business with client relationship management. So, we can see our pipeline. We can see our clients, what our clients' needs are, all driven through technology.

2021: Business Transformation

Joe Plumeri

Executive Chairman, Selecta Group

Transformation Update

I am now on page nine. I want to give you an update on this transformation that we talked about and check all the boxes that we said we were going to check a year ago and just give you an update on where we are. And you will see that all the boxes are checked.

One vision, that vision is to be the best distributor of the best brands that we can find and partner with the best brands. Our purpose is to bring joy to millions and millions of people every day. That is what we do, make people feel good. Our culture is driven by principles, which I am going to go through, which we developed over a year ago, to be guided by.

This was a company that had 16 different countries, all driven all as a result of acquisitions, which meant there was 16 different cultures, and inside those countries, cultures that were as a result of acquisitions in and of themselves. So, we had to develop one culture through one set of principles. And we did all of that. And you will see that very profoundly in this presentation.

Build world-class solution portfolio. A year ago, when you looked at this business, we had vending machines, the spiral machines, if you will. We had coffee machines and water machines. That is basically what we had.

Now, you are going to have an array of products, which you are going to see in the following presentation that is astounding, and what we have done in a very, very short period of time. We are in the solution business. We ask our clients, what is it you need? The world has changed. What is it that we can do for you to solve your problems? That is why I said we are in the solving business, not the selling business.

We have trained our people in solutions based-needs analysis. That is what we do. So, when we talk later about smart fridges, foodies or snack market, Starbucks and all of the things that we are doing, is a result of that thinking.

Partnerships that we wanted to form that are client focused. We wanted to be able to go to clients like Ahold Delhaize, Starbucks, Mars, Coca Cola, and lots more that we are going to talk about. So, the greater the relationships that we can form with these partners, the better off our clients are going to be. And notice, we always say clients not customers, because we bring value to the relationships that we are in. So that way the clients are better off because of the relationships that we have. And we are going to talk about that.

The technology platform that we have built through our ERP systems to expand our platform to be able to talk about things that give us better service to be able to access that service, to be able to access platforms that we have. We are going to talk more about that.

The technology in the company that we found when we got here was wanting, there was not a lot of technology spent, not a lot of investment in technology. And you are going to see that we have checked a lot of bases when we talk about ERP.

The transition to the GLOCAL model, global model which is global resources, delivered locally, products that we created globally, and then give to our markets, our countries to then distribute. They distribute the things that we create globally. We have global teams that go after international accounts that work with our markets.

So, our technology is driven globally. Our commercial is driven globally. Our products are driven globally. So that the business of our markets is to distribute those products, is to distribute those solutions through the training that we have given our client solution specialists to be able to do that.

We have rightsized the organisation. We said we were going to get down to 7,000. We did. Christian is going to talk about that. And we have been able to rightsize, but also invest in people at the same time, where this company never did a lot of training, whether it was training for our clients solution specialist, training for our ambassadors, training for technicians.

So, you are going to see that we not only right-sized, but invested in the same time. It is very rare when companies right-size and then turn around and invest at the same time to make themselves more efficient and to right-size to a new world, a different world, driven by technology and driven by the things that the world wants today, different than what they wanted over a year ago.

Our culture principles

I am on page 10 now. I want to talk about those principles. Now you cannot build one culture, unless you have a set of principles, something you are guided by. And we developed these principles over a year ago. It is the basis of the culture that we built, and we live by them every day.

As a matter of fact, last week, we had Principals Day, where different members of the organisation went with joy ambassadors or technical ambassadors to visit clients to see what they do, so everybody can understand and appreciate what each other does. We serve clients, not customers. That simply means that we are in the value business, and that we believe we can bring value to clients. And customers are simply a transaction. We think greater than that.

We talk about three commercial priorities: keeping the clients you have, doing more with the clients you have; and then getting new ones in that order. So, retaining clients, servicing them and making them happy are our priorities.

We never accept kingdoms and silos. That means that country cannot go off and do whatever they want to do or a person do whatever way you want to do. They got to follow the rules. They got to stay within the guidelines and the vision and the purpose of this company, that we are really excited about.

And you will see as the results, when we talk about later on, that all this is taken. Our one and only purpose of our business is making people feel great. That is what we do. If we deliver great food, snacks, coffee and drinks, and we deliver it in an efficient way and we deliver it in a way that makes people happy and our machines work and our machines are filled and our food is fresh and everything is good, people are going to be happy. And we are going to bring them a lot of joy. People will do more business with us. That is what we do.

We are obsessed with greatness. That means everything we do has to be perfect. It has to be great. We do not settle for anything less than that. We call each other out. We will return this bad behaviour. We celebrate great performance. What that means is, is that we talk to each other, we are very transparent. Good or bad, we say that could be better. In a way that is not nasty, but in a way that makes all of us better, so there is no hiding. There is transparency. There is no secrecy in this company. This is the way we do it. And when people do things great, we do the same thing. So, everybody is on the same page.

We leave the culture they came from, from the door. We have hired a lot of people in this company that have come from other places. We were deficient in lots of departments. And we were deficient in lots of places where we needed people. So, when we hire people from other places, they come not only from other places, but they come with that culture. And we want to make sure that everybody understood, when you come here, you adopt the culture of Selecta, so that we are all on the same page and we can do something great together.

And even the people who were at Selecta, it is a much different company than it was before. So, the only way you can build a great culture is if you tell people we are all going to adopt, celebrate and embrace the culture that we have now. We inspect what you expect the rhythm of Selecta daily. This used to be monthly reviews, monthly talk about the business. That is too long. This is a daily business. Business is conducted every day. And we talk about the business every day and we inspect what we expect every day.

What that means is we have a set of criteria. We have a set of vital signs, which you all refer to as KPIs. Those vital signs we look at, and make sure every day that we are doing what we are supposed to do, whether that be in service, whether that be in solutions. Every day, we look at our business, so that we can correct what we are doing daily.

Sustainability is at our core. We are going to talk a lot about sustainability and what we are doing for our environment.

We are obsessed with a lean cost structure and low cost. That is the way we do it. In any environment, we try to be as efficient as we possibly can. We do zero-based budgeting in this company, every year, not just once every five years. Every year, we look at our costs all the time. It is very difficult to put costs on in this company without strict review of what we are doing, and thinking through how it is the most efficient and best for this company.

We foster diversity and inclusion. Diversity is a statistic. Inclusion means that the people who are diverse, women and other types of people always have a seat at the table and they can contribute and they can contribute if we train them.

And our culture and principles are not optional. Everything that I just said is adopted by everybody, embraced it by everybody. Nobody can say, well, I would not do this. I will do that and not this, but that. That is not the way we do it here. That is not the way you build great businesses.

These principles are ingrained in what we do, almost to the point, or I should say, to the point where it is a ritual that we behave with and live by every day.

I am going to turn page 11 over to Christian. Thank you.

Christian Schmitz

CEO, Selecta Group

We offer solutions that respond to our client needs

Thank you, Joe. I would like to take you all a little further into the details of the transformation and go through sort of piece by piece in the framework. By the way, this was the framework that Joe described. If you go back a year ago, exactly the same page that we showed, right. So, we are following the exact same logic. And you see there is a lot of consistency also with regards to what we talked about the previous quarter.

Going to page 11. What you see here is that amazing solutions portfolio that we built over the last 12 months. And we think it is really incredible what we have put together here. We started with, I would say, mainstream coffee inspired vending, as Joe said earlier. Now look at that amazing portfolio.

On the coffee side, I think we have got incredible brands. You have got anything from a super premium Starbucks. We have got the portfolio of A brands. We got our own Pelican Rouge Roaster, which has a lot of opportunity for us, a lot of growth opportunity.

And then on the food side, I mean, it is an entire new range that we opened up here. There is still an element of classic vending, and it is something that is still very profitable business. But we have added a large range of different options here for our clients. So, when we talk to them about their needs, we understand that in depth and then we can really tailor something that works for them.

The food market is something that resonates a lot in the post-COVID time with smart fridges, a very flexible solution that you can bring in with great fresh food. And as a snack market, it is great alternative for vending, a lower cost alternative that has still a lot of range and choice that we can bring.

We talked about the steamed food before, which is delicious option for healthy food that works with steam. So, it is fresh, and it does not come in like microwave food. And then the solution we are really proud of that we recently launched is the Foodies Shop & Go. And for that, I would like to turn to the next page, page 12 and explain a little more in detail what that is.

Foodies Shop & Go

The Foodies Shop & Go, basically think of it as a store, where you identify yourself, you tap with your app over the credit card. You walk in. You basically grab what you like. You pick something, you do not like it, you put it back, and you leave. That is it. It is as simple as that.

And look, there is a lot of players out there in the market experimenting. A lot of players where you have to walk in. You have to scan. There is RFID tags and chips, and you have to put it in the basket. A lot of things.

I think the only competitive solution out there really works is the Amazon Go solution that I think probably a number now that is introduced more and more locations. This is as easy as that you go in. Actually, 20 people can go in at the same time. It is fantastic. You can take guests with you who all buy things on your cart. It is a mix of sensor technology in the freezers, on the shelf, combined with sensors that understand who is moving where in the entire space. And it is a brilliant solution, especially for semi-public environments. So, think of business campus, think of hospitals, think of places where you want to have a base level of security and do not want to have everything in the open and still know who is walking in and out.

The reason we opened that, obviously, there was I think a lot of excitement around that. Recently introduced that. Technology is working terrific. And we combine it with our Starbucks premium coffee. We combine it with the hundreds of steamed food. It is all coming together beautiful solution. And another big piece in the pillar of building Selecta as food-tech company.

24x7 accessibility of food through tech

Moving on to the next page, page 13. Really what we are doing here is, as Joe mentioned, we are going from coffee and snacks to like a whole range of foods. And that is what we are working through. So, we have options for breakfast, for lunch, for dinner. And the food market and the smart fridges are an important piece here to deliver that to our clients and their consumers.

And obviously, that is the segment, let us go and pass through us. You see the total number of units up, 198%. We have got a total of 640 point of sales. And of course, one of these units has a very different revenue profile from a classic vending machine or coffee machine. We are happy about that growth that we are seeing here. Have actually plan on accelerating that further into 2020, 2023.

Great client wins in 2021

So, page 14. I briefly want to talk about our client wins in 2021. 2021 still be a tough environment. When you take step back, a lot of larger companies were still a little bit hesitant when it comes to the new strategy, foods, snacks, coffee. Some of the big companies out there decided to extend their existing partners by another year or so to see where it takes them after the pandemic ends.

But still we have been able to sign up substantial new business. You have got a selection here of our clients, where we either started a new relationship or substantially extended the existing business and added more to it, more locations, more of our innovative solutions with our clients.

I think very strong what you see here is our entire work in the petrol segment. That is, I would say, sector now that we dominate in Europe when it comes to coffee. We have had a great win here with Q8 in Belgium and Luxembourg.

But the broader portfolio from anywhere from Q8 to Total, to Shell, to Eurograte… So it is really something we know very well. And we were a great partner with a large range of different concepts, branded concepts, private label concepts, the whole theme.

There is one client example I want to go a little bit more into depth just in order to showcase where we are taking this business here, and that is the Amazon Logistics centres.

Our foodtech solutions address the needs of our clients

If we go to page 15, we have been able to introduce our fresh food in a large number of Amazon sites across Europe, total of 163 sites live. And four sites that are initially confirmed. It is a complex setup, a complex deal. You look at the countries, it is UK, Germany, France, Netherlands, Belgium, Austria.

It is a deal, I think, where really all our strengths of Selecta or the new Selecta come to play. One Selecta, one solution that we are able to execute simultaneously in a large number of markets. It is an international deal with a footprint that nobody else in our industry could deliver. And I think a solution that really responds to the needs of our clients.

The big theme in the entire logistics sector is employee retention. It is thinking through what you can bring to your employees, so that they feel good at work and like the place. And with what we come in here, it is fresh food. It is 24/7 available. So it perfectly works in an environment you get shift work. And it is a cost-effective way of doing this.

So it is all coming together. And also, we think on the other side, we have got a client here that has very high demands, is known as probably one of the best companies in the world. And demonstrating here that our new solutions really work and scale them to that level is something makes us really proud. So, we wanted to flag that as one example.

And those are the type of deals we are working on. Those are types of opportunities we are pursuing. And you will see many more of those over 2022 and beyond.

Growing our partner relationships

On page 16, just a couple of brief comments on our critical partner relationships. Joe said in the introduction, right. Our operation is world class distribution, world class brands. And here you see a range of it. Very beginning, very early in our transformation, we extended and substantially deepened our partnership with Nestlé, which we are very proud of. Starbucks is an important part of that.

We talked about the retailer brand partnership for our food markets before. What we are looking for there is the dominant market leader in a country that has a great fresh food range and offering, and we clearly found that with at the time in the Netherlands, so we extended that to Delhaize, the market here Belgium. That is an incredible set of brands. Also brands that do a lot of to-go stores, man to go stores already. So, a lot of people are used to the concept. It resonates with people.

And then I was incredibly excited that last week we officially opened and announced our Coop-to-go format in Switzerland. Coop is a fantastic company in Switzerland, a highly regarded company with an incredible range of fresh foods that Coop makes themselves.

And being the partner of that the market leader in Switzerland, the market leader in Switzerland in retail and food, the market leader in Switzerland when it comes to our business and to service and the last-mile and making it happen to the client, and joining forces incredible. It is a beautiful concept and I think we will do great with that.

And then you see a range of additional partners here. Mars Wrigley, we have got a wonderful relationship that we started getting digital vending out there. It is a strategic priority for Mars to be present with their fantastic parks and brands in many locations. So we think we were the perfect partner to help with that.

We substantially deepening our partnership with Coca Cola, which is really exciting. We broadened our machine portfolio with Thermoplan, which is licensed in Starbucks solution and is one of those champion products from Switzerland with a very innovative machine technology , it is really excited to get going. Red Bull as an example. Really the first one joining the Red Bull power partnership is not a retailer. So usually that is the Walmarts and Carrefours of the world.

And we are the first one who was not a retailer who has got the power partnership because Redbull understands the strategic value we can bring. We are excited to work with them. I mean, they are an awesome company. They are a great product. There is a lot we can do together, getting their product further distributed.

And then last one, Carogusto, I talked about steamed food before. Everyone I take to the showroom taste the food says delicious. It says it is a great alternative. You can bring it into different tiers of quality, into very different environments, as we think a lot we can do with that.

So that is the end of our partnerships. And I think we got it now pretty much covered. When we look at it from a solution perspective that I talked about five minutes ago, you look at our partnership, it is now all shaped up that we can really go for more from building to execution and take what we got now and really roll it out in the market.

Next-level tech to bring fresh food solutions

Page 17 just says a little bit of detail on the fresh food solution. I think it is very important to mention that we do not plan to cook. That is not our competence. We do not want to operate or run canteens or cafeteria. That is not what we do. We do not think that the business that is very interesting for us to be in. But what we like is having food, which is readily accessible, which tastes great and where technology can help to deliver something that is superior part of the experience for our consumers.

And we think we get back with what we call the "Qeamer", where we have hot food, technology comes in. It is delicious. It does not have any artificial ingredients in there. All it is, is pasteurised, so it has shelf life. So, it is economical. We can reduce food waste. So really intelligent solution here that we are getting out to more and more clients.

Digital expansion in our machine park

On page 18, just a brief comment on digital expansion. We are very proud of the partnership that we have here and getting a next generation of vending machines into the market. These digital machines with a very large screen, they give you great opportunities, when it comes to product presentation, when it comes to triggering additional sales, dynamic pricing as there is a lot of data you can generate from it. So, it is very interesting solution that we are rolling out.

And again, this is not just one of those concepts. We have hundreds of those rolled out in the UK already with our partner, Mars. We got them in two versions. There is Mars version. There is the Selecta Joy to Go version. And the interesting thing as you see substantial sales up there.

So, people when you give them the range, when you offer multi buys, and you can view, you can put in promotions. There is a lot of things that you can do. You are actually able to trigger sales. In the past, people always say, well, you put a machine somewhere and then the SMD, the sales per machine per day is basically whatever it is at that particular location. But those faults are not true here anymore. You can actually drive it, influence it and manage it in a form like a retailer manages this thing.

Technology platform expansion

Page 19 is I want to talk a little bit more about technology, because technology, and Selecta as a food-tech company, it is not just the front-end solutions that we have, the smart purchase to markets and the digital vending machine. But it is also all the things that we have in the back working for us that drives both the client experience, consumer experience, and also the profitability of the business on our end.

Telemetry is a critical piece. We talked about that in presentations before. We have completed our rollout phase that we had targeted for 2021. And now we are doing the next phase for 2022.

We launched B2B web portal, which is next generation way to interact with our clients, especially when it comes to try ingredient business, which we have in our pass-through service OCS business. But to getting that to an entire next level.

We are working on a client app, which really helps with service support. So, when something happens that people, especially in large companies or facility managers responsible for hundreds of machines, and that there is an easy way to report outages and to get communicate, get in touch with us. So you do not need to call and that is something we focus on.

We launch new website. You can look it all up at selecta.com and see it. It really showcases who we are and what we do, kind of along the way what Joe described at the beginning of this presentation.

And then you got themes this year that are critical in the entire growth of Selecta, planning, data-driven planograms or route planning. That is critical to the impact of performance profitability. There is also a big contribution of sustainability perspective, if we are able to reduce the number of rides that we need to do, means we burn less fuel, means our carbon footprint improves. We have got a lot of analytics that we are putting into the plate.

We have got one CRM system, as we already mentioned in the previous quarterly calls, which really enables us to see everything that happens in the company from a commercial perspective, any interaction that our client solution specialists have, the phone calls they do, the meetings they schedule, the opportunities that we have and follow up on. All that is readily available at fingertip, goes all the way up to jobs on my mobile phone. So that is how we set up now in the new Selecta.

And then, we are working on a new ERP, which will be the new sort of backbone foundation, where we get the first market ready in 2022. And then obviously, we will scale it. Over time, we will scale that up into more countries.

We continue to grow our telemetry solution

Brief comment on Telemetry on page 20. We came from around 80,000 installations in December 2020. We were at December 2021, 95,000. And we are going to substantially further accelerate this, this year, and drive this number off pretty substantially. And then we will take this further. So that by 2023, we expect that we get around penetration rate of 70% and then we will cover all the machines, all the assets that we deem critical.

You will note that the baseline here substantially lower than our total number of machines. The baseline for this is roughly 250,000 machines, because obviously some of the assets which are not a partial service, where we provide ingredients, but do not do technical service operating. And in some other installations, where telemetry is not critical. So, we have taken that out of base line here.

New Selecta.com!

Page 21. I mentioned that earlier our new Selecta.com, state-of-the-art website, highly performing. And we think it is also really engaging and getting the whole idea behind Selecta across. Encourage everyone to click on it after the earnings call and take a look and obviously let us know any feedback that you guys may have.

Transition to GLOCAL model

I briefly want to recap on the GLOCAL model, which Joe and I both talked about, I think in the first presentations that we gave back in the days when we took over. GLOCAL means global resources delivered locally. And it really encompasses all the things where we are driving synergy across the organisation.

If you remember back in the days, we had 15 kingdoms and zero synergy and that has changed a lot. So, when I go through, and from top to bottom, we got a global performance management. We are looking at our assets utilisation. We got service and business vital signs. We get all that in our fingertips. So, we can manage and compare the business.

Our need-based solutions. They are all global. And that is all set up. You have got a standardised process we go through with our clients in order to understand what they need and how we can best talk to them. I talked about the single tech platform, Telemetry, CRM, ERP. So, we are driving synergy and one way of working through that.

Sustainability. We got a clear approach that Joe is going to talk about in a minute and take you through further. That is the global approach. Category Management, very important and huge progress. In the past, one country would decide for Coca Cola. The other one in the very same moment will decide for Pepsi. No coordination and did not leverage the scale of the organisation. That is all now globally coordinated.

We still have regional products. There is regional taste. There are regional flavours. There are things that there are certain brands that we were looking for. We keep that. We do not want to bring everyone one type of coffee across Europe. What we do is it is all globally coordinated, and we optimise for the total scale that we have.

The international accounts team. It is an entirely new approach, did not exist in the past. And the Amazon I think is great example. We want that client for two things for our innovation, and the solutions that we are able to bring that they deem to be superior, above everything else in the market. And the other part is the international team and the international approach. And there is a large number of companies we are now talking to, who are excited about getting a solution that works in multiple countries having one point of contact, having a similar contract structure and all these things. And we are putting that in place and seeing huge growth opportunities through that. There is simply not many others in the market who can play the same way we play.

And then, last, we are mentioning here HR global standard processes. It starts with our equity programme, which Joe mentioned that we have a number of owner associates in the company. It is always safe incentive programme, which is standardised. It comes to job architecture, training. The entire piece which leverages the scale. We figured out what is the right way to do it and then we do the same in 15 countries.

Rightsizing the organisation & investing in people

Very short update on the rightsizing on page 23. Look, I think the punch line is simple. We achieved the target that we told you for 12 months. We said we will take the organisation down to approximately 7,000 FTEs. That is down more than 30% versus where we started. So that one is accomplish.

Similarly, we adjusted cost structure when it comes to fleet, when it comes to real estate and other pieces. You see that in our performance from a financial perspective. And then I mentioned all the global things that we have put in place when it comes to investing in people, equity, sales, driver training, sales training, all those things we have put in place in a very short period of time.

With that, I want to hand it back to Joe to take us more thorough our ESG strategy.

Joe Plumeri

Executive Chairman, Selecta Group

Our ESG Strategy

Thanks, Christian. We are on page 24. And I will talk about our ESG strategy, which is basically being a responsible company.

You got to believe in something. You have to have a belief system. It is the way you behave. It is the way you feel a business should be conducted, how you treat people, how you treat the environment. That is what this strategy is all about.

You see under number one, respecting the environment. We want the carbon footprint to improve. We want to be able to improve the climate. We want to reduce waste. We want to have healthy products, sustainable products. We want to recycle our machines. We want to have sustainable packaging. That is what we want to do.

Our sustainable supply chain has to have embedded in it: fair labour practices; responsible sourcing; sustainable agriculture.

We want to promote Selecta's Coffee Fund projects. And we want Selecta as the employer of choice. We want people not only our clients to feel good every day, but we want our associates to feel good every day. We want them to feel healthy, safe. And we want them to believe that we have their wellbeing at heart. We want them to learn.

It is a responsibility of every company to make sure that its associates, the people who work here, who spend most of their day here feel like there is growth. Feels like there is a tomorrow. They can anticipate being better at what they do and having a chance to grow. As people and as professionals, we believe in equity, diversity and inclusion. I said that in the beginning.

Inclusion is the most important part here. We believe that people need to feel like they can contribute and make the company better and to promote that, the more they understand, the more they learn, the better position they are going to be. And of course, the governance of the business. This is an ethical company.

We are very strict about our business conduct. We just created, for the first time, a code of conduct that we are really proud of, which also has not only associated with a code of conduct, the way this people should behave every day, but a speak up policy, which motivates, invites people to speak up, tell us what is on their mind, tell us what is going on out there. And by doing that we respect each other, and we respect each other's human rights.

Our ESG Initiatives

If you go to page 25. These are more granular way, some of these initiatives. When we talk about the CO2 footprint and climate action, telemetry does a lot and electrification of our fleet does a lot to achieve these emission reductions.

If you go to less places, because you do not have to, telemetry tells you do not have to go there. Obviously, you do not pollute the environment. You decrease the machine visits. You introduce electric and plug-in hybrid vehicles in our fleet as our leases come through. That is all part of our plan. To reduce that footprint, the sustainable packaging is really something we are proud of.

We supplied 1.1 billion cups for our clients. All of our cups are recyclable. Every paper cup is either PEFC or FSC certified. Some locations, we collect them responsibly recycle clients' paper cups, and we are retesting mono-material coffee packaging in our Roaster with solar panels all over our Roaster, that we are very proud of and the coffee blends. We are very, very conscious of the coffee and the blends and sustainability in them.

Selecta's Coffee Fund projects, the Burundi and Rwanda fund are in place. The purpose is to support household incomes for farmers. So that is our fund. And in 2021, we collected over €200,000. We talk a lot about diversity and inclusion.

Now I have said it, and Christian has said it now multiple times, big deal. Everybody has a place at the table at this company. Everybody is invited. The more diversity, the more inclusion, the better this company will be. We are so devoted to that. I cannot tell you, in my personal life, and a lot of philanthropy, I have been a big believer in diversity and inclusion. Everybody is welcomed here. This place will be a better place through developing people and encouraging and embracing diversity and inclusion. We develop people through coaching and training, give them a shot, give everybody a shot at being great and living a great life for themselves and their family. And we are proud to say that 29% of our associates are women and growing and growing every day. Christian?

Christian Schmitz

CEO, Selecta Group

We are prepared to address the needs of the new market landscape

Okay. So, a brief summary on, I think, where we are at this stage, before we get into the financials. Where we are? We think we are prepared for what is really happening now after COVID and getting into the new normal.

You think about today's needs, the workplace is dramatically changing. People would not be there full time anymore. It is turning much more into social hub. You got to know people. You got to know people back. You got to know your employees backs. It is top of mind to a lot of companies how they are going to make that happen while everyone got comfortable in their own four walls.

We hear that from a lot of conversations we have. There is still a number of canteens and restaurants that are closed, that fully stay permanently closed. We have got this whole mentality around delivery. Everyone is used to self-serve delivery, getting things at the fingertips through all those services out there. And there is really competition for talent out there. And that goes across all different levels, right? We talked about the logistics and manufacturing context.

You got it in a lot of other industries. There is a lot happening here. And we think that with Selecta, we are really perfectly positioned. We could not have a better moment for our company here. We think as a 24/7 model that we have the flexibility, as the choices that we bring. The entire portfolio that can really serve broad range of needs and different types of clients. We think we are really ready, set and go and really excited about what is happening next.

Financial Highlights

Christian Schmitz

CEO, Selecta Group

Strong profitability despite continuous headwinds

FY 2021 financial summary

So, with that, I would start diving into the financials. We go to page 28, and for the high-level overview of our fiscal 2021 performance.

As you can see, sales have still been impacted by the pandemic with the different waves from Delta to Omicron. We have had that impact. And we have seen a gradual pickup. Sales growth was 3.2% to 73% of 2019 levels, but just see the baseline here that we used for reference purposes. I will show you a little bit more in a second how the recovery happened over time and the phasing quarter by quarter.

From an adjusted EBITDA perspective, we delivered a very strong performance with adjusted EBITDA of €199.3 million. That is €114.1 million above last year. So, versus last year. And substantial improvements EBITDA margin, 19.2%. And also, the entire EBITDA delivery is substantially stronger than what we planned in our noteholder plan that we communicated to all of you as part of the refinancing in 2020.

The reported EBITDA and free cash are impacted by one-offs. The rightsizing has been deeper. We have taken additional actions, and that is reflected in the cash that was required to fund that. But at the same time, we have been able to keep very strong liquidity positions with over €154.1 million at the end of the year. So overall, we are very proud of the performance here and very strong results.

The company is a smaller company than 2019, but a stronger company, stronger business. It is more resilient, and it was a much healthier P&L and cost structure.

2021 gradual sales recovery, although pandemic pressure

If we go to the next page, page 29, gives you a little more context on the sales trends here and the recovery versus 2019.

As you can see, relative to 2019, the first quarter 2021 has been relatively the weakest quarter. If we all go back in history, that was the Delta variant, strong lockdown, winter quarter, quarter one that we had in 2021. And then we saw a gradual recovery, quarter by quarter, quarter two 74% of 2019, quarter three 76%, and then quarter four 79%.

And quarter four, as you might remember, as well. We start to see Omicron variants and all the impact from that. We saw additional lockdowns and restrictions in quarter four in parts of the region, for example, Nordics, which were more relaxed in the past. So, despite the winter wave of COVID here in quarter four, we have been able to recover to 79% in the fourth quarter, which gets you to a total blend of 73% for the entire year versus 2019.

Quarter after Quarter profitability improvement

On page 30, we are showing our quarter after quarter profitability improvement. And we are looking at our adjusted EBITDA, which you see. And I want to point you to the quarter three of 2020, which is when Joe and myself took over. We took over from the absolute low points at a negative €1.7 million. And then you can see that steady quarter over quarter over quarter EBITDA growth with the fourth quarter of €64.7 million adjusted EBITDA, and then adjusted EBITDA margin of 22.6%.

And you also see that quarter four has sales increase here of 15.7% versus last year. So, you see the winter quarter four 2021 versus winter quarter four 2020. You compare the €247.4 million, and actually it is in quarter four 2020 to €286.3 million in quarter four 2021. So, you see recovery, and you see a different pattern here versus what we had in that previous winter.

Profitability you see just that final comment on the adjusted EBITDA margin in percent. You see the trends here. You go from quarter four 2020, 11.4% to 14.4%, 18.7%, 20.1% to 22.6%. That is, you compare 22.6% adjusted EBITDA margin in quarter four 2021 with the 11.4% adjusted EBITDA margin quarter four 2020. So, we think it is very strong results, and also demonstrates the structural cost savings that we put into the business.

At the same time, you see that top line ramped up. And then, obviously what you get is the beautiful thing that is called margin expansion.

All right. With that, I want to hand it over to our CFO, Philippe Gautier, to take out through more of the details of our quarter four results.

Financial Results

Philippe Gautier

CFO, Selecta Group

Sales improvement and strong increase in profitability

Q4 2021 financial summary

Thank you, Christian, and good afternoon, everyone. So happy to run through a little bit more colour on the Q4 performance, as well as through our P&L and our liquidity.

So, page 32, we saw, as Christian mentioned, a strong sales improvement in the quarter and a strong increase in profitability. So, despite the COVID variants, especially end of the year, we saw a pickup of the sales, reaching about 79% of 2019, and a strong increase versus 2020, plus 15.7%.

The adjusted EBITDA has more than doubled, getting to a margin expansion of 11.2 points and that was almost entirely driven by cost reduction as we have the full impact of the cost savings that we have been gradually implementing throughout 2021. While at the same time, we are investing in our commercial initiatives, as Joe mentioned.

We are talking about structural cost savings here as we have very little furlough in this quarter. And we are talking about very substantial savings versus 2019 around 35% cost savings for the quarter. We had our reported EBITDA and our free cash flow, which were impacted by the one-offs, as we are doing a rightsizing. By that, we were able to maintain a resilient liquidity headroom.

SMD recovered but not yet at pre-pandemic level

Q4 Group – sales by segment

So, if I move to page 33. I am going to run you through the evolution of our operating business, which is about 80% of the overall business. So here, we are just excluding trade.

So, the big picture that we have seen SMD, sales machines per day recovering but not yet at the pre-pandemic level in the quarter. So, you see that the SMD is still down 6.9% versus 2019. And the gap comes from the private segment.

On the other side, semi-public and in public have fully recovered in terms of SMD compared to the 2019 level now. They operate with a lower machine base. In general, we have 19% less machine that were added in 2019 due to planned attrition and just the sales activities.

If you compare to 2020, we see a very strong result of the SMD, which is up across all the segments, total plus 22%. And this is much more than offsetting the reduction in the machine park. The strongest increase here I think seen in semi-public and public.

Sales improving despite headwinds in the quarter

Q4 private – sales by segment

So, if I turn to page 34, it shows you where we are on the private segment, which is about 60% of our overall business. So here, we have the sales, which are, compared to 2019 still down 27%. It was due to the SMD, which is minus 13% versus pre-pandemic levels and the reduction of the machine park. So here, you have in this segment both service and administration, which has been continued to be very affected with continued pandemic and working from home policies in the quarter.

And you have also manufacturing and logistics, where you had some supply chain issues. So still shy from 2019. If you compare to 2020, we have sales improving in both sectors, and this is driven by SMD up 14%. Whilst we continue to see some further client attriton.

Improvement in SMD with a lower machine base

Q4 semi-public – sales by segment

Now if I move to page 35, in the semi-public segment. Here, we have, as well, sales which are up compared to 2019, minus 27%. But SMD has improved very significantly. We have now an SMD, which is higher than the 2019 level with a smaller machine base. We recovered SMD.

And if you look versus 2020, we see a very, very strong sales improvement, and this is really supported by the recovery in SMD over 55% in the quarter.

Fully recovered pre-pandemic SMD

Q4 public – sales by segment

The picture in public is on page 36. So that is where we have our on-the-go segment driven by Railways and Energy. So here, we have a full recovery both of SMD and sales. And this is really driven by Railways, Petrol stations and Energy. The only business which is still down is the Airports business. But in general, we had a very favourable evolution. And versus 2019 versus 2020, this is a strong sales improvement, driven by the strong evolution of the SMD.

Gradual activity pick up across all our regions

Q4 2021 net sales and adjusted EBITDA by region

So how did we perform across our regions? You have a segment reporting analysis, which is on page 37.

We have three regions here. One is South, including UK. Now there is Central, and then we have the North region. The short story here is that we saw an improvement across all the regions. So, activity is increasing and EBITDA margin expansion very significant across all the regions.

If you want to make some distinction. You will have the highest recover to occurred in the North region. So, think about Benelux, the Nordics, where we are almost caught up with 2019 level in terms of sales. And then, the area which is the lowest is South and UK, where we have markets which have been more impacted and that are still recovering gradually. EBITDA improvement, we saw that across all the regions.

Activity picking up in all our countries

Net sales by country vs 2019 levels

On page 38, you see a bit more details to give you an idea about the performance by country. And the major thing is that we saw improvement in all our countries. And you can see here that we still have four key markets. So that is France, UK, Spain and Italy. That is where the four important markets, which were the most impacted by the pandemic, with a lot of working from home in the private segments and some client attrition and cutting the tail initiatives (where we reduced unprofitable business).

So, we saw very significant sales increase versus 2021 in those markets. So, they are recovering from a low base. If you look at all the other countries, they have continued to significantly narrow the gap versus 2019. And we have now most of the countries which are up by 5% to 10% versus 2019 levels. So, they are getting very close, if not at 2019 level.

Sales improvement with restructured cost base driving strong profitability

Q4 2021 adjusted EBITDA

Let me talk now more about our cost base and purely on the cost base evolution as the key to improved EBITDA, here.

So, you look at 2021, in a quarter that saw strong sales increased by 15.7%. We have reduced the cost by 8.2% versus 2020. It is a very big reduction. Versus 2019, it is like nearly 35% reduction in cost. So, if you look versus 2020, you see that we are able to continue to reduce our costs, despite an increase in the top line. And this has been achieved, like we have a relatively very low level of furlough in the quarter, so €2 million versus €13 million in the same period one year ago.

And then one-offs, we have had like €16 million of one-off charges in the quarter that is mostly due to additional rightsizing that we do, namely in the UK and Italy.

Continued cost reduction with activity picking up

Q4 2021 other overhead costs

You have on page 40, a little bit more colour on our overhead and I think you have seen this before. So that is the breakdown of our cost between the main category here.

Now I would say like we could think about where that 60% variable, about 40% of fixed. But the reality is like we are capable of adjusting our cost, either they are fixed or variable, we can still adjust and that is what we have done.

Cash CapEx optimised at 7% of sales in 2021

2021 CapEx

Now moving on to the cash. So first, with the CapEx, you have here evolution of our net CapEx, which includes financial lease. So that is €98 million. So, we continue to invest and like investment relates primarily to our existing or new clients. Whenever we have new business, we have investments in the machines, as well as investing in our IT infrastructure. We have been investing around €15 million a year. We will continue to do so.

In terms of cash CapEx, we are talking about 7% of sales, €72 million. And here we benefit from financial lease, but importantly, we are also client lease solutions that we are rolling out.

We feel that is a really great tool, which enables us to be a bit more asset-light and optimise our CapEx, where we had done that in bottom of our company to do so.

Working capital impacted by activity pick up and rightsizing

Q4 2021 working capital

If I move to page 42, you have the evolution of the working capital and impact of the rightsizing on our cash. The evolution of the working capital, you see working capital continues to be negative, which is good thing.

Now this slide show in December 2020. And here, you will have an increase in the accounts receivable inventory that relates to the pick-up of the business that we have been talking about.

One-offs, due to the rightsizing that we are doing. If you look at it between 2021, we have gone deeper. That is what we originally envisaged at the moment of the noteholder presentation. So, we are talking about total booked one-off of €124 million related to the rightsizing, of which we have cashed out about €100 million, calculated in the two years. So which means there is still some cash out to do in 2022. But then in terms of P&L, we are going to see a very, very substantial reduction. So, we have much, much lower level of one-offs from now on.

Resilient liquidity & significant deleveraging

2021 leverage and cash liquidity evolution

The liquidity, which is on page 43. So, you can see how we have a resilient liquidity, €154 million. So that is a combination of the cash at bank that we have, so €52 million not counting what we have in the point of sale, which is about €8 million. And then the revolving credit facility, of €150 million, and we have about more than €100 million, which is available, which provides us some flexibility towards headwinds and liquidity to continue to be able to invest.

Resilient liquidity position maintained in the year

On the page 44, you can see how our liquidity has evolved around the year. We started the year with more than €200 million. We had a strong free cash flow generation around €16 million, €15.7 million. And this is despite the fact that we had like cash outs related to the rightsizing of €64 million. So very substantial cash out in the year.

We have now an improvement which can also form our capacity to reduce the warranty that we provide. So, as we are improving our rating, then our trade outstanding, we can reduce the amount of guarantee we are providing, so that is an additional benefit, which means that we were able to be at €154 million of liquidity. And end of the year, which we feel very comfortable with.

So, this is wrapping up the financial presentation here. And I will then hand it over back to Joe, for the conclusion.

Conclusion

Joe Plumeri

Executive Chairman, Selecta Group

Conclusion

Thank you, Philippe. I am on page 46. In the concluding page, you see we look back, we have a very resilient liquidity position that we maintained throughout the year, enabling us to invest for growth. And we expect to continue to do that.

We are prepared, as you can see, by all of the solutions and all of the things that we have done, to be very flexible to address the needs of the new market landscape, where all of our solutions, our technology, our delivery mechanisms, everything that we have done prepares us for a new world, prepares us for a business that is not certainly your grandmother's vending machine business.

This is the new Selecta that is a food-tech leader. And we are going to continue to grow, be innovative, creative, exciting and dynamic. And we have strong confidence that we are going to achieve our strategic plan in 2022 and beyond and continue to have growth rates that are beyond expectations. And we are very excited.

If you hear anything, you should hear the excitement in our voice, the excitement about the future of our company, because we are going to continue to grow. We got the world coming back. We got new solutions that are coming on stream that we talked about that we are very, very proud about. And you couple the two and with everything we have done, we are very, very excited, enthusiastic and positive about the future.

And before I end, I got to tell you, everything that you have heard is to the total credit of the associates of this company. They have endured a lot. They have gone through a lot with the pandemic, with the furloughs, with the repositioning of the company, everything that we have gone through. We cannot say enough about how proud we are of the associates of Selecta and the great job that we have done. We might have gone through the results, but they go through what they go through every day, and we appreciate them very much.

Thank you everybody. We will open it up for questions.

Q&A

Giulia Rusconi (Reorg Research): Good afternoon, and thanks for taking my question. I have two questions. The first is on raw materials and energy inflation. I was wondering if you could provide us some more details on your exposure to energy and raw materials, and in particular, the percentage of raw materials and energy costs on the total OpEx. And if you expect any impact in the short-term or limited term to margins and working capital? And the second question is, on your gap, some guidance on 2022? If you could provide some. And if you are looking measures to optimise the capital structure?

Christian Schmitz: All right. Thank you for the question. We appreciate it. So, I will take the second part first. We do not provide any guidance for 2022. So, hate to disappoint you is that. You will have to wait for three months for the quarterly results. And Joe is probably going to comment on the broader inflation environment.

Joe Plumeri: Yes, the broader inflationary environment, we have conducted a very, very serious price increase, which we did not talk about a lot. But we have gone through a very serious, very, very focused, very delivered price increases across the board, as it relates to coffee price increases, the food price increases. We have been very deliberate about it. We have been very microscopic about it. So, we are very, very good about the fact that we are not affected by it.

As a matter of fact, we think we not only have the cost of inflation covered, but a little bit more than that just to be protected. Because we do not know when it is going to stop. You can see the price of oil going up all the time. So, we have not only covered the prices, whether it be coffee or energy or other items across the board, but then some just to protect ourselves in the future. So, we feel that we will have no effect from an OpEx basis as it relates to that.

Daniel Kim (Catalur Capital Management): I just wanted to get some colour on this quarter. You guys spent a lot more on CapEx than usual. I know you mentioned in the slides that it is a lot to deal with new customers, new contracts. I am just wondering whether we should expect it to continue to trend at this pace? And if there has been any substantial spending, maybe for catching up on some maintenance requirements you guys might have put off?

Christian Schmitz: Thanks, Daniel, for the question. I give you a brief first answer in general where to go with CapEx, and then Philippe is probably going to give you a couple more specifics around what you have seen in the fourth quarter. In general, we continue to invest heavily into this business, right.

And all the things that you have seen, the systems we are putting in place, technology, telemetry, ERP, CRM, infrastructure, the new solutions we are building. That is critical part for us. There was a heavy lift that we had to do in 2021 to turn this into a profit company. And there is little more we need to do in 2022. You have seen that there is still trying to have telemetry. There is still work on the ERP and other technologies. But that part then is being wrapped up. And then, you have got the other part of CapEx, which is more the assets that we have put in place, where we are pivoting over time from an on-balance sheet model to more client needs model, which is CapEx free for us.

And Philippe, probably maybe you add a little more comments on that and also from a CapEx for the quarter.

Philippe Gautier: Yeah. Sure, Christian. So yeah, it was a little bit of catch-up in CapEx in Q4 as we did as well in Q4 of the prior year. Have in mind here that that CapEx that also includes IFRS 16. So, it is not necessarily like a real operational view.

When we look operationally, we are looking more at our cash CapEx, so that is the 7% we are talking about. And I would say, 7% gives a good idea where we can both cover the technology infrastructure that we talked about when we talk about being a food-tech. So, this we can cover is so like about 20% of the total investment as well investing for our machine tool.

I would not say that we would have dramatic changes from the 7%. If anything, we are looking at intensifying the client base component of that.

Daniel Kim: Got it. And in terms of further top line growth opportunities, are you guys looking to make further recoveries in some of your geographic segments that have lagged a bit more in terms of recoveries like South UK and Central? Or are you guys working it on a contract-by-contract basis and seeing whether it can be accretive to your existing logistical networks?

Christian Schmitz: Yeah. Well, thanks for the question. It will be hard to find a two-minute answer to that, because it is many different components to that. Maybe a couple of things. One is, I think, as Philippe shown earlier, we still got very different recovery rates when it comes to sectors, right.

So public sector record faster through strong petrol segment and all that. In semi-public area, private area, there is still recovery happening. You can imagine, we had the lockdowns mandatory home office in the fourth quarter in pretty much most European countries around Christmas time and then into January.

And now when you look at the world on 16th March, today, I think you can see and feel outside that it is very different, right. There a lot of people are like really heading back to the workplace, and that is happening. So, we expect some recovery from that in the private or semi-public sectors.

From a country perspective, you spotted right. When you look at it versus 2019 baseline, we have Italy, Spain, UK, France with a bigger gap. Also keep in mind what we said there earlier, there is some business that we actively terminated in those countries.

The old Selecta had found that business that was not profitable, not accretive. And we have taken a hard cut at those. So those obvious flowing through, and then you mentioned the tail. We also rearranging ourselves. We had some tail clients, a very low profitability, sometimes in geographies which really like not in a route, did not make a lot of sense to have that business.

And then, we also get clients, those affected clients, the options, moving higher service fees or us moving them to partial service model. So that is all the dynamics that you see. And I guess you probably have to look at quarter one, quarter two of this year, and then you will see where this whole thing shakes out.

Joe Plumeri: Yeah. We see that tail in South and Central South Europe is where they had the old philosophy of Selecta was put business on the top line without a lot of regard to the bottom line. And so, you see that tail. A lot of those machines that we have cut. And as a result, the revenues going with them. But we have not been affected from an EBITDA point of view, as a matter of fact, it has been positively affected, but the top line is affected.

But you are seeing two things happening, which just says in conclusion, the world is coming back, which is obviously in our favour. Machines are getting turned back on that were off. And now these new solutions that we spent a lot of time talking about will be kicking in as the year goes on. So, you got all that going for us. Okay?

Joe Plumeri: Well, we want to thank everybody for your attention. We want to thank everybody for your interest. We appreciate it very, very much. We look forward to the next quarterly call. In the meantime, be well, be safe. Thank you very much.

[END OF TRANSCRIPT]