Selecta Group Q2 & H1 2024 Results Noteholder Presentation

Wednesday, 7th August 2024

Introduction

Angela Cinelli

Head of Investor Relations, Selecta Group

Welcome

Good afternoon all, and good morning to those joining us from the United States. Welcome to Selecta's Second Quarter 2024 Results Presentation. Please note that this call will be recorded. On the call today, we have with us Christian Schmitz, who is our Chief Executive Officer, and Nicole Charrière, who is our Chief Financial Officer.

Disclaimer

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.

Agenda

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 mention when they change slides as they progress through the presentation.

Now, I would like to hand it over to Christian.

Business Update

Christian Schmitz

CEO, Selecta Group

Introduction

Okay. Thank you, Angela. Good afternoon, everyone. Great to see you all. We are excited to have you for our earnings call for the second quarter and the first half of 2024.

I will start with a brief overview on the financials. I will give a little more context on some of the elements, in particular the top line. And then Nicole, you are going to take us through some more of the details of the specific quarter.

H1 Update

It is our 16th quarter that we are reporting. And I would say when we look at the summary on page five for the first half year update, it is solid performance, given the current economic circumstances. As we had announced before, the first half would be one where we are slightly down on overall top line, negative 4%. It is important, as you know, those of you who followed us, that we look at the numbers both in total but also without the intentional churn that we have incurred with the portfolio cleanup and the things we do.

You look at the cleanup number for the first half, we are looking at a negative 1%, excluding all the strategic intentional churn. Important for us that the productivity of our existing assets continues to increase. We get a new record high of our Group SMD of €13.50, that is up 3% over the last year. And we also happy that we see that same trend that we have seen before in the public and semi-public as we also see that in the private side that those private assets continue to increase in productivity. And important to say, strong Foodtech growth within the business.

We will see 44% of unit growth on our Foodies. We have crossed the 2,000-unit mark on the Foodies Fruit market, which is an important milestone for us and underlines the transformation of the business from a traditional vending business to a modern Foodtech business that has a broad offering of solutions for each of our clients needs.

From margin perspective, we are on a strong focus point, a strong performance on the gross margin. We are up 1.2 percentage points for the first half of the year at 60.4%. That is something, as you remember, that we have been battling with, especially when we saw the high inflation period hit, and we had to navigate that the price increases and the pass-through. And so it is nice to see that we see that gross margin expansion now realised in the first half of the year, that we had planned for and also spoke about in our last call.

Strong performance again on adjusted EBITDA margin, 19.5%, up 0.6 percentage points. And also on the reported EBITDA margin side, 17.4%, up 0.1 percentage point.

Now from an EBITDA growth perspective, given the top line trend, but growing margins, you cannot fully compensate that. So adjusted EBITDA slightly down, but at very strong level of €115 million, down 1%. Reported EBITDA at €102.9 million, down 3.8%.

From a cash perspective, we get a free cash flow of €29.4 million. This is 25% cash conversion. That would be obviously without the rightsizing cash outs, would be substantially higher on 40%. And important to remark, it continued very strong liquidity headroom at €109 million.

That is the summary in a nutshell. What we thought we do is give you a little more context on the top line, which is negative for the first half. But we are optimistic that we are going to see improvements in the second half of the year and want to take you through what some of the drivers are as we currently see in our revenue performance and also some of the measures are that we put in place.

Key factors affecting and measures to improve net sales

On page six, what you got is, let us start with the key things that we currently see happening in the business.

First of all, very important, the strategic intentional churn that we have. We focus on profitable contracts. And there are exits from low or negative profitability business. That continues to happen. We are getting to the end of that. But as you know, some of our contracts are fairly long when it comes to the contract duration. So it is a project that you do not execute in six to 12 months, you got to wait until the contract is up for renewal, and that is when you can take the action. So that is why this keeps on going, there is continued impact from that programme that we now talked about for the 18 months pretty much.

On the like-for-like volume side, you see that the like-for-like volume is softer. This is two things that play a role here. The first one is we get a couple of country-specific topics that we are currently working through, and that are keeping us busy and where we are driving progress.

First one is on the coffee side. In general, we have seen some of the markets a little softer trading on coffee versus the rest of the business. And so that means we got to go back. We got to look into our coffee value proposition and drive that forward.

In the Netherlands in particular, there has been a regulatory impact where paper cups have been banned at the beginning of the year. It is the only country where this has happened. There is also no legislation that we are aware of in any other market that anyone wants to follow that. And obviously, there is two elements then to that. One is, just fewer sales of cups, the cup itself, but also consumption gets more difficult. Right?

So just think of it in a company, you go to a meeting, you want to grab a cup of coffee. And if you do not have your mug with you, then no coffee. And while that might be doable in offices, in manufacturing environments, logistics, it is getting more difficult. I mean, to have people come back and bring their mug and all that stuff. So there is simply fewer consumptions, fewer impulse consumptions. And in Netherlands, which is a free-vend market, so people do not pay for their coffee. These impulse coffee consumptions are important.

It is the one-time baseline effect. So once 1st January next year comes around, that is digested. And we are also now seeing companies wanting to have better reusable solutions. We actually think there will be some recovering upside from that, but certainly it is something that drags us down in the current year.

And then we talked before about Italy and some of the transformation that we have done here. The pass-through historic service issues, they are fixed. So we got a good platform now. And you see that the trend in Italy is improving versus what was before, but it is still negative. But we see that continue to improve because we have just got fundamentally better business and operations there on a go-forward basis.

So those were the country specific pieces. And then from a client and consumer perspective, I mean, same as I guess a number of company recently reported a lower like-for-like numbers. We are in the space here where part of our spend is discretionary and we see that there is a little more hesitance in some of the markets, certainly inflation. And that comes in. It has an impact on the consumer spending. And that is something that we currently have to navigate.

There is higher expectations on coffee. So you got to respond to that. And so that is in total the number of topics that are impacting and influencing the revenue trend for the first half year that I just showed you here.

The important thing here is the clear measures in place. There is a lot you can do about it, right? So obviously at some point, the economic environment is also going to be a little more favourable again, but we are not waiting for that. The critical pieces here that we put in place is, first of all, for all the right reasons, we put our bet on growth in Foodtech. Right? So we continue to do that. We have excellent demand for our Foodtech solutions.

The proportion of our revenue, Foodtech, of our total revenue is growing quarter after quarter after quarter. It takes some time. Right? So it does not happen overnight, given that we have got a large portfolio of existing contracts, but the demand is strong and important also to mark on our existing Foodtech solutions, we have got a very strong like-for-like trend.

So here with an attractive assortment, innovations that we can drive and all that, we can resist the broader trends that we see in the market and have more opportunity to drive that forward. So units are growing and also like-for-like on the existing units is growing.

On our traditional vending, we think that there is more opportunity to drive the assortment, to make that more attractive and get the better article into the right spot. We are currently doing that, reviewing our product assortment. And it is really important for us, this is a pivot from general planograms to location specific planograms.

I mentioned that to a few of you before in individual conversations. Today, the concept is we get a planogram like taking large rail client, and we got one assortment in all sorts of different locations. And what we are doing now is individualise and understand is it more daytime location, is it more nighttime location? Is it more weekend location? Is it more an out of the hours location? Because the consumption patterns that we see in those different locations are very different. And catering to that and individualising that, we think we have got a large opportunity to drive more consumption on our existing machines.

From a leadership perspective, we have taken a little more direct control on the critical markets, that where we are currently think there is additional opportunity for us to improve. The three markets, Switzerland, Italy and Netherlands in particular that I mentioned earlier, currently that direct by the Group executive team.

And finally, we continue to be focused on cost and to be very prudent with our spending and we have identified additional measures to support our EBITDA and also hedge against the economic environment. We think we have demonstrated that over the last couple of years that we are capable of doing that and driving this as hard as is required with the circumstance. We continue to do that.

And we will also see that from a CAPEX perspective, what we have been spending a relatively more in the first half of the year, that number is going to come down in the second half of the year as well. There is some lumpy contract renewals and some other items, and Nicole is going to talk about that in a little more detail later in the presentation.

Positive development of the underlying business

On page seven, we have just broken it down for you how this entire revenue bridge works. Left-hand side, half one 2023 net sales. Right-hand side, half one 2024 net sales.

You see that from a roll perspective, we still brought a negative balance from last year, that is heavily driven by the intentional churn programme. Then you see that for the 2024, we got a slightly positive balance on net growth. And that also includes additional intentional churn.

If you take all that out, then the net negative 1.9% would be positive 1.2% from a net retention versus gains. But then against that, you got on the right-hand side the like-for-like and the like-for-like impact that I talked about earlier. There was a negative 4.9%. And then the positive impacts from pricing and FX. Right? So that is how the bridge works.

And so important for us that you see first of all, we have got a positive gain versus loss, even including intentional churn in what is coming in new in 2024. And that balances even more positive once you take the intentional churn out, right? And that is the trend that we expect to continue in the business.

So we get less roll losses, intentionally gets less. And then the balance net retention wins improves further. And that is the first part that needs to be growing. And then it is that the big piece obviously is like-for-like where we got a number of actions identified and put in place.

LFL volumes drop is not spread out equally

Q2 2024 net sales by country vs last year

On the following page, you got the overview, page eight, of the country trends. You have seen this chart before. And it shows a little bit what the markets are where we get strong performance, where some of the markets where we get some improvement potentials that we are working on.

Left-hand side, clearly, Germany which has been a strong growth story, continues to be that way. You get strong performance in Spain, strong performance in UK. And we got a positive growth in France, which I think is the first time that we put out here. So that is nice to see.

And then on the right-hand side, basically the market that I mentioned earlier. I mentioned the Netherlands and the impact on the cups and the coffee, that is unusual for us because we have historically seen the Netherlands as a strong market. The cup ban is a one-time impact, as I mentioned earlier. So once we are in a clean baseline, 1st Jan 2025, then we will see substantial improvement here.

I mentioned the like-for-like topic in Switzerland, which is really something that everyone is focused on. And then on the Nordics, in particular, in Sweden, we mentioned before, it is by and large a major public contract termination, which has a portfolio of contracts that spans over three years, and which is not accretive to the company. And even though, it is hard decision to make when you have a larger portfolio of contract, we consider it the right decision to make.

Growing Foodtech – Foodies

On Foodtech, just briefly on page nine. I think a couple of examples of the type of business that we are doing here. Hospitals, hotels, logistics companies, I would say probably fairly representative for the types of environments where we can find nice environments with substantial demand, where a concept really makes sense and is accretive.

Hospitals, I think a lot of opportunity to tap into. Hotels, I think we are scratching the surface. And now we really got this engine going, and there is more and more going live. And then one example from home market, Switzerland, Plantzer, the leading logistics business here where we got a lot of installations, obviously there is a war for labour, they want to retain their people, they want to upgrade the work environment and without breaking the bank. And that is again perfectly suited for us to come in and do this.

In total, when you compare it year-over-year, 44% more units and across 2,000 units on those food markets. It is an important milestone for us.

Growing Foodtech – Intelligent Vending

And then we thought we do put a little spotlight on the intelligent vending, the digital vending, where we can play and do commercials and videos and bundles and dynamic pricing, a lot of other things which really go in any environment, office environment, again, hospital environments, university environments. So there is a lot of opportunities here as well.

And also here, we crossed the 1,000 unit mark, and still got substantial growth. It is really all about scaling from here and further accelerating the journey to Foodtech. And at the same time, making sure that we stay up to date on our coffee value proposition and the rest of our core business.

Financial Results

Stable EBITDA margin in a challenging environment

H1 2024 financial summary

With that, we will go into the financial results. The summary for the first half of the year on page 12 is basically the numbers that I went through on our first page, which just quoted in here because it is a format that you all have seen, and you are used to.

I mentioned all the trends on the revenue:

- The positive trend on the gross margin;
- The very high and stable EBITDA margin;
- Growing EBITDA margin from an adjusted perspective; and
- The sufficient liquidity headroom of €109 million.

And I think with that, Nicole, let us get a more details into the second quarter.

Financial Results

Nicole Charrière

CFO, Selecta Group

LFL volumes down while underlying net growth improving

Q2 2024 financial summary

Thank you, Christian. And also a warm welcome from me as well to our Q2 results conference call.

In the quarter, we see sales down 3.9% versus last year. And as Christian already explained, this is mainly driven by strategic intentional churn and like-for-like volume impact. Factors that we have outlined for H1 apply to what we have seen in Q2 as well.

Like-for-like volumes are down mainly in Netherlands, Switzerland and Italy. As part of our strategic intentional churn initiative, our machine park is still down quarter-on-quarter. However, we are now in the tail end of this exercise and we expect our machine park to grow in the course of H2.

As a result, SMD reached new record high of €13.5 and a new record high in private SMD. Due to our strength in cost discipline, we maintain stable adjusted EBITDA margin of 20.4% and reported EBITDA margin of 17.4%. Higher one-offs versus last year related to necessary investments to position some countries for future growth.

Free cash flow in the quarter is not only impacted by one-off payments, but also by higher CAPEX, temporary increased inventory and the client cash pledged guarantee we issued to secure our business. We will talk about these elements later in the presentation.

Our liquidity headroom remains, strong at €109.8 million. Worth noting that minimum liquidity we require to run our business is about €25 million.

Record high SMD growth continues

Q2 2024 Group – sales per machine per day

Now let us have a look at the details of the sales per machine per day development. As said before, Group's SMD reaches again record high with €13.5, driven by our asset utilisation actions. Private segment which is most impacted by intentional churn. Hence, clearly reflects in SMD growth the removal of unprofitable machines landing at €13.8, up 2.8% versus last year.

In semi-public, we also see a significant impact from intentional churn. Sector which performed strongly this quarter is healthcare, which we also consider to be one of our key growth sectors. SMD landed at €9.1, up 0.5%.

Public SMD, which already shows strong performance in the latest years, this quarter continues to outperform, mainly driven by sectors as energy and airports and regionally strong performance in France. All in all, SMD landed at €28.3, up 4.6%.

Also, as indicated earlier, we expect the machine park to grow in H2 together with the top line growth path.

Topline impacted by SIC and LFL volumes

Q2 2024 net sales and adjusted EBITDA by region

If we have a look at the regional perspective of our performance, then we can see a very strong and positive performance in net sales and EBITDA in South, UK and Ireland region, which is driven by the strong performance in Spain and UK, offsetting the like-for-like impact in Italy. Also, we already see an improvement of Italy's performance quarter-on-quarter.

Central region and North regions are the ones which are harder hit by like-for-like volume drop.

Stable margins despite lower topline

Q2 2024 P&L

On the next page, we have a look at the P&L in its entirety. So I believe on the sales side, we already have clearly outlined the factor of the development. On the gross margin side, very strong performance of gross margin up 0.9% versus last year, which is supported by pricing implementation, but also strategic negotiations with supplier, which clearly demonstrates our purchasing power. Overall, cost ratio worsened a bit versus last year due to the significant reduction in sales. Nevertheless, we have taken additional cost actions to protect our profitability.

Regarding our transformation actions, mainly driven by the countries in which we see the most significant impact on the top line and investments was needed to pose them for growth. Overall, a strong reported EBITDA performance is the result of our successful transformation.

Stable evolution of working capital in the year

Q2 2024 working capital

I am on the next page, on page 17, we have a look at our working capital development. So all in all, we see a very stable development versus March. On the trade receivable side, we see an improvement which is driven by the improved cash collection process we have put in place. Then on the other receivable we see a slight increase, which is mainly driven by the cash pledge guarantee we issued in the quarter and some phasing around accruals.

The inventory shows slightly higher-than-normal, that is driven by some stock build up due to Olympic in Paris. And we also have some stock of machines, which we will be installing in July. We expect inventory to normalise in the course of H2.

Let me also quickly, give you a recap on the cashed out one-off. So if you have a look what remained to be paid from the previous quarter, this was €0.8 million. We incurred on the P&L €10 million this quarter, whereof we cashed out €7 million. Hence, we have €3.8 million remaining to be paid in upcoming quarters beyond what will be incurred on top.

Higher CAPEX driven by net gains from existing and new clients

Q2 2024 asset funding

If you have a look at our cash CAPEX and funding needs, then we see, as Christian already mentioned previously, that we have a higher cash CAPEX in this quarter, which is driven by existing business CAPEX need. As we have renewed contracts and have rolled out new CAPEX, for example, with regards to the SBB machine following the contract renewal. The H1 cash CAPEX remains at 6.6%. And we will see CAPEX normalising in the course of the year.

There are good news on the client lease side, as we continue to make progress and financed 4.4% of our net sales through these scheme, which is almost 1 percentage point up versus last year. And also on finance leases, we could get more funding in than last year, so we funded this quarter €2.8 million. As already explained, we expect normalisation of CAPEX in the course of H2.

Sufficient liquidity headroom

Q2 2024 leverage and cash liquidity evolution

From the liquidity perspective, available liquidity stands at €108.9 million and consists of €36.3 million cash at bank and €72.6 million available RCF. Cash at bank is composed of €36.3 million cash and cash equivalents, and €5.9 million cash in point of sales. Out of the €150 million RCF facility, €72.6 million remain available and €74.3 million are drawn and €3.1 million used for bank guarantees.

As per June end, our net debt is increasing mainly due to increased interest, while adjusted and reported EBITDA LTM remained flattish, which leads to a slight increase of our leverage ratio as a consequence.

Normalised cash conversion of C.50% in the quarter and strong focus to expand

On the next page, on page 20, we have a look at our cash development. So you see that we have an adjusted EBITDA of €60 million and one-off payments of €7.0 million and then we already talked about a bit higher CAPEX needs and a bit higher investment also in the future business than we see in a normalised period. On the other hand, we also see that the net working capital development, if we also take out the cash pledged guarantee is flattish, all in all, leading to a free cash flow of €21.9 million.

And if we have a look at the cash conversion and actually add the €7 million back then we learned that the cash conversion of 50%. And I am saying it again, all the above considered, this brings us to a solid liquidity headroom of €108.9 million.

With that, I hand back to Christian.

Conclusion

Christian Schmitz

CEO, Selecta Group

Conclusion

All right. Thank you very much, Nicole. So I think our conclusion here, look, obviously the like-for-like volumes and the country specific topics that I mentioned here, a lot driven by the consumer activity, they have an impact on business. At the same time, we have got strong mitigation actions in place, and we are confident that we can navigate that.

We are confident that the organic growth that we see will pick up in the second half of the year, given that the tail end of our transformation initiatives and also get a robust pipeline in place. You can obviously look a little ahead in terms of what is the business that we have already signed that is going to be that is already scheduled for installation with signs as is mutually agreed. And so that is going to show an impact.

And then I think I mentioned at the beginning that this is our 16th quarter here. So I think our actions since 2020 have demonstrated that we have turned around the business, transformed it and we got outperformed our adjusted EBITDA targets ever since. Obviously working very hard to deliver a great second half of the year and we are excited about it.

So we got time for questions now. I also want to let you know that we will be in London beginning of September for investors conference. So anyone who is on the call and is interested in having a conversation with us, that includes myself and also our executive chairman, Joe Plumeri, will be there and available. And Angela, our Head of Investor Relations can provide more details on that.

All right. With that, let us open up for questions.

Q&A

Wolfgang Felix (Sarria): Thank you for the presentation today. I would not ask any questions about, I guess the ranking top line and the current consumer environment. I am sure there will be plenty of that. I was more interested in, first of all, on the fundamental side of the questions, your machine park, in particular, the private machines, 169,000.

I thought last time you sounded like you had already cut effectively all the machines you wanted to cut now, yet a little lower. Can I assume that 169,000 is now the basis from where we are working, growing going forward? Or are you looking to cut yet more machines? That is my first question.

Then you calculated some €3.8 million of remaining one-offs for the remainder of the year. Did I understand that correctly? Or if you could just repeat that perhaps one more time.

And then finally, I heard through clients and etc., that you have been reaching out to bondholders recently. Is that correct, or is that a rumour?

Christian Schmitz: Okay. Why do not I take the first and the third question, and then the second question is for Nicole.

On the machine park, so, yes, the number of machines in private is down. And while we expect this trend to slow down, there is still some of the business that we got to work through. I said in my introductory comments, our contracts have a duration over five years. So if you take the example of Sweden, the business that we terminated in Sweden for profitability reasons is a large public framework agreement that we had and we terminated that a year ago.

And under this public framework agreement, there is a number of individual agreements that are sitting below. Right? And those typically do not expire at the same time. So the first time we could address the public framework agreement was when we addressed it, when it came up for tender. And we did not bid as aggressively as the company had bid in the past.

But now you unwind that, that is something that needs to happen. At the same time, we expect the growth to pick up, right, with more installations going in, which will then work against that trend. Right? So that is what you see here.

And while we expect it to slow down, there is still some of that unwind happening in the business. I cannot comment on anything with regard to any conversation with noteholders. We get regular conversations with people who reach out to us and get questions, and we are happy to take those questions and have those interactions with people who are invested in our business.

Nicole, you want to briefly comment on the one-offs. Go ahead, Nicole.

Nicole Charrière: Absolutely. So, yes, you correctly understood what remains to be paid in terms of one-offs we already incurred in the P&L is €3.8 million. If you quickly want to do the bridge, then actually we had €0.8 million remaining from the previous quarter, and we incurred €10 million in the P&L in this quarter, and we paid €7 million in that quarter as well, which brings us to the remaining balance of €3.8 million.

Wolfgang Felix: All right. That is understood. I was specifically referring to a bondholder ID request or something. Did that occur?

Christian Schmitz: I do not understand. I do not understand what you are referring to.

Okay. All right. I guess that closes our call. We appreciate everyone's attendance. Again, we would love to see a number of you who are around in London beginning of September in person to catch up more in detail. And anything comes up in the meantime, we are at your disposal. First point of contact, Angela, who is heading our investor relations. Thank you, everyone, and have a great day.

Nicole Charrière: Thank you. Bye.

Angela Cinelli: Thank you.

[END OF TRANSCRIPT]