selecta

Year to date Report Q3 2022

2 November 2022

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OPERATING AND FINANCIAL REVIEW

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Overview

Headquartered in Switzerland since 1957, Selecta is the leading route-based unattended self-service retailer in Europe, providing coffee and convenience food solutions in the workplace and in public spaces. The excellence of Selecta's operations has been recognised with multiple industry awards. For additional information on our business, please refer to the financial statements included in this quarterly report (the "Report").

1. Factors affectig comparability of our financial statements

Impact of Coronavirus (COVID-19)

Starting in the first quarter of 2020 the global COVID-19 pandemic surfaced in nearly all regions around the world. On 11 March 2020, the World Health Organization declared the COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe and many governments have taken stringent steps to help contain or delay the spread of the virus. The current crisis had and continues to have a negative impact on our business by severely affecting our operations and causing disruption across all our markets. The effect of the COVID-19 pandemic on our business as well as the subsequent recovery will ultimately depend on a number of factors, including, but not limited to, the duration and severity of the outbreak and the length of time it takes for demand and pricing to return and for normal economic and operating conditions to resume. Accordingly, our financial condition and results of operations differ in respect of these periods, when compared to the historical financial condition and results of operations presented in this discussion.

2. Our regional breakdown and business segments

Geographic Segments

We report our revenue and certain other financial data by geographic segment. The geographic segments in which we operate correspond to our reporting segments under IFRS and consist of the following:

- South, UK & Ireland includes operating entities in Italy, Spain and the UK/Ireland;
- Central includes operating entities in Austria, France, Germany, Liechtenstein, and Switzerland; and
- North includes operating entities in Belgium, Denmark, Finland, Luxembourg, the Netherlands, Norway, and Sweden.

In addition to the segments identified above, we report separately on our Headquarters (HQ), which includes corporate center functions in Switzerland and certain functions of former Pelican Rouge entities in the Netherlands and in the UK.

Business Channels

We also report our revenue and certain other financial data by business channel. Our business channels consist of the following:

- The *workplace channel*, which includes revenue from (i) private self-service retail, consisting of Point of Sale (PoS) placed and serviced in various private locations, such as large corporate customers, in various businesses and industries and including in corporate offices, manufacturing and logistics sites, and (ii) Office Coffee Service (OCS), which is comprised of table-top coffee machines rented out to corporate customers (mainly small and medium-sized enterprises) for office use along with the provision of technical services and coffee and related supplies for the PoS;
- The *on-the-go channel*, which includes revenue from PoS placed and serviced in semi-public areas, such as hospitals, universities and entertainment venues, or public areas, such as train stations, airports and gas stations, following a successful bidding process with relevant government authorities to place our PoS in a given location; and
- The *trading channel*, which includes revenue from sales of machines and products, including coffee roasted in our roasting facility and the provision of technical and hygienic support to customers.

3. Income Statement

€m	Jan - Sept 2022	Jan – Sept 2021	Var %
Revenue	**1’000.7**	**857.5**	**+16.7%**
Vending fees	-128.8	-104.1	-23.7%
Net sales	**871.9**	**753.4**	**+15.7%**
Materials and consumables used	-346.6	-284.8	-21.7%
Adjusted Gross profit	**525.3**	**468.5**	**+12.1%**
Adjusted employee expenses	-261.8	-240.5	-8.8%
Adjusted other operating expenses	-108.7	-93.4	-16.4%
Adjusted EBITDA	**154.8**	**134.6**	**+15.0%**
One-off adjustments	-26.6	-24.7	-7.7%
EBITDA	**128.2**	**109.9**	**+16.7%**
Depreciation	-99.3	-110.2	+9.9%
EBITA	**29.0**	**-0.3**	**n.m**
Amortization	-43.5	-44.0	+1.2%
EBIT	**-14.5**	**-44.3**	**+67.2%**

At Actual Exchange Rates

Revenue

Revenue increased by 16.7% at actual exchange rates and by 15.1% at constant currency, from € 857.5 million for the nine-months ended 30 September 2021, to € 1’000.7 million for the nine-months ended 30 September 2022.

Revenue by Region

South, UK and Ireland
Revenue in our South, UK and Ireland region increased by 11.7% at actual exchange rate, from € 278.9 million for the nine-months ended 30 September 2021, to € 311.6 million for the nine-months ended 30 September 2022 driven by all countries growth of which Spain has been the strongest performer.

Central
Revenue in our Central region increased by 12.9% at actual exchange rate, from € 321.8 million for the nine-months ended 30 September 2021, to € 363.6 million for the nine-months ended 30 September 2022 driven by all countries growth of which Austria has been the strongest performers.

North
Revenue in our North region increased by 25.7% at actual exchange rate from € 256.8 million for the nine-months ended 30 September 2021, to € 322.8 million for the nine-months ended 30 September 2022 driven by all countries growth of which Sweden and Roaster have been the strongest performers.

Sales by Channel

Net sales (excluding Trade) were € 693.2 million, up 16.5% at actual exchange rates, with Semi-Public showing the strongest recovery as it was hit the hardest.

By channel, total sales per machine per day showed an increase of 30.7% from € 8.3 to € 10.8, with a 30.1% increase in the private channel from € 8.1 to € 10.5, +17.8% in public from € 25.2 to € 29.7, and an increase in semi-public of 33.3% from € 5.2 to € 7.0.

Net sales

Net sales increased by 15.7% at actual exchange rates and by 14.2% at constant currency, from € 753.4 million for the nine-months ended 30 September 2021, to € 871.9 million for the nine-months ended 30 September 2022.

Adjusted EBITDA

Adjusted EBITDA increased by 15.0% at actual exchange rates and by 12.9% at constant currency, from € 134.6 million for the nine-months ended 30 September 2021, to € 154.8 million for the nine-months ended 30 September 2022. As a result, our Adjusted EBITDA margin remained stable at 17.8% for the nine-months ended 30 September 2022, compared to 17.9% for the nine-months ended 30 September 2021.

Vending Fee

Vending fee increased by 23.7% from € 104.1 million for the nine-months ended 30 September 2021, to € 128.8 million for the nine-months ended 30 September 2022. This increase was primarily driven by increased Revenue.

Materials and consumables used

Materials and consumables used increased by 21.7%, from € 284.8 million for the nine-months ended 30 September 2021, to € 346.6 million for the nine-months ended 30 September 2022. This increase was higher than the increase in Revenue at 16.7%. As a percentage of Revenue, materials and consumables used increased from 33.2 % for the nine-months ended 30 September 2021 to 34.6% for the nine-months ended 30 September 2022, mainly driven by the inflationary environment and change in mix.

Operational Expenses

Adjusted employee expenses increased by 8.8%, from € 240.5 million for the nine-months ended 30 September 2021, to € 261.8 million for the ended 30 September 2022. Decrease driven by structural productivity gains and continued zero-based budgeting initiatives implemented throughout the year on all cost items whether fixed or variable such as Vehicle Fleet, Real Estate and IT.

Adjusted other operating expenses increased by 6.3%, from € 127.3 million for the nine-months ended 30 September 2021, to € 135.3 million for the nine-months ended 30 September 2022.

4. Cash Flow Statement

€M	Jan - Sept 2022	Jan - Sept 2021	Var %
EBITDA	**128.2**	**109.9**	**+16.7%**
(Profit) / loss on disposals	-4.9	-4.7	+5.2%
Changes in working capital, provisions & others	-33.5	-42.3	-20,8%
Non-cash transactions	5.9	-1.7	n/a
Net cash generated from operating activities	**95.7**	**61.2**	**+56.3%**
Purchases of tangible and intangible assets	-49.2	-48.3	+1.8%
Proceeds from sale of subsidiaries and other proceeds	8.8	11.8	-25,5%
Net cash used in investing activities	**-40.4**	**-36.5**	**+10.7%**
Free cash flow	**55.3**	**24.6**	**+124.7%**
Proceeds / repayments of loans and borrowings	36.6	12.9	+183.6%
Interest paid	-34.6	-26.7	+29.6%
Capital element of finance lease liabilities	-35.3	-52.9	-33,3%
Net cash used in financing activities	**-33.3**	**-66.7**	**-50,1%**
Total net cash flow	**22.0**	**-42.1**	**n/a**

At Actual Exchange Rates

Net cash generated from operating activities was an inflow of € 95.7 million for the nine-months ended 30 September 2022. This cash inflow was mainly driven by improved EBITDA.

Net cash used in investing activities was € 40.4 million for the nine-months ended 30 September 2022, an increase of € 3.9 million compared to net cash used in investing activities for the nine-months ended 30 September 2021. This increase was primarily due to cash capex for new business. Capex continues to be optimized through use of refurbished machines and proposal of leasing solutions to our clients.

Net cash used in financing activities was € 33.3 million for the nine-months ended 30 September 2022, primarily due to capital element of finance lease payments and the proceeds of loans and borrowings.

5. Balance Sheet

€m	30 Sept 2022	31 Dec 2021
Non-current assets		
Property, plant and equipment	419.0	455.7
Goodwill	979.2	979.0
Intangible assets	564.4	603.7
Other non-current assets	69.7	65.7
Total non-current assets	**2'032.4**	**2'104.1**
Current assets		
Inventories	111.4	116.3
Trade receivables	108.6	97.5
Other current assets	57.3	46.0
Cash and cash equivalents	81.9	60.0
Total current assets	**359.2**	**319.8**
Total assets	**2'391.6**	**2'423.9**

€m	30 Sept 2022	31 Dec 2021
Equity and liabilities		
Total equity	**476.9**	**554.3**
Borrowings	1'119.5	1'015.2
Provisions	5.7	5.6
Other non-current liabilities	170.9	180.5
Deferred income tax liabilities	151.2	160.1
Total non-current liabilities	**1'447.2**	**1'361.4**
Current liabilities		
Trade payables	171.3	173.8
Provisions	39.6	50.2
Other current liabilities	256.5	284.2
Total current liabilities	**467.4**	**508.2**
Total liabilities	**1'914.7**	**1'869.6**
Total equity and liabilities	**2'391.6**	**2'423.9**

At Actual Exchange Rates

6. Liquidity as of 30 September 2022

€m	Sept 2022 Pre IFRS 16	Sept 2022 IFRS 16	Sept 2022 Post IFRS 16
Cash & cash equivalents	**81.9**		**81.9**
Revolving credit facility	85.0		85.0
Senior notes	1’034.5		1’034.5
Lease liabilities	32.2	142.9	175.1
Other financial debt[2]	41.9	4.8	46.7
Total senior debt	1’193.6	147.7	1’341.3
Net senior debt	1’111.7	147.7	1’259.4
Adjusted EBITDA last 12 months	183.2	36.3	219.5
Leverage ratio	6.1		5.7
Available liquidity[1]	138.6		138.6

At Actual Exchange Rates

[1] Liquidity is defined as Cash at Bank plus available RCF

[2] Other financial debt is the sum of Recourse Factoring, Reverse Factoring, Accrued Interest plus Local Bank debt

Our principal sources of funds for the nine months ended 30 September 2022, have been cash generated from our operating activities and borrowings under our Revolving Credit Facility. As of 30 September 2022, we had cash & cash equivalents of € 81.9 million and available liquidity of € 138.6 million, taking into account the undrawn commitments under our Revolving Credit Facility. The continued availability of our Revolving Credit Facility is dependent upon certain conditions, including ongoing compliance with covenants tested quarterly.

Following the debt restructuring, we have first and second lien senior secured notes outstanding maturing in 2026.

Our ability to generate cash depends on our future operating performance, which, in turn, depends to some extent on general economic, financial, industry and other factors, many of which are beyond our control. We may from time to time seek to retire or repurchase our outstanding debt through cash purchases, in open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on market conditions, our liquidity requirements, contractual restrictions and other factors.

In addition, there continues to be a significant increase in economic uncertainty due to the impact of COVID-19. Due to the uncertainty of the outcome of the current events, the fast-moving nature of the situation and uncertainty around the spread and duration of the virus, we cannot reasonably estimate the impact these events will have on our financial position, results of operations or cash flows in the future.

7. Working Capital

€m	Sept 2022	Dec 2021
Trade receivables	108.6	97.5
Other receivables	98.4	84.4
Inventory	111.4	116.3
Trade payables	(171.3)	(173.8)
Other payables	(197.4)	(192.3)
Provisions and other employee benefit	(45.3)	(55.7)
Working Capital	**(95.6)**	**(123.6)**

At Actual Exchange Rates

8. Capital Expenditures

Net cash capex of € 40.4 million for the nine-months ended 30 September 2022, represented 4.0 % of sales compared to € 36.5 million for the nine-months ended 30 September 2021, represented 4.3 % of sales. Capex primarily driven by new business from existing or new clients. Capex continues to be optimized through efficient use of refurbished machines and proposal of leasing solutions to our clients.

9. Material commitments and Critical Accounting Policies

Please refer to the 2021 Audited Financial Statements and the notes thereto for a description of our material commitments and critical accounting policies.

10. Environmental, social and corporate governance (ESG)

Starting in 2021 we further embedded our group-wide sustainability approach and progressed against our four strategic pillars: respecting the environment, offering healthy & sustainable products to our clients and consumers, delivering a sustainable supply chain and being an employer of choice for our associates.

Our recent achievements in the field of ESG are as follows:
- Continuing to substantially reduce Selecta's carbon footprint through route optimization and introduction of electric and plug-in-hybrid vehicles
- Investing ca. €200K to support and train coffee farmers in Burundi and Rwanda
- Increasing the sustainability of packaging – including making all of our cups recyclable
- Investing in our associates at Selecta through implementation of Group-wide training programs
- Fostering diversity & inclusion of our Selecta associates

Selecta will be focused on delivering progress against key targets in each of these areas:
- Respecting the Environment: Delivering 5% annual reduction of CO_2 emissions to reach net zero of Scope 1 & 2 emissions by 2030 and net zero on Scope 3 emissions by 2040. Initiatives such as shifting to electric vehicles, further optimizing routes, and increasing share of renewable energy will deliver these targets.
- Offering Healthy & Sustainable Products: Selecta is focused on offering recyclable packaging with a target of 100% of Selecta's own coffee brands having recyclable packaging by 2025 and 50% of all products by 2030. We are also focused on improving the health credentials of our products – delivering 60% of all fresh food and 30% of snack market products with Nutriscore A/B by 2025
- Building a Sustainable Supply Chain: Selecta is committed to reducing CO_2 in our coffee supply chain and expanding our farmer support programs through the Selecta Coffee Fund. We will compensate or reduce 100% of our CO_2 impact from our Pelican Rouge coffee by 2025 and support more than 2,500 farmers by 2025. Selecta is working with our suppliers and other partners to develop further programs in our coffee markets to achieve these objectives.
- Being an Employer of Choice: Selecta will further deliver on diversity & inclusion objectives – increasing our percentage of women from 29% to 40% across all associates and from 23% to 40% of first-level leadership roles by end of 2024.

CERTAIN DEFINITIONS

As used in this Report:

- **"Group"**, **"us", "we"**, **"our", "Selecta"** refers to Selecta Group B.V. and its subsidiaries, unless as indicated or the context requires otherwise;

- **"IFRS"** refers to International Financial Reporting Standards as adopted by the International Accounting Standards Board;

- **"First Lien Indenture"** refers to the indenture dated as of October 29, 2020, among, *inter alios*, the Issuer, the Trustee and the Security Agent, as amended and supplemented from time to time pursuant to which the First Lien Notes were issued;

- "**First Lien Notes**" refers to the €678.6 million 8.000% senior secured notes due 2026 and the CHF 17.7 million 8.000% senior secured notes due 2026 issued under the First Lien Indenture;

- **"Intercreditor Agreement"** refers to the intercreditor agreement dated as of January 31, 2018, among, *inter alios*, the Issuer, the Trustee, the Security Agent, the lenders and agent under the Revolving Credit Facility and certain counterparties under hedging obligations, if any, as amended and supplemented from time to time;

- **"Issuer"** means Selecta Group B.V., a private limited liability company incorporated under the laws of the Netherlands;

- **"Notes"** refers to the First Lien Notes and the Second Lien Notes;

- **"Revolving Credit Facility"** refers to the revolving credit facility in an aggregate principal amount of € 150 million;

- **"Revolving Credit Facility Agreement"** refers to the revolving credit facility agreement dated as of January 15, 2018, among, *inter alios*, the Issuer as an original borrower and the Lenders (as defined therein), as amended and restated pursuant to an amendment and restatement agreement dated October 29, 2020;

- **"Second Lien Indenture"** refers to the indenture dated as of October 29, 2020, among, *inter alios*, the Issuer, the Trustee and the Security Agent, as amended and supplemented from time to time pursuant to which the Second Lien Notes were issued;

- **"Second Lien Notes"** refers to the €234.7 million 10.000% senior secured notes due 2026 and the CHF 6.1 million 10.000% senior secured notes due 2026 issued under the First Lien Indenture;

- **"Security Agent"** refers to Lucid Trustee Services Limited; and

- **"Trustee"** refers to Lucid Trustee Services Limited.