GREENYARD

Greenyard

January 28, 2019
2:00 PM CET

Dennis Duinslaeger: Hi, everyone, and thank you for joining our call on such a short notice. As Barbash (ph) mentioned, I'm Dennis Duinslaeger. I'm the Investor Relations manager with Greenyard. And joining me today in our discussions are Mr. Hein Deprez, the CEO; Carl Peeters, the COO; Geert Peeters, CFO; and Marc Zwaaneveld, Chief Transformation Officer.

I hope you've had a chance to review the press release that was issued earlier this morning, and you may also visit the company's website at www.greenyard.group for a copy of today's release, as well as to register for further and future distribution. The conference call is recorded and will be available for replay shortly after the call, as well as with a transcript.

I'd like to remind you that most of the information we will be speaking of today, including the answers that we may give in response to your questions, may include forward-looking statements. With that, I'd like to turn over today's call to Mr. Hein Deprez.

Hein Deprez: Thank you, Dennis. As you know very well, the competitive landscape continues to result in price pressure in fruits and vegetables. In addition, we see increasing quality and service requirements from retailers, which induces additional costs and higher waste levels. While it is clearly our joint objective to make sure that this improves and we have spoken several times about the ways to do this. We take note of historical low price levels for bananas on the German market, fueled by oversupply and price competition between supermarkets. There was an oversupply on the avocado market during summer and autumn caused increased price volatility, returning to normal prices only by yearend.

Extreme undersupply of mangoes caused operators to buy additional volumes at spot prices markedly higher than prefixed retail programs.

These are a few topics where we are confronted with over the last months. At Greenyard, we strongly believe that there's beneficial for all parties in the value chain from grower to supplier, to retailer and consumer to implement the way of working that is more efficient and results in the product spending less time in the chain.

Unfortunately we are not there yet. We are feeling the impact of the prolonged market pressure on our profitability, which Geert Peeters will explain further. That being said, we are taking the right measures over the medium term and in the short term. We are developing a comprehensive transformation plan that will secure commercial achievements, acceleration of the medium-term projects, and align our cost base. With that, I hand over to Geert for the financial side.

Geert Peeters: Thank you Hein. As we explained during the Capital Market Day, after summer, results of September and October clearly picked up. But unfortunately these early signs of recovery reversed in November and December. Especially December was a lower month, lower than expectations. On one hand, this was caused and explained by the competitive retail landscape, with further increasing price pressure in fresh product categories. And that's predominantly in Germany and Belgium.

On the other hand, there's also the continuously increasing quality and service requirements from retailers in fresh and in long fresh that are pushing the cost for suppliers up and also increasing the waste levels. As a consequence, our sales are lagging behind last year by 4.5%. But more importantly, there's an impact on our margin generation. And as we operate at lower margins, each percentage point has a quite significant impact and that means that Greenyard revises its REBITDA forecast for '18-19 to a range of EUR 60 million to EUR 65 million. To be clear, this is after the deconsolidation of the horticulture segment that we sold at the end of 2018. Important also to stress is that our net financial debt is still in line with expectations, and also our current liquidity is okay. Our purpose is still to deleverage to a level below 3. So that objective and target remains. Carl, Marc and Hein will explain how we will do that.

Carl Peeters: Thanks, Geert. And as you know on the call here, we have been communicating to you in the past, we way (ph) with relationship banks, and mainly also the sale of the horticulture segment closed in December and this refers also to the deleverage ambition that Geert was just referring to. These ongoing measures are focused on increasing the efficiency and profitable volumes and they are expected to generate clear benefits in the midterm. We have installed measures in purchasing, for example, using the scale of our company to have better purchasing conditions, actions in IT, actions in processes and systems, people of course, efficiency, key account management, et cetera.

Now the management of Greenyard steps up these measures by installing a transformation team in line with the necessity of the current circumstances. And this transformation team is developing a turnaround plan as we speak. The team is led by Mr. Marc Zwaaneveld, announced earlier. Marc is a seasoned senior manager with a proven track record. I'm happy to welcome Marc who is joining our leadership team. He brings a wealth of experience to the team. And as a consequence, I'll also hand over here to Marc to briefly introduce himself and provide his current view on the situation. Marc, over to you.

Marc Zwaaneveld: Thanks, Carl. First of all, I would like to say a few words about myself. I have a long experience in different industries. Amongst others, I've been partner at Accenture Consulting. I worked for the Suez Group. And last but not least, I worked for Van Gansewinkel Group, in which I also was responsible for doing two things: Actually, first of all, further revitalizing the top line, so working on customers, working on improving the whole profitability from that side; second to that, to further improve on the whole organization the cost base of the company.

With this, I'm happy to be able to support the leadership team here at Greenyard, and I've been now three weeks on board. We are currently in the process of supplementing the ongoing midterm initiatives with very stringent short-term actions, which are currently already started and that will make Greenyard more resilient in the further transition towards the so aforementioned integrated vertical partner model with its retailers.

These short-term actions consist of further short-term commercial achievements and acceleration of the current ongoing projects, as well as an alignment and new ideas about optimizing the cost base to the new reality. Of course, we aim to keep the effect of all these measures to the minimum possible on our operations, to enable to serve our customers and to keep our very well relationships with our growers. With these messages, I would like to hand back over to Hein.

Hein Deprez: Thank you, Marc. Greenyard is currently further transitioning its organization into a vertically integrated partner for its retail customers. Achieving this implies an important change for Greenyard and the retailers. Greenyard strongly believes that the fruit and vegetable market of the future will be operated more efficiently by a limited number of large players that partner closely with their customers. In the short term, this brings challenges and requires a new way of working in the market. However, in the longer term, the partnership model will reduce waste, improve quality for the consumer, and improve margins in the value chain.

In conversations with retailers over the past months, we feel a positive momentum that may and will lead to a further partnership and building these intense relationships. We will further intensify these conversations to reach a commercial turnaround in the short term. We are operating on that level in the Belgium and in the German market. Clearly there is a transitional period to a new market balance. We are convinced that we are now experiencing the effects of this transition, but at the same time are convinced that we are at the forefront of this model.

Our immediate next steps are to discuss the consequences of these events with our relationship banks in the coming days. We believe that these will be constructive discussions. As you know, management has also been mandated by the board of directors to further explore funding options among other capital increases. We believe that this will create a more resilient Greenyard, and will create further opportunities for partnerships for a healthier future for all.

So we will further inform the markets and yourselves in due course on further developments.

Dennis Duinslaeger: Thank you, Hein. I think that this gives all the messages that we had planned. But I would like to open the call for questions and maybe hand over back to Barbash for the questions. Barbash?

Operator: Hi, Dennis. You do have a number of webcast questions in the Q&A tool. If you want to refresh your screen, you will be able to introduce the questions and then address them immediately.

Dennis Duinslaeger: Thank you, Barbash. So maybe for the first question (for Geert) --

Geert Peeters: Okay, the first questions are financial questions. So I will go into that. First question is: should the downgrade be annualized and extrapolated to the next accounting year? There we can clearly say that the objective is of course to increase again that we also needed in order to deleverage to a level below 3. Because that remains our target, as I explained before. And that means that in the turnaround plan, there will be a mixture of commercial improvements, but also, as Marc explained, of reviewing the cost base and reviewing the operational efficiency of the company, in order to increase the results again of the EBITDA.

If you look at the next question alongside an equity raise, what other options are being considered? We are now going in a phase in the coming days and weeks, where we're looking to the funding options. One of it is equity raise and further on, there is also the question:will existing shareholders be involved or not? That's really too early to tell. And we will consider everything needed. Other funding options are of course, we have been talking before on sale and lease-backs. There we have already done a lot of work over the last weeks and months. And that might also be part of the solution.

The question whether an equity raise can be successful. At this moment we believe we will execute the turnaround plan - and to stress again, we're not just planning. The plan is already in development. Marc started at the beginning of the month. We have already high-level views, but these need to be detailed in the coming weeks. And that means a lot of actions will be implemented rather soon. And then based on that and based on the potential outcome, we will assess the probability and the ways we do equity raises or take other funding options.

The question on the banks, considering banks already amended covenants how likely is it that they will amend again? Again, a question about probability. We think we take again very decisive actions now. And that also means that in the coming days, we will be talking to our relationship banks again. Important is that these relations are longstanding relations, and we believe we will find a way to go on with our current banks.

Hein Deprez: The questions around the (innovation of the) product portfolio: besides the required financial and organizational measures which are needed as Greenyard prepares new products and new initiatives, I think what's really important to mention is that our portfolio of products over the last five years changed in a very important way in the fresh division. There are a lot of products that developed very strongly over the last years, and I can give you examples like the organic assortment or the berries, all types of different berries, avocados, mangoes; all these products were growing very massively over the last five years in our portfolio. But people are eating thosE and are eating other products less. So there is a shift. We are working on that shift. We are involved fully in that shift. And we are very active in it.

Then at the level of new initiatives, I think the vertical integrated model is what we are standing for and what we like to introduce and implement more and more in the market. That is something where we are at the forefront, showing good examples of that and we will continue to develop that also further. With certain customers we are fully operational on this moment to implement that further. But it takes more time than we were anticipating at the beginning. We are clear and open and transparent on that, because it's a change at our side but also a change at our customer's side.

And on level of the fact of the climate change and there's the positive, the climate issues, which can be positive for our product environment of friendly food offers and so on, also there we work very hard on that. What we are seeing is that fruit and vegetables is one of the solutions to feed the world in 2050. We can do that with fruit and vegetables with the increase of the population. That's for sure a fact, and we are playing in that, and we are also convinced that in the next years, consumption of fruit and vegetables will increase.

Geert Peeters: Then we have question 6 about the covenant level. It's clear with the current EBITDA figures that the covenant targets will be challenging and therefore we are meeting the banks in the coming days. And on the question 8 on net financial debt, we are not giving any guidance on net financial debt. But as I explained, net financial debt is currently in line with expectations.

There's also a question about what's the cash burn. And we can tell you at group level we're not in a cash burn situation. It's more an issue of not generating sufficient cash or at least not in line with our expectations. Also important to stress is that we are a cyclical company from a cash generation point of view. That means that we're building stocks in our long fresh department until the end of November. And between November and May, we are destocking, because there we have very limited production from growers and we're selling the products that we are storing for an average of 12 months. So we're going into a situation of automatically selling stocks, which we do every year; that liquidity will further improve in the coming months.

Hein Deprez: On the question, *"you said the future of the fruit and vegetable industry would be shaped by a number of large players. To what extent is Greenyard able to participate in any consolidation?":* I think what's very important is to state is that we are an all-around player. We are working in fruit and vegetables, in all segments and all categories and the full assortment. So we have size as a company. We are one of the largest companies in our business in the world. We have the size. We have the skills and the knowledge and the flows, the product flows to supply our customers with the full assortment. Also our footprint is, like in European markets, very well developped in a lot of countries. So we are capable to follow certain bigger retailers all over Europe with our footprint that we worked out. So the consolidation that will happen is in place in our organization already. It doesn't mean that we need to do additional acquisitions to fill in the further position as a consolidator in the market.

Geert Peeters: Perhaps question 11 on the EUR 120 million sale of horticulture, there it's not that we're doing bundled buybacks (of the retail bonds). But (proceeds are) there on a separate account that is reserved in order to repay the retail bonds in July 2019. This is in line with what we communicated in earlier press releases. Question 13 about inflow of (cash coming from the) sale and lease-back. Of course we cannot communicate on this, because these discussions are still ongoing. But as I explained, it will be also a piece of the puzzle as part of the funding options.

Hein Deprez: The question 14, "*how much of the downgrade is due to market competition versus the follow-on from the harvest we sold last year?*" I think a part is still a consequence of the harvest of last year. But market pressure in our fresh segment over the last months is very tough, very hard, and it's an important part of it.

Geert Peeters: Question 15 on EBITDA in fresh, we can confirm that EBITDA in segment fresh is of course still positive. But if you compare fresh to long fresh, it's quite clear that it's mainly fresh, with just lower results. But also in long fresh we're lagging behind the expectations.

Question 17 (on leverage ratio), I have to clarify. Because I said that our net financial debt is of course in line with expectations, but not net financial debt divided by REBITDA, which is a leverage ratio. Of course leverage ratio is negatively impacted by the lower REBITDA.

Hein Deprez: On question 18, "*would you be willing to dilute and sell with a capital increase?*" My answer is very simple. We will do the right things, in function of our company, Greenyard.

Geert Peeters: Then question 19 (largest debtholders and part of the syndicated loan), our syndicated banks, our six banks in Belgium and the Netherlands, mainly -- I don't know the exact percentage. But the main -- our debt structure is mainly structured around those syndicated banks at this moment.

Hein Deprez: And the question around the upcoming Brexit having on the business, the impact and what actions are the company taking to mitigate any negative impact on sales or labor and on processing production?

What's important is this is in the UK. UK accounts for around 10% of our turnover. From that, close to 50% is in long fresh. And our factories are in the UK. We are producing in the UK. So on that level, I think we have a strong position. We work in pound sterling. We work on the UK market and we have a lot of production available for our local customers in that market.

On the level of Fresh, we are partly importing from overseas mostly, not from the European market. The majority of our imports comes from overseas. And we have also built up (over the last years) relations with local producers in different products that we are building up. What's important is we are preparing ourselves to have the possibility to do all the custom clearance at our own sites and not at the borders. We will have a special status as an import company, so we are ready for that to have the possibility to avoid the queues at the customs. And so we are organized for these events.

Whatimportant is, is in the UK a lot of labor is coming from the European countries. And so that can be further eventually a challenge to have enough people available that everything will depend from what further will happen. But also there, we are preparing ourselves in our organization to handle this and to have our staff in place also after the Brexit.

Geert Peeters: And question 21, which is the same as 25, on the guidance of EUR 60 million to EUR 65 million, "*to what extent are one-offs included*"? It's of course how we define one-offs. Of course there's some operational commercial one-offs in it. So the explanations that we gave during midyear on a part of recurring impact of listeria and the fact that the factory closed during a couple of months, and also the draught over summer. That's of course included in that figure and it remains included.

Then we have question 24 on (using the shares from) the share buyback of 1.75 million shares. Yeah, that could also be considered as part of the solutions in the financing options. So that would be possible.

Q 26, "*what is the timeframe of a potential raise?*" Is there a timing pressure? Yeah, for us there's not a timing pressure. It's of course we have to discuss with stakeholders and mainly with banks. And we will take the time needed. And everyone knows that a capital increase or new investment in the company, it will take some time. And definitely in a publicly quoted company, we will need some time to do that.

Perhaps (for you Hein) : 22, will the transition to the new model be too aggressive?

Hein Deprez: I don't think so. We have to do it. We have to go in that direction. And I think what's important is in our transformation office, the intention is to see how can we either speed up further our organization to make that possible.

And question 23, "*do I understand the vertical integration of the capital increase could come from a chain of supermarkets or retailers in general?*" I think the answer is no on that.

Geert Peeters: Question 27 "*on the EUR 120 million, if they could be used to repay the retail bonds and whether banks will permit it?*". The intention is to pay the retail bonds and that will be further discussed with the banks.

28, it's about "*what's the cash position?*" Important is that our cash position is now the EUR 120 million. And that's the amount blocked for the retail bonds, and all other cash is always repaid on the revolving facility. So that means that our revolving facility is going down each time we earn cash. On the dividends, will you keeping paying dividends? Of course this is something to be considered and to discuss with the board and shareholders. And it will be part of the funding discussion.

Then on the "*possible disposal of some minor UK assets, it seems to be taking longer than expected. Can you give an update on the disposal process?*" We could say this is -- that we're still looking at some non-core sales. You're talking about UK assets. We also have some warehouses that are not operational anymore that we could sell. That's ongoing. It's smaller operations. And that's fully in line with (timing) expectation.

A question about the second convertible bond, okay. This is a funding option. "*How much of the -- question 32, it's a quite difficult one. What part is related to weak price and what part is related to higher service cost?*" Very difficult to say. As you could read in the press article, the higher service costs are related to fresh. Price is mainly a topic in fresh, at least the gross margin pressure. But of course both are also related to each other. So it's impossible to measure that separately.

On the "*targets regarding cost savings and cash costs associated with downsizing*"; We're currently making the plan on cost savings. And once that's more clear in the near future, we will further communicate on this. And of course the cash cost associated to downsizing, it will be also some costs related that's rightly spotted. And that will be communicated once that is clear.

Q 34, on the audit process, of course we're talking closely to all our stakeholders, also to our auditor. They are fully involved with following up the company.

Hein Deprez: Q 35, "*how do you convince retailers to go for a closer relationship with Greenyard instead of relying on competition between suppliers and thus profiting from lower sourcing prices? What's the USP of this proposal?*" I think what's really important is, is the transparency in the chain. We try to build a very transparent chain where all stakeholders who can bring value -- who can add value to this chain, can create a winning position in it. And that is what we try to do.

We will come further later on in the next time with more information about that, which we will continue to develop and to grow in a positive way.

I think what's important this is on the question of January, I think we are in a very competitive market over the yearend, with the start of the year, absolutely. That is a fact.

Geert Peeters: "*Then on with increased competition and lower sales, is there an anticipation of additional write-offs hitting the company?*" Of course as each half year, we will do our impairment tests again, which will be based on long-term plans. And then at that moment, we will review our position.

Then the next one is EBITDA guidance. As you know, we don't give (further guidance).

Possibility to extend the retail bonds, that's not an intention. We're really working to the solution to repay the retail bonds. And on the future balance sheet structure, it's of course if we look at the funding options, it will be based on how the future balance sheet structure will look like. But as I indicated already, we as a management, in order to be resilient in this type of industry, we want to go to a level below 3x as a leverage ratio.

And Q 41, last question, … in the meantime this is Q 42; "*but second year half, will that be a run rate figure?*" Of course not. As I explained before, we'll be looking at cost savings. But it's very important to stress also discussions with retailers in order to deepen and broaden the partnership. They are still ongoing and on a regular basis, so also that will definitely add to the higher EBITDA and can be considered as run rate in the future.

Hein Deprez: Question 42, "*why has competition increased so much in a short time?*" I think what's really important is this implementing the new models, like we are doing in the Belgian market and in the German market, is indeed creating on the short-term and the mid-long term additional competition. Because you centralize further volumes. And in the meantime, in the process that you're doing, that's increasing a lot of competition between the different players in the market. But once this is really -- once the whole model is installed, then you will have a situation of rebalancing in the market, finding a new balance in the market, where this pressure on the short term will become to a normal level and where you can create a very efficient integrated model, where you decrease your costs and bring all the involved players in the value chain in a better position.

Dennis Duinslaeger: … I think, Barbash; that ends the questions. And I would suggest that we close the call here.

Hein Deprez: Okay, thanks a lot.

Geert Peeters: Thank you very much, everybody. Thank you. Thank you for calling in.

------------- END OF CALL ---------------