

# Letter to Shareholders

# ARYZTA AG

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Dear Shareholder,

## **Strategic Direction**

In my last letter to you, of November, 2019, I detailed the steps we have taken, and continue to take, to put the business on a better-defined path towards stability, performance and growth. Those steps include the disposal of non-core or non-strategic assets with proceeds of €380 million to sharpen our focus on the core frozen B2B bakery segment. The proceeds of these disposals, which represent some 85% of our stated target, have been applied towards net debt reduction.

Project Renew is intended to improve operating efficiency and competitive positioning with the objective to deliver €200 million in savings over three years. Prior to the impact of COVID-19, we were on track to deliver the planned €90 million of annual run rate savings by fiscal year 2021.

While the overall financial performance of the Group is not where we want it to be, or expect to be, prior to March 2020, both Europe and our ROW regions were performing to plan. Clearly, the performance of ANA has been disappointing, it is the focus of specific attention and is being resourced accordingly. Management, together with certain Board members, have recently completed a detailed review of ANA and are now in the process of initiating a series of actions to improve the region's market positioning and future performance.

Since March 2020, presented with the most significant existential threat certainly within my lifetime (in the form of a global pandemic) your management team has been focused on the protection of the ARYZTA business. We have taken a series of decisive and effective measures to protect the interests of all ARYZTA stakeholders. I would like to place on record the Board's sincere appreciation for all our employees who have worked with a singular focus towards that objective. As an integral part of a vital supply chain, many of our employees have worked throughout this crisis.

## **Strategic Review & EGM**

On 13 May, we announced that Rothschild & Co. had been appointed, as independent financial advisor, to undertake a review of all strategic and financial options to maximise value for the benefit of all shareholders and, more broadly, the Group's stakeholders. Following announcement of the strategic review, a number of third parties have expressed an unsolicited interest in acquiring the Company's entire issued share capital. Your Board has convened the EGM of the Company requested by two of the Company's shareholders, Veraison and Cobas, for 16 September 2020. The proposed timing of the EGM is primarily intended to provide the opportunity to allow the strategic review process, and the assessment of any possible offer which may be forthcoming from third parties in connection with that process, to be sufficiently advanced to enable the Board to frame an appropriate recommendation (with the advice of its financial advisors). The proposed timing also reflects a desire to avoid further instability consequent upon the economic impact of COVID-19.

## **The Shareholder Group**

Also, on 13 May, Veraison and Cobas announced that they had formed the 'Shareholder Group' which now, with Heiner and Michaela Kamps, represents 20.01% of ARYZTA's outstanding share capital.

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### **Nature & Extent of Engagement with the Shareholder Group**

The Chairman, CEO and CFO have extensively engaged with the Shareholder Group since May 2020. This engagement was conducted within established regulatory parameters, to find an alternative solution in the best interests of ARYZTA and all of its stakeholders. The engagement included meetings, phone calls and extensive written correspondence. From the end of May, through to June and more recently, every reasonable effort was made to achieve a constructive solution.

### **Shareholder Group Proposals**

On 21 May, following an EGM request notice from the Shareholder Group, we announced details of the EGM request together with the details of the proposed resolutions. The Shareholder Group has sought the removal from the Board of Annette Flynn, Dan Flinter, Rolf Watter, Kevin Toland and myself as a Director and the Chair. The Shareholder Group has also proposed their nominee for Chair together with two other nominees as non-executive Directors.

On the proposal to remove a number of Directors, the Board is of the opinion that these proposals should be rejected in the circumstances described below. Regrettably, however, both Dan Flinter and Rolf Watter have declared their resignations from the Board effective as at the conclusion of the EGM. Accordingly, the proposals to remove each of these Directors are now obsolete. I sincerely thank Dan and Rolf for their service and contribution to the Company.

As Chair of the Audit Committee, Annette Flynn has a vitally important role to play as the Company makes its way through these challenging circumstances and the Board rejects the proposal to remove her as a Director. Annette brings experience, continuity and diversity of thought and is an important member of the Board.

On the proposal to remove the CEO, Kevin Toland, from the Board, the Board believes it is fundamentally important that he remains a member of the Board. Having the CEO as a member of the Board allows for appropriate management representation on the Board together with a direct and immediate information exchange between the Board and management. Further, Kevin's position as a member of the Board is important to our customers and our people. The leadership of Kevin Toland is vital to the future of the Company and any diminution in his role and authority is considered by the Board to be contrary to the best interests of the Company and all of its stakeholders.

On the position of Chair, I will step down as Chair and member of the Board of Directors effective as at the conclusion of EGM unless, prior to the date of the EGM, the Company has announced a transaction for shareholder consideration which the Board considers to be in the best interests of ARYZTA and all of its stakeholders (having been so advised by its financial advisors). In the circumstances described in this letter, I do not believe that any form of contested process is in the interests of ARYZTA.

Given the resignations of two current members of the Board with effect from the conclusion of the EGM, the Board is, in principle, willing to support the nomination of up to two new members for election to the Board, provided such individuals have suitable qualifications and experience. We have asked the Shareholder Group to submit their nominees for evaluation in accordance with the Company's established governance process for the nomination of new members for election to the Board, which is fully consistent with internationally recognised standards and good governance practice. This nominations process has been observed by each new independent non-executive Director appointed to the Board (following an extensive Board renewal process over the last three years). The process includes a review by our external consultant, Egon Zehnder, and at least one meeting with the Nominations and Governance Committee. The nominations process is rooted in a desire to appoint Board members who will provide the most independent and effective leadership for ARYZTA and its stakeholders.

To date, the Shareholder Group has not agreed to submit any of its candidates for evaluation by the Company's nominations process. As a Board, we do not believe it is appropriate to recommend the election of any candidates as Directors of the Company absent an evaluation process which is intended to safeguard interests of all stakeholders. For the specific purpose of this nomination process, a subcommittee of the Board will be formed comprising only those members of the Board who are not the subject of the Shareholder Group's proposals. Absent such a process, the Board is not in a position to satisfactorily assess the proposed candidates' suitability or experience for their respective nomination as members of the Board. As of the date of this letter, therefore, the Board is not in a position to support the election of any of the candidates proposed by the Shareholder Group and, as such, recommends that shareholders reject this proposal. The Board will continue to engage with the Shareholder Group regarding the evaluation of its candidates. If the Shareholder Group's candidates agree to participate in the Company's established nominations process, and depending on the outcome thereof, the Board reserves the right to reconsider its recommendations in respect of the Shareholder Group's proposed candidates.

Your Board is committed to the highest standards of corporate governance. Accordingly, and to protect against the appearance of any conflicts of interest, those five Directors who are the subject of the Shareholder Group's proposals recused themselves from Board deliberations relating to the Shareholder Group's proposals. Taken as a whole, we believe that the proposals your Board has made to the Shareholder Group and to you as shareholders are more than fair and reasonable. It is a balanced set of proposals intended to reflect the best interests of all shareholders.

The effect of the Shareholder Group proposal is as follows:

- » The Shareholder Group is seeking to propose over 30% of the membership of the Board with an equity ownership interest of 20.01%. If approved, the overall Board composition would be disproportionate to its equity interest.
- » The appointment of the Shareholder Group's nominee as Chair, in addition to its nominees as non-executive Directors, would effectively give the Shareholder Group Board control without offering a 'control premium' to all shareholders.
- » For our part, we are prepared to accelerate an already extensive Board renewal process through the appointment of up to two of the Shareholder Group's nominees, provided due process is observed.

We have engaged openly, extensively, and constructively with the Shareholder Group as we do with all shareholders. As a Board, every decision we make is, and must be, guided by our obligation to act in the best interests of ARYZTA and all of its stakeholders. We believe the proposals we have made and the process we have observed are consistent with this obligation.

I would like to express my sincere gratitude to all our stakeholders for their support in difficult times. I would also like to thank my Board colleagues and the broader ARYZTA team for their dedication and unrelenting commitment in the most challenging of circumstances.

Sincerely,



Gary McGann, Chair  
July 20, 2020