

# Letter to Shareholders

# ARYZTA AG

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Dear Shareholder,

ARYZTA AG notes the Glass Lewis report published on the 28 August and respectfully disagrees with the recommendations made. ARYZTA does not believe that the proposals presented by the Shareholder Group represent the best interests of all stakeholders.

## **Background & Context**

There are a number of factors which appear to have informed the recommendation with which ARYZTA disagrees with both in terms of fact and opinion. We have set out below our views together with the basis for those views. We also believe that the report (and the associated recommendations) does not accurately reflect our engagement with Glass Lewis.

The report contains emotive language, similar to that used by the Shareholder Group, which becomes integral to the recommendations. For example, 'the incumbent Board has engaged in tactics to delay the EGM and launched a chaotic strategy process followed by a last minute attempt to sell the Company'. This has no basis in fact and is inconsistent with the information provided in our engagement with Glass Lewis. The facts are markedly different to the characterisation presented:

- Internal discussion of the need for a strategic & financial review (accelerated by CV-19);
- Followed by a letter from Cobas requesting a strategic review;
- Confirmation to Cobas that we had initiated such a review;
- Building of an equity position by Veraison and formation of Shareholder Group with Cobas;
- Announcement by ARYZTA to the market as a whole, that a strategic process was underway;
- Ongoing dialogue with the Shareholder Group to find a constructive solution while managing through the CV-19 crisis;
- Quickly followed by the requisitioning of an EGM by the Shareholder Group and all related proposals;
- As part of the strategic process, a number of unsolicited expressions of interest in the business at a level where the Board was advised that it had a duty to consider; and
- The EGM was called in the timescale contemplated by our Articles to allow for alternative proposals to be put forward; the strategic process to complete; and, allowing existing Board members to stand down.



The effect of the Shareholder Group's proposals is to introduce significant risk to the business, risk that ARYZTA believes would present significant, additional operational and financial stress. This is at the core of our point. It introduces risk on many levels. First, we cannot recommend to shareholders their candidates as suitable Board members without (as detailed below) a rigorous and thoroughly engaged process. We simply do not believe that any 'desk based' review of the Shareholder Group's nominees is a sufficient basis for a recommendation. It would be a failure of our duties as a Board and of our obligations to all stakeholders. The process we have proposed (and have shown) is, in no way, obstructionist. The effective 'demotion' of the CEO to all stakeholders is, we believe, a recommendation that carries a high degree of risk with very little (if any) reward. The recommendation against the Chair of the Audit Committee, in the current financial circumstances (and set against the backdrop of the announced departure of the CFO), does not allow for the requisite level of audit committee continuity and, again, presents unnecessary risk. As to the Chair, we believe we set out a very clear need for a proven Board leader with established capability both as a Chairman and in turnaround situations. An inexperienced Chair (as best we see it, 9 months of plc and no Board leadership experience) presents additional risk. Glass Lewis' recommendations effectively support significant Board changes with consequent average Board tenure of just over one year. Again, we believe that this presents significant risk for the effective functioning of the business and runs counter to the more balanced, compromise proposals we have put forward.

### **1. Lack of evidence to suggest that the capital raise has been used effectively**

In the first instance, capital was deployed to substantially reduce financial and counterparty risk. €455mm of capital was deployed to pay down debt and to reduce the associated financial risk. This was also a central factor in reducing perceived customer risk where there was material concern that customers would no longer trade with ARYZTA. Together with non-core asset disposal proceeds of €380mm (to deliver on our commitment of simplifying the business), net debt at H1 20, stands at €567mm, its lowest level since 2013. This is, and was, a central element of the capital raise proposition. €150mm of capital was also deployed to initiate a group wide efficiency programme with an objective to deliver €200mm in savings over three years. Prior to March 2020, we were on track to deliver the planned (and independently validated) €90mm of annual run rate savings by 2021. Since 2018, the business focus, on the core B2B frozen bakery segment, has been substantially sharpened through the delivery of 85% of the stated non-core asset disposal target. A Group wide programme to improve competitive positioning through Project Renew has been initiated. The capital structure has been improved through substantial debt pay down. When set against a 5 year timeframe by the Shareholder Group to effect a turnaround, we do not think it is accurate to assert that it is 'beyond the scope of the current Board', as alluded in the Glass Lewis report.

### **2. The incumbent Board has not attempted to frame the Company's TSR performance in an alternative or favourable light?**

ARYZTA provided very clear context to that performance when explicitly stating that we clearly underestimated both the nature and extent of the (strategic, financial, operational and cultural) problems facing ARYZTA. On several occasions we publicly stated our disappointment, as a Board, in the reported performance. We also clearly stated that this is a business that had been fundamentally in decline for many years but that such decline had been 'masked' by a prolonged period of acquisition-led 'growth'. Both Europe and ROW regions were performing to plan, prior to March 2020. Clearly, as we acknowledged, the performance of ANA has been disappointing and we continue to focus significant time and resources to this region. Rather than seeking to portray TSR in an alternative or 'favourable light', we have provided

realistic context against which the progress of the Board and Management should be assessed. TSR is a composite measure which reflects (in different ways) the multiple the market ascribes to earnings growth and financial risk in the form of indebtedness. ARYZTA has significantly reduced financial risk through significant debt pay down. As we have publicly stated, prior to March 2020, the steps we have taken (strategically and financially) had put the business on a better defined path towards performance and growth. We are disappointed that no such context formed any part of Glass Lewis' recommendations.

### **3. Absence of bakery industry credentials at Board level?**

As set out during our engagement with Glass Lewis, ARYZTA welcomes additional, industry expertise at Board level. We have accepted two of the Shareholder Group's proposed candidates provided, they observe an established or an appropriately modified nominations process. That process is intended to protect the interests of all shareholders and is, in no way, obstructionist. That process is rooted in a desire to appoint Board members who will provide the most independent and effective leadership for ARYZTA. How can any Board (or any external advisor) otherwise satisfy itself as to the suitability of a prospective candidate for Board membership? Again, this is a process to protect the interests of all shareholders and we are disappointed that it did not feature in Glass Lewis' recommendations. Quite simply, without an appropriate and fully engaged process we cannot assess their suitability as Board members and, therefore, recommend their candidacy to all shareholders. This is a basic requirement of any governance framework.

### **4. Dissident Representation on the Board**

ARYZTA's analysis of the Shareholder Group's proposed representation on the Board differs from that of Glass Lewis. A current Board member was previously nominated by Cobas, who are part of the Shareholder Group. We would also note that, prior to his appointment, this Board member observed the established NomCo process. Clearly, therefore, there was no pre-determined outcome or bias as part of this process. This is the same process offered to the Shareholder Group nominees. We have also offered them the opportunity to modify this process. The NomCo is solely composed of those Directors who are not the subject of any shareholder proposals.

Furthermore, we do not understand how a 33% Board slate can be characterised as 'only moderately higher than' their ownership stake of 20%. Their intended Board slate is 65% higher than their equity interest and thus 'significantly disproportionate' to their interest. We have not rejected Mr Jordi's candidacy as a Board Member, but as Chair. We do not believe he has sufficient public markets, Board leadership or Chairmanship experience which current circumstances demand. As part of Glass Lewis' support for his candidacy as Chair, the report refers to both the 'magnitude and urgency' of the problems facing ARYZTA. Mr Jordi has been quoted extensively as saying that it will take '5 years' to turn around the business. We find a 5 year timescale difficult to reconcile with a sense of urgency. Our objective is to have a coherent Board and a singularly focused management team to accelerate the turnaround within a substantially shorter timeframe.

### **5. Andreas Schmid**

ARYZTA entirely reject any suggestion that Mr Schmid has insufficient time to devote to ARYZTA. He has specifically committed to Glass Lewis to reduce his existing mandates to give sufficient time to ARYZTA. Mr Schmid has signed an NDA and is, as a consequence, materially better informed on the specific challenges (and timescales) presenting to ARYZTA than any nominee of the Shareholder Group. We also reject any suggestion that he is 'too deferential to the executive leadership team or the status quo'. During the course of our meeting with Glass Lewis, he specifically stated that 'all options remain on the table'. These include the potential for either a re-structuring or

a re-financing (or a combination thereof). It also includes a potential ‘industrial solution’. This is anything but the status quo.

## 6. Long Standing Directors

In the concluding paragraph of Glass Lewis’ recommendation, the report refers to the removal of ‘five long-standing incumbent Directors’. This is inaccurate. There are no ‘long standing’ Directors on the current Board of ARYZTA. We talked about accelerating an already extensive Board refreshment & renewal process where seven new Directors have been appointed since 2017. We also underscored a need (again, in the interests of all shareholders) to retain a degree a Board level continuity and cohesion. The effect of the Shareholder Group’s proposals would be average Director tenure of just over one year, with just one Director with over two years of experience. Again, we do not believe that this represents the best interests of all shareholders and presents a level of risk which is unnecessary in the current circumstances.

### Next Steps

ARYZTA does not believe that the proposals presented by the Shareholder Group represent the best interests of all stakeholders:

Res 1.1.3 Dismissal of Annette Flynn as Member of the Board of Directors	AGAINST
Res 1.1.5 Dismissal of Kevin Toland as Member of the Board of Directors	AGAINST
Res 1.2.1 Election of Andreas G. Schmid as Member of the Board of Directors	FOR
Res 1.2.2 Election of Urs Jordi as Member of the Board of Directors	AGAINST
Res 1.2.3 Election of Armin Bieri as Member of the Board of Directors	AGAINST
Res 1.2.4 Election of Heiner Kamps as Member of the Board of Directors	AGAINST
Res 1.3.1 Election of Andreas G. Schmid as Chair of the Board of Directors	FOR
Res 1.3.2 Election of Urs Jordi as Chair of the Board of Directors	AGAINST
Res 2.1 Election of Jim Leighton as Member of the Remuneration Committee	FOR
Res 2.2 Election of Tim Lodge as Member of the Remuneration Committee	FOR
Res 2.3 Election of Andreas G. Schmid as Member of the Remuneration Committee	FOR
Res 2.4 Election of Armin Bieri as Member of the Remuneration Committee	AGAINST
Res 2.5 Election of Urs Jordi as Member of the Remuneration Committee	AGAINST

There is no ‘silver bullet’ that any strategic initiative or additional Board refreshment process can deliver. ARYZTA needs a proven, coherent Board with an executive team singularly focused on accelerating the turnaround strategy. We believe the proposals we have put forward represent the best interests of all stakeholders.

Sincerely,



Gary McGann, Chair 8 September 2020