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# Annual Report and Accounts 2018

## Letter to Shareholders

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Dear Shareholder,

The 2018 financial year ('FY18') has been a difficult one for ARYZTA and our shareholders. The challenges we have faced have been acute and we recognise that, in recent years, the Group had become too complex and expanded beyond its core strengths.

As indicated in my 2017 letter, during FY18 we have continued to take steps to address the challenges we face and implement the multi-year turnaround needed to return the business to acceptable performance. Management has now developed a clearer view of the issues we face, which has been critical to ensuring we are positioned to execute on our plan. Progress has also been made in our efforts to provide stability and, in time, deliver enhanced performance. This means ensuring we are totally focused on capitalising on ARYZTA's established leading global position in the large and growing frozen bakery market.

### **Focusing the Business**

A number of headwinds, including inflation costs and commodity prices, as well as write-downs and certain operational difficulties, continued to impact performance in FY18. Despite these difficulties, progress was made in a number of important areas. The implementation of a comprehensive strategic review of the business resulted in significant steps being taken to deliver on our commitment to withdraw from non-core areas and become more focused on our core business. In January 2018, we sold La Rousse Foods and in February we disposed of both the Cloverhill Chicago and Cicero facilities. The proceeds from these disposals were used to reduce debt and improve the balance sheet, which is a fundamental part of the multi-year turnaround being driven by the Board and Executive Management.

Being the best in B2B Frozen Bakery and providing great products, service, innovation and support to our customers is at the core of our strategy and we are continuing to work hard to do a better job, have better relationships and make sure we are the best partner for them.

While the exit from non-core businesses is a central tenet of our refocused strategy, the Board and Executive Management team are fully aware of the need to operate more efficiently. In May, we announced a cumulative three-year €200 million cost reduction plan, Project Renew, which is underway and aims to deliver savings of €90 million a year by FY21. We are driving these cost saving programmes to address inflation, but also to make us leaner and more efficient in all market conditions. Cost control and optimising our cost base will continue to be a primary focus for the Board and Executive Management to drive faster progress in a growing but competitive industry.

### **Deleveraging**

During FY18, together with our key advisors, we have carried out a comprehensive review of our capital structure, including an assessment of the appropriate financial leverage for the business over the medium term. In order to provide a sustainable capital base to support our customers and operations and deliver our refocused long-term strategy, in August 2018, the Board announced its intention to raise up to €800 million of equity capital. The proceeds will address our excessive leverage and

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the inadequate liquidity in the business. Adequate capital will help us maintain our leadership position in our core business, provide funding to drive our Renew programmes and act as a basis to restore confidence in ARYZTA amongst customers, suppliers, bankers, shareholders and employees.

In addition to the announced capital increase and the successful disposals already completed, the Board remains committed to its previously announced €1bn deleveraging plan, comprising at least €450 million of asset disposals and driving the remainder from cash flow generation. Such disposals will be pursued under normal business conditions, rather than being perceived as distressed sales.

### Executive Management Team

Over the past two years, there has been a significant amount of change at Executive Management levels and one of the clear priorities for the Board was to ensure that the Group had the strength of leadership and the commitment required to drive our refocused strategy and deliver value for stakeholders.

Building on the appointment of a new CEO and CFO during 2018, the Board was pleased to appoint a number of highly experienced professionals to our Executive Management team, including new CEOs of North America and Europe, Dave Johnson and Gregory Sklikas, respectively. We also appointed executives John Heffernan as Chief Strategy Officer and Tony Murphy as Chief People Officer. In September 2018, Rhona O'Brien joined the Executive Management team as General Counsel and Company Secretary. Together with the COOs of APMEA and LATAM, they comprise the Executive Committee of the Group.

### Board & Governance

As part of the strategic review and the pursuit of its implementation, the business made progress in further strengthening governance, stewardship and oversight in FY18. A company and its strategy can only be effective if accompanied by a strong, committed and experienced Board. Our objective is to ensure that we have the appropriate blend of skills, market knowledge and expertise at Board level to set and oversee the strategic direction of the business and to provide support and constructive challenge to management.

As part of a continued programme of Board refreshment, with the support of a global search firm, we identified three excellent independent Non-Executive Directors with extensive experience and a track record of success in the food sector, as well as in business transformation and turnarounds. The three new Directors being put forward for election at the 2018 AGM:

- Michael Andres, who spent the majority of his career with McDonald's Corporation having most recently served, up to 2016, as President of McDonald's USA, the largest global segment of McDonald's Corporation.
- Gregory Flack, who is Executive Chairman of Green Chile Foods Company, a US frozen consumer foods company, a position he has held since 2014. He spent most of his previous career at Schwan Food Company, a US frozen food company, where he served as CEO from 2008 until 2013.

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- Tim Lodge, who is a very experienced CFO who recently retired as CFO of COFCO International, a Chinese grain and oilseed company with revenue of c. \$34 billion. He spent most of his previous career at Tate & Lyle plc, a UK listed food ingredients company with a significant international market presence, where he served as CFO from 2008 until 2014.

We are pleased to recommend to shareholders appointments to the Board of Directors of the calibre of Michael Andres, Gregory Flack and Tim Lodge. It is a testament to the strength of the ARYZTA franchise that we continue to attract high quality individuals to serve on the Board.

On behalf of the Board and management team, I would like to record our sincere appreciation to Chuck Adair for his services to ARYZTA over the past eight years. He played a significant role on the Board and we are grateful for the commitment he has shown the Company during his tenure. We wish him well for the future.

### Stakeholder Engagement

Engagement with our stakeholders, including customers, employees and shareholders, is a priority for the Board. During the course of the year, I engaged directly with many of our customers and shareholders to ensure that the Board understands their views. In addition, we are committed to visiting operations and engaging with our employees. Over the past year, we visited our Grange Castle facility in September 2017 and our Eisleben facility in May 2018. During the coming year, we will continue this programme and intend to arrange a site visit to our North American operations ensuring our engagement extends to as many employees and sites as possible.

### Outlook

Undoubtedly, it has been a difficult period for the Group. However, we continue to commit significant energy and focus on implementing our multi-year turnaround plan. Difficult periods such as the one we are experiencing are tests of a company's character, and the Board remains resolute in its belief in the inherent strengths of our business, our people and the quality of ARYZTA's franchise. The challenges we face also provide an opportunity to renew our purpose and develop strategies for growth in a rapidly evolving marketplace. We are the world's leading frozen bakery company, operating in a growing market. The Board and I fundamentally believe in the proposed capital raising and the new strategy underpinned by the multi-year transformation plan to strengthen and simplify the business and deliver future success for the Company, our customers, employees and shareholders.

Our people are central to everything we do, particularly in challenging circumstances, and I want to thank them for their continued hard work, energy and commitment. The multi-year transformation process being led by Kevin Toland and his team will lead to a more sustainable and focused business operating with strong values, transparency and commitment to deliver great services to our customers and all our stakeholders.



**Gary McGann**

Chairman, Board of Directors

1 October 2018