

AgriBusiness



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Sour dough: rebel investors move against Aryzta board

Lorcan Allen speaks to the Aryzta shareholders who are calling for sweeping boardroom changes at Aryzta

Pressure is building for a major change in the boardroom at speciality bakery giant Aryzta, the owner of the iconic Cuisine de France brand. After five years of value destruction during which time the share price of Aryzta has

collapsed from €70 to just €0.43 this week, a large cohort of shareholders in the bakery company have joined forces under one banner and are calling for sweeping changes.

This shareholder group, led by Swiss asset management firm Veraison and Madrid-based Cobas asset management, controls just over 20% of the shares in Aryzta and is calling for the removal of the four longest-

serving members of the current Aryzta board, including chair Gary McGann.

The shareholder group argues that the current board at Aryzta has presided over a whole series of strategic errors and change is needed. Speaking to the *Irish Farmers Journal* this week, Veraison co-founder Gregor Greber said he wanted to see a smaller board populated with directors who had

Gregor Greber, Veraison asset management.



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first-hand experience of the global bakery industry.

Veraison and Cobas are proposing three people for election to the Aryzta board, including:
➤ Urs Jordi to be the new chair of Aryzta. Jordi is the former CEO of Hiestand (the company IAWS merged with to form Aryzta in 2008) and served as CEO of Aryzta Europe up until 2013.
➤ Heiner Kamps, the founder of bakery chain Kamps, which

became the largest in Europe. ➤ Armin Bieri, who was the former CEO of Aryzta Switzerland up to 2016.

"We are proposing three directors for election to the board of Aryzta that know the bakery industry inside out," says Greber.

"Urs Jordi knows the roots of Aryzta. He was involved in the merger of IAWS and Hiestand, which were two companies that really disrupted the market," he said.

Greber and his group of like-minded shareholders are also calling for Aryzta chief executive Kevin Toland to stand down from the board to focus on his day-to-day duties as CEO.

While the CEO is a member of the board in most Irish companies, this is not the case in Switzerland. Under modern corporate governance rules, the CEOs of almost 90% of listed Swiss companies are not members of the boards.

Challenges

Away from the politics of the boardroom, Aryzta still faces massive structural challenges in its business, mostly related to its high debt profile and weaker profit margins.

Kevin Toland and his senior management team have implemented the wide-ranging Project Renew, which is a €150m cost-cutting programme designed to revive earnings growth.

However, just as Project Renew was gathering momentum with savings on track to reach €70m in 2020, along comes COVID-19 to inflict enormous disruption on businesses like Aryzta. The closure of the food service sector in particular was a hammer blow with major partners

such as McDonald's, Subway and Tim Hortons all forced to shut down.

To maintain liquidity through the crisis, Aryzta was forced to close eight of its bakeries and furlough 30% of its staff. However, revenues have been steadily improving since June and Aryzta has reopened almost all of its bakeries in Europe and North America with production lines back to 90% capacity.

To be fair to Toland and his senior management team, they've been fighting a lot of fires at one time in a bid to turn the company around. But a lot still needs to be done for Aryzta to return to growth mode.

Veraison and other shareholders rightly point out that Aryzta is a company that still has very high debt

levels of €1.5bn (including hybrid debt) and profit margins (EBITDA) are still in single-digit territory despite forecasts they could be restored to 12% to 14% by 2021.

The shareholder group is proposing further sales of non-core assets to de-leverage the company as they believe paying down debt from cashflow is not possible for the business.

At the same time, the group is calling for accelerated new product innovation and a renewed focus on Aryzta's core business to restart earnings growth in the business.

Aryzta has said it will hold a shareholder EGM sometime in mid-August to vote on the proposals put forward by the Veraison shareholder group.

Irish co-ops

While their shareholding in Aryzta has been diluted or sold down over the years, Irish dairy co-ops such as Arrabawn, Aurivo, Centenary Thurles, Dairygold, Kerry Co-op and Tipperary Co-op still hold millions of euro worth of shares in Aryzta between them. Combined, Irish dairy co-ops are thought to hold in the region of 1% to 2% of the shares in Aryzta.

"We would welcome the support of Irish co-ops who are holders of Aryzta shares through their legacy involvement with IAWS, and believe that they will benefit from our proposals," said Greber.

While it's unusual to see this level of public dissent from institutional shareholders in a listed company, the proposals on the table from Veraison have a lot of merit and should attract support.

It's clear that Greber and his fellow shareholders still view Aryzta as a fundamentally attractive business and believe the company's share price is significantly undervalued by the market.

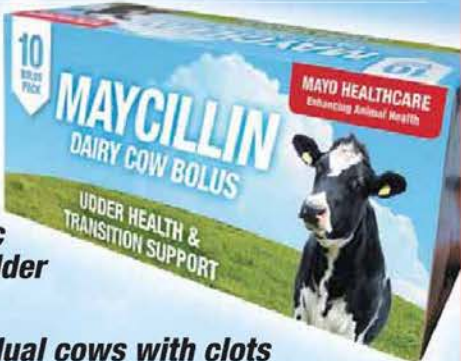
Will Irish dairy co-ops throw their lot in with the Swiss asset management group? At this point, it's hard to see the downside in giving these rebel shareholders a chance to turn things around at the embattled bakery giant.

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