ARYZTA AG
Cobas Alternative Proposal

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October 2018

Who is Cobas?
Over 25 years track record of value based asset management

- One of Europe's leading value based asset managers
- The Management Team has a track record of 25 years near the top of the performance rankings
- Investment philosophy
  - We are a value strategy focused investor, not an activist, with an average holding period of over 4 years
  - We manage capital for both institutional and retail investors, pursuant to the underlying tenets and principles of value investing
  - We seek to invest in undervalued securities with a long-term view
  - We spend significant time and resources evaluating every business we engage with
  - In-depth analysis, accurate valuation and careful selection build the underlying rationale for our investments

Executive summary

- We support a strengthening of Aryzta's balance sheet. We have always been a supportive shareholder
- This is a rushed process, ignoring alternatives, and lacking consultation with shareholders
- There are significant corporate governance issues and conflicts of interest
- Aryzta needs support, but in a structured and careful way
- EUR 800m (c. EUR 750m net of expenses) capital increase is inefficient for shareholder value
- There are attractive and executable alternatives before year end. We support a capital increase of EUR 400m and additional asset disposals of EUR 250m (in total c. EUR 640m net of expenses)
- If needed, Cobas will support a subsequent capital increase of up to EUR 400m in 12 months time

Our Plan raises EUR 640m and protects shareholder value
Their Plan raises EUR 750m and destroys shareholder value

1. Proposed capital increase without consultation with shareholders

- We tried unsuccessfully to engage with the Board of Directors ("Board") in August 2018, to discuss share price developments and to offer support
- After the proposed capital increase, we approached the Board several times in a friendly and cooperative manner to discuss the rationale for the proposal and the alternatives. The Board refused to look at other options
- In general, we acted in full alignment to all governance rules and in the best interest of all stakeholders, including the Company and its employees
- We believe that through tough times direct shareholder engagement should be a priority. However, shareholder approaches targeting a common solution have been refused

2. There are several relevant corporate governance shortfalls and conflicts of interest

- Management incentives do not seem aligned with shareholders:
    1. Board and top executive management hold only 0.05% of total capital = 49,367 shares
    2. Remuneration: metrics included (EBITDA, Net debt, FCF, ROIC, etc.) ignore that the number of shares will more than double with the capital increase, this is not in shareholders' best interests
    3. Completion of the capital raise is a prerequisite for the granting of LTIP awards in FY2018 and FY2019

- Certain creditors of the Company are perceived by some to have a conflict of interest, acting as bookrunners in the capital increase, therefore benefitting from both, the significant fees (c.EUR 50m as indicated by management) as well as from the use of proceeds by lowering their lending exposure and implied credit risk

- One of the three audit committee members, who oversaw the capital raise, is a paid consultant (Jim Leighton). Such an important decision should have been made by an independent committee

3. Action is needed, but in a thoughtful way

- A strengthening of the capital structure is needed, however, there is sufficient time to explore obvious alternatives. There is no need to bring the AGM forward by one month compared to previous years
- The proposed capital increase is perceived as an overreaction driven by lending banks, protecting their own interests
- Net debt/EBITDA ratio per 31st July 2018 at 3.83x[1]
- Following the amendments to the Facilities Agreement as of September 2018, the relevant covenants are:
    - 5.75x Net debt/EBITDA – *for the period ending 31st January 2019*
    - 5.25x Net debt/EBITDA – *for the period ending 31st July 2019*
    - 3.50x Net debt/EBITDA – *for the periods thereafter*
- Note: "Upon successful completion of the proposed equity raise, the above conditions revert to the conditions as per the Facilities Agreement. If the proposed equity raise is not successfully completed by 31st May 2019, there will be an additional covenant test on 31st October 2019 at 3.50x Net debt/EBITDA"

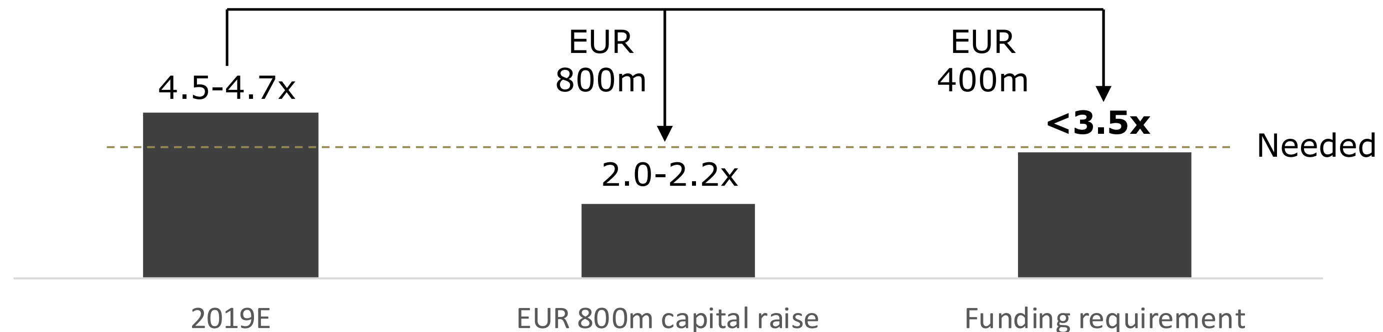
Once short term issues are dealt with, there is one year to improve the capital structure

1 Covenant-based Net debt/EBITDA ratio according to Facility Agreement as at 31st July 2018 was 3.83x. Source: ARYZTA Annual Report 2018

4. EUR 800m (c. EUR 750m net) capital increase is inefficient

- The proposed capital increase of EUR 800m is not required from an operational and financial perspective
- The core business generates positive cash flows and has significant upside potential
- It is a simplistic solution at the expense of the shareholders only
- To keep Senior Net debt/EBITDA below the required 3.5x by Oct 31, 2019, EUR 400m is sufficient
- The Company has not demonstrated the underlying rationale for EUR 800m (c. EUR 750m net of expenses), nor explored alternatives

Impact of capital increase



Half the proposed funding would be sufficient

5. There are attractive and executable alternatives creating higher value to shareholders, leading to a more balanced outcome

- We support the Company's intention to raise additional capital beyond the required minimum amount
- We believe there are different alternatives to the current proposal, providing the required financial flexibility to the Company, enabling it to unlock significant value-creation potential in the medium to long term. These include amongst others:
  - A significant (but lower) equity increase
  - Selective disposals of business lines / regions, **in addition** to the planned divestitures already communicated
  - Refinancing of debt facilities through e.g. subordinated bonds, private debt or senior bonds

A significant portion of Aryzta's shareholders have already expressed their interest in our proposal

5. There are attractive and executable alternatives creating higher value to shareholders, leading to a more balanced outcome (cont'd)

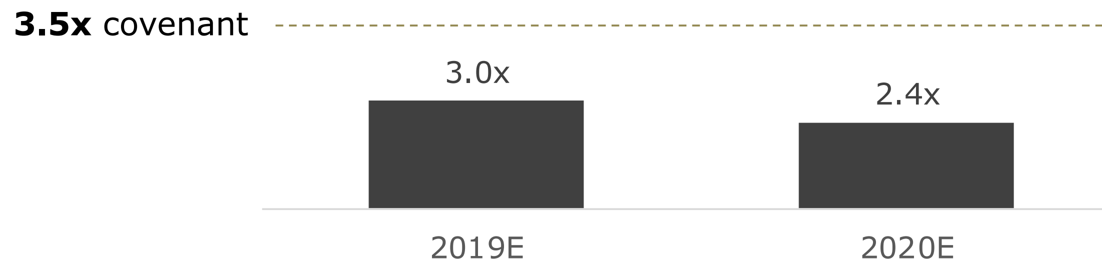
5.1 Short Term proposals: Raising EUR 650m

(1) Capital increase EUR 400m, plus

(2) Disposal of identified non core assets and a ready buyer: EUR 250m

(3) If needed, Cobas will support an additional capital increase of up to EUR 400m in 12 months time

Impact of EUR 650m proposal on covenant ratios Senior Net debt/EBITDA (x)



- This proposal quickly strengthens the balance sheet, complying with financial covenants while investing to execute Project Renew, allowing the management to be focussed on operational improvement

This is a more balanced outcome, to provide strategic flexibility and financial security to implement business strategy

5. There are attractive and executable alternatives creating higher value to shareholders, leading to a more balanced outcome (cont'd)

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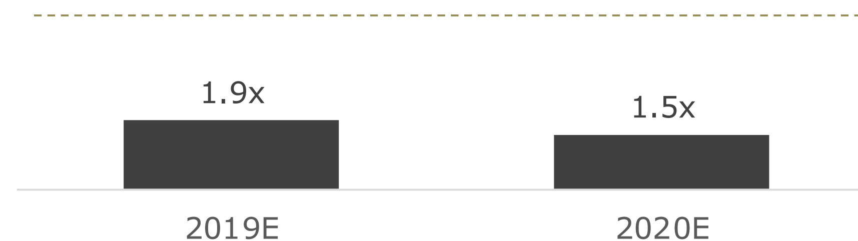
5.2 Mid term proposals (next 12 months)

(1) Picard Sale[1]



(2) Funding alternatives: Obtain credit rating. EUR 300m subordinated debt. EUR 1.2bn private / public long-term debt. Such debt financing alternatives have been discussed with, and received positively by, potential lenders / arrangers outside of the current banking syndicate

(3) Organic free cash flow: EUR 550m (EUR 1bn, minus EUR 450m from disposals)[2]

(4) If needed, Cobas will support an additional capital increase of up to EUR 400m in 12 months time while there will be sufficient time to monitor company delivery (investments, cost reductions, divestments)

1 Depicted scenario assumes capital increase of EUR 400m, asset disposals of EUR 250m as well as disposal proceeds of EUR 325m from sale of Picard stake

2 As per page 24 of Company's results presentation dated 1st October 2018

5. Shareholder Value: Comparing the two proposals

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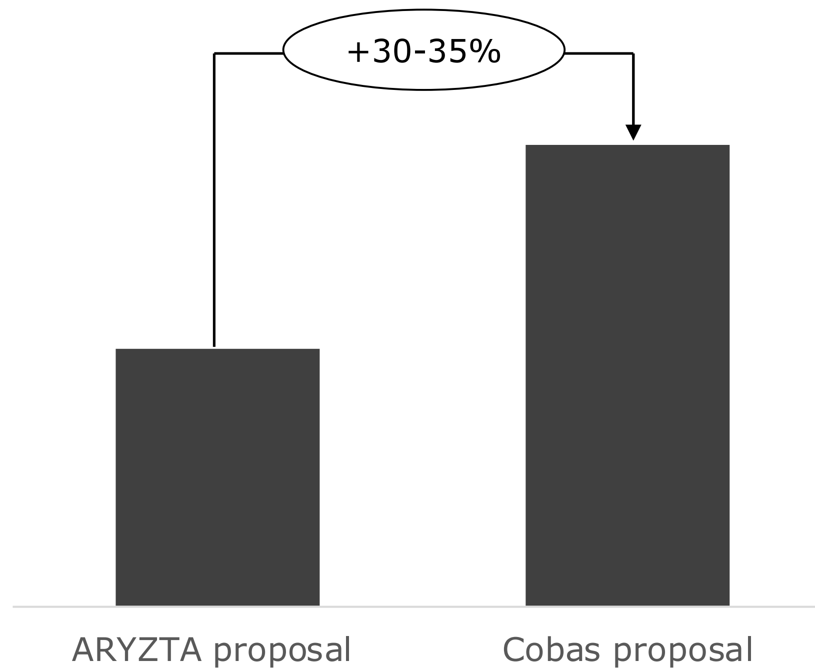

Cobas proposal increases value for shareholders by 30-35%

In this analysis Aryzta proposal and Cobas proposals are compared. The following assumptions are made using as a reference Aryzta mid term guidance: (1) EBITDA margins (12-14%), (2) Capital expenditure (3.5-4.5%) of revenues and share price of EUR 9.3/share as per 8th October 2018

5. Cobas proposal will cover all management needs

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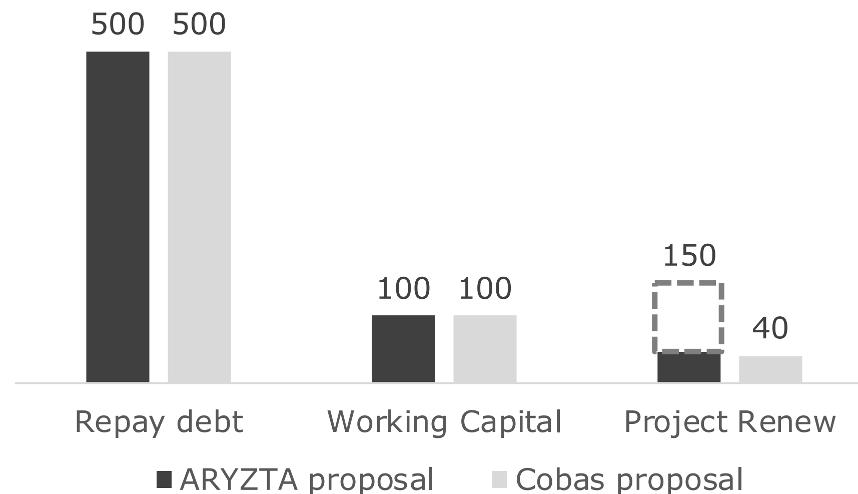
- Project Renew is a 3 years plan, with a total investment of EUR 150m, targeting a EUR 90m annual run-rate in savings by 2021 (EUR 40m in 2019, EUR 70m in 2020 and EUR 90m in 2021). Cash is only needed to cover first year´s investment (~ EUR 50-60m). Thereafter the project will be self-funded



A lower capital increase along with other financing options, like asset sales, is sufficient to achieve the company's objectives

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