Sligro Food Group N.V.

Press release
2019 annual figures

Net profit for the financial year totalled €34 million. The EBIT from our 'continuing operations' came in at €44 million, while net sales were up 2.1% to €2,395 million.

Koen Slippens, CEO

"Our annual theme for 2019 was 'Back to Business'. Looking back, it was a year where the major strategic programmes required a lot of our attention, while the markets in which we operate also required considerable attention. Falling consumer confidence and stiff cost inflation in energy and logistics in particular created a challenging market landscape. Although our efforts have this year not yet brought the targeted financial results, they have created a solid basis for growth and better returns over the coming years, and we are confident that we have, therefore, made several important strategic steps forward.

In the Netherlands, 2019 was all about a number of major programmes. The integration of Sligro and Heineken and further reinforcement of our partnership, preparations for the transition to and building of our new online ordering platform and ERP package, the further detailing of our 'Zelfbedieningsgroothandel van de toekomst' (Cash-and-Carry of the Future) concept, the changes to the organisation to reduce the loss of synergies due to the sale of EMTÉ, and the acquisition and integration of De Kweker.

In Belgium, hard work has gone into consolidating our market position and strengthening the infrastructure and organisational foundations we need for a strong market position. Although the market in Belgium was equally challenging, the opening of our new store in Antwerp in late 2018 meant we were able to grow faster than the rest of the market. The associated investments and start-up losses put significant pressure on the result in Belgium.

In the coming year, we will prioritise five key focus areas from our long-term strategy, which we have captured in our annual theme for 2020: 'Give me Five'. Besides completion of a number of major programmes, customer satisfaction and improving returns are also clear focus points. 'Give me Five' is specifically also about forging connections. Connections between departments and between the head office and regional operations, based on our firm belief that this is one of Sligro Food Group's main strengths, and one that we have to reinforce after a period of great change. After the transitional year that was 2019, we are heading into 2020 full of energy and confidence."

Key figures[1)]

x € million	2019	2018	Change (%)
Key figures for continuing operations			
Net sales	2,395	2,346	2.1
Organic net sales growth (%)	(0.9)	1.0	
Gross operating profit (EBITDA)	127	114	10.8
Operating profit before amortisation (EBITA)	66	73	(9.6)
Operating profit (EBIT)	44	53	(16.2)
Net profit	34	46	(25.3)
Free cash flow[2)]	36	102	(65.6)
Net invested capital[3)]	902	675	33.6
Net interest-bearing debts[3)]	424	162	162.3
Earnings per share (x €1)	0.78	1.04	(25.0)
Dividend per share, excluding one-off special dividend (x €1)	1.40	1.40	0.0
Key figures for the Group			
Net profit	33	276	(88.0)
Earnings per share (x €1)	0.75	6.25	(88.0)

1) The auditor has not yet completed the 2019 audit and has not yet issued an auditor's report.

2) The free cash flow for 2019 has been adjusted to take into account the impact of IFRS 16 Leases to enable comparison of the figures.

3) The net invested capital and the net interest-bearing debts for 2019 are inclusive of IFRS 16 Leases, whereas the corresponding figures for 2018 are exclusive of IFRS 16 Leases.

Results

The gross margin rose €18 million to €584 million, representing 24.4% of total net sales. On balance, it was the acquisition of De Kweker in particular that contributed to the (relative) rise in our gross margin, partly thanks to the harmonisation of procurement conditions. In the Netherlands, improved promo margins and the valorisation of data helped boost margins. In Belgium, the margin as a percentage of net sales was down primarily due to the relatively high levels of shrinkage during the start-up year in Antwerp.

Other operating income was up €1 million to €13 million. Income from services for EMTÉ ceased halfway into the year. Book profits on the sale of assets were up on the previous year.

Total costs rose €28 million to €553 million, i.e. 23.1% of total net sales, partly on the back of the acquisition of De Kweker. Central costs in the Netherlands did not go down in step with the downsizing of operations through the sale of EMTÉ. When it comes to more variable costs, however, we were, at the end of the year, well on schedule to achieve the targeted cost reduction. Costs that are of a relatively fixed nature, such as IT and infrastructure, are harder to reduce and will have to be absorbed over the coming years, through growth in particular. IT costs increased as a result of one-off costs associated with the ERP implementation programme, and also as a result of the building of the new support organisation, while still having to maintain the current IT landscape throughout this phase. Moreover, investments
in our network of sites made over the past period have pushed up depreciation charges.

EBIT for 2019 came in at €44 million, staying within the previously communicated bandwidth. Net profit including ‘discontinued operations’ fell to €33 million, which translates to earnings per share of €0.75.

We look back on 2019 as a transitional year during which organisational changes and the impact of various large projects have driven our financial results down. In the long run, profit and free cash flow are the decisive factors in our dividend policy. In setting the dividend for 2019, we rely on the projects that we have launched and the recovery they will bring over the coming years. Our proposal is to set dividend for 2019 at €1.40 per share, of which €0.55 has already been paid out on 30 September 2019 as interim dividend, leaving a final dividend of €0.85 per share.

New IFRS 16 standard

The new IFRS 16 Leases standard has become effective this year, and the Group started to apply it from the 2019 financial year. As of the start of the 2019 financial year, right-of-use assets with a total value of €167 million, financial fixed assets in the form of subleases with a value of €2 million, and lease liabilities totalling €181 million are recognised on the balance sheet, resulting in a €10 million drop in shareholders’ equity and a €2 million deferred tax asset. While implementation of the new standard has no material impact on net profit, the switch from operating lease expenses to depreciation charges and financing expenses pushed EBITDA up by €19 million and EBIT by €2 million in 2019, compared to if these items had been recognised based on IAS 17 in the same financial year. This adjustment will be explained in detail in the notes to the financial statements.

Staffing changes

Having reached the end of his maximum tenure under the articles of association, Mr Karis will step down from the company’s Supervisory Board at the upcoming General Meeting of Shareholders on 18 March 2020. We owe him a great debt of gratitude for everything he has done in propelling Sligro Food Group’s further development over the past eight years.

As Mr Karis steps down, Mr Pieter C. Boone is nominated for appointment to our Supervisory Board. Mr Boone (52) has held various management positions in the Netherlands and abroad at Makro (SHV Holdings N.V.) between 1992 and 2010 and was Metro AG’s CEO in Russia until 2015. Between 2015 and 2018, Mr Boone was Metro AG’s COO and a member of the company's Management Board. At the end of 2018, Mr Boone was appointed to the Supervisory Board of Beter Bed Holding NV. Mr Boone has shown to be a good candidate for the soon-to-be-vacated seat on our Supervisory Board. The extensive experience he gained in the Netherlands and internationally while working at Makro and Metro make him a very valuable addition to our Supervisory Board. A more detailed CV will be attached to the agenda for the General Meeting of Shareholders of 18 March 2020.

At this same meeting, Ms Van Leeuwen and Mr Rijna will both be up for reappointment to the Supervisory Board for a second and final term.

Outlook

Consumer confidence seemed to level out in 2019 at levels of the fourth quarter of 2018. The ongoing fall in unemployment seems to have come to an end in 2019, as the unemployment rate is also levelling out. We do not currently see any clear trends in these indicators, which are important for our markets. For 2020, we assume that there will be a limited overall market growth due to the combination of some price inflation and slightly decreasing volumes. Although we expect cost inflation to normalise to some degree, wage costs will continue to show a relatively strong upward trend.

In the Netherlands, our focus for 2020 will, after a period with a strong internal focus on major programmes, be more on our customers again. Both in the cash-and-carry and the delivery segment, we have identified opportunities and a need to win over our customers (again). In the delivery business, we will be doing this together with our partner Heineken in a key segment of the market. The integration of Sligro and Heineken is close to being completed, which takes us into the phase of the collaboration where we will be able to valorise our investments, both for our customers and for our company.
De Kweker will add approximately €55 million in further inorganic net sales growth in the first half of 2020, and we expect to largely complete the integration of this company. In 2020, as we move on from a turbulent period at our central organisation, we are going to need to renew the specifics of the tasks and responsibilities for our people and teams, effective leadership and clear organisational principles with our strong culture as a solid foundation.

In Belgium, 2020 will primarily be about generating growth from the existing network and further improving and optimising the organisation and infrastructure, partly by making increasing use of the Dutch supply chain network and centralised services run from the Netherlands, such as IT and data management. Aside from that, we expect to implement our new online environment and the first version of our new ERP landscape in Belgium (and partly in the Netherlands as well).

For the coming year, we expect our plans to help us improve results in a relatively stable market. We are cautious in our overall expectations on financial results, and we will not make any specific predictions for the year.

The annual report for 2019 will be published on 31 January.

Comments on the annual figures will follow today at a press conference and an analyst meeting. The presentation has been published on www.sligrofoodgroup.nl.

In our trading update of 23 April 2020, we will go into developments in the first quarter of 2020 in greater detail, and we will publish our interim figures on 16 July 2020.

Veghel, 23 January 2020

On behalf of the Executive Board of Sligro Food Group N.V.

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Attachments

Consolidated statement of profit or loss[1)]

x € million	2019	2018	2017
Continuing operations			
Net sales	**2,395**	**2,346**	**2,142**
Cost of net sales	(1,811)	(1,780)	(1,648)
Gross margin	**584**	**566**	**494**
Other operating income	**13**	**12**	**9**
Employee expenses	(275)	(275)	(215)
Accommodation costs	(30)	(38)	(34)
Costs to sell	(20)	(17)	(14)
Logistics costs	(112)	(108)	(76)
General costs	(33)	(26)	(20)
Impairments	(1)	(2)	(0)
Depreciation of tangible fixed assets and right-of-use assets	(60)	(39)	(34)
Amortisation of intangible fixed assets	(22)	(20)	(19)
Total operating costs	**(553)**	**(525)**	**(412)**
Operating profit	**44**	**53**	**91**
Financing income and expenses	(7)	(4)	(5)
Share in the result of associates	5	7	9
Pre-tax profit	**42**	**56**	**95**
Income taxes	(8)	(10)	(19)
Profit from continuing operations	**34**	**46**	**76**
Discontinued operations			
Profit/loss from discontinued operations, after tax	(1)	230	5
Profit for the financial year	**33**	**276**	**81**
To be allocated to shareholders' equity	**33**	**276**	**81**

x €	2019	2018	2017
Details per share			
Basic earnings per share	0.75	6.25	1.83
Diluted earnings per share	0.75	6.25	1.83
Basic earnings per share from continuing operations	0.78	1.04	1.73
Diluted earnings per share from continuing operations	0.78	1.04	1.73
Dividend proposed	1.40	1.40	1.40
Special dividend		7.57	

1) The auditor has not yet completed the 2019 audit and has not yet issued an auditor's report.

Consolidated statement of comprehensive income[1)]

x € million	2019	2018	2017
Profit for the financial year	33	276	81
Items that have been or may be transferred to the statement of profit or loss:			
Effective part of changes in the fair value of cash flow hedge of long-term borrowings, after tax	1	1	1
Total unrealised profit/loss	1	1	1
Other comprehensive income for the financial year	**34**	**277**	**82**
To be allocated to shareholders' equity	**34**	**277**	**82**
Comprehensive income to be allocated to:			
Continuing operations	35	47	77
Discontinued operations	(1)	230	5
Comprehensive income for the financial year	**34**	**277**	**82**

1) The auditor has not yet completed the 2019 audit and has not yet issued an auditor's report.

Consolidated statement of cash flows[1)]

x € million	2019[2]	2018[2]	2017[2]
Net sales from customers	2,749	3,023	3,275
Net sales from other operating income	7	11	3
	2,756	**3,034**	**3,278**
Payments to suppliers	(2,324)	(2,610)	(2,702)
Payments to employees	(131)	(165)	(182)
Payments to the government	(166)	(184)	(199)
	(2,621)	**(2,959)**	**(3,083)**
Net cash flow from business operations	135	75	195
Interest received and paid	(7)	(3)	(5)
Dividends received from participations	5	7	7
Income tax paid	(1)	(34)	(25)
Net cash flow from operating activities	**132**	**45**	**172**
Acquisitions/participations	(52)		(127)
Divested operations	1	348	11
Expenditure for investments in tangible fixed assets	(105)	(76)	(74)
Proceeds from disposal of tangible fixed assets/assets held for sale	46	83	14
Expenditure for investments in intangible fixed assets	(20)	(24)	(13)
Investment in/loans to associates			(1)
Repayments by/net divestment receipts from associates	3	0	0
Net cash flow from investing activities	**(127)**	**331**	**(190)**
Long-term borrowings drawn	50		110
Repayments on long-term borrowings	(14)	(11)	(67)
Change in own shares	(1)	5	2
Lease liabilities paid	(18)		
Dividend paid	(62)	(397)	(59)
Net cash flow from financing activities	**(45)**	**(403)**	**(14)**
Change in cash, cash equivalents and short-term borrowings from credit institutions	**(40)**	**(27)**	**(32)**
Opening balance	33	60	92
Closing balance	**(7)**	**33**	**60**

1) The auditor has not yet completed the 2019 audit and has not yet issued an auditor's report.

2) Contains the cash flows from both continuing and discontinued operations.

Consolidated statement of financial position[1)]

x € million	28 December 2019	29 December 2018	30 December 2017
Assets			
Goodwill	168	155	155
Other intangible fixed assets	163	137	143
Tangible fixed assets	362	313	303
Right-of-use assets	176		
Investments in associates	50	53	53
Other financial fixed assets	10	12	9
Total fixed assets	**929**	**670**	**663**
Inventories	230	217	207
Trade and other receivables	228	236	173
Other current assets	46	33	24
Income tax	3	16	1
Cash and cash equivalents	19	33	58
	526	**535**	**463**
Assets held for sale	0	9	221
Total current assets	**526**	**544**	**684**
Total assets	**1,455**	**1,214**	**1,347**
Liabilities			
Paid-up and called-up capital	3	3	3
Reserves	497	534	648
Shareholders' equity	**500**	**537**	**651**
Deferred tax liabilities	26	27	25
Employee benefits provision	2	2	3
Other provisions	0	0	0
Long-term borrowings from credit institutions	160	186	193
Lease liabilities	174		
Total non-current liabilities	**362**	**215**	**221**
Provisions	8	16	
Repayment obligations	77	14	14
Short-term borrowings from credit institutions	26		
Lease liabilities	15		
Accounts payable	350	339	252
Income tax	0	0	1
Other taxes and social security contributions	33	19	19
Other liabilities and accruals and deferred income	84	74	66
	593	**462**	**352**
Liabilities relating directly to assets held for sale	0	0	123
Total current liabilities	**593**	**462**	**475**
Total liabilities	**1,455**	**1,214**	**1,347**

1) The auditor has not yet completed the 2019 audit and has not yet issued an auditor's report.

Consolidated statement of movements in shareholders' equity[1)]

x € million	Paid-up and called-up capital	Share premium	Other reserves	Revaluation reserve	Hedging reserve	Share repurchase reserve	Total
Balance as at 30 December 2017	**3**	**31**	**628**	**4**	**(3)**	**(12)**	**651**
Share-based payments			0				0
Dividend paid			(397)				(397)
Change in own shares						6	6
Transactions with owners	0	0	(397)	0	0	6	(391)
Profit for the financial year			276				276
Investment property			4	(4)			
Cash flow hedge					1		1
Total realised and unrealised profit/loss	0	0	280	(4)	1	0	277
Balance as at 29 December 2018	**3**	**31**	**511**	**0**	**(2)**	**(6)**	**537**
IFRS 16 accounting policy change			(10)				(10)
Opening balance as at 30 December 2018	**3**	**31**	**501**	**0**	**(2)**	**(6)**	**527**
Share-based payments			1				1
Dividend paid			(62)				(62)
Change in own shares						0	0
Transactions with owners	0	0	(61)	0	0	0	(61)
Profit for the financial year			33				33
Cash flow hedge					1		1
Total realised and unrealised profit/loss	0	0	33	0	1	0	34
Balance as at 28 December 2019	**3**	**31**	**473**	**0**	**(1)**	**(6)**	**500**

1) The auditor has not yet completed the 2019 audit and has not yet issued an auditor's report.

Segment reporting[1)]

x € million	Netherlands 2019	Netherlands 2018	Belgium 2019	Belgium 2018	Group 2019	Group 2018
Net sales	2,166	2,126	229	220	2,395	2,346
Gross margin as % of net sales	24.6	24.2	22.2	23.9	24.4	24.1
Gross operating profit (EBITDA)	130	111	(3)	3	127	114
Operating profit before amortisation (EBITA)	76	73	(10)	0	66	73
Operating profit (EBIT)	57	56	(13)	(3)	44	53
Pre-tax profit	56	60	(14)	(4)	42	56
Net profit	45	49	(11)	(3)	34	46
Average net invested capital[2)]	756	n/a[2)]	117	n/a[2)]	873	727
EBITDA as % of net sales	6.0	5.2	(1.3)	1.2	5.3	4.9
EBITA as % of net sales	3.5	3.4	(4.4)	(0.2)	2.8	3.1
EBIT as % of net sales	2.6	2.6	(5.7)	(1.5)	1.8	2.2
EBITA as % of average net invested capital	10.1	n/a[2)]	(8.6)	n/a[2)]	7.5	10.0
EBIT as % of average net invested capital	7.6	n/a[2)]	(11.1)	n/a[2)]	5.0	7.2
Free cash flow	75	103	(39)	(1)	36	102
Net investments	78	52	7	22	85	74

1) The auditor has not yet completed the 2019 audit and has not yet issued an auditor's report.

2) As a result of amendments to segmentation and IFRS 16, no corresponding figures are available. The average net invested capital in 2019 was calculated based on the adjusted opening balance for 2019, including IFRS 16.

Sligro Food Group profile

Sligro Food Group comprises food service companies in the Netherlands and Belgium, offering a comprehensive range of food and food-related non-food products and services in the wholesale market.

Netherlands
In the Netherlands, we are the market leader and operate a nationwide network of Sligro cash-and-carry and delivery service wholesale outlets serving large and small-scale companies in the hospitality industry, leisure facilities, caterers, large-volume users, company restaurants, petrol stations, small and medium-sized enterprises, small retail businesses, and the institutional market. We also do this in the City Region of Amsterdam under the wholesale formula brand De Kweker. In a long-term strategic partnership with Heineken, Sligro is responsible for the exclusive distribution of Heineken draught beer in the Netherlands. We operate under the Van Hoeckel name in the institutional market and under the Sligro brand in other market segments. Sligro and Van Hoeckel each have a dedicated commercial organisation focusing on their specific markets, while they make use of joint delivery and other shared services.

Belgium
In Belgium, JAVA Foodservice focuses primarily on the institutional, corporate catering and hotel chain market segments. ISPC specialises in the hospitality industry and supplies high-quality, innovative food and non-food products to culinary professionals. ISPC operates combined cash-and-carry and wholesale delivery service outlets in Ghent and Liege. The first Sligro-ISPC wholesale formula outlet opened in Antwerp and the outlets in Ghent and Liege, as well as all new outlets that open over time, will also operate under the Sligro-ISPC brand. These outlets are mainly aimed at serving large-volume users and the hospitality market. The structure of the business in Belgium will gradually transform into one similar to that in the Netherlands, i.e. operating two formulas, Sligro-ISPC and JAVA Foodservice, each with their own commercial organisation while making use of joint delivery and other shared services.

Sligro Food Group has its own production facilities for specialist convenience products and fresh fish. The company also sources meat, game and poultry, fruit and vegetables, and bread and pastries through its participations in Fresh Partners, which serve both the Dutch and Belgian market.

We offer our customers a selection of around 75,000 food and food-related non-food items, as well as a range of related services. Most of the purchasing for specific food service products is handled directly through the Sligro Food Group, although a portion is arranged through CIV Superunie B.A.

Sligro Food Group companies actively seek to share knowledge and make good use of the extensive scope for synergy and economies of scale. Activities that are primarily customer-related are carried out in the separate countries and business units. By combining our central purchasing with direct, meticulous category and margin management, we aim to continuously improve our gross margins and offer our customers a unique and innovative range. Operating expenses are managed by having an integrated supply chain and through constant focus on cost control. Centralised management of our IT landscape, centralised design and control of master data management, and centralised talent and management development all work to further enhance group synergy.

Sligro Food Group strives to be a high-quality business for all its stakeholders that constantly grows in a controlled manner. Sligro Food Group shares are listed on Euronext Amsterdam. The Group's head office is located in Veghel, Netherlands.