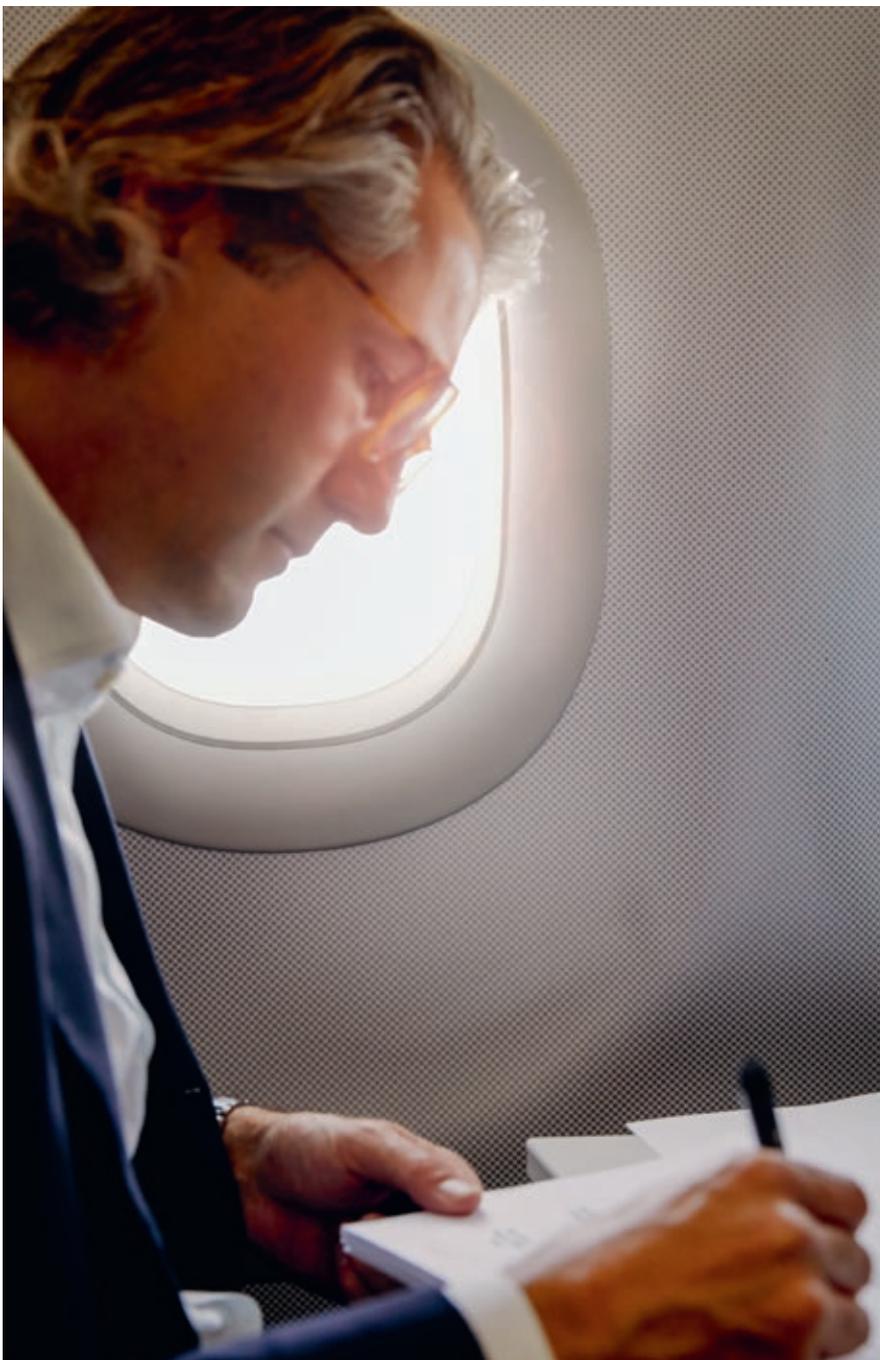


## Interview CEO

*“We have completed the process of transforming the Group into a focused convenience and food service provider.”*

*Michael Mueller  
CEO Valora*



### **Michael Mueller, did Valora definitively complete its transformation process in 2016?**

I am now convinced that the work we have done in recent years has created what from many points of view is an excellent basis on which we can now build for the future. The results we achieved last year already exceeded expectations. That reflects the substantial progress we made in implementing our focused business strategy and the fact that the transformation process at Valora is now largely complete. And, most importantly of all, during this period we have delivered what we promised. However, we will also need to continue developing in the year ahead, so that we can keep pace with the evolving needs of our customers.

### **So you are pleased with Valora's performance in 2016?**

In an environment where all retailers are finding the going tough, we raised our external sales by +0.9% to CHF 2,574 million thanks to good operating performance in all our businesses. Retail Switzerland achieved a further significant increase in earnings, despite slightly lower Sales. Retail Germany again raised its earnings, partly thanks to a positive 2.3% increase in same-store sales. Our Food Service business also grew its revenues substantially, most notably at Brezelkönig. Given the adverse impact of increased factor cost, Food Service's operating results can also be seen as satisfactory.

### **What do you see as the milestones in 2016?**

We measure our progress along four strategic dimensions; efficiency, growth, innovation and performance oriented culture. In 2016, we achieved progress in all four of those dimensions, most notably by raising our efficiency levels. By sell-

## Interview CEO

ing Naville Distribution we were able to complete the process of transforming the Group into a focused convenience and food service provider.

Last year, we focused on the further optimisation of our outlet network in Switzerland and Germany, the expansion of our Ditsch/Brezelkönig retail formats. At the same time we have strengthened our integrated value chain with our ok.-brand in Germany, our Caffè Spettacolo brand in Switzerland and Germany as well as the growing use we are making of our Ditsch bakery products at our convenience stores. We have also continued to expand our production capacity of pretzel and other bakery products for third-party customers. And that is not all. We have also enhanced our culture and our organisation significantly.

### **Has the Naville acquisition now definitively been completed?**

On the one hand we have successfully incorporated Naville's retail business into our organisational structure. On the other hand by selling Naville Distribution to the 7Days Group and disposing of the Naville building in Geneva we have successfully completed the rest of the transaction. Given our focused business strategy, the sale of Naville's logistics and distribution unit was a logical step. Thanks to the Naville acquisition and the reorganisation of our existing Swiss retail business which we had already initiated in 2015, we were able to capitalise on useful synergies in 2016, such as operating from one single platform and being able to carry out the same promotions at significantly more outlets.

### **You often mention synergies and increased efficiency and synergies. Does that mean that Valora's principal focus in 2016 was on costs?**

Obviously it is important for us to be very aware of costs. We aim for high levels of operating efficiency in all our busi-

nesses in order to perform successfully in the face of tough competition. To achieve that we also intend to make increasing use of a uniform platform for all our businesses. As an organisation, we want to combine our energies so that we can be more dynamic, decisive and innovative. An important observation for me has been that our employees are putting a lot of motivation and commitment into moving in this direction and that signs of positive change are already apparent. We have become more agile and are more open to new ideas.

### **In the past you have said that you would like Valora to be perceived more as a service provider. How exactly do you see that expressing itself?**

In 2016, we already launched a number of new service offerings which will help us achieve that goal. These include the mobile phone battery rental service we operate with battere and the option we offer our customers of paying for Air Prishtina tickets at our kiosks. We are also expanding our existing offerings, such as our package service, and creating new loyalty programmes for our customers. Our objective is to enhance the Valora shopping experience and to use the direct contact we have with our customers to offer new services. As part of these endeavours, we are also focusing intensely on the possibilities opened up by digital communication. There is still plenty of potential in our other markets, particularly Germany, as not all the new services we currently offer in Switzerland are yet available elsewhere.

### **Can you give some examples of new digital offerings that have been introduced recently?**

New digital solutions are always about generating added value for the customer. We have realised initial projects in a number of areas. There is a pilot project

in Zurich analysing customer footfall, we introduced the Caffè Spettacolo app for remote ordering and payment, we have a scan&go pilot project running at some outlets, which speeds up transaction volumes during the rush hour, we have created a Retail analytics team and our bob Finance subsidiary now provides consumer loans.

### **How are Valora's new financial services performing?**

In its first year of operation, bob Finance achieved positive life time value, which means that the present value of the projected interest payments on the loans it has granted is greater than its current operating costs. The other financial services we offer are also performing well. More than 220000 of our customers now use our ok.- prepaid Visa and Mastercard service. The possibility of being invoiced for services and paying for them at our kiosks is also very popular, because it meets a specific customer need. Currently, this service is available for providers such as Starticket and Air Prishtina.

### **How is the traditional kiosk business doing?**

It is part of the core business of our Convenience and Food Services network. Over the last three years we have shown that we can achieve successful results with this business despite the pressure especially on our press products. That success is also demonstrated by the extremely positive margin trends we are achieving.

### **Where do you see the main potential for growth?**

There is very clear potential in further expanding our food and beverage offering across our kiosk and convenience-store network. That is why we equipped some 100 outlets in Switzer-

## Interview CEO

land with Starbucks coffee machines last year and set up Caffè Spettacolo machines in some 650 outlets. The Caffè Spettacolo machines will be rolled out to German outlets in 2017.

*“New digital solutions are always about generating added value for the customer.”*

### Coffee at a kiosk? Does that work?

Although the roll out was not fully completed until the end of the year, in December alone we increased the quantity of coffee we sold by 27% and raised our coffee revenues by an even more impressive 35%. Moreover, as with all our other new offerings, the coffee attracts new customers, who generally buy something else as well.

### What formats does the Retail division's market presence comprise?

Our five formats – k kiosk, avec, Press & Books, Service Store DB and Cigo – operate in four countries, with Germany and Switzerland being the most important markets. In Germany, we successfully launched our ok.– energy drinks in 2016, selling more than 6 million cans. Our private label ok.– brand is already well established in Switzerland, and we intend to deploy it more actively in Germany in future. We also fine-tuned our existing German formats. This included placing further emphasis on Cigo's role as a specialist tobacco retailer and introducing a new fresh-produce concept for our avec. convenience stores.

### So, Valora is now growing again in Germany?

Both in terms of its results and its quality of organisation. We have strengthened the management team, our structure and processes are more clearly defined and our new financial controlling arrangements mean that we can steer the business more precisely and immediately. Our core food and tobacco ranges performed very successfully in 2016, thus more than compensating for the decline in press turnover on a same-store basis.

### How are things in Switzerland?

With increased earnings and a +0.9% improvement in its EBIT margin, our Swiss business is well on track. This is principally attributable to increases in operational efficiency, lower cost, the improvement in gross margins resulting from the higher revenue generated by promotion campaigns.

### Did the huge lottery jackpot in late 2016 help the Swiss business?

Lottery tickets are still an important part of our business, partly for the footfall they create and partly for their margins. The staff at our kiosks can always gauge how big a jackpot is. However, the record jackpot in late 2016 did also mean much more work for our staff and longer waiting times for our customers.

### In Switzerland, Valora also encountered criticism last year, with the Syna trade union repeatedly describing kiosk staff pay as being too low.

Pay is only one of many factors contributing to employee satisfaction, as our employee survey clearly demonstrated. After Syna terminated our existing general employment contract at the end of 2016, we found a competent and constructive new partner in KV Schweiz, the Swiss Association of Commercial Employees.

### Valora's agency partner model was also criticised by the trade union.

For many years, Valora has been operating a very successful agency and franchise system at many of its outlets in both Switzerland and Germany. We have long-term working relationships with a lot of agency and franchise partners and are attracting new partners to our network every year. Syna took the view that our independent agency partners as well as their collaborators should qualify as Valora employees. That contention was clearly refuted by an arbitration court in early 2016. We remain committed to this model, because it provides motivated people with an opportunity of becoming entrepreneurs and to establish a business of their own with the support of a strong partner.

### Alongside Retail, Food Service is the second pillar of Valora's business. How did that perform in 2016?

We need to distinguish here between the B2C and B2B businesses. Our B2C business, where we sell directly to end customers, mainly comprises our Ditsch formats in Germany and our Brezelkönig and Caffè Spettacolo networks in Switzerland. In all, we opened 34 new outlets in 2016. In Switzerland, our food business expanded particularly well, so that we now have 36 Caffè Spettacolo and 56 Brezelkönig outlets. We believe there is scope for our Food Service networks to expand further in both countries. What is particularly pleasing is that our existing outlets achieved very positive performance in 2016, both in Germany and especially in Switzerland.

### How important is the B2B business for Valora?

The B2B business is an important part of the Valora Group. It has achieved impressive growth over the last years. As a

# Interview CEO

OUTLET NETWORK		
	FORMAT	OUTLETS
	k kiosk	1'111
	cigo & Subformate/ Partner	427
	P&B	210
	Naville	162
	avec	129
	SSDB/U-Store	141
	Ditsch	218
	Brezelkönig	56
	Brezelkönig International	6
	Caffè Spettacolo	38
	TOTAL	2'498

**KIOSK &  
CONVENIENCE**

**FOOD SERVICE**

result, some 90% of our output now goes to third-party customers, principally in Germany, Austria and Switzerland, but also in the United States and Japan. Given the strong performance of our B2B business, we decided to expand our Oranienbaum production facility further in 2016. Production expertise has an important part to play in the enhanced value generation we plan to achieve through to increased vertical integration.

*“Our strategy covers four dimensions: growth and expansion, efficiency, a performance oriented culture and innovation.”*

**International expansion is one of Valora’s key objectives. Were you able to make progress on that in 2016?**

Pretzel production and the export business that goes with it are clear growth priorities. In January 2017 we announced our acquisition of Pretzel Baron, a young, aspiring pretzel producer in the United States. This not only adds to our output capacity but also means we can produce pretzels in the US. In future, that will enable us to be more focused in leveraging the potential offered to us by the US market. Beyond that, we now have six Brezelkönig outlets up and running in France and Austria. The Brezelkönig format is working very well at heavily frequented locations in those markets. Having thoroughly tested both the concept itself and the logistic chain supporting it, we are now looking for franchising partners. The foundations for a successful international expansion drive are thus in place for the years to come.

**Are acquisitions still on the agenda?**

We regularly evaluate possible acquisitions, both large and small, as a means of tapping into new markets or developing new formats. However, our future expansion will be driven by a combination of organic growth and acquisitions in our two existing business areas, Retail and Food Service.

**No doubt you expect your international business to benefit from insights from the designated Board Chairman?**

Certainly. He has significant international experience, an in-depth knowledge of franchising concepts and, of course, he knows Valora very well. Franz Julen was involved in developing our business focus strategy and has sustained its implementation in the Board over the years. He is also very receptive to new ideas and supports our growth strategy.

**You mentioned earlier that Valora had achieved all its financial objectives in 2016. What do you find most pleasing about the results?**

The performance of our two most important financial metrics. We raised our return on capital employed (ROCE) to 8.2%. That shows that Valora generated significant value for its owners. Our free cash flow of CHF 72.6 million confirms that Valora is able to generate sufficient free cash to pay an attractive dividend while still maintaining adequate financial flexibility. I would also mention that our gross-profit margin rose to 41.5% and our EBIT margin increased to 3.4%, so that we are now closer to the targets of 42% and 4% which we plan to reach. Finally, the CHF 72.3 million of EBIT we generated in 2016 was actually slightly above our guidance target range of CHF 65 million to CHF 70 million.

# Interview CEO

**And what about Valora’s investment capabilities?**

They are very good. On the one hand, with a leverage ratio of 1.6x we are in a strong position as far as financial stability is concerned, on the other hand our long-term liabilities are very well-balanced. We are thus well-placed to continue developing our existing business and to finance the growth we plan to achieve. Having invested just under CHF 50 million annually for the last two years, we now expect annual higher investment volumes. Our focus will be on expanding our pretzel and other bakery product output and on achieving further growth in Germany.

**What do you think are the major challenges Valora will face in the future?**

Competition is increasing across the board and factor costs are tending to rise. Our core product ranges continue to evolve. Food and beverages for immediate consumption are a major trend, as are fresh food offerings. Finally, customers have high expectations when it comes to quality, availability and transparency.

*“My thanks go to all our staff for their commitment and motivation they have shown in helping to shape our transformation process.”*

**How is Valora responding to all this?**

We have a clear, focused strategy and we made significant progress last year in raising our efficiency levels. We have an excellent network of retail outlets at heavily frequented locations and we are concentrating our efforts on developing our convenience-store and food offering further and on making the best possible use of our platform. In so doing, we can ensure that our product ranges are better calibrated across formats, and achieve even greater cost efficiency. We will need to continue making major investments in gaining a better understanding of our customers and their needs, so that we can generate greater added value for them.

**How, specifically, do you intend to expand your convenience business and where?**

We have created an solid basis for growth in Germany, where we have a effective organisation. Thanks to the clearly defined profile of our tobacco retail specialist Cigo and the extended fresh-produce range we have introduced at avec, we are very well-positioned. We see plenty of opportunities for growth in Germany, because the market there is not yet as consolidated as it is in Switzerland. Competition for attractive locations has intensified further and we therefore see limited scope for organic growth there. That is why we are focussing on optimising and continuing to develop our existing outlets.

**What are the prospects for the food business?**

Here, we believe that consumer appetite for food and beverage on the go will continue to grow and that we will be able to develop our Food Service networks in our core markets further. Additional expansion of the Ditsch/Brezelkönig outlet networks, extending the food and fresh-produce offering at all our formats. Furthermore, continuing our expansion abroad with Brezelkönig International and increasing the production capacity of our pretzel and bakery products are key elements of our growth strategy for 2017.

**So you look to the future with optimism?**

Yes, I do. But we cannot afford to relax. The market is constantly evolving. That is a challenge for us all. My thanks go to all our staff for their commitment and motivation they have shown in helping to shape our transformation process and in keeping it moving forward. By systematically pursuing this path in the future, we will continue to achieve our objectives and deliver on the promises we make.

