

Interview CEO

*Michael Mueller*  
*CEO Valora*

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## Interview CEO

### Michael Mueller, what were the highlights for Valora in 2015?

Over the last twelve months, we have achieved a number of key strategic milestones, while also managing to improve operational efficiency throughout the entire company. I was particularly pleased that we were able to complete the sale of our Trade division and outsource our logistics activities in Switzerland; these marked the last major steps of our strategy focus. This means Valora can now concentrate on its Convenience & Food Service business, with its strong foothold in the production of lye-bread products. With Naville, we have also been able to successfully expand our already strong Swiss network in Western Switzerland.

In integrating Naville, we were also able to improve operational efficiency throughout all of our core processes in the Retail Switzerland unit and in Group Management. Our organisation is now leaner and more agile. At the same time, we have also managed to strengthen our organisation in the Retail Germany unit and pave the way for future growth. The foundation of FinTech company bob finance AG also marked a key milestone. bob finance AG is also part of the newly created Valora Lab, which develops digital products and services – for example our Spettacolo coffee app. As previously announced, we have also taken the first key steps in digitalizing our business. And it goes without saying that I am happy we were actually able to exceed the Group's financial goals despite the extremely challenging market conditions.

### Let us move onto the challenges in the Retail area. There is still a particular focus on developing the shop concepts. What has been achieved in this respect?

In the Swiss kiosk business, we have now strengthened our position of the kiosk

business. However, we have also continued to make progress in other markets as regards expanding with a range of food products. We successfully introduced ok.– products in 2015 at Naville locations and in Germany, while Spettacolo and Starbucks modules have been integrated into other shop concepts. In Germany we launched a new convenience format and our product range now includes many more products to be consumed on the move. We are making good progress as regards the optimisation of our product range – particularly with a focus on food products – and we are continuing this approach across a number of formats.

### So what is next? How will Valora grow?

We will continue to focus on strengthening our food and service offerings and improving customer service. The convenience and food service/take-away market continues to represent a growing fundamental need, as the lifestyles of an increasing number of people are changing. Despite intensive levels of competition, I am optimistic that we will be able to further expand our offering. In Germany, in particular, the market is far less developed and is not as saturated as in Switzerland. The Valora Group already generates a gross margin of around 50% in the Food area and has great expertise in the areas of coffee and baked goods. Together with our strong portfolio of heavily frequented locations, well-known own brands and our unique position in the areas of tobacco and press/books, we have the solid foundation required for growth. In future, we will concentrate on developing our existing formats, opening new locations with a focus on food, and expanding our Brezelkönig branch concept internationally, which will also involve the continued international development of our Ditsch pretzel and dough production business.

### What is the situation as regards control over the entire value chain, an issue that has often been emphasised in the past?

In our food shop concepts, we benefit from a high level of vertical integration – from production right through to sales. We can make use of this expertise in the Food area to differentiate ourselves at our specialised Ditsch, Brezelkönig and Spettacolo outlets, and increasingly throughout our entire Convenience network, as well. In addition to cold drinks, baked goods and coffee represent a key part of our food offering.

### How important is it for Valora that Ditsch produces lye-bread products?

We are one of the leading producers in the world when it comes to pretzel-dough products. Each year, we produce more than 500 million baked goods in our highly automated production facilities in Germany and Switzerland, and we distribute our products across the globe. We are known for our exceptional quality standards and high level of flexibility. Over the next few years, it will be extremely important for us to be able to continually expand our production capacities and develop new customer relationships in both existing and new markets.

### Which strategy are you pursuing when it comes to the international expansion of Brezelkönig?

As previously announced, we are pushing forward with this initiative. In the first six months, we opened a branch in Vienna – since then, we have increased our presence to three locations – and we then launched two outlets in Paris at the end of 2015. Over the next three to four years, we are aiming to open over 100 outlets in new markets together with franchise partners.

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**ok.– is a key own brand. What is next for it?**

With ok.–, we have succeeded in establishing an own brand in Switzerland, which has a reputation for offering high-quality products in the entry-level price segment. The products are available exclusively in our outlets. We will now position the brand more strongly in Germany and continue to expand the product range.

**What is the situation as regards Valora’s plans for its digital strategy?**

In the Convenience area, we are – and will remain – the experts for everyday products, whether in the area of press, tobacco, lottery games or services – and of course food and drink for consumption on the move. This has enabled us to become trusted points of contact for our customers, with over 1.6 million visiting us each day on average. Linking customer visits to our outlets with options for digital communication provides us with a range of new opportunities. We are already making good use of these with our offering in the area of payment and financial services (Visa/MasterCard prepaid cards, iTunes, Starticket pay@kiosk etc.), mobile prepaid as well as package services (pick-up/drop-off). In future, we intend to expand the ways in which we directly contact our most loyal customers via digital channels, all of which will further improve their shopping experience. It will also become more important to make use of digital opportunities and analyse customer behaviour so that we can better target our products in line with customers’ needs.

**What role will the newly founded Valora Lab play in all this?**

We want to make use of the digital opportunities we identify. That is why we founded the Valora Lab: the team is tasked with identifying digital trends, promoting digital innovation and accelera-

ting the implementation of new ideas. By tapping into today’s technological possibilities and the corresponding interfaces, we are striving to develop diverse, innovative and attractive customer solutions.

**Has Valora already launched a tangible product in this area?**

We have introduced two new, attractive products: bob money for private loans in cooperation with the Glarner Kantonalbank and ok.– cash, which can be used to load credit onto ok.– prepaid cards at k kiosks and Press&Book shops. Importantly, this means we have expanded our existing offering with financial services. We have also launched the Spettacolo coffee app, which allows customers to order their coffee in advance and benefit from discounts. We are currently working on developing similar solutions for all channels. Here I see real potential for increasing customers’ loyalty to Valora and developing personalised offerings.

**Let us change the subject now: where is the journey with your suppliers heading?**

One thing is clear: Valora intends to be an important and attractive “bridge builder” between suppliers and consumers. We want to establish our POS network as a key marketing and promotional channel. Our numerous outlets offer a unique platform for promoting our suppliers’ offerings. We want to place an increased emphasis on this USP. Our POS promotions reach a great many people. The top locations and the rapidly progressing development of our digital components will help us evaluate the potential for each individual customer contact and further develop existing customer relationships.

**You mentioned the acquisition of Naville in Switzerland as being another highlight. Did the integration of Naville go well?**

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Absolutely. Our teams did an excellent job in this regard. Naville already contributes CHF 240 million – or more than 10 percent – to the Group’s sales, and accounts for almost 20 percent of operating profit. By integrating Naville, we have been able to bring together our expertise and establish a new, agile organisation for our Swiss retail business. To do so, we adopted a “best of both worlds” approach. This enabled us to significantly strengthen our market position in Switzerland, which has also resulted in increased profitability.

**What has happened in general as regards increasing efficiency? The organisation previously announced that work still had to be done in this regard.**

In 2015, we were able to significantly increase operational efficiency throughout the entire retail organisation – both in Switzerland and Germany. We are experiencing a fundamental shift in the retail business and are operating in a challenging, fast-moving market. An agile organisation is of vital importance in this respect. An important factor here is not just reducing the cost base, but also increasing the speed at which we adapt our concepts and innovations. This has allowed us to lay the organisational foundation for implementing our growth plans. In our business, it is people who make the difference. We rely on committed, entrepreneurial and innovative employees. People who love selling products and talking to a wide variety of customers. People who contribute their own ideas and have fun implementing them.

**Will this transformation also result in a cultural shift?**

To a certain extent, that will of course be the case. Our focussed strategy should also be reflected in the way we act in relation to each other: we want flatter hierarchies, we want to promote a sense

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of individual responsibility, we want to be more agile in general. And we want to accept mistakes throughout all of this.

**Are you experiencing any difficulties in this regard?**

It is indeed challenging, and therefore deserves real recognition. I would like to take this opportunity to personally thank all our employees on behalf of the entire management team for having shown so much commitment in helping to shape the transformation that Valora is undergoing – indeed has to undergo. It never fails to impress me when I see how the team works hard from early in the morning until late at night, all the while demonstrating such a will to change and shape the company.

**Let us discuss the figures briefly. How do you view 2015 on this basis?**

We achieved all the goals we set ourselves. Indeed, Naville actually exceeded its goals. Furthermore, the Swiss business performed very well compared to the market and we were able to substantially improve margins. Germany is progressing well and has real momentum. And Ditsch/Brezelkönig achieved good results despite the intensive competition and challenging conditions it faced. The production/B2B area again performed extremely well, in particular.

During 2015, we managed to increase EBIT at Group level from CHF 30 million to CHF 55.1 million, which exceeded expectations. This performance is pleasing even when taking into account last year’s extraordinary writedowns. And we managed all of this against the backdrop of the strong franc, shopping tourism, the rail strike in Germany and the nationwide introduction of the minimum wage. I was particularly pleased with our home Swiss market, which is a key element in the Group’s profitability. Here we were able to significantly increase our margin to 2.0% after adjustments for

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one-time effects. Overall, we generated earnings per share of CHF 12.51 from on-going activities, which corresponds with the amount of the dividend.

**Return on capital employed and free cash-flow are significant KPIs in your business. How satisfied are you in this regard?**

At Group level, we were able to significantly improve our ROCE in 2015, to 6.9% on an adjusted basis and we are confident that we will be able to achieve our target ROCE of over 8% in 2016/2017. Thanks to the considerable improvement in the Retail area by 3% to 10% (excluding liquid assets), this goal is now well within reach. Free cash flow from continuing operations was especially pleasing, at CHF 82 million – or CHF 24.5 per share. Averaged over the last three years, we have generated a free cash flow of CHF 16 per share, which is clearly above the dividend of CHF 12.50. This has enabled us to reduce our leverage ratio for continuing operations to 2.1x. We therefore have a solid balance sheet as the basis for financing future investments, maintaining and developing our network and growing the Group as a whole.

**Are there any specific aspects in the figures you would like to highlight?**

Following the sale of the Trade division, there have been significant non-cash effects, which have an impact on profit. However, there will not be any further one-time special effects. In general, the time of numerous one-time effects resulting from the Group’s repositioning is over.

**Earlier you mentioned Valora’s change in strategic focus. Has this process now been fully completed?**

There are still a few, small puzzle pieces to slot into place, and then our shift to focussing on convenience-retail and immediate-consumption goods in highly frequented locations will be complete. Valora is starting 2016 with a clear position as well as strong, attractive brands and shop concepts in five countries. Our focus is now on developing this concept and on growth.

**What specifically must still be done before the repositioning is complete?**

In 2015, we reduced complexity within the Group, even aside from the disposal of the Trade division. Following the previous sale of our press wholesale operations and press logistics activities to 7Days Media Services, last year we were able to outsource our goods logistics from Retail Switzerland to this partner, as well. We are now looking at selling the Naville Distribution logistics platform, but this is still in the evaluation phase. The Naville transaction also involved the acquisition of real estate at an attractive location in Geneva, which we also intend to sell.

**What are your future ambitions as regards customer focus, now that the Group’s transformation is behind you?**

Our ambitions mainly centre around our top network as well as strengthening vertical and digital integration. We are close to our customers, and we want to make use of the opportunities this brings. At all times, we have to focus our activities on well informed customers who are looking for high-quality products. We want our offerings and services to cater to the increasingly digital lifestyles our customers lead. We all have to be innovative, agile and dynamic.

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### **As a brief summary, what will be happening in 2016?**

The focus is now on developing our existing business. We are in an excellent position to do just this: we currently operate in Switzerland, Germany, Luxembourg, Austria and France. More specifically, we will focus on the continued development of our Retail and Food concepts in Switzerland and Germany in particular. And we will continue to tap into the real potential for international expansion offered in the area of our successful B2C/B2B concepts with Ditsch/Brezelkönig. We will, however, definitely push forward with new ideas into new markets where we identify opportunities. The digital expansion of our offering will also provide us with opportunities to position ourselves as a multi-channel retailer able to link the digital world with our points of sale.

The most important thing to note, however, is that 2016 will clearly show that it was the right decision to focus on the Retail business. Our team has a real thirst for action and is full of good ideas! ●

