Commercial Leader Guide

Hot Topics

Proactively responding to requests for extending payment terms.

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Introduction



The Covid-19 pandemic has created unprecedented commercial challenges for our Customers and McCain. We will need to navigate through these with our Customers in a consistent, effective and efficient way whilst maintaining the integrity of our relationships.

Many Customers are experiencing pressures on cashflow which will increase the longer they remain closed and unable to generate revenue. This typically generates an immediate reaction to defer payments to suppliers in the form of a request to extend payment days.

These requests have started and whilst we need to be empathetic to our Customer's situations, we too are under similar pressures.

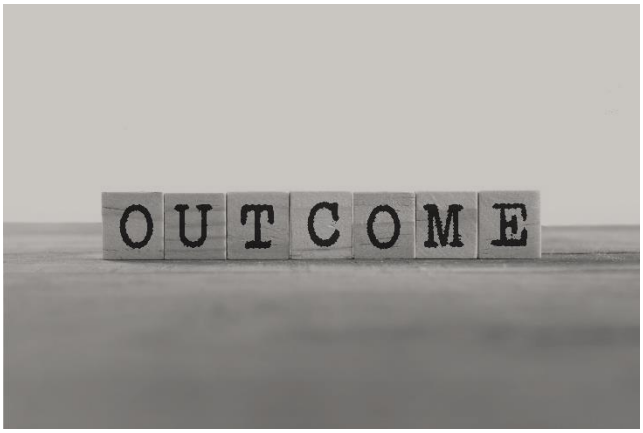
This Guide captures good practice and examples from around the McCain globe that can be adapted and applied in your market.

Please use this as input to shape the clear direction that you give to Sales Teams as they prepare to have customer conversations regarding payment terms.

Clarity on the desired outcome

Saying "no" to Customers requests for extended credit will be uncomfortable but our corporate position is clear and the outcome of the discussions should be such that:

- No credit terms extensions will be authorised.
- Global Customers receive a consistent message and response from all markets.
- Markets take a consistent position across their customer base.
- No precedents are set in the event that:
    - Covid-19 closures reoccur, or
    - Further requests are made as shutdown periods extend.
- Customer relationships are maintained.
- McCain are seen to be supportive and part of a solution rather than a problem.
- Solutions to create value for both parties when trading begins.



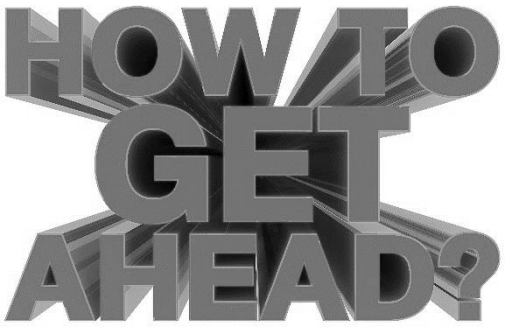
Getting on the front foot

Preparation and anticipation is a critical success factor in how we show up to these Customer conversations. To respond from a position of confidence means knowing the real commercials behind the request.

Customers are most likely to talk in "days" which is a softer way of talking cash. Understanding the cash position for the Customer and McCain is critical context.

It's therefore recommended that any Customer Leader is equipped with the relevant facts of:

- When stock was delivered, what, how much and the value?
- What does the above mean in terms of payment schedules and values?
- How long did the customer have to sell out before the crisis and therefore what stock will have been converted to cash for them?
- How much shelf life does it have?
- When would stock held need to be written off by the customer?
- What agreements (if any) do we have in place for stock write off?
- How much is 1 day credit extension worth to the Customer and to McCain?
- Where do we rank as a supplier in size / scale?
- What do we know from other supplier contacts about how they are responding?
- Is the Customer currently generating any revenue? Eg. through delivery in OOH.



TOP TIPS:

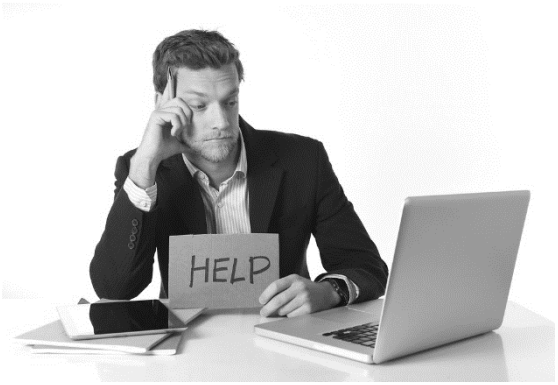
- Work with Finance to get a full financial picture by Customer (locally and/or globally) depending on the relationship managed.
- Gather market intelligence from other suppliers to understand whether the request is consistent/different and how they are supporting.
- Think about heading off the request before it happens and proactively communicating the McCain position.

The Customer's position

Consider what's driving the Customer's request, why your key contact is making this request and how they feel about doing it.

Why ask for extended payment terms?

- No, or limited revenue being generated which means a lack of free cash.
    - Route to Market maybe generating some revenue from supplying D2C.
    - OOH in some markets may be still offering Delivery.
- Cash reserves will being run down by cost of payments that can't be deferred e.g. electricity.
- High costs like staff will have needed to be covered up to closure and possibly beyond which may be indefinite.
- Cost of goods is the highest outlay so it's a logical start point to seek funding from Suppliers.
- Write-offs and waste maybe higher than usual depending on the mix of ingredients/products used.
- The willingness and ability to borrow from financial institutions will be a last resort.
- The attractiveness of businesses as potential borrowers has decreased also making it harder to access funds.
- Indefinite closure will mean Customers are trying to minimise ongoing costs and cash outlay as much as possible.



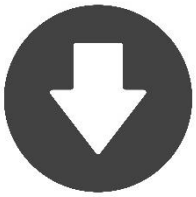
TOP TIPS:

- Think about the personal style of your key contact making the request – they too are being put in an uncomfortable position.
- **REMEMBER :** the shelf life of McCain increases the likelihood that products can still be converted in to revenue.

McCain's commercial arguments

The impact of Covid-19 has been felt right across our business:

VOLUME / SALES



The majority of McCain's business is through Out of Home consumption channels, which is experiencing unprecedented declines in some markets as high as -100%. Although our In Home business is experiencing an increase in demand, it cannot offset the loss from Out of Home.

FIXED COSTS



In the potato processing industry, manufacturing costs are a significant portion of the finished good cost structure. Fixed costs rise as a result of declining production volumes across our extensive factory network.

INVENTORY COSTS



With the abrupt downward change in demand, a higher amount of finished goods being stored for longer period of time. These storage costs continue to mount and will be difficult to resolve until demand resumes.

RAW MATERIAL COSTS



Potatoes come out of the ground once per year and growers have already been paid for their crops. This puts McCain in a position where we are unable to seek similar relief by requesting terms extensions. Further, without demand for processing, we may be forced to salvage revenue from the remaining crop by selling at costs well below their original price.

McCain's commercially based response

Our response is anchored against commercial facts and a commitment to be creative in finding a solution that is workable for Customers and our own business.

- McCain like many other businesses has been severely affected by the Covid-19 pandemic leading to a sharp decline of Out of Home food consumption.
- Our Food Service and QSR divisions represent more than 80% of our sales and we are currently recording drop in orders going between -40% / -100% depending on market and customer.
- Because of our large network of factories we have to support high fixed costs that won't be absorbed because of lower volumes, even if we are going to scale down the production during the crisis.
- We have to carry stocks of finished products in excess of our storage capacity, forcing us to take on additional external capacity, generating additional unexpected costs.
- We have to carry excess inventory for certain products that we produce exclusively for some of our customers.
- The industry of processed potato has to deal with a huge raw potato surplus due to massive declines in sales and production.
- In McCain based on the current production forecast the surplus of potatoes coming from our contracts is estimated to date at 80,000 Tons, a large part of these potatoes are committed from annual and multi-year contracts that we engage with our farmers for our customers.
- As the market is drastically going down, McCain will support tremendous losses by selling this unused inventory on the free market.
- In order to protect the agricultural sector and guarantee the future of our business, McCain gives priority to supply & call off its pre-season fixed price contracts in order to prevent cash collapsing effect at farming level on the short and mid-term including the next growing season.
- McCain does not intent to extend its payment terms to its growers.

McCain's finance response

Response to customers

- McCain is not in a position to offer extension of payment terms.
- Globally as a company approximately 80% of our food business is in out of home channels. Due to the tremendous challenge Covid-19 is posing, the financial pressure McCain is facing is a shared reality to all who operate in these channels.
- The significant drop in demand and the inflexibility of the capital / working capital base required to sustain our business will result in significant losses for us, particularly with our potato stockpiles.
- We are not solely thinking about our liquidity challenge, but particularly about the health of our economic model with our customers. We want to be prepared for when the out of home channels enter the recovery stage so that we are able to support and partner with our customers to build the long term health of our respective businesses.

Additional Internal Guidance

We understand that for certain customers on a case by case and market by market basis there will be exceptions to be considered for extension of payment terms.

This is to be managed by the respective regional management teams with the formal approval of the Regional President and Regional CFO required.

Possible Customer counter-arguments

On receipt of the McCain response, Customers may revert with a counter-argument that seeks to imply McCain is in stronger commercial position. This is as a way of trying to re-open the conversation. These may include things like:

- McCain has a thriving Retail business which will have been benefiting from the Covid-19 in home stock piling.
- The increase in demand for Delivery must have positively impacted McCain sales.
- As the biggest Global supplier you have a significant advantage managing your cost base.
- McCain has the benefit of the last cost price increases.



As a last resort there's always the "threat" of supplier review at a point in the future. This should be taken seriously and plans put in place to re-establish the value that McCain brings by supporting the Customer to get off to a fast start when it re-opens.

TOP TIPS:

- Avoid getting pulled in to a debate, respectfully close the conversation.
- For OOH Customers with an IH connection e.g. Tesco/Booker, understand the IH business position on the back of Covid-19 and align as a total team in case of escalation.

McCain win-win commercial options

The request for extended payment terms should not be seen as the opening of a negotiation, the McCain position is very clear. We understand that survival is top of mind in the short term but want to take a more optimistic view and turn attention to near future by showing willing with future support.

Think creatively about ways to show willing to your Customer and create **mutual value**. These may include things like:

- Support the Customer and McCain to quickly generate volume or revenue when they re-open.
- Help them to re-open as cost efficiently as possible whilst generating profitable volume for McCain.
- Minimize the risk of write-off and maximise revenue from stock.
- Incentivises and rewards early payment when cashflow returns.
- Reflects the period of closure in annual agreements and incentivises over a shorter time frame against a higher volume.

TOP TIPS:

- Leverage the shelf life of McCain and likelihood that stock can be converted to revenue and profit.
- Consider promotional activity that will help the Customer to drive sales out.
- Use mechanics that help McCain to recoup lost volume (but ensure capacity is in place to deliver on any agreements made).

Reducing Payment Days – In Home Best Practice

The GB Retail team have worked in partnership with a number of their customers to reduce payment days which supports our cashflow and working capital.

WHAT ARE THE BENEFITS OF DOING THIS?

- Significantly improves our cashflow.
- Reduces customer Days Sales Outstanding (DSO).
- Greater access to funds, quicker.
- Provides greater transparency on invoicing.
- Negotiable benefit to aid Commercial Agreement discussions and strategic partnership building.

HOW TO PROGRESS

- Explore the options available with your retail customer partners.
- Work in close collaboration with local finance to establish the benefit.
- Analyse internal and external methods for DSO reductions (Supply Chain financing, Early settlement discounts etc.)
- Reach out to Andy Hoff and the GB In Home Team for further insight and best practice on their approach.

Customer Response / FAQ's

Questions	Suggested Answer
Our customers are asking us for extended terms so they can remain solvent. We need you to support us so we can help them stay in business.	I understand. This situation is impacting everyone in the restaurant industry in a similar way. Our cash flow is also similarly challenged, however as a manufacturer, our avenues for relief are severely limited.
We will agree to move back to normal payment terms as soon as all of this is over. Can we have these terms extended for a period of time?	As you are, we are also concerned with short term cash flow. We are not in a position to extend terms of any duration.
All of our other suppliers are providing extended terms. Why would McCain not be able to?	A couple of factors make McCain unique. We are significantly weighted towards out of home channels and as a result are not seeing the In Home consumptions offset others may be. Additionally, the nature of the potato business provides unique challenges including pre-purchased raw materials and looming major cost hits tied to excess raw.
We are running out of cash, we need your partnership and support to remain solvent.	We are here to offer our partnership by supporting you to drive your revenues. We are also in need of cash generation and would prefer to invest in solutions that offer mutual benefit.
We have no choice but to increase our days to pay. We are going to pay you slower and continue to take the discount.	I understand this is a time of crisis, but I would encourage not to make unilateral decisions. We are here to support you in every way possible and would ask that we consider other solutions where we can avoid causing direct harm to one another.

Support Materials

EXAMPLE – INTERNAL COMMS

CE Team Example

27th of March, 2020

Customer request for Credit Term extension (for internal use only)

Key messages:

1. In the context of Covid-19 we cannot accept any credit term extension from our customers, everyone has to find its own solutions to ensure the continuity of its business
2. As a multi-local company, and supporting our growers community and more widely our suppliers community, McCain does guarantee our standard payment terms in order to sustain their cash flow and secure our assured supply chain
3. We recommend our customers to use banking facilities that are available in several countries since the start of the COVID 19 crisis

Rationales:

- McCain is as many other businesses severely affected by the Covid-19 crisis due to the sharp decline of Out of Home food consumption
- Our Food Service and QSR divisions represent more than 80% of our sales and we are currently recording drop in orders going between -40% / -100% depending on market and customer
- Because of our large network of factories (6 in Europe) we have to support high fixed costs that won't be absorbed because of lower volumes, even if we are going to scale down the production during the crisis
- We have to carry stocks of finished products in excess of our storage capacity, forcing us to take on additional external capacity, generating additional unexpected costs
- We have to carry excess inventory for certain products that we produce exclusively for some of our customers
- The industry of processed potato has to deal with a huge potato surplus due to massive declines in sales and production (in France estimation is +500 000 Tons)
- In McCain based on the current production forecast the surplus of potatoes coming from our contracts is estimated to date at 80,000 Tons, a large part of these potatoes are committed from annual and multi-year contracts that we engage with our farmers for our customers
- As the market is drastically going down, McCain will support tremendous losses by selling this unused inventory on the free market
- In order to protect the agricultural sector and guarantee the future of our business, Mc Cain gives priority to supply & call off its pre-season fixed price contracts in order to prevent cash collapsing effect at farming level on the short and mid-term including the next growing season
- Mc Cain does not intent to extend its payment terms to its growers e.g. remaining 30 days end of month

EXAMPLE – Written Response

CE Sample Latter

McCain Foods Europe.

Villeneuve d'Ascq, 30th of March 2020

Dear Customer,

McCain is, as many other businesses, severely affected by the Covid 19 crisis due to the sharp decline of Out of Home food consumption.

Our Food Service and Quick Service Restaurant divisions represent more than 80% of our sales and we are currently recording drop in orders going between -40% and -100% depending on market and customer.

The significant decline in our business has had a significant impact on the finance of our company, in particular the following factors:

- Because of our large network of factories (6 in Europe) we have to support high fixed costs that won't be absorbed even if we are scaling down the production during the crisis.
- We have to carry stocks of finished products in excess of our storage capacity, forcing us to take on additional external capacity, generating additional unexpected costs.
- The surplus of potatoes coming from our contracts is estimated to date at 100,000 Tons. A large part of these potatoes is committed from annual and multi-year contracts that we engage with our farmers for our customers.
- As the market is drastically going down, McCain will support tremendous losses by selling this unused inventory on the free market.

As a multi-local company, and supporting our growers community and more widely our suppliers community, McCain does guarantee our standard payment terms (e.g remaining 30 days end of month) in order to sustain its cash flow and secure our assured supply chain.

In order to protect the agricultural sector and guarantee the future of our business, Mc Cain gives priority to supply & call off its pre-season fixed price contracts in order to prevent cash collapsing effect at farming level on the short and mid-term including the next growing season.

For all these reasons, we are convinced that you will understand that we cannot grant any credit term extension to our customers in order to ensure the continuity of our business.

We highly recommend you to use banking facilities that are available in several countries since the start of the Covid 19 crisis.

Yours faithfully,

Christian CIRINO
Vice President, Finance Continental Europe

Tel.+33(0)359.360.500

EXAMPLE – Written Response

Spain Sample Latter

Dear …….,

We are extremely sorry about the situation of the business in Spain for McDonald's.
These are truly unprecedented business circumstances **for Companies and for every single person** to go through.

Like I mentioned on the phone, we are unfortunately not able to respond in a positive way to the request of changing the payment terms.
Please let me explain the reasons behind:

- McCain is as many other businesses severely affected by the Covid-19 crisis due to the sharp decline of Out of Home food consumption, which represents under normal circumstances 75% of our business in Europe.
- We have to carry stocks of finished products in excess of our storage capacity, forcing us to take on additional external capacity, generating additional unexpected costs, for a period which we don't know yet how long it will last.
- We have to carry excess inventory for certain products that we produce exclusively for McDonald's and cannot supply to other customers.
- Because of our large network of factories (6 in Europe) we have to support high fixed costs that won't be absorbed because of lower volumes, even if we are going to scale down the production during the crisis
- McCain has to deal with a huge potato surplus due to massive declines in sales and production.
- For McCain, based on the current production forecast, a large part of these potatoes are committed from annual and multi-year contracts that we engage with our farmers for McDonald's.
- As the market is drastically going down, McCain is forced to support tremendous losses by selling this unused inventory on the free market, but as you can imagine, far below normal cost.
- In order to protect the agricultural sector and guarantee the future of our business, Mc Cain gives priority to supply & call off its pre-season fixed price contracts in order to prevent cash collapsing effect at farming level on the short and mid-term including for the next growing season.
- Mc Cain does not intent to extend its payment terms to its growers.

Summarizing, we need to prepare our business to be in a good shape and in order to guarantee assured supply, once the business is picking up again in all markets.

I am proposing to work shoulder to shoulder with McDonald's on a plan to boost the sales once the restaurant business is re-opening, to make sure McDonald's Franchisees will be able to bring the business levels back to normal or even higher.
In time, we propose to engage in a promotional plan and I commit that McCain will engage and support.

I would like to wish you and the entire Mac Family in Spain, Health and Safety for the coming weeks and months.
Warm regards,
XXXX

EXAMPLES – Creative commercial ideas to create mutual value

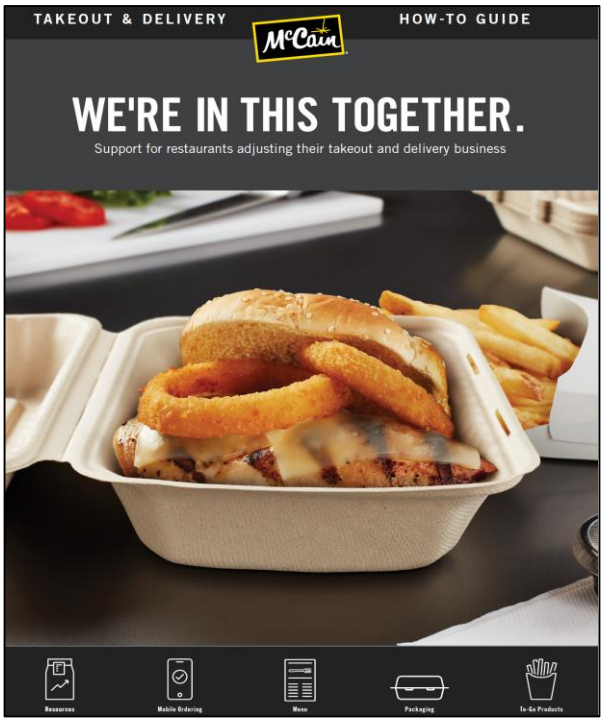
EXAMPLE - McDonalds Promotional Support

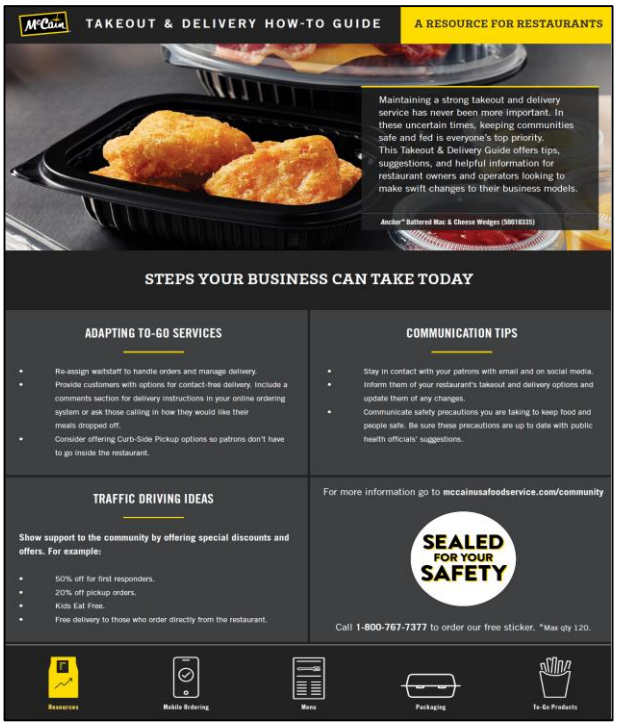
The Future for Recovery is Certain
Promotional Ideas to help McDonald's Restart Economy

McDonald's | McCain

PROMO IDEAS	**Essential Worker Promo** 	**WELCOME BACK Monday is the New Fry Day** 	**McHappy Day** Wed May 6th, 2020 	**Summer Fry Days 2020** 	**BOGO 2020** 	**#NationalFrenchFryDay** Monday July 13th, 2020 
Consumer Benefit	Get a FREE Med Fries with any Purchase	Get a FREE Med Fries with any Purchase	$1 Donation to RMHC for Large Fries purchases	Get Any Size Fries for $1.00	Buy an EVM and get an Extra Fries for $1	Get a FREE Med Fries with any Purchase
Operational Benefit	Guest's show a work badge	Kick Start's Weekday Purchase Patterns	Entices guest's to support cause	Leverage Category Reach to draw more guests	EVM purchase limits Cannibalization	Increase Guest Count on a Monday
REASON TO BE: BRAND BENEFIT TO McD	Supports the communities during COVID-19 Crisis	Provides Normalcy to the work week after being at home	Supports RMHC for communities	Helps Economy after taking a hit		Memorable Moments Celebrating a Nationally Recognized Day

EXAMPLE – US Team Operator Support





EXAMPLES – Creative commercial ideas to create mutual value

Considerations for rebasing and incentivizing Volume/Value.
Re Base Growth Targets Bring growth targets forward from 12 months to last 6 months and reset going forward from when the market resets.
Drive The Right Mix Review the support allocated to the product mix to incentivize and drive higher value SKU's.
Operator Claims Review outstanding operator contract claims not submitted and encourage the customer to submit so we can process, this can go against their outstanding payment owing.
Promotion Propose promotions that include bonus stock instead of discounting pricing, the stock value is higher to them than our cost and this helps us to move more inventory.
Promotion Propose promotions in a Distributor that are directly linked to promotional activity in their larger operators, this creates greater pull through.