

## Glanbia: Misunderstood, Undervalued Business With Clear Levers

Josh Shores of Southeastern Asset Management presented an in-depth investment thesis on Glanbia (London: GLB) at Best Ideas 2021.

*The following transcript has been edited for space and clarity.*

**Josh Shores:** Today, I'm going to talk about an Irish company called Glanbia. Before I get into that, it's good to know this is something Southeastern has invested in. In his introduction, John mentioned the Longleaf International Fund where I'm a portfolio manager. This is a position there. In our European partnership, it is the largest position, and was built over the course of 2020, with a focus on the back half of the year, so it's a relatively recent addition.

A lot of people think of Southeastern as looking at business quality, and then people quality and opportunity, and then price, margin of safety. I'll loosely stick with that framework around Glanbia and why it definitely ticks the box on the high-quality business and the potential around there. It very much ticks the box on the discounts relative to the value of the underlying different businesses. The people opportunity is an interesting one, with a lot of changes that are happening. As you all know, change in markets tends to be opportunity. Whether that's change in earnings power, or change in corporate structure, or change in boards and management, that can unlock interesting opportunity, and Glanbia certainly fits that paradigm.

As we broadly look at Europe after 20 years of investing on that continent — I went to Europe in late '09 and have been focused on investing there for the better part of the time since then — what we have found is there is a lot of opportunity around high-quality global businesses that, for whatever reason — be it structural, be it different incentives in the past, different alignment of stakeholders — are not valued or are not performing up to the standards of global competitors. We talked about Adidas in 2014/2015 and the opportunity there as it stacked up to Nike and Lululemon that were trading at the time at 2x, 3x, 4x the revenue multiples of Adidas, and how that was a huge opportunity as some changes could be made. On this forum last year we talked about Domino's Pizza Group in the UK, where there was an enormous discrepancy between where DPG traded in England on the London Stock Exchange and where peers like Domino's in the U.S. and in Australia and in other jurisdictions were priced, and we talked about the reasons why. That partially has been realized over the last year, but Domino's UK continues to have a significant amount of mispricing and opportunity. For the last decade, there has been a consistent theme of cross-continent arbitrage, if you will, and helping nudge along some of the barriers to realizing that value, whether those are structural, governance, ESG, people, geography, et cetera. Glanbia very much fits into that category.

I'm going to talk a bit about the history. I can't go into too much depth, but I want to set the stage for how the company ended up where it is, and some of the dynamics that are at play as we think about the future.

Based in Kilkenny, Ireland, Glanbia is a combination of two different dairy and cheese cooperatives, Avonmore and Waterford, which were formed in the 1960s, but they have roots going back much further than that. Many of you will be familiar with the Irish cooperative paradigm and what happened in the dairy and cheese world in that country. The way that value-additive businesses were spun out of that carry group is one of the archetype examples of successfully executing on that strategy, and Glanbia is somewhat similar in its history. They took separate cheese and dairy cooperatives, put them

together in the late 1990s, and then in 2000, started the evolution into what I would almost call an asset-light cheese and dairy production model, i.e. partnering with the farmers to give the farmers direct control in the assets to where Glanbia Corporate — to sort out the terminology, I'll use the term "PLC" to refer to Glanbia Corporate, where we can invest, and I'll use the term "Co-Op" for Glanbia Cooperative — where PLC takes a 40% or a 50% interest and then pushes operational control down to the farmers. The farmers and the joint venture are responsible for a lot of the capital investment and management of the company. PLC benefits from the dividends but takes off a lot of the capital intensity and variability that has historically been seen in the dairy and whey world.

That was a first interesting and innovative step in what had been somewhat of a traditional business. The individual who seems to have been most responsible for that — and of course it was a team effort — is a fellow named John Moloney, who took over management of PLC in 2000/2001, and was a forward-thinking, innovative leader who set the company on a path towards much more value-additive, high-quality businesses. This was the first step.

Over the course of the early 2000s, they further developed their nutritional and nutritional solutions expertise, i.e. providing capabilities around input products to packaged food and other end customers. Think of DSM, or DuPont, or an IFF — these types of things. Initially, Glanbia was dairy centric in the solutions that they offered, because their expertise was in dairy and whey, but over the course of the 2000s, via bolt-ons and adjacent expansion, they added capabilities and started to form a Nutritional Solutions segment that was operated on its own and stands alone. As we fast forward to today, Glanbia is increasingly a scale player that is not driven by dairy and whey, which we'll get onto later.

In 2008, they continued this value additive strategy — you can almost think of it as vertical integration. They thought about what expertise they brought from their history with dairy and whey, and how they could apply that further into the value chain to capture more of the economics. Nutritional Solutions was one way. Another way was to look at the supplements industry, the protein powder industry, and the protein bar industry, which had really started to develop over the course of the 1990s and into the 2000s. What was once a byproduct of a lot of cheese and dairy production, i.e., whey, became a hot commodity. The boom that was led by companies like PowerBar and expanded to a bevy of offerings through the 1990s and 2000s got the attention of PLC to where they realized, "Why are we selling this whey to other people at commodity-ish prices and then they're putting a package on it and going out and capturing consumer-good type of margins?" The acquisition of Optimum Nutrition, which at the time was one of the primary protein powder and creatine providers in the U.S. in particular, was the big step in getting scale towards that performance nutrition business and forming that as a standalone segment. By 2008/09, Optimum Nutrition was leading the performance nutrition segment, they had a nutritional solutions segment, and then they also had a bunch of joint ventures around dairy and cheese.

Around the time that Glanbia bought Optimum Nutrition, I was moving to London. I was a user of those products, so the company quickly caught my attention. I thought it was an interesting deal. I thought Glanbia was an interesting proposition, but unfortunately, the market seemed to have also caught on. John Moloney was widely revered, and his management team had an enormous amount of respect. The share price always seemed to be fairly valued. As you all know, Southeastern is margin-of-safety focused, so we tend to want a discount before we are going to invest. I continued to follow Glanbia, but while it was fairly to over-valued, I was merely a customer and not an owner of the shares. I watched from a distance as they continued to take value-additive steps of continuing this asset-light strategy, getting out of 100% consolidation of the lower-quality dairy and whey, and focusing on the high-value Global Performance Nutrition and Nutritional Solutions business. That culminated in 2010-2012, which was the last big dairy consolidated ownership in Ireland, where they created Dairy Ireland and put it into a joint venture, where Co-Op, in exchange for shares in Glanbia (some of which were sold on the open market to fund it) swapped a big piece of their controlling

ownership in PLC for control of the dairy and cheese joint venture, Dairy Ireland. That left PLC with 40% of Dairy Ireland and Co-Op with 60%, and took Dairy Ireland down to about 39% ownership of PLC.

Fast forward to Glanbia history 2.0: John Moloney retired in 2013. He had generated one of the great track records of that decade at 24% per year share price CAGR, pretty impressive earnings per share growth as well, and a real strategic transformation of what had been a traditional, old-school Irish dairy and cheese co-op into a structure that looks a lot like it does today.

I'll skip over some of this because I see it's taking a bit too long, but you had Glanbia Ireland, and then that became Dairy Ireland, which I alluded to before. That got their ownership down to 33.5%. Today, if you look on Bloomberg or FactSet, the Co-Op comes in at a little over 29% because they put up some of their shares as security against the convertible bonds, so they no longer control the company.

The next big thing that looked interesting was the acquisition in 2018 of SlimFast in the U.S., which gave a lot of heft in a lot of ways (we can circle back to this if people have questions) into important manufacturing capabilities, and also technical capabilities, that the company had not had enough of, particularly in ready-to-drink (RTD) products where SlimFast was strong. It also added a big chunk of business and channel access in what became known as the lifestyle space. That gave them the ability to split GPN into a performance space which operates under different dynamics, under Optimum and some of those other brands, and a lifestyle space led by SlimFast and Amazing Grass and a few other strong brands there. The lifestyle space is a bit more of an asset-light contract manufacturing business, whereas the performance nutrition side is still a vertically integrated business, something we can come back to if people are interested. Importantly, GPN took on the approach of, "We have two separate pieces, let's break those out and manage them differently." Keep in mind that even though this is an Irish company, GPN really is a U.S. consumer-led business. This is something that should be in big highlights here. The GPN side is predominantly a North American — and within that, United States-led — consumer packaged goods business. Nutritional Solutions is more of a global solutions provider that has no particular geographic affinity.

By 2020, the Co-Op ownership had gone down significantly, below 30%. They don't control it anymore. Today, for the first time ever, the Co-Op also does not control the board of directors. They've gone below 50%. Since founding, the Co-Op had the chairman seat as well as two vice chair seats, so they were really able to set the agenda for the company. Today, there is an independent chairman for the first time, a fellow named Donard Gaynor. He's Irish, but his business career was formed in and greatly influenced by the United States. He thinks about incentive compensation, equity incentivization of management, and shareholder value creation in a way that would be familiar to any investor in U.S. markets, and is attractive. The Co-Op did a stellar job of being stewards of this business, but we should recognize that the Co-Op, as a 30%-ish non-controlling shareholder of the company, is simply more aligned with the rest of the minority shareholders than they would have been when they owned 55%, or 58% of the company and had de facto control.

That gets us to how we think about what Glanbia is today versus its history and how it got here. One of the big overhangs on the company for a long time was what does the Co-Op want to do. What's their motivation, and are they aligned with us as shareholders? While perhaps in the past, you could truly have asked that question and been skeptical, today it's increasingly clear that the Co-Op is a minority shareholder, a non-controlling shareholder that really would like to get paid, and they recognize the value of the underlying businesses of PLC, and are frustrated at the share price performance. This is a group of about 40,000 farmers — hard-working independent businesspeople who are notoriously cashflow and "value in my pocket" focused. Farmers are great about that. They want to have complete control and 100% ownership of their Irish Dairy, which PLC still has 40% of. From the perspective of a shareholder that is not the Co-Op — any of us who are on the register — we like the Performance

Nutrition business. We like the Nutritional Solutions business. These joint ventures are great. They provide a nice annuity profit stream that's predictable, and to some degree, contractual. The debt funds the interest expense, helps with the dividends, and frees up Glanbia Performance Nutrition and Nutritional Solutions to be focused on growth and the opportunity set ahead of them and their capital allocation. We'd be perfectly fine for PLC to take control of all of the Irish Dairy, particularly if it were done in exchange for stock. There are all sorts of scenarios where I think PLC is aligned with minority shareholders at this point on what they would like to get operationally and strategically, and what they would like to get financially, which is the realization of the value of PLC.

Where are we today, and why is it undervalued? Today, you have a GPN business that does about €1.2 billion of revenue. The margin potential there, we can discuss. There have clearly been some disappointments on that over the years. There is probably what used to be 14%, 15% EBIT with amortization targets that were perhaps a little too high. Maybe it's more like 12%, 13% these days, but that's still very much the case. There's been the development of comps for this business that didn't exist four or five years ago: Simply Good Foods and BellRing Brands have listed in the last couple years and have proven out this model of asset-light, North American consumer-focused packaged goods in an organically growing nutrition space that is one of the few bright spots in the broader U.S. grocery channel. It's got a tailwind. It's going well. It's all the trends of health and wellness.

Strikingly, Glanbia has the number one performance nutrition brand in the whole space with Optimum, and the number two brand in the lifestyle space with SlimFast, but because of the disappointments and mistakes and perhaps confusion around the entity, trades at an extraordinarily large discount to peers like Simply Good Food and BellRing, who have executed and performed well since listing and have taken advantage of that opportunity.

Then you have Nutritional Solutions, which is €800 million, but well on its way towards €1 billion in potential revenue in the next few years, at a higher margin. Mid-teens could be conservative depending on the evolution of that business over time. The best way to think of it in my mind is as the number two to what DSM provides, but at a much smaller scale. Every food group requires these capabilities, and they really needed at least two companies to offer it, to keep both sides honest. You have local players who have some of the capabilities, of course. Those are interesting bolt-on opportunities, but they're very few, i.e. really just a couple that can provide a global solution to a scale food group. If you're a Nestlé and looking to have a similar product in every geography of the world, and you need people to be providing that key precursor to your production, there are really only two people to talk to.

DSM is extraordinarily run. We've been invested in it before, when it was undergoing its transformation from what was viewed by the market as a chemicals business, moving up to a specialty chemicals business in 2014 through 2016, into a nutritional business as it's seen today and as it's priced today. We think this segment of Glanbia can be similarly positioned once it has the appropriate focus. Some people look at this and think, "Nutritional solutions within a dairy Co-Op — isn't that just a bunch of milk and whey and low-value stuff?" That was probably true a decade ago, but it's not true anymore. We think the vast majority of the value and something like two-thirds of the profits here are coming from their vitamins and minerals premix business, which is similar to what DSM is doing — not exactly the same, but very similar. Their specialty dairy solutions offering has some attractive capabilities, like lactoferrin, infant formula solutions, and of course the whey — getting the flavors right and getting the texture right, and providing that product precursor to other companies that are making bars and offerings in the market. That's probably a bit lower value. Then there's a smattering of more commodity-ish stuff, but we estimate that is only about 10% of revenue, and way less than that of profits because it's low-margin stuff. That's your grains processing and your commodity lactose processing stuff. It's not a high-margin business — a mid-singles type of margin — but again, it's only about single digits of the show. The past reputation of this segment as lower solution value-add on the

spectrum is changing via organic growth and via some intelligent bolt-ons. There's some room to do a few more interesting and intelligent bolt-ons to further highlight that and make it where it can be focused on, and even stand alone if it needs to stand alone.

Finally, you have the joint ventures, which we've touched on. It's a collection across the United States, Ireland, the United Kingdom, and the European Union. One of the main products here across these different geographies is mozzarella cheese for pizzas, so there's an intersection with last year's conversation on Domino's. They're one of the primary providers of mozzarella to Domino's. One of the great private companies of the world, Leprino, that people appreciate and I think value pretty highly, is the joint venture partner of Glanbia in the U.S. and has been for a long time. This is not a bad business. There is some lower-quality commodity cheddar and whatnot in here, but there are also some pieces of mozzarella production and other more specialty cheese solutions that are interesting. Be that as it may, it's just a profit annuity that provides some stability to the company and that maybe you could do something interesting with eventually.

That begs the question: why, given that interesting collection of businesses, is it so cheap? A lot of things went wrong over the course of 2019, exacerbated by the 2020 pandemic. Back in 2018 at a capital markets day, they put out a target of €6 billion for revenue in 2022, and they have missed that severely. The consensus revenue target for 2022 is now €4.1 billion, though that €4.1 billion number is not an apples-to-apples comparison with the €6 billion — and we can talk about why in a second, because the consolidation is all a mess — but let's just say they're still well below what their targets would have been, and the margins are also probably below 13% - 15%. If you were an investor in 2018, you've been severely disappointed.

Augmenting that disappointment are accounting changes that have obscured Glanbia's books. It screens very oddly. If you just go to a Bloomberg or a FactSet, it's a complete mess. There are several examples of that, but I think the one that's most interesting to focus on is the change in IFRS 15, which required the U.S. Cheese joint venture to be pulled back into the consolidated financials, but just on the revenue line, not on the profit line. The impact of pulling €784 million of revenue back onto the books but none of the profits was that it destroyed the seemingly headline EBITA margins. Nothing changed in the actual ownership. U.S. Cheese is still a 50/50 joint venture. We only own 50% of that revenue at Glanbia, but we have to consolidate the entire 100% because we're deemed to have control. If you're screening for this, you'd think, "What is this low-margin bad segment?" It's simply a result of accounting inefficiency.

On top of those things — the disappointments in 2018 and into 2019 — of course we saw COVID in 2020. We don't need to belabor that, but clearly, if you are an on-the-go diet and health company, pandemic lockdowns that seem to have been beneficial for pizza consumption and alcohol consumption, will affect your business. I saw a stat recently that the average American had gained 15 or 16 pounds during lockdown. People were not traveling. You're not going to work. You're not grabbing your protein bar or your shake. It's clearly a headwind to the business. Simply Good Foods and BellRing have recognized that as well, though they've managed it pretty well. The unique exposure that Glanbia had was to an international business, which several years ago would have been double-digits percent of GPN revenue, with primary end-markets in India and Brazil and the Middle East. We can circle back to this in the questions as to why this was such a big hit to margins, but those essentially shut down with cross-border trade. GNC, which five to seven years ago was a main channel partner of Glanbia in the specialty space, went bankrupt. Clearly, that's going to have a significant amount of disruption. All of this, together with organic headwinds for the reasons we talked about before, made for a challenging 2020 for the company. If you invested into the company in 2017/2018, you've lived through a share price cut in half — more than half at the bottom — and earnings expectations cut dramatically on the back of all of these issues. You can see here (referring to slide 7 of the presentation) what's happened over the course of 2020 — we're getting involved in that €8 to

€10-ish level.

What's changed? Why is this disappointing performance of the last two — you could even say five — years, not a precursor to continued poor performance? It's worth re-highlighting the board changes and the governance changes. There's a lot more going on under the surface there in my view, but the fact that you have an independent chair and a board that's no longer insider-controlled is not a small thing. The structural changes that we've seen of defining GPN clearly into a lifestyle business and a performance business in the United States is important because they're run differently. They have different product cycles, different consumption cycles, different manufacturing focuses. In the past, they were all run as the same, not being optimized. Now, you've got them split into two different segments where they can be optimized. There have been some significant changes on the people side of that business — maybe not at the very top, but certainly at the coalface level, if you will, where you've had people hired into the U.S. in particular who bring considerable local-market knowledge and local-market expertise and capability to that business, and I think will increasingly be taking charge of running the U.S. side of the Performance Nutrition space. Again, there are some echoes of Adidas, where part of the issue in 2014/2015 was a distant, somewhat provincial Bavarian management team that did not understand the local dynamics in the U.S. or in Asia, but were sending down decisions from abroad that were not fit for purpose for those geographies. The solution was relatively straightforward. You had high-quality people in place locally, and you needed to get the corporate center out of the way so the high-quality local people could make the right decisions. There could be a similar dynamic at play here, so that hopefully will help realize some of the potential of GPN. On the Nutritional Solutions side, we've talked about how gaining scale, diversification, and one or two more bolt-ons, can produce a business that can truly stand on its own.

Another not insignificant thing from an asset-allocation, value-creation point of view is their first ever share repurchase. This was not an easy task. Because of the Co-Op's ownership and because the Co-Op was just under 30%, shrinking the denominator could have pushed them back over 30%, which could have triggered a mandatory takeover bid from the Co-Op, and that had kept the PLC from ever being able to explore buying back stock. For a long time, that wasn't an issue because the stock was fairly overvalued, but over the last two years, there was clearly an opportunity. Kudos to the board and management team, and particularly the CFO, who grabbed this by the horns and jumped through an extraordinarily large number of complex hoops with the Irish regulator to get a special waiver on the mandatory bid if the Co-Op is pushed back over 30%. Then they had to take it to a shareholder vote. The ever-confusing and unhelpful proxy advisors in ISS in particular didn't understand the nuances of this and actually recommended a vote against the share-buyback authorization because of that very creeping control issue and that the Co-Op could buy it, which showed a lack of understanding of the situation and the triumph of legalistic rules over what actually is the right thing to do, but that's no shock. As a result, frustratingly, the proposal only passed by 8% or 9%. It was a lot closer than it should have been. It should have been overwhelming, and ISS didn't help with that, but it was passed. Now, after jumping through a few more hoops, the company is able to take advantage of this crazy disconnect. They have an extraordinarily strong balance sheet. Kudos to the management team on that. They have been producing impressive cash flow, even in 2020, with effective working-capital and supply-chain management, along with SKU and cost rationalization. They'd become really bloated on SKUs, particularly in GPN, so they've cut a lot of that out. They've had some strong cash generation, and a strong balance sheet that allows them to go on offense and buy back stock at this discounted price. That's no small thing either. It will be accretive, of course, but it's also a big milestone in terms of a philosophical shift.

We think you've got a "coiled spring" here. They've had a bad couple of years. There's been disappointing performance and some disappointment at the management level. 2020 was challenging for the entire market because of the pandemic, but for GPN specifically and Glanbia in general, there



were additional reasons that made 2020 even more risky. We think a lot of that has been addressed, leaving a much leaner machine that is much more efficiently managed and much more focused. As the world starts to unlock, hopefully in the coming quarters, and as the economy starts to recover, this recovery will translate into high contribution margin revenue recovery, very high profit, scale, and will highlight what is an extraordinary mismatch between the valuation of Glanbia's parts, and the best comps. This is not saying that it's gospel truth. This is like Nike and Adidas, or Applus and SGS, or Domino's U.K. and Domino's U.S. It's not totally apples to apples. It's directionally apples to apples that these multiples can't last.

Looking at Glanbia's multiples compared to its peers, I would highlight (referring to slide 9 of the presentation) those two numbers where you see the asterisks. Taking, for example, EV/EBIT, headline looks like it's 19.7x where it's trading, but actually it's 12.9x. That's because a big piece of that Co-Op profit stream comes in below the EBIT line. If you're just comparing it to BellRing, say, simply on EV-to-EBIT, it doesn't look as out of line. If you look at P/E, you're getting a more accurate perception. If you look at EV-to-EBITDA, you've got to make a similar adjustment, and looking at sales, there's even more adjusting you have to do because you need to strip out the 50% of the U.S. JV that had to be included after IFRS 15, and you need to add back all of their share of the revenue of the joint ventures that they own 40% to 50% below the line to get an accurate EV-to-sales number, which is 0.83x. That, no matter how you cut, is way, way below the 3.6x average of its peers. Maybe Glanbia shouldn't be at 3.6x, but it really shouldn't be at 0.8x on that GPN business.

For Nutritional Solutions, it's a similar situation. You're getting that it's 0.8x revenue. Implicitly, again, these are not pure comps. DSM and Kerry do lots of other things, so I'm not drawing a total straight line, but directionally, you can see that difference between 0.8x and 3.2x, or between a 12x PE and 28.5x.

To further highlight that disparity, this (slide 10 of the presentation) is an even broader universe. This is not so much Nutritional Solution comps, but if you're sitting in Europe and are considering whether one day you might want to own Nutritional Solutions as a business all by itself, you might look at where it is stacking up loosely versus its universe of peers, and you would see that it's trading at the very bottom of a loosely defined peer set, where the two closest (DSM and Kerry) are over there towards the left and the middle. No matter how you cut it, it's pretty striking that a company like Glanbia, with that underlying business potential, is way over there on the right.

The comps are important, and you might have noticed that I haven't mentioned the Hut Group, which is front and center. That IPO this year sucked a lot of oxygen out of the room. I can't say that the Hut Group is a comp because it's trading as a Shopify type of tech platform. They came out with an impressive sales pitch and story, so good job to them. For us, it's useful to go look at some of the sell-side reports and to see what people are saying the Myprotein part of the Hut Group is worth. In the ones I have looked at this week, I saw 2.3x revenue, 3x revenue, even 4.9x revenue. I saw 33x EBITDA. Suffice to say, even stripping out the SaaS solutions, API-based part of the Hut Group, which is very cool, and trying to get into what the sell side is estimating the Myprotein part is worth, it helps support our comp math on what Glanbia should be worth. Incidentally, it's worth mentioning that as much as the Hut has been a headwind for the UK and Europe businesses, and Glanbia's Body&Fit direct-to-consumer platform (which is about €100 million of revenue that people don't even think about, but it's an interesting hidden asset there), the Hut has failed to make inroads into the U.S. despite years of trying. It's not like this IPO is the first time that anyone has heard of Myprotein or the Hut, or the first time that they've tried to break into the United States. Amazon has a complete stranglehold on that market. Walmart is coming on strong. Glanbia is a valued partner of Amazon in particular. If you go do a search on protein powders from a U.S. business point of view, last time I looked, 9 of the top 10 suggested protein powder solutions were Glanbia products, which shows the scale of that integration. If people here are interested, we can circle back to the pros and cons of that,

because certainly that makes some nervous. Increasingly, I think it's a valuable channel access, especially in an administration-changing world where Amazon might be less able to act as predatorily as it has in the past.

The Hut Group aside — and I'll just give a quick summary because I'm going on too long — governance is greatly improved, and I think will continue to head in that direction. There have been big steps forward in capital allocation, with share buybacks for the right reasons. Don't forget, they're also paying a 2% plus dividend, so you get something in the meantime. There's greater discipline around M&A. They've done some bad deals in the past, with questionable value-add. I think there's been a tightening up of the parameters that are put in place that we should see applied going forward.

In terms of the sum of the parts, go do your math. Pick your multiples on what you think these businesses would be worth. Even if you just take GPN at around 2x revenue, for example, which would be a high-teens to 20x FCF potential, that's €8.25 to €8.75 per share. Nutritional Solutions should be at least 20x, which is about 2.5x plus revenue, at €7.50 to €8 a share. For the cheese and dairy joint ventures, it's hard to find exact comps, but anything you see is north of 1x revenue. I can't get that, so I settle out around 0.5x, which is supported by the DCF and works out to about €4 a share. You've got €2 a share of net debt, and that gets you that €18 to €18.50 of value versus a roughly €10 share price (in early 2021). It's interesting to note that within that, there's about €30 million of corporate expense that's really just the PLC and the supporting of the Co-Op. That's worth about €1 a share if it ever were to go away for any reason, so there's a bit of interesting optionality there. That €18 to €18.50 we think can grow significantly towards €20 over the next three years, so you've got a double for the current share price on execution. Free cash flow consensus has about €0.81 for 2021. That could be low, but either way, I think that can grow by about 50% over the next three years. The key thing here is if management does not execute on all of this potential and realize this value themselves, there's a strong probability that something changes structurally around this company, and others are given a shot at getting after this underlying embedded value.

*The following are excerpts of the Q&A session with Josh Shores:*

**John Mihaljevic:** Thank you so much, Josh. That was terrific. Here is a question from the queue: It's clear Glanbia has strong cashflow generation potential. Do you see any significant reinvestment opportunities in either one of the three existing lines of business or in new adjacent ones? Or is the best capital-allocation strategy to return cash to shareholders?

**Shores:** That's a good question. I think there are reinvestment opportunities in Nutritional Solutions particularly. There are many local players that bring either geographic densification of your market access or adjacent capabilities. They're often closely held or family companies, so the sales cycle can be long. When one of those comes available, then you want to take advantage of it, so I would fully support allocating capital constructively into the Nutritional Solutions space for the right deals at the right price. In the GPN space, it's less likely. Prices there are high if you go look at where comps are. Of course you can always find some also-ran protein bar business that's available for less than 1x revenue or even below, but for the scale CPG quality branded players, the prices are high, and the cheapest place to buy that is in the market in Glanbia. From that perspective, allocating capital to share repurchases is the best thing, unless there are brilliant Nutritional Solutions acquisitions to be done.

**Mihaljevic:** What would be the key items or data points to keep an eye on going forward to gauge how this thesis is playing out?



**Shores:** GPN margins. The core of the disappointment in this company over the last two years has been that aspirational mid-teens margin level going away. Run rate early in 2020 was more mid-to-high single digits. So exiting 2020, they're back up well into the double digits. I suspect when they come out next month (February 2021) with full-year results and guidance, they're going to talk strongly about double-digit earnings margins and earnings potential in 2021, and growing into 2022 for GPN, and they need to deliver on that. Watch the margins in GPN, and then watch the organic top line in GPN. The market, particularly in the U.S., is still growing mid singles. In other parts of the world, in less developed areas, you have even faster growth. Glanbia needs to get back to keeping up with at least market growth and maintaining their market share, so I would watch that around GPN as well. Those would be the main two pieces.

In terms of the joint ventures, think of those much more like convertible bonds. There are a couple of facilities coming online right now that should contribute. They've been investing over the last two years in Michigan and elsewhere in Europe because of Brexit. Those will start contributing to profits in 2021. That's going to be a nice little boost. It's a bit of a non-earning hidden asset. From Nutritional Solutions, I would keep an eye on the business mix, and the changes that have happened over the last couple of years, and what future bolt-ons could add around buttressing the much higher-quality specialty part of that business versus the backward-looking market view of it being more towards the dairy commodity end of the space. It should be able to keep up over the fullness of time with a DSM type of load amidst organic growth.

**Mihaljevic:** Looking longer term, maybe 5 to 10 years out, what would you flag as the key risks to the business itself?

**Shores:** Two different things — it's different for each segment. GPN is the — I want to say "professionalization", but that's not the right word — it's the institutionalization of that market, particularly in the United States. If you go back 15 years, it was a little bit of the Wild West on ingredients and on products. You really had to appeal to your consumer with purity of products and reputation, which is why Optimum Nutrition was so successful. They were known for vertical integration and having complete control from start to finish and that you were getting the purest and highest-quality protein. That's what Optimum was built on, and up until three or four years ago, that was probably a top one or two determinant of the buy decision. In the last three to four years, the Pepsis and the Nestlés, and I would say the BellRings and the Simply Good Foods, have become run much more like that, with what I would call a CPG-focused, brand-led, and channel access-led approach to the market, and led less by product quality or product purity. I'm not denigrating their product quality. I'm just saying it's like the 80/20. If you're 80% of the way there, there's not as much benefit in getting to 98%. I would say that old Optimum focused on the 98% instead of saying, "Let's get to the good enough and then think about the other things that really differentiate." If GPN stands still, a big risk — and not even in 5 to 10 years, but in two to three years — will be that trend. They have got to run this business like a consumer packaged goods, channel-focused, marketing-aware, reinvestment-dollar-savvy, customer-segmenting business, which is not what it was five years ago. The changes they've made on bringing people in with that expertise and then pushing, hopefully, the decision-making closer to the consumer in the United States, are a step towards that. We'll see if Glanbia is able to get it done themselves. If they're not, there are plenty of people who can get it done. Five to ten years is too long. GPN needs to show it can work in one to two, or something else is likely to happen, on realizing the brand value that's latent in there.

Nutritional Solutions is a different question. It's the part of the business that on a 5-to-10-year time horizon, you could be excited about because there's a long runway of organic growth. There's a long runway of bolt-on opportunity potential. There's a need for them as a player and a counterweight in the markets. I could completely see the Nutritional Solutions business 10 years from now being multiples of what it is today in size, and a standalone company creating a lot of value for its customers.

The joint ventures is a different ballgame. There are other solutions around there that are not as critical to the overall PLC story, but we'll still probably be eating cheese and milk, so there will be a place for them somewhere.

**Mihaljevic:** I will leave it there, Josh. Thank you so much for presenting such an in-depth case here, and thanks to everyone participating. I hope this was as value add — it was for me, certainly.

**Shores:** Thank you, John and to those listening. One of the things I have benefited from from Manual of Ideas over the years are the connections it makes. If anybody here listening has an insight or a criticism or disagrees with part of my case here, please reach out. I would love to have a dialogue and conversation and learn more.

**Mihaljevic:** Terrific, and we're always happy to provide an introduction.

*About the instructor:*

Josh Shores is Portfolio Manager for Southeastern's European strategy, Co-Portfolio Manager for Lingleaf Partners International Fund and a member of Southeastern Asset Management's Executive Committee and Board of Directors. After seven years in Southeastern's London office, Josh is now based in the US but focuses on Non-US investments. He joined Southeastern in 2007 after working at Smith, Salley & Associates in Greensboro, NC and Franklin Street Partners in Chapel Hill, NC. A University of North Carolina graduate, Josh holds bachelor's degrees in Philosophy and Religious Studies. He received his CFA designation in 2006.

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