



## **EXPLANATORY NOTES ON PROPOSED RESOLUTION FOR RIGHTS ISSUE AT UACN JUNE 14, 2017 ANNUAL GENERAL MEETING**

Lagos, Nigeria  
Friday, May 19, 2017

The Notice of the 2017 Annual General Meeting of UAC of Nigeria PLC includes the Directors' proposal for Shareholders to approve a Rights Issue of ₦15.4 billion.

### **BACKGROUND**

A capital raising proposal of ₦20 billion consisting of ₦15b Private Placement and ₦5b Rights Issue was considered at the 2015 Annual General Meeting. The Shareholders approved only the Rights Issue component of the planned Capital raise. Following a review of developments within the company and the capital market, a decision was subsequently taken by the Board to discontinue the capital raising programme as it was not cost-efficient.

### **CURRENT SITUATION**

The operating environment deteriorated in 2016/17 with exchange rate volatility, inflationary pressures, interest rate hikes and liquidity constraints all leading to significant cost increases and decline in consumer purchasing power.

In our animal nutrition segment, for instance, seasonal raw material prices have doubled with negative implications for margins and working capital.

Additionally, due to developments in the financial sector, banks undertake limited lending at very high interest rates in the middle of our procurement season of November/December – this coincides with the financial year end of banks, when Balance Sheet management is paramount.

The operating environment has also created challenges for the real estate sector and our subsidiary UPDC has been unable to deliver its Cash Generation Plan due to softness of the real estate and capital markets.

## **PROPOSAL**

The Management and Board carefully reviewed these developments. The need for an enhanced capital position in our animal nutrition operations was identified as a key thrust. Rights Issues are being pursued at Grand Cereals Limited (₦7b) and Livestock Feeds Plc (₦0.75b). In addition, these subsidiaries need working capital support during the procurement season of November/December, which their banks may not provide timeously thus endangering the performance of the subsidiaries.

Our real estate subsidiary, UPDC's plan to realise certain assets has been hampered by market weakness and challenges in the operating environment. A Rights Issue of ₦5.2b has been launched. The subsidiary needs financial support pending improvement in market conditions to enable value-preserving realisation of identified assets. It currently suffers punitive financial charges of approximately ₦0.5b monthly.

It is important that the Group is resourced to support the subsidiaries at this critical time.

In the prevailing environment of economic challenges/recession, there would also be opportunities for additional investment in current and adjacent categories that we play in.

The Board believes that a Rights Issue of ₦15.4 billion will enable Management to support the subsidiaries through these difficult times and provide the required flexibility to deepen our play as opportunities for additional investments emerge in the markets that we serve.

The proposal is recommended for Shareholders' approval.



**Godwin A Samuel**  
**Company Secretary/Legal Adviser**