UAC of Nigeria PLC – H1 2018 Earnings

Mr Abdul Bello (Group CEO)

Mrs Adeniun Taiwo (CFO)

7 August 2018

DISCLAIMER

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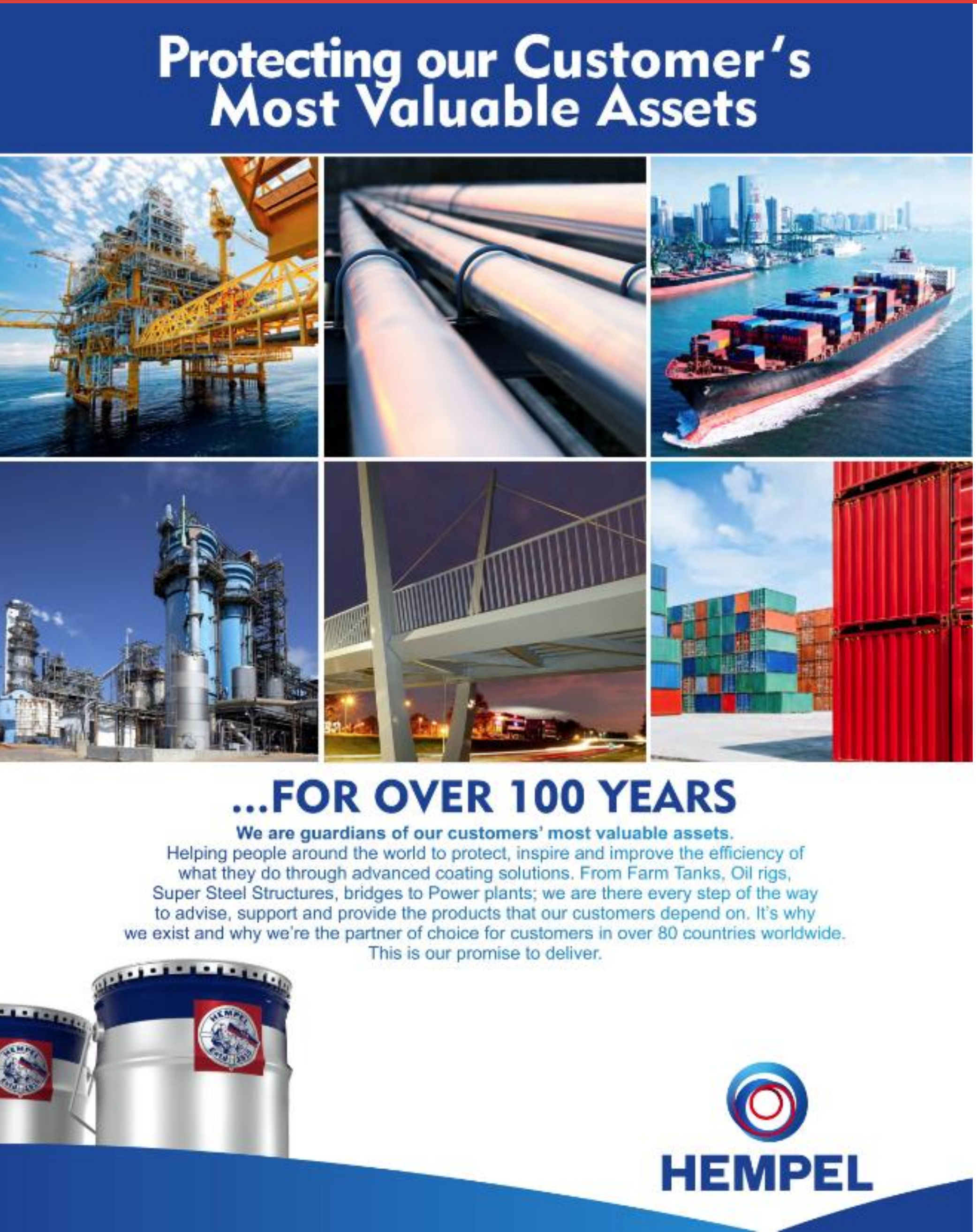
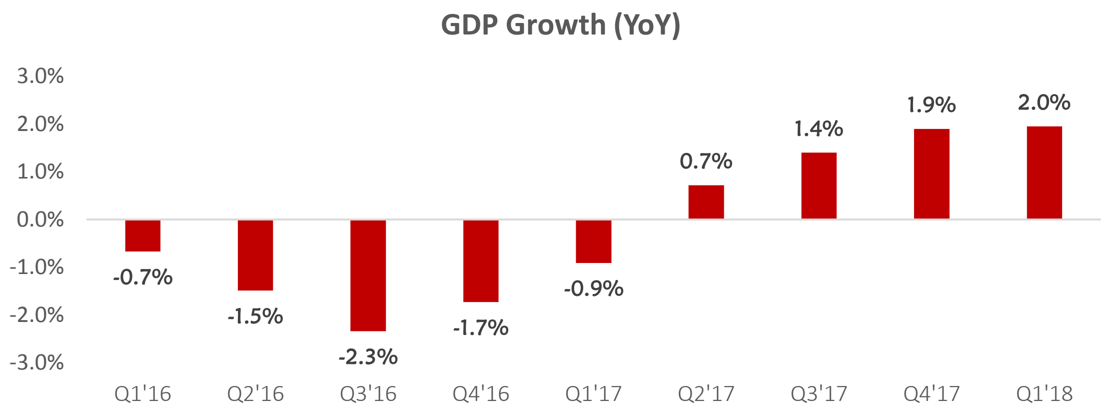


H1 2018 Highlights

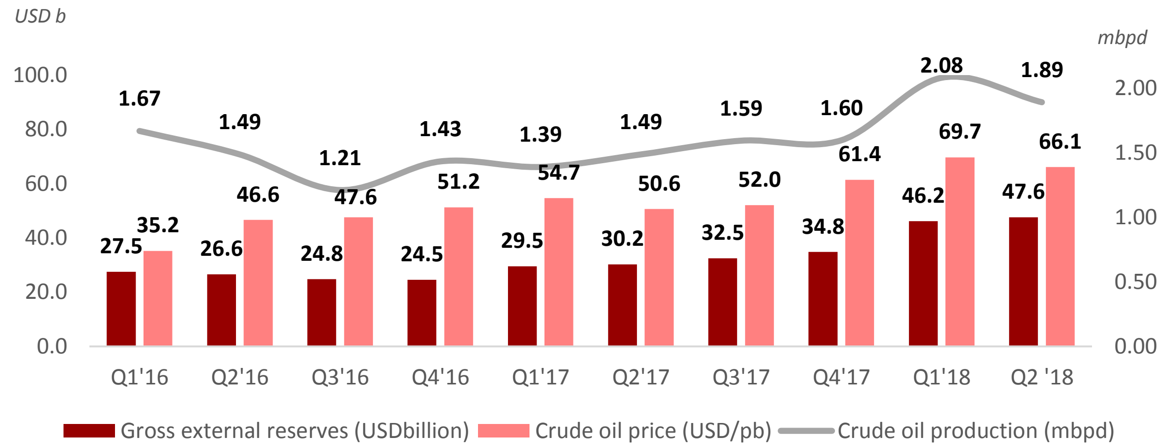
Mr Abdul Bello (Group CEO)

Improving Macro Economic Environment but Caution Persists

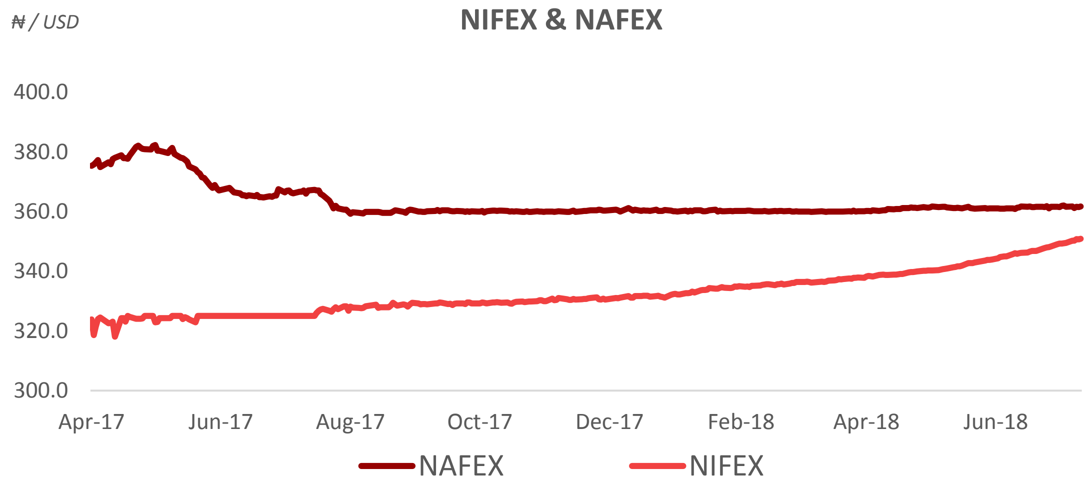
Sustained GDP growth driven by higher oil revenues



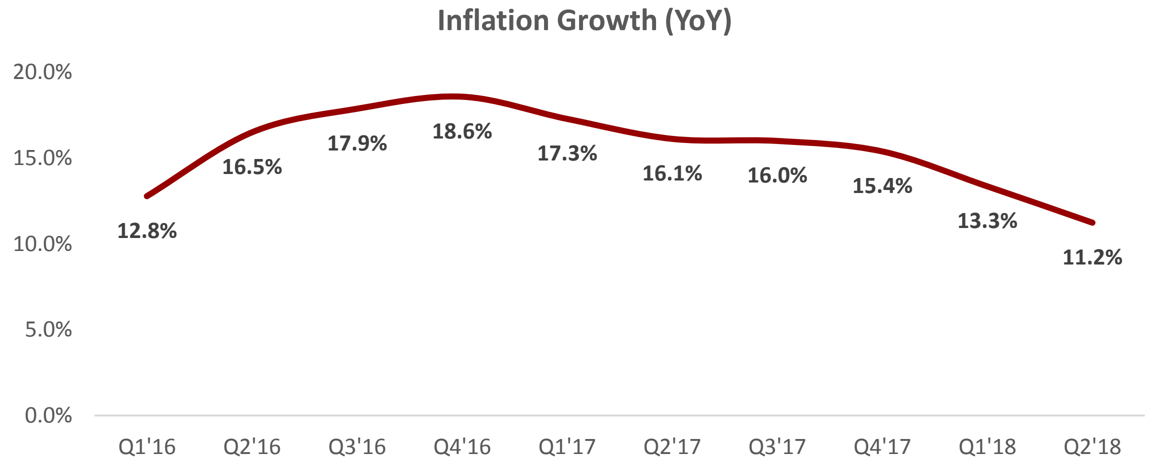
Foreign-currency reserves impacted by increase in oil output



Currency stability as government initiatives pay off



Improving sentiment resulting in disinflation



Sources: OPEC, Platts, CBN, National Bureau of Statistics, FMDO

Key Highlights for H1 2018

Financial Highlights

- Turnover decline driven mainly by Animal Feeds and other Edibles
  - Partially offset by double digit revenue growth in Paints, Packaged Foods and Logistics
- Reduced EBIT due to lower revenue, higher OPEX and despite efficiency gains
  - OPEX increase driven primarily by Packaged Foods and Animal Feeds & other Edibles
  - Efficiency gains in Paints, Packaged Foods and Logistics
- 15% growth in Profit before Tax, driven by efficiency gains and healthier financial structure
- First tangible benefits of actions taken by management, as illustrated by the sequential improvement in Q2 2018 performance
- Positive outlook for 2018; Management is committed to:
  - Sustaining improved performance in Paints, Logistics and Packaged Foods
  - Stabilising loss-making activities by improving efficiency of operations and optimising capital structure

Strategic Update

- UAC of Nigeria to operate as a simpler and leaner "HoldCo", with increased accountability at subsidiary level
- HoldCo activities to revolve around:
  - Strengthening corporate governance and driving talent acquisition and management
  - Empowering subsidiaries to execute strategy
  - Allocating capital with focus on value creation for shareholders
  - Providing limited shared services to achieve cost savings without disruption to portfolio operations

Management and Board Changes

- Dr. Oladele Ajayi appointed MD of UAC Foods Ltd, effective 2 July 2018
- Reconstitution of the UPDC Board, as part of a strategic repositioning and to strengthen governance

Efficiencies & lower finance costs offsetting revenue decline

- **Group revenue** down 21.9% YoY in H1'18 to ₦37.0 billion
  - Decline primarily driven by a drop in the Animal Feeds & Other Edibles segment, due to challenging market dynamics
  - Negative impact partially offset by growth in Paints (+16.6%), Packaged Foods (17.6%) and Logistics (19.1%) segments
- **Gross profit margin** up 403 bps YoY to 20.5% in H1'18
  - Gross margin up 403 bps YoY, on the back of improving operational performance and efficiency gains in Paints, Logistics and Packaged Foods
- **Operating expenses** up 11.0% to ₦5.7 billion in H1'18
  - 15.3% of sales compared to 10.8% in H1 2017. Increase driven mainly by marketing and distribution investments in Packaged Foods and Animal Feeds
- **Healthier balance sheet**, leading to lower net interest expenses (-57.1% YoY) and **Profit before Tax margin accretion** in H1 2018 (+182 bps YoY to 5.7%)
- **Negative Free Cash flow in H1 2018,** primarily due to a cash outflow from working capital in Animal Feeds & Other Edibles and Packaged Foods

H1 2018 Financial Performance

₦37.0b
Reported revenue down 22% YoY

20.5%
Gross Profit Margin, up 403 bps YoY

7.3%
Operating Profit Margin, down 91 bps YoY

-57.1%
YoY decline in net finance costs in H1 2018

+182bps
Growth in PBT margin YoY, to 5.7% in H1 2018

67k
Annualised Earnings per share (Kobo), down 46% YoY

Cash & Capital

(₦5.6b)
Free Cash Flow in H1 2018

4.2%
Return on Invested Capital, down 321bps YoY

26%
Gearing at end June 2018, up 60 bps since end March 2018

Please see Appendix for definition of terms used in this presentation

H1 2018 Financial Review

Mrs Adeniun Taiwo (CFO)

Drop in Revenue Offset by Reduction in Cost of Sales and Finance Cost

- **Revenue down** 21.9% mainly on account of decline in sales in the Animal Feeds & other Edibles and Real Estate segments, which was only partially offset by a positive performance in the Paints, Packaged Foods and Logistics segments
- **Gross profit down** 2.7% YoY in H1'18
  - Decline in revenue partly mitigated by a more significant **decrease in cost of sales**, due to lower input prices in the Animal Feeds & Other Edibles as well as operational efficiencies in Paints, Packaged Foods and Logistics
- **Operating expenses up** 11.0% YoY in H1'18, leading to **lower EBIT** YoY (-30.5%)
  - **Selling & Distribution expenses** (6.6% of revenue) up 21.7% YoY due to increased market development and distribution expenses
- **EBIT down** 30.5% YoY primarily driven by Animal Feeds & other Edibles, whilst Paints, Packaged Foods & Logistics delivered double digit EBIT growth
- 31.2% **decrease in gross finance cost** from ₦3.5bn (2017) to ₦2.4bn (2018) on account of a reduction in the average cost of borrowing and repayment of loans
  - As a result, **Profit before Tax was up** 15.0% YoY in H1'18

Continuing Operations ***(in N'Million)***	H1 2018	H1 2017	Var
Revenue	**36,982**	**47,337**	**-22%**
Cost of sales	(29,417)	(39,564)	-26%
Gross profit	**7,565**	**7,774**	**-3%**
Selling and distribution expenses	(2,443)	(2,007)	22%
Administrative expenses	(3,211)	(3,087)	4%
Other gains	811	1,342	-40%
Other losses	(4)	(112)	-97%
EBIT	**2,718**	**3,910**	**-30%**
Net finance cost	(1,077)	(2,509)	-57%
Share of profit of equity accounted associate	461	430	7%
Profit before tax	**2,103**	**1,831**	**15%**
Taxation	(513)	(436)	18%
Profit from continuing operations	**1,589**	**1,395**	14%
Loss from discontinued Operations	(223)	(200)	11%
Profit for the period	**1,366**	**1,195**	**14%**
Profit attributable to Parent	736	984	-25%
Profit attributable to NCI	630	210	200%

Statement of Financial Position

- 79.0% increase in **Cash & cash equivalents** mainly from proceeds from rights issue and reduced stocking of inventories on account of lull in business
- **Total borrowings** reduced by 10.0% from ₦25.1bn to ₦22.6bn due to repayment of loans
  - Long term borrowings representing 22.0% of total borrowings at end June 2018, against 5.0% at end December 2017 as a result of ₦4.3bn raised through bonds by UPDC in June 2018
- **Working capital** was stable over the period on account of proceeds from Rights Issue and pay down on borrowings

(in N'Million)	30.06.2018	31.12.2017
PPE	21,146	21,538
Intangible assets and goodwill	1,542	1,606
Investment property	12,953	13,486
Investments in associates & joint ventures	19,571	19,110
Trade and other receivables	16,413	16,359
Inventory	27,964	30,392
Other Assets	733	741
Cash and short-term deposits	25,216	14,126
Assets of disposal group classified as held for sale/distribution to owners	13,014	13,259
Total Assets	**138,551**	**130,617**
Long-term borrowings	4,911	1,329
Short-term borrowings	17,652	23,780
Trade and other payables	13,590	16,239
Current income tax liabilities	4,694	5,377
Other liabilities	10,071	9,881
Liabilities of disposal group classified as held for sale/distribution to owners	922	885
Total Liabilities	**51,840**	**57,491**
Equity – Parent	65,937	51,749
Non controlling interests	20,774	21,377
Total Equity	**86,711**	**73,126**
Total Equity and Liabilities	**138,551**	**130,617**

Cash Flow Statement

- Negative **net cash flow from operating activities** of ₦5.0bn
  - Mainly driven by an outflow **Trade and other payables** in H1 on account of better payment terms with suppliers, which resulted in lower input costs
  - Impact of negative cash flow from operating activities offset by **reduced net interest payment**

- 67.0% decrease in **net cash flow from investing activities**, largely due to a reduction in proceeds from disposal of investment properties by UPDC

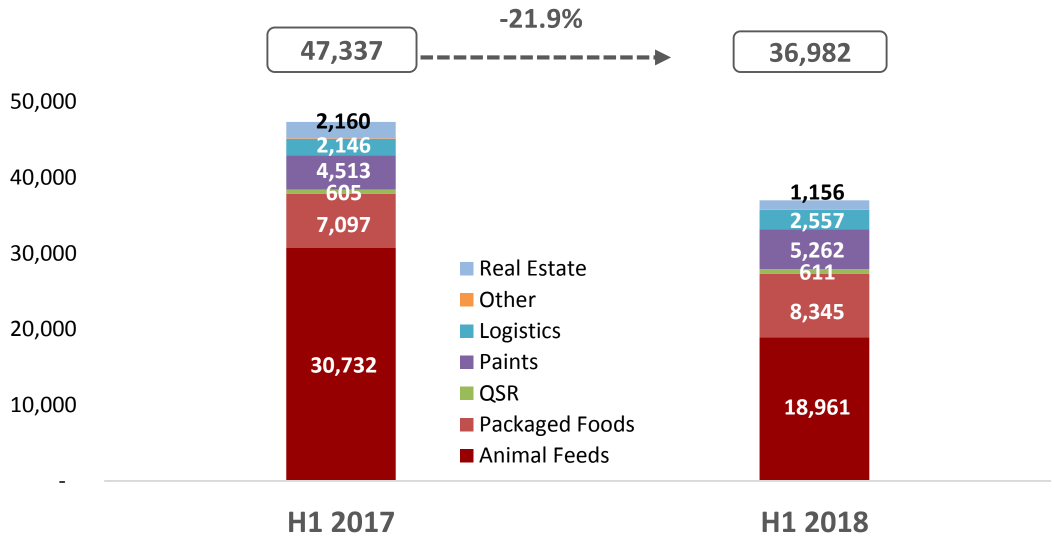
- **Net cash from financing activities** largely driven by proceeds from the rights issue

(in N'Million)	H1 2018	H1 2017
Net cash flow generated from/(used in) operating activities	(5,042)	1,760
Net cash generated from investing activities	118	358
Net cash flow used in financing activities	18,659	(4,386)
Cash & cash equivalents at the end of the period after adjusting for bank overdraft	24,876	2,628

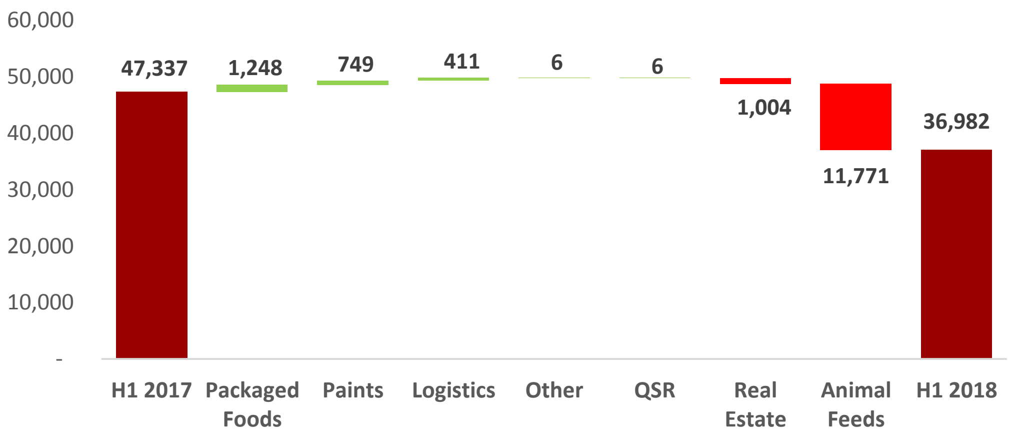
Breakdown of Revenue Dynamics

- **Animal Feeds & other Edibles** down 38.3% YoY in H1'18
  - Intense competition, with more aggressive pricing strategy and favourable terms of trade by new entrants leading to market share losses
  - Management focused on regaining lost market share, with recent decisions yielding positive results
- **Real Estate** down 46.5% YoY in H1'18, on account of reduction in housing inventory sales and collections
  - Capital constraints and challenging market conditions restricting further investments
- **Paints** up 16.6% YoY in H1'18
  - Higher volumes and better product mix
  - Positive impact of management's efforts to extend sales channels
- **Packaged Foods** up 17.6% YoY in H1'18, driven by higher volumes in snacks and water
- **Logistics** up 19.1% YoY in H1'18, due to the acquisition of new strategic clients and increase in rental rates
- **QSR** up 1.0% YoY in H1'18, due to expansion of product lines

Revenue (₦m)



Revenue Evolution (₦m)



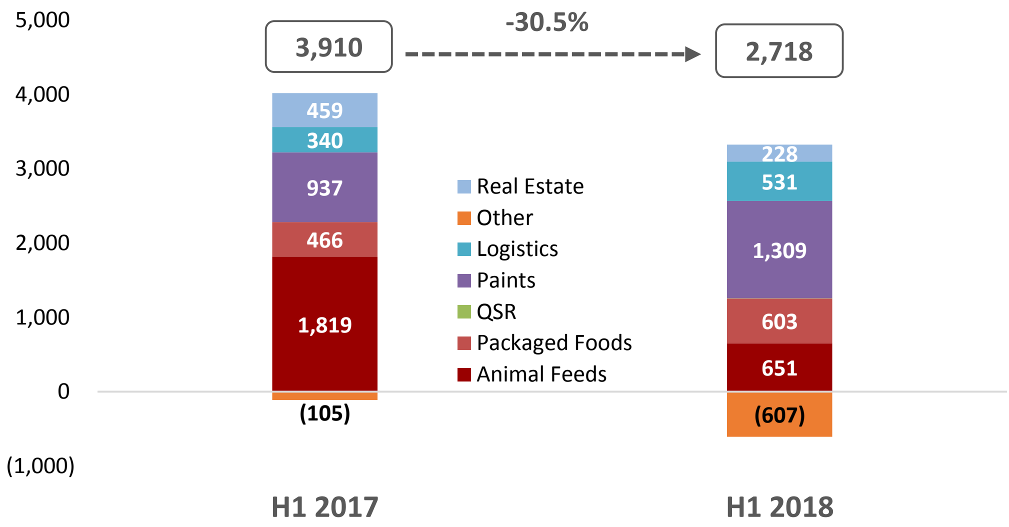
Breakdown of EBIT Dynamics

EBIT down 30.5% YoY in H1'18

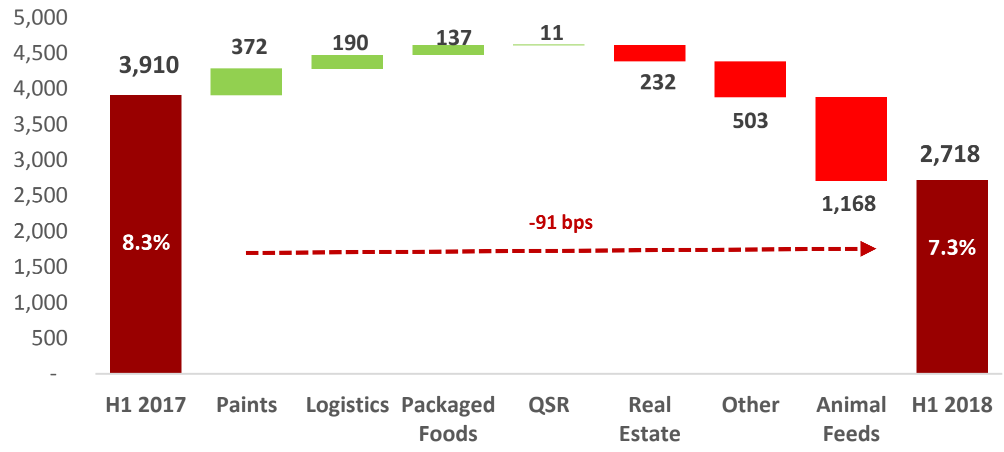
- **Animal feeds & other Edibles** dropped by 64.2%, primarily due to lower revenue
  - Management will continue to drive efficiencies, as well as pursue attractive growth areas offering procurement and manufacturing synergies with existing business lines
- **Real Estate** declined by 50.4%, primarily due to lower revenue
- **Paints** up 39.8%, driven largely by higher revenue and efficiencies in procurement, production and working capital management
- **Packaged foods** up 29.4%, mainly due to revenue growth, cost savings on raw materials and improved route to market capabilities
- **Logistics** up 56.0%, driven by revenue growth and operational efficiency
- **QSR** delivered positive EBIT, due to increased operational efficiency

EBIT margin down 91 bps YoY primarily due to lower revenue and higher OPEX, partially offset by improved operational efficiency in key segments

EBIT (₦m)



EBIT Evolution (₦m) *



* "Other" correspond to corporate head office

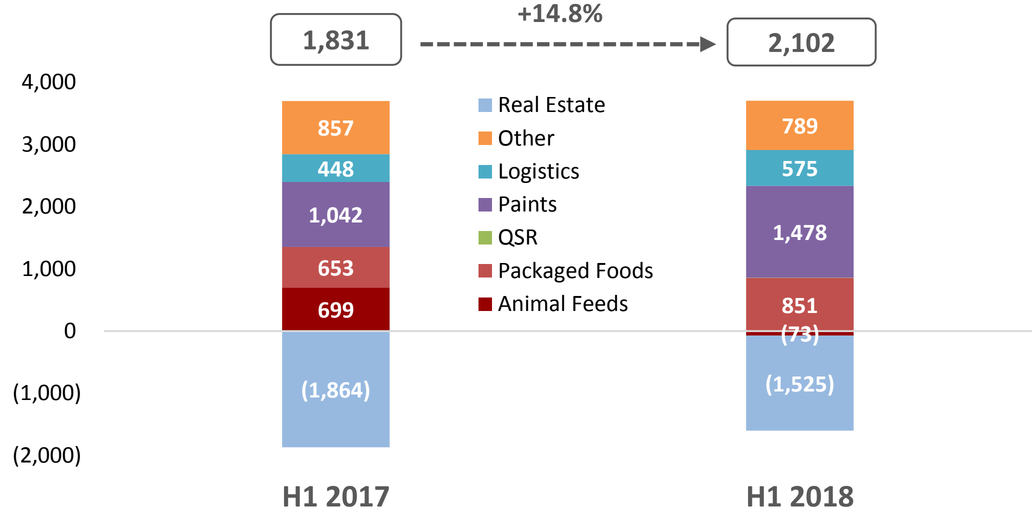
Breakdown of PBT Dynamics

Profit before Tax up 14.8% YoY in H1'18, driven by UAC's healthier capital structure and improved operational efficiency in key segments

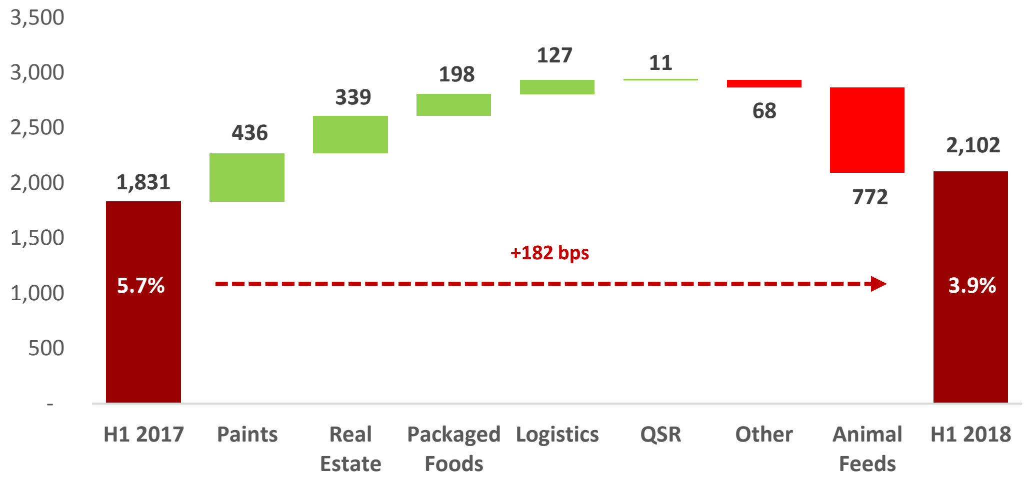
- **Paints** up 41.9% mainly due to operational efficiencies and turnover growth
- **Packaged foods** up 30.3% due to turnover growth and improved working capital management
- **Logistics** up 28.4% mainly on account of turnover growth and operational efficiencies
- **Real Estate** reduced Losses before tax by 18.2%, mainly due to debt repayments and lower average borrowing costs YoY
- **QSR** moved from loss to profitability mainly on account of operational efficiency
- **Animal feeds & other Edibles** generated a Loss before Tax, primarily due to lower revenue

Profit before Tax margin up 182 bps YoY, from 3.9% in H1 2017 to 5.7% H1 2018

PBT (₦m)



PBT Evolution (₦m) *



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Outlook

Mr Abdul Bello (Group CEO)

Strategic Initiatives

1 Subsidiaries to take centre stage

- Grow portfolio of subsidiaries to undisputed market leaders
- Strengthen and empower subsidiary leaders to independently drive value creation
- Increase accountability for delivering ambitious plans

2 Streamline portfolio to address value erosion

- Portfolio review on-going; clear strategic direction to:
  - Target 25% ROIC[1] for all businesses, driven by increase in profitability and asset efficiency
  - Set minimum size threshold of ₦2bn in Profit before Tax (PBT)
  - Divest from businesses with no clear path to attaining returns and PBT size targets
- Fix UPDC's capital structure, reduce reliance on Group balance sheet and address historical drag on earnings; Improve UPDC's governance and operations in parallel to exploring strategic options including a recapitalisation and/or unbundling

3 Drive "talent first" culture

- Appoint board level human resource executive
  - Comprehensive review of organizational structure to ensure increased autonomy and effectiveness of operating subsidiaries
  - Aggressive talent acquisition drive, placing priority on subsidiary boards and executive management teams
- Culture re-orientation to drive speed of execution and accountability

4 Group to provide limited set of shared services with a more stringent governance framework

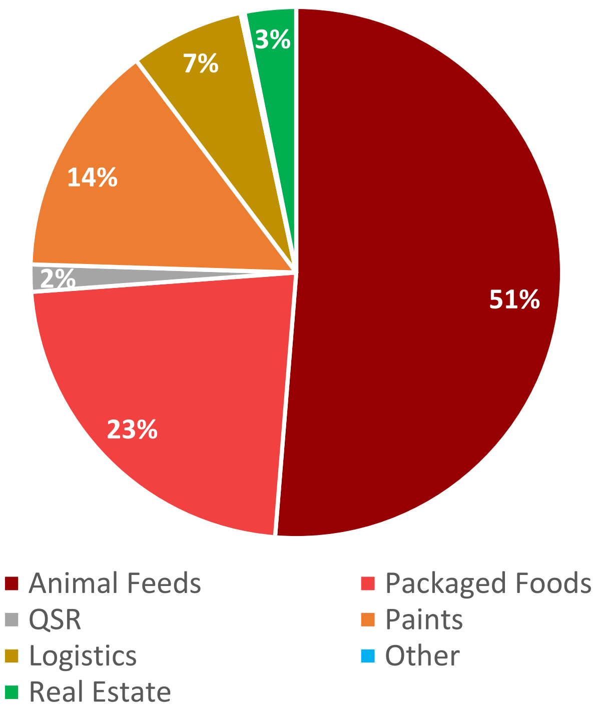
- Management of human capital with a focus on recruitment and training of new employees and drive cross functional training and development initiatives
- Utilise Group scale to obtain attractive terms with financial institutions; Share best practices on treasury management whilst instituting processes and controls to maintain integrity and drive accountability
- Drive automation and technological enhancements, and coordinate legal and regulatory activities for the Group
- Strengthen corporate governance and performance management

Notes: (1) ROIC = Return on Invested Capital, calculated as NOPAT / Invested Capital

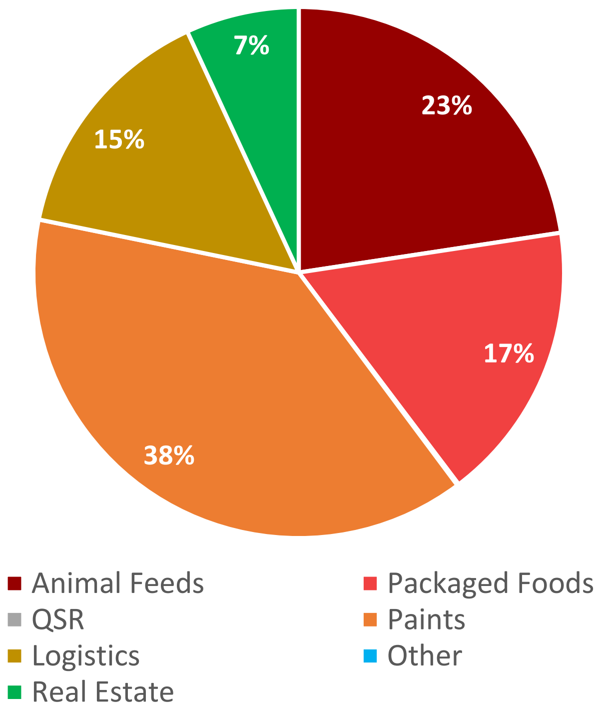
Appendix

H1 2018 business mix

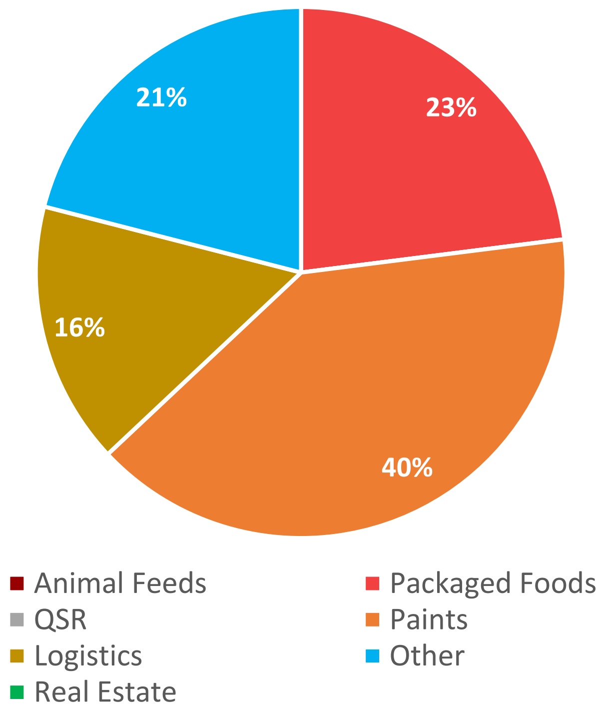
Revenue



EBIT *



Profit Before Tax *



Appendix

** % reported to total positive profits, excluding negative contributions*

Definition of terms

Gross Profit refers to Revenue minus Cost of sales.

Gross Profit Margin corresponds to Gross Profit as a % of Revenue.

Operating Expenses corresponds to Selling and distribution expenses, Administrative expenses and Other operating expenses.

EBIT refers to Gross Profit minus Operating Expenses plus Other operating income.

EBIT Margin corresponds to EBIT as a % of Revenue.

Profit before Tax corresponds to EBIT minus Net finance (cost)/income and plus share of profit of associates and joint venture using the equity method.

Profit before Tax Margin corresponds to Profit before Tax as a % of Revenue.

Return on Equity corresponds to Net Profit reported to Total Equity.

Earnings Per Share (LTM) is Profit After Tax from Continuing operations reported to Weighted average number of Shares.

Working capital is defined as Current Assets minus Current Liabilities

Quick Ratio is defined as Current Assets minus Inventories reported to Current liabilities.

Current Ratio is defined as Current Assets reported to Current liabilities.

Free Cash Flow corresponds to Net cash flow generated from/ (used in) operating activities minus Purchase of property, plant and equipment and Proceeds from sale of property, plant and equipment.

Gearing is defined as Total borrowings reported to Total Equity.

Total Assets / Equity is defined as Total Assets reported to Total Equity.

Net Interest cover ratio is defined as EBIT reported to net finance costs.

Gross Interest cover ratio is defined as EBIT reported to finance costs.