UAC of Nigeria PLC

FY 2020 Results Conference Call Transcript

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Presenters:

- Mr. Fola Aiyesimoju (Group Managing Director, UAC of Nigeria PLC)
- Mrs. Funke Ijaiya-Oladipo (Group Chief Financial Officer, UAC of Nigeria PLC)

Moderator:

- Mrs. Lolade Bashiru (Vice President, Investment, UAC of Nigeria PLC)

1. Presentation

Moderator: Good morning and good afternoon ladies and gentlemen. Welcome to UAC of Nigeria PLC's Full Year 2020 Results Conference Call. This conference call will be hosted by Fola Aiyesimoju, Group Managing Director; and Funke Ijaiya-Oladipo, Group Chief Financial Officer. Please note that this call is being recorded. Following prepared remarks by UAC's management team, there will be an interactive Q&A session. I will now hand the call over to Fola Aiyesimoju. Please go ahead.

Fola Aiyesimoju (*UAC Group Managing Director*)

Introductory remarks

Good day all and thank you Lolade. The UAC management team and I thank you all for joining our 2020 results presentation. My name is Fola and with me today is Funke, our Group Chief Financial Officer. Funke and I will aim to go through prepared remarks in between 15 and 20 minutes, leaving sufficient time for questions. The presentation we will walk through has been uploaded on our website and should be visible on your screens.

Holding company with some of Nigeria’s most admired brands

I will now ask you to please turn to Slide 5. At UAC, we own businesses with some of Nigeria's strongest brands across our footprint. We own the Grand, Vital, Livestock Feed and BestMate brands in the Animal Feeds and Edible Oils segment. Gala, Supreme and SWAN are all iconic brands in the Packaged Food and Beverages segment. In the Paints segment, we own the Sandtex and Caplux brands and produce and distribute the Dulux and Hempel brands under license. In the Quick Service Restaurants segment, we own the Mr. Bigg's brand and operate the Debonairs Pizza brand. We view the strength of our brands as a significant advantage that is very difficult to replicate. Please turn to Slide 6.

Today, we are organized around 4 verticals: Animal Feeds and Edible Oils, focused on poultry and fish feed, breakfast cereals and cooking oil; Packaged Food and Beverages, focused on snacks, bottled water and ice cream; Paints with both decorative and industrial offerings; and a Quick Service Restaurants business.

We also own non-controlling interests in two Real Estate entities, 43% of UACN Property Development Company PLC (UPDC) and 23% of the UPDC Real Estate Investment Trust (UPDC REIT).

Finally, we own a 43% interest in the Logistics business, MDS, which provides warehousing and distribution services to Nigerian corporates. At the HoldCo, we hold just under NGN 15 billion in cash, NGN 2.3 billion in investment property and just over USD 5 million in Eurobonds.

Slide 7 reflects our domestic manufacturing footprint with 11 factories across Nigeria, which supports the nationwide distribution platform reflected on Slide 8.

HoldCo management focused on value creation

On Slide 9, we include brief profiles of the HoldCo management team, which is comprised of executives with the skill set and experience to maximize shareholder value creation. On occasion and when appropriate, members of the HoldCo executive management team assume leadership roles at our subsidiaries and operating platforms.

I, for example, ran UPDC until 4th January this year; my colleague Bolarin Okunowo is Managing Director at Portland Paints; Debola Badejo was appointed Managing Director at UAC Restaurants effective today.

Please turn to Slide 10. As many of you know, we spend a lot of time working to attract, retain and reward outstanding management teams for our operating platforms, and we are pleased to have chief executives well placed to deliver on our growth aspirations.

FY 2020 highlights

The next section of the presentation focuses on highlights from 2020. Multiple strategic initiatives include the positioning of UPDC for growth and the decision by the respective Boards and management teams at CAP and Portland Paints to initiate a merger of the businesses.

Slide 12 highlights the progress that was made with UPDC over the last 2 years. The business has been recapitalized, management strengthened, and is positioned for growth. I remain a non-executive director on UPDC's Board, encouraged about the growth potential under the new controlling shareholder.

Please turn to Slide 13. We are pleased that the respective Boards of Directors of CAP and Portland Paints have made significant progress towards merging the businesses. Commercial arrangements have been completed. Shareholder and regulatory approvals obtained and integration plans detailed. We are confident that the merger will result in long-term value creation for the respective shareholders of CAP and Portland Paints.

Funke will now take us through the financial performance, starting on Slide 14.

Funke Ijaiya-Oladipo *(UAC Group Chief Financial Officer)*

Good afternoon ladies and gentlemen. I will start with the macroeconomic review.

Macroeconomic review

2020 was a tough year. There was a deterioration across key macroeconomic indicators, largely on account of COVID-19, and this negatively impacted the operating landscape for our businesses. The key takeaways are that we experienced economic contraction as Nigeria went into a recession in the third quarter of the year, although there was an unexpected early recovery in the fourth quarter.

Despite lower aggregate demand, inflation trended higher month-on-month to reach 15% in December and continues to rise. The foreign exchange environment was and remains challenging. Our businesses were impacted in 2 areas: the first is that the rate which foreign exchange is procured by our businesses is higher; and the second was the availability over the course of the year. Interest rates hit an all-time low in 2020, which, on one hand, reduced financing costs for our operating platforms, and on the other hand, impacted the income earned from our treasury portfolio.

Overall, the impact of the macroeconomic backdrop and COVID-19 on our operating environment was constrained demand, operational disruption and a significantly higher cost environment. Please turn to Slide 15, which summarizes our financial performance.

2020 financial performance

Revenue for the full year 2020 increased 3% relative to 2019 to reach NGN81 billion. Demand and volumes across our businesses were impacted to various degrees, depending on the position of each business on what we consider the essential activity or the essential sector spectrum, and I will provide a little bit more detail on that later.

Overall, all our businesses except Portland Paints recorded revenue growth. Operating profit was NGN3.6 billion. This is 37% lower than the prior year. However, when you adjust for non-recurring income in 2019 of over NGN800 million from the sale of noncore real estate assets and certain write-backs, our underlying operating profit declined 26%. The decline can be largely ascribed to the Paints segment, which was categorized as non-essential. So it was impacted by reduced sales in April and May.

It can also be ascribed to higher input costs year-on-year and higher admin and personnel expenses, which were driven by initiatives to strengthen management teams across the group.

Total profit for the period was NGN4 billion, a reversal from the NGN9.3 billion loss reported in 2019. Contributing to this amount was the profit from our associate company and the profit from discontinued operations. Earnings per share was 92 kobo, up from a loss per share of 183 kobo in 2019, and our return on invested capital was 5.9%.

Please turn to Slide 16, which shows the clear inflection point in the group's underlying performance. As I mentioned, 2020 was a challenging year, but we are pleased to report that, in spite of the significant headwinds, UAC returned to profitability in 2020, and we expect to build on this going forward.

Please turn to Slide 17 for the segment highlights. As I mentioned earlier, top line performance of our businesses were impacted to various degrees, depending on the position on the essential activity spectrum.

Our **Animal Feeds and Other Edible Oils** segment is on the essential end of the spectrum. Our two businesses, Grand Cereals and Livestock Feeds were considered essential services and continued to operate during the most stringent restriction to the movement of people and goods in the second quarter of the year. Top line growth was least affected. So this segment recorded a 5% increase in revenue and an 18% increase in operating profit as price increases and volume growth offset higher input costs.

Going forward, our focus for this segment is to grow the higher-margin edible category and also to rationalize excess capacity.

The performance of our **Packaged Food and Beverages** business was mixed. Top line growth was marginal at 1.8%. Within that segment, our water category traded consistently and recorded similar levels of revenue year-on-year. However, volumes in the Snacks categories declined because of the disruptions to trading and market opening hours during the lockdown. Operating profit increased by 13% to NGN 1.4 billion because of low operating costs, and profit before tax declined by 12% on account of lower finance income.

Going forward, we are investing and expanding the spring water capacity and are also focused on improving our distribution. We are also in the process of implementing initiatives aimed at improving margin.

The **Paints** segment was our most significantly affected operating platform because Paints were considered non-essential services. Our businesses, CAP and Portland Paints, lost almost 2 months of sales because factories were closed when there were restrictions to the movement of people and goods.

Paints revenue was 5% lower year-on-year. Operating profit was 45% lower year-on-year. Key factors that influenced that performance were the 2 months of lost sales as well as rising input costs.

Our focus for this segment, after the completion of the merger, is to deepen the retail penetration and to expand our product range.

Our **Quick Service Restaurants** business faced restrictions to store opening hours and recorded marginal top line growth of 1.8%. Revenue growth in this segment was supported by an increase in the number of company-owned restaurants. Profitability in this segment declined year-on-year because of higher operating expenses.

Over the course of the year, we piloted 5 company-owned stores, and these stores recorded annualized return on investment of 39%. So our focus now is to invest in expanding this business, and we have a plan to roll out more corporate stores from 5 to 50 over the next 5 years. We will also focus on strengthening delivery capability across the chain.

In 2020, we sold controlling stakes in our Logistics business, MDS and our real estate business, UPDC. As a result of this, UAC now accounts for MDS and UPDC as investments in associates.

Please turn to Slide 16. We remain very liquid. Across the group, we have NGN 20 billion net cash. We have significant net assets, and we increased our working capital position deliberately, and this was for 2 reasons. One is the foreign exchange availability, and the second was because of the rising input costs. And these prompted us to purchase more raw materials to reduce the pressure and ensure that we have sufficient materials to continue production.

Our net capital expenditure of NGN 4.4 billion was largely on account of the investments in production capacity and cold chain distribution for the Packaged Food and Beverages segment.

I will now hand over to Fola to take us through the next section.

Fola Aiyesimoju *(UAC Group Managing Director)*

Compelling growth outlook

Thank you, Funke. In this section of the presentation, starting on Slide 19, we focus on what we believe to be UAC's compelling growth story. Slide 20 reflects the market valuation for the company, which essentially ascribes negative value to our operating platforms. These are companies with market-leading brands, NGN81 billion in revenue, NGN4 billion in profits and NGN10 billion in cash. This is aside from the cash that sits at the HoldCo.

We arrived at this conclusion by stripping out HoldCo cash and non-operating assets from our market capitalization, leaving a negative number. We believe this provides a base for significant value uplift.

On Slide 21, we outline our value-creation plans. Firstly, we would aim to return capital to shareholders and will shortly discuss specific near-term plans. We have very clear growth strategies for operating platforms, which we believe will drive earnings in the near to medium term. And finally, we are actively seeking acquisitions to contribute to driving our medium to long-term earnings growth.

On Slide 23, we outline corporate actions we intend to put before shareholders at our Annual General Meeting scheduled for the 30th of June this year. We propose an ordinary dividend of 65 kobo a share and a special dividend of 55 kobo a share. This brings the aggregate dividend to N1.20 a share.

In addition, we will seek to unbundle our entire interest in the UPDC REIT to our shareholders. These units have a market value of NGN 3.6 billion, which will be unbundled in proportion to shareholding in UAC. The dividend and capital return by way of the REIT unbundling amount to just over NGN 7 billion, which is approximately 25% of our market capitalization.

My colleagues and I thank you for joining this call. We remain focused on shareholder value creation and are excited about our plans for achieving this. I will now hand the call over to Lolade who will lead us through the Q&A session.

2. Question and Answer

Moderator:

[Moderator Instructions] Your first question is from Omolora Elemide.

Omolora Olamide
Good afternoon UAC management. I am happy to be part of this Conference Call today. Going through the results, as presented, I think I would like to say that it is quite heartwarming, particularly looking at the Animal Feeds business contributing 63% of the group revenue and 45% of EBIT. This is a rebound, and it is quite impressive, knowing that this business had been on a decline for some years. So I would like to appreciate management for that. I assume that new management and new systems, plus additional capital injection, are major contributory factors to that result. So it is quite encouraging.

I will, however, love to request that in future presentations, maybe we should also have a chart that shows the return on invested capital breakdown in the group. This will help to justify the capital deployment across the businesses. On the whole, I think I am quite happy at the direction the business is going. And I would like to say, please keep it up, and thank you very much.

Fola Aiyesimoju *(UAC Group Managing Director)*
Thank you very much, Omolara. For those who don't know, Omolara is one of our biggest well-wisher and supporter. So I really, really, really appreciate the kind words. The point about being clearer on the ROIC, return on invested capital, by segment is noted. It is in the appendix, but we take your point that this can be better highlighted. Thank you, thank you so much, and I look forward to further engagement off-line.

Moderator: Your next question is from Wale Okunrinboye

Wale Okunrinboye (*Sigma Pensions Limited)*
I have a few questions. One is, I see there is a loss on the HoldCo level, what is driving that from last year? What's the big change between last year and this year at HoldCo level? Also, I want to say congratulations for the results so far and the restructuring initiatives that have taken place. What else, looking into 2021, do you see and how do you see the year shaping up? Are you going to provide guidance on financial performance? What do you expect?

Also, I just wanted to clarify that following your exit from UPDC, UAC is no longer providing loans to UPDC because I see there is a debt somewhere. And then lastly, your inventory days went up in 2020. I suspect that's probably due to COVID and you had to hold a bit more inventory. Comment on working capital pressures at UAC?

Fola Aiyesimoju *(UAC Group Managing Director)*
Thank you for the questions. If I recap, you asked about the HoldCo loss, UPDC debt and inventory levels. Is that correct?

Wale Okunrinboye (*Sigma Pensions Limited)*
Yes, and guidance for 2021.

Fola Aiyesimoju *(UAC Group Managing Director)*
And guidance. Thank you, thank you. Okay. I will tackle 3 of the questions, attempt the accounting question, but Funke will provide a bit more color.

Guidance: We do not give guidance. I am happy to speak directionally that in 2021, we expect meaningful earnings growth for the group. Given the work that has been done and early indications that we have seen in the absence of significant headwinds, we expect meaningful earnings growth.

Debt: The only debt we have in the group that is consolidated is from the Animal Feeds businesses. These companies, as you know, borrow short-term loans seasonally to fund working capital and they pay these down over the course of the year. We have no other debt. UPDC today has aggregate debt of about NGN 5 billion. One obligation is to UAC, and the rest is a long-term bond. That bond could not be redeemed until this April because it was non-callable for the first 3 years of the bond. The idea is for that bond to be refinanced and for UPDC to be debt-free going forward.

I believe I saw a question from Bernard in the chat room. UAC's only remaining exposure to UPDC is a guarantee for half of the value of the bond, which would fall away once the bond is refinanced later this month.

Inventory levels: As regards inventory levels, it was a very deliberate choice. It was not accidental. Casting our minds back 12 months when COVID-19 was something we were all getting familiar with, it was clear to us that there were going to be supply chain disruptions. One of the challenges was just being able to produce. So, we decided to go long inventory to ensure we were able to produce to meet the demand from our customers. We did not always get it right. Even without planning, there were certain instances where we missed sales opportunities because we just could not produce.

The second was in a rapidly inflationary environment, where the raw material costs are rising daily and where yields last year were close to zero, it was much better to purchase and lock in inventory at much cheaper rates than to invest that money with banks earning close to zero. So we did not stumble into this inventory position. It was one that we very consciously decided to adopt.

And the HoldCo numbers, I think, are an aggregation of the profit on the sale of the stake in MDS and a mark-to-market loss on the UPDC sale. But I would ask Funke to provide a bit more color on that number, but it was not operational, rather HoldCo was mark-to-market.

Funke Ijaiya-Oladipo *(UAC Group Chief Financial Officer)*
The question was what was driving the loss at the HoldCo. Perhaps it is worth spending some time explaining how the HoldCo generates income, there are primarily 3 sources. One is from dividend income from our subsidiaries, interest income from our treasury portfolio, and also income from a property portfolio that we have. Because of the year that 2020 was, our dividend income at the holding company was actually NGN 1.95 billion lower, and our finance income was NGN 1.2 billion lower because of the trend in the direction of yields.

There was also an increase in admin expenses, partly attributable to the significant spend on COVID-19 donations amongst other factors. Essentially, the loss was because there was a significant decline in our income over the course of the year and a slight increase in expenses.

Moderator: Your next question is from Mike.

Mike *(unknown analyst)*
I have 2 questions. First one is, can you explain the management incentive schemes? And are they different or similar at the HoldCo and at the subsidiary levels? The second question is, with a lot of cash and low debt, what are your plans for the cash and capital allocation?

Fola Aiyesimoju *(UAC Group Managing Director)*
Thank you, Mike. The management incentives, they are different at the HoldCo and subsidiaries or the operating companies. The HoldCo, I will come to second because it is very much work in progress. For the subsidiaries, they are driven very much by return on invested capital. And as you know, the levers are

operating profit and the amounts of capital invested. Because we control their capital investments, we drive the management team very much on sustainably improving operating profits.

What happens is each year, the operating profit target is set, and if that target is not met, then the management team does not earn the incentive for the year. If the target is met, 40% of that incentive is crystallized and the remaining 60% depends on specific KPIs. For example we wanted a new brand launched or there was a technical project to be executed on time and to cost to specific quality and so on is the way it is done. So for the most senior leaders, it is measured annually. But the more junior factory workers, there is a quarterly reward if we are on track.

At the HoldCo, we are working and taking advice on putting in place an equity incentive scheme. We believe that the management of the HoldCo should only get significant financial reward after we have delivered to the shareholder. And so we are putting in place a scheme that essentially creates a threshold for shareholder return above which HoldCo management begin to participate in an equity incentive scheme. Work is under way. We are being advised by PwC on this and it will be brought to shareholders for approval once it is finalised.

As regards the HoldCo cash balance, we, as I mentioned, are focused on acquisitions, and we are looking for investments that do 2 things, one, move us closer to our return target and improve the overall risk-adjusted return of the group. So I hope those address your questions Mike.

Moderator: Your next question is from Dele Akintola

Dele Akintola *(Stanbic IBTC Stockbrokers Limited)*
I wanted to ask a question about your UAC Restaurants business. I mean, over the years, this business has continually contributed probably 1% to revenue. And then when I just think about the management time that is committed to that business, it almost feels like it is one of those things where you probably should potentially exit or deploy your time and capital elsewhere. But just looking at how Quick Service Restaurants have done in Nigeria, I mean with the exception of a few, I struggle to see what the opportunity is, but it will be nice to hear from your perspective on how you think you can unlock value there?

Fola Aiyesimoju *(UAC Group Managing Director)*
Thank you and very, very apt question. I think what we try to do is to be fact based. And so we went into this question about what to do with our QSR business with a completely open mind last year. And one of the options included, I mean, frankly, shutting it down if we couldn't find a buyer, given how marginal it was. My colleague Debola led the work. And we viewed this in a number of steps. The first was a detailed industry review. Can you make money in this industry? And we answered that question “definitively yes”. We concluded that you could make money, you could make significant outcomes by a company-owned store strategy. And you know the space, so you know that those players that have gone with company-owned store strategy and attained scale, and you may know some of the returns that have been generated.

The second question, after we concluded that the industry was attractive was “do we have strength to leverage in capturing economies from this industry?” And the most critical question here was do our brands still resonate with the consumer? We did a lot of work and came to the theoretical conclusion that they still resonate to the consumer, and we decided to test this. So we rolled out 5 corporate stores over the course of the last sort of 12, 18 months and sets very clear operating, financial and most importantly, return on invested capital targets for each store.

Even in a pandemic year, every single one of them hit and exceeded plans. And it was only after we had worked through the industry and tested the concepts and done well. After 5 pilots, we concluded that there was scope to invest behind the strategy. So the plan is very much to continue with a focus on corporate stores. As I mentioned, there is a new CEO who was appointed today, who started today, who is going to drive this corporate store strategy, and we are actually very excited about the potential of this business to deliver going forward. There would obviously be a period of investment and ramp up. But we think that it is going to be a completely different profile to what has been reported historically in the medium term.

Moderator: Bernard had a question in the message room. Bernard would like to know which brands will be rolled out for the QSR business, Mr. Bigg's or Debonairs?

Fola Aiyesimoju *(UAC Group Managing Director)*
Thank you, Bernard. The answer is both. We find that there is a considerable benefit where we have both counters in the same-store. However, speaking to Debola and the team, the plan is not a blanket, no matter the location and the demographics roll out both, we will roll out both stores, and there will be stand-alone Debonairs, stand-alone Mr. Bigg's and where our work leads to the conclusion, you have both counters in the same location.

Moderator: Your next question is from Abiola Gbemisola.

Abiola Gbemisola *(FBNQuest Capital Research)*
I have one question. It is around the focus of the UAC portfolio. Given the current focus, in terms of the acquisitions that you want to do in the future, what focus will management be focusing on? Will it still be consumer focus or can you take on other sectors as long as they give you returns?

Fola Aiyesimoju *(UAC Group Managing Director)*
Thank you and very good question. One of the things that guides us is, I think simplicity or reducing complexity. So a key focus is investing behind existing sectors that we are in and sectors that we like. So we are not going to run off and attempt completely new things. When we think about acquisitions, we have 2 dimensions, geographic and sector. And sector-wise, we are very keen on things in the Packaged Food space, very keen on things that complement our Paints business. We are already a market leader by a distance. The things that complement our Paints business from a sector perspective.

From a geography perspective, we will look to expand beyond Nigeria in the Paints business, and we are actively working on that. These things are very difficult to come by, finding companies in your sweet spot that you like and have a meaningful scale that is difficult to come by, but we will work on it.

Outside of our existing sectors, the one area that we are spending time on is what I call services or digital services. We are in very traditional industries. So something that brings us to what I call new age economy is one that we will spend a bit of time on. But the predominant focus is on, core existing sectors, Paints, Packaged Foods in particular, and then anything that brings us some new economy exposure. In the QSR space, the plans are very organic. So we do not have any M&A plans there for now.

Moderator: Ufuoma Abudu has asked a question. She wants you to please clarify if the increased sales in the Animal Feeds segment was a result of increased sales volume or price increases?

Fola Aiyesimoju *(UAC Group Managing Director)*
Last year, it was a combination of both price and volume. This year, we are seeing a lot more price than volume so far.

Moderator: Your next question is from Maxwell Kadiri

Maxwell Kadiri *(Retail investor)*
Two quick questions. Well, a comment first leads to the question. Now I happen to be a retail investor and bought into UAC, I think it was last year or the year before last, but part of what informed that decision to increase my stake was when I saw the information on the unbundling. And I was like this is using one stone to kill three birds and positioned to be able to ramp up one's stake, so I wanted to get benefits in both UPDC REIT and UPDC itself. And then out of the blue, I see news report of a deal with the insurance company.

There was no prior information of any sort. I would imagine that the negotiations would have been guided by an NDA but certainly, it would have been useful for some information to have been made available ahead of time that there are conversations that are happening with an undisclosed possible strategic partner that may inform a reversal of what the proposal has been because, following the news, I think arrangements for the unbundling had advanced significantly before management retraced its steps.

So, my question is what informed some of those decisions and which then put some of us out-of-pocket in some form? Because once expectations got dampened a bit, although one is still heartened by the results, and the dividend payments, which I think have been informed by some of the profits you made from some of the unbundling. But the question then linked to that is what is UPDC going to do differently going forward? Because, I mean, reading some of the reports, I see there are plans to get into some niche areas in the real estate sector. What difference would that make?

And then secondly, I thought I saw in the agenda items for the forthcoming AGM for UPDC that is an item that has to do with considering shareholder loans between UAC and the insurance company. What implication does that have for UPDC going forward?

Fola Aiyesimoju *(UAC Group Managing Director)*
Thank you. I am very happy that you say you are happy with the results and the dividend because it makes the response to the first part of your question much easier. At the time, we announced the unbundling of UPDC, we intended to go ahead with it. We were not speaking to anybody at the time the unbundling was announced. However, we, as a management team at UAC ask ourselves only 1 question "does an action improve value for UAC shareholders?". And when the answer is yes, no matter how far gone we are down on another path, we will change our minds. So when the facts change, we change our minds.

Also, with the sale of UPDC to Custodian, you had 3 listed companies, UAC, UPDC and Custodian. And as such, what we can say is extremely tightly regulated by the exchange. If we announce every time we enter into a conversation, there will be a lot of noise in the market. So we could only come to the market when things were at a sufficiently advanced stage that we could approach the regulator and tell the regulator what our plans were.

So I understand the desire as a shareholder to want to be kept abreast. As a public company, we are very tightly regulated in what we can announce and how. And so we did the work and concluded that the eventual transactions, which is the sale and some of the REIT units coming to UAC was in the best interest of the UAC shareholder. And as we explained today, we do plan to unbundle those REIT units to yourselves, our shareholders. So you will get some of those units, hopefully, later on this year.

As regards to UPDC's plans, I should stress that I am no longer the CEO of UPDC. So any comment I pass would be as a non-executive on the Board of the company. I think UPDC's plans are very ambitious. I think the company plans to, in a very disciplined manner, ramp up its development and go into opportunities where there is guaranteed offtake. And I think UPDC's AGM is in just over 2 weeks. So there will be time to direct questions to UPDC's management.

As regards to shareholder loan, I think I mentioned that UPDC still has NGN 4.2 billion of a bond outstanding. And the idea is for this to be refinanced. Now UAC alone was a guarantee. And what we are trying to do is to split this in proportion to our shareholding in UPDC with our partners. So I can understand why when there is a change in an announced strategy, it may be disconcerting. But I seek to assure UAC shareholders that we ask only 1 question, does this serve in creating value for UAC shareholders? And if it does, no matter how far down we have gone on an initiative, we will change our minds.

Moderator
[Moderator Instructions] I have a couple of questions in the chat, which I will read out now. Omolara Elemide asks about UAC's unbundling the REIT, what happens to the retail REIT holders? Would we have sufficient information to enable us make informed decisions?

Fola Aiyesimoju *(UAC Group Managing Director)*
A retail REIT holder that is also a shareholder in UAC will simply get additional shares in the UPDC REIT. So I repeat a retail REIT unitholder that is also a shareholder in UAC will simply get additional shares in the UPDC REIT. In terms of information about the REIT, the REIT fund manager periodically put out this information. It has never come through UAC or frankly, UPDC, for that matter. That is expected to continue

and would guide REIT unitholders decisions about whether to hold, invest more or divest of those REIT units, but they are profitable, historically dividend paying, as you probably know.

Moderator
Oluwaseyi Adeosun *(Asset & Resource Management Holding Company (ARM HoldCo))* would like some color on competition in the Animal Feeds business. Specifically, has there been any improvement in your market share? And what is your strategy for this space?

Fola Aiyesimoju *(UAC Group Managing Director)*
The competitive dynamics haven't changed very much over the last 12 months. The big players remain the same in the industry. Our strategy in this space is to deliver value to our customer. We find that farmers want not very many things. They want consistency. I mean I joke that chickens don't fast. A farmer isn't buying feed, they are buying an energy source, so they want performance. They want their birds to get to the best weight quickly. They want their layers to give the required yield. So our focus is on being consistent, being there for the farmer and is on delivering on the promise. So that is in terms of the dynamics, and we see as the industry matures, players increasingly being more sophisticated in their commercial approach, performance versus price.

Our focus favors returns. We are focused on improving margins and rationalizing capacity because the ROIC is low, and that is going to be very much the direction in which we drive management focus on rationalizing excess capacity, so we can begin to see ROIC trending towards higher levels that will be comfortable.

Moderator
Our next question is from Oluwabusola Akinyele

Oluwabusola Akinyele *(FBNQuest Asset Management)*
My first point is more of a suggestion. I mean, what I have observed, taking a cue from what Fola said about still retaining the QSR business. And what I've observed is especially for the Debonairs outlet, I feel like it needs more visibility. I mean, when you compare to peers in the industry such as Debonairs, you would realize that the outlets that we have are not so many. I mean, from the last time I checked, we have just about 7 compared to peers who have over 40 outlets.

So I think if you're still looking at retaining that business, I mean good potential in that space, we could look to more visibility because it is the fact that according to NBS, food consumed outside home constitute the largest part out of consumption at 20%. So I think we could do just more around having more brand visibility.

My second point, which is a question is, given how import-dependent the Paints segment is, I mean, you see that it is quite prone to FX exposure and also shocks to supply chain. So I just want to know how you could still grow the topline despite all of those. I mean, did we see any price increases last year 2020? I don't know if you could just provide guidance for that?

Fola Aiyesimoju *(UAC Group Managing Director)*
Thank you for the excellent suggestion. I think it is crystal clear that we are under-penetrated in the QSR space. Debola who is MD of the company is on this call. So he has heard your feedback directly. And I think we will for sure, we are going to see this change over time. The Paints space, I would say, last year began to take price increases in response to increasing cost of raw material costs and did a very good job, frankly, with volumes, in what was just quite a shocking year overall and for that business in particular because the factories had to be closed during the more stringent phase of restrictions. So we are seeing performance in volume and increasingly taking price to protect margin on accounts of FX-induced escalations in raw material costs.

Oluwabusola Akinyele *(FBNQuest Asset Management)*

Okay. Is it across all portfolios or just specific?

Fola Aiyesimoju *(UAC Group Managing Director)*
In the Paints business, across all the segments in the Paints business. I would say that, frankly, the biggest challenge we have had in that business has been less about pricing and demand, but more about being able to get the output out because it's the sector that we're in that globally has been most affected by supply chain disruption. So we haven't had any concerns with pricing or with demand. It's more just been can we get the raw materials into the country, into the factory to get the paint out.

Moderator
Bernard has asked a question regarding the UPDC bond. His question is, if the UPDC bond is refinanced, does that mean there will be no guarantee against UAC anymore and will the exposure UAC has be limited to UAC's holding in UPDC?

Fola Aiyesimoju *(UAC Group Managing Director)*
So Bernard, the intention is for the refinancing to be done by the shareholders in proportion to their holding in UPDC. So UAC would have a loan from UPDC and no guarantee. And the thinking here was that it made little sense for UAC to have a guaranteed obligation on a bond that is paying 16% interest, whilst UAC treasuries is earning in the single digits. So there will be no guarantees for crystal clarity, and our exposure will be the shares we own in UPDC and a loan from UPDC backed by a significant and debt-free asset base in the company.

Moderator: That concludes the Q&A session of the call. I will now hand the call back to Fola Aiyesimoju for any closing remarks.

Fola Aiyesimoju *(UAC Group Managing Director)*
Sorry, Lolade, I see questions still pinging through the comments.

Moderator
Yes. Wale Okunrinboye just asked a question. He says, Slide 20 is an interesting one. It suggests UAC is a deep value play. What would it take to get us there? What level of ROIC is management targeting? Is this greater than 20% for the current businesses? Alternatively, can the current businesses get us there? Or there will need to be acquisitions? If so, what sectors?

Fola Aiyesimoju *(UAC Group Managing Director)*
Yes, Wale it is a complex set of questions. UAC being a deep value play, yes we think so. What will it take to unlock this value, I think, consistent performance by ourselves as management. What our ROIC targets? Certainly above 20%, 25%. What do we do day-by-day towards this is we view every single project, every single new decision in the context of “does it meet our 25% ROIC target”, and if the answer is no, we don't do it. Funke mentioned an investment in a water line. I've talked about investment in the QSR platform. So we begin to see from our existing businesses, a shift towards our target return threshold.

About new acquisitions, as I have mentioned, our focus is on simplicity. So things that are in Packaged Foods, things that complement Paints we would look at and the things that we will look at outside of our existing perimeter, are those things that give us some exposure to services and in particular digital services.

Moderator
There are 2 additional questions, one from Ada and another from Brad. Ada asks and wants to know what locations the 5 company-owned store pilots were done in? And Brad wants to confirm if NGN 3.5 billion dividend is something we should expect to continue going forward? Is this going to grow? Or is it a onetime dividend?

Fola Aiyesimoju *(UAC Group Managing Director)*
Okay. The 5 company-owned stores were in Lagos, and there is one that is in progress that we opened in Abuja. The company's strategy, again, in line with simplicity will be to concentrate on key cities. And when

you achieve scale and saturation, maybe we begin to think about moving to other cities. So we don't plan to immediately attempt to blanket the country. We would focus on the key commercial centers.

In terms of the dividend, the guidance I can give to shareholders is to think about the dividend in 2 components, the ordinary dividend and the special dividend. Our plan is to at least maintain the ordinary dividend. And what we are trying to do is to avoid volatility. We aim to at least maintain the ordinary dividend and move in step changes. So at a particular level and where we feel confident hitting a higher level, we'll move to that level and when we are comfortable in that level, move to a different level.

But given the way we actively manage the business, if there is a significant capital return, we will look to do special distributions to shareholders as we are doing in this particular year. I don't know if that provides clarity or sufficient clarity on the topic.

Moderator
Before I take the final question, I just want to confirm I see Mike and Maxwell have their hands up. Can you please lower your hand, if you have already asked your question, but if you still have a question to ask, please keep your hands up and then you'll be called upon.

Okay. Maxwell has asked his question in the meeting chat. He wants to know, in relation to the proposed exploration on digital services, would UAC be going alone? Or would this be in partnership with experts in the field? If UAC is going in alone, does the current team have enough capacity to drive such new businesses?

Fola Aiyesimoju *(UAC Group Managing Director)*
Short answer is 100% in partnership. The strategy we are adopting is one where we learn in partnership. And then in a few years, see, depending on how quickly we've learned and how comfortable we get may look to do things alone. But our focus is on taking what we call a toehold in this space, and it is going to be done in partnership with people who have long-standing track records and relationships.

3. Closing remarks

Moderator: There are no further questions. I will now hand the call back to Fola Aiyesimoju for his closing remarks.

Fola Aiyesimoju *(UAC Group Managing Director)*
Lolade, thank you for moderating the call excellently. I thank each and every one of you for joining and for the thoughtful questions and suggestions. I wish you a wonderful Easter break. Thank you, and goodbye.

Moderator: Thank you very much. That concludes the UAC of Nigeria PLC Full Year 2020 Results Conference Call. You may now hang up. Thank you.