UAC of Nigeria PLC: FY 2021 Results Conference Call Transcript

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Presenters:

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

Moderator:

- Mrs. Chiamaka Uwaegbute (Investment Associate, UAC of Nigeria PLC)

1. Presentation

Moderator: Good afternoon, ladies and gentlemen. Welcome to UAC of Nigeria PLC's Full Year 2021 Results Conference Call. This conference call will be hosted by Fola Aiyesimoju, Group Managing Director; and Funke Ijaiya-Oladipo, Group Finance Director. Please note that this call is being recorded. Following prepared remarks by UAC's management team, an interactive Q&A session will start. I will now hand the call over to Fola Aiyesimoju.

Fola Aiyesimoju *(UAC Group Managing Director)*

Introductory remarks

Good day all and thank you for making time to participate in our result presentation. In our prepared remarks, Funke and I will discuss our operating environment, provide updates on our strategic initiatives, share insights on our financial performance and discuss our outlook.

Macroeconomic review

We start on slide 5. In 2021, Nigeria's economy returned to growth following the COVID-19 triggered recession in 2020. Key concerns remain around inflation and foreign exchange, with foreign exchange concerns including availability and pricing.

On slide 6, we outline the effect of base inflation combined with supply chain disruptions, which resulted in input cost escalation far over the reported headline inflation. In our animal feeds business, prices for maize and soya beans increased by 50% and 100% respectively. In our paints business, the price for resin increased by more than 100% and there were increases by over 50% for flour, milk, and sugar impacting our packaged food and beverages, and quick service restaurants businesses. Unfortunately, the trend has continued into 2022.

In a nutshell, the biggest issues we are grappling with are cost escalation and supply chain disruptions.

Please turn to slide 7. The net impact of rapid escalation in costs has been pressure on gross margins, resulting in margin compression across all businesses. We partially offset this by reducing operating expenses to sales ratios across board and continue to pay very careful attention to pricing and gross margins in light of the continued high inflationary environment.

In the next section, we provide updates and strategic initiatives implemented in 2021.

Strategic initiatives in 2021

A recent focus for us has been on simplifying the group structure, resulting in the sale of controlling interests of two of our businesses, UPDC PLC and MDS Logistics.

In 2021, we made further progress by successfully merging and integrating our paints businesses, CAP PLC and Portland Paints. This merger is complete and the fully integrated business operates seamlessly.

We acquired 49% interest in UAC Foods owned by Tiger Brands who were very supportive partners during the time of our joint ownership. Increasing our stake in UAC Foods is in line with our strategy to simplify the group by exiting non-core businesses and doubling down in core growth areas.

Finally, we completed the unbundling of UPDC REIT units to UAC shareholders and you should have received REIT units as well as a small dividend between December and January this year.

An outstanding question relating to our structure is as regards our animal feeds businesses. Our two businesses in this segment, Grand Cereals Limited and Livestock Feeds PLC have limited geographic overlap, which is positive in the context of a potential merger but are configured to deliver different value propositions to end customers. Resolving the question regarding long-term ownership and structure for Grand Cereals Limited and Livestock Feeds PLC is a key focus area for us.

Please turn to page 10. We have made meaningful investments in our core IT infrastructure. Specifically, we invested over NGN 200 million in the migration from an on-premise Microsoft Office 2016 application to the cloud-based Office 365 enterprise productivity tool. We are in the process of migrating from an on-premise physical server-based SAP ECC ERP system to the cloud-based S4 HANA. This is a more than NGN 2 billion investment that we expect will go live in July 2022. It is one of the most important initiatives we are embarking on as we get the dual benefit of improved processes by adopting SAP, best practices, and superior technology.

On slide 11, we outlined the initial steps we have taken as regards introducing a digital component to the holding company. We made three small investments in this regard in 2021.

We invested in Ventures Platform, the leading venture capital fund in the region, and hope to work closely with and learn from Kola and his team as they seek to invest in more than 50 of the best technology-enabled businesses across Africa. We made a direct investment in Touch and Pay, a micropayments business that was recently accepted into Y Combinator, and also invested in Kandua, a marketplace connecting artisans with end customers.

Given the shift from the industrial to the information age, we feel that these investments are important to UAC's long-term future.

Finally, on slide 12, we outline work done on employee incentives. We feel that attracting and retaining the right quality of talent is by far the biggest constraint to our growth. As such, we have implemented initiatives tailored by each entity to align employee and shareholder interests.

At the holding company, our view is that reward must be directly linked to shareholder experience. As such, we have implemented a scheme that provides HoldCo employees with a share of the total value created above an 18% return threshold.

At the subsidiaries, we have designed schemes linked to operating profit. Companies that meet their operating profit targets qualify for 40% of their performance incentives, but the remaining 60% are dependent on specific KPIs. For more junior employees, incentives are paid quarterly, while management incentives are paid annually.

For UAC Restaurants, a business going through a complete business model shift from a 100% franchise model to majority corporate stores. We have put in place management incentives tied to delivering on a 5-year business plan.

I will pause here and Funke will take us through the 2021 financial highlights.

Funke Ijaiya-Oladipo *(UAC Group Finance Director)*

Thank you Fola, and good afternoon, ladies and gentlemen. Please turn to slide 14.

UAC is a holding company and our interests are organised along four key verticals which are animal feeds and edible oils, packaged food and beverages, paints, and quick-service restaurants. We also have non-controlling interests in a leading logistics services provider and a real estate development company, which can be exited over time.

In 2021, there were three key changes to UAC's group structure. The merger of our two paints businesses to form an enlarged CAP PLC, the increase of our stake in UAC Foods from 51% to 100%, and the distribution of UPDC REIT units to UAC's shareholders.

One of our objectives is to drive long-term profitable growth in our core platforms and in 2021 the group recorded significant topline growth of 25%, above the historical average growth of 3% to reach NGN 101 billion. Our focus on driving growth can be categorized into two parts: our core operating platform, comprised of our subsidiary companies across our four key verticals, and the second part is our recent investments in technology-enabled businesses.

In 2021, all of our four operating segments recorded topline growth above the historical growth rate, which is encouraging, and this was achieved by a combination of price and volume increases across each segment.

Group financial performance

Please turn to slide 18, which provides an overview of the group's financial performance, comparing the full year results for 2021 with 2020.

The results are mixed because the group recorded meaningful topline growth of 25% year on year to reach 101 billion as I mentioned earlier. However, operating margins of our businesses were impacted by raw material price escalation and the higher cost environment. We did achieve some operational efficiency as reflected in the improvement in our operating expenses to sales ratio by 184 basis points.

The group recorded operating profit of NGN 5 billion in 2021, which is 50% higher than the NGN 3.3 billion recorded in 2020. However, when we adjust for certain one-off and nonrecurring events at the holding company, the underlying operating profit of the group is flat year on year at NGN 3.2 billion and I will touch on that on the next slide.

Group profit before tax was NGN 4.1 billion, 18.5% lower year on year, and profitability was impacted by higher finance costs as a result of increased short-term borrowings in the animal feeds and other edibles segment, to support efforts to build inventory.

Profitability was also impacted by losses recorded by our associate companies, UPDC and MDS in 2021 versus a profit from associate companies in 2020. Group earnings per share from our continuing operations was 63 kobo, this is 9% lower than the 69 kobo recorded in 2020.

Key drivers of Group operating profit

Please turn to slide 19. The slide aims to provide additional context on the key drivers of operating profit across the UAC group between 2020 and 2021. The group recorded a NGN 1.5 billion increase in gross profit, driven by increased sales across all operating segments, offset by the increase in the cost of raw materials.

At the holding company, there was NGN 1.5 billion increase in dividend and other income specifically attributed to the following:

Dividend income of NGN 245 million from UPDC REIT, which has now been distributed to UAC shareholders. There was a fair value gain of NGN 324 million recognized on the distribution of UPDC REIT units, representing the difference in the carrying value and the market value of the REIT on the date of transfer to shareholders. There was also an increase in the fair value of investment properties at the holding company.

Our businesses were not immune to the escalating cost environment and recorded a NGN 1.5 billion increase in operating expenses. When you adjust for the events at the holding company, as mentioned earlier, the Group's underlying operating profit was broadly flat year on year.

Group financial position (Balance sheet and liquidity)

Please turn to slide 20, which shows a snapshot of the group's financial position as at 31st December 2021. The Group has net assets of NGN 51 billion, the year-on-year movement reflects the impact of the unbundling of UPDC REIT units as well as the impact of the purchase of additional shares in UAC Foods on cash and on noncontrolling interests.

There have been price escalations in key raw materials across our businesses as well as supply chain disruptions, so over the course of the year, we deliberately increased working capital to mitigate the impact of rising input costs, especially in the animal feeds segment and our paints business to ensure sufficient raw material availability to continue production.

As a result, inventory increased by NGN 16 billion and this was funded by short-term debt, which translates to a Group net debt position of NGN 8.5 billion from a net cash position in the prior year. At the holding company there is no debt, the holding company has NGN 4.4 billion in cash and holds over NGN 2.2 billion in Eurobonds.

Capital expenditure in the period was largely concentrated in the packaged food & beverages segment where we continue to make investments to address inadequate capacity as well as investments in technology infrastructure.

I will now hand over to Fola, to take us through the next section of the presentation. Thank you.

Fola Aiyesimoju *(UAC Group Managing Director)*

Operating segment overview

Thank you, Funke. Please turn to slide 22. As Funke outlined, our core focus is on driving growth. For UAC Foods, which has three segments, snacks, water, and ice cream, we are recording growth across all segments meaningfully above the historical trends. In the snack segment, we are nearing capacity and are in the process of the detailed design for a new factory.

A very important initiative we executed last year was the migration to NGN100 price point from a NGN50 price point. Before 2021, the NGN100 price point accounted for about 6% of the Gala portfolio. On account of initiatives implemented last year, that NGN100 SKU comprises more than 60% of the Gala portfolio.

We rolled out five hundred (500) freezers to drive growth in the ice cream business and are deploying a further thousand (1,000) freezers and exploring the acquisition of additional cold trucks to deepen distribution.

For water, we cannot meet demand and have acquired a new line which is going through final testing this quarter with the expectation of installation in the third quarter, we expect to triple volume capacity on account of this investment.

On slide 24, we focus on our Paints business, in this sector, the focus is on deepening distribution and broadening range, we are rolling out colour centers for both the Dulux and Sandtex brands and working closely with our technical partner AkzoNobel on expanding their product range. We see additional opportunities for growth in the marine and protective space and are also trying to build a project team to sell directly to large-scale construction projects.

On page 26, we focus on our Quick Service Restaurants business where the simple objective is rapidly expanding our corporate store network. We had 5 of these stores in 2020, 11 in 2021, and plan to double again this year to 22.

The most important objective for this business is the rolling out attractively located stores with excellent operations and good unit economics. We feel that by achieving this, the economics of the overall business will take care of itself.

Finally, on slide 28, we touch on our animal feeds business where we have a dual focus on growth and optimization. As we feel there is scope to improve margins and drive capacity utilization.

We have done a lot of work on product formulation over the last 18 months, which we expect to deliver improved performance to farmers and as a result, drive volume growth. We are also focused on the higher-margin segment of the business being edible oils and cereals.

I will now hand over to Funke to discuss our dividend proposal and outlook. Thank you.

Funke Ijaiya-Oladipo *(UAC Group Finance Director)*

Dividend Proposal

Please turn to page 30, which provides highlights of the recently announced corporate action. UAC's Board of Directors is recommending a dividend of 65 kobo per share, which amounts to NGN 1.9 billion and is subject to the approval of UAC shareholders at our annual general meeting, set to hold on the 22nd of June 2022. Qualifying shareholders may elect to receive new ordinary shares in the company instead of the dividend in cash. This election is to be made before the 14th of June and shareholders who do not elect for the new ordinary shares will receive cash.

Outlook

On slide 31 and in conclusion, we remain focused on our priorities, specifically focus on simplicity, improving our processes with technology, driving profitable growth, learning from our new digital investments, as well as making progress on increasing capacity for our snacks business.

We thank you once again for participating in the session today, and we will now be taking questions.

2. Questions and Answers

Michael McGaughy *(Research Alpha)*

Thank you very much for holding the conference call. My question is, one of the speakers had mentioned there is no debt at the holding company level. I want to know how much debt there is at the subsidiary and associate level and if it is consolidated or not? Are there SPVs or other similar debt instruments we should be aware of?

Fola Aiyesimoju *(UAC Group Managing Director)*

Thank you, Mike. I would provide a response and Funke will provide more detail. There is no debt at the holding company. The only companies that borrow are our animal feeds businesses, they borrow annually to fund working capital and typically cycle through this debt in each buying season cycle and there are no SPVs or any other off-balance sheet borrowing entities anywhere in the group.

Adewale Okunriboye *(Sigma Pensions)*

Good afternoon and thank you for the presentation. Congratulations on your numbers and I see your revenues are now above NGN100 billion. What do you think, between volume and price, where would you say more of the impetus came from in 2021? Because of the inflationary environment, it is likely there will be more price increases at your Animal Feeds businesses, will you say that was the big driver for growth? Over the next year, given the inflationary environment, how do you think we should be looking at your revenues, more scope for a price increase to drive revenues? That is my first question.

The second question, you mentioned quite a bit of the inflationary pressures, this is quite true and this hurts your margins. How do you see this evolving a year from now? My third question is, I see your presentation, you talked about simplifying your structure and you have done a bit around your major verticals except your Animal Feeds vertical. So what should we be expecting? I suspect probably a merger, but maybe there are other things you want to talk about.

The last thing I see, there were some restatements. Can you provide clarity on what drove the reclassification in the prior year? And then on your digital business and digital approach, I am just trying to figure out, what is your strategy in that space, and how do you hope to realize some of the investments in terms of cash? Just overall how should we be looking at it going forward and what scale/size do you expect this to be over the medium term, in terms of your numbers?

Fola Aiyesimoju *(UAC Group Managing Director)*

Thank you. I have five questions, which is what was the bigger driver of growth; price or volume? What is our outlook as regards continued input cost escalation? Thoughts around simplifying the group structure, specifically, as relates to the Animal Feeds business. The restatements and the driver for that and then, our digital investments and the approach. I will address some of them and Funke is best placed to address the restatement.

The first one, volume versus price growth last year, very simply, was a combination of both. All of our businesses aside from Grand Cereals, recorded both volume and price increases last year. For Grand Cereals, it was more price than volume. And I think if we just look at slide 15, it is important to note that until 2019, the group revenue growth was relatively flat and these prior year's chart included two meaningfully big businesses, UPDC and MDS, that were contributing to revenues. We no longer consolidate those businesses, so it is fewer companies that are driving the much bigger revenue growth to NGN100 billion and it is revenue and price for all the businesses across the animal feed segment, for Grand Cereals in particular in the animal feeds segment.

In terms of the outlook, it is very difficult to provide clarity. I explained that we saw prices rise in many instances, more than 100% last year. Year to date, we have seen 25-30% escalation. We are quite clear that we want profitable growth, so we would do what we need to do from a pricing perspective to protect margin. We saw price increases of 75-100% in certain businesses over the last 12-18 months, but it is a very fine balance, if we see a meaningful softening in terms of volume, we can implement things like promotions to pull it back. To give you a precise answer, the mindset remains very much on driving underlying volume growth but we will pay very close attention to ensure that we have the right pricing strategies to protect our margin.

As regards the Feeds business, we have explained probably about a year ago that we have delayed taking action on this particular topic because we are going through one of the most managerial time-intensive initiatives a company can embark on which is the implementation of SAP S4Hana and we did not want to overlay management with the complexity of trying to bring together two businesses via a merger. We have touched very quickly on the pros and cons, and the biggest impediment to a potential merger is that these companies have quite different value propositions. Livestock Feeds is a value player, and a lean organization that focuses on delivering value to the farmer and Grand Cereals focuses a little bit more on the mid to premium segment. We aim to go live on SAP in July this year and thereafter would free up the managerial bandwidth at these companies to begin to talk through the detail of bringing them together.

As regards digital, I think it is important to note that our aggregate investment is probably 1% of our NAV, not even our assets and a fraction of total assets. We made investments that we felt provided us with a number of things. One is just downside protection. So, we do expect to make a return on each of these investments and for people who are conversant in the VC world, from a mark to market perspective, we are already meaningfully up, but crucially was to learn. We have businesses that we like and these businesses are very much in what we would call the traditional economy. We explore a number of ways to develop a presence in the digital economy. One was making a very big acquisition, which is attempting to find and buy a Unicorn and they are called unicorns for a reason. The second was building one from scratch. And the third is what we call the toe-hold approach, which is why investing in a VC fund, we would see 50 of these companies and over the course of a few years, learn and the two businesses we made direct investments in, we felt there were direct benefits that we could get in our core businesses should these businesses thive. One of the biggest headaches we have in our snacks business and for any company that does low unit price sales is managing price point migrations. I mentioned that for Gala we had to go from 50 to 100 naira. If a company succeeds in digitizing micropayments, we no longer have to make these massive jumps. There is a lot more flexibility around pricing.

And for Kandua, which is a marketplace for artisans, one of their biggest segments is painters. A long-term interest for us is bringing that company to Nigeria as they are a South African-based company and seeing whether we can work with them in terms of driving painter's stickiness which would help our paints business. So, there were some strategic thoughts to the direct investments that we made in digital, but like I said, probably 1% of NAV so relatively small exposure in that regard and we do not expect to do anything additionally meaningfully for the next few years. We plan to just see how the investment we have made pans out. I would hand over to Funke to comment on the restatement for the prior year.

Funke Ijaiya-Oladipo *(UAC Group Finance Director)*

Thanks. Three things are responsible for the restatement of comparative information and the first is adjustments to withholding tax receivables. The second is the provision for liability of a judgment debt at one of the subsidiary companies and the recognition of the liability for long-term employee benefits at one of the subsidiary companies as well.

Mike McGoughy *(Research Alpha)*

Yeah. Hi, this is Mike from Research Alpha. I just had a question on the incentives that you are implementing. When are those going to start or have they already started and also what are they going to be based on? Is anything to do with share price or I guess and also how they are going to be rewarded through options or cash bonuses, just some insight into the incentive program would be helpful. Thank you.

Fola Aiyesimoju *(UAC Group Managing Director)*

OK. Thanks, Mike. It is helpful to think about the incentives in two components, the listed holding company, and the underlying operating businesses.

The listed Holdco's incentive plan is effective, it became effective in July last year and quite simply, the holding company needs to deliver a minimum 18% return to shareholders. This can be dividend or share price appreciation. If that threshold is not met, there is no incentive. If it is met, then the employees of the holding company get a share of the value created in shares. It is not going to be a cash payment. So that is for the holding company.

For the subsidiaries, all the schemes are in place to answer the first question, and all of them, apart from UAC Restaurants have a very similar framework, which is each year we set an operating profit target for the business. Should that target be met? 40% of the incentive crystallizes for all employees. For the more junior workers, it is measured quarterly and for the management team, it is measured annually based on the audited financial statements.

The remaining 60% depends on the specific initiatives we are trying to drive for that business in a particular year and it then cascades by individuals. For CAP, our focus is very much on rolling out colour centres and broadening the range, for the head of commercials in CAP, it will be the number of colour centres rolled out and the performance of the new colour centres and so on so forth. The head of the supply chain will be measured on timing of full delivery to those new colour centres. So the 60% will vary by company and by timeframe.

UAC Restaurants, because there is no operating profit, so to speak, there is a five-year plan that the company has put forward and if the management team hit the plan, there is an incentive that is paid out and they do not achieve the plan, there is no incentive payout.

Mike *(Research Alpha)*

Sorry, I just got a quick follow-up question to that. When were the incentive programs started for the underlying companies i.e. the subsidiaries?

Fola Aiyesimoju *(UAC Group Managing Director)*

The first one would have been UAC Foods in 2020 and the rest of the subsidiary companies would have followed last year. UAC Restaurants was put in place last year and UAC, the Holdco was also put in place last year.

Edward Nwaokoro *(Stanbic IBTC Pension Managers Limited)*

Good afternoon, and thanks for the presentation. I am interested in the paint business. I found out looking through the books, I see that dividend has declined to about NGN1.25 from c. NGN2.10 in 2020, is there a reason for that? I looked through and I have also seen that the share price of CAP has fallen from NGN19.5 to around NGN18. I might need a little more guidance on that.

Also, what was that actually the major driver of revenue? Because I saw a significant increase in revenue. Was it just the merger or was there also a price increase? I think that is basically what I will be looking at for now and then going forward, how do you intend to drive revenue and drive profits? There might be little you can do about the cost of resins, I heard it is over 80% increase year on year but is there any other strategy you are working towards to drive profitability in 2022?

Fola Aiyesimoju *(UAC Group Managing Director)*

If I just summarise the questions on CAP, one was clarity on the dividend; two was the impact of the merger on revenue growth, and three was how do we drive growth in light of escalating raw material costs.

For the dividend, 2021 was a tough year for CAP because the profitability fell and in determining the dividend policy, management estimates cash needs and profit and therefore they framed the dividend in light of the reduced profit for the year. In terms of why the profit reduced, if you look at CAP’s performance for the first three quarters in 2021, we put our hands up and say we were a bit slow in terms of reacting to input costs escalation but as you are interested in the business and you follow it closely, you would see record levels of profitability from the fourth quarter and we have seen the trend in terms of profit coming back very strongly as we aggressively take price increases into this year.

The merger was a small portion of the growth. CAP went from a NGN 9 billion company to a NGN 14 billion company. Portland paints is only NGN2 billion, that is a NGN 5 billion increase, so more than 60% of the growth was organic and encouragingly it was predominantly volume growth.

This was a four and a half million (4.5m) litre a year business in 2018, last year ended up at over 9 million litre business. So encouragingly, it was very much volume growth and not price driven and then when we laid on the price in the fourth quarter, we have seen meaningful growth in profitability.

In terms of how we see the outlook, yes, we remain concerned about the escalating cost of resins, but we simply price accordingly. Where we draw comfort is that we did a mapping of the country and we determined that there is meaningful whitespace in terms of rolling out colour centres to deepen distribution, and so we feel that by increasing the number of colour centres we would drive growth and if you look at slide 25, and I must admit that this slide understates CAP’s distribution. CAP has over 100 retail outlets because we have Dulux colour centres, Sandtex colour centres, and we also have what we call colour shops which are smaller retail formats that draw from colour centres and we plan to grow our retail footprint by a minimum of 20-25% again this year.

In addition, we sell 97% of our output via retail channels, this is small projects and homes under renovation and almost nothing to large developers. We are in the process of building what we call a “projects” business. So we feel that in spite of input costs escalations, we are reasonably confident that we will continue to see strong growth in the paint segment.

A bit longer term and one that we are going to explore this year, but I think it will take probably 12-18 months to see any meaningful impact, is that CAP also has licenses to supply the five countries around Nigeria, Chad, Niger, Cameroon, Equatorial Guinea, Sao Tome and Principe. We currently do not sell a single litre of paint into any of those markets, and we are going to Cameroon sometime in this quarter, end of May, and the beginning of June to begin exploration to see how we can begin to export into those markets. So, we are reasonably clear as to where growth from CAP is going to come for the next few years.

Samson Owolabi *(ARM Securities)*

I would like to ask a question concerning operating profit, we can see revenue increased to NGN101 billion and the operating profit stood at NGN4.9 billion, there is a very large margin in that area. What is the major plan concerning how to curb operating costs based on the fact that looking at the direction of inflation and the rise in prices of products in the market, what are the major plans of the company to curb this particular effect?

And I would also like to ask about the aspect where you talked about the cash being NGN4 billion and some part of it NGN2 billion in Eurobond, can you please break that particular slide down? What is the company's policy on investing on this particular cash?

Fola Aiyesimoju *(UAC Group Managing Director)*

I will recap to make sure I understood your question correctly. The first is how do we think about operating expenses in light of inflation. Second is what is our approach to managing our treasury.

I will tackle the first one and then I will hand over to Funke for the second. I think slide 7 paints the picture. We pay attention to absolute cost increases, but we are a lot more focused on operating expenses relative to sales. If we are growing our sales faster than our operating expenses then it is positive, it means we are investing for growth because you cannot roll out, and we went from 20 to 40 colour centres, and you cannot do that without growing your base operating expenses. On slide 7 you will see that in every single one of our businesses, we improved the operating expense to sales ratio. So this is what we are going to pay attention to and the reason why we feel we have a good chance at maintaining this is because, if you have joined our calls in the last few years we started off by making meaningful investments in people, process, and technology to create a base for each company that could drive meaningful revenue growth.

So we are going to keep paying attention to these ratios and making sure that we keep our opex to sales ratios under control and then I would hand over to Funke to talk about our approach to investing our treasury.

Funke Ijaiya-Oladipo *(UAC Group Finance Director)*

The way we think about the treasury at the Group and at the holding company level is essentially to segment the funds based on the purpose. We have our operating cash for operational needs, there is the core cash for medium term requirements, the strategic cash for longer term investments such as acquisitions and depending on the purpose of each one of those segments, we invest accordingly.

This is a combination of either putting the strategic cash into our operating segments, supporting with working capital and we also invest in money market funds, money market investments, as well as Eurobonds. So in summary, we manage the portfolio according to operating requirements, strategic requirements of the group and it also allows us to retain investing flexibility.

Moderator: Aminat Ogungbola from Stanbic IBTC Pension Managers Limited, has a couple of questions in the chat room which I will read out now. Aminat would like to know what led to the higher loss reported in the QSR segment year on year and what is management outlook for this segment in terms of profitability.

In addition, what is the current capacity utilization for plants and how does management intend to fund upcoming expansion projects?

Fola Aiyesimoju *(UAC Group Managing Director)*

Thank you. If you have been following us over the last few years, we phased driving growth initiatives across each of our businesses and we went through people first, then structure, then growth. In QSR, we only appointed a new management team in April of last year.

So, there is a meaningful step up in terms of operating expenses to have a management team that was capable of taking a company from zero corporate stores to a hundred (100) corporate stores, which is their target in the next five to seven years, so there was that meaningful investment.

There was also meaningful investment in terms of plant and equipment, so you see a jump in depreciation and as we roll out corporate stores, there is a lag effect. You rent the store, you kit the store, you recruit the team, there are about 20 people per corporate store and you train the team and then after a few months, you open and ramp-up operations, and then the store begins to contribute.

We would see a shrinking of the loss in QSR and the pace at which that loss reduces and eventually turns to profitability will be directly related to the speed at which the company rolls out corporate stores but we impress on management that one of the biggest mistakes that is possible to be made is to have a poorly located corporate store.

So we spend a lot of time ensuring that each store is appropriately located and once we achieve this and maintain the store operations, then we see the desired unit economics. What we spent a lot of time on is assessing the health and performance of each individual store that we open and once those markers are green, then we are comfortable that the strategy is heading in the right direction.

In terms of your question around plants, we have very many plants. I will try and do a quick run-through.

In our Animal Feeds businesses, we have four plants, and we have a plant on a third-party site in Kano. I would say on average that is about 50% utilization. So we do not have any concerns about producing feed.

For Oil, we have capacity constraints at certain segments of the oil value chain, but right now we rely on third-party crushers. Should we need to upgrade, it will cost about NGN 2.5 billion.

If I move over to Paints, I see CAP PLC's, Head of Strategy and Transformation, Lolade Bashiru, is on the call, and Edward, if you want to learn a lot more about their business, you can reach out to her. The plant there is probably about two-thirds capacity utilization. We are currently in the process of having AkzoNobel visit us sometime in the first half of this year to reconfigure that plant. At the pace of growth, we would run out of capacity in the next two years. However, I should have mentioned that there is a meaningful shift in strategy that we are implementing this quarter with our paints business moving from tinting the majority of the colours in-factory to tinting them in-store. Once we implement this, it will free up meaningful capacity for the paints business and hopefully move back the need to invest in additional kits but we are making that assessment over the course of this quarter.

For UAC Restaurants, the central kitchen is under 50% utilization, so we have a lot of headroom to rollout more and more corporate stores and meet demand there.

And for UAC Foods, that business itself has three plants. The snacks plant had hit 80% capacity utilization. The move to a NGN 100 price point has brought that back to the high 50s because we get twice the revenue on each unit sold but we are already in detailed design to build a new factory because that business is growing 25% year on year. The dairy plant is at 60% capacity utilization and there is not that much capital required to expand that, so we are reasonably comfortable there. The water plant has been at full capacity utilization for the last 18-24 months. We have already purchased a new plant and that would treble capacity when it comes on stream in the third quarter of this year.

It is a little bit of a long answer because when you say plants, we have very many and each of them is at different levels of utilization and there are different plans in place for expansion.

Funke Ijaiya-Oladipo*(UAC Group Finance Director)*

I can see in that chatroom that there was another leg to Aminat's question around how we intend to fund the upcoming expansion projects. It is a combination of things; the cash from the holding company, cash from the operations of the specific subsidiaries. We are also in the process of disposing certain investment properties, which will provide additional liquidity and last year in 2021, the holding company registered a NGN 50 billion bond programme, which also provides additional financing flexibility in the event that additional funding is required.

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)*

Thank you once again, Chiamaka. Thanks to everyone for making time to join the call and thanks for the thought-provoking questions. I wish everyone a wonderful rest of the day. Thank you.

Moderator: Thank you very much. That concludes UAC of Nigeria PLC's full year 2021 results conference call. You may now hang up. Thank you.