



UAC of Nigeria PLC: H1 2022 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 (Associate, Investment, UAC of Nigeria PLC)

1. Presentation

Moderator: Good afternoon, ladies and gentlemen. Welcome to UAC of Nigeria PLC's Half Year 2022 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, 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

Thank you for joining our results presentation. Our performance in the first half of the year was poor and largely attributable to operating decisions and execution at our Animal Feeds business- Grand Cereals. Over the course of the discussion today, Funke and I will aim to provide updates on our operating context, performance in the first half of the year, and focus areas for the second-half of the year.

Macroeconomic review

Please turn to slide 5. Macroeconomic conditions in the first half of the year were very difficult, with declining growth rates, rising inflation, Naira devaluation and scarcity of foreign exchange. Unfortunately, we do not anticipate an improvement in conditions in the near term.

On slide 6, we reflect the input cost trajectory for key raw materials across our businesses. The prices of maize and soya beans increased sharply impacting our animal feeds business. As the prices for resins and titanium dioxide, key inputs of our paints business. Milk and sugar, raw materials for our dairy business also recorded sharp increases in price. With the recent devaluation of the Naira, and the imported component of raw materials, we expect further input cost pressure. In addition to rising raw material costs, conversion costs and distribution expenses increased meaningfully as the price per litre for diesel tripled.

Funke will now take us through the financial performance for the first half of the year starting on Slide 8.

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

Group financial performance

Good afternoon ladies and gentlemen. Please turn to slide 8 which provides an overview of the Group's financial performance .

Our results for the first half of the year were mixed. In the first three months of the year, we delivered double digit growth in revenue, operating profit and earnings per share across the group.

The second quarter of the year was more challenging, with slower growth, which affected topline performance and accelerating inflation, which impacted operating margins and profitability.

Looking at the entire six month period compared to 2021, the results are disappointing.

We recorded consolidated revenue of N52 billion which is 12% higher than the N46 billion recorded in the first half of 2021.

All of our four operating segments recorded topline growth, which was largely driven by price increases to offset rising raw material costs across each segment.

The Paints segment recorded double digit revenue growth with a 29% increase year on year and this was driven by pricing initiatives across all paint categories as well as expansion of the retail footprint.

The Quick Service Restaurants segment also recorded double digit top line growth at 28% and this was driven by additions to company-owned restaurants. We have opened six new stores across Lagos and Abuja this year and sales from these new stores supported topline growth in the Quick Service Restaurants segment.

The Animal Feeds and Other Edibles segment recorded 9% revenue growth, driven by price increases.

Revenue growth in the Packaged Food and Beverages segment was 6% year on year and it was driven by volume growth in the water category as well as price increases across snacks, water and ice cream. The business also benefited from improved distribution, particularly in the spring water and ice cream category.

Gross profit for the group increased 7% year on year to N9 billion however, gross margin compressed by 73 basis points to 17.2%. This was impacted by input cost escalation, which was not sufficiently offset by price increases across all our businesses apart from the Paints segment, which recorded expansion in gross profit and gross margin.

We recorded operating profit of N1.6 billion, which was 9% lower year on year and the decline was a result of underperformance in our Animal Feeds and Edible Oils business as well as the impact of escalating costs, particularly in energy and distribution. Our businesses with cold and frozen components and their supply chain, which are our ice cream and our restaurant businesses were particularly affected.

As a result of these factors, the operating profit margin of the group compressed by 73 basis points to 3.1%. We recorded a loss per share from continuing operations of 17 Kobo compared to earnings per share of 5 Kobo in 2021. Profitability was impacted by higher finance costs on account of increased short term borrowing in the Animal Feeds segment. Profitability was also impacted by losses recorded by our associate companies.

As a result, we recorded lower return on invested capital at 5.4%. Free cash flow for the period was negative N4.5 billion, driven by working capital and capital expenditure across the group.

Group financial position (Balance sheet and liquidity)

Please turn to page 9, which shows a snapshot of the group's financial position as at 30 June.

The Group has roughly N50 billion net assets and the year on year movement reflects the net increase in inventory and debt across the group since December 2021. The group's net debt is N16.5 billion, which is N8 billion higher than December, and I will touch on that on the next slide.

Our businesses invested just under N3 billion in capital expenditure in the period. 50% of that went towards upgrading our IT infrastructure across the group to SAP S/4 HANA. 40% of this amount was invested in mixers, freezers, trucks and cold chain infrastructure for our ice cream business. 10% of the capital expenditure went towards expanding our corporate store network by UAC restaurants.

Our cash cycle increased by 33 days to 169 days and this is reflective of the excess inventory we are carrying in our Animal Feeds business.

Key drivers of Group debt

Please turn to page 10, which provides additional context on key drivers of debt.

In summary, the net increase in the group debt is attributable to the additional short term debt to support working capital in our Animal Feeds business. And you will see in the bar chart that the increase in debt is correlated with the increase in inventory and interest expense incurred in the period.

We are conscious of the impact of finance costs on our profitability and we sought out to optimize funding costs and successfully issued UAC's first commercial paper in the Nigerian debt capital markets in May. We issued an N18 billion commercial paper under our N45 billion program. And the issuance by UAC, the holding company, was aimed at reducing finance costs across the group. We were able to refinance the short term debt in our Animal Feeds business and reduce interest rates on that amount by about 210 basis points.

Despite a softening in the price of soya bean and maize in the second quarter of the year, the market value of inventory of the Animal Feeds business exceeds total borrowing. And such, we have comfort that liquidity generated from future sales are sufficient to reduce leverage and inventory.

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*)

Thank you, Funke.

Animal Feeds Impact on H1 2022 Performance

Slide 12 aims to reflect the outsized impact our Animal Feeds business had on our performance in the first half of the year.

Operational planning for this segment entails procuring raw material inputs at harvest to meet production needs for the subsequent year. This involves forecasting production volumes a year ahead, and we unfortunately got this wrong last year and purchased agricultural inputs in excess of our needs.

Unusually, the prices for these agricultural inputs declined post harvest, putting downward pressure on selling prices and finished goods, and this negatively affected margins. Inventory purchases were financed with debt and as such interest expense depressed profitability further. The movement in inventory and debt, which did not result in proportionate increases in revenue are reflected on slide 13 of this presentation.

As you would see, our inventory days increased sharply as inventory growth was not matched by a commensurate increase in sales.

H2 2022 Focus Areas

Our focus in the second-half of the year is on aggressively reducing inventory and deleveraging the business. To achieve this, we are pursuing a dual strategy of bulk inventory sales and ramping up end products sales. We would also focus on eliminating costs in this segment.

Product sales improvement will benefit from improved formulation for our poultry feed, which has been very well received by the market.

Slide 14 touches on our focus in the Packaged Food segment. Here the goal is to commission a new line for SWAN water business, which has been out of capacity for a while. The line has been purchased and we expect it to be fully operational in the fourth quarter of the year. This would increase capacity threefold and enable us to meet demand. We are however paying very careful attention to distribution costs given the recent escalation in diesel prices.

Finally, on slide 15, we highlight other areas that we are focusing on that we believe will have long term positive impact on our business.

We have recently transitioned to the SAP S/4 HANA enterprise resource planning system and are at the hypercare stage of this project. We expect this phase to be completed in September, after which we will focus on maximizing value over this long-term investment.

In the Quick Service Restaurants business, we are aggressively rolling out corporate stores. We gave guidance of ending the year with about 22 stores. We have about 18 stores and we fully expect to meet and in all likelihood exceed our targets by the end of the year. These stores continue to perform well and we are planning further expansion next year.

Our Paints business continues to grow and our focus here is on revamping colour centers, rolling out additional points of presence and improving overall customer experience.

Finally, in the dairies segment of our Foods business, we deployed close to a thousand freezers this year and changed packaging for ice cream and our aim is to derive full benefits from these investments.

Overall, our main challenge and as such, our focus will be on reversing recent poor performance in the Animal Feeds segment but we will pay very careful attention on continuing to implement the growth trajectory we are seeing in the rest of our businesses.

Thank you and we will now take questions.

2. Questions and Answers

Adewale Okunrinboye (*Sigma Pensions*)

Good afternoon and thank you for the presentation. I think H1 looks like it was a very difficult operating environment. For your Animal Feeds business, towards the tail end of last year, I could see a pickup in inventory. It was clear you were trying to buy. I am just trying to understand- you had purchased a bit of inventory, is it that price came down or you struggled with volumes? Which was the issue was it that pricing was unfavourable? I suspect you were trying to frontload against maybe inflation and currency devaluation. I am just trying to understand what really happened on that side.

Next question is on your QSR business. We have been seeing a lot of traction on that. However, I think if I look at the notes I see you are still at an operating loss. What is the issue? And what do you think you need to do to move the business to profit? Maybe on a going forward basis, you said your guidance is that you do not see any improvement on the overall picture. Is it a case that maybe you think things will be weak for a while. Or maybe you think with the adjustments you make on your Animal Feeds business, you will be able to turn things around.

Fola Aiyesimoju (*UAC Group Managing Director*)

Thank you, Adewale. Just to make sure I have the three questions. One was seeking additional clarity on what exactly happened to Animal Feeds. The second was understanding the outlook for the operating loss of the QSR business in spite of traction and getting context on the comment around the continued difficult outlook.

For the Animal Feeds business, I think it was two things really. Yes, you are 100% correct that we significantly ramped up inventory towards the tail end of last year and this peaked in March of this year. We did so in anticipation of growing volumes in that business. So you need the inventory to meet your monthly production targets. But it is important to note that already by the end of last year, prices for maize and soya had more than doubled and they increased probably another 30% to the peak of the buying season. So the overall market slowed down, the volumes we targeted did not materialize. So regardless of what happened to the commodity prices, we would have had excess inventory and paid for that in leverage.

The unique circumstance this year was that the conventional wisdom is that commodity prices, maize and soya beans are cheapest at harvest and post harvest, the prices typically rise. So it is much easier to course correct. If you overbuy inventory, you simply sell that inventory and frankly can make a profit.

This year, for some reason, in spite of historical patterns, Russia-Ukraine, inflation, those prices came down in Nigeria. It is important to know that we track the prices globally and in Nigeria they came down which limited our ability to immediately sell down inventory and reduce our borrowing levels. And because the price of those commodities came down, it also affected the end product selling prices. You could not keep on pushing the end product selling prices to drive margins, so it affected margin.

So one was just our planning. We planned for big growth in volumes, bought the inventory and those volumes did not materialize because the industry slowed down. And because the prices came down, it limited our ability to course correct.

On QSR, it is important to note that we were a 100% franchise business and took the decision to massively prioritize corporate stores and aggressively implement our franchise standards. So we will shut down or buy over any franchisee that does not meet our requirements. To achieve this, the company had to invest meaningfully in the capabilities to run a corporate store network. And those investments peaked around April last year. The way it works is that every store we roll out is profitable. The return on invested capital is very high and they operate at north of 20% margins. And you need X number of stores or X revenue from your corporate stores to fully cover your headoffice overhead costs and begin to break even. That business will get to roughly N4 billion business or between N3 and 4 billion business. It requires, in our estimation a run rate. So any month where your run rate is about N10 billion a year, so you are doing N800 to 900 million a month in corporate store sales to break even. And we very much expect this to materialize sometime in the next financial year 2023. So what we focus on is how many corporate stores can we roll out and how well does each corporate store rollout perform. Because the investment in the central platform to support this has peaked.

My comment around the overall environment was more macro. I am not in any way suggesting that UAC's performance would continue in this trajectory. In fact, I expect the absolute opposite. I frame the macro because it guides the things we are going to need to manage, so we are going to need to be very agile in terms of sourcing. And we are going to need to be very attentive in terms of pricing to make sure that we respond to input cost escalation. So the comment was more a macro comment than a company performance-specific comment in terms of outlook.

Adewale Okunriboye (*Sigma Pensions*)

OK, thank you. Just one follow up. So I think Funke said about leverage- that it is tied basically to the inventory build up. As you wind that down, you will repay and finance cost will not be an issue going forward. Secondly, in your QSR where would you say the margins are- Mr Biggs, the pizza, the express stores. Which has the higher margins?

Fola Aiyesimoju (*UAC Group Managing Director*)

On a standalone basis, Debonairs Pizza has higher margins than Mr Bigg's. But we roll out Mr Bigg's in clusters, so I am glad you picked up on the express. So every main Mr. Bigg's store you see, there would be three to four express stores attached. And on a cluster basis, Mr Bigg's is more profitable than Debonairs. So Debonairs is profitable on a standalone. Individual Mr Bigg's to Debonairs, Debonairs is more profitable. Mr Biggs cluster is the most profitable in the portfolio.

Moderator: Your next question is from Bernard from Steyn Capital Management. He would like to know if you can give a sense of what state the consumer is in, given the high inflation in the country. Also, are you able to take prices without affecting volumes in your Packaged Food and Beverages business?

He has another question on the Paints business. Can you give us some more colour as to what happened to volumes in that business? Are you taking share from competitors? Do you plan to take more price increases? And lastly, how are you progressing with your store roll-outs to increase your retail presence?

Fola Aiyesimoju (*UAC Group Managing Director*)

Thank you very much Bernard. If I just recap, the first question was state of the consumer and ability to pass on price in Packaged Foods business without volume impact. Next was the Paints, similar- what

happened to volumes as we take prices and then retail store rollout for Paints and plans for further price increases.

In the Packaged Foods, my view and I must stress that we are not economists, is that the consumer is very stressed. With the prices of many goods doubling over the last sort of 12-18 months, I know very few employers of labor or entrepreneurs who have managed to double their own earned income, either doubling salaries paid to employees or for those who are entrepreneurs, doubling their net income. So logic suggests that the consumer must be stressed.

Now, in our Packaged Food business pass on price increases and it has affected volume for 100%, sure, but not obviously because in that segment, there are many tools to play around with pricing, we have Gala, we have Supreme ice cream, we have Swan Water. Swan is not really relevant because we cannot meet demand. So we actually do not know what impact price increases may or may not have had because we still have a backlog of orders. For ice cream, we have seen at least a slowdown, it grew very very quickly last year. So we have seen a slowdown in that particular segment. However, revenues grow. I think it is very important to note that the price increases much more than offset any volume decline and I think year-to-date that ice cream business must be up 25% in revenues. So for sure, there has been a slowdown in volumes or at least the volume growth, what we have seen is the price increases have much more than offset that.

With Gala, it is the trickiest one, because there are two ways of thinking about volume, one is weight and the second is units and we think that so we focus a lot on just the revenues. Revenues have grown in that segment, but the volume measured by weight has come down meaningfully because what we do in that segment is rather than increase the price per unit we simply drop the grammage so the end product is smaller. So you see the volume in terms of kilograms come down, but again we are seeing the revenues there hold up and the units hold up.

Paints. We have seen volumes grow, but we have seen a shift in mix. As you know with Paints, we play across premium, ultra premium and the mid market. We have seen a slowdown at the premium segment and then we have seen a shift in volumes to the sort of more mainstream. But overall volumes are up. We absolutely plan to continue to take price increases not because we want to, but because if we do not price up, we are unable to replenish inventory. So it is mechanical, it is not one that we view we have much of a choice on. We are not too dissimilar to the Mr Bigg's and Mr Bigg's express. We have colour centres and colour shops attached to color centers and the focus with this business is very much on aggressively rolling out colour shops to pull more from each color center. So we are going to keep on increasing our retail presence, but we are going to focus on using colour shops to optimise each color center that we have created and revamped.

Bernard, I hope those cover the questions you had.

Moderator: Your next question is from Prisca. Prisca from Stanbic has a couple of questions. In the Animal Feeds segment, what percentage of the soya beans and maize is sourced locally? In what ways, does the Group mitigate exchange rate risk given the constant devaluation in the Naira? Is the Group considering divesting out of unprofitable businesses?

Fola Aiyesimoju (*UAC Group Managing Director*)

Ok, and thank you Prisca. Again, three questions, what percent of soya and maize is procured locally? How do we manage exchange rate risk? And would we consider divesting from unprofitable businesses?

First one is a very short answer. 100% of our maize and soya has procured domestically.

Exchange rate risk, at least as far as it concerns us, has many dimensions. The first we think about is availability. So it is just the availability of FX to procure raw materials and spare parts. In our business, we have very limited direct exposure to the need for foreign exchange. Now If we are importing spare parts or capital equipment, we do have FX needs. But in terms of raw material procurement for most of our businesses we are downstream, so we buy a lot of flour and refined oil and sugar and so on and so forth. Our Paints business does have a fair bit. We do a number of things. One work very closely with

the banks to try to see what we can get. And the second is given our history is work very closely with our trade partners to ensure that there is a clear understanding of the challenging situation we find ourselves in and patience by way of trade terms and by and large, we have managed.

The next element is what I call the rate of FX. Many things in the country have sort of an FX component and there it is just inflationary. So although we may buy flour from the flour millers, if there is FX devaluation, the cost of flour would go up and then we deal with that with pricing. And we try very hard to be forward-looking, otherwise we will continuously be behind the curve to protect margin.

And then finally is just assets and liabilities. We aggressively focus on avoiding FX liabilities. If we have any, it will be de minimis. Maybe, open a trade line to close out an LC and then we very quickly close that position. So we have nothing by way of meaningful foreign exchange liabilities.

So those are the three ways we we think about foreign exchange risk and we seek to manage.

I would answer your third question and then just have Funke **chime** in, if there is anything I missed in terms of of FX management. We absolutely will seek to divest of non-profitable businesses. But more fundamentally, I think even if a business is profitable, we may choose to divest. We review our businesses frequently and we assess a number of things. One, does it fit with the rest of the group. So for example, as you know, we divested UPDC, not because it was a bad business, but we thought it did not fit with the rest of the group. And you will see, it is doing reasonably well post our exit from that business. And we assess things like the industry the business plays in and our position within that industry. Do we feel that we have a reasonably good chance of winning? So for example, the QSR business is loss making, but we like the industry and we feel we have a very good chance of winning, so we continue to invest. To bring this together, we would absolutely divest things that we feel do not have attractive prospects or do not fit with the rest of the group.

Funke, I do not know if I missed anything on FX management or if you think I covered it.

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

Thanks. You covered everything. I do not have anything else to add on that point.

Moderator: The next question is from Brad. Please unmute yourself and go ahead.

Brad Viribitsky (*Equinox Partners*)

The first question I have is around your planned expansion in your Packaged Foods business and the debt you are planning to raise for that. What is the timeline like on that and are you looking to sort of delever your Animal Feeds business before you embark on that expansion?

Fola Aiyesimoju (*UAC Group Managing Director*)

The timing for that is imminent. We are in final stages of reviewing the plan to make sure that given everything we see with the environment, the sizing of the project, the capital we are going to commit makes sense. And that is going to be concluded one way or another before the end of this year. There, we have secured attractive long term debt. So that is long term Naira debt.

We do not, in our planning, think about the levels of borrowing in the Feeds business. The Feeds business is seasonal. So by November of this year, the N18 billion debt you see now would have come down to between, let us call it three and six and that is covered by inventory, which is going into the next year. So that is very seasonal working capital debt.

Across the rest of the group, we do not have long term debt and so this would be the only meaningful bit of long term debt that we plan to take on. And by way of timing, should we conclude that given everything we see with the outlook, we will generate the type of returns that we feel are attractive. We would progress with our project sometime in this half of the year.

Brad Viribitsky (*Equinox Partners*)

Thank you. And just following up with that. So, the debt that you raised, that you talked about earlier in the call, that was at the group level or that was at the animal feeds level? Because I thought that, that was meant to sort of decrease the cost of the the animal feeds.

Fola Aiyesimoju (*UAC Group Managing Director*)

I mean, each company does its own borrowing, just let us be clear on that. For the Animal Feeds in particular, this year we saw an opportunity where the group could borrow at 8.5% and the Animal Feeds businesses were borrowing at 11-13%. So the group, refinanced the Animal Feeds debt, that was tactical. It is not some strategic plan where the group borrows and allocates. So we saw an opportunity or Funke saw an opportunity and we took it. But we manage each company's balance sheet on a reasonably ring fenced basis.

And to be clear, if you are keen Funke can walk you through the mechanics, but we treated it just like any other lender. So sweep in cash and periodically and so on and so forth.

Brad Viribitsky (*Equinox Partners*)

Ok. So, you borrowed at the group level. Then you lent back to the Animal Feeds business and you are effectively treating that credit you have to the Animal Feeds business as if you were a bank and swooping cash from the Animal Feeds business.

Fola Aiyesimoju (*UAC Group Managing Director*)

If it is helpful, Funke can take you through the mechanics, but it was basically an avenue to reduce the borrowing cost from 11 to 13 to sort of between 8 and 9%.

Brad Viribitsky (*Equinox Partners*)

And I noticed that the manager, was it Alex Goma, he left the Grand Cereals business. Do you have any sort of commentary on what your long term plan is to replace him or whether there is a strategy change there?

Fola Aiyesimoju (*UAC Group Managing Director*)

So Alex Goma did leave his last day was the 6th of July. He was replaced on the 6th of July by Vitus, the Chief Operating Officer at UAC. So Vitus has been on the job now for just over a month. And we think Alex did many good things at Grand Cereals, but given where the company is and the performance that we saw in the first half, the Board of Grand Cereals and ourselves at UAC thought there was laser focus required on a very narrow set of of initiatives, and Vitus was deemed the best person to go off and execute those things that we thought had to get done, which is why that change was made.

Brad Viribitsky (*Equinox Partners*)

And is there any color in terms of what initiatives you are doing at that business?

Fola Aiyesimoju (*UAC Group Managing Director*)

Absolutely. We think the company must focus on very few things. A lot of this work has been done. One was we did some work on improving the formulation, for anyone who follows that space. It is all about feed performance and we are doing very well. We are getting very good feedback from the farmers. So we have seen an increase in pull. The second is just being able to ensure that we can meet demand. We had shrunk production capacity. So we shut down plants when the volumes dropped. It is ramping that back up to ensure we can meet production capacity and distribution. There is going to be meaningful cost reduction in that business and just laser focus on deleveraging. So a very narrow set of things to execute.

Brad Viribitsky (*Equinox Partners*)

And did you feel that the decision last year to really ramp up your inventory in anticipation of this year obviously did not work out because prices went down? Was that decision something that you sort of regret or do you think that is sort of the right way to plan and you plan to do it again in the future?

Fola Aiyesimoju (*UAC Group Managing Director*)

So we certainly regret it because it has not panned out. Would we do it again in the future? Look, just to share some context. If you speak to any of the major players in the industry, everyone had the same experience because if you go through sort of years and years of data, the lowest time to buy is in the harvest season and it more than offsets your holding costs. And then if you factor in Russia-Ukraine and price of grain sort of skyrocketed everywhere else in the world.

Again, I think it was logical for us to believe that these commodity prices will at least hold. What is odd and interesting or I guess perplexing is that there is no clear reason as to why the prices dropped in Nigeria. I think the view is that we do not have very clear data on the aggregate amount of maize and soya produced in the country. And because of the aggregate amount of maize and soya produced, more than half is for own consumption. When there is a 30-40% increase, the increase in the amount that comes on to the market for sale is significantly more. So we think that may be what happened this year. We would for sure be more cautious next year in terms of prepping for the year ahead.

We will for sure be more cautious because it is better risk management, but what that may mean is that you miss out on growth. So if for whatever reason the sector grows rapidly, you miss out on that growth. But it is for sure better risk management.

So to summarize, we clearly regret the decision because history has proven to us that it was wrong given the performance. The logic at the time I think was sound and what we will do is just sort of pull back a bit going into the next buying season.

Brad Viribitsky (*Equinox Partners*)

Thank you. And just the last question for me is just so, the issue was at Grand Cereals rather than you other Feeds business, Livestock Feeds? or was it across your businesses?

Fola Aiyesimoju (*UAC Group Managing Director*)

The issue was predominantly at Grand Cereals. Livestock Feeds has had also a difficult first half, but nowhere near. I mean the challenges at Grand Cereals are orders of magnitude greater than at Livestock Feeds. So at Livestock Feeds we are reasonably comfortable that the management team is executing what needs to be done. So, they reduced inventory very quickly, reduced leverage very quickly and we expect to see that company begins to record healthy financial performance already in the second-half of the year or frankly from the third quarter of the year.

Brad Viribitsky (*Equinox Partners*)

Sorry, I could just squeeze one more question. So do you think it is likely that these businesses get merged at some point?

Fola Aiyesimoju (*UAC Group Managing Director*)

OK, if I give a short answer. If we own these businesses in three years time, the odds that they would run as separate companies is extremely slim. So that is just to give a directional comment.

If we own them in three years time, the odds that they will be run as more than one company are very slim. And when this question was posed to us, why didn't we run off and merge these businesses at and around the same time as CAP and Portland Paints were merged. I think the view then was we had new CEOs appointed to both Grand Cereals and Livestock Feeds in early 2019 and late 2019. And we were also embarking on an ERP implementation so hugely, both very disruptive things in the life of businesses. We did not feel that we could overlay the complexity of a merger and integration with those

businesses. That was the call we made at the time whether it was right or wrong, that was the thinking then.

In implementing the ERP system, we have ensured that similar or identical processes, where relevant, have been implemented for both companies. Such that should we decide that they are going to be merged, it is much easier to integrate the businesses.

We have a new CEO at Grand Cereals now who is a month in the job. He is UAC's COO, so very familiar with both businesses. He is going to spend the rest of this year laser focused on improving performance and then we will pick up the discussion around long term configuration for the businesses. We have a long-term vision. If we own them, they will be together. But there are reasons why it has not been done thus far.

Brad Viribitsky (*Equinox Partners*)

Fair enough. Thank you for taking my questions

Moderator: Fisayo from CardinalStone Securities would like to know UAC's target debt-to-equity ratio.

Fola Aiyesimoju (UAC Group Managing Director)

We do not manage the group as a conglomerate. I think it is a very important point to note that every business has its own different cash flow profile, growth aspirations, and therefore capital structure.

So if I go through them very quickly. In our Animal Feeds business, our objective is very much to utilize debt, predominantly for working capital purchases. So you see these few spikes, they should always be covered by inventory and as the season goes through, those spikes come off. The Central Bank as we all know, has been very supportive of industry and where we see opportunities to access intervention funds we will take them across the board for those businesses. So the Animal Feeds business did get N2 billion from the Central Bank available to us N1.3 billion to use for capital equipment and N700 million for working capital. So that is in the Animal Feeds business.

QSR, we plan to fund with shareholder loans unless again that business manages to find intervention funding. But the plan very much is to fund that with by the shareholders, UAC and Famous Brands.

Our Packaged Foods business, the only meaningful leverage will take on would be to build a new plant is the only meaningful leverage we will take on for that business. And then again, we need to demonstrate to ourselves and UAC shareholders that we feel that the investment would yield the desired outcome. If we did take on that leverage and it puts the debt to equity in that business to roughly 50-50 or slightly maybe 60 equity, 40 debt.

In the Paints business finally again we do not anticipate a need for any any long term debt. It is growing very quickly and our message to the management of that company is that if you need working capital debt please come to us. But it is great because the company has doubled volumes in the last 12-18 months, but we do not see any requirement for long term debt in that company.

So we do not have a group wide target. We manage each business individually and ensure that the capital structure is tailored to that company's cash flows and growth aspirations.

But happy to spend more time with you offline if you ping Funke or myself. We can take you through this in a bit more detail company by company.

Moderator: Fungai from RCM has a couple of questions. The first is to understand the rationale behind the cluster approach to opening Mr Bigg's and express outlets. Also, how far from the Mr Bigg's outlets do the express ones tend to be, and what is the size differential? Lastly, why does this approach work for Mr Bigg's but not for Debonairs?

Fola Aiyesimoju (UAC Group Managing Director)

Fungai, I am going to decline to answer that question. You can reach out to us offline. I do not want to broadcast the core of our QSR strategy.

So please ping Funke or myself and we can go into this detail. But this is the core of the company's strategy. The second one is easier in terms of why does it work for Mr Bigg's not Debonairs. To make a pizza, you need more infrastructure, you need a massive oven to make a pizza, so it requires a certain size of store. The product Mr Bigg's sells is easier to manufacture and therefore you do not need as much infrastructure so you can get away with smaller kit. We are exploring ways to have an express Debonairs, but that is the fundamental difference between between both.

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 to all for joining and for the thoughtful questions. I think in summary the results for the first year half were poor. These were largely on account of poor performance in the Animal Feeds segment. We are focused on addressing the underlying challenges in that business but ensuring that we keep the balance with continuing to grow the rest of the business that has recorded encouraging growth of recent.

Thank you and please reach out to us if you have any areas you would like to spend a bit more time on.

Moderator: Thank you very much. That concludes the UAC of Nigeria PLC's half year 2022 results conference call. You may now hang up. Thank you.