UAC of Nigeria PLC: H1 2024 Results Conference Call Transcript

Date: Tuesday, 27 August 2024 2:00 PM WAT

Presenters:

- Mr. Fola Aiyesimoju (Group Managing Director)
- Mrs. Funke Ijaiya-Oladipo (Group Finance Director)

Moderator:

- Mrs. Temitope Omodele (Senior Vice-President)

1. Presentation

Moderator: Good morning and good afternoon, ladies, and gentlemen. Welcome to UAC of Nigeria PLC's half-year 2024 results conference call. Please note that this call is being recorded.

This conference call will be hosted by Fola Aiyesimoju, the Group Managing Director of UAC of Nigeria PLC and Funke Ijaiya-Oladipo, the Group Finance Director. 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 Temitope. Good day and welcome to UAC's Half Year 2024 Results Call. The Group Finance Director, Funke and I will go through the presentation and take questions thereafter. We will try to refer to relevant pages of the document as required.

Starting on Page 5, UAC recorded revenue and profit before tax of ₦83 billion and ₦15 billion respectively in the first half of 2024. Our profit before tax is on account of the mix of operating performance and the results from our treasury operations. Over the course of today's discussion, we will cover operating conditions in the first half of the year, provide insight on our performance, and touch on the outlook for the business.

The foundations for the growth we have recorded and profitability that we have just talked about were laid over the last few years via efforts to attract talented leaders for our businesses, simplify our group structure, clarify strategy and invest in technology. We continue to pursue initiatives today that will drive future growth.

Over the course of the first half of the year, we paid particular attention to balancing volume growth with proactive pricing. We aggressively sought areas to drive efficiency and optimize costs with the objective of passing on value to the consumer. We continued to focus on strengthening controls. Our risk management and working capital efforts enhanced our balance sheet strength, which contributed to the treasury gains we reported. We are thankful to have retained some of our most talented leaders.

Macroeconomic review

Please turn to Page 7. As has been widely reported, operating conditions in the first half of 2024 remained tough. Broad economic growth was muted, pressure on the Naira continued, inflation reached record levels and borrowing costs spiked. These combined to present meaningful headwinds to businesses in Nigeria.

On Slide 8, we outlined the experienced inflation in our businesses, and the charts on the page depict input cost progression for key raw materials across our operating segments. You will observe that in many instances, costs for key raw materials increased far in excess of the reported headline inflation numbers. Many of these input costs have increased further between the end of the period and today.

Key Operating Segments

On Slide 10, we showed the revenue and profit contribution by operating segment. You would note that group performance continues to be largely driven by our Packaged Food and Beverages business, our Feeds and Edibles businesses and our Paints business. We are pleased with the growth trajectory of each of these segments.

H1 2024 Strategic initiatives

Slide 12, touches on the initiatives we implemented to navigate operating conditions over the course of the first half. I will take us back quickly to Slide 11 because it is important in terms of one of the most important things that we did over the course of the year.

To protect margin in light of rapidly escalating input costs, we had to be very disciplined and proactive about pricing. We are only able to achieve this on account of the strong market positions we have in our respective operating segments, our brands' strength and extensive distribution network. Many of you will be familiar with the brands highlighted on Slide 11, and also aware that in many of the segments we are the market leaders.

I will just like to call out relatively new brands on this page, being Kingsway, the pastry roll that we launched at the back end of 2023, and Gala Chin-Chin, a new product in the UAC Foods portfolio which we launched just over a month ago. The brands and the distribution reach highlighted on this slide goes to the core of UAC's strength and were instrumental in the most important initiative we implemented over the course of the first half which is being able to leverage pricing power to protect margin in light of rapidly escalating input costs.

Back to Slide 12 please. We were very cognizant of the reduced consumer spending power and so we tried to expand our product portfolio to provide affordable alternatives without compromising margin. I have talked about the Kingsway Pastry Roll under the snacks portfolio. In the Paints segment, we did some expansion, in the mid-tier segment, again, to provide further offering to our consumers. In the Feeds segment, we clearly differentiated slightly cheaper option whilst protecting margin to give consumers and our customers a choice.

We spent a lot of time and invested a lot of effort in trying to reduce conversion costs and manage operating expenses. I would say the most impactful areas here were changing the energy mix, particularly at our feeds business, introducing biomass to reduce the cost of firing boilers and we also tweaked the distribution model, which brought down meaningfully distribution expenses.

We responded to the higher cost of living by implementing salary increases across the group. We continue to monitor the impact of current headwinds on our employees. We leveraged our strong credit rating and balance sheet strength to optimize finance costs via a mix of our banking relationships and accessing the capital markets.

On Slide 13, we highlighted a few more initiatives we executed. I have talked about broadening our product portfolio. We launched Kingsway, a pastry roll, under the UAC Foods staple, and also Gala Chin-Chin, a new snack under UAC Foods. For those who followed us for a while, you will know that we prioritize human capital, our people, and we relaunched UAC Academy to equip our managers for future leadership roles. We also initiated an excellence award to celebrate outstanding employees across the group.

We continue to tighten controls, building our internal audit function and are very pleased with early results. You will see on Slide 14 that these efforts translated to meaningful revenue growth, 57% from ₦53 billion in the first half of 2023 to ₦83 billion in the first half of this year. We recorded meaningful expansion in gross margins, 600 basis points, from 16.3% to 22.5%, on account of the pricing initiatives and efforts to manage conversion costs. You will also know that we recorded a very meaningful expansion in our operating profit margins.

I will now hand over to Funke, who will take us through a bit more detail around our financial performance in the first half.

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

Group financial performance

Good afternoon, ladies and gentlemen. Please turn to Slide 16, which provides an overview of the group's financial performance comparing 2024's half year results with 2023.

UAC Group recorded consolidated revenues of ₦83 billion in the first half of 2024, which is 57% higher year-on-year than the ₦53 billion recorded in 2023. It is important to note that the comparable period in the first quarter of 2023 was impacted by the elections and cash scarcity which reduced trading days and constrained demand.

From a segment specific perspective, our Edibles & Feed segment comprised of Grand Cereals and Livestock Feeds PLC recorded revenue of ₦40 billion. This increased 30% year-on-year, and growth was due to price increases implemented to offset rising raw material costs.

Our Packaged Food and Beverages business, UAC Foods revenue was ₦28 billion, which is 127% higher year-on-year. The growth in this segment was on account of strong volumes recorded in all categories, so snacks, spring water and dairy, as well as price reviews across board. Snacks growth was supported by existing brands as well as Kingsway Pastry Roll, which was launched in August 2023. The additional capacity installed to our spring water bottling line in 2023 supported water volume growth this year.

Our Paints business, CAP PLC, recorded revenue of ₦16 billion. This is 60% higher year-on-year and was achieved as a result of the positive impact of the company's growth strategy on volumes as well as price increases. The Quick Service Restaurants segment revenue declined 24% to ₦1.5 billion, and the performance is reflective of two things. The first is our strategy to rationalize unprofitable stores, and the second is the impact of high inflation on the discretionary income of consumers.

In terms of operating profit, UAC Group recorded ₦6.7 billion compared to an operating loss of ₦35 million in the first half of 2023. The improvement in operating profit is attributable to two things: The first is the strong double-digit top line growth across all our key operating segments, and the second factor is the expansion of our gross profit margin, particularly in our Packaged Food & Beverages segment and the Edibles and Feed segment.

The gross profit margin improvement was a result of the dynamic approach to pricing of our products with a focus on protecting margins in the Packaged Food segment, and implementing production efficiency and cost-saving initiatives, such as changing the energy mix to reduce conversion costs in the Edibles and Feed segment.

Across the group, operating expenses were ₦13 billion for the period, and this is 42% higher than the ₦9 billion recorded in 2023. This increase reflects the impact of inflation on operating costs as well as the effect of the naira depreciation on expenses that are pegged to foreign currency. The most significant increases were in distribution expenses, electricity and power costs and personnel costs; driven by higher haulage rates, electricity tariffs and diesel prices, as well as the cost of living adjustments implemented to alleviate the impact of inflation on our employees.

We also recorded meaningful increases in IT costs as a large proportion of these costs are tied to foreign currency. The group's profit before tax for the period was ₦15 billion compared to ₦3.2 billion recorded in 2023. Profitability was supported by improvements in finance income which was positively impacted by higher cash as well as gains in the treasury portfolio.

Other key points to note are that UAC's share of profit from our associate companies, UPDC PLC and MDS Logistics was broadly flat at ₦475 million. We generated ₦6.3 billion in free cash flow and recorded 28% return on invested capital.

Please turn to Page 17, which shows a snapshot of the group's financial position as at 30 June 2024. The group has net assets of ₦62 billion, which is ₦8 billion higher than what we recorded at the end of 2023, and the increase is a result of increased profitability of the group. Total debt across the group was ₦25 billion and cash of ₦33 billion, resulting in a net cash position of ₦7.9 billion. The debt in the group is largely short-term and used to support working capital across our businesses, particularly the Edibles and Feeds segment.

We are conscious of the impact of finance cost on profitability, especially given the recent increases in the monetary policy rate and so we continuously seek to optimize funding costs across our businesses.

Capital expenditure was ₦2.2 billion across the group in the first half of 2024, and this amount was spread across our operating companies and largely maintenance CAPEX to replace and upgrade existing assets. The group's cash cycle improved to 71 days from 83 days recorded at the end of last year.

This takes me to the end of the financial highlights so I will now hand the call back to Fola to take us through the next section of the presentation.

Fola Aiyesimoju *(UAC Group Managing Director)*

Thank you, Funke. I think this brings us to the conclusion of the prepared remarks, and we will then take your questions.

Outlook

Our focus remains very much on investing to drive growth. We recorded over 100% growth in our Packaged Food and Beverages business in the first half of the year, more than 60% growth in our Paints business, and very meaningful growth in profitability in our Feeds and Edibles business. As a management team, we are going to keep a laser focus on trying to maintain high levels of growth going forward.

We will continue to invest in talent, we have spent a lot of time on this, and to drive operational improvement across the businesses, which we hope will translate into improving margins. And we are also increasingly investing in technology to optimize our business processes.

Thank you, and we will now take questions.

2. Questions and Answers

Moderator

It is time for the question and answer session. To ask a question, please raise your hand or type in the chat box. Kindly introduce yourself and the organization that you represent before asking your question.

Your first question is from Yuguda Uthman.

Uthman Yuguda *(Stanbic IBTC Pension Managers)*

My name is Uthman, from Stanbic Pensions. I just wanted to ask your management if you can expand a little bit about your new Paints segments, especially the niche one around the Maritime business. Could you just expand how much penetration you have been able to acquire through H1 and how much you have been able to increase in terms of revenue in that Paints sector as a result of entering that new niche market?

Thank you.

Fola Aiyesimoju *(UAC Group Managing Director)*

Thank you, Uthman. Your question is around new segments for our Paints business, and I will split this in two because you specifically touch on Maritime.

When I talked about new Paints segments, what I was specifically referencing was expansion of the decorative into the mid-tier. I would say that those segments currently account for probably about a third (1/3) of the revenues of the Paints business, and that is up from about 10%, if I go back 18-24 months.

It is interesting that you touch on the Maritime segment because we see meaningful opportunity in that space. Importantly because most of the sales are to the oil and gas industry, there is scope to earn dollar or dollar-linked revenues. We have only recently recruited a very senior executive to drive growth in this space. He joined us about a quarter ago and so we only expect to see the impact of this sort of investment in talent play over the next few months. So I was referencing specifically the mid-tier decorative, but it is interesting that you touched on the marine and protective because we have recently focused on that and just recruited someone to drive growth in that space.

Michael Oyeleye (*Stanbic IBTC Pension Managers*)

Good afternoon, Fola and Team. Thanks for taking my question.

My question is you mentioned something about some tweaks to your distribution channel. If you can just provide a bit more colour on what that means, just for me to understand a bit more. Thank you very much.

Fola Aiyesimoju (*UAC Group Managing Director*)

Thank you very much, Michael. I would say this, we had two objectives. One was to improve reach and drive sales and the second was to minimize distribution expenses to revenue.

To increase reach, this was done largely in the Packaged Food and Beverages business. We identified white space, so the areas that were not being covered by existing trade partners, we discovered that we had trade assets, vans and so, what we did was we began to supply directly from the factory to sub-distributors and retailers in areas where we had that white space and it has been incredibly successful. I would say that, if that unit was a distributor, it will be the highest contributor of revenue in that business.

The biggest things that we did to optimize costs were we found that in engaging with customers, particularly in the Feeds business, they were able to self-collect cheaper than we could deliver to them. So, we engaged with these customers and then sort of provided the option and said to them, look, we either deliver to you and here is the surcharge, or you self-collect. We found that in many instances to avoid the surcharge and because the customers could manage it cheaper than we could, they self-collected, and we saw a meaningful reduction in distribution expenses to revenue in that segment.

Then the final thing we did, which I would say is a very distant third from an impact perspective to the first two was being very thoughtful about where to serve in the country. We found that if you take the distribution expenses to revenue, you need to be very careful about which locations you serve from which plant or else you could find that the cost of getting to market began to erode margins.

So I would say that in summary, the direct filling of white space and giving customers options to self-collect versus company deliver were by far the two most impactful and then just being thoughtful about what regions to serve from what plants would be the distant third under that header.

Samuel Makinde (*CardinalStone Securities*)

Good afternoon, thank you Fola and Funke for your presentation.

I have three questions. My first question is about how you were able to manage your FX risk. It was a popular trend in the consumer goods space. We observed them declaring FX losses while the reverse was the case for UACN. Can you provide more colour on how you were able to manage the FX risk?

The second question is if Naira strengthens in the next quarter or next 2 quarters, what should we expect?

Then the third question is if you can please provide colour to how quarter 3 and quarter 4 is going to look like?

Fola Aiyesimoju (*UAC Group Managing Director*)

Thank you, Samuel. If I may just recap your three questions it is how we manage FX risk, what happens if the Naira strengthens and how Q3 and Q4 would look like.

I will start with the third question, we do not provide earnings guidance. So unfortunately, I cannot comment on how quarter 3 and quarter 4 would look like. I would say you can take the broad guidance I gave, which is that as a management team, our focus is on continuing to drive growth. I said at the very beginning that we try to drive growth being very mindful of protecting margin.

In terms of the two questions, I can go into some depth on. To manage FX risk, I would comment on a few things and Funke please jump in if I miss anything.

One is avoiding foreign exchange denominated liabilities. So, we do not have any dollar debt and I do not see a circumstance in which we would take that on because we are very mindful of the potential for meaningful losses of the carrying value in Naira of the foreign currency denominated liability if the Naira devalued, which is what we saw happen over the last 12 months.

We are also partly fortunate and partly by decision to operate in industries that have a meaningful portion of domestic procurement, which supported the first point in not needing to take on foreign exchange liabilities to continue our operations. So just by the nature of the industries we operate in, we have a slight benefit there.

In terms of what happens if Naira strengthens – the way we think about foreign exchange is that it is directly related to the running of our businesses. We would seek and hold foreign exchange if we need to procure capital equipment, procure spares, and for the limited direct importation we do. Because these things are linked to dollar needs, the cost in dollars is going to remain fixed. If the Naira strengthens, we benefit massively because we are a Naira earning business – we generated ₦83 billion in revenues so our company becomes a lot more valuable, and then the dollar cost for the few things that we feel that we need to procure will remain the same in dollars. That is the way we think about the currency.

We do not aim to make or lose money on the currency. We manage risk in terms of not taking foreign exchange liabilities. We hold dollars to buy the things that we need to buy. Those costs are fixed in dollars and if the Naira appreciates we will be delighted because our earnings which are predominantly in Naira become a lot more valuable.

Moderator: Your next question is from Brad Virbitsky who wants to know how the introduction of Chin-Chin and Kingsway are going and what the potential for those snacks are.

Fola Aiyesimoju (*UAC Group Managing Director*)

Okay and thank you very much, Brad. I will take them one in turn. Kingsway is a bit more mature. I would say we are about a year into that launch, and it is going very well. It is currently between 10% and 15% of UAC's pastry roll portfolio. It is doing what it needs to do, has very good customer acceptance, and it is very well established, so we are very pleased there. I will say, if anything, it has gone meaningfully better than we expected, because we did so with not that much expenditure in terms of marketing, we just relied on our parent brand and distribution reach.

Chin-Chin is a month in, so it is very early to tell. I will say that on the back of what is a very, very short period, we need to gather data, it has gone better than planned. So, we are quite pleased with that as well.

Fola Aiyesimoju (*UAC Group Managing Director*)

Brad had one more question, he asked what the potential for those businesses are. I would say that they are very different. Kingsway, we viewed as complementary to the pastry roll portfolio to provide the consumer choice. The potential for that product is linked to what we see as the overall potential for the pastry roll segment. We still see very strong growth, the segment is up from last year, probably close to a 100% growth compared to last year. We strengthened our position in a segment in which we are already strong and in which we still see meaningful growth.

For Chin-Chin, we would be pleased if it begins to account for around 10% of the basket in the Foods business. It has quite some way to go to achieve that given how big the other segments are - the snacks segment, the water segment, and the ice cream segment are, but that is what we will be pushing for in that product launch.

Moderator: Your next question is from Sunmisola Ikoli from CSLS. What Foreign Currency (FCY) assets do you currently hold?

Fola Aiyesimoju (*UAC Group Managing Director*)

Thank you very much, Sunmisola. I commented on this with Michael's question, we hold foreign currency assets for two primary reasons. Actually, one reason we split into strands.

One is where we need to buy equipment and most of the equipment we need is Dollar or Euro denominated. And the second is where we have direct FX procurement. This is mostly in our Paints segment, where we import resins and titanium dioxide and that is what we hold FX assets for. It varies quite meaningfully from time to time.

Right now, we have sort of overhauls for lines coming up. We are going to buy quite a bit of raw materials for our Paints business that leads up to the peak season at Q4, and then we will rebuild or reduce depending on what our needs are.

Moderator: Uthman Yuguda asked another question. On average, by how many percent have you increased product prices to protect margins?

Fola Aiyesimoju (*UAC Group Managing Director*)

The short answer across the board as you know, Uthman, we have so many different products and so many different segments, would be between 75% to 100% on average. But it varies quite meaningfully the way you go about doing this, but I would say on average 75% to 100%.

Moderator: Your next question is from Michael McGaughy. He says, can we please get a comment on Q2 2024 versus Q1 2024 results and outlook for H2 2024.

Fola Aiyesimoju *(UAC Group Managing Director)*

Thank you, Michael. The split is on Page 26 of the deck. Overall conditions Q1, Q2, I would say, were similar. I mean the headline numbers would have been worse in Q2, but the direction of travel in terms of inflation spike and FX devaluing would have would have been very similar across both quarters. Q2, I would say we made marginal improvements. You see revenue was a little bit bigger. Margins improved by 100 basis points from a gross profit perspective. So, I will say similar with the overall market trajectory getting a little bit worse and our underlying performance getting a little bit better. But the specific numbers are outlined on Page 26.

Moderator: The next question is from Chukwudi Ogbogu. Do you have any plans to introduce any products using groundnut as a raw material?

Fola Aiyesimoju *(UAC Group Managing Director)*

Chukwudi, I was going to say the answer to that is no but it will not be a complete response. Our Animal Feeds businesses are quite meaningful consumers of groundnut cake.

One of the things you need to produce Animal Feeds is a protein source and then switch between Soya meal or Soya cake. But I know that right now, we are relying on groundnut cake given what is going on in the soya industry. So, we already do consume quite a bit of groundnut linked products, but a specific new product that is based on groundnut the answer is no.

Onome Ohwovoriole *(Money Africa)*

Okay, great. So, my first question is on the QSR unit. Is there an update on the expansion plans? It is still loss-making. I am wondering, did you take any price increases during the period? Was there some price resistance?

My second question is on CAP, Page 33 of its financial statements note 17. The inventory write-downs stopped slightly, not materially, but it is still significant because if I remember correctly, we probably had about 7 billion worth of finished goods inventory and about half a billion was written down. I am wondering if the strategy to kind of bring that down at least over time.

Then for note 18a; the latter half of note 18a, write-offs were rather small. I am wondering is it because there is an expectation that there will be a write-back or I am also wondering, would it not be better to have a more aggressive write-off? And so that slate is clean.

Then for Livestock Feeds. I see that the Onitsha segment of Livestock Feeds happened to have the smallest top line and bottom line. So, I am wondering why is that the case and over time, what can be done to kind of increase them because it is way smaller compared to all the other geographical segments. Yes. So those are my questions.

Fola Aiyesimoju *(UAC Group Managing Director)*

Okay. Thank you, Onome. On QSR we have not expanded as quickly as we would have liked. We expected to have been at around 60 company-owned stores by now, we are still at around 30. The primary reason for that is it is a slightly different kind of business balancing margin and growth.

One of the biggest shifts in the QSR segment has been power costs. Restaurants require a decent amount of power for ovens, air conditioning and it must be left on for most of the day. I mean what we have seen with energy costs and frankly, in electricity costs, the business plan assumptions around energy costs increased by at least four (4) fold. So, we slowed down the expansion there to ensure we make the relevant changes so that each unit, which is each store is profitable before we ramp up expansion.

Unfortunately, the consequence of this is that until we get to scale, we do not fully come ahead of these costs and the segment remains loss-making. We are laser-focused on trying to fix each unit and when we get comfortable there, there will be the confidence to continue to deploy capital to roll out and meet the targets that we set for ourselves. It is not where we want to be, but that is the context of what slowed us down.

I will also say that it is perhaps the segment of our group that has been most impacted by the stress on the consumer because it is one of the more discretionary parts of our offering. So those are the two things that caused us to slow down there.

On CAP, very well noted around the inventory write-downs and our strategy there is to gradually bring down overall inventory holding levels because the degree to which you write-down, with things getting damaged and so on and so forth, is tied to the aggregate volume of inventory that you hold.

Now going back 2 or 3 years to the COVID days' supply chain disruptions, the Paint industry was particularly affected. We had a strategy to increase inventory holding days, we are gradually trying to bring that down so the strategy to try to reduce write-downs is to bring down the overall levels of inventory that we have.

For Livestock Feeds, I would confess to not having the specific notes that you referred to off hand but if you referenced Onitsha and we can triple-check this after the call, Livestock Feeds has 3 manufacturing plants, Lagos, Kano and Aba. So, anything Livestock Feeds business done in Onitsha would be outsourced manufacturing, which is why it is a much smaller contributor than any of the other 3. This is if you reference Onitsha specifically, that is the reason why will clearly be much smaller than the areas in which the business actually has plants.

Moderator: Your next question is from Abdulrauf Aremu Bello who works with Iris Capital Management. He has three questions.

The first one is, during the presentation, you attributed the decline in QSR business to two strategies. The decision to maintain owned stores and inflationary impact. Could you give a bit of context to the first strategy of own stores? And what is the way forward?

The second question goes, there was a marked improvement in the operating margins in the Animal Feeds business, both in Q1 and Q2. I understand that there were pricing initiatives done during the 2 quarters. So, I want to clarify if it was just pricing or if there were other operational strategies that played out? What is the outlook of operating margins in the near term?

And finally, what is the competition like in Animal Feeds business and how are customers responding to your products, given the heightened inflationary pressures in the economy?

Fola Aiyesimoju *(UAC Group Managing Director)*

Thank you very much, Aremu. I think I touched very briefly on QSR responding to Onome's question and for those who followed us quite a while, they will understand the shift from large franchise network out from memory about 165 stores to a predominantly corporate-owned store network.

The reason was trying to ensure that we could deliver quality to the consumer and we found that with such a widespread and fragmented franchise network it was very difficult to maintain standards, so that was what informed the strategic shift.

In terms of the stores, you are correct that we had intended to roll out many more stores than we have thus far, and we are behind our targets there. I have touched on some of the reasons why, which is - trying to ensure that the unit economics of each store work, and some of the biggest things that have impacted the unit economics thus far have been overall consumer sentiment, it is probably the most discretionary segment of our business. Then the second is energy costs.

In terms of the margins in the feeds business, and you talk about operating margins, there are three things that inform the meaningful expansion in operating profit margin. The first being pricing, and I would say balancing volume and pricing is perhaps the most impactful. We have been very disciplined there. The second is conversion costs. I talked about being very thoughtful around the energy mix in that segment to bring down the overall energy consumed. This is also the segment where in response to an earlier question, I talked about working with consumers, to optimize distribution expenses to revenue.

So those three things are what contributed towards the improvement in operating margin that you have seen, and we expect to continue to run the business in this manner going forward and checkout improvements where we can.

I will say the Animal Feeds segment is very intense. Consumers respond well to our products because it is a performance industry. We sell feed to farmers who are trying to either grow birds or produce eggs. It is B2B and laser-focused on the yields they get on eggs, and the wait and time for the birds and they punish businesses severely where performance slips and reward businesses where the product delivers performance. So, we are very focused on the quality of the feed we deliver to our consumers and we are seeing the response come through with some of the performance improvement you have seen in that segment.

Moderator: Your next question is from Fisayo Adetayo from CardinalStone. Your Q3 and Q4 appear better than Q1 and Q2 for 2023. Should we expect the same trend this year?

Fola Aiyesimoju *(UAC Group Managing Director)*

Fisayo, I unfortunately have to repeat that we do not give specific guidance. I will say that the Q4 in particular, has historically been the strongest season for most of our businesses, and I see no reason why that would change this year.

Ayomide Abodunrin *(CardinalStone)*

Yes, this is Ayomide Abodunrin from CardinalStone. I will like to appreciate the group's good performance in the first half of the year. My concern is on exchange gains still. Looking at the numbers, I will say that what was termed as exchange gain in the results is about 80% or over 80% of net profit. So this is actually a cause of concern for me. So if that is not so, the numbers we are seeing in net profit might not be as much as we have. Can you just speak to this?

Fola Aiyesimoju *(UAC Group Managing Director)*

Okay. Thank you, Ayomide. If you please turn to Page 26, so we can at least align on the numbers we are looking at. So, Page 26 on the far right outlines our financial performance. I will just say we should focus on two lines; one is operating profit and the second is finance income. Those are the two big components. Everything to do with FX and treasury sits in finance income.

If you look at last year, you will see that the bulk of our profits, I would have agreed with you, came from finance income. This year, I mean it is roughly 50-50 between operating profit and finance income. We do not run the group to make finance income. We run the group to grow operating profits. I would say that the operating profits we are delivering as of the half year are ahead of our targets for this year. This is where we continue to focus.

We have cash on our balance sheet. We earn some income we have always done so, for those who followed us historically. The bulk of the driver, if you look at the improvement in performance, is the operating profit line versus the finance line. So, I am not sure where the 80-20 mix comes from.

Abdulrauf Aremu Bello *(Iris Capital Management)*

Alright. Thank you for the response about the QSR business. I got the reason for the decline. Based on the circumstances you illustrated earlier about high energy costs and the likes, in my opinion, I see those challenges present in the near term to medium term. So as this stands, what is the management going to do? How do they intend to execute within that business given the current realities? Does it mean there will be a suspension of the rollout of stores or what exactly does the management plan to do in this regard?

Thank you.

Fola Aiyesimoju *(UAC Group Managing Director)*

Okay. What we are trying to do, I can simplify under the two broad headers which is increasing the revenue per store, so there is a bigger revenue base to cover the high energy costs, and optimizing energy mix. So, we are at very early stages of trialing to see what impact solar has. We are trialing between gas-fired ovens and electric-fired ovens. This is all about bringing down the energy mix. We are also working on a new offering to increase the overall revenue per store. Those are the things that we are working on.

We are certain that the initiatives would improve the unit economics of the store, the degree to which the improvement is we would see once we are through with the implementation, and that would inform the degree to which we continue to aggressively roll out these stores.

Moderator: There are no more questions. I will now hand the call back to Fola Aiyesimoju for his closing remarks. But before you give your closing remarks, there is one more question from **Fisayo Adetayo** (CardinalStone). Should we expect bumper rewards for shareholders this year, considering impressive numbers and strong cash flow?

Fola Aiyesimoju *(UAC Group Managing Director)*

Fisayo, I will interpret your question to me to mean dividends when you say bumper rewards? Look, we have outlined our dividend policy, and that policy is to provide stability and clarity to shareholders. What we have said is that we will maintain a level of dividends until we decide to change it, either we step it up or step it down depending on two factors or maybe three factors; one is the group's performance, our view on the outlook for the environment, and the third is the capital needs for the group.

No decisions have been taken but the policy remains the same. We maintain a level until we change and we maintain again until factors make us change and then a number of things that would come into the mix – outlook for the economy, our performance and our capital needs. So, we would focus on delivering performance, how that performance is allocated, no decision has been taken at this time.

Moderator: I will now hand the call back to Fola Aiyesimoju for his closing remarks.

Fola Aiyesimoju *(UAC Group Managing Director)*

Thank you very much, Temitope. Thank you to our investors, analysts and the investing public for participating in the call and for the very thoughtful questions, and I wish everyone a wonderful rest of the day.

Moderator: That concludes the UAC of Nigeria PLC Half Year 2024 Results Conference Call. Thank you for your participation. You may now hang up.