



## Acquisition of Crown Flour Mills Limited

12 January 2010 | Singapore



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## Presentation Outline

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# Transaction Overview

## Transaction

- ❖ Olam agrees to acquire Crown Flour Mills (CFM) in Nigeria for a total purchase consideration of US\$107.6m:
  - ❖ 99.5% equity ownership of CFM for an enterprise value of US\$87.6m and equity value of US\$38.6m,
  - ❖ Additional US\$20m for surplus assets including buildings, warehouses, other logistics assets and accompanying additional land for potential agro-processing activities

## Financing & Closure

- ❖ Transaction to be funded from borrowings, internal accruals and proceeds from recent capital raising

# Investment Rationale (Recap)



# Investment Rationale: Investment signals initiation of our wheat milling strategy

## Olam's Wheat Strategy

Build **regional leadership** by investing in a configuration of **port-based milling assets** in import dependent countries with growing wheat flour consumption

### Africa opportunity

- ❖ Africa imports 32 mn tons of wheat or 60% of its consumption; consumption expected to grow at 4-5% p.a
- ❖ Africa accounts for about 26% of the global wheat trade
- ❖ Tropical climate in Africa is not conducive for wheat production and hence, we foresee continued import dependence
- ❖ Wheat milling industry in Africa is dominated by local players with large global companies being absent

### Investment Approach

- ❖ Investment in existing port-based milling assets is the preferred route
- ❖ Access to port based strategic assets will be a source of sustained competitive advantage due to high import dependence
- ❖ Availability of suitable port concessions to set up a milling facility a key barrier to entry. So we will partner with parties who own these critical assets.

# Investment Rationale: The African wheat business will leverage on Olam's core strengths

## Sales & Distribution

- ✦ Extensive pan-African distribution network for rice, sugar, PFB and dairy allows channel sharing
- ✦ A nation-wide distribution presence is a key advantage, as existing players primarily operate on a regional basis
- ✦ Market reach will lead to increased capacity utilization enabling further up gradation in technology and capacity to achieve quality and cost leadership

## Risk Management

- ✦ Olam's proven risk management capability would enable us to manage price volatility leading to a competitive advantage over local competition.

## Sourcing & Logistics

- ✦ Our global wheat origination skills offer us an advantage over the domestic players
- ✦ Committed off-take from the mills would allow better planning of shipping capacity including ability to combine volumes with our existing operations
- ✦ The above would enable us to secure period charters at highly competitive rates

## Global Presence

- ✦ Olam has existing operations in all of the major wheat exporting countries. We will leverage on this presence to source best value wheat at any point in time directly from origin shippers.

# Industry Dynamics (Recap)





# Nigeria Country Overview

## Favourable Demographic Profile

- ✦ Population: 149 million (9<sup>th</sup> largest in terms of population in the world and largest in Africa); high growth rate of ~2%
- ✦ GDP (PPP basis, 2008/09): US\$338 billion (ranked 35<sup>th</sup> in the world)
- ✦ GDP per capita (PPP basis, 2008/09): US\$2300
- ✦ GDP growth rate: Expected to be 5-6% in 2010-2013
- ✦ Literacy rate: 68% ( one of the highest in Africa)

## Conducive Business Environment

- ✦ Reform oriented democratic government providing stable political environment
- ✦ Established legal system based on English common law
- ✦ Rapid development of physical and industrial infrastructure, in terms of transportation, communications, electricity and water supply
  - ✦ By 2020 FDI of US\$600bn is expected to be deployed for infrastructure development
- ✦ Favorable tax regime providing five-year tax holiday to pioneer industries (including agriculture product processing industry)
- ✦ 5<sup>th</sup> lowest total tax rate in Africa (less than many OECD countries)

## Favorable Investment climate

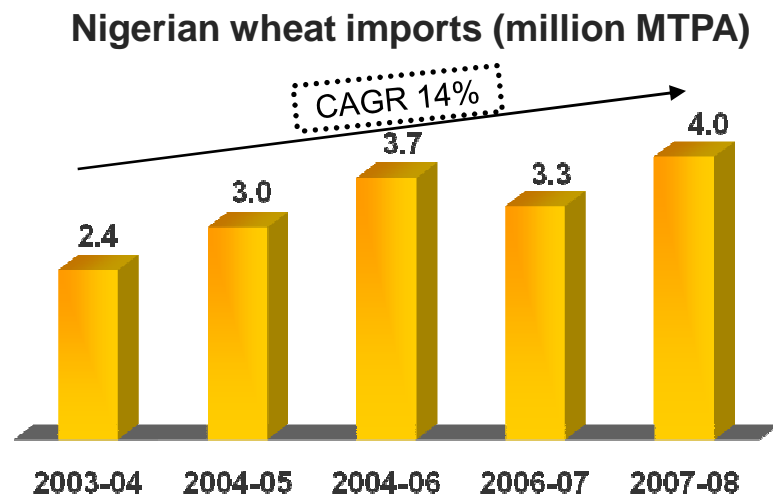
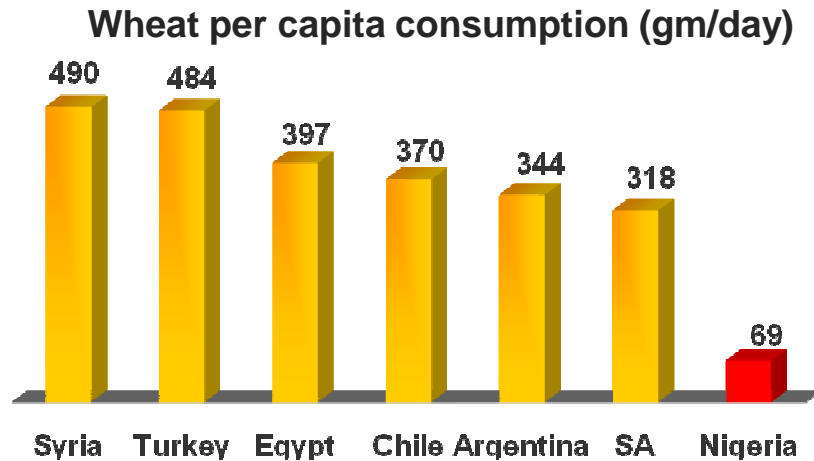
- ✦ Liberalized ownership structure allows 100% foreign ownership in any Nigerian company
- ✦ Relaxed exchange regulations allowing unrestricted repatriation of profits & dividends
- ✦ Investment protection guarantee provided by government to major trade partners
  - ✦ 'Doing business 2009' study ranked Nigeria 53<sup>rd</sup> out of 181 countries in terms of policy environment for protecting investors
- ✦ Attracted sizable investments - FDI rose from US\$1.1 billion in 2000 to around US\$12.5 billion in 2007

## Nigerian Wheat Milling Industry Fundamentally Attractive

- ❖ Large, growing market
- ❖ Industry structure concentrated with 4 key players, leading to high barriers to entry
- ❖ Favourable regulatory regime
- ❖ Oligopolistic pricing and industry dynamics
  - ❖ Market leaders have substantial pricing power
  - ❖ Industry pricing and margins indicate potential excess return opportunity
  - ❖ During 2008 even when raw material prices were high, gross margins were at US\$90/MT, significantly higher than those of US and European wheat millers

# Wheat Demand Dynamics: Large market with high import dependence

## Large, growing consumer of Wheat



- ✿ Nigeria is one of the fastest growing markets for wheat; annual per capita consumption grew from 7 kg in 1992 to the current 25 kg, a CAGR of 7.7%
- ✿ Despite this, per capita consumption is one of the lowest amongst peers (see adjacent graph) implying significant latent potential
- ✿ Rapid urbanisation and adoption of western eating habits augur well for continuing rapid demand growth
- ✿ Local wheat production is virtually non-existent and hence, Nigeria imports all of its wheat requirements
- ✿ It is currently among the three largest importers of wheat in Africa with imports of around 3.5 - 4 million tonnes p.a

Source: USDA, Internal estimates

# Wheat Industry Dynamics: Favourable industry and regulatory environment

## Regulatory Environment

- ✿ Import of wheat flour is banned in Nigeria thereby securing the viability of the local wheat milling industry
- ✿ In 2004 Nigeria banned the import of cookies, crackers & pasta with a view to promote the local industry

## Industry Structure

- ✿ The industry has 21 players with an aggregate installed milling capacity of 22,000 tpd, which is more than sufficient to meet local demand
- ✿ However it is an oligopoly where the 4 key players account for 85-90% market share
- ✿ Most of the smaller players are sub-scale, inland-based and poorly managed; further they operate at low utilisation levels & therefore have a weak competitive position offering scope for entry to a large player
- ✿ Port access and a nation wide sales & distribution network are key determinants of success

# Crown Flour Mills Limited (CFM)



A map of Nigeria is centered on a dark blue background. The map is light blue and shows the outline of the country. From Lagos, which is marked with a red dot, several lines radiate outwards to other cities, each also marked with a red dot. The cities listed are: Sokoto, Gusau, Kano, Maiduguri, Kaduna, Minna, Jos, Abuja, Yola, Lokoja, Ilorin, Oshogbo, ABEOKUTA, Ibadan, ADO-EKITI, AKURE, ENUGU, ONITSHA, BENIN, WARRI, ABA, and PORT HARCOURT. Surrounding the map are various products from Crown Flour Mills, including bags of flour (Bakewell Brown, Supreme Flour, Bakewell Biscuit, Bakewell Chapatti, Bakewell Whole Wheat, Interstate, Supreme Semolina, Superb Flour), packets of pasta (Cherie), and packets of instant noodles (Home). At the bottom center, there is a small version of the Crown Flour Mills logo and the slogan '...adding value to life!' in a cursive font.

# About CFM

- ✿ Amongst the 3 largest wheat millers in Nigeria with installed annual capacity of 1,550 MT per day
- ✿ 2 port-based milling assets: Lagos and Warri
- ✿ Product mix: Bread & Noodle flour, Semolina, and Noodles
- ✿ Customer mix of industrial users and wholesalers
- ✿ Commitment to Quality : The Supreme Flour brand has a strong brand franchise
- ✿ Fast growing Noodle business with a strong brand 'Cheri'
- ✿ Professional management team

# 2008 Initiatives taken to improve operating performance

- ❖ Forward integration:
  - ❖ Launched both fried and instant noodle under Cherie brand
  - ❖ Sole supplier to Shoprite, a South African supermarket chain expanding throughout Nigeria
  - ❖ Produces approx. 10,000 MT of noodle flour for noodle manufacturing
- ❖ Reducing demand volatility:
  - ❖ To reduce seasonality (peak in Jun-Aug ), CFM focused on contract sales to noodles and biscuits manufacturers, eg. to Indomie, a market leader in noodles in Nigeria
- ❖ Additives strategy
  - ❖ Diversified wheat sources into better value wheat origins
  - ❖ Improved wheat quality with use of additives and successfully achieved consistent quality in finished products
- ❖ Operational cost-saving initiatives
  - ❖ New enterprise resource management system resulting in better internal controls and tracking

## Post-takeover Initiatives

- ✿ Invest US\$5.5m to increase capacity for wheat storage, port handling and semolina milling
- ✿ Reduce overheads by 25%
- ✿ Increase wheat milled to process 400,000 MT of wheat by 2013
- ✿ Reduce CFM's wheat costs leveraging Olam's global wheat sourcing and freight management strengths
- ✿ Increase flour sales in the bread flour market by leveraging customer, cost and channel synergies with other food staples distributed by Olam
- ✿ Continue to grow the Cheri brand of Noodles by leveraging marketing and channel synergies with the Packaged Foods business of Olam
- ✿ Achieve EBITDA and PBT margins in excess of 15% and 10% respectively by 2013



# Risks and Mitigating Factors

	Risks	Mitigating Factors
<b>Country Risk</b>	<ul style="list-style-type: none"> <li>Political and sovereign risk</li> </ul>	<ul style="list-style-type: none"> <li>Fully covered against risk through a comprehensive insurance policy taken in the London market</li> <li>Long standing presence of CFM and Olam in Nigeria</li> </ul>
<b>High Wheat Prices</b>	<ul style="list-style-type: none"> <li>Very high wheat prices as seen in 2008 may lead to demand destruction and reduced profitability</li> </ul>	<ul style="list-style-type: none"> <li>CFM's technology &amp; capability to mill alternative sources of wheat will allow it to mitigate to some extent the impact of higher wheat prices</li> <li>Olam's risk management capability in hedging out price risks</li> </ul>
<b>Potential New Capacity</b>	<ul style="list-style-type: none"> <li>Possibility of capacity addition either by existing players or through new players investing in the Nigerian Flour &amp; Noodle industry</li> </ul>	<ul style="list-style-type: none"> <li>Strategic port location, nation-wide distribution and large operating scale will enable us to maintain cost competitiveness and hence, a strong market position</li> <li>High barriers to entry due to limited port access will limit the probability of new entrants/capacity</li> </ul>

## Financial Impact

	FY2012-13 (Steady State)
Wheat Milled (MT)	400,000
Revenues (US\$m)	233
EBITDA (US\$m)	35 (15%)
Profit Before Tax (US\$m)	23.3 (10%)
ROIC (%)	25.0
ROE (%)	48.3
Equity IRR (%)	38.0%

## Summary: Comparison with Earlier Wheat Milling Possibility

	CFM	Earlier Deal *
Equity control	100%	49%
Products	Flour + Noodles	Flour only
Milling capacity	1,550 tonnes/day	1,200 tonnes/day
Average annual production	Approx. 260,000 MT	Approx. 110,000 MT
Market position	3 <sup>rd</sup> largest	6 <sup>th</sup> largest
Geographical coverage	Lagos and Warri	Lagos
Logistics	Conveyor to common terminal	Port based with captive jetty
Land lease	Master lease directly with ports authority (no additional rentals)	Sub-lease (with additional rentals)
Management team	Knowledgeable and motivated	Recruitment had to be planned
Valuation (Enterprise Value/MT)	US\$340/MT + noodles	US\$600/MT

**\* The earlier deal refers to deal announced on September 15, 2008 prior to due-diligence. The deal was not transacted nor completed.**

Thank You



...love at first taste!