



Presco

EXPLANATORY STATEMENT ON THE PROPOSED ACQUISITION OF A 100% EQUITY STAKE IN SIAT NIGERIA LIMITED (“SNL”) BY PRESCO PLC (“PRESCO” OR THE “COMPANY”) (THE “ACQUISITION” OR THE “TRANSACTION”)

1. Background

As custodians of the leading integrated agro-industrial company in Nigeria, the Board of Directors (the “Board”) and management team of Presco have focused on identifying the right strategies to drive sustained long-term growth and profitability of your Company. In line with this objective, a detailed review of the strategic opportunities available to the Company was explored and Board reached a decision to propose the acquisition of a 100% equity stake in Siat Nigeria Limited (SNL) as a strategy to increase shareholder value.

2. Information about SNL

SNL was incorporated on 11 December 1991 as a wholly owned subsidiary of Siat SA. In 2011, SNL acquired the assets of Risonpalm, which comprised 16,000 hectares of old palm plantations, as well as the entire social and industrial infrastructure of the industrial oil palm complex from the Rivers State Government.

SNL operates from two estates in Rivers State, the Ubima Estate and the Elele Estate and over the last five years, has invested NGN6billion in developing its operational capacity. SNL currently produces crude palm oil and crude palm kernel oil. SNL has a total planted area of 15,215 ha, with 51% thereof being plantings of between 1 and 5 years old. The management of SNL expects strong revenue growth from FY21 to be driven by increased yields of fresh fruit bunches and oil extraction rates from the recent replantings of the oil palm plantations in Elele and Ubima estates.

NGN million	FY17 Aud Acct	FY18 Aud Acct	FY19 Aud Acct	FY20 Mgt Acct	FY21 Forecast	FY22 Forecast	FY23 Forecast	FY24 Forecast	FY25 Forecast
Revenue	10,855	9,235	6,554	7,902	12,554	15,791	18,401	25,086	33,326
Cost of sales	-5,414	-4080	-4673	-3,667	-4,868	-6,244	-7,073	-10,075	-13,548
Gross profit	5,440	5,156	1,881	4,235	7,686	9,547	11,327	15,011	19,778
Operating expenses	-2,784	-3,711	-3,216	-2,072	-2,380	2,645	-2,898	-3,229	-3,630
Other income	795	732	291	291	-	-	-	-	-
EBITDA	3,451	2,177	-1,044	2,163	5,306	6,902	8,429	11,782	16,148
Depreciation charges	-702	-759	-778	-911	-1,597	-1,744	-1,821	-1,889	-2,000
Net finance cost	-1,561	-2,905	-1,429	-2,969	-4,124	-4,024	-4,000	-3,803	-3,049
Profit before tax	1,188	-1,487	-3,251	-1,717	-415	1,134	2,608	6,090	11,099
Income tax	-	-	-	-	-	-	-	-	2371
Profit for the year	1,188	-1,487	-3,251	-1,717	-415	1,134	2,608	6,090	8,728
Key performance indicators (KPIs)									
Revenue growth (y-o-y)	na	-15%	-29%	INA	41%	26%	17%	36%	33%
Gross profit margin	50%	56%	29%	54%	61%	60%	62%	60%	59%
EBITDA margin	32%	24%	-16%	27%	42%	44%	46%	47%	48%
PBT margin	11%	-16%	-50%	-22%	-3%	7%	14%	24%	33%
PAT margin	11%	-16%	-50%	-22%	-3%	7%	14%	24%	26%

SNL is a related party to Presco, being one hundred percent owned by Siat SA, a key shareholder of Presco.

3. Rationale for the Acquisition and expected benefits

The Directors of Presco have taken the strategic decision to propose the Acquisition with a view to maximizing value for all shareholders and enhancing the operational efficiencies of the enlarged entity post acquisition. The acquisition will ultimately lead to reduced overhead and increased revenue through the exploitation of operational synergies across Presco and SNL.

The Board of Presco believes that the proposed Acquisition will provide a number of strategic opportunities and benefits to the shareholders, employees and customers of Presco. The benefits/effects include the following:

- With significant capacity for expansion via new plantings in the Elele and Ubima plantations, the Acquisition will significantly contribute to the Company's growth aspirations. Presco's Sakponba estate will be fully planted in the coming 2-3 years, resulting in Presco not having extra expansion possibilities immediately thereafter until additional land is acquired and mandatory new planting procedures completed. While Elele is fully replanted, a large portion of Ubima (+/- 7,500 hectares) still needs to be replanted.
- Greater economies of scale as a result of the cost base being spread across a larger operating base which will now effectively operate a larger plantation size by 39% to 38,717 ha in 2021. At the end of 2020, Presco had 23,502 hectares planted versus 15,215 hectares in SNL.
- As a wholly owned subsidiary of Presco, following the acquisition, Presco will have the option to merge with SNL, which will allow Presco to fully extract the synergies of the combined entities. In the long term BP a comparison was made between Presco stand alone and Presco merged with SNL. From day one extra shareholder value is created, since the acquisition of SNL is not financed by new equity.

	2022	2023	2024	2025	2026	2027	2028	2029	2030
EPS PRESCO alone	11.9	16.3	16.5	18.6	25.5	28.1	30.0	33.3	36.3
EPS PRESCO combined	13.8	18.9	20.6	25.9	31.3	35.9	40.0	46.9	52.3
EPS difference	1.8	2.5	4.1	7.2	5.8	7.8	10.0	13.7	16.0
Increase	15.5%	15.6%	24.6%	38.9%	22.6%	27.8%	33.3%	33.3%	44.0%

- Improved operational efficiencies through the alignment of strategic priorities and the leveraging of resources across both entities. For example, at the moment Presco has a mill capacity of 90 tons per hour. Over time a new mill is planned to be built in Sakponba estate. SNL has a 60 ton mill. Whereas the Presco mill is close to full capacity in peak season, the SNL mill will only reach its capacity based on own production by 2029. This will allow Presco to be more flexible with the Sakponba estate production and postpone capex. Presco has a 500 ton per day vegetable oil refinery commissioned end of first quarter of 2021. Even with all the CPO produced in SNL, Presco will be able to process all CPO produced till 2030 in the vegetable oil refinery and increase the benefit of value added.
- Increased competitiveness of the larger entity through the leveraging of the individual company strengths and the exploitation of synergetic opportunities across the supply chain
- The Acquisition is expected to increase the market value of the larger entity listed on the NGX post the Acquisition
- The structure of the Acquisition which does not involve the issuance of Presco's shares, ensures that Presco's shareholders will not face dilution of their shareholding on account of the Acquisition.

- The communities in which the operations of SNL are embedded will continue to benefit from the positive economic impact of proximity to its operations which will be enhanced by the direct affiliation with Presco

4. Financial effects of the Acquisition

Presco has made an offer to SNL SA to acquire 100% (one hundred percent) of the 7,330,965,143 (Seven billion Three hundred and thirty million Nine hundred and sixty-five thousand One hundred and forty-three) ordinary shares of SNL held by SIAT SA for a cash consideration of N21 billion (Twenty-one Billion Naira) (the "Offer"). This translates to a price of approx. N2.865 for each ordinary share in SNL. As a result of the Acquisition, SNL will become a wholly owned subsidiary of Presco as outlined in the terms of the Acquisition.

5. Summary of Fairness Opinion

To assess the fairness of the terms of the Acquisition, Grant Thornton Nigeria ("Grant Thornton") was appointed to provide a fairness opinion on the value of SNL to shareholders of Presco, given the related party nature of the transaction. Their opinion is that the Offer is lower than their estimate of the value of SNL and as such is fair to the shareholders of Presco.

6. Summary of Audit Committee Opinion

The Audit Committee of Presco also met to consider the terms of the Acquisition. The Audit Committee concluded that they are in support of the acquisition and advised the Board of Directors to proceed to seek the approval of shareholders.

7. Voting by SIAT SA

In line with the requirements of the NGX on related party transactions, SIAT SA, the core shareholder of SNL and a significant shareholder in Presco, will not be voting on the resolutions to approve the Acquisition. To this end, the decision to proceed with the Acquisition will be made by the minority shareholders of Presco.

8. Conclusion and recommendations

The Board of Presco having considered the terms and conditions of the Acquisition, as well as the benefit thereof, recommend that you vote in favour of the special resolutions which will be proposed at the Annual General Meeting.

9. Contact for more information

For more information on the Acquisition, please send all questions and comments on to:

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