

# HFMP-FMN Transaction

A Case Study In Mergers and Acquisition

Nairometrics





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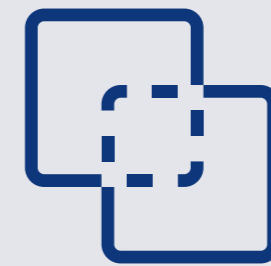
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# Executive summary



**Merger set to  
unify two industry  
giants with years  
of operations  
under their belts.**



The Nigerian market is certainly a hotspot for consumer goods as a result of its position as the most populous country on the African continent, rise in urbanization, amongst others.

Consequently, the flour market which seeks to meet the rising demand for downstream food items like grain-based foods, sugar, bread, noodles, pasta etc, is one of the largest contributors to the Agricultural sector and essentially the Nigerian economy at large. While it has naturally witnessed steep competition amongst players expanding their capacities to meet production demand, it has also experienced a growth in its overall quality, provided

more job opportunities for the masses, and even witnessed the benefits of economies of scale that come with providing high-demand products for a population as ours.

It is therefore, with an understanding of the size and scale of the market that, one month after the culmination of the transaction, many are still assessing the merger of two industry giants, Honeywell Flour Mills Plc (HFMP) and Flour Mills of Nigeria Plc (FMN), and what it means for the agricultural sector, the Nigerian economy, and ultimately the average Nigerian consumer.

Mergers and acquisitions

## Executive summary

are not uncommon in the corporate space. If for anything, they have pivoted some of the biggest global giants that led revolutionary projects, and many investors are wondering if this transaction will provide one of such astronomical expansions for an economy certainly in need of revitalization. The deal combines FMN's market-leading offerings that

include grain-based foods, sugar, starches, oils, spreads and breakfast cereals with HFMP's market leading diverse and differentiated range of carbohydrate products.



# Historical Financial Performance Overview

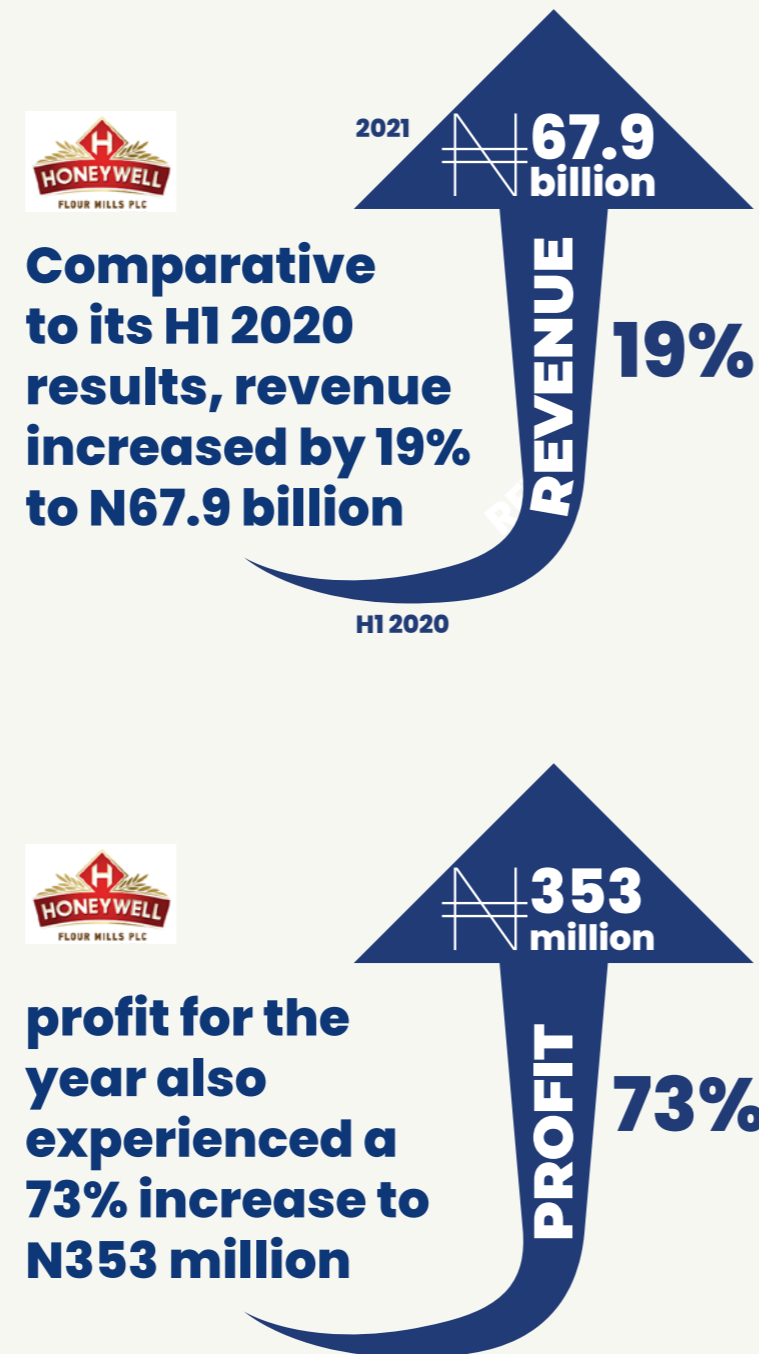


**Both companies have demonstrated stellar financial track records.**

## Historical Financial Performance Overview

HFMP has had a track record and much of it is simply as a result of its position as one of the prime players in the flourmills sector. It's half year financials signified growth across all levels: Comparative to its H1 2020 results, revenue increased by 19% to N67.9 billion, and profit for the year also experienced a 73% increase to N353 million, ultimately causing earnings per share to increase over the period.

The financials also reveal that there were also operational efficiencies, as selling and administration expenses were lower by over 30%. A look at the previous full-year performance, Honeywell Flour



Mills Plc recorded its highest-ever revenue, growing over 36% from N80.45 billion in 2019 to N109.59 billion in 2020. It also recorded a 73.1% increase in profit from N650.49 million in 2019 to N1.13 billion in 2020.

Over the years, HFMP has built a production capacity of 835,000 metric tonnes per annum, a long way away from the 70,000 metric tonnes per annum it used to produce in earlier years. It is also one of the few food and beverage businesses in Nigeria to have generated over N100 billion in revenue.

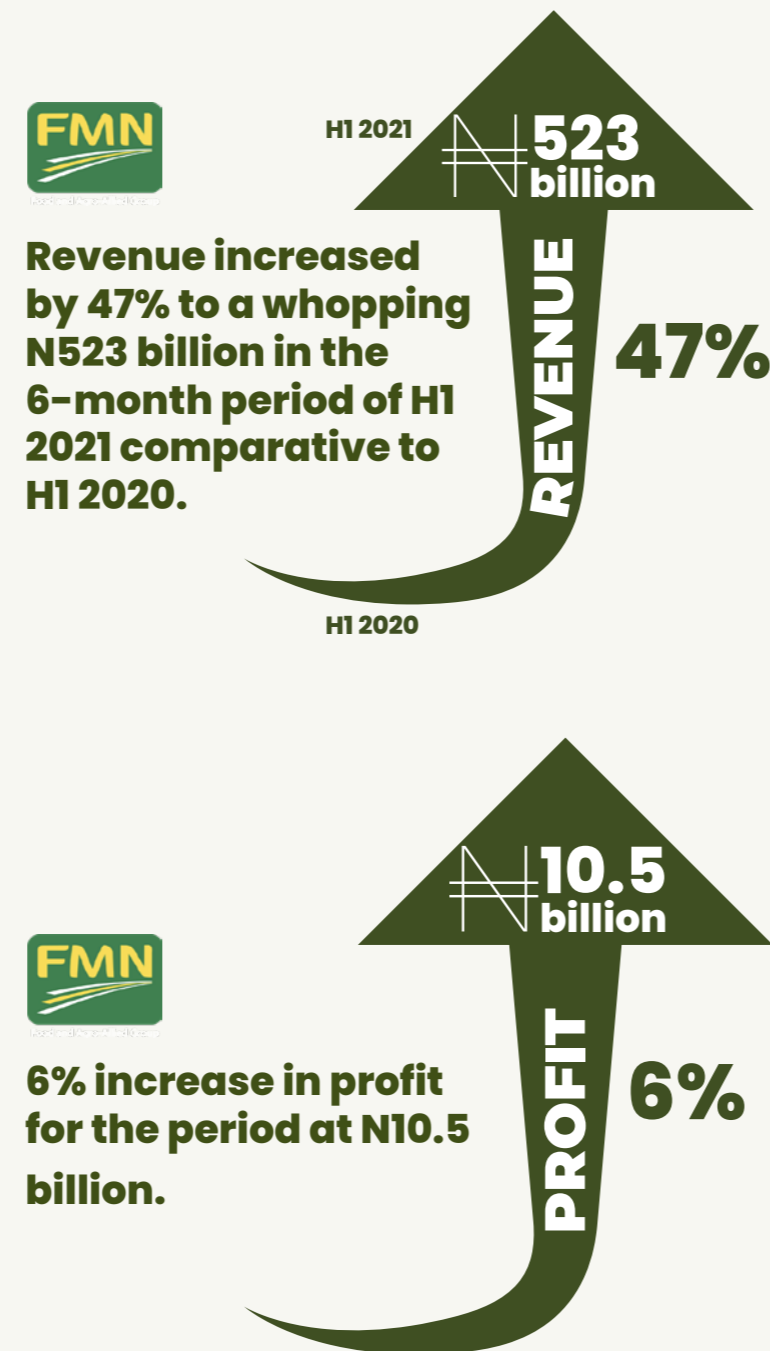
selling & admin expenses **↓ 30%**

**The financials also reveal that there were also operational efficiencies, as selling and administration expenses were lower by over 30%.**

## Historical Financial Performance Overview

On the other hand, industry leader, Flourmills too have had an amazing track record. Revenue increased by 47% to a whopping N523 billion in the 6-month period of H1 2021 comparative to H1 2020.

While expenses had marginally increased, they were still able to circle back to a 6% increase in profit for the period at N10.5 billion. A cursory glance at its most recent full year financials shows strong operational performance, with over 100% increase in net profit, following a 34.5% increase in the company's top line to N771.6 billion from N573.8 billion recorded in the previous year.



With the transaction, Flour Mills of Nigeria acquires a 71.69% stake in Honeywell Flour Mills Plc at an enterprise value of NGN80 billion. Needless to say, it is one transaction that will affect the lives of Nigerians today and in the near future from a macroeconomic point.

# 71.69%

stake

**With the transaction, Flour Mills of Nigeria acquires a 71.69% stake in Honeywell Flour Mills Plc at an enterprise value of NGN80 billion.**



# The State of the Nigerian Economy and the potential impact of this transaction



**This deal has the potential to solve Nigeria's continuous supply chain struggle**

## The State of the Nigerian Economy and the potential impact of this transaction

At the risk of sounding like a broken record, Nigeria's economy has been tough for both the consumer and the investor. We have been plagued by the menace of double digit rising inflationary pressures predominantly attributable to rising food prices, fluctuations in the global oil market has threatened continued dependence on oil for a majority of the nation's income, and our import-driven economy has subjected us to some of the worst FX pressures in years. In terms of food security, disruptions to the agricultural value chain has made it harder for the average smallholder farmer to produce, transport, and reach the consumers at a

fair price. Like most mergers or acquisitions, the primary objective of a union between both giants is to attain synergy and to birth a more resilient entity. While both entities are set to retain how they operate, joining forces will undoubtedly solve some of the challenges around food security in the nation. By combining

forces, they enjoy increased economies of scale and can now strengthen their operations to feed more people at lower cost. In addition to the economies of scale, customers will also have access to a wider product range and can benefit from the innovations that'll be birthed by the union now having an over 85-year combined track record.

More jobs will be created to facilitate this expansion and we expect that these products now have the economic ability of reaching customers at lower prices.

There is also the benefit that comes from having an expansion of this sort just when the the African Continental



**Like most mergers or acquisitions, the primary objective of a union between both giants is to attain synergy and to birth a more resilient entity.**

### **With more development and an expansion of its capacities, the combined entity will naturally become a critical source of Africa's demand for food.**

Free Trade Area (AfCFTA) is set to redefine trade on the African continent. A more formidable giant will not just cater to the needs of the largest market on the continent, it will also give Nigeria a strong voice to facilitate trade on a continental scale.

With more development and an expansion of its capacities, the combined entity will naturally become a critical source of Africa's demand for food. Margins of both brands will

be better as operational costs come down and profitability will only be expected for the benefit of both shareholders and employees. These opportunities are set to only expand from here.

Indeed, the risks of such an alignment do exist, particularly around price competition and preserving the interest of minority shareholders.

However, this is why there are standards and why corporate

governance exists in the first place. Both organizations have some of the strongest market capitalizations in their industry; hence, a combination of this value will birth a giant



that can compete with other organizations on a continental and global level while also

serving as a trigger to Nigeria's economy.

Simply put, go big or go home.

It is imperative to highlight the influence that regulators (such as the NGX, FCCPC, etc) played in ensuring fairness all through the process of the merger. These regulators did go beyond just corporate governance, but adopted external measures and instruments of regulators, designed to protect ordinary consumers from being negatively affected by the possible downside of the deal.

# Nigerian Macro-Economy

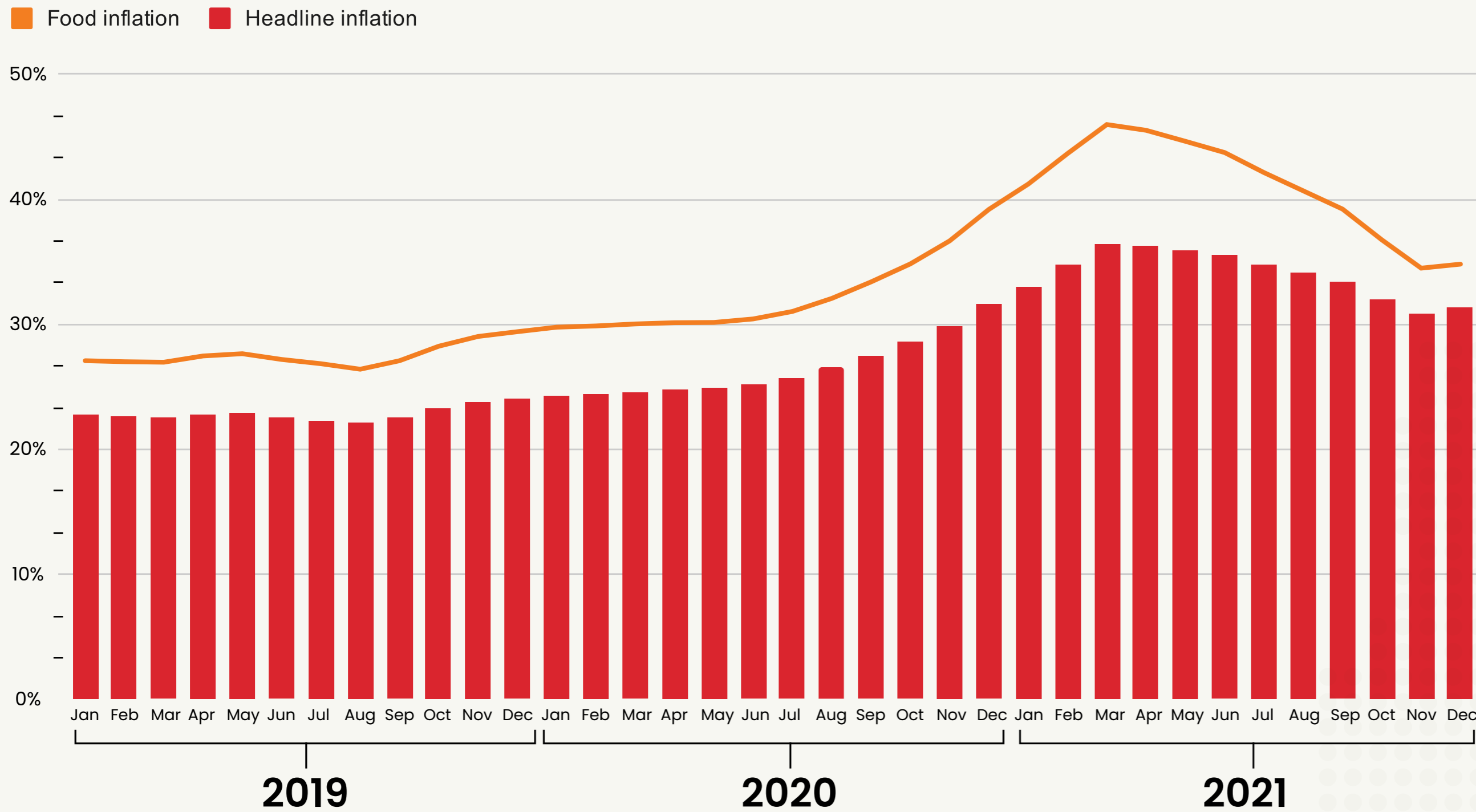
Macro-economic indicators shows a need for improved agricultural and food value chain.



**Supply chain disruption, insecurity, others, pushes Nigeria's food inflation to record high.**

As of December 2021: 17.37% (Food inflation) Agricultural and manufacturing sectors still below desired levels.

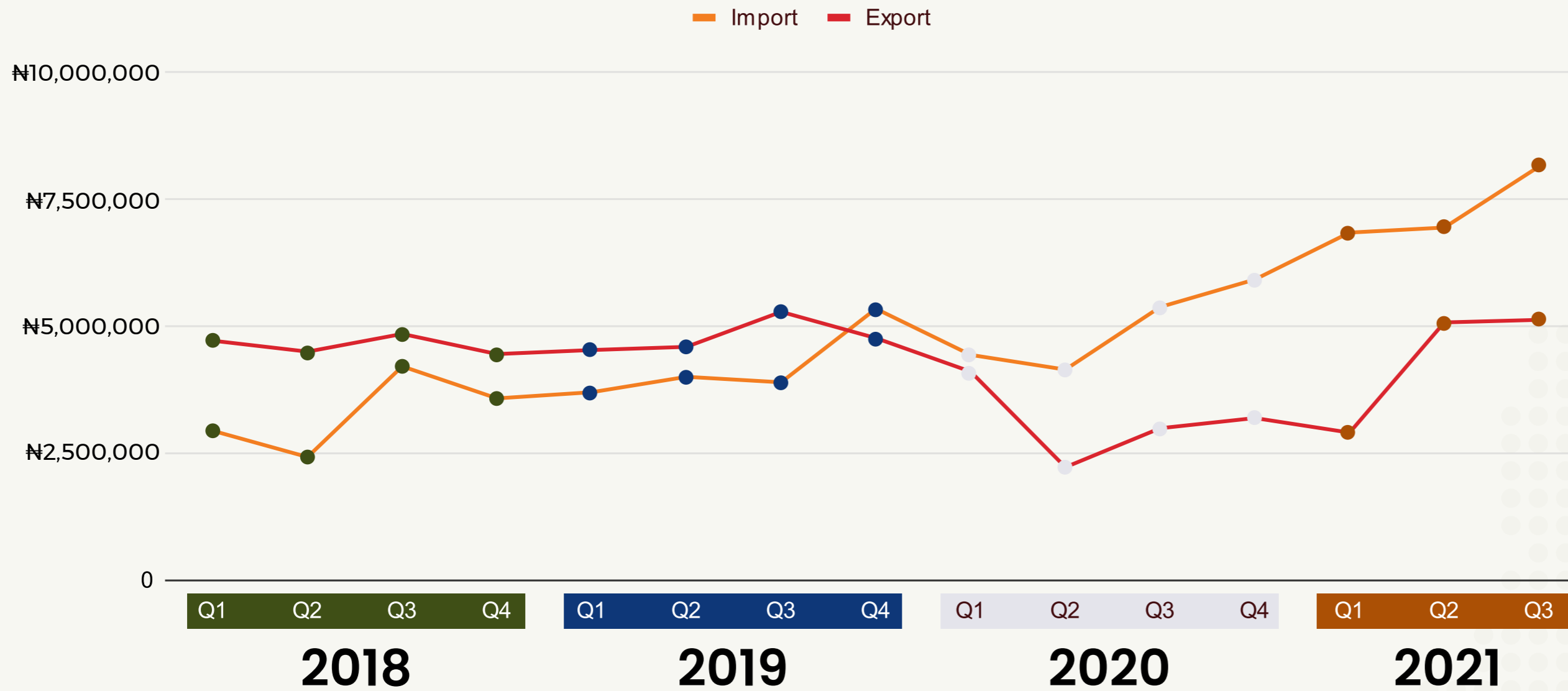
# Headline Inflation & Food Inflation



**Surging food & headline inflation**



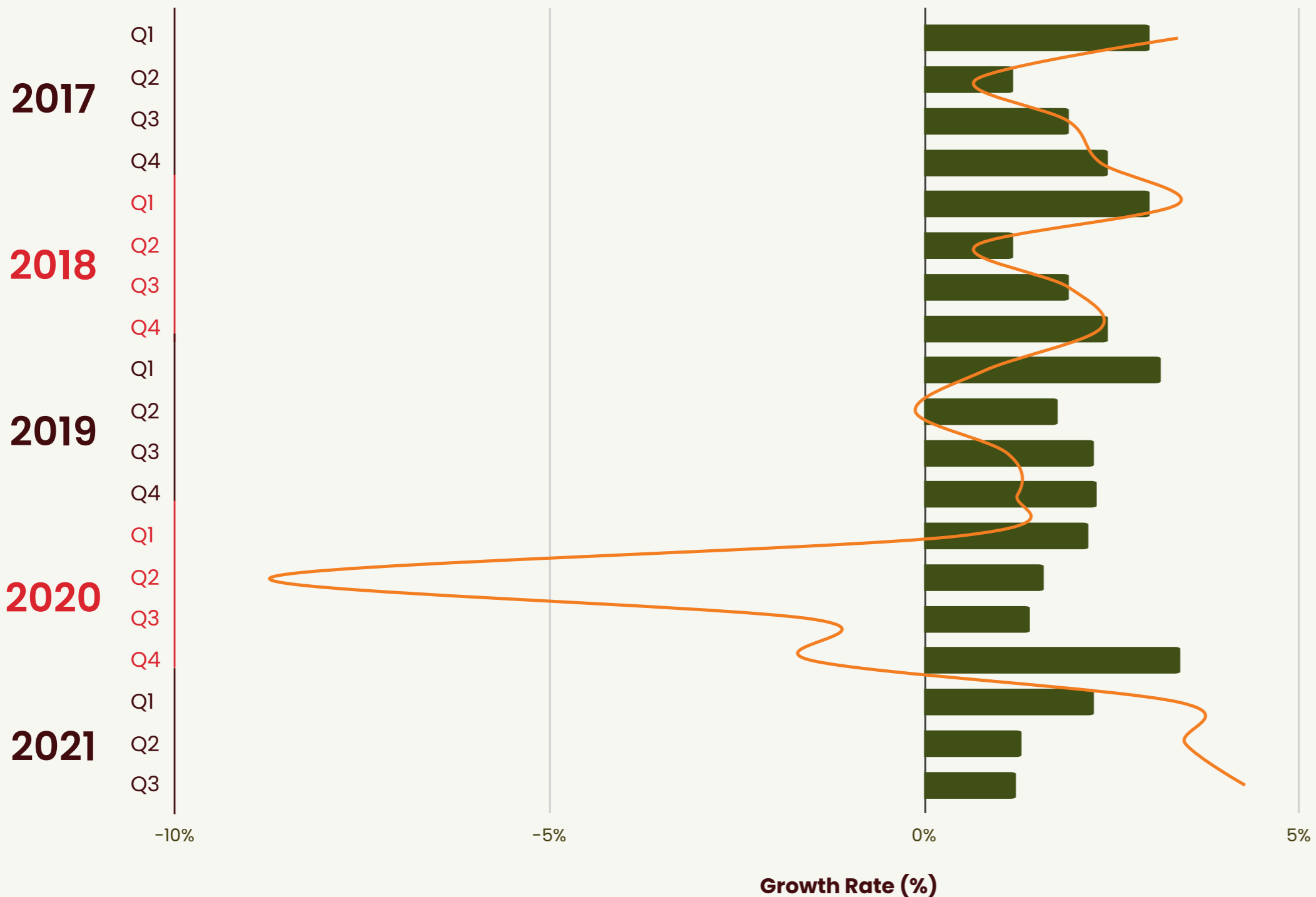
## Import & Export



**Over-reliance on importation continues to dampen trade balance**

# Agric GDP & Manufacturing

■ Agric GDP ■ Manufacturing



**Agric and manufacturing sectors still under-performing**



# Who stands to gain from the merger?



**Nigeria's  
foreign trade,  
shareholders,  
customers,  
employees and the  
country at large**



## Who stands to gain from the merger?

The merger between the two consumer goods giants is poised to propel significant

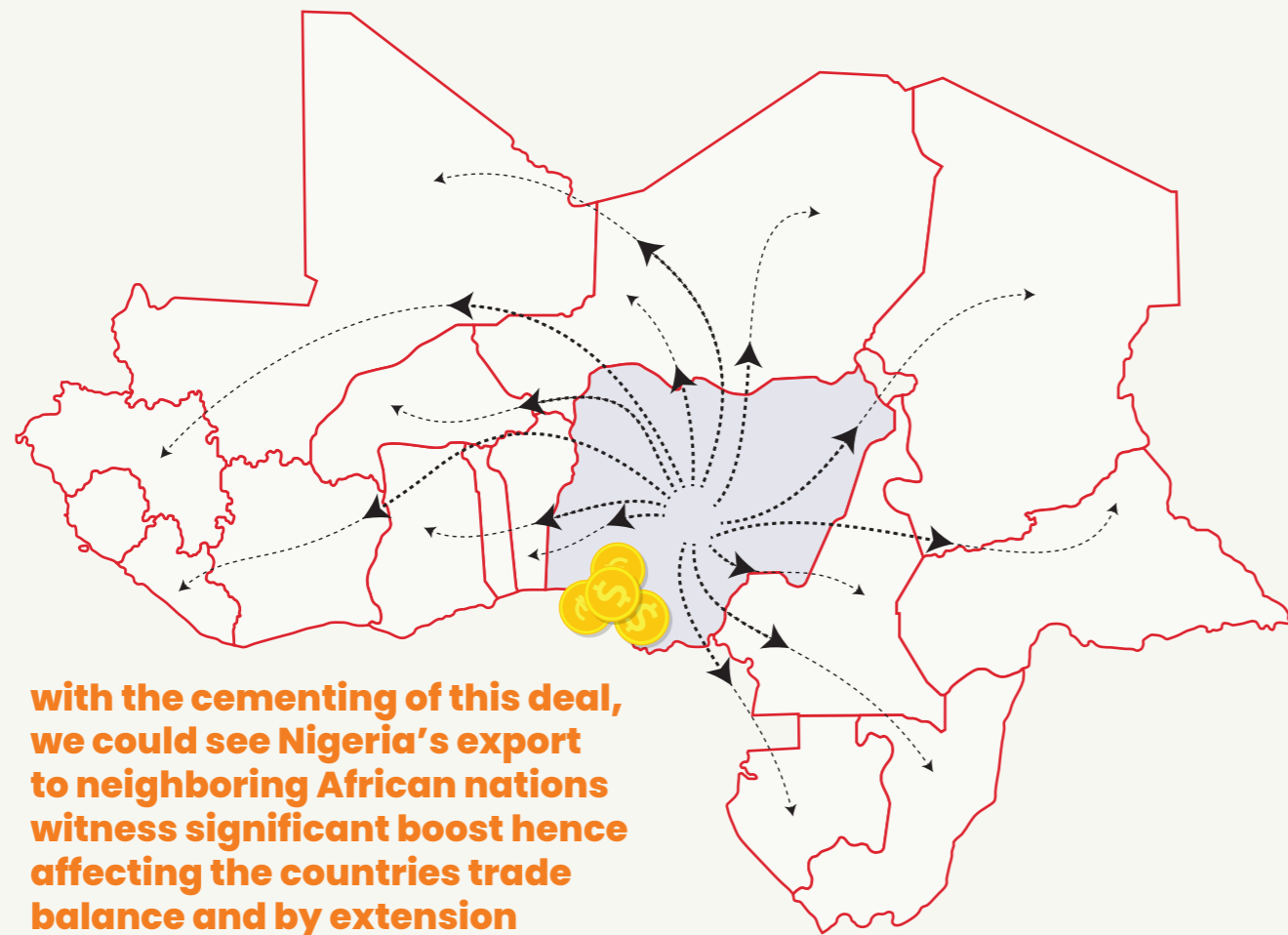
growth in the Nigerian food producing sector, owing to the vast years of operating

experience that the two companies bring to the table. Most especially with the kick starting of the African Continental Free Trade Area (AfCFTA) and as Nigeria moves to become the manufacturing hub of the African continent, this deal will get Nigeria closer to its agenda.

countries trade balance and by extension balance of payment account.

In addition, Nigeria and its food security agenda will benefit from both companies' focus on developing Nigeria's industrial capability, its agricultural value chain and specifically backward integration of the Nigerian food industry.

As much as the country stands to benefit from this merger, the customers across the country will also benefit improved access to a wider product range and a robust pan-Nigerian distribution network, accessing greater number of points of sale supported by enhanced



**with the cementing of this deal, we could see Nigeria's export to neighboring African nations witness significant boost hence affecting the countries trade balance and by extension balance of payment account.**

Nigeria's international trade performance in recent times have not been satisfactory, affected by the recurrent trading deficit occasioned by the surge in demand for imported goods. However, with the cementing of this deal, we could see Nigeria's export to neighboring African nations witness significant boost hence affecting the

## Who stands to gain from the merger?

customer-focused sales teams and redistribution capabilities.

This implies that Nigerian consumers will be able to leverage on the merger to have access to varying consumer goods product, which ideally places the power of choice in the hands of the final consumers.

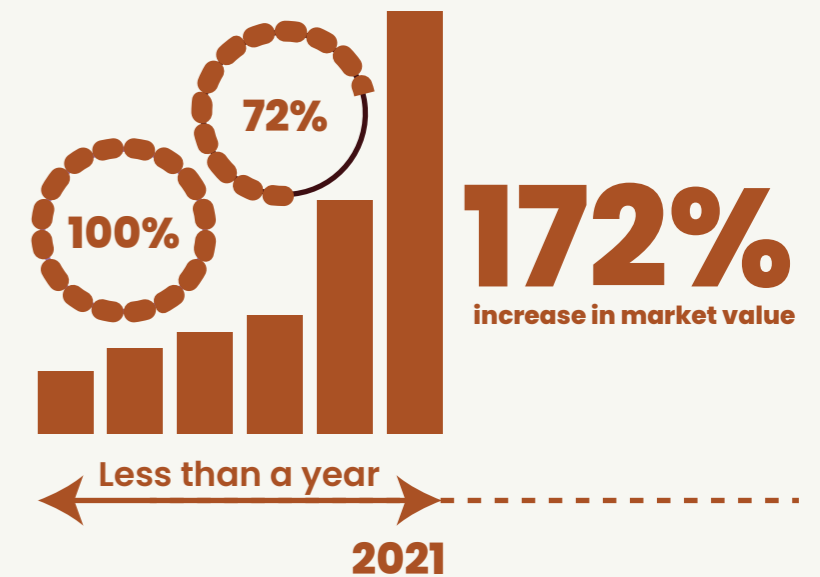
Its shareholders also stand a big chance of gaining from the combined resources of the two giants. Honeywell Flour Mills, which had recorded a rally in the Nigerian stock market in the past year, gaining over 172% in market value in less than a year, is positioned for further growth with financial fundamentals being in place.

**Nigerian consumers will be able to leverage on the merger to have access to varying consumer goods product, which ideally places the power of choice in the hands of the final consumers.**



The company has stated that HFMP's listing will be retained for the foreseeable future. Minority shareholders of HFMP will be treated fairly and in line with capital market regulation. Further information will be provided within the required channels and timeframes.

Finally, but exhaustively the scale of the transaction provides employees of the consolidated company with more career development opportunities in a larger organisation, with the potential to create more jobs in the economy as it will have more brands and categories, and a larger and more geographically diverse footprint.



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# What are the future plans of Honeywell Group?



**Honeywell Group now positioned to diversify and present new value propositions for investors and customers alike.**

## What are the future plans for Honeywell Group

Honeywell Group (HGL) after disposing 71.69% of its stake in Honeywell Flour Mills Plc (HFMP) to Flour Mills of Nigeria Plc (FMN), is positioning itself to expand its investment activities in other areas of the economy. The Managing Director of HGL, Obafemi Otudeko, also hinted at the future plans of the Group following the consummation of the deal with FMN.

*“Honeywell Group is poised to continue refining and growing our investment portfolio. We are strongly positioned to expand our activities in key growth sectors through strategic investments and partnerships. We remain committed to creating businesses that leave a lasting impact and*

*look forward to sharing our future plans.”*

As of 31st May 2022, Honeywell Flour Mills has a market capitalization of N26.38 billion on the Nigerian Exchange.

**N26.38 Market  
billion Cap.**



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