



# Engro Corporation

Partnership with Royal FrieslandCampina

July 2016



# Key Transaction Terms

## **Two-step transaction: EC to sell up to a 51% stake in EF through a private sale followed by a mandatory tender offer (MTO)**

- FrieslandCampina in contractual agreement to acquire a 51% stake of Engro Foods, owned by Engro Corp
- The sale of the EC stake is governed under a SPA with customary representations and warranties
- FrieslandCampina is obliged to make a mandatory tender offer for 50% of Engro Foods' free float (c. 6.5%)
- Engro Corp to remain a significant shareholder in EF. Its ownership will be between 36.0% and 42.5% of EF, depending on the MTO subscription
- Partnership between FrieslandCampina and EC governed by a shareholder agreement

**Enterprise Value of Rs 96.6 billion**

**Estimated Price per share of Rs 120 <sup>(1)</sup>**

**Implied EV / EBITDA multiple of approximately 13.4x <sup>(2)</sup>**

**100% of proceeds in cash**

**EC to receive Technical Assistance Fee (TAF) of 0.5% of net sales <sup>(3)</sup>**

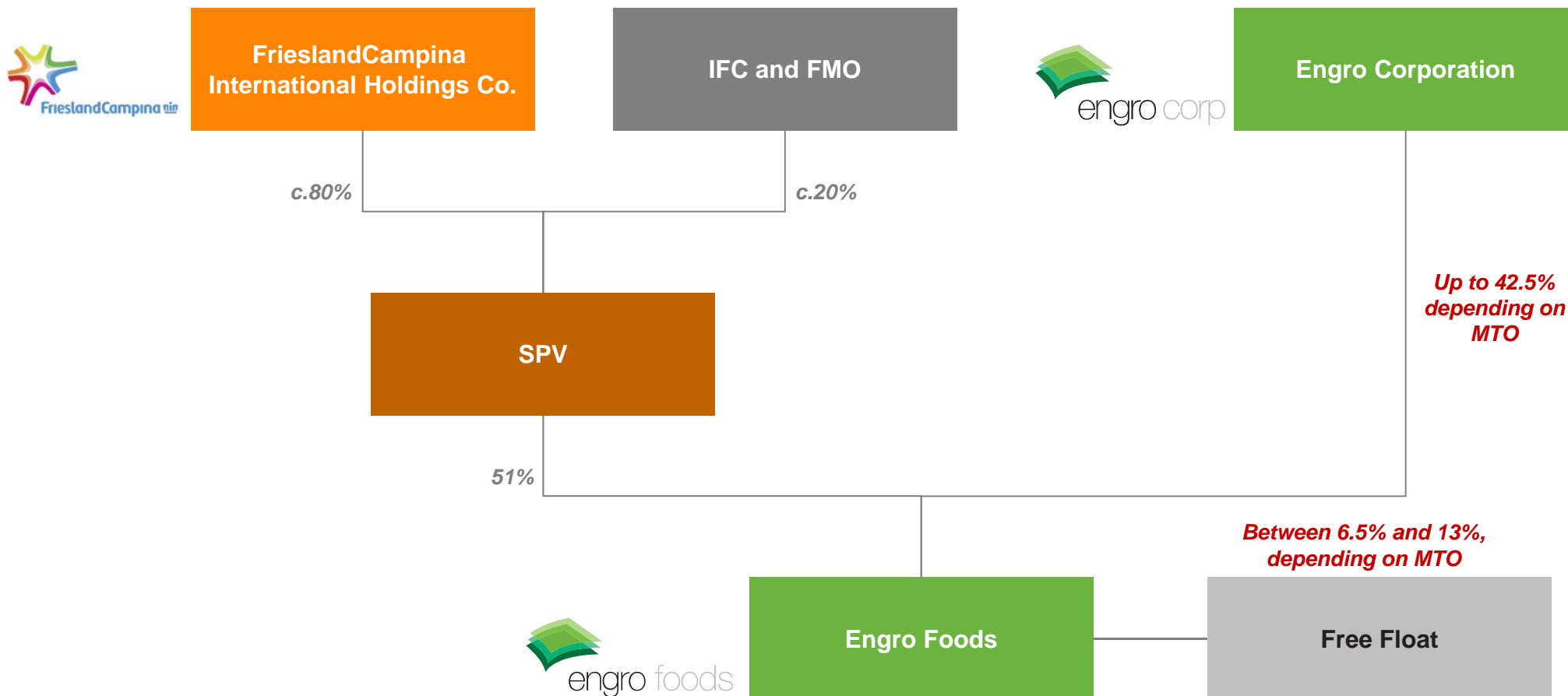
(1) Price per share adjusted for debt and debt-like items, cash and cash equivalents and working capital

(2) Based on a 2015A EBITDA

(3) Technical Assistance Fees are net of withholding taxes.

# Proposed Transaction Structure

Final ownership structure is dependent on how many shares are successfully tendered (up to 6.5%)



Note: 50% of the shares of the free float are offered in the MTO. In the event of an undersubscription of the MTO, EC shall sell to FrieslandCampina the balance of shares required in order for FrieslandCampina to reach 51% ownership of EF.

# Royal FrieslandCampina, EC's Potential JV Partner

FrieslandCampina is one of the world's largest dairy companies owned 100% by Zuivelcoöperatie FrieslandCampina with about 19,000 member farmers

## Overview

- FrieslandCampina supplies dairy consumer products such as milk, infant nutrition, cheese and desserts both directly to consumers and to professionals via an extensive distribution network
- FrieslandCampina has offices in 32 countries and employs over 22,000 people
  - ▶ Currently, no Consumer Goods presence in the Asian subcontinent (Pakistan, India, Sri Lanka, or Bangladesh)
- As part of the Company's 2020 strategy, it is seeking to grow in dairy-based beverages, infant nutrition and branded cheese, in particular via M&A
  - ▶ FC Particularly seeking growth in Asia, Middle East and Africa
- FrieslandCampina's cooperative structure comprises 19,000 member dairy farmers in the Netherlands, Germany and Belgium; one of the world's largest dairy cooperative
- Headquartered in Amersfoort, Netherlands

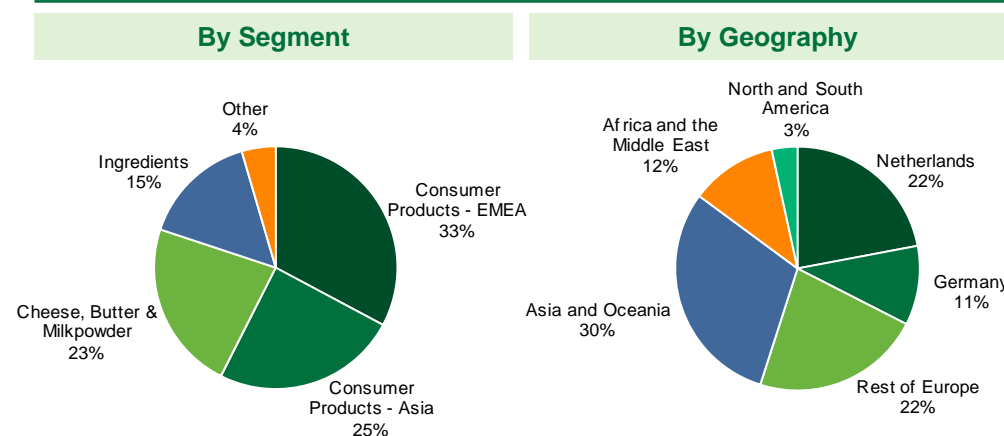
## Financial Profile

| FYE 31 Dec        | Historical |        |        |        |
|-------------------|------------|--------|--------|--------|
|                   | 2012A      | 2013A  | 2014A  | 2015A  |
| <b>Revenue</b>    | 10,309     | 11,281 | 11,348 | 11,265 |
| <b>% growth</b>   | 7.1%       | 9.4%   | 0.6%   | (0.7%) |
| <b>EBITDA</b>     | 681        | 526    | 720    | 851    |
| <b>% margin</b>   | 6.6%       | 4.7%   | 6.3%   | 7.6%   |
| <b>EBIT</b>       | 487        | 313    | 489    | 576    |
| <b>% margin</b>   | 4.7%       | 2.8%   | 4.3%   | 5.1%   |
| <b>Net Income</b> | 278        | 157    | 303    | 343    |
| <b>% margin</b>   | 2.7%       | 1.4%   | 2.7%   | 3.0%   |

## Business Overview

|                             |  |
|-----------------------------|--|
| Consumer Products EMEA      | <ul style="list-style-type: none"> <li>■ Provides consumers and professional customers in Europe, Middle East and West Africa with dairy products, such as dairy-based beverages, yoghurts, desserts, infant nutrition, butter and branded cheeses</li> <li>■ In the Netherlands and Belgium FrieslandCampina also sells fruit juices, fruit drinks and sports drinks</li> </ul> |
| Consumer Products Asia      | <ul style="list-style-type: none"> <li>■ Provides dairy products such as infant nutrition and dairy-based beverages through out South East Asia and China</li> <li>■ Most products produced locally, with some products exported from Netherlands to Asia</li> </ul>   |
| Cheese, Butter & Milkpowder | <ul style="list-style-type: none"> <li>■ Sells cheese, condensed milk, infant nutrition, butter and milk powder worldwide</li> </ul>   |
| Ingredients                 | <ul style="list-style-type: none"> <li>■ Develops nutritious and functional ingredients based on milk, cheese, whey and vegetable raw materials to industrial customers</li> </ul>   |

## Revenue Breakdown



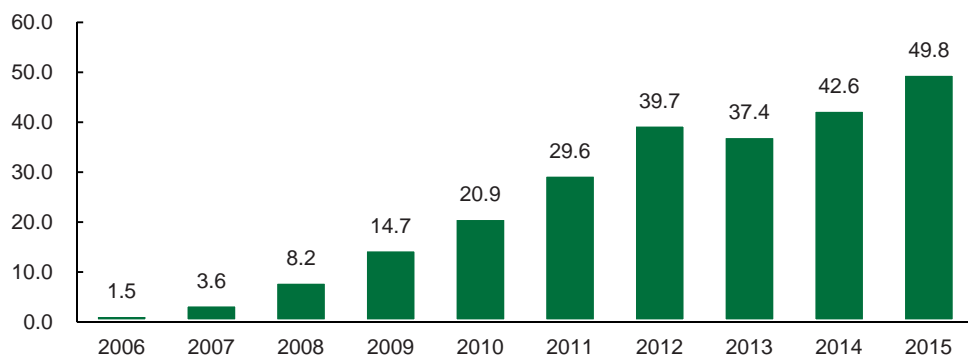
*FrieslandCampina sees particular value in the conversion opportunity existing in the Pakistani dairy sector*

# Engro Foods – Financial Overview

Impressive growth since foundation of the company with attractive financial metrics

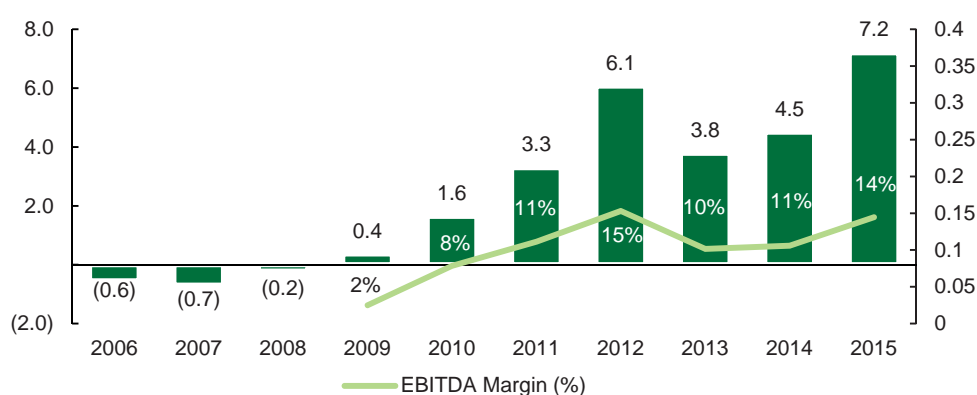
## Revenues

(in Rs billions)



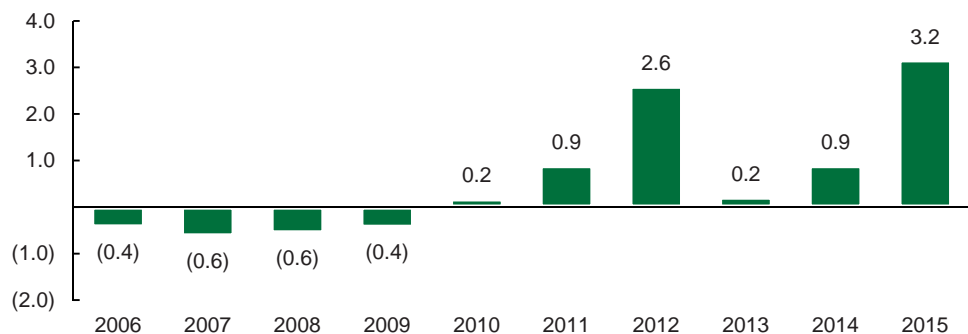
## EBITDA

(in Rs billions)



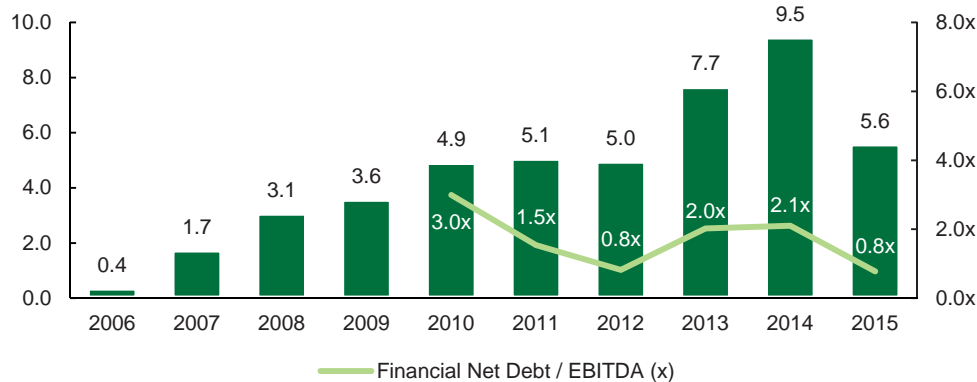
## Net Income

(in Rs billions)



## Net Financial Debt

(in Rs billions)



Note: Financials have been adjusted for discontinued businesses.

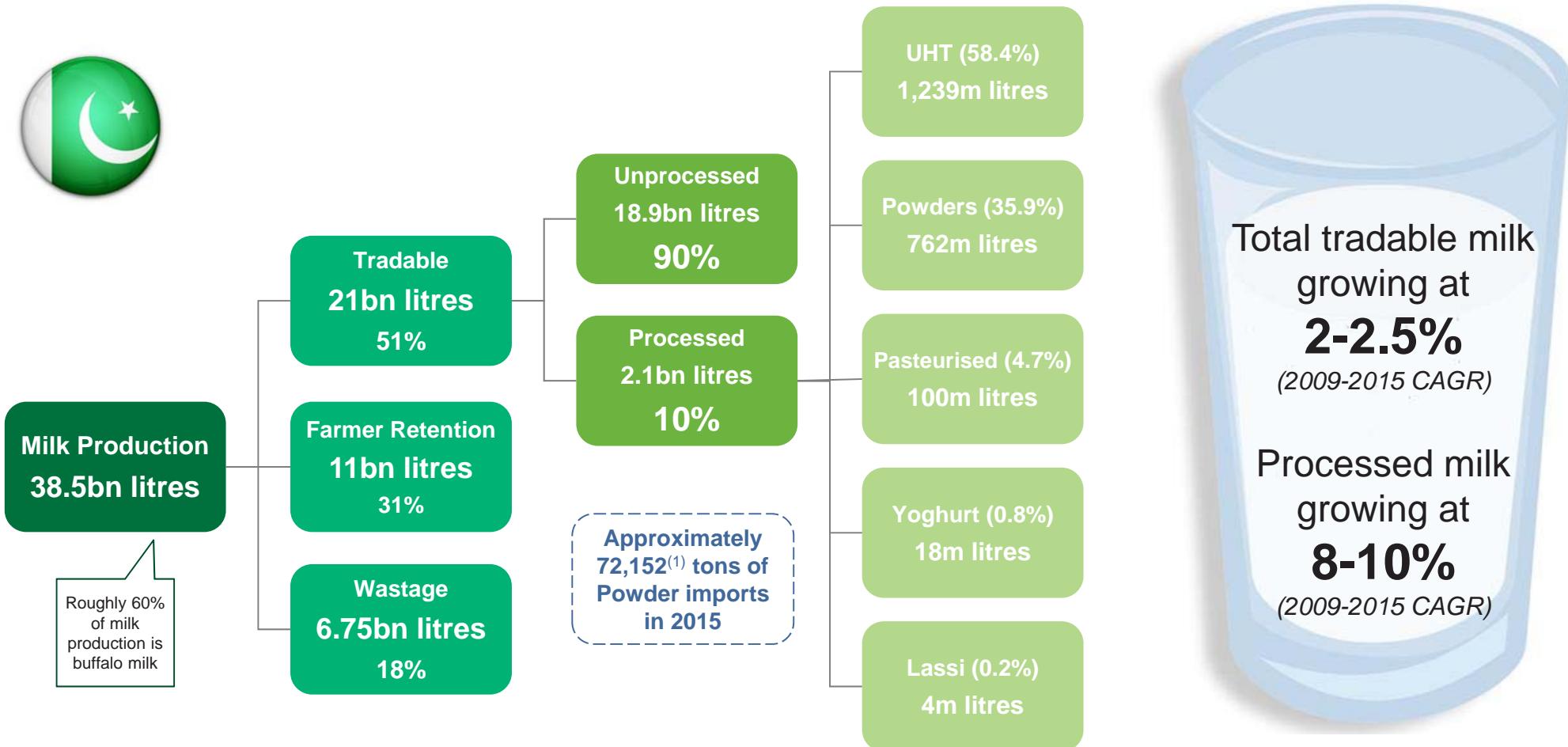
# Strategic Rationale

Partnering with FrieslandCampina will enable Engro Foods to accelerate and harvest the benefits of the loose milk conversion opportunity in Pakistan

- 1 Global Partnership**
  - *Utilise FrieslandCampina dairy know-how and global expansion track record*
  - *Greater talent retention due to international career opportunities*
- 2 Conversion Opportunity**
  - *Pakistani dairy industry at inflection point*
  - *FrieslandCampina have successfully entered markets with similar consumption patterns in the past*
- 3 Infant Nutrition**
  - *Total market opportunity of Rs 20bn (45% premium segment)*
  - *Initially import FrieslandCampina brands; capacity at EF to produce locally in future*
- 4 Powder Opportunity**
  - *Potential to introduce new products such as growing up milk powder (GUMP) or tea whitening powder (TWP)*
  - *Well-placed to succeed, coupling FrieslandCampina know-how and EC local network*
- 5 Synergies**
  - *Ample potential to generate topline and cost saving opportunities*
  - *Combined know-how bundled into a centre of excellence for R&D*

# Pakistan Conversion Cycle – Right Time To Team Up With FrieslandCampina

Approximately 50% of dairy production is available for consumption – ample growth opportunities in increasing conversion from loose to packaged milk products



**Pakistan is the 3rd largest milk consumption market worldwide**

Note: Tetra estimates. Tetra Pak, Milk Segmentation 2015, Milk U&A 2010  
 (1) Contains Instant Veg Fat Milk Powder - 8.9 ktms; Whole Milk Powder - 0.6 ktms; SMP - 43.9 ktms; Whey Powder - 13.5 ktms; Infant Milk Powder - 8.6 ktms

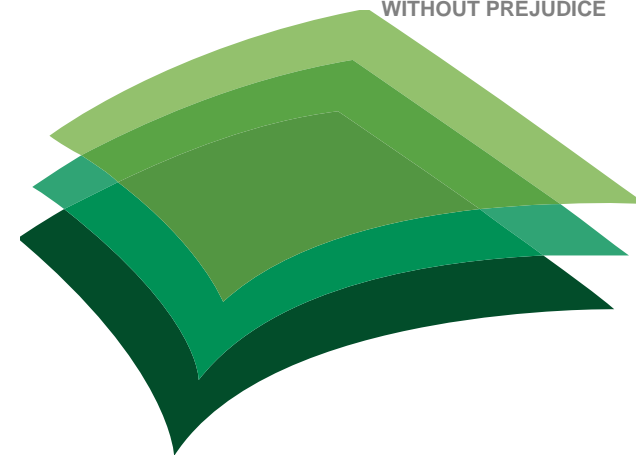


# Indicative Timeline and Transaction Structure at a Glance

Current illustrative timeline envisaged closing of the transaction in Q4 2016







# Frequently Asked Questions (FAQs)

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# FAQ Topics

## Technical Assistance Fees (TAF)

- Technical Assistance Fees (TAF)<sup>(1)</sup> of 2% and 0.5% to be paid to FrieslandCampina and EC respectively by EF
- FrieslandCampina's TAF covers access to FrieslandCampina's extensive expertise including sales and distribution, marketing, procurement, product safety and research and development (R&D)
- EC TAF covers access to proprietary know-how and relationships of the wider EC network including but not limited to the "Engro" brand name<sup>(2)</sup> and talent management
- The 2% FrieslandCampina TAF rate is consistent within the industry and in line with precedent cases of multinationals with international partners
- EF expects the TAF to be offset by business efficiencies and cost savings which will be delivered over time and benefit the business
- Any plan to deliver an increased top-line or profitability requires investment, as in this case; the EF plan will be to deliver synergies which are accretive for shareholders as soon as possible

(1) Technical Assistance Fees are net of withholding taxes.

(2) Please note that EF owns its product brand names such as Tarang, Olper's, Omung, Omoré etc.

## FAQ Topics (cont'd)

### Royalty Fees

- EF to pay FrieslandCampina a 2% royalty fee on revenues generated from new FrieslandCampina-branded products introduced in Pakistan
- For the avoidance of doubt, no royalties will be paid on existing EF products (Tarang, Olper's, etc.) and there are no plans to rebrand existing EF products
- Going forward, the Board of EF will assess the potential introduction of FrieslandCampina brands on a case by case basis with a view to enhancing the future profitability of EF
- The Royalty Payments will enable EF to gain access to FrieslandCampina's years of investment in product innovations and technology which EC would have needed to spend separately otherwise, e.g. for development of infant nutrition formula
- EF will benefit from the ability to introduce new brands to address markets not currently served by EF, such as GUMP and infant formula
- The royalty fee to be paid to FrieslandCampina is industry standard and in line with precedent cases in similar multinationals

## FAQ Topics (cont'd)

### Mandatory Tender Offer (MTO) price

- Minority shareholders are not bound by the SPA price between FrieslandCampina and EC
- Should they so wish, minority shareholders will have the option to sell shares in the MTO process
- The MTO price will be determined separately and in line with Pakistani law
- According to Pakistani takeover regulations for frequently traded shares, the minimum MTO price will be calculated as the highest of:
  - a) the SPA price;
  - b) the highest price paid by the acquirer for voting shares during the six months prior to the MTO launch;
  - c) the 6 month average price prior to the MTO launch;
  - d) the 4 week average price prior to the announcement of intention (3 March 2016) and;
  - e) the Net Asset Value price per share calculated (determined by an independent valuation firm)

# Contact Us

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