Nigerian Breweries Plc

FY 2017 Results Presentation

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Nigerian Breweries Plc

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Introduction & Company Background

Jordi Borrut Bel, Managing Director / CEO
Hello and good afternoon, my name is Jordi Borrut and I am the recently appointed Managing Director and CEO of Nigerian Breweries Plc.

Thank you for dialling into today's 2017 full year results conference call. Today's call will follow the usual format with a review of our 2017 full year financial performance, as well as an update on our operations before opening the call to your questions.

With that I would like to get started. Consistent with previous presentations I would like to draw your attention to the disclaimer on slide 2. Please read this at your convenience.

Now I am on slide three and I am hosting this call with you, with our Finance Director, Mark Rutten, who I know you all know every well. Given my recent appointment I want to share with you a little bit of my background. Prior to my appointment to the Board of Director as Managing Director CEO in January, I was Managing Director at Brarudi, the Heineken operation in Burundi. I joined Heineken NV in 1997 as a sales representative at Heineken Spain and from 1999 to 2006 I held various commercial positions, including a distribution position in Slovakia, Brand Manager at Heineken France, a trade marketing management role at Group Commerce in Amsterdam, followed by Director of Sales and Distribution at Heineken Spain.

Today's presentation will follow a familiar format outlined on slide 4. Mark and I will speak at different times during the presentation and following our summary and outlook we will take your questions. For obvious reasons due to my recent appointment Mark will take most of the questions.

Skipping to slide 6, I would like to provide a brief introduction of Nigerian Breweries. Nigerian Breweries is the largest and the leading brewing company in Nigeria, incorporated in November 1946; we commenced production with Star Lager beer in June 1949 we are the third largest company on the Nigerian Stock Exchange, with a market capitalisation of approximately 1.2 trillion naira, as at the end of January 2018. Heineken NV is our largest shareholder, with over 115,000 other individual and institutional investors holding the balance of shares.

We remain committed to the philosophy of winning with Nigeria in all aspects of our operation.

Now if you go to slide 7 it shows our vision and our values. Our vision is to be a world class company and our mission statement, to be the leading beverage company in Nigeria, marketing high quality brands to deliver superior consumer satisfaction in an environmentally friendly way.

As I am sure Mark and my predecessor Johan have talked to you before our core values remain the same. Respect for individuals, society and the environment; passion for quality, not just for our products but also in everything we do; enjoyment to people through our high quality products, communication and sponsorship activities; and a culture of high performance to deliver outstanding value to our stakeholders.

Turning now to slide 8 you can see the six focus areas of our sustainability agenda. Sustainability is embedded in our business strategy and we firmly believe that it goes hand in hand with sustainable business growth.

We have a strong agenda on sustainability through our Brewing a Better World programme, which covers our long term approach to creating shared, sustainable value for all stakeholders - the company, society and the planet.

Brewing a Better World is a part of our DNA and fully embedded in our company values. It ensures the long term sustainability of our business, not just short term growth and it fits with our objective in playing a positive and leading role in building a sustainable future for our society.

I move now to slide 9; here we depict our brand portfolio. In total we have 20 brands sold in over 53 SKUs across lager, cider, malt, stout and soft drinks. Our lager volume is spread across all segments and fundamental to our strategy. We have the leading or number two brand in all segments, providing us with strong foundations on which to compete and grow our business. As a result we are the market leader in lager and malt and a challenger in Stout.

So turning to slide 10, you can see our existing footprint across Nigeria. This includes 9 breweries, 2 distribution centres and several depots as well as two malting plants and is strategically spread across the country.

And now I'll hand over to Mark to continue the presentation.

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2017 Operating Environment

Mark Ratten, Finance Director
Thank you Jordi. So let's start with the operating environment in 2017. Moving to slide 12 we see that the economy has improved in 2017 compared to the strong contraction we saw in 2016. However, despite being technically out of recession we need to see further improvements as it's still very early days and we remain cautious in our outlook.

Looking at the charts in detail, first touching on crude oil, the top left chart depicts oil price and domestic oil production, whilst price fell in the first half it improved in the second half along with domestic production. Both the increase in price and oil production have been beneficial for Nigeria's economy.

Secondly on FAAC, which is the revenue distributed to the three tiers of government, the orange line in the top right chart shows an upward trend in FAAC in the last six months. This chart also depicts inflation, which has consistently declined through the year hitting a 19 month low of 15.4% in December.

And third an improvement in GDP, the bottom left chart plots real GDP, which has improved to 1.4% in Q3 2017.

Finally on FX, the intervention by the Central Bank of Nigeria during the year has reduced the scarcity of FX, which has led to a gradual convergence of the parallel and CBN rates. The naira hit a record low against the dollar of 520 earlier in 2017, with the exchange rate having since rebounded along with the price and production of crude oil.

Turning to slide 13, I would like to take you through the dynamics of the Nigerian beer market. Over the last few years the Nigerian beer market has seen a significant transformation. The lager, stout, malt market is now over 70% lager, around 20% malt and under 10% stout.

Discount brands now account for 10% of market volume, mainstream around 70% and premium at around 20%. This compares to 30% discounts, 65% mainstream and around 5% premium in 2015, before the pressure on affordability started the down trading trends. This trend has continued to impact the beer market throughout 2017. But the trend has slowed down.

The overall beer market in 2017 was relatively stable. Despite this, consumer purchasing power remains under pressure; competition across all categories has intensified.

Going to the next slide, these two charts on slide 14 illustrate the shift in volumes. On the left we illustrate a mainstream brand which is now considered national premium. The brand volumes have declined over the last years due to down trading, whilst on the right we depict what was an economy brand that has seen its popularity grow and is now considered a new mainstream.

Now I will hand back to Jordi to talk about our strategy.

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Jordi Borrut Bel, Managing Director / CEO
Thank you Mark. So despite the changes to the beer market we remain ready to compete. And if you turn to slide 15 let me remind you of our strategic agenda which is grounded on two pillars, market and cost leadership.

We are a brand led, consumer orientated, and customer focused organisation and therefore we remain committed to outperforming the market in satisfying consumer and customer needs.

We continue to focus on reducing costs and increasing efficiencies across the business and further simplifying the organisation. This commitment delivers our market leadership which gives us economies of scale and with our focus on efficiencies drives our cost leadership agenda.

Now I'm on slide 16 and you can see our brand portfolio presented by segment and price points. Having discussed this slide before I won't linger on it, but what it shows is our lager and stout brands occupy number one or two position in every segment. At the same time it is important to note that the market is more competitive than ever. So having a strong portfolio of leading brands is key.

Our brand strength and coverage across the different price points and leading positions within the categories provides us with a robust portfolio to compete and to continue to grow off.

And on slide 17 we also depict malt brands by price point where we are number one and number two in the mainstream segment and number two or number three in discount.

What is also important to highlight is that we are unique in the Nigerian beer market in having both a regional and a national footprint approach. So if you look at slide 18 we show our strong regional brands and the respective territories on the left. This provides a strong base for our mainstream volumes.

On that base we then add our nationwide brands such as Heineken, Star, Gulder, Amstel and Maltina. This creates a strong balance with both regional and national brands to meet our consumer needs across the country.

Moving on to slide 19, innovation continues to be an important growth driver and here we highlight some recent developments. Notable in 2017 was the double digit growth from the innovations of the last three years and an encouraging result.

On slide 20 we highlight Stella which was launched in December 2017. Whilst quite a recent introduction, we believe the lager, dating back to 1897 will fill a niche with young urban consumers looking for a smooth lager with heritage. Although a recent launch the initial feedback is encouraging.

Moving to slide 21, we also want to highlight a new agreement between Nigerian Breweries and the Nigerian Football Federation. For the next five years Star Lager and Amstel Malta are the official drinks of the NFF, our partnership that we are incredibly excited about, providing a medium for connecting with our core consumers.

And now I hand over to Mark again.

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Mark Rutten, Finance Director
Thank you Jordi. On slide 22 we discuss our focus on cost leadership, every naira counts. We continue to work on two pillars of our cost leadership programme, one being efficiencies and optimisation in our organisation and the other consumer value engineering.

Consumer value engineering has been accelerated in 2017 and its focus is on eliminating costs which do not add value for the consumer. In total our cost leadership programme is continuing to bring us significant cost savings and has the highest priority across the organisation.

Next to cost optimisation and customer value engineering we focus on revenue management. This programme is focused on improving revenue per hectolitre, increasing volumes, and further optimise our commercial investments like discounts and promotions.

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2017 Half Year Results

Mark Ratten, Finance Director
Now moving to slide 24 which shows the summary of our 2017 financial performance. For the full year total volume was down mid-single digit, with lager stable and stout and malt in decline. Down

trading continued, although at a more moderate rate and we saw a return to growth for the Heineken brand in 2017.

Revenue for the year was up just under 10%, benefiting from the price increases in 2016 and some more limited pricing in 2017 at the start of Q3.

Revenue per hectolitre improved considerably versus last year. But we saw continued cost increases due to high inflation and a weaker naira.

Operating margin for the year was relatively flat on last year and net profit was up double digit.

Slide 25 shows the key figures of our P&L for 2017 versus 2016. Despite the lower volumes sold in 2017 the price increases generated a revenue growth of approximately 10%. This translated into a higher result from operations of 8%, benefiting also from a slowdown in the down trading, despite the pressure in input costs.

Our return on sales was stable at approximately 17%.

The decrease in net finance costs was driven by the reduction in exchange rate losses on our foreign denominated trade payables as FX became more available and stable in the second half of 2017. This resulted in a decrease of FX losses of 5 billion naira in 2017 from 8.3 billion naira in 2016.

All of the above led to a net profit of 33 billion, versus 28.4 billion last year.

One slide 26 you can see an update on foreign exchange, a subject which was again a top priority in 2017. We have approached foreign exchange and availability of hard currency from multiple angles and focused on both short and long term solutions.

As much as possible we have locked in exchange rates by using funded levels of credit and forward contracts. We were also able to settle a part of the outstanding intangibles within the period.

We also continued to improve our local sourcing strategy in 2017, it's important to note that we do not have any foreign currency loans. Next to this it's important that during 2017 the CBN introduced a new market segment called importer and exporter forex window, this helps to improve liquidity in the FX market significantly.

Turning to slide 27 in 2017 we saw an increased interest rate as the CBN, the Central Bank of Nigeria, focused on reduced naira liquidity in the economy. We expanded our supplier finance scheme in 2017 to support suppliers to get quicker access to cash and extend our payment terms at the same time.

At the end of 2015 we changed the way we were financing our working capital needs by entering the capital market directly with our three year commercial paper programme. The commercial paper programme has a value of 100 billion naira, of which 57 billion has been utilised.

In June 2017 our AA rating that we obtained in 2016 was reconfirmed by Augusto & Co, the leading rating agency in Nigeria.

Net finance costs, which comprises of interest and currency exchange rate gains and losses is lower in 2017 than 2016 by 20% thanks to a less volatile FX environment and our FX and financing strategy.

In Group payables we have been able to clear a good part of the backlog of payables due to the improved availability of FX.

Moving to slide 28 and a review of the balance sheet, first on fixed assets. In 2017 our investment in returnable packaging materials, combined with an asset reclassification increased our property, plant and equipment by 2%. The significant increase in inventory was mainly attributable to a planned increase in key materials as a hedge against inflation. In addition the base for inventories in 2016 was at an historical low, especially in quantities, due to the FX scarcity in 2016.

The marginal increase in accounts receivable was a result of our tight credit management, which is also illustrated by a minimal bad debt expense in 2017.

The higher cash inflow from customers in the last part of 2017 led to an increase in our cash position.

The decrease in other assets relates to the previously mentioned 2 billion reclassification of our Aba (?) site and also the reduction in deposit for imports, due to the FX improvements.

Turning to slide 29, the non-current liabilities slightly declined versus 2016 and the revolving credit facility in 2017 was largely paid off, driving the 53% decrease in borrowings.

Our payables increased in 2017 due to the more favourable payment terms as highlighted before. Despite high to mid teens inflation, our balance sheet grew by only 4%.

Moving on to the free operating cash flow on slide 30, you can see that our cash flow from operations increased due to higher net profits. The improvement in working capital is largely due to our work in supplier finance and credit management, partly offset by our increase in inventories.

Capex spend in 2017 was higher than 2016, due to an increased investment in returnable packaging materials as part of our commercial strategy.

Our strong balance sheet is illustrated by a further reduction in our net debt to EBITDA ratio.

Moving to slide 31, the proposed dividend for 2017 is as follows: 100% payout ratio, which equates to 4.13 naira per share and includes the 1 naira per share interim dividend already paid in November 2017.

Moving to slide 32, our dividend payout ratio increased steadily from 2012 to 2017, which is a reflection of our strong balance sheet and meeting the objective of delivering good returns to our shareholders. And when combined with our ability to generate cash it provides us with confidence to cope with the current and expected economic and market circumstances.

With that I would like to hand back to Jordi.

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Summary and Outlook

Jordi Borrut Bel, Managing Director / CEO
Thank you Mark. So in summary the operating environment, although showing some signs of improvement at a macro and currency level was still challenging. Pricing, compared to the prior year was more limited and the pressures from both cost inflation and down trading continued.

Through the continued cost focus the operating margin was kept stable. In 2018 we expect the operating environment to remain challenging, although we remain confident that we have the right strategy, people, operations and brands to keep delivering value for our stakeholders and we are well placed to capture value when the economy recovers.

We have strong experience and track record of operating in Nigeria through the economic cycle and we remain committed to the market for the long term. And of course going forward we believe that the fundamentals of the Nigerian economy and the beer market remain good in the medium and the longer term.

With the Mark and I would like to take your questions.

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Questions and Answers

Telephone Operator
Okay ladies and gentlemen if you would like to ask a question please press *1 on your telephone keypad. If you change your mind and wish to withdraw your question please press *2. Please ensure your line is unmuted locally so I can take your name and then you'll be advised when to ask your question.

We have a few questions on the line, so our first question comes from the line of Tunde Abidoye. Please go ahead your line is now unmuted.

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Tunde Abidoye, FBNQuest
Good afternoon, my first question is actually on volume trends. Please can you give us trends for the key brands that you have, Star, Gulder and co, that's one?

Two, it seems as if you lost a bit of market share in 2017, please can you give us an idea of how many basis points of market share this was?

And three, can you just give us a general colour on your expectations for 2018 in terms of the operating environment and your expectations in terms of volume growth and if you think you'll be taking any more price increases? Thank you.

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Jordi Borrut Bel, Managing Director / CEO
Okay, thanks for the questions I will go one by one. We don't comment on specific brand evolution for competitive reasons, but as Mark explained during the presentation what we see is there is a shift in the segments, where what was the economy segment has become the new mainstream segment and we have benefited from that with for instance the brand Life, which had a strong growth last year. And we are still the number one and number two brand in that segment. Whilst what was before the mainstream segment has become the national premium segment, with brands like Star and Gulder that have had some decline.

Now in terms of market share we have had a slight decline in the first half of the year 2017, that continued in the second half of 2017, although at a lesser extent and that was driven by our price increases in 2016, which were not immediately followed by the competition, as well as some aggressiveness in the discount category.

I don't comment on details on our expectation for 2018 also for competitive reason and I don't remember if there were any other questions, Mark?

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Mark Rutten, Finance Director
No and I think we already highlighted some of the challenges that we see in the operating environment in 2018. So we do see that in 2017 a lot of things are basically moving in the right direction, but it's all still very fragile and we don't see for example the GDP growth already trickling down into consumer confidence or in consumer spending. So we still remain quite cautious on the outlook for 2018.

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Tunde Abidoye, FBNQuest
Okay thank you.

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Telephone Operator
Okay, our next question comes from the line of Omair Ansari. Omair, please go ahead your line is now unmuted.

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Omair Ansari, Morgan Stanley
Hi good morning, thank you for the call. I had a question regarding the regulatory changes that are happening around excise tax, I know it's changing slightly, I just wanted to understand from your perspective what the changes are exactly and how you think that's going to impact your portfolio?

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Jordi Borrut Bel, Managing Director / CEO
Well if I may we are aware the government is currently considering a change in the excise model for Nigeria and actually we support the proposed change to a specific model. We think that this specific excise model is more efficient and more transparent and actually I think it's more easy to administer.

We appeal the duty - the government to consider all factors including the industries ability to create jobs and support the country's economic ambition when considering the excise duty, although it remains their duty of course. And we will keep monitoring the situation along with the other industry players until a final decision is taken.

So if there were excise increases we will evaluation any increase in our production costs, when they will occur, and we will look to pass them to consumers but in the most effective way possible as we would do with any input cost inflation.

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Omair Ansari, Morgan Stanley
Thank you.

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Telephone Operator
Okay, thank you very much. Our next question comes from the line of CSK Ellamoret (?), from ERM Securities. Please go ahead your line is now unmuted.

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Fesiyike Ilemore, ARM Securities
Good afternoon, my question is on inventory, you mentioned that have stockpiled on some raw materials, or you hedged against inflation, I would like to know what these raw materials are and what they contribute to aggregate cost of goods and when you expect to unwind this - the raw materials will be depleted - which period do you expect to deplete them?

And then going also into costs, maybe I would like to now if you can explain that pressures that you are currently facing, costs rose on a year on year basis, both for full year and for Q4, faster than revenue. If you can just explain the pressure that you are facing there and if it will continue in subsequent quarters?

Then also on volume you mentioned volumes declined mid single digit, I would like to know what the company is doing to drive volume going forward and what you are going to do to drive volume growth and I know considering the competition you are currently facing with international beers, but if you can just explain if you will the market share trends for your value brands?

And then for the excise duty can you please tell me the current excise duty - we're at. I know you talked about it, but can you sort of explain the impact that we should expect to see on costs of goods, if implemented? Thank you.

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Mark Rutten, Finance Director
So here we'll alternate a bit, so let me take the first two on costs and then Jordi will take the one on volume and I will take back the one on excise.

So if you look at inventory I don't think there is any real unwinding. So you're comparing year 2017, which is - especially in the second half of 2017, a bit more of a normalised year with quite an exceptional year in 2016. So what you saw in 2016 was that inventory levels, especially in quantities were unusually low, because also [audio jumping] so that didn't really help to also built healthy stock levels at Nigerian Breweries. So there will be no real unwinding of this, so you can expect that inventory levels of 2017 are more representative for the current situation and the current pricing environment.

Then coming back to your second question on cost, although inflation is coming down clearly it's still at a very high level with 15.4% in December and now around 15% in January. So I think that is creating quite some pressure on our costs.

Also if you look at the part that we are importing and if you compare then the average rate of 2017 versus the average naira rate of 2016 there is still quite some devaluation, although the main hit was in June 2016, if you would look at the averages there is still quite some devaluation compared to 2016.

Also to add to this, while naira/dollar has been quite stable in the last few months, you do see that dollar/euro was basically moving a bit against us and quite a bit of the things that we are importing are euro denominated. So I think these are some of the explanations for the cost increases, which we were partly able to offset with our cost leadership programme, but not fully.

Then I will take the question on exercise and then I will hand back to Jordi. So if you look at excise at the moment we have an ad valorem model and the rate that is applied is 20%. So it's 20% of your production costs. For the now proposed specific model by government it's not clear yet at what level this will be applied. So we don't know yet. What we do know is that the government at the moment is proposing a specific model and as mentioned as an industry and as Nigerian Breweries yeah we believe that the specific excise model as quite some advantages compared to the current model. And it also a model that is used in quite some other countries across the world.

So handing back to Jordi on the volume and the volume drive.

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Jordi Borrut Bel, Managing Director / CEO
If I understand well your question you ask about the volume evolution of last year and the projection. Well on the evolution of last year I have already commented on the trend, we had a slight decrease last year on volume at the lesser extent in the second half of the year for the reasons that I have explained.

I will not disclose our volume projections, but what I do say is that Nigeria has been a competitive market in the past and will continue to be a competitive market. If you look at our track record over the last past years we've successfully engaged the competition and I don't see any reason why we shouldn't be able to continue to do so in the future. We have strong brands, we are covering all the segments, we have a number one or a number two leading position in all the segments and I think that's where we're focusing looking forward.

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Telephone Operator
Okay, our next question comes from the line of Caitlin Dunne (?). Caitlin please go ahead your line is now unmuted.

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Kaitlin Byrne, Prudential Portfolio Managers
Thanks for the call; I just wanted to ask on your payables terms, so there's a significant portion of your payables to your related parties, what are the payments terms for those payables specifically? And are any of your payables interest bearing?

And then the other thing was when are you going to need your next significant capex spend in terms of adding capacity?

And then if you're able to just talk about what marketing spend you're going to need to be able to defend market share in the more competitive environment. So will that additional marketing spend offset cost cutting, or are you able to bring down your costs altogether? Thanks.

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Mark Rutten, Finance Director
So let me take the first one. So if you look at 2017 you'll see that our related payment values, so the payables payable to related parties has decreased compared to 2016. In this - what is very important in this is clearly the FX availability. So that's the important factor in driving this down, but it also has to do with more administrative approvals. So it's not just if the FX you can straight away pay, there is quite a heavy process in Nigeria on getting approvals for international payments. So yeah we believe that we will be further improving on this going forward.

Then the second question on capex. Yeah I think that's a very sensitive point to now talk about any potential future capex investments so we're not going to comment really on any further investments. What we can share though is that we're operating at high utilisation rates, like also the last two years and yes we are always evaluating possibilities for investment based on also our assessment of the market. So we have all these kinds of scenarios that we are looking at, but at the moment we cannot really comment on any of them.

Then on the margin spend, Jordi?

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Jordi Borrut Bel, Managing Director / CEO
Yeah, I state again that Nigeria has been a very competitive market in the past and we've been facing two strong competitors like Diageo and SAB and indeed ABI stepping into the market through SAB adds to that competitiveness, but we are used to that.

Now if you look at our market share what we need to do, I think basically it's coming back to our strengths, we have a very strong portfolio of brands, 20 brands, 53 SKUs, so we need to focus on leveraging that strength to make sure that availability of our brands are there, that we leverage our innovations. We talked about innovation during the presentation with recent launches. We have strong assets; we talked about the NFF, the football federation.

So I think the combination of all the brands, leveraging the innovations, our strong distribution network, the footprint that we have on the ground, that gives us a lot of room for confidence in the future.

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Caitlin Dunne
Great thank you very much.

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Telephone Operator
Okay our next question comes from the line of Asmana Asalomi (?). Please go ahead your line is now unmuted.

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Efemena Esalomi, Stanbic IBTC
Thank you gentlemen for the call and welcome Jordi to Nigeria. I think most of my questions have been largely addressed, but I'll just take you back to the margin questions. So if you could provide some colour as to the key drivers of margin contraction for gross margins that we saw in Q3, was that FX related, considering also that you took some prices in that quarter?

And going forward how should we be looking at the FX play on your margins and also with FX losses, given also that you've paid a lot of the backlog in payables, should we assume that all things being equal, FX remains stable in 2018 that FX losses should be largely lower? That would be my questions for now.

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Mark Rutten, Finance Director
Very good, so the first one on margins, if you look at the margins in Q3 specifically you see that if you both look at operating margin and gross profit margin both are quite a bit lower than the other

quarters. That is not really driven by the FX issue as you mentioned, it's more that also if you look at our seasonality the third quarter is traditionally the weakest quarter from a volume point of view during the year. So you would see something similar as well in Q3 2016 or in Q3 2015. And so it's more the leverage between your fixed costs and your margins which explains these trends.

Because also in our gross profit margin there are some fixed elements, for example in the brewing side of the business there are some fixed elements there, so that's the main driver for gross profit margins.

And if you then look at pricing, yes we took a bit of pricing in Q3 2017, but that was quite limited. The main pricing that was taken was at the back end of 2016, so the one in September and November. So I think that's also explaining - it's one of the reasons why the revenue in Q4 was basically stable versus growth in the first three quarters. So I think that also shows a bit of the trends.

Then on FX yes we improved our payables, but clearly we cannot forecast what the FX rates will do. So yeah we'll be unable to really comment on will we have bigger or smaller FX losses in 2018. I think the situation is still too uncertain to really give any predications in that area.

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Telephone Operator
Okay, ladies and gentlemen please be reminded if you would like to ask a question please press *1 on your telephone keypad. Our next question comes from the line of Esili Eigbe, of Exotix Partners. Esili, please go ahead your line is now unmuted.

Esili Eigbe, your line is unmuted if you would like to ask your question.

Okay, as we're getting no response from Esili, our next question will come from the line of Adedayo, Renaissance Capital. Please go ahead your line is now unmuted.

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Adedayo, Renaissance Capital
Thank you very much for the call. Could you just talk slightly about your final quarter performance, so that was negative on a year on year basis - that is your net revenue, but on a year on year basis in the same quarter based on what we have - you know your pricing in the shelves you took significant price increases, even still overlapping the final quarter numbers. So for Goldberg, for 33, even for Star, we still saw significant price increases year on year, that was in the 1st quarter for also the 4th quarter, '17 on '16. And you recorded negative growth. So could you talk about that, did you see significant volume underperformance on some of the brands?

Secondly, could you tell us what your total FX exposure is looking like now, because based on what you've provided in the years that looks like 15% of your total cost, that's your local and imported as well, but you also had exposure to some naira denominated costs which are also linked, so could you tell us what that total is looking at now?

And also could you also talk us through you know some of the reactions that you've gotten to some of the increases on the brands that are growing for you. So Goldberg, 33 Export, have you - did you take a price increase and then you reduced some of those price increases in the current quarter, it sort of suggests based on what we're seeing on the shelves that you took some of your prices back a bit just in the current period. Did the consumer push back on some of the increases that you're seeing, or you're now more mindful of protecting market share versus margin, could you talk slightly through it? Thank you very much.

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Mark Rutten, Finance Director
Good thank you, so if I first start with the first question on the final quarter. So there was not a change, a real change in trends in volumes in the last quarter, actually if you look at the second half of the year in volumes it was slightly better than in the first half. So it's all about pricing. So the main price increases were in 2016 in September and in November, so if you look at the positive pricing impact in Q4 2017 that was limited.

At the same time we have not reduced prices either like you suggested a bit at the end on Goldberg, or 33, or Life. So there has not been any price rollbacks on these brands. It's just - yeah you're basically comparing with a quarter where we still had a lot of price, positive price, versus quarter Q4 2017 with little price.

Then moving on to the question FX exposure, you're right, so it's not just that part the you import directly as a company is basically creating your FX exposure. If you look at the things that we're importing - sorry that we're buying locally, some of our suppliers also need to import what they are producing for us.

So clearly there is a, what we've called in the past a direct impact, the things that we are importing ourselves where we directly have an FX exposure, but we also have been in the last two years that also our suppliers, local suppliers they also need to import part of their materials. And so there is also a trickle down impact from these local suppliers.

Yeah, I'm not able to really give you a precise number, but it's clear that also part of the general high inflation in Nigeria, but also for us is caused by the indirect impact of FX.

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Telephone Operator
Okay, our next question comes from the line of Esili Eigbe, of Exotix Partners. Please go ahead your line is now unmuted.

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Esili Eigbe, Exotix Partners
Jordi, Mark thanks a lot for the presentation. I've got a couple of questions here so please bear with me. The first one has to do with volumes, what do you think it will take to return to profitable volume growth this year? Perhaps do you see scope for price increases as well, especially now that you're sourcing most of your currency at the NFX (?) rate?

This question has to do with capex, can you give me a sense or a comment as to what the focus of capex was in 2017, I don't really remember, I know there was a bulk of it going towards sort of packaging, perhaps - we have the implementation of one of your facilities. Can you also comment on perhaps what the focus would be this year? And just give a reference as to how much of an increase or decrease you could expect in capex spending over the previous year?

Now if I got your comment correctly on the payables, it is fair to expect that you know related party payables remains probably about the same unchanged this year - it seems like your comments or feedback is that you know given some of the challenges in around sourcing FX locally it still makes sense for you to have a decent about of payables from your parent and as such I'm quite keen to know whether that stays at this level, or perhaps decreases or declines?

Fourth question has to do with input cost trends, so there was a decline in the unit input costs, perhaps I'll just focus now on materials - a decline by roughly 4 or 5% quarter on quarter. My question is, I've seen quite a notable, you know trend or a weakness in input costs locally, especially sorghum, are you starting to see that coming through, particularly in the month of January, February?

My last question, I think we should just keep it at that for now, that should be fine. Thanks,

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Mark Rutten, Finance Director
There are a lot of questions there, so I think Jordi will start the first one on volumes and then I will discuss the other ones.

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Jordi Borrut Bel, Managing Director / CEO
Okay, on volumes let me say that again I think we are well positioned to compete and we want to compete in all the segments. And the proof if 2017 is that we have been able to compete in the

new - what Mark called the new mainstream segment that was growing and we've also grown with the segment, like for instance with the Life brand.

So we are able to compete, we have strong brands at every price point. It links to the investment in packaging materials, yes we've invested more last year in packaging materials and that also gives us more flexibility and ability to match the different price points for consumers and to be flexible to have offers for the different brands.

We have innovation, we've talked a lot - well Mark has talked about the innovation during last year, it's a continuous focus of the company, the innovation and we believe that the Nigerian market still holds opportunities for new consumer trends, new consumer insights to be tapped on to propose to consumers. So overall, and again I've talked about the assets, our marketing platforms which are very strong.

So I think we are well positioned, we have a strong leadership, a strong footprint across Nigeria and we still believe there is opportunity for growth in terms of availability of our products even though we have a strong presence we still believe there are opportunities there.

So all in one competition is there and it has always been there, I insist the market of Nigeria has been very competitive, but what's more important is to focus on what we can do. And I think we can do a lot to have a successful year.

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Mark Rutten, Finance Director
Then moving on to the other questions on payables and input costs, yeah a lot of the questions are directed in the direction of getting already a good feel on what is happening in 2018 and as mentioned we're not commenting on 2018, on what is happening in January and in February.

What I can say though is that if you look at the way we are balancing our imports and our local sourcing; yes we have all kinds of way to try and balance that in the right way. So we have a lot of dashboards to see okay what is now at this moment the most attractive to do. And sometimes it's buying more locally; sometimes it's also importing a bit more. Because clearly we need to also keep our local suppliers here on their toes because otherwise it's not just because we say we want to increase our local sourcing that then creates not alternatives on importing goods. So we will continue to do both.

And yes I think a lot will still depend on what will be happening with the FX rate in 2018. So we will it really stabilise like we've seen in the last few months, especially between the naira and the dollar, or will it move away again. And I think that will determine a lot also on how we will be managing both our input costs, our payables and the mix between local sourcing and importing.

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Telephone Operator
Okay, so we've got time for one more question, it comes from the line of Charlie Higgs from Redburn. Please go ahead your line is now unmuted.

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Charlie Higgs, Redburn
Hi Jordi, Mark thanks for the presentation two from me please. Firstly on pricing, was your pricing in 2017 enough to match Nigerian inflation?

And secondly you mentioned Heineken brand was back in growth, is it fair to assume Star also stabilised or was that still in negative territory? Thanks.

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Mark Rutten, Finance Director
So if you look at pricing the pricing that we took in 2017 was not enough to cover inflation, but basically we at the back end of 2016 we took quite some pricing, so that was not too far away from

the inflation if you would add up all these price increases. But the ones that we took in 2017 was limited and was well below inflation.

We've highlighted Heineken coming back into growth after declines before, we have not highlighted Star and we don't really want to comment too much on individual brands. But we are happy that we are able to get Heineken back into growth again and I think for us it's also a sign that some of the trends in the market are about change. Maybe Jordi do you want to add something to this?

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Jordi Borrut Bel, Managing Director / CEO
I think while Mark said at the beginning of the presentation that we see a continuous down trading of consumers to what now is the new mainstream segment and that's the new vital fight and have the number one and number two leading brands there. Now we don't comment on specific brand evolutions, but we see that this down trading is reducing little by little as we move through 2017 and the good sign was the improvement of our Heineken volumes.

So with that said I cannot comment on our expectations for a specific brand for next year, but we will be able to fight in every segment and I think that's the most important thing to say.

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Charlie Higgs, Redburn
Okay, thank you.

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Telephone Operator
Okay, so we do have time for one more question it comes from the line of Adriana Benedetti. Adriana please go ahead your line is now unmuted.

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Adriana Benedetti, African Alliance Securities
Hi, thanks for the call. My question is on your brand More in the discount segment, I just to find out how important is the discount segment to you and you mentioned that you were number one in the discount segment is that on a regional basis or a national basis? And what are your plans to take this brand, if any, nationally?

And then my second question is just about trading up, it's more of a philosophical question, when the cycle does eventually turn in Nigeria to what extent to you expect consumers to trade back up, perhaps to national premium brands? Thank you.

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Mark Rutten, Finance Director
So starting with the last one that's a very good question and we have a lot of debate on this question ourselves as well. But to be fair if you would go back a few years then there were limited brands and options in Nigeria, especially in lager. And now with the much more portfolio driven number of choices in brands that both ourselves and the competition have created I don't think we should expect that we go back to four or five years ago, before. But then I think there was like a duopoly now, we have three strong players in the market. So I would not expect to go back to four or five years ago when actually there were only a few lager brands in Nigeria.

On the More question, so More is more a regional brand at the moment, it's not a very important brand for us at the moment. But for competitive reasons we're not really going to disclose what we are going to do with the brand. But yeah it is a brand which is from a pricing point of view well below the new mainstream. So to illustrate it would be well below Life, Goldberg, or a 33. And it is playing a regional role and it's also what we tried to depict in one of the slides where we talked about national and regional brands.

Very good, I think there aren't any further questions so maybe we come to the end of this call.

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Jordi Borrut Bel, Managing Director / CEO
So thanks very much everybody for joining the call and that's the end of it. Thank you.

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Mark Rutten, Finance Director
Thank you.

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