

RNS Acquisition

Acquisition

WYNNSTAY GROUP PLC

Released 07:00:07 10 March 2022

RNS Number : 2727E
Wynnstay Group PLC
10 March 2022

AIM: WYN

WYNNSTAY GROUP PLC
("Wynnstay" or "the Group" or "the Company")

Acquisition of
Humphrey Feeds Ltd and associated business, Humphrey Pullets Ltd

Wynnstay, the agricultural supplies group, is pleased to announce that it has agreed terms to acquire the share capital of Humphrey Feeds Ltd, a manufacturer and supplier of poultry feed to farmers mainly in the South of England. In addition, the Company is acquiring the share capital of an associated business, Humphrey Pullets Ltd, which supplies point-of-lay pullets. The initial consideration for these acquisitions (together "Humphrey" or the "Acquisition") is £9.5 million in cash at completion.

Highlights

- Based in Hampshire, with an 85-year history, Humphrey is a well-established manufacturer and supplier of poultry feed, and point-of-lay pullets, to farmers, mainly in the South of England
 - c.109,000 tonnes of poultry feed sold in FY 2021
 - c.200 farmer customers
 - share of the poultry feed market for free-range laying hens is estimated at c.5%*
 - o share of the organic poultry feed market is c.30%*
 - pullet-rearing activity supports the main feed business
- Humphrey's poultry feed manufacturing is based at facilities in Twyford in Hampshire, with a facility at Calne in Wiltshire currently unused
 - Wynnstay intends to redevelop the Calne site into a modern c.185,000 metric tonne capacity mill, manufacturing both poultry and ruminant feed. Planning permission is already in place
- In the year ended 28 February 2021, Humphrey generated combined revenues of £39.51m, and an adjusted profit before tax** of £1.16m. Reported combined profit before tax was £1.63m.
 - net assets that transfer at completion are valued at £4.5m***
- Initial consideration for the Acquisition of £9.5m in cash at completion. Deferred consideration of up to £2.0m may become payable dependent on the attainment of certain performance targets
- In order to fund the Acquisition, the Company is entering into a new £12.5m revolving credit facility
- The Board believes this is a highly complementary acquisition:
 - is expected to be immediately earnings enhancing
 - extends geographic reach
 - adds new farmer and supply chain relationships
 - increases the Group's poultry feed manufacturing capacity and purchasing power
 - o significantly expands the Group's share of poultry feed market for free-range laying hens, a growth sector
 - o adds organic poultry feed sales (typically premium-margin)
 - facilitates expansion of multi-species feed sales in the South of England
- The Acquisition is in line with the Company's current growth strategy:
 - maintain a balanced agricultural offering between arable and feed, and
 - reviewing opportunities in the Group's markets, and ongoing discussions with a number of potential targets

* Humphrey/ Wynnstay estimates

**Adjusted profit before tax excludes non-continuing activities and costs, one-off items and profits from the disposal of fixed assets

***Subject to consideration adjustment by reference to completion accounts

Gareth Davies, Chief Executive Officer of Wynnstay Group plc, commented:

"This is an excellent acquisition for Wynnstay. Humphrey is a long-established, family-owned business, with an 85-year history, which prides itself on 'advancing poultry performance'. It makes a highly complementary addition to the Group, which will be readily integrated, and is expected to be immediately earnings enhancing.

"Humphrey fulfils multiple acquisition criteria for us. It will significantly extend our trading footprint in the South of England, enlarge our market share of poultry feed, a key target sector for us, increase our feed manufacturing capacity, and bring additional farmer customers.

"Looking further out, with the redevelopment of the Calne manufacturing facility into a ruminant as well as poultry mill, there is scope to drive additional significant long-term trading benefits."

Enquiries:

Wynnstay Group plc	Gareth Davies, Chief Executive Paul Roberts, Finance Director	T: 01691 827 142
KTZ Communications	Katie Tzouliadis / Dan Mahoney	T: 020 3178 6378
Shore Capital (Nomad and Broker)	Stephane Auton / Patrick Castle / John More	T: 020 7408 4090

The Acquisition

Based in Hampshire, the principal activity of Humphrey Feeds Ltd and Humphrey Pullets Ltd (together "Humphrey" or "the Acquisition") respectively is the manufacture and supply of poultry feed to farmers, predominantly in the South of England, and the supply of point-of-lay pullets. Humphrey is well-established and it is part of a family-owned enterprise. Its current activities commenced in 1966, but it has an 85-year history.

Humphrey manufactures poultry feed from its leasehold mill in Twyford, in Hampshire, and in the last financial year, feed sales totaled 109,000 metric tonnes. In feed manufacturing, Humphrey follows and is audited against the Universal Feed Assurance Scheme ("UFAS"), an internationally recognised standard. Humphrey owns a second, freehold manufacturing facility in Calne, in Wiltshire, which is not currently utilised. Wynnstay plans to redevelop this facility and to transfer production from Twyford to Calne in the future. In addition to manufacturing conventional poultry feed, Humphrey manufactures organic poultry feed. For its organic poultry feed manufacture, it is certified by Organic Farmers and Growers ("OF&G"), and Humphrey also works with Organic UK (The Organic Trade Board), an independent non-profit membership organization.

Humphrey supplies a customer base of approximately 200 farmers, mainly in the South of England, including the South-west, but also in the Midlands and Wales. Humphrey's estimated share of the poultry feed market for free-range laying hens is c.5%*, and its share of the organic poultry feed market is c.30%*.

Humphrey's feed business is supported by its pullet-rearing activity. In the current financial year, the unit is budgeted to rear c.1.1m pullets. These are typically sold when the pullets reach 16 weeks old, i.e. around the egg-laying stage. The pullet rearing activity currently accounts for c.7% of Humphrey's poultry feed sales.

The management team of Humphrey is expected to join Wynnstay at completion.

**Humphrey/Wynnstay estimates*

Financial Information

In the year ended 28 February 2021, Humphrey generated combined revenues of £39.51 million (2020: £40.61 million) and an adjusted profit before tax** of £1.16 million (2020: £0.97 million). The reported combined profit before tax for the financial year was £1.63 million (2020: £1.01 million). Net assets that transfer at completion are valued at £4.5 million***. Feed volumes sold in 2021 totalled 109,430 metric tonnes (2020: 116,704 metric tonnes).

***Adjusted profit before tax excludes non-continuing activities and costs, one-off items and profits from the disposal of fixed assets*

****Subject to consideration adjustment by reference to completion accounts*

Rationale for the Acquisition

Wynnstay has a twin-track strategy of combining organic growth with carefully selected acquisitions, and an established record of identifying, negotiating and integrating acquisitions. The Board believes that the acquisition of Humphrey is highly attractive, offering significant benefits, and wholly aligns with its growth strategy. It is expected to be readily integrated and immediately earnings enhancing.

The sale of Humphrey reflects succession planning on the part of the vendors and their focus on other areas of activities, particularly property.

A brief summary of the rationale for the Acquisition is as follows:

- expected to be immediately earnings enhancing
- extends the Group's geographic reach
- adds new farmer and supply chain relationships
- increases the Group's poultry feed manufacturing capacity and purchasing power
 - significantly expands Group's share of the free-range feed market for laying hens, a growth sector
 - adds organic poultry feed sales (typically premium-margin)
- facilitates expansion of multi-species feed sales in the South of England

The acquisition of Humphrey will mark a significant step in building Wynnstay's presence in the South of England, including in the South West. At completion, a base of c.200 existing Humphrey farmer customers will be added, and following the integration of the Humphrey operations into the Group, the Board believes that there will be significant opportunities to increase this customer base further and to cross-sell other Wynnstay products and services. Wynnstay will also benefit from the expertise of Humphrey management and staff, who will join the Group at completion, Humphrey's supply chain relationships, and from an anticipated increase in purchasing power.

Poultry feed, in particular for free-range laying hens, is a specifically targeted growth area for the Group. Poultry feed demand is typically consistent throughout the year, and UK free-range egg production is growing. Major supermarkets have committed to end the sale of colony eggs by 2025, replacing colony eggs with free-range and barn eggs. The Company estimates that the addition of Humphrey will take its share of the poultry feed market for free-range laying hens to c.11% from c.6%. The Group's target market share is c.15+%. The addition of organic poultry feed, considered to be a premium-margin market, will also expand Wynnstay's existing feed offering. Organic poultry feed constituted c.30% of Humphrey's feed volumes in its last financial year.

Currently Humphrey's manufacturing mill at Calne in Wiltshire is mothballed, and Wynnstay proposes to redevelop it into a modern facility, capable of manufacturing c.185,000 metric tonnes of feed, and to secure organic certification. Wynnstay intends to diversify production so that the mill manufactures ruminant feed as well as poultry feed. The Company also plans to transfer feed production at Twyford to Calne in the future.

The Board expects the redevelopment of the Calne facility to open up significant opportunities to develop multi-species feed sales in the region. It will also enable Wynnstay to transfer some production from the Group's manufacturing plants at Llansantffraid and Carmarthen

to Calne, thereby freeing up capacity and facilitating the potential for further sales expansion in the immediate geographies served by these mills.

The Board estimates that the capital expenditure required for the Calne redevelopment project is c. £13.0m, and that project will take approximately three years to complete. Planning permission for the redevelopment has already been obtained, and the project is expected to be funded through debt financing.

Humphrey also operates a pullet-rearing operation, which Wynnstay will take over as part of the Acquisition. The pullet-rearing operation currently accounts for c.7% of Humphrey's poultry feed sales, and is expected to provide a valuable opportunity for Wynnstay to cross-sell other products and services.

Acquisition Terms and Funding

Under the terms agreed for the Acquisition, a total initial consideration of £9.5m in cash is due at completion, which is expected by 18 March 2022. Deferred consideration of up to £2.0m may become payable, dependent on the attainment of certain performance targets, 12 months after completion of the Acquisition.

The transaction includes, a four-year lease on the feed production facility in Twyford on a peppercorn rent, the freehold of the currently mothballed mill in Calne, and net assets of c. £4.5m***.

In order to fund the Acquisition, the Company is entering into a new £12.5m revolving credit facility.

***Subject to consideration adjustment by reference to completion accounts

Current Trading

In its final results announcement, issued on 2 February 2022, Wynnstay reported that trading in the new financial year had begun well, in line with management expectations, and that the Board considered that Wynnstay was well-positioned to achieve its growth objectives for the year.

NOTES

Reconciliation of Adjusted Profit before Tax

Year ended 28 February	2021	2020
£'000		
Revenues	41,446	42,535
Less inter-company	-1,933	-1,923
Combined revenue	39,513	40,612
Combined reported profit before tax	1,634	1,011
<i>Add backs¹:</i>	766	646
<i>Less non-recurring¹:</i>	-1,238	-688
Combined adjusted profit before tax	1,162	969
Add back depreciation	627	723
EBITDA	1,789	1,692

¹ adjustments for one off costs/benefits relate to Calne cost write-offs, central support costs, partnership storage, joint farming agreement, management charges, profit on fixed assets, interest received, dilapidations provisions and rental income

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

ACQEAADNELAAEAA

London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. [Terms and conditions](#), including restrictions on use and distribution apply.