Nutresa

Sura is Also a No-Go – Elsewhere, Would Gilinski Offer More?

OUR TAKE: Positive. As we expected, **similar to Grupo Argos**, Sura has declined Gilinski's offer, and in an implicit admission that more could have been done, Sura has made some promises about how to maximize shareholder value going forward. Floating shares in more attractive markets is one of them, and this should be positive for investors.

In the meantime, Gilinski has extended the offer period in a bid to attempt to improve the lackluster results that the tender has had thus far. We wonder whether a higher offer is in the cards? All of this is good for shareholders.

KEY POINTS

Sura Votes Against Takeover Proposal: As we expected, Sura's board has voted against the acquisition of Nutresa under the proposed terms. The decision was taken unanimously by Sura's independent board members, with advice from a bulge bracket American bank and an international consulting firm. The vote was supported by a valuation and an ESG angle. The valuation assessment indicated that the asset is worth "significantly" more than what was offered. The ESG angle is a bit harder to understand given that Gilinski's offer didn't detail in great depth his intentions. Some promises to improve shareholder value were made, including the exploration of whether a strategic investor makes sense and the possibility of floating shares in markets that are more liquidity and have better price discovery.

Tender's Progress – Weak Thus Far: 686 holders of 4.05mn of stock have tendered thus far. This represents 0.9% of Nutresa's total capital and 1.4% of the maximum bid offer. That means that the offer has not been very successful as of today. In any case, the last days of the tender period should see the majority of the acceptances, but…

Tender's Timeline Extended: As a result of the lackluster results, the tender offer period has been extended from December 17th to January 12th. This is allowed by regulators and should allow Gilinski to push his pitch further, so we'll keep tracking the progress.

A Few Thoughts: In the meantime, here are a few things that we have been thinking: If the offer fails, will Gilinski follow with a higher offer? Is the ability to scratch the minimum mid-offer a mistake? ***[Continues on page 2]***

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/EPS
2019A	$379.11	$231.42	$285.69	$204.33	$1,100.55	23.1x
2020A	$413.57	$300.96	$305.77	$230.32	$1,250.62	19.2x
2021E	$498.89A	$298.09A	$365.71A	$313.18	$1,475.86	19.2x
2022E	$422.85	$334.51	$402.57	$350.63	$1,510.57	18.8x

(FY-Dec.)	2019A	2020A	2021E	2022E
Revenues (M)	$9,958,851	$11,127,541	$12,572,089	$13,653,444
EBITDA (M)	$1,347,229	$1,443,576	$1,566,732	$1,705,603
EBITDA Margin	13.5%	13.0%	12.5%	12.5%
Return on Equity	8.7%	9.2%	10.5%	10.2%

Historical price multiple calculations use FYE prices. All values in COP unless otherwise indicated.
Source: FactSet; company reports; Scotiabank GBM estimates.

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PERTINENT DATA

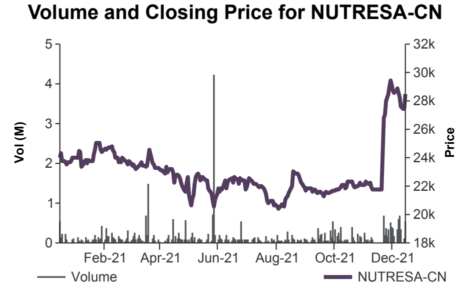
Rating	**Sector Outperform**
1-Yr. Target	**COP 28,000**
NUTRESA-CN	COP 28,400
1-Yr. Return	1.1%
Div. (NTM)	$708.84
Div. (Curr.)	$677.66
Yield (Curr.)	2.4%

Valuation: Explicit 10-Year DCF @ 11.0%

CAPITALIZATION

Market Cap. (M)	US$3,317
Enterprise Value (B)	$16,569
Shares O/S (M)	460
Float O/S (M)	255

Volume and Closing Price for NUTRESA-CN



Source: FactSet.

Would Gilinski Follow with a Higher Offer? We've been wondering: if the offer failed as it's looking likely, would Gilinski follow with a higher offer? First off, one needs to understand that he wants to buy as cheap as he can. So, whether he is willing to raise the offer or not, he is incentivized to send the following message: "This is my final price." And that's just what his team has **been doing in the media**. So, the first thing we would advise shareholders is: "ignore anything his team says; he has no incentive to be honest in this game of chicken."

Now, let's talk financials. Is raising the offer from 9x 2022E EBITDA to 10x or 11x reasonable? We think so. We don't imagine he is very interested in Nutresa (his track record is spotty in F&B, not like with financials), so one has to think: can he buy it at a higher price, optimize it and turn around to sell at a profit? We think so because as we've mentioned, average transaction comps have averaged 13x EV/EBITDA while some transactions have gone up as high as 22x EV/EBITDA. Nutresa is a solid asset, so we think that a higher offer could easily be in the cards if the tendered shares are too low when the deadline comes. On the flip side, if re-selling the asset is not an option, a 10x-11x EV/EBITDA is still a good entry point for an investor seeking a controlling stake, considering what other players have paid in LatAm F&B.

Why have a Minimum if it can be Scratched? The SFC's very old rules outline that a minimum and maximum threshold for tender offers must be submitted in these tenders. In this case, the offer was presented as "between 50.1% and 62.625%". The maximum makes sense to us because it determines the financial guarantee that is needed for the potential transaction. The minimum could be there to establish a point at which the transaction does not move forward.

However, the rules allow the offeror to drop the minimum if the final offers end up lower than expected. If, let's say, 25% of holders tendered, Gilinski could scratch his minimum and still take that 25%, which could cut liquidity in roughly half. This has created a conundrum for pension funds: they don't know if the stock will end up being illiquid after the offer or not, and that's a problem for their assessment. This already happened with Exito, where the offer was not great, but they did not want illiquid shares. It's our view that the minimum in a tender should not be subject to changes… otherwise, why have a minimum?

Company Overview

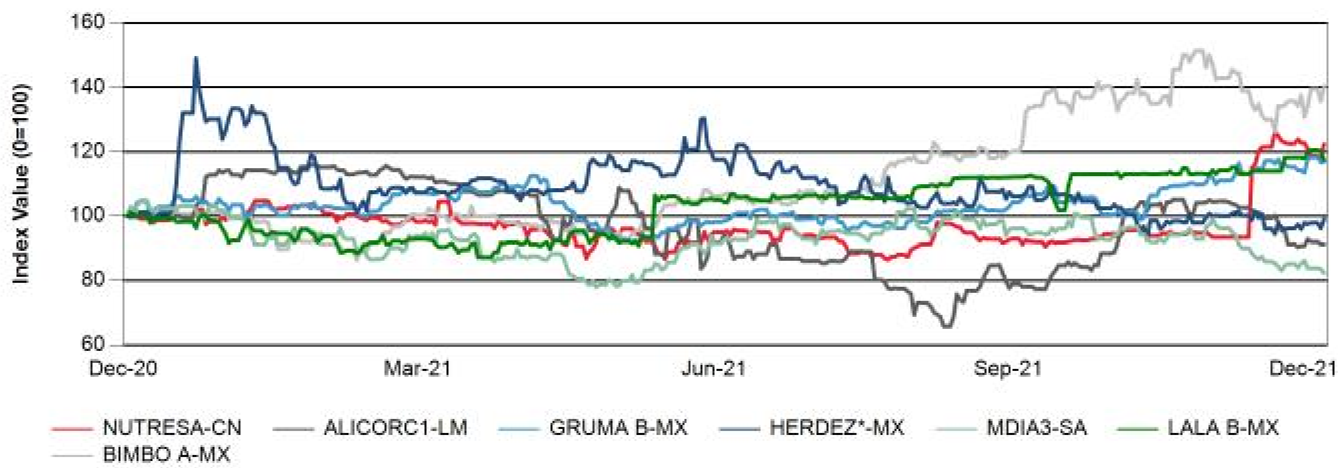
Company Description

Nutresa is a leading Latin American manufacturer and distributor of branded consumer food products. Founded in 1920 in Colombia, where it evolved through a solid combination of organic growth and a successful acquisition strategy, it manages more than 168 brands, 17 of which generate annual sales of US$50 million each. While Nutresa's products can be found in nearly 72 countries around the world, the company mainly generates revenue through eight business segments distributed in the 14 countries where it operates its 45 manufacturing plants.

Risks

Key Risks: Economic, raw materials, foreign exchange, political and geographic, regulatory, interest rate, M&A, corporate governance.

Total Return Index of NUTRESA-CN



Source: Scotiabank GBM; FactSet.

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Nutresa (NUTRESA-CN) as of December 14, 2021 (in COP)

*Represents the value(s) that changed.
Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review; CS=Coverage Suspended; DC=Discontinued Coverage
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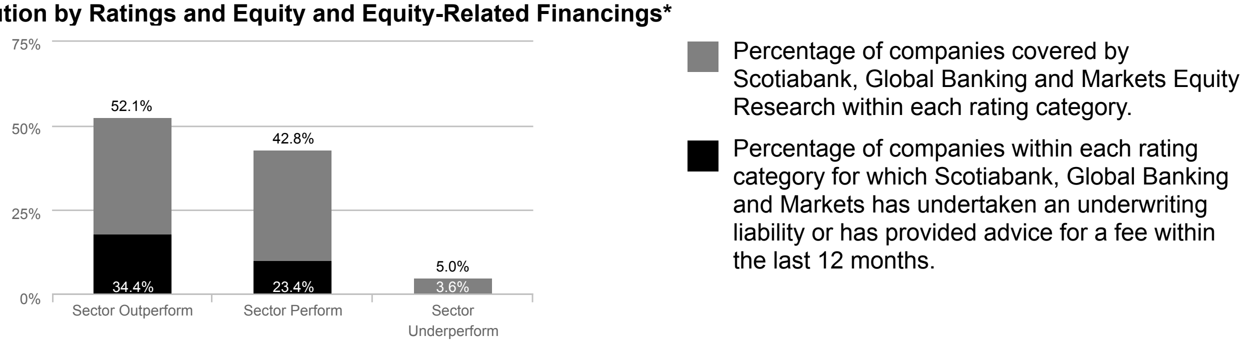

* As of November 30, 2021. Source: Scotiabank GBM.

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