

# Qassim Cement Company (“QCC”) announces its entry into a binding implementation agreement with Hail Cement Company (“HCC”) to acquire all of HCC’s shares through a securities exchange transaction



## 1. Introduction

With reference to the announcement made by Qassim Cement Company (“QCC” or the “Company”) on the Saudi Exchange website on 29/02/1444H (corresponding to 25/09/2022G) about its entry into a nonbinding memorandum of understanding with Hail Cement Company (“HCC”) relating to a potential securities exchange transaction and including a nonbinding agreement on the structure and the exchange ratio, **QCC is pleased to announce its entry into a binding implementation agreement with HCC** on 08/06/1445H (corresponding to 21/12/2023G) (the “**Implementation Agreement**”) pursuant to which QCC has agreed to make an offer to HCC’s shareholders to acquire all shares of HCC in consideration for newly issued shares in QCC pursuant to Article (26) of the Merger and Acquisition Regulations and in accordance with the Rules on the Offer of Securities and Continuing Obligations issued by the board of the Capital Market Authority (the “**CMA**”), and in accordance with the conditions and provisions of the Implementation Agreement (the “**Transaction**”).

Pursuant to the terms of the Implementation Agreement, the Transaction will be implemented through QCC’s acquisition of all of HCC’s shares, which are 97,900,000 shares with nominal value of SAR 10 per share, through a securities exchange offer in consideration for QCC’s issuance of 20,559,000 new ordinary shares with nominal value of SAR 10 each for HCC’s shareholders (the “**Consideration Shares**”), through QCC’s increase of its capital from SAR 900,000,000 to SAR 1,105,590,000 and the increase of QCC’s shares from 90,000,000 shares to 110,559,000 shares, consequently increasing QCC’s capital by 22.8% from its current capital.

After completion, HCC’s shareholders, who are registered in HCC’s shareholders’ register at the end of the second trading day after the date of the approval of the extraordinary general assembly relating to the Transaction of both companies, will receive (0.21) Consideration Share in QCC in return for every share they own in HCC (the “**Exchange Ratio**”) and HCC’s shares will delist from the Saudi Exchange and HCC will be a wholly owned subsidiary of QCC.

Based on the Exchange Ratio and the closing share price of QCC of SAR 63.20 on 08/06/1445H (corresponding to 21/12/2023G) (which is the last trading day prior to the date of this announcement), each HCC share is valued – for the purposes of the Transaction – at SAR 13.27 and HCC’s total shares are valued – for the purposes of the Transaction – at SAR 1,299,328,800. This valuation represents a premium of 13.24% compared to the closing share price of HCC of SAR 11.72 on the Saudi Exchange on 08/06/1445H (corresponding to 21/12/2023G) (the last trading day before this announcement).

The above valuation represents a premium of 28.89% for HCC shares compared to the unaffected closing share price of QCC and HCC of SAR 75.00 and SAR 12.22, respectively, on the Saudi Exchange on Wednesday 25/02/1444H (corresponding to 21/09/2022G), which is the last trading day prior to both companies’ announcement in respect of signing a non-binding memorandum of understanding in relation to the Transaction on 29/02/1444H (corresponding to 25/09/2022G).

Upon Transaction completion, QCC’s existing shareholders will own 81.4% of QCC after the capital increase, and HCC’s shareholders will own 18.6% of QCC after the capital increase. The Public Investment Fund will continue to be the only substantial shareholder in QCC (with an ownership percentage of 19.01% at completion).

In the event that the calculation of the number of shares due to HCC’s shareholders - based on the Exchange Ratio - resulted in fractional shares, such fractional shares will be dealt with in accordance with the mechanism that will be specified in the Offer Document published at a later stage.

The members of the board of directors of QCC believe the Transaction is in the best interest of QCC and its shareholders, after having carried out due diligence – along with their advisers – they believe appropriate under the circumstances, and after considering the market condition at the time of the Implementation Agreement, and potential growth opportunities for QCC and HCC and the expected synergies and benefits of the Transaction, and also after taking into account the opinion given by HSBC Saudi Arabia to the board of directors of QCC (the financial adviser of QCC) on 08/06/1445H (corresponding to 21/12/2023G) to QCC's board.

**This announcement is not meant to be a firm intention announcement by QCC for the purposes of the Merger and Acquisition Regulations issued by the Capital Market Authority's board, as the firm intention announcement issuance is subject to certain conditions in the Implementation Agreement relating to coordination with certain regulatory bodies to confirm certain approval requirements. The firm intention announcement will be made at a later date following the fulfilment of such conditions. The firm intention announcement will be made at a later date following the fulfilment of certain conditions of the Implementation Agreement and in any case before the publication of the Offer Document and the Shareholders' Circular issued by QCC and the Board Circular issued by HCC.**

There will be no immediate change in both companies' businesses as a result of this announcement. Both companies will remain independent and separate, and both will continue to operate on a business-as-usual basis.

Completion of the Transaction is not guaranteed and is subject to a number of conditions and approvals, including the publication of a firm intention announcement by QCC, and regulatory and shareholders' approvals. The Implementation Agreement further prescribes the events on which the Implementation Agreement might be terminated and the Transaction halted. The conditions to the Transaction and termination events are further explained in Section (3) of this announcement.

## **2. Transaction Rationale**

*This section contains the views of QCC on the expected benefits resulting from the Transaction. It also contains forward-looking statements, which are subject to risks and uncertainties, and hence reliance should not be placed on such statements. Please also refer to the Offer Document and the Shareholders' Circular which will be issued by QCC and will include details of the risks related to the Transaction and other relevant information. It is worth noting that the expectations included in this section are initial expectations, and QCC has no intention to update them other than what is required by relevant laws and regulations.*

*Nothing contained in this announcement is intended to be or shall be deemed to be a forecast, projection or estimate of the future financial or operational performance of QCC, HCC or the market, and no statement in this announcement should be interpreted to mean that earnings per share for current or future financial periods of QCC post- Transaction would necessarily match or exceed historical earnings per share of HCC or QCC shares.*

The Transaction is expected to create a leading cement company in Saudi Arabia, where jointly, QCC and HCC are expected to generate significant synergies by increasing scope, scale, investments, and combining expertise in the local market.

The combination of QCC and HCC is expected to result in an increased scale of operations, improved access to raw materials, shared benefit of know-hows and expertise in the cement sector. In addition, QCC post-Transaction is expected to be well positioned to support the Saudi economy and play a proactive role in contributing to achieve Saudi Vision 2030 as well as being a key stakeholder in supporting and delivering Saudi's megaprojects.

Set out below are the main motives and expected benefits of the Transaction:

- **Scale, coverage, and profile:** The two companies will have a combined portfolio of 4 kilns and 7 cement mills with approximately 9.3mt cement capacity, 5.6mt clinker capacity with a total proforma revenue of approximately SAR 924.3 million and net income of approximately SAR 127.4 million (13.8% net profit margin) based on the year ended 31 December 2022. This will enable QCC to be one of the leading players in the cement business in the Kingdom.
- **Resilient and reliable partner for megaprojects:** QCC is expected to have a significant footprint in KSA and will be well positioned to serve the increase in demand driven from megaprojects, specifically in the Central and Northern regions. Together QCC and HCC will be best placed to win contracts for megaprojects in these regions on the back of multiple success factors (i) the availability of production facilities at two locations, better equipped to face demand peaks and therefore de-risking any future supply concerns, (ii) a reduced cost base (synergies) and increased operational efficiency (mutualized expertise & knowledge) and (iii) a larger scale to invest in product range extension (high quality-cement) and develop sustainable solutions.
- **Capabilities:** Post-transaction, QCC plans to leverage HCC and QCC's existing and supplementary capabilities and resources to achieve new competitive advantages through rolling-out the below activities:
  - o **Cement R&D expertise:** mutualizing both teams to share know-how and best practices, and discontinue any overlapping projects to invest freed-up resources.
  - o **Build technical expertise:** modernizing QCC and HCC operational processes across the value chain.
  - o **Increase bargaining power:** stronger relationship with suppliers given the larger size, as well as becoming more resilient to customers pressure through diversifying the customer base.
  - o **Boost employee capital:** attracting best talents and experts both locally & internationally driven by a leading "multi-plant player" brand proposition.
- **Revenue Synergy:** Post- Transaction, QCC will be able to leverage geographical complementarity of HCC and QCC's asset portfolio to expand across Saudi Arabia. The combined know-how of local markets across several different cities in Saudi Arabia (especially in Central and Northern region) is expected to drive growth in near term through product mix optimization. Revenue synergies in medium – long term can be expected by increase in market share due to product capacity expansion and increased utilization factor.
- **Cost Synergy:** The Transaction is expected to unlock cost synergies after completion of integration, with significant potential value creation, driven by increased scope, scale, sharing of best practices and annual efficiency gains. Post Completion, QCC is expected to leverage best practices from QCC and HCC to reduce OpEx and optimize transportation and logistics costs (shortening distance in raw materials logistics as well as customer logistics) along with centralizing the admin function in short to medium term.
- **Balance Sheet Synergy:** Combining CapEx spend of two companies is expected to streamline procurement (bundle raw material purchase, leverage quarries etc.). Further, QCC is expected to gain

from optimizing inventory post Transaction (through, for example, a joint program to reduce clinker and spare parts inventory levels).

### **3. Key Terms of the Transaction according to the Implementation Agreement**

#### **3.1 Conditions of the Implementation Agreement**

The Transaction completion is subject to a number of conditions, which are summarized as follows:

1. Obtaining all required approvals of the CMA with respect to the Transaction.
2. Obtaining the approval of the Saudi Exchange on the listing of the Consideration Shares on the Exchange and obtaining any other approvals which the Saudi Exchange may require with respect to the Transaction.
3. The delivery of any required notification to Securities Depository Center Company (Edaa) with respect to the Transaction.
4. Obtaining a non-objection from the General Authority for Competition with respect to the Transaction, or the expiration of the applicable waiting periods under the Competition Law.
5. Obtaining a non-objection from the Ministry of Commerce in respect of the amendments to the bylaws of QCC.
6. Obtaining the approval of the requisite majority of QCC's shareholders on the Transaction's resolutions at the Transaction's extraordinary general assembly.
7. Obtaining the approval of the requisite majority of HCC's shareholders on the Transaction's resolutions at the Transaction's extraordinary general assembly.
8. No Material Adverse Event (as such term is defined in the Implementation Agreement) having occurred and being continuing.
9. No breach of specific warranties provided by each QCC and HCC having occurred, unless such breach is capable of remedy and has been remedied to the reasonable satisfaction of the non-breaching party.
10. No governmental body of competent jurisdiction in Saudi Arabia having enacted, issued, promulgated, enforced or entered any order, injunction, judgment, decree or other action which is in effect and which prohibits or makes illegal the consummation of the Transaction in accordance with the Implementation Agreement.
11. Obtaining the approval of a number of contractual counterparties of both companies as outlined in the Implementation Agreement.

#### **3.2 The Composition of QCC's Board after Completion**

Subject to obtaining the relevant regulatory and shareholders' approvals, QCC and HCC agreed, pursuant to the Implementation Agreement, to take the necessary process to recompose QCC's board upon completion of the Transaction. HCC will nominate two (2) members, to be appointed in QCC's board of directors upon the completion of the Transaction. QCC will procure the vacancy of the seats for those nominees through increasing the number of board seats, or any other method QCC believes is proper. These changes will only occur at the completion of the Transaction, and the current boards and executive teams will continue to manage their respective companies and operate separately.

#### **3.3 Restrictions on Business Conduct**

The Implementation Agreement imposes an obligation on both QCC and HCC to refrain from taking any act that may violate certain restrictions stipulated in the Implementation Agreement (which are subject to certain exceptions and limitations) that relate to the conduct of business for the period between signing of the Implementation Agreement and until completion of the Transaction or the termination of the Implementation Agreement, except with the approval of the other party, which the other party may not unreasonably withhold.

If either party breaches any of these restrictions, then the other party has the right to consider the breach a Material Adverse Event (subject to the party's reasonable assessment) and terminate the Implementation Agreement based on a notice to the breaching party.

### 3.4 Termination of the Implementation Agreement

The Implementation Agreement terminates with immediate effect, and the rights and obligations of both parties under it cease (with certain surviving provisions such as confidentiality and dispute resolution) upon the occurrence of a number of events, including:

1. A written notice to terminate is given by one party to the other party following breach, where such breach caused a Material Adverse Event (as defined in the Implementation Agreement), including a breach of the abovementioned business conduct restrictions, breach of the warranties and breach of the undertaking regarding providing and submitting the documents required under relevant laws and providing the information required to allow the other party to prepare such documents.
2. If the Transaction's conditions are not satisfied or waived before the end of one year from the date of the Implementation Agreement (or any other date agreed in writing).
3. If the Parties agree to terminate the Implementation Agreement in writing.

### 4. Related Parties

QCC established a private investment fund, which is managed by a capital market institution, to invest in securities and shares. QCC owns all the units in this fund, and the fund owns 2,308,206 shares in HCC. which represents 2.36% of HCC's share capital prior to the Transaction. This fund is considered a related party pursuant to the Merger and Acquisition Regulations.

### 5. Status of the Transaction and Next Steps

This announcement is not meant to be a firm intention announcement by QCC for the purposes of the Merger and Acquisition Regulations issued by the Capital Market Authority's board, as the firm intention announcement issuance is subject to certain conditions in the Implementation Agreement relating to coordination with certain regulators to confirm certain approval requirements. The firm intention announcement will be made at a later date following the fulfilment of such conditions.

In addition, QCC and HCC will commence working to satisfy the conditions required to complete the Transaction, including obtaining the relevant regulatory approvals.

After obtaining the necessary regulatory approvals, QCC will issue a circular addressed to its shareholders in respect of the Transaction and the associated capital increase, which will contain all details related to the capital increase. QCC's shareholders must carefully review the circular before making any decision in relation to voting on the Transaction. QCC will also publish an offer document to the shareholders of HCC which will set out specific information relating to the Transaction. HCC's board of directors will also issue a circular addressed to its shareholders setting out its views in relation to the Transaction. QCC and HCC agreed to thereafter call their respective extraordinary general assemblies to vote on the Transaction.

Completion of the Transaction is not guaranteed and is subject to a number of conditions and approvals, including the publication of a firm intention announcement by QCC, and regulatory and shareholders' approvals. QCC will make further announcements as and when material developments occur in relation to the Transaction in accordance with the applicable rules and regulations.

QCC has appointed HSBC Saudi Arabia as its financial adviser in relation to the Transaction, and appointed Khoshaim & Associates as its legal adviser in relation to the Transaction.

**Legal Adviser**



**Khoshaim & Associates**

**Financial Adviser**



**HSBC Saudi Arabia**

## Disclaimer

**This is an unofficial English translation. In case of discrepancy, the Arabic announcement shall prevail.**

**The announcement shall not be relied on separately from the Firm Intention Announcement, Shareholders' Circular and Offer Document to be issued later, and such documents shall be read in full and in detail to be aware of all details and risks of the Transaction.**

It should be noted that this announcement should not be interpreted as an offering or invite to buy, subscribe or purchase, any securities including the Consideration Shares in any jurisdiction. This announcement does not constitute an offer document, prospectus, shareholder circular or an equivalent document in any jurisdiction. This announcement may be restricted pursuant to relevant regulations in some jurisdictions. The person receiving this announcement is responsible for knowing and adhering to such restrictions.

The implications of the Transaction for persons resident in, or citizens of, jurisdictions outside of Saudi Arabia may be affected by the laws of such jurisdictions. The ability to participate in voting for the Transaction for persons not resident in Saudi Arabia may be affected by the laws of such jurisdictions. Such persons should inform themselves of and observe any applicable requirements.

Some numbers are rounded to the nearest decimal, and therefore calculating the same might not result in the same totals appearing. The aggregated financial information included in this announcement are preliminary and might not match the pro forma financial information included in the offer document or the shareholders' circular prepared in connection with the Transaction; these differences will arise as a result of various factors and adjustments.

### *No profit forecasts or estimates*

Nothing in this announcement is intended, or is to be construed, as a profit forecast or to be interpreted to mean that earnings per QCC or HCC share for the current or future financial years after completion of the transaction will necessarily match or exceed the historical earnings per QCC share or HCC share.

### *Forward Looking Statements*

This announcement, information contained in it, and other statements made regarding the Transaction, and other information published by QCC and HCC might contain statements which are, or may be deemed to be, "forward-looking statements". All statements, other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are prospective in nature and are not based on historical facts, but rather on assumptions, expectations, valuations, targets, estimates, forecasts and projections of QCC and HCC about future events, and are therefore subject to risks and uncertainties which could cause actual results, performance or events to differ materially from those expressed or implied by the forward-looking statements. These forward-looking statements are contingent on several matters, including the possible effect of the Transaction on QCC and HCC or QCC after the completion of the Transaction and other relevant contingencies, which will be included in more details in offer documents and circular which will be published at a later time.

Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects", "budget", "targets", "aims", "scheduled", "estimates", "forecast", "intends", "anticipates", "seeks", "prospects", "potential", "possible", "assume" or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved, or negative statements of the same. QCC and HCC can give no assurance that such statement will prove to be correct. By their nature, forward-looking statements involve risks (known and unknown) and uncertainties (and other factors that are in many cases beyond the control of QCC or HCC) because they relate to events and depend on circumstances that may or may not occur in the future.

There are a number of factors that could affect the future operations of QCC, HCC and/or both after the completion of the Transaction and that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include the satisfaction (or,

where permitted, waiver) of the conditions to the Transaction, as well as additional factors, such as: domestic and global business and economic conditions; market related risks such as fluctuations in interest rates and exchange rates, industry trends, competition, changes in regulation, changes in the policies and actions of governments and/or regulatory authorities (including changes related to taxation), changes in political and economic stability, disruption in business operations due to reorganisation activities (if applicable), interest rate, inflation, deflation and currency fluctuations, the timing impact and other uncertainties of future or planned acquisitions or disposals or offers, the inability of QCC post-completion to realise successfully any anticipated synergy benefits when the Transaction is implemented, or difficulties relating to the Transaction when the Transaction is implemented. Other unknown or unpredictable factors could affect future operations and/or cause actual results to differ materially from those in the forward-looking statements. Such forward-looking statements should therefore be construed in the light of such factors and must not be relied upon.

Each forward-looking statement speaks only as of the date of this announcement. Neither QCC nor its affiliates or any of their respective directors, managers, employees or advisors, provides any representation, warranty, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. Forward looking statements involve inherent risks and uncertainties. All forward-looking statements contained in this announcement are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers must therefore not rely on these forward-looking statements. Other than in accordance with their legal or regulatory obligations, QCC is under no obligation, and expressly disclaims any intention or obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, provided that it is not required by law.

HSBC Saudi Arabia is acting as an exclusive financial adviser to QCC in relation to the Transaction. HSBC Saudi Arabia is not liable to any party except QCC in relation to providing consultation in relation to this Transaction, in accordance with the terms of the engagement concluded between them and the applicable laws and regulation. HSBC Saudi Arabia is licensed by the Capital Market Authority with license number 37-05008 to carry out securities business.