Date: 12/08/2018

Ref.: MHC/Disclosure/2018/042

Boursa Kuwait Company

Mubarak Al Kabeer St.
AlSharq, Kuwait
P.O.Box 22235 Safat, 13083 Kuwait

<u>Subject: Minutes of the Analyst / Investor Conference Call for the Second Quarter 2018</u>

Reference to the subject line and in compliance with "Continued Obligation of the Premier Market Companies" as per Resolution No. (1) for the year 2018, Article (8-4-2). Mezzan Holding Company KSCP is pleased to announce that it held the Analyst / Investor Conference Call for the Results of Second Quarter of 2018 which was held through Live Webcast session on Thursday, 9th August at 03:00 pm Kuwait Time.

Attached hereto are the minutes of the Conference and the Investors presentation for Q2-2018.

Mezzan Holding Company KSCP

Walid Ali Khalil

Group Legal Manager

شركة ميزان القابضة ش.م.ك
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MEZZAN HOLDING CO. (KSC)

Q2-2018 Mezzan Holding Company KSCP Earnings Call Webcast Transcript

Second Quarter 2018 – Mezzan Holding Earnings Webcast Transcript.
Date: Thursday, 9th August 2018
Time: 15:00 Kuwait Local Time

Speakers from Mezzan Holding executive management:
Mr. Garry Walsh - Group Chief Executive Officer, Mezzan Holding
Mr. Fares Hammami - Group Chief Financial Officer, Mezzan Holding

Moderator:
Fawaz Alsirri – Managing Partner, Bensirri Public Relations

Attendees:
Arqaam Capital
Kuwait Financial Center
Dark Horse Capital
Beltone Financial
EFG Hermes
NBK Capital
SHUAA Capital
SICO Bank Bahrain
Blakeney Management
Franklin Templeton
CI Capital
Aventicum Capital Management
Derayah Financial
Blackrock
Fiera
Citigroup
Amwal Capital Partners
Magnavale
Rock Creek Group
HSBC
CRISIL S&P

Fawaz Alsirri:
Good afternoon everyone. This is the Mezzan Holding Analyst call for the first half of 2018. The speakers on the call today are Garry Walsh, the CEO, and Fares Hammami, the CFO, and I am Fawaz Al Sirri, the moderator of this call.

In a few seconds I will hand over the call to the CEO, Garry, but before I do I would like to remind you that you can ask your questions at anytime during the call - in other words you don't have to wait till both speakers end their respective statements.

With that said, we are ready to start. Garry the microphone is yours.

Garry Walsh:

Good afternoon, thank you Fawaz and thank you all for joining us, and we welcome the opportunity to share with you our results for the first half of 2018.

Today I'm going to take you through a short presentation focusing on the tailwinds we enjoyed and headwinds we have faced in the first half of 2018, go through the H1 2018 financial highlights, after which I will hand over to Fares, who will take you through the detail of the financial performance and put it in a historical context for you. Lastly, we will be opening the floor for Questions.

From a tailwinds perspective, we are glad to announce that the growth and efficiency enhancing capex program which we started last year is well underway and we expect to see its results reflect in our performance shortly.

Specifically, our new lines of chips and snacks in the UAE came online at the end of Q2. While the new lines in Qatar finished construction in Q2, we now await regulatory approvals which we anticipate prior to the busy back-to-school season in September.

Our new lines of PET preforms in Kuwait and Qatar have also come onboard in Quarter 2.

Separately, Kuwait trading remains solid and witnessed double digit growth supported by core food and FMCG segments.

Our Food Catering segment also had a strong first half in both markets of operations; Kuwait and Qatar. We hope to see this continue through the rest of the year.

Finally, our results were supported by the strong performance of Water segment in Kuwait as we push more product in the market now that we have more capacity. We hope this model turns to other parts of our manufactured portfolio soon.

As for the headwinds facing our business, the impact of levying a 100% excise duty on energy drinks in the UAE late last year is the single largest headwind facing the group this year and unfortunately continued to weigh heavily on our results and will shadow the full picture of the core business until its annualization in Q4 of this year.

We have previously announced that volumes were down, and Nielsen – a third party market data provider, references drops of 50-60% in volume c.57% drop in the energy segment in the UAE.

The parallel market forces remain, despite our continuous lobbying with authorities. It is unfortunate that we had to go through a second round of cost rationalization completed yesterday – the impact of this should be seen in Q4 numbers of this year.

Furthermore, our operations in Saudi remains under pressure – as expected, during the summer seasons as well as due to shorting chips supply as the new lines of capacity added elsewhere within the group only came on board towards the end of Q2 and beginning of Q3.

The recovery in Qatar's was slower than anticipated in Q2 but given the new lines added effectively beginning of Q3 – we expect a faster improvement of our core business in Qatar as we exit Q3.

Lastly, while we have completed the construction and fit out of our new warehouse in Kuwait – we await power supply and this resulted in a few months delay to our much anticipated move. We expect to move there within Q3, as the cabling for power began on Tuesday from the Ministry of Electricity and Water.

In terms of our financial highlights therefore, I'm pleased to report that on a reported basis our turnover is up 1.5% in the first half. However, having adjusted for IFRS 15 and IFRS 9 in both the comparatives and the current years, as Fares will take you through that in more detail, our turnover is actually up 4.2%.
Our gross profit on an adjusted basis was slightly down by 1.7%. Our EBITDA is actually up +0.7%, however our net profit to shareholders has declined slightly due to the impact of interest on our accounts.

Our gross profits on a Proforma basis declined slightly on the back of lower sales volume in the UAE.

Our EBITDA is up slightly on a Proforma basis.

Our net income as I stated before has seen a small decrease driven largely by the results of operations and impact of interest expense.

And at this point I will hand over to Fares to take you through the financials in more detail.

Fares Hammami
Thank you Fawaz and Garry.

I would like to remind investors that effective 1st of January 2018 new IFRS standards 15 and 9 for revenue and investments resulted in changes in accounting treatments of sales returns, selling and distribution expenses related to customers, and investments and trade receivables.

The reported numbers in H1 2018 reflect these accounting changes. However, in this presentation we present the comparable period of last year, H1 2017, as reported previously, as well as on a pro-forma basis where we restate our numbers to show the impact of these accounting changes had the changes been done in the first half of last year as well.

The discussion today references current period results compared to Proforma of last years', but the presentation includes the comparison of reported numbers for both periods as well.

In H1 2017 selling and distribution expenses of KD 2.6 million and sales returns of KD 0.2 million would've been netted off against sales had the IFRS changes been implemented then.

H1 2018 reported numbers include these changes to the tune of KD 2.8 million and KD0.2 million, respectively.

Let's talk now about the revenue contribution by business line for Mezzan Group. The food group accounted for 71.5% of total group revenue in the first half of 2018, while the non-food group accounted for 28.5% of total group revenue.

The revenue of the food group grew by 3.4% on a pro forma basis and the non-food group had grown by 6.3% on pro forma basis as well.

Within food group, manufacturing and distribution contributed to 48.5% of H1 2018 revenue, a small decline of 2.1% compared to pro forma of H1 2017, largely driven by the impact of excise duties in the United Arab Emirates.

Our catering business contributed to 16.5% in H1 2018, which was up 26.2% on a pro forma basis from H1'17 and our services segment dropped by a mere 1.1% in H1 2018 and contributed to 6.4% to our H1'2018 revenues.

In our non-food group FMCG and Pharma had a very solid performance year to date, and now accounts for 26.1% of Mezzan's H1 2018 revenue, and for a growth of 7.7% compared to Proforma H1 2017, and industrials group declined by 6.5% and contributed to 2.4% in H1 2018.

Looking at the Group from a per country basis, Kuwait, our home market, our largest market, contributed 72.6% of Mezzan's total top line and was up 10.5% resulting from a strong performance across the group from food and non-food FMCG businesses alike.
Revenues from our operations in the United Arab Emirates declined by 22% on a pro forma basis compared to H1 2017. As discussed earlier, the implementation of the excise duty, non-stoppage of parallel market and other macroeconomic factors have resulted in this drop. It is opportune to remind investors that the implementation of excise tax started on 1st October 2017.

Revenues in Qatar grew by 6.1% in H1 2018 compared to H1 2017 on a pro forma basis and it now contributes 9.6% of Mezzan's revenue.

Saudi Arabia accounted for 2% of Mezzan's revenue in H1 2018 and declined by 16.8% from the previous period. The decline resulted from shorting potatoe chips stock into Saudi Arabia and as we put more capacities on line in Qatar and the UAE, we expect this to recover as previously explained, by the last quarter of this year.

In Jordan the sales were down by 17.3% on a pro forma basis and now contributes to 2.2% of Mezzan's revenue.
That being said, the low margin tender business that counted to sales did not really impact our profitability.
Afghanistan is up 13.2% and now accounts for 2.1% of Mezzan, and Iraq is 1% contribution to Mezzan's total top line and it grew by 14.4%.

As for the profit and loss. In the first half of this year, revenues reached KD109.4 million, which was up 1.5% compared to reported H1 2017, but 4.2% compared to the pro forma 2017
Gross profit reached KD24.7 million for H1 2018, down by 11.5% compared to reported H1 2017 but down by 1.7% compared to the pro forma H1 2017.

Selling, general, and administrative expenses (SG&A) are flat on a pro forma basis, and also financing costs and other expenses were flat compared to pro forma H1 2017.

Net profit had reached KD6.8 million in the H1 2018, down by 7.4% from the reported H1 '17, however down by 4.9% from H1 2017 on a pro-forma basis.

Net profit attributable to equity of holders of the parent company is KD 6.8 million for the H1 2018 compared to KD 7.3 million, (a 6.9% drop) compared to the reported H1 '17, and a drop of 4.3% on a like for like / Proforma basis for H1 '17 pro forma (KD7.1 million).

From a cash flow perspective H1 2018 had resulted in an operating cash flow before working capital changes of KD 11.9million down by KD0.5 million from last year comparable on a reported basis and down by KD0.3 million on a pro forma basis.
We have invested KD6.3 million in working capital in H1 2018, which is lower than the KD 8.3 million we have done in H1 2017 as we better managed inventory and trade receivables.

We had invested KD 6.5 million on capex and investment activities in H1 2018 compared to KD 5.8 million in H1 2017.

And our finance cost and others in the financing activities cost us KD10.5 million in H1 2018 compared to KD 9.7 million in H1 2017.
The net impact on our debt was increase of KD 11.4 million in our net debt during the H1 2018, equal to the increase in H1 2017 (also KD 11.4 million) on a reported basis and KD 11.6 million on a pro forma basis.

From a balance sheet perspective, we remain to enjoy a healthy balance sheet with total assets growing nicely to KD 220.2 million, equity to the holders of parent company at KD108.9 million, net debt of KD 45.9 million, and a net debt equity of 29.7%.

And now we open the floor for Q&A.

Fawaz Alsirri:
We have a question: Having commercial manufacturing operations in Jordan, is there any new business opportunity or expansion plan?

Garry Walsh:
In respect to Jordan, we are currently exploring some new options in both the FMCG sphere and in the food sphere, and we expect to see those impacting on our numbers probably in relation to the food side in Q4 and in FMCG probably in early next year.

Fawaz Alsirri:
Thank you. Next up we have a question two parts, we'll ask them one by one. The first one is can you give us some details on the bottled water distribution network in Kuwait? It would be great if you can attach numbers to it, distribution reach of 300 ml, 500 ml and 1.5 liters the etc.

Garry Walsh:
On the bottled water business, I think it would be fair to say that we still have significant opportunity and our business in water in Kuwait is currently of high double digits, and yet our distribution remains below 50% overall and so we will still have a significant opportunity to grow that business over the coming period.

Fawaz Alsirri:
Thanks, your second question is Can you gives us more details of operations in UAE? When can we expect growth to pick up in that country?

Garry Walsh:
We have three businesses there. One is meat factory. The other one is a chips factory. And then obviously we have the distribution business.
In terms of the chips factory, the new line came on stream in the end of Q2 and we've seen a marked improvement in July and obviously those numbers aren't being shared yet.

In relation to the meat business, that too continues to improve and we did do a lot of business to Qatar previously from that meat factory, and so we struggled in the first half of this year on our comparators because that business was no longer available to us.

However, as we have left that in July and we've recruited some new customers, that has improved. Therefore; the biggest problem we have in the UAE is very much the Red Bull business. As you know, while not sharing the exact numbers, you can imagine that Red Bull is the major constituent in the market, so we're not going to be very far off the numbers. We have implemented cost cutting programs there, which finished just yesterday. And Fares has reminded me, this was a second round. We anticipate that

that will put the business in a position to grow, particularly in Q4. Obviously we'll bear the costs of some of those people through the rest of this quarter and once we start lapping that in Q1, I would expect to see that business back in growth.

Fawaz Alsirri:
Thank you, last question is, why is there a delay in opening the new chips lines in Qatar?

Garry Walsh:
The process for approval of manufacturing outfits in Qatar changed unexpectedly in mid-June. And both we and the responsible departments are learning together what the new process is. And obviously the chips manufacturing is key and needs to be ready for September, for the back-to-school season and we believe that will be the case.

Fawaz Alsirri:
Thank you Garry. Now I'm going to the questions. We have a couple of follow-up questions. And if I have the liberty to group them, I would say they are asking about current business in KSA and outlook, current business in Kuwait and outlook and current business in the UAE and outlook. So, instead of having to answer repeated questions, Garry can just give us an outlook on each of these countries.

Garry Walsh:
I'll let Fares do that.
Fares Hammami:
We've mentioned in the last quarter, and for the past few quarters regarding our operation in Saudi that we have took a decision mid last year to send our Kuwait product into Qatar, potato chips which meant giving our potato chips lower production or lower sales into Saudi. That would be relieved only when the new lines are ready.

Given the lines of potato chips that were put in the UAE and Qatar started producing at end of quarter 2 in the UAE and about to start producing in Qatar. So the relief was expected in the second half. And that took a drag on the Saudi operation in the first half. But I would say that was an expected one.

On the Emirates, again, as Garry had mentioned, obviously we are affected by the impact of excise duty of 100 percent on a major energy drink. It did take a toll on us and we've been facing that since the beginning of the year. I think we have mentioned that this is the single largest headwind that this group faced in the first half of this year. The headwind itself will subside with the annualization, which, will happen from a topline perspective towards the end of the year.

In terms of Kuwait, honestly, it's being cascaded with the impact of excise duty So if you look at our food manufacturing and distribution results.

Our topline is slightly down but that's with a drop of our business in the Emirates. But that doesn't give credit to how much the Kuwait operation is doing very well. Obviously, we have added capacity in Kuwait in the water business and that's growing very nicely.

So we had capacity constraints, and that's what we meant earlier as we hope that the model that in which we add capacities, we produce more, and gain market share. So that's the answer on Kuwait.

And I do see a couple of questions on guidance. I think the group, as previously mentioned expected high single digit growth on topline and double digit growth on bottom-line.

Headline we don't expect that to change. I still believe that the tune of high single digits and the tune of double digits might change, but we're still aiming at least the double digits bottom line improvement this year.

Fawaz Alsirri:
Thank you Fares. I have a question asking that first half cash flow from operation have improved. How sustainable is this?

Fares Hammami:
If you compare H1 with H1 last year, obviously we had started a factoring exercise on April 1, 2017, so H1 of last year did have a quarter where we had working capital collection while now we factor it. So, obviously it's a new way of doing business and we believe we have un-tied cash through there and I'm happy to say, and we mentioned it in the first quarter call, I believe, the factoring deal did survive, we renewed it with the bank for another year.
We did take also measures to reduce our inventory which we built earlier last year, I think, because of the impact of the embargo on Qatar, so there was an improvement there. I think we are going back to more normal inventory levels.

Fawaz Alsirri:
Thank you Fares. Next, we have a follow up question what measure is the company taking to control costs in the UAE?

Garry Walsh:
To date, we've exited over a hundred people from the business. It’s unfortunate, but that's the way it is. We have also exited a third-party warehouse and we are exploring other options around utility, but at the moment, our focus has been on reducing our delivery costs and our service cost. We, for example, merge our sales teams into one team, which allows us to have the same spread, the same delivery into market, but with a substantially lower number of vehicles involved.

Fawaz Alsirri: Thank you Garry. And thank you Fares. We've answered all the questions that came in. Like I was saying earlier, a live recording of this session will be available in about two hours, should you want to revisit any section of today's session. Thank you all for joining us and we'll see you next quarter.

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Q2 2018 Earnings Presentation

August 9, 2018

شركـة ميـزان القـابضـة
MEZZAN HOLDING CO.

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Agenda

- Tailwinds & Headwinds
- H1 2018 Highlights
- Historical Performance
- Financial Review

Mezzan Today: H1’18 Tailwinds

- Capacities added:

  New chips and snacks capacities are online towards end of Q2 in UAE

  New chips and snacks capacities online in beginning of Q3 in Qatar (due to regulatory reasons)

  PET projects in Kuwait and Qatar online within Q2

- Continued double digit growth in Kuwait, propelled by healthy performance in core food and FMCG segments.

- Another strong performing quarter from Food Catering where the trends should continue for the reminder of the year.

- Water sales continue to grow in Kuwait as we continue to ramp-up utilization of the new line

Mezzan Today: H1’18 Headwinds

- Slow macro-economic scene in UAE adds pressure to operations, non-stoppage of grey market of energy drinks, forcing new measures of cost cutting initiatives effective Q4 2018.
- Saudi sales drop due to lack of supply of potato chips, options being assessed.
- Qatar recovery slow, but with new investment in chips lines – supply is now sourced locally.
- Delay in power for Kuwait Warehouse, now a Q3 event. Construction and racking done!

Mezzan Today: Q2'18 Highlights

KD Millions

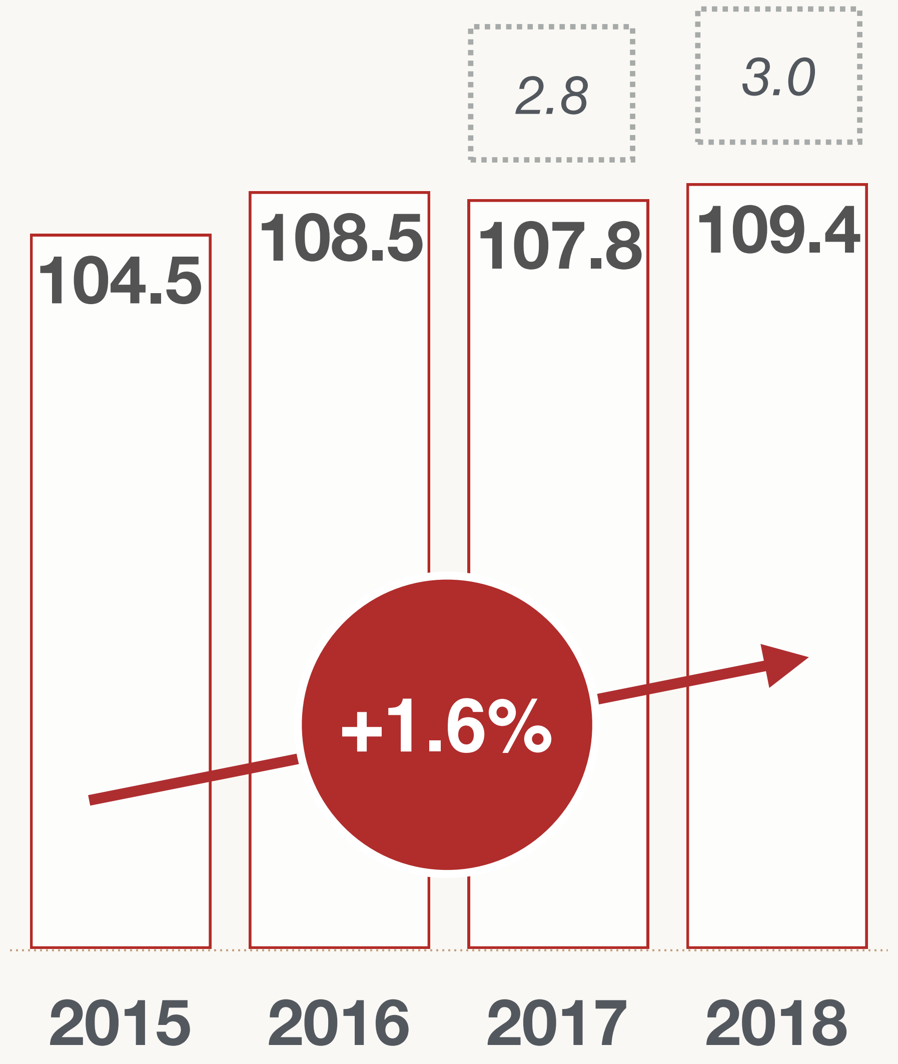
	H1'18 (Reported)	H1'17 (Reported)	% Change	H1'17 (Pro-forma)*	% Change	Q2'18 (Reported)	Q2'17 (Reported)	% Change	Q2'17 (Pro-forma)*	% Change
Revenue	109.4	107.8	+1.5%	105.0	+4.2%	50.6	50.2	+1.0%	49.2	+3.0%
Gross Profit	24.7	27.8	-11.5%	25.1	-1.7%	11.3	12.7	-11.0%	11.7	-3.0%
EBITDA	11.2	11.3	-1.1%	11.0	+0.7%	4.0	4.0	+0.2%	4.0	-0.6%
Net Profit *Attributable to Equity Holders of Parent Company*	6.8	7.3	-6.9%	7.1	-4.3%	1.8	2.0	-8.5%	2.0	-9.8%

- Effective 1 January 2018, New IFRS standards 15 and 9 for revenue and investments resulted in changes in accounting treatment of sales returns, selling and distribution expenses relating to customers and investments and trade receivables.
- In H1-2017, selling and distribution expenses of KWD2.6 m and sales returns of KD 0.2 m would have been netted off against sales had the IFRS changes been implemented then. The Q1-2018 reported numbers include these changes.

Mezzan Today: Historical Performance

KD Millions

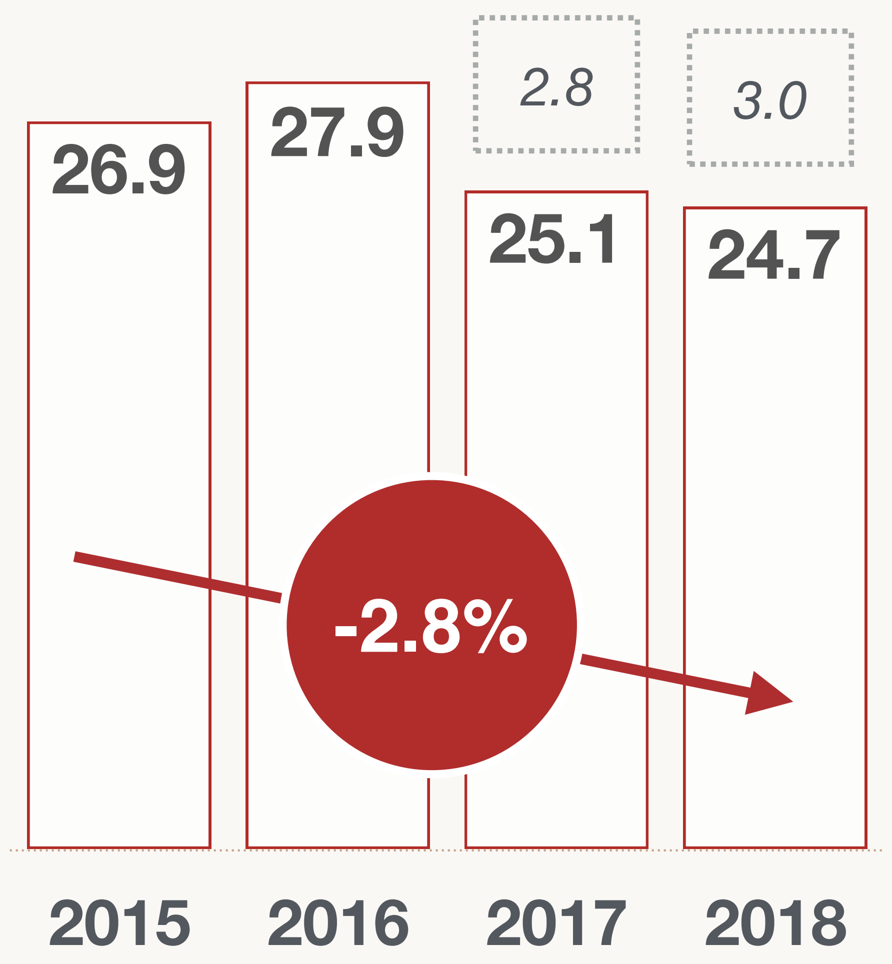
Revenue



Revenue improved slightly as food and FMCG continue to preform well except in the UAE, where macroeconomic changes continue to put pressures on performance.

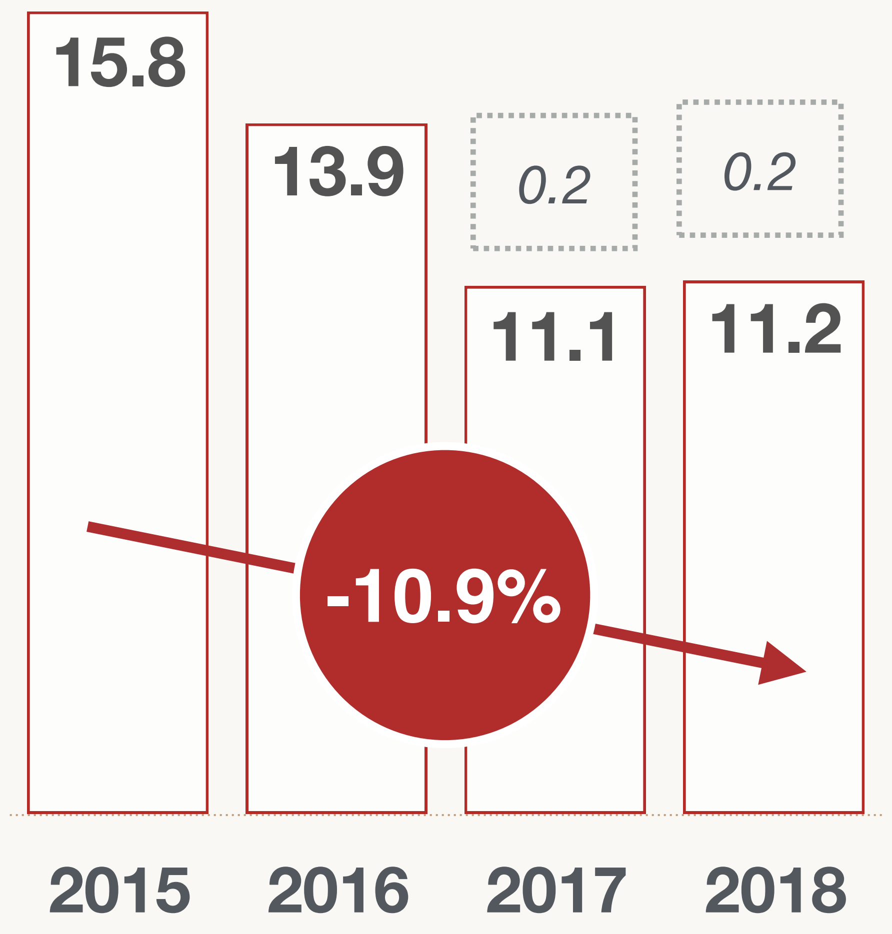
Losses sales in the UAE also contributed to a decline in margins. Gross Margins landed at 22.5% so far this year compared to 25.9% in the period before.

Gross Profit



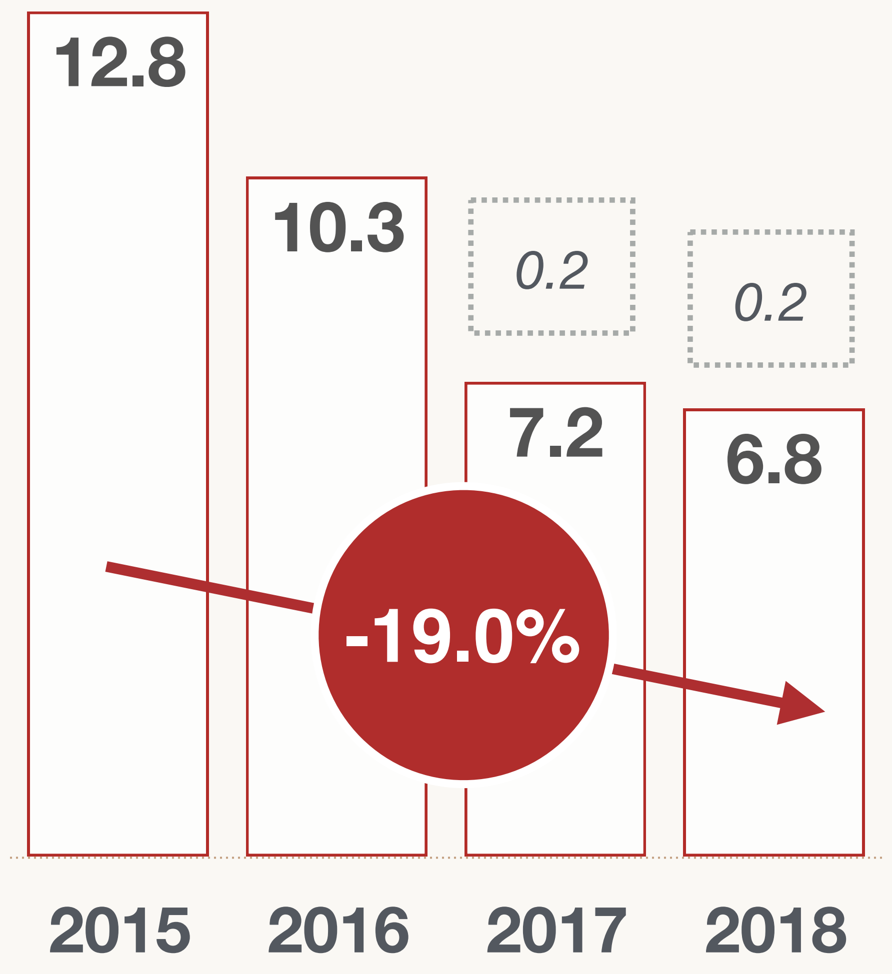
Gross Profit under pressure given reclassification of IFRS treatment and drop in sales in the UAE.

EBITDA



Remained flat for the period as the group continues to rationalize costs and weak performers. On a pro forma basis, EBITDA was up by 0.7% in H1 2018 supported by strong performance in Kuwait and constrained by UAE operations

Net Profit

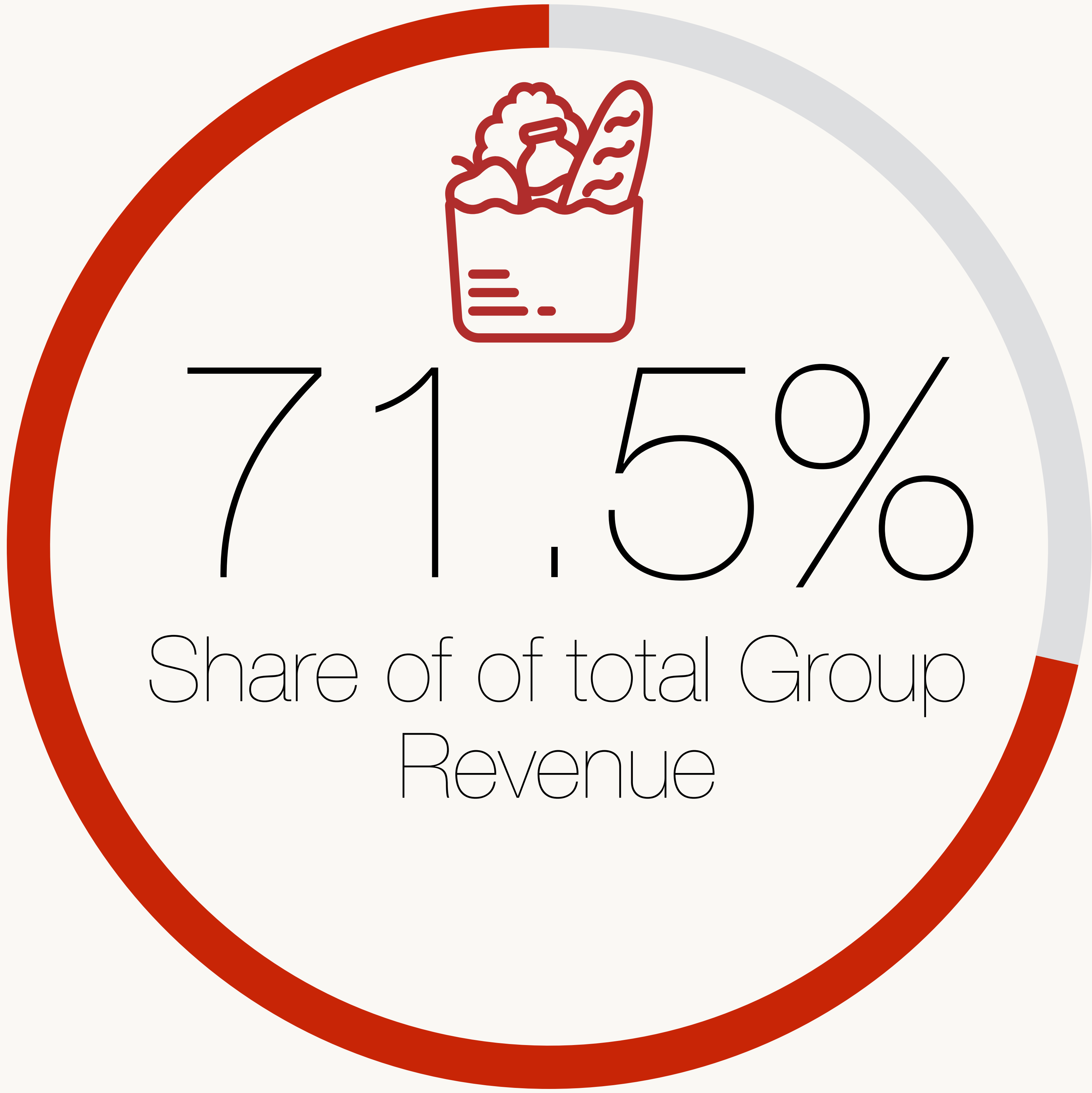


Mezzan Net Income reached KD6.8 m in H1 2018, a decrease of 4.3% vs.pro-forma H1'17 – resulting from pressure of profitability in UAE operations and increasing financing costs.

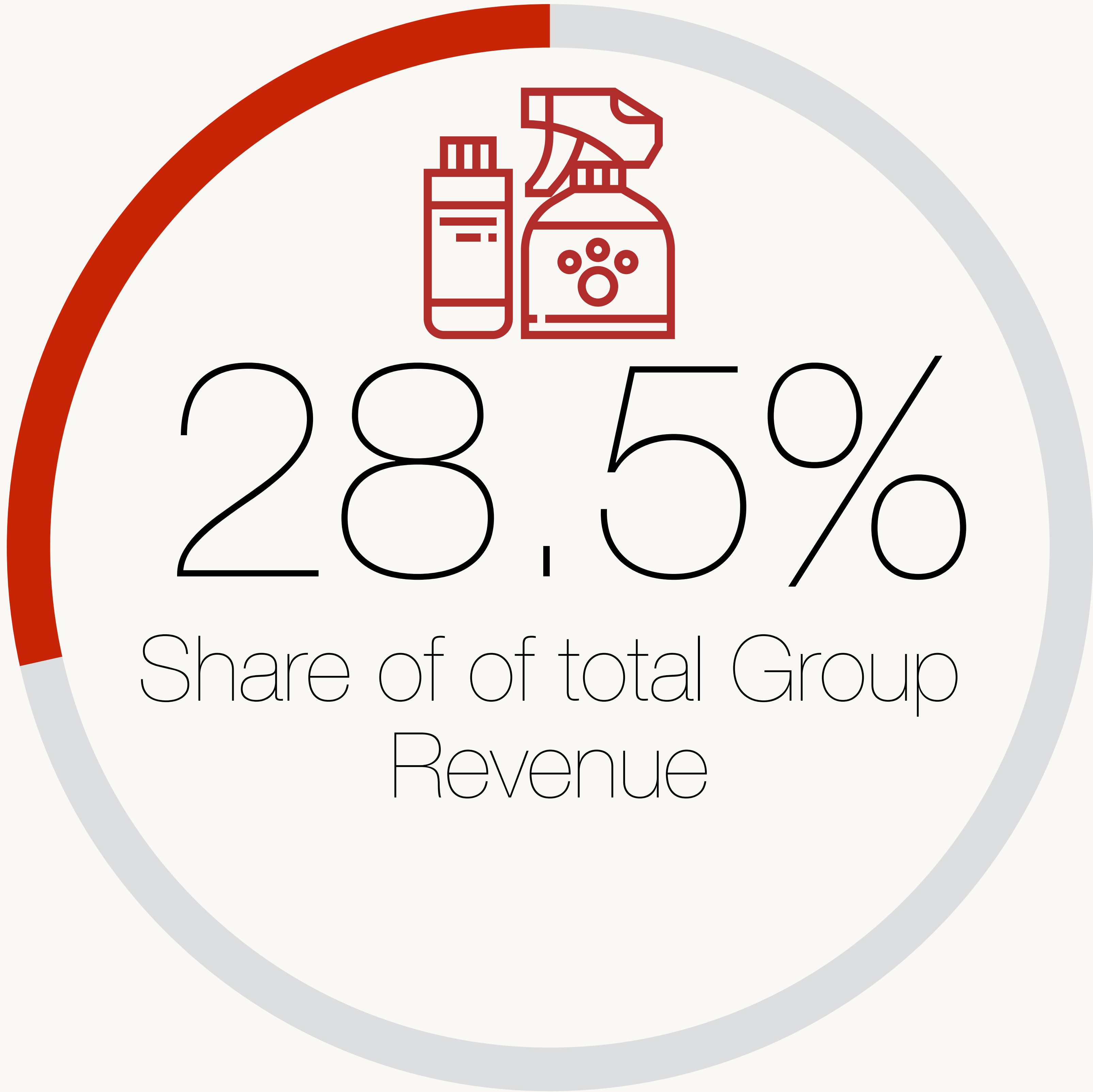
H1’18 Revenue: Contribution by Business Line

Vs. H1’17 (Pro-Forma)

FOOD REVENUE +3.4%



NON-FOOD REVENUE +6.3%



Growth results vs. H1-2017 have been calculated based on pro-forma H1-2017 assuming IFRS 15+9 changes were done then, to enable a like for like comparison.
Growth in Food Business Line in H1’18 “reported” vs. H1’17 “reported” results are -0.1% and +5.8% for the Non-Food Business Line.

H1’18 Revenue Growth by Business Division

Vs. H1’17 (Pro-Forma)

FOOD

Manufacturing &Distribution
Contributed 48.5% to H1’18 Revenues

-2.1%
vs. H1’18 (Pro-forma)

Catering
Contributed 16.5% to H1’18 Revenues

+26.2%
vs. H1’18 (Pro-forma)

Services
Contributed 6.4% to H1’18 Revenues

-1.1%
vs. H1’18 (Pro-forma)

Growth results vs. H1-2017 have been calculated based on pro-forma H1-2017 assuming IFRS 15+9 changes were done then, to enable a like for like comparison.
Compared to reported H1’17 results, M&D declined by 6.7%, Catering grew by +26.2% and Services declined by -1.1%.

H1’18 Revenue Growth by Business Division

Vs. H1’17 (Pro-Forma)

NON-FOOD

FMCG & Pharma

Contributed 26.1% to H1’18 Revenues

+7.7%

vs. H1’18 (Pro-forma)

Industrials

Contributed 2.4% to H1’18 Revenues

-6.5%

vs. H1’18 (Pro-forma)

Growth results vs. H1-2017 have been calculated based on pro-forma H1-2017 assuming IFRS 15+9 changes were done then, to enable a like for like comparison.
Compared to reported H1’17 results FMCG & Pharma grew by 7.2% and Industrials declined by -6.7%

Q2’18 Revenue by Contribution and Growth by Country

Kuwait
72.6%

+10.5%

Strong performance in water product line, catering services, and FMCG, given new capacities now online.

UAE
10.5%

-22.0%

Excise duty implementation coupled with an Emirates-wide market slow down, continues to weigh down performance.

Qatar
9.6%

+6.1%

Sales have grown given the strong performance of Catering. Mezzan continues to look for strategic alternatives following the ban on water exports.

KSA
2.0%

-16.8%

Sales declined as KITCO products were rerouted to Qatar, this should stop as new ‘Nice’ capacity comes online in Qatar.

Jordan
2.2%

-17.3%

Stable performance. The loss in sales has not impacted profitability due to low margin nature of those lost sales.

Afghanistan
2.1%

+13.2%

Stable performance.

Iraq
1.0%

+14.4%

Stable performance.

Compared to reported Q2’17 numbers, Kuwait grew by 8.0%, UAE declined by 27.1%, Qatar grew by 5.9%, Saudi declined by 17.5%, Jordan declined by 18.0%, Afghanistan grew by 13.2% and Iraq grew by 14.4%.

H1’18 P&L

KD Millions

	H1’18 (Reported)	H1’17 (Reported)	% Change	H1’17 Pro-forma With IFRS 15 +9 changes	% Change
Revenue	109.4	107.8	+1.5%	105.0	+4.2%
Gross Pofit	24.7	27.9	-11.5%	25.1	-1.7%
GM%	22.5%	25.9%		23.9%	
SG&A	(16.3)	(18.9)	+13.8%	(16.3)	+0.2%
Others	(1.3)	(1.3)	+1.8%	(1.3)	+1.8%
Underlying Profit (Pre-tax)	7.1	7.7	-7.5%	7.5	-5.0%
Tax	(0.3)	(0.3)	+7.9%	(0.3)	+7.9%
Net Profit	6.8	7.4	-7.4%	7.2	-4.9%
UNPM%	6.2%	6.8%		6.8%	
Net Profit	6.8	7.3	-6.9%	7.1	-4.3%

Attributable to Equity Holders of Parent Company

H1’18 Cash Flow

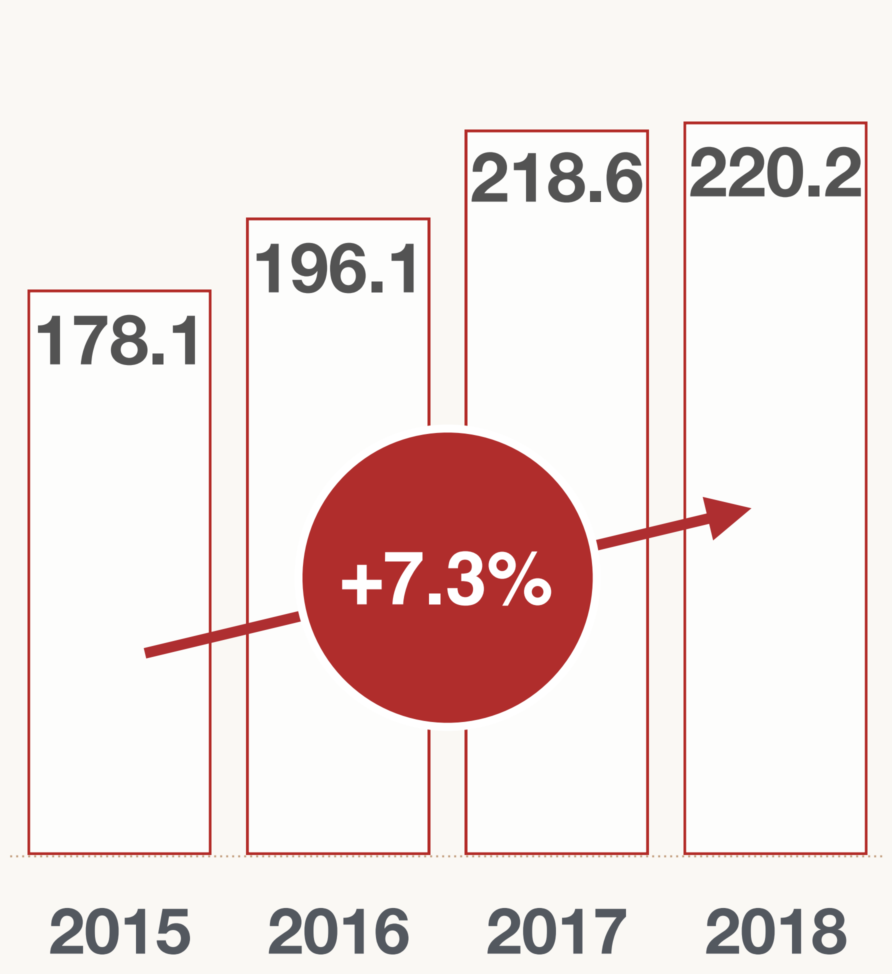
KD Millions

	Q2’18 (Reported)	Q2’17 (Reported)	Diff.	H1’18 (Reported)	H1’17 (Reported)	Diff.
Operating Cash Flow before WC Changes	5.3	4.8	0.4	11.9	12.3	-0.5
Working Capital	-2.9	-0.8	-2.1	-6.3	-8.3	2.0
Operating Cash Flow	2.3	4.0	-1.7	5.6	4.1	1.5
CAPEX/Other Investing Activities	-3.0	-2.8	-0.2	-6.5	-5.8	-0.8
Cash Flow Before Financing	-0.6	1.3	-1.9	-1.0	-1.7	0.7
Dividends/Financing/Other	-10.1	-9.3	-0.8	-10.5	-9.7	-0.7
Increase in Net Debt	-10.7	-8.0	-2.7	-11.4	-11.4	00

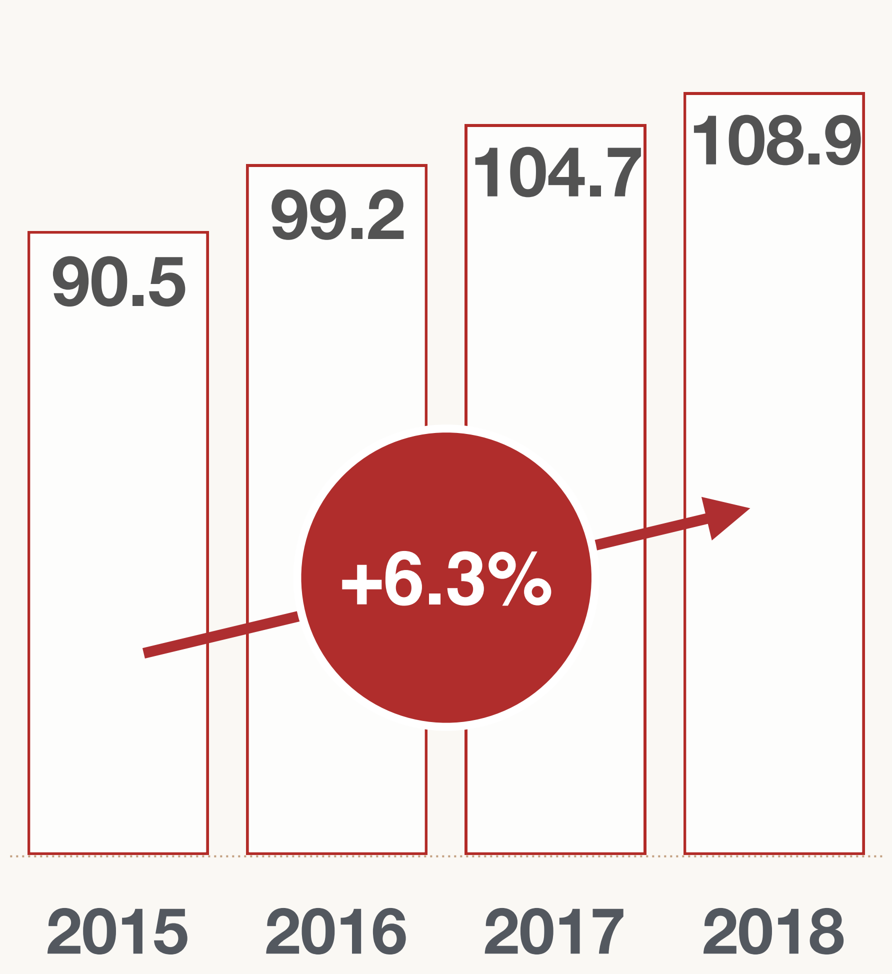
June 30 Balance Sheet

KD Millions

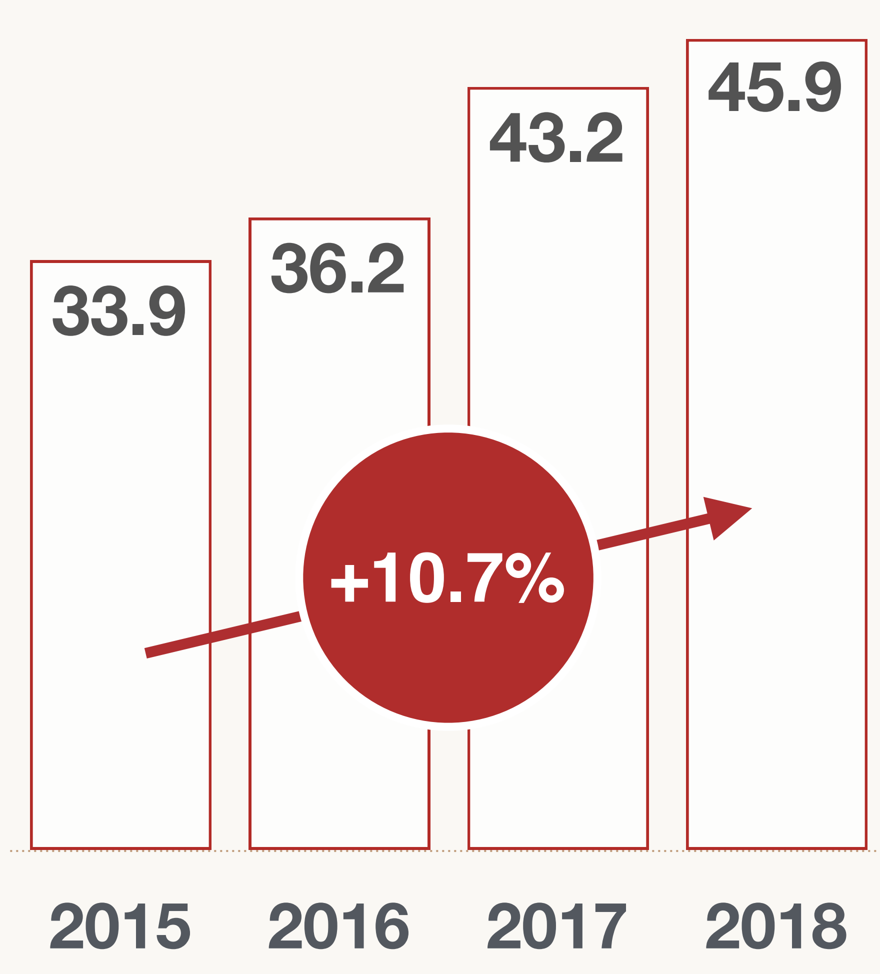
Total Assets



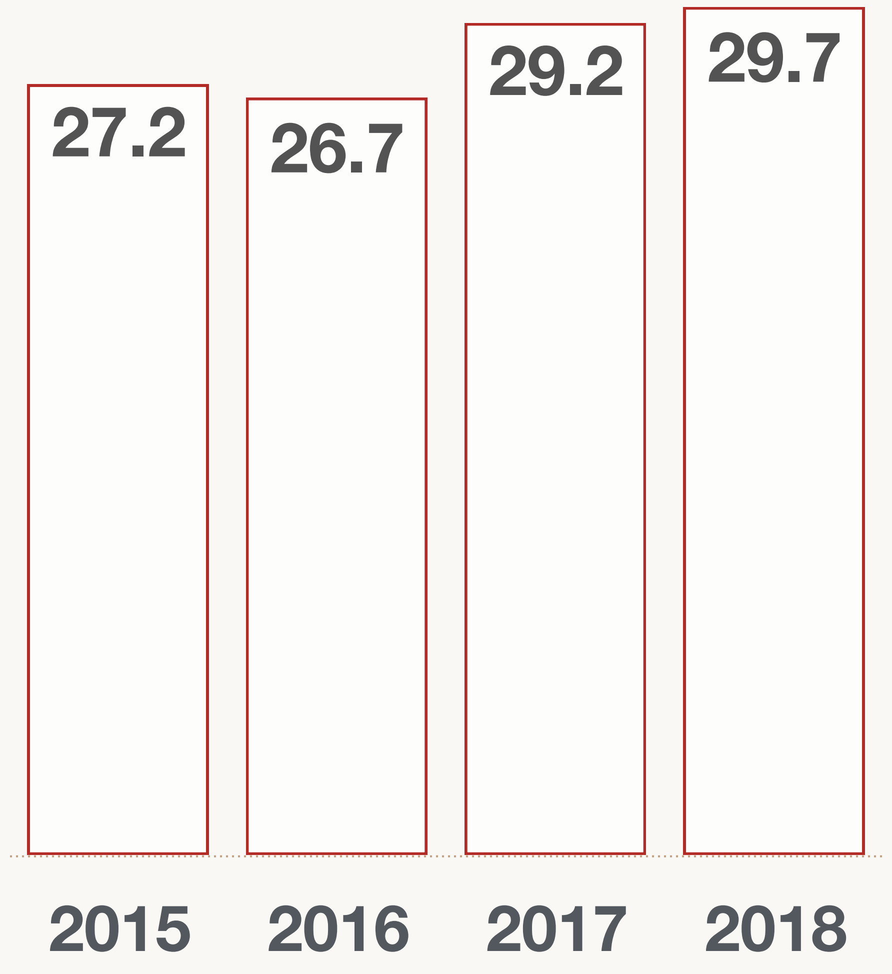
Equity



Net Debt



Net Debt to Equity (%)



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