ميـزان القـابضـة ش.م.ك.ع
MEZZAN HOLDING K.S.C.P.

Date: 11/11/2018

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Boursa Kuwait Company

Mubarak Al Kabeer St.
AlSharq, Kuwait
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Subject: Minutes of the Analyst / Investor Conference Call for Q3-2018

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 Third Quarter of 2018 which was held through Live Webcast session on Thursday, 08th November at 03:00 pm Kuwait Time.

Attached hereto are the minutes of the Conference and the Investors presentation for Q3-2018.

Mezzan Holding Company KSCP

Walid Ali Khalil

Group Legal Manager

شركة ميزان القابضة ش.م.ك. (KSC) MEZZAN HOLDING CO. 30

Q3-2018 Mezzan Holding Company KSCP Earnings Call Webcast Transcript

Third Quarter 2018 – Mezzan Holding KSCP Earnings Webcast Transcript.
Date: Thursday, 8th November 2018
Time: 15:00 Kuwait Local Time

Speakers from Mezzan Holding executive management:
Mr. Garry Walsh - Group CEO
Mr. Fares Hammami - Group CFO
Moderator:
Fawaz Alsirri – Managing Partner, Bensirri Public Relations

Attendees:
1- Global Investment House
2-Dark Horse Capital
3- NBK Capital
4- CI Capital
5- Warbha Capital
6- Arqaam Capital
7- KFH Capital
8- KFH Capital Investments
9- Aventicum Capital Management
10- SICO Bank Bahrain
11-EFG Hermes
12- Citigroup
13- LHV Asset Management
14- Vergent Asset Management
15- Derayah Financial
16- Blackrock
17- Rock Creek Group

Fawaz Alsirri:
Good afternoon ladies and gentlemen and welcome to this Mezzan Holding call to announce and discuss the company's Q3 and year to date performance. Today is November 8, 2018 and this call is held live.

My name is Fawaz Al Sirri. I am the moderator on the call, and I am joined today with today's speakers:

- Mr. Garry Walsh, the company's CEO
- Mr. Fares Hammami, the company's CFO

A good afternoon to everyone, to those who follow us regularly and to the new participants I see joining us today. We will be starting this call shortly, but first, as a refresher allow me to through the format of the call:
For the next 15 minutes or so, the speaker's will make their Q3 statements on the company's earnings. This will be then followed by a Q&A session. To participate in the Q&A segment, just type in your question on your screen at any time. Starting from right now and we will address it during the Q&A session.

Before I handover to the CEO, I would like mention that a live recording of call will be available on the same link within two hours. I would also like to mention that some of the statements that might be made today may be forward looking. Such statements are based on the company's current expectations, predictions and estimates. There are no guarantees of future performance, achievements or results. Garry, it's all yours.

Garry Walsh:
Good afternoon everyone and thank you Fawaz and thank you all for joining us, and we welcome the opportunity to share with you our results for the third quarter of 2018.
Today I'm going to take you through a short presentation focusing on the headwinds we faced and tailwinds we enjoyed as we faced the third quarter of 2018, then I will go through the YTD 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.
The third quarter was a challenging quarter for the group for a number of external and internal factors.
From a headwinds perspective, the group was still impacted by the un-subsided impact of excise duties on energy drinks and persistence of grey market within the UAE. As these became effective 1 October 2017, the third quarter this year is compared to a strong comparable last year. It is key to remember that we did mention in our last call that we took a restructuring exercise and that the relevant savings on restructuring should become visible in the last quarter.

Secondly, in Q3 2018, we faced delays in our much anticipated move to the new centralized Kuwait Warehouse. I am glad to announce that we will start receiving products in the warehouse soon and we expect savings to start materializing from the beginning of next year.

Thirdly, we witnessed delays in delivering products of recent snack capacities added to the shelves in KSA, UAE and Qatar, these happened but towards the end of the third quarter.

Lastly, trend of raw materials, namely potato prices, pressured the margins of relevant business units, with no opportunity to recover and likely to persist through Q4'18 before reversing in Q1'19.

From a tailwinds perspective, we continued to see strong topline growth from Kuwait and Catering and Services and non Food FMCG businesses, which were the main drivers to revenue growth.

It is key to note that we added new listings in key accounts in KSA towards end of Q3 for our snacks products.

We have also managed to expand distribution capacities into Jeddah & Dammam. These aim at increasing our footprint in a key market that we still believe to be a driver of future growth for the group.

Furthermore, our sales of water in Kuwait continue to grow as we continue to ramp-up utilization of the new line which was commissioned earlier this year.

In terms of IT, we continue to invest in our infrastructure and rollout of Hand Held Devices (HHT) technologies, across business regionally.

In terms of our financial highlights therefore, I'm pleased to report that on a reported basis our turnover is up 2.5% in the YTD 2018. 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 4.9%.

Our gross profit on a reported basis was down by 13.5%. Our EBITDA was down by 9.2%, while net profit to shareholders has declined by 20.5%.

Our gross profits on a Proforma basis declined by 5.0% on the back of lower sales volume in the UAE.
Our EBITDA is down by 8.1% on a Proforma basis.
Our net income as I stated before has seen 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 YTD 2018 reflect these accounting changes. However, in this presentation we present the comparable period of last year, YTD 2017, as reported previously, as well as on a pro-forma basis where we restate our previous numbers to show the impact of these accounting changes had the changes been done in the last year as well.
The discussion today references current period results compared to Proforma of last years', but the presentation includes footnotes where the comparison of reported numbers for both periods as well.

In Q3 2017 selling and distribution expenses of KD 3.4 million and sales returns of KD 0.2 million would have been netted off against sales had the IFRS changes been implemented then.

Q3 2018 reported numbers include these changes to the tune of KD 4.0 million and KD 0.2 million, respectively.

Let's talk now about the revenue contribution by business line for Mezzan Group. The food group accounted for 73.1% of total group revenue in the YTD of 2018, while the non-food group accounted for the balance of 26.9% of total group revenue.

The revenue of the food group grew by 4.5% on a pro forma basis and the non-food group had grown by 6.4% on pro forma basis as well.

Within food group, food manufacturing and distribution contributed to 48.1% of YTD 2018 revenue, a small decline of 4.3% compared to pro forma of YTD 2017, largely driven by the impact of excise duties in the United Arab Emirates.

Our catering business contributed to 18.0% in YTD 2018, which was up 34.6% on a pro forma basis from YTD 2017 and our Services segment improved by 11.0% in YTD 2018 and contributed 7.0% to our YTD 2018 revenues.

In our non-food group FMCG and Pharma had a very solid performance year to date, and now accounts for 24.4% of Mezzan's YTD 2018 revenue, and a growth of 7.5% compared to Proforma YTD 2017, and industrials group declined by a modest 3.2 % and contributed to 2.5% in YTD 2018.

Looking at the Group from a per country basis, Kuwait, our home market, our largest market, contributed 71.4% of Mezzan's total top line and was up 11.4% 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 23.6% on a pro forma basis compared to YTD 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 6.8% in the current year 2018 compared to YTD 2017 on a pro forma basis and it now contributes 9.9% of Mezzan's revenue.

Saudi Arabia accounted for 1.9% of Mezzan's revenue in the current year and declined by 16.6% 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, sales were down by 9.8% on a pro forma basis and now contributes to 2.3% 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 34.8% and now accounts for 2.5% of Mezzan, and Iraq is 1% contribution to Mezzan's total top line and it grew by 8.5%.

As for the profit and loss. In the first nine months of this year, revenues reached KD161.5 million, which was up 2.5% compared to reported YTD 2017, but 4.9% compared to the pro forma 2017.

Gross profit reached KD35.1 million for YTD 2018, down by 13.5% compared to reported YTD 2017 but down by 5.0% compared to the pro forma YTD 2017.

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

Net profit had reached KD7.9 million in the YTD 2018, down by 21.3% from the reported YTD '17, however down by 19.7% from YTD 2017 on a pro-forma basis.

Net profit attributable to equity holders of the parent company is KD 8.0 million for the YTD 2018 compared to KD 10.1 million, (a 20.5% drop) compared to the reported YTD '17, and a drop of 18.9% on a like for like / Proforma basis for YTD '17 pro forma (KD9.9 million).

From a cash flow perspective YTD 2018 had resulted in an operating cash flow before working capital changes of KD 15.6million down by KD 2.1 million from last year comparable on a reported basis and down by KD1.9 million on a pro forma basis.

We have invested KD6.0 million in working capital in YTD 2018compared to the KD 4.1 million we have done in YTD 2017.

We had invested KD 8.1 million on capex and investment activities in YTD 2018 compared to KD 9.8 million in YTD 2017.

And our finance cost and others in the financing activities cost us KD12.8 million in YTD 2018 compared to KD 10.7 million in YTD 2017.
The net impact on our debt was increase of KD 11.3 million in our net debt during the YTD 2018, as compared to the increase of KD 6.9 million in YTD 2017 on a reported basis and KD 7.1 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 223.8 million, equity to the holders of parent company at KD108.6 million, net debt of KD 45.8 million, and a net debt equity of 42.2%.

And now we open the floor for Q&A.

Fawaz Alsirri:

Thank you Garry and thank you Fares for that quick and detailed review of the quarter and the year-to-date performance for the company. We will now be taking in a few questions. We already have several coming in and they circle around the same topic. So I am just going to combine them into one.

The questions are about potato prices and their impact on the performance, and specifically I think one question captured it best, asking the company's cost basket has always been said to be diversified. Therefore unlikely to be impacted by the movement in one single commodity. How come potato prices affected margin so much. Are margins expected to show healthier growth in the last quarter of the year?

Garry Walsh:

Sure, and that's a very good question and to be honest it caught us by surprise as well. Typically we buy our potatoes for most of the year from Europe and that typically starts shipping to us in September/October, and we then switch to an Indian or Egyptian crop in early May and that gets us through the summer, at which point we switch back to the European crop. We always try and cover our European crop forward and currently we're covered forward through to the end of May for next year. Unfortunately in the year that we're in, there was a cataclysmic failure in the Indian crop, which led the price to more than doubling. At the same time, there has been a failure in the European crop. They'd never normally happen in the same timeframe. We can't find any record of it happening like that before. What we have covered the European crop, we had not covered the Indian crop. And therefore for the shipments we receive from India through June, July, August, September, and into October we had been paying a substantially higher price, more than double, of what would be our norm.

We took the decision as we were in the process of launching potato chips in Qatar, Saudi and the UAE, we didn't have the opportunity to go back to the markers and recover price.

We can recover price in two ways: we can down-weight the packs, or we can put a straight price increase through. In any other year we would have done one of those. However, given the range of launches we were going through and the fact that we had just agreed pricing, barcoding, etc. with the retailers, we were unable to go and do that in this one instance. And we believe that situation will correct itself and currently there is a problem in Europe. However, our suppliers are contracted. Our suppliers ensure that they will honor their commitments. I hope that provide the detail you need.

Fawaz Alsirri:

Thank you, Garry, for that. Next up now's a question asking that there have been several delays this year on so many projects. Can you provide some color on this? And is the management stretching itself with several projects being undertaken simultaneously?

Garry Walsh:

Again, I think a very good question and obviously if I go through project by project you'll see some underlying causes.

So, in Kuwait we obviously have built a warehouse as a hub for our food business. The construction of that warehouse was anticipated to end in Q1 and finished in early Q2. The delay has purely been in getting electricity connected to the warehouse, so it's not that the project team didn't deliver the warehouse ready to go on time. It's that we simply struggled to get the electricity from the Ministry of Electricity and Water

Even this week we started filling the warehouse on Monday and ready to go and then obviously there have been floods in Kuwait over the last few days. So for prudence sake, we have held off on that until the beginning of next week. And so that's ongoing, but the fundamental cause of the delay is purely getting the electricity connected.

In Qatar, we were building, if you remember, a chips facility, a snacks facility, and a preform facility.

The snacks facility is only operational now.

The chips facility has been fully operational for the last month.
And the preform was actually finished in May, however again in that case, we are having to run in generators because the Qatari Ministry of Electricity is struggling to get us electricity before December. So therefore the anticipated cost / benefits would have been coming from those projects would not materialize until next year and therefore from my perspective I can consider that those projects are complete. We did put ourselves under pressure.

I mean the Qatari thing coming up last year was totally unexpected. So yes, there's an element of truth to that and there's an element of we may have slightly over committed. However, we believe that all of those projects needed to be done for the long term health of the business and that as soon as electricity is connected we will start to reap the benefits of those.

The other project that we had was the preform project for Kuwait was delivered on time and in full.

The snacks line for Saudi has been delivered on time.

And so it was really the Qatari ones where we did them all last minute and electricity is an issue, and the logistics hub here, where again the electricity is an issue.

Fawaz Alsirri:
Thank you Garry. Can we take a few questions on Saudi?
Garry Walsh:
Sure.

Fawaz Alsirri:

Okay, we have one: KSA sales were expected to hit 5-10% of sales by end of 2018. Is that delayed? Till When? And how specifically will you increase KSA sales?

Garry Walsh:

Sure. As we said, we prioritized Qatar market supply of chips over Saudi market, which has really dampened our growth over the last few months as we didn't have the supply. And we obviously corrected that situation in Q3 as we started to take delivery from Sharjah in September of all potato products into Saudi. That unlocked us from a capacity perspective.

At the back of that unlocking, we've been able to secure listings in Panda Hypermarket, which is roughly 20% of the Saudi market. And we've pressed ahead to open a distribution center in Jeddah and, which is now operational. Obviously, we're building slowly and it'll be to the end of the year before we're fully happy with that.

In Dammam, we have also taken control of distribution network from our partner there. We feel that we would drive better results ourselves and we will see the impact of that from the beginning of November.

Within Riyadh, we're already seeing the benefits where we see our van sales operation now operating profitably and hitting the growth aspirations we have for it.

So, yes it is delayed but we should hopefully see that as we move into next year.

Fawaz Alsirri:

Thank you. We had both those questions from other analysts on the same topic and I believe they have been covered by Garry's answers.

With that we've answered every question we received online, we will be concluding today's call.

As a reminder for everyone, a live recording of this call will be available on the same link in about 2 hours or so. Thank you everyone for joining us and until we talk again.

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