Date: 19/11/2020

Ref.: MHC/Disclosure/2020/089

Boursa Kuwait Company

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

Subject: Minutes of the Analyst / Investor Conference Call for Q3-2020

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 the third quarter of the year 2020 which was held through Live Webcast session on Monday,16th November at 02:30 pm Kuwait Time.

Attached hereto are the minutes of the Conference of the Investors earning call.

Mezzan Holding Company KSCP

Group Legal Manager

Walid Ali Khalil

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MEZZAN HOLDING CO. (KSCC)

Transcript of Earnings Call/Webcast
For Q3 2020
Mezzan Holding Company KSCP

Date: 16 November 2020
Time: 14:30 Kuwait Local Time

Speakers from Mezzan Holding executive management:
Mr. Garrett Walsh - Group CEO
Mr. Fares Hammami - Group CFO

Moderator:
Fawaz Alsirri – Managing Partner
Bensirri Public Relations

Fawaz Alsirri:

Good afternoon ladies and gentlemen and welcome to this Mezzan Holding call to discuss the company's earnings for Q3 2020 which was announced last Thursday.

Today is Monday 16 November 2020 and this call is held live from Kuwait and Dubai.

A recording will be available on the same link in a couple of hours.

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

Mr. Garrett Walsh, the group's CEO
Mr. Fares Hammami, the group's CFO

A warm welcome to you all. I hope that you and your family and colleagues are safe**.**
I will soon handover the mic to Garry to kick off the call but before I do, allow me to take you through the format.

For the next 10-15 minutes, the speakers will make their statements after which we will have a Q&A session.

To participate in the Q&A segment, just type in your question on your screen at any time during the presentation. Starting from now and we will address it during the Q&A session.
I would like to mention that given current circumstances, we are currently practicing social distancing and as such working remotely from multiple locations which may take us longer to address questions.

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.

Mr. Walsh, You may start.

Garrett Walsh:
Good afternoon everyone and thank you Fawaz and thank you all for joining us, and we hope that you and your families and colleague are doing well and healthy in these times.

Allow me start by announcing that 2020 marks an important milestone for the group as we celebrate the 75th anniversary of the start of our commercial operations. The entrepreneur the late Jassim Al Wazzan opened a small retail store in the heart of Kuwait, which formed the nucleus of what Mezzan is today. We are committed to live up to the standards he set then, and continue to build on that heritage and legacy for the future.

Today I will take you through a short presentation discussing both the tailwinds we enjoyed and headwinds we faced during Q3 this year

I will then go through financial highlights, after which I will hand over to Fares, who will take you through the detail of the financial performance.

Lastly, as Fawaz said we will be opening the floor for Questions.

From a tailwinds perspective, I am glad to say that the first nine months of 2020 witnessed improvement in our operational performance driven by both the heritage portfolio, inorganic growth as well as opportunistic Covid-related businesses.

We witnessed healthy topline growth in all core consumer-driven business units. I would like to highlight strong performance in the food manufacturing and distribution, as well as FMCG and healthcare segments

However, I would like to mention that we have seen some recent trends that show back-to-normalcy levels of activity, we expect to have better visibility in the next couple of months.

It is worth noting here that the growth in topline witnessed throughout the year and continued in Q3 was coupled with operating advantage and economies of scale, which has led to expansion of various profitability margins including gross profit, EBITDA, operating profit and net margins.

Since the beginning of the year, we also witnessed an improvement in working capital cycle, which enabled us to reduce our borrowing and financing costs. I am glad to see that our September 2020 borrowing back at pre-acquisition levels from a Net Debt to EBITDA perspective.

From headwind perspective, we saw a decline in the revenue of the Catering business in Q3 2020, however, we must note here that this did not come at the expense of profitability. In fact during Q3 2020, the profitability of catering improved compared to Q3 2019.

We continue to see select market channels closed such as schools amongst others and we continue to witness slow recovery of food services segments which vary from one market to another. and one segment to another

We started witnessing a diminishing trend of supply chain disruptions which have definitely improved from earlier this year. However there are still notable delays in shipping around the world necessitating slightly higher stocks than our ideal.

As for financial performance for Q3, Happy to report that Mezzan recorded improved operational and financial results from 2019 as evidenced by enhancement in key operational metrics including Revenue, Gross Profit and Gross Profit Margin, EBITDA and EBITDA Margin as well and Net income and Net Income to shareholders of parent company.

In terms of our financial highlights and headline numbers for YTD Q3 ended 30 September 2020;

- Mezzan's revenue reached KWD 194.4 million up from KWD 169.8 million in the previous comparable period, for a growth of 14.5%.

- Gross Profit reached KWD 47.1 million compared to KWD 38.7 million in the comparable period, for an increase of 21.6%. Gross Profit Margin enhanced by 140 basis points to reach 24.2%
- While EBITDA reached KWD 21.4 million, up from KWD 17.7 million in previous year, for an increase of 20.8%. EBITDA margin increased by c.60 basis points to reach 11.0%.

- The group achieved net profit of KD 11.6 million during first nine months of 2020 compared to KD 9.0 million in the first 9 months of the previous year, an increase of 28.1% and net profit margin increased by about 70 basis points to reach 6.0% compared to 5.3% in the comparable period.

- Finally, Mezzan's net profit to shareholders of the parent company reached KWD 10.3 million during YTD'2020, compared to KWD 9.1 million during the comparable period of the previous year for an increase of c.12.4%

- It is Key to note that our EBITDA has increased by c.14% in Q3 alone compared to the previous year's comparable figure, to reach a record level KWD5.6mn in the quarter.

And at this point I will hand over to Fares to take you through the financials in more detail discussing the performance of Q3 2020.

Fares Hammami :

Thank you Fawaz and Garry and I hope everyone is keeping safe.

As Fawaz stated earlier, we are doing this call from multiple locations and as such might face some delays. I apologize for that,

And as Garry stated earlier - we will discuss the results of Q3 2020.
Allow me to start by discussing the revenue contribution of various business lines at Mezzan Group:

In the first nine months of 2020

- The food group accounted for 66.6% of total group revenue, for a growth of 5.7% compared to previous comparable period; while the revenue of non-food group accounted for the balance of 33.4% of total group revenue, for a growth of 37.1% driven both inorganic growth as well as growth of heritage portfolio.

- Revenue of Food Manufacturing and Distribution increased by 7.7% in the first nine months of this year contributing to 46.0% of Group revenue

- Revenue of Food Catering decreased modestly by 1.0% from last year and contributed to 13.6% of Group revenue

- Revenue of Food Services increased by 7.2% in the first nine months while contributing to 6.9% of Group revenue

- Revenue of FMCG and Healthcare by 41.2% contributing to 31.7% of Group revenue driven by inorganic and organic activities

- Lastly Revenue of Industrial segment decreased by 11.6% contributing to 1.7% of Group revenue

Next I will discuss the revenue contribution by country of operation . In the first nine months of 2020

- Operations in Kuwait contributed to 74.5% of Mezzan's revenue, up 21.3% resulting from a strong performance from food manufacturing and distribution and non-food FMCG and Healthcare businesses alike.

- Revenue from our operations in the United Arab Emirates decreased by a mere 1.9% compared to previous comparable period mainly on the back of lower Food Service (Restaurants/Hotels) activity.
- Revenue in Qatar decreased by 9.2% in the first nine months compared to last year's first nine months and now contributes to 8% of Mezzan's revenue.

- Saudi Arabia accounted for 1.9% of Mezzan's revenue this year to date for an increase of 5.8% compared to first nine months of last year.

- In Jordan, revenue increased by 8.9% and that market contributed to 2.3% of Mezzan's revenue.

- Revenue from operations in Afghanistan was down 6.6% This market accounts for 2.4% of Mezzan while operations in Iraq accounts to only 1.0% of Mezzan's total top line.

Moving to the Profit and Loss, we will first discuss first the nine month P+L and then then move on to Q3 2020:

In the first nine months of 2020 , Mezzan Group recorded

- Revenue of KWD 194.4 million, for an increase of 14.5% compared to comparable period of previous year. As explained earlier, this was driven by topline growth both food and Non Food segments alike as well as organically and inorganically.

- Gross profit reached KWD 47.1 million in year to date 2020 compared to KWD 38.7 million in the previous comparable period, and Gross Profit Margin reached 24.2%, an enhancement of approximately 140 bps.

- Selling, general, and administrative expenses (SG&A) expenses increased by 21.7 % in the first nine months of 2020 mostly on the back of new business and acquisitions, higher ECL and inventory provisioning as well as COVID related expenses.

- EBITDA reached KWD 21.4 million, up from KWD17.7 million in previous year, for an increase of 20.8%.EBITDA margin reached c.11%, up by c.60 bps from previous comparable period.

- This is important in light of the increased capacities and efficiency enhancing initiatives we completed recently as well inorganic growth and capex we have completed over the past 3 years having started to yield results.

- Financing costs and other expenses were flat at KWD 2.6 million in the first nine months of 2020

- Net profit had reached KWD 11.6 million in the first nine months of this year, up by 28.1% from comparable period in 2019.

- Net profit attributable to equity holders of the parent company reached KWD 10.3 million for nine month period ending 30 September 2020 compared to KWD 9.1 million in the comparable period of 2019 for an increase of 12.4%.

<u>I will move on now to discuss the Profit and Loss for Q3’2020, where Mezzan Group recorded</u>

- Revenue of KWD 60.1 million, for an increase of 9.7% compared to Q3’2019. Again, driven by growth in both Food and Non Food segments.

- Gross profit reached KWD 15.2 million in Q3’2020 compared to KWD 12.4 million in the previous comparable period, and Gross Profit Margin reached 25.3%, an enhancement of approximately 260 bps.

- Selling, general, and administrative expenses (SG&A) expenses increased by 24.6 % in Q3’2020 ending 30September 2020 mostly on the back of new business as well as provisioning.

- EBITDA reached KWD 5.6 million, up from KWD4.9 million in previous year, for an increase of 14.4%. The margin has increased by c.40 bps to reach 9.3%.

- Financing costs and other expenses decreased slightly to KWD 0.7 million in Q3’2020 compared to approximately KWD 1.0 million in Q3’2019. Financing cost decreased by around KWD 0.3 million compared to last reflecting the lower borrowing rates which started towards the end of Q1 2020 as well as lower borrowing.

- Net profit for Q3’20 reached KWD 2.6 million in higher by 38.6% from comparable period in 2019.

- Net profit attributable to equity holders of the parent company reached KWD 2.1 million in Q3’2020 compared to KWD 1.8 million in the comparable period of 2019 for an increase of 17.5%.

<u>From a cash flow perspective,</u>

In the first nine months of 2020

- Mezzan recorded operating cash flow before working capital changes of KWD24.8 million in, up by KWD 6.1 million from comparable period from previous year on the back larger activity and higher margins

- We have recorded an inflow of working capital cash flow of KWD 6.1 million compared to an investment in working capital of KWD 13.5 million in comparable period in 2019 on the back of enhanced working capital management.

- Key to note here that Mezzan's Cash flows from Operating Activities reached KWD 30.9 million in in the first nine months this year compared to KWD 5.2 million in from last year which is in important milestone for Mezzan Group.

- Cash flows used in investing activities reached KWD 4.5 mn mostly on the back of maintenance capital expenditure

- As such, we recorded positive Cash Flows before Financing Activities amounted to KWD 26.4 million in the first nine months in 2020 compared to a KWD an investment of 20.9 million last year

- Finally, happy to see our Net Debt decreased by KWD 18.1 million in the first nine months of this year compared to an increase of KWD 29.1 million in the comparable period last year.

As of 30 September 2020, Mezzan's balance sheet size reached KWD253mn, equity to shareholders of parent company of KWD112mn and Net Debt of c. KWD57mn.

As you will see in the following chart, our debt spiked in September 2019 to reach KWD75.5mn as we funded the acquisition of majority share in KSPICO as well as working capital of other growth opportunities last year.

We are quite glad to see our debt levels going down, to reach KWD56.7mn in September 2020 which is lower by KWD 18.7mn from September 2019 levels and lower by KWD17.7mn from December levels. Our Net Debt to EBITDA hovers around 2.3x and is now at pre-acquisition levels.

Fawaz Alsirri:

Thank you, gentlemen. We will now be starting our Q&A session. We're going to start with a question for Garry The question reads, I'm trying to get some understanding on the sustainable level of revenue/ EBITDA/net profit going forward. How much of the growth seen in 2020 can be attributed to tailwinds specific to this year and are not expected to continue or tone down going forward and would have been the growth in revenue this year without the tailwinds seen in 2020 / KSPICO?

Garry Walsh:

Good afternoon. A very good question. And I think as we said in Q2 and our experience of COVID so far has been that for every positive, we've had a negative, where we've seen very strong performance in our Kuwaiti catering company for example. We've seen some weaker performance in our Qatar business, largely due to how COVID has hit each country separately. So, bizarrely for us we are broadly in-line with the expectation we set for the group at the start of the year. There are some mixed differences within us, and so, for example, on the FMCG side, we would see a real surge in, cleaning related products and probably a notable decline in the more luxury going out type, makeup removers, that type of stuff. However we expect that those things will offset each other. So, broadly, we believe we'll finish where we thought we would have to start in the year and we believe that those headwinds and tailwinds are going to cancel each other out. I think our concern looking forward would be, obviously, we're seeing some population decline in the UAE and we're all still coping with the VAT increase in Saudi and then our core market of Kuwait. There also seems to be some population decline. So, realistically we're more focused on addressing those and then the reversal or otherwise or other headwinds and tailwinds.

Fawaz Alsirri:
The Next question is for Fares; can you explain the reason for the difference in net profit and net profit to shareholders, and the difference in growth between net profit and net profit to shareholders. Fares.

Fares Hammami:
Sure, the main difference obviously is minority interest. So, if you take a stand of where Mezzan was last year, we did not own the investment in KSPICO, and we owned only 70% of the investment we had in our subsidiary in Saudi Arabia. So, obviously the difference between both net profits is one is before and the other is after minority interest. Obviously, we lock more of the losses in Saudi. Although the losses in Saudi in absolute terms have dropped. Obviously, we own a majority stake, but not a 100% stake in KSPICO because a part of the profits does not belong to the shareholders of Mezzan, and they belong to the partners. So, that's the main difference.

Fawaz Alsirri:
Thanks Fares. Since we have you on the mic, let me channel some questions to you. We have four questions. The first question is regarding a 24% year on year increase in SG&A expenses in the third quarter, what is the reason behind this increase?

Fares Hammami:
Sure. So, the first reason would be (as we always said, throughout this year), we acquired businesses that weren't there last year. So, part of that SG&A is growing because of that.

The second part, as we mentioned earlier throughout the call is that we did some provisioning for ECL and inventory provisioning. Obviously we're holding a bit more stock than we typically would given COVID and given the earlier discussion we've had on some disruptions of the supply chain. This would be the second part and the third part would be in the year to-date, we have taken some COVID related expenses, which we have disclosed earlier as part of Q2.

Fawaz Alsirri:
The second question is regarding the FMCG segments, can you tell us what would be the segment performance if we excluded KSPICO?

Fares Hammami:
We are a group of 30 companies. We don't disclose results per company. However, I can tell you that KSPICO is at its budget. And obviously the budgets were done prior to COVID. And I can definitely say that our heritage portfolio and the FMCG and healthcare businesses have done well in the year to date.

Fawaz Alsirri:
The third question is; what types of initiatives did you benefit from? I assume from the period during COVID.

Fares Hammami:
Yes, as we've discussed earlier in the previous call, we did have, and we did find some opportunistic business in the catering segment earlier this year, specifically in Q2. So, that's what we mean by some COVID businesses.

Fawaz Alsirri:
The last question is regarding the gross profit margin, he says this improvement in margin came on the back of a better portfolio mix, or is there another reason like lower salaries or any cost cutting?

Fares Hammami:
Gross profit margin is definitely improving on the back of a better sales mix. And obviously the theme of Mezzan in the last, I would say three to four years was doubling down on what we manufacture versus distribute. That's not to say that we didn't sell more of what we distribute. The growth happened on both manufactured products and distribution. But if you look at the capital expenditure that we've done, if you look at the heavy investments that we've completed, this was mostly driven either to enhance efficiency, which improves margin or you know, manufactured products, which typically accommodate higher margin than what we distribute.

Fawaz Alsirri:
Thank you Fares. We're going to be moving the attention back to CEO Garry. We have a couple of questions for you Garry. How do you see the return of expats after more than a hundred thousand left this year. And how serious do you think the government plan is this time about reduction in the expats population, given that it has been in place for years?

Garry Walsh:
In terms of the Kuwait market from a pure supplier point of view, the reality is that the vast majority of the purchasing power rests with the indigenous population i.e. the Kuwaitis. So, whilst you might see some exodus of expatriates it's generally, not that impactful on the business because the business is driven by the actual consumption power of the Kuwaitis.

That said, you know, a lot of the expatriate population is performing roles that need a lot of manual labor that actually physically need people there. So, I would expect to see any significant shift in expats to be over a very long time horizon rather than anything immediate. And would be normal for any government to look at their population that way.

Fawaz Alsirri:

The next question is what is your outlook on food consumption going forward, noting that the previous couple of quarters have witnessed an uptick in food inflation?

Garry Walsh:

Interesting question. And I think you know, this crisis has shown no matter what's going on, people have to eat. And bizarrely foods inflation probably plays into Mezzan and we are typically a supplier of commodities, reasonably priced commodities. And so therefore I wouldn't be unduly worried about any inflationary impact.

Fawaz Alsirri:
We have a question : what is the rationale to pay down debt in a low interest rate environment and not direct that cash to shareholders in the form of cash dividends, we'd like to understand the strategy, keeping in mind the shareholders?

Fares Hammami:
Mezzan has maintained a very steady strategy, we borrow to expand; when we've acquired a company or two companies in 2014, we funded that acquisition with debt. When we've acquired the majority stake of KSPICO,

we've acquired it with debt. When we've acquired 70% stake in Mezzan Foods in Saudi Arabia, we funded that through debt. That being said we're not here to look at the restructuring of the balance sheet of Mezzan. If we found an interesting opportunity that makes sense strategically and adds value and is accretive to the business and to the shareholders will borrow against that.

Fawaz Alsirri:
Next question: in the third quarter, net profit increased by almost 40% year-on-year. How much of this growth may be attributed to non-organic growth?

Fares Hammami:
I guess an earlier question alludes to the same notion, unfortunately we do not disclose per company performance. However, I can tell you that the growth came from both organic and inorganic, we did see our businesses and the food and non-food alike both organically and inorganically on the non-food, but also from the heritage portfolio of the FMCG segment, as well as the food segment grew. And that drove profitability growth as well. But we unfortunately do not disclose per company performance.

Fawaz Alsirri:

Next question is What is driving decline in Qatar revenue, and can you please expand on the issues in Qatar. Are you seeing the population decline in Qatar and what do you see as sustainable SG&A level going forward? So, if you could just talk us through Qatar, Garry.

Garry Walsh:
Within our Qatar business, we, we broadly have two buckets. We have a catering business and we have a food manufacturing and distribution business. And as we were very clear in Q2 call, and both of those businesses took a lot of pressure in Q2 and given the response of the government to COVID. Going in Q3, what we've seen is our consumer business really do well, bounce straight back, good year on year growth, and very much in line with our initial projections before COVID struck.

So, very pleased with that. We believe we've continued to expand our market share in chips and our water business is also performing well.

On the flip side our catering business has seen the loss of a contract. And as part of the tender process, these things come and go on catering. Businesses is still very sustainable, very profitable. We're still very happy with the business, but that has given to a small decline in revenue in Q3 and compared year on year.

In terms of population decline in Qatar. We're not seeing any significant shift in population yet. We do expect to see a shift. I mean, if you think about it, logically the country has spent a considerable time now building infrastructure, and that requires a lot of labor. You will see a lot of those people leaving over the next year and as the various projects come to a halt, however, you will then see another shift shortly after that, as people bring staff to cater for people during the world cup, assuming COVID allows people to travel by then.

Fawaz Alsirri:

The next question is there a specific reason to drop the guidance which used to be a part of earlier earning calls? How should we think about cash dividend in 2020, should the target payout of around 33% of the EBITDA hold? Or is there a specific payout ratio that we should keep in mind?

Garry Walsh:

So, I'll answer the first bit, and then Fares can jump in on the dividends because he's better on that than I am. In terms of dropping the guidance, there was no specific reason for taking it out of the presentation. We were very clear in our guidance in Q1 and Q2, as Fares said earlier on, we are trading broadly in-line with our budget for this year. Therefore we don't see any reason for our guidance to have shifted. If you guys find it convenient by all means, let us know. We can start putting that sheet back into the presentation. It's by no means an issue.

We do have a target ratio for dividends, which we stick to each year, I would pass it across to Fares to elaborate on the dividend policy.

Fares Hammami:

Sure, Garry. 45% to 55% of our recurring profitability is the Mezzan dividend policy. So, that is a policy that is adopted by the board at the end of the day, the discussion on any dividend is a recommendation to the board and the board recommends to the general assembly to approve.

However, our announced dividend payout policy is 45% to 55% of our recurring operating profitability.

Fawaz Alsirri:

Thank you, Garry. And thank you, Fares. We've answered all questions that we've received so far and with that we will be concluding today's call. As a quick reminder; a live recording of this call is going to be available on the same link in about two hours or so. And thank you all for joining us today. Stay safe and looking forward to holding the next webcast with you all for the fiscal year for Mezzan Holding. Thank you, and have a good day.

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