



میزان القابضة ش.م.ك.ع.  
MEZZAN HOLDING K.S.C.P.

Date: 17/11/2021

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**Boursa Kuwait Company**

Mubarak Al Kabeer St.  
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**Subject: Minutes of the Analyst / Investor Conference Call for Q3-2021**

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 2021 through a live webcast session on Monday, 15<sup>th</sup> November 2021 at 11:00 am Kuwait Time.

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

**Mezzan Holding Company KSCP**

Chairman

Abdulrahman Jassim AlWazzan



**Transcript of Earnings Call/Webcast for Q3 2021.**  
Mezzan Holding Company KSCP.

**Date:** November 15, 2021

**Time:** 11.00 Kuwait Time

**Speakers from Mezzan Holding Co. Executive Management:**

Mr. Garrett Walsh - Group CEO

Mr. Nabil Ben Ayed - Group CFO

**Moderator:**

Fawaz Alsirri – Bensirri Public Relations

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**Fawaz Alsirri:**

Good morning and Good afternoon ladies and gentlemen. This call is held to discuss Mezzan Holding's Q3 earnings for the fiscal year 2021, the earnings were filed last Thursday on "11 November 2021".

Today is, November 15, 2021 and this call is held live from Kuwait and a recording of this call will also be available on the same link within two or three hours.

My name is Fawaz Al Sirri. I am the moderator on the call today, and allow me to introduce our speakers for the call. I am with:

- Mr. Garry Walsh, the company's CEO.
- Mr. Nabil Ben Ayed, the company's Group CFO.

Ladies and gentlemen, I will be handing over the mic to Garry in a few seconds to start the call right after I take you through the usual call format.

As you know, first, the CEO and the CFO will each deliver their statement for the next 10 minutes or so, then we will open the floor to the Q&A.

To participate in the Q&A session, just type in your question on your screen at any time during the presentation. You can do that starting from now.

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.

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, the mic is yours.

**Garrett Walsh:**

Thank you Fawaz and Good morning everyone.



We will take you through a short presentation reviewing both the tailwinds we enjoyed and headwinds we faced during Q3 2021.

I will then discuss financial highlights, after which I will hand over to Nabil, who will take you through the details of the financial performance, both as they are related to 2020, but also most importantly as they are related to 2019.

Lastly as Fawaz said, we will be happy to receive your questions and answer as much as possible today. If we are unable to cover all your questions, please feel free to send your questions to our Investor Relations team at [ir@mezzan.com](mailto:ir@mezzan.com) and we will get back to you very quickly.

Overall, we are happy to see that life is gradually returning to normal in our region. Thanks to the successful vaccination drives and the current and the upcoming mega events will support growth of the economy going forward.

#### **From a tailwinds perspective:**

- We continued to see strong performance growth versus market in Saudi, Qatar and UAE, which is much enjoyed.
- Schools reopening – which should preface a return to normal trading patterns.
- Our high stock levels which we flagged on previous calls are providing a recovery buffer versus the current rampant cost inflation as was anticipated.
- Completed the acquisition of the rest of the Medtronic's JV: The acquisition of rights to distribute Medtronic and Covidien products in Kuwait is Mezzan's latest investment in furtherance of our growth strategy and expansion of our value-added healthcare capabilities.
- Obviously we've also seen Easing in the travel and visa situation, which will help with wage inflation.

#### **From headwinds perspective:**

- Inflation, inflation, inflation: in addition to labour supply shortages, increased wage costs, global supply chain issues and increased freight and shipping costs.
- Credit challenges and delays in payments from key customers, which we are dealing with quiet aggressively.

#### **In terms of our financial highlights and headline numbers for 9M 2021 ended 30 September 2021:**

- Mezzan's revenue reached KWD 191.2 million down slightly from KWD 194.3 million in the previous comparable period, for a slight decline of 1.6%.
- Gross Profit reached KWD 40.5 million compared to KWD 47.1 million in the comparable period, for a decrease of 14%. Gross Profit Margin decreased by 310 basis points to reach 21.2%.
- While EBITDA, reached KWD 19.6 million, down from KWD 21.3 million in the comparable period, for decrease of 8.4%.



- The group achieved net profit of KD 10.8 million in the nine months period ended 30 September 2021 compared to KD 11.6 million in the nine months period ended 30 September 2020, a decrease of 7.1%.
- Finally, Mezzan's net profit to shareholders of the parent company reached KWD 9.5 million in the nine months period ended 30 September 2021, compared to KWD 10.3 million during the comparable period of the previous year for a decrease of 7.2%.

At this point I will hand over to Nabil to take you through the financials in more details discussing the performance of the nine months period ended 30 September 2021.

**Nabil Ben Ayed:**

Thank you Garry and Fawaz. And thank you everyone for attending the call. I will walk you through the financial results of the nine months period ended 30 September 2021:

As for revenue contribution by business line at Mezzan Group:

- In YTD 2021, the food group accounted for 65% of total group revenue in, for a decline of 4.1% compared to YTD 2020; while the revenue of non-food group accounted for the balance of 35% of total group revenue, for a growth of 3.3%.
- In YTD 2021, Revenue of Food Manufacturing and Distribution increased by 2.1% contributing to 47.8% of Group revenue.
- Revenue of Food Catering decreased by 13.6% contributing to 12% of Group revenue.
- Revenue of Food Services decreased by 26.3% contributing to 5.2% of Group revenue.
- Revenue of FMCG and Healthcare increased by 1.9% contributing to 32.9% of Group revenue.
- Revenue of Industrial segment increased by 29.3% contributing to 2.2% of Group revenue.

We now move on to discuss operations per geography for the nine months period ended 30 September 2021:

- Operations in Kuwait contributed to 74% of Mezzan's revenue, down by 2.2%.
- Revenue from our operations in the United Arab Emirates contributed to 11.8% of Mezzan's revenue, increased by 18% compared to same period of 2020 due to an improvement in our distribution business.
- Revenue in Qatar decreased by 4.8%, and contributes to 7.7% of Mezzan's revenue. The drop is majorly due to the decline in catering business.
- Saudi Arabia accounted for 2.2% of Mezzan's revenue for an increase of 12.2% on the back of introduction of new products and enhancing our workforce and warehousing facilities.
- In Jordan, sales increased by 19.9% as we continue to improve our distribution coverage. Jordan revenue contributed to 2.8% of Mezzan's revenue.
- Revenue from operations in Afghanistan was down 82.1%, due to the completion of U.S troop's withdrawal from the country and the political turmoil and unrest in the country. Afghanistan market accounted for 0.4% of Mezzan revenue.
- While our operations in Iraq accounted for only 1% of Mezzan's revenue with a decrease of 6.5.

**Moving to the Profit and Loss:**



In 9M 2021 ended 30 September 2021, Mezzan Group recorded:

- Revenue of KWD 191.2 million, for a decrease of 1.6% compared to the same period in 2020. This was driven by Food Group decline of 4.1% largely due to the drop in Food Services and Catering lines.
- Gross profit reached KWD 40.5 million, compared to KWD 47.1 million in the previous comparable period, and Gross Profit Margin reached 21.2%, a decrease of approximately 3.1%.
- EBITDA reached KWD 19.6 million, down from KWD 21.3 million in the previous year, for a decrease of 8.4%, caused by the increase in Selling, general, and administrative expenses (SG&A) expenses.
- Financing costs and other expenses decreased to KWD 1.7 million, compared to KWD 2.6 million in the same period of 2020.
- In summary, Net profit had reached KWD 10.8 million in the nine months period ended 30 September 2021, lower by 7.1% from the same period in 2020.
- Net profit attributable to equity holders of the parent company reached KWD 9.5 million, compared to KWD 10.3 million in the comparable period of 2020 for a decrease of 7.2%.

**From a cash flow perspective:**

- Mezzan recorded operating cash flow before working capital changes of KWD 21.2 million in the nine months period ended 30 September 2021, compared to KWD 24.8 million in the same period of 2020. Lower by KWD 3.6 million driven by lower Net Profit and increase in working capital.
- We have recorded an inflow of working capital cash flow of KWD 3.5 million compared to an investment in working capital of KWD 6.1 million last year.
- Mezzan's Cash flows from Operating Activities reached KWD 17.8 million in the nine months period ended 30 September 2021, compared to KWD 30.9 million in same period last year.
- Cash flows used in investing activities reached KWD 8.3 million mostly on the back of maintenance capital expenditure.
- As such, we recorded positive Cash Flows before Financing Activities amounted to KWD 9.5 million in YTD 2021 compared to KWD 26.4 million in YTD 2020.
- Our Net Debt stood at KWD 53.4 million in YTD 2021, Down by KWD 3.3 million from YTD 2020 levels.

**From a balance sheet perspective:**

As of 30 September 2021, Mezzan's balance sheet size reached KWD 260.1 million, equity to shareholders of parent company of KWD 112.6 million and Net Debt of KWD 53.4 million.

Our Net Debt to EBITDA has reached 10.2x and is up by 0.1x compared to September 2020.

And now, I open the floor to your questions. Thank you



**Fawaz Alsirri:**

Thank you Nabil and thank you Garry for taking us through the highlights of the quarter. We will now take our audience's questions. Please give us a minute to go through the questions list.

Thank you for holding. We will now be taking the first questions.

We have a question from Mr. Khaled Al-Wazzan, the question reads: **“the CFO stated yesterday for Al-Arabiya news TV that the costs increased by 35% and Mezzan managed to absorb the increase.” I think that reference was to inflation and the cost of inflation. How did Mezzan manage to absorb the increase of 35%? And can we have more details please.”**

And those questions are going to be answered by Garry.

**Garrett Walsh:**

Thanks Khaled, and good morning. Nice to hear from you.

We've looked at a variety of things that we need to do to absorb the cost inflation. Obviously, that varies country by country and product range by product range and as you know each of our areas of business is very different. However, in general it is possible that we will push for price increases, it is possible that we have prevented price increases coming through. For example: in Saudi, there is a fairly regulated way of putting through prices, but it is easy to navigate. That has already been done. For the UAE is similarly, Qatar is similarly. In Kuwait, I think everybody has seen in the press the pressure on pricing which we hope it will bring us relieve over the next while. We have reduce our head count quiet substantially, through efficiency drive. Our head count now versus a year ago is probably down by 1,300 people. Certainly, from the start of Covid it is down by 1,300 people. That was a deliberate decision we made at the introduction of Covid, where we felt that this would eventually come, so we took cost-cutting exercises in advance. You can see that in our P&L, where if you look at the reduction in gross profit it's been more than offset by the saving below the line. We managed to introduced some logistics efficiencies in the business, we managed to introduce some efficiencies by buying cross-site and we've also looked at some changes in packaging to drive efficiencies. For example, On simple thing like KITCO Baqala box, where you change the colour scheme and reduce the number of colours, that can have a substantial impact on the cost of that product. So in broad terms that's what we have done. It is an area we continue to be concerned about. As we flagged over the last 18 months, we were holding excess stock, we continue to carry stock of our key commodities which were bought in better times, or we have deals in place which have secured longer term supply of those products at lower price that what currently exist, which allowing us the time to re-shape the business to cope with these increases. I hope that answers the question.

**Fawaz Alsirri:**

Thank you Garry. We are still waiting for more questions. If anyone online, and is currently thinking of a question to ask, please send it through. Now is the time to ask it.

Thank you. I think we have a question from Ahmed Yousef. Ahmed is asking, **"What's the outlook for the rest of the year and, what is the phasing going to look like until the year end?"** Garry?



**Garrett Walsh:**

Sure. I think as we've highlighted from the start of the year, and as you can see in our investor presentation, obviously 2020 was a strange year in that we had this massive spike in Q2, and to a lesser extent in Q3, which we always flagged. We saw coming back to more normalized trading patterns as we went through this year. We also saw a big dip in Q4 last year versus prior years. So at this stage, we are still anticipating Q4 to be much more in line with historic norms and to finish the year with positive momentum versus last year. As you'll know, from looking at most of the food comparators, people are looking at 2019 as a true comparator, and we certainly see ourselves up both versus 2020, but also substantially up versus 2019 by the end of the year.

**Fawaz Alsirri:**

Thank you, Garry. And with that, we will be concluding today's call. We have no more questions coming in. We've answered all the calls that we received today.

I'll remind everyone that a live recording of this call will be available to everyone on the same link in about two hours or so.

And one last time, thank you, Garry, and thank you, Nabil, for today's discussion and review of the quarter, and I wish everyone a good day. Thank you for joining us.