



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

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### **Boursa Kuwait Company**

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### **Subject: Minutes of the Analyst / Investor Conference Call for Q3-2019**

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 2019 which was held through Live Webcast session on Thursday, 7<sup>th</sup> November at 02:30 pm Kuwait Time.

Attached hereto are the minutes of the Conference of the Investors earning call for Q3-2019.

### **Mezzan Holding Company KSCP**





## Q3 2019 Mezzan Holding Company KSCP Earnings Call Webcast Transcript

**Date:** Thursday, 7 November 2019

**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 announce and discuss the company's earnings for Q3 2019.

Today is 7 November 2019 and this call is held live.

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 will soon handover the mic to Garry to kick off the call but before I do, allow me to take you through the format of the call.

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 mention that this call is held live as I discussed earlier and a 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.

Mr Walsh , You may start.



**Garrett 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 and nine month period ending 30 September 2019.

Today I will take you through a short presentation discussing both the tailwinds we enjoyed and headwinds we faced during the third quarter of 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 Q3'19 saw the continued gradual improvement in our performance which started earlier this year.

We witnessed topline growth in most business units. However, I would like to highlight strong performance in the food manufacturing and distribution unit as well as the Non Food FMCG and Healthcare units. Each of these core units grew by healthy double digits in the quarter.

We also saw single digit growth in Food Services segment. As Fares will explain later, revenue in Catering decreased in the Quarter but this was not at the expense of profitability.

We have also seen revenue grow in all key markets, albeit at varying rates, between low single digits to double digits.

Our UAE operations continue to support our performance and financial results throughout this year – which started earlier this year and is still true in Q3. We saw a pickup in energy drink sales and are witnessing ramp up of production lines which add both topline and profitability to our business in the UAE.

Profitability in the quarter was supported by results of operations in Qatar on the back new line performance of potato chips and catering business.

Financial results were also supported by performance of catering segment, despite lower topline in the quarter. Excluding non-recurring revenue in Q3'18, the segments revenue was in fact flat while margins enhanced.

Lastly, as we have previously announced, we have expanded operations in-organically during Q3'19 and the results of the same are reflected in this year's Q3 numbers. We acquired a majority stake in KSPICO – the only pharma manufacturer in Kuwait and consolidation was effective 6 August, and have also inked a distribution Joint Venture to distribute Medtronic and Covidien products in Kuwait starting in July. These have added to our scale and profitability and we expect the contribution to continue further going forward. I am also happy to announce that the integration of these new business units are underway as planned.

From a headwinds perspective, the picture throughout Q3 mimics the trend from the beginning of this year; where we see the cost of expansion of our in-house distribution in Saudi Arabia; whether one off expenses and one off listing fees continue to add pressure to our financial results.

That being said, we remain positive on Saudi which is a key market for Mezzan and is a driver of future growth.



The bottled water market in Qatar remains challenged and the intensity of competition persisted in Q3. Our new lines of snacks are doing well though and as planned which subside the impact witnessed on the water business.

Finally, finance cost increased as our borrowing increased to fund the growth in balance sheet size driven by acquisition of KSPICO and the other new businesses.

As for financial performance, Mezzan recorded improved results as evidenced by enhancement in all key operational metrics and ratios, from revenue, Gross Profit, EBITDA and Net Income alike.

In terms of our financial highlights and headline numbers for the first nine months of 2019;

Mezzan's revenue reached KWD169.8 million up from KWD161.5million in the previous comparable period, - for a growth of 5.2%.

Gross Profit reached KWD 38.7 million compared to KWD 35.1million in the comparable period - for an increase of 10.4%.

While 9 months EBITDA reached KWD17.7million, up from KWD14.6million in previous year, for an increase of 21.1%.

This is important in light of the increased production capacities and efficiency enhancing initiatives we completed last year.

Finally, Mezzan's net profit to shareholders of the parent company reached KWD 9.1 million during the first nine months of 2019, compared to KWD 8.0 million during the comparable period of the previous year for an increase of 13.5%.

Key to note here that in the third quarter of this year, Mezzan's revenue increased by 5.3%, while our EBITDA increased by 42.8% and Net Profit increased by 65.6% and Net Profit to the shareholders of parent company increased by 49.8%, compared to Q3'18 results.

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 2019 new IFRS standards 16 for operating leases became effective. The operating leases have been capitalized onto the balance sheet with an asset and liability value being time value discounted of rent expenses. As such, the rent expense of operating leases have been reclassified into depreciation and interest expenses by the same amount and as such net income was not impacted.

The reported numbers for the nine-month period ending 30 September 2019 and Q3'2019 reflect these accounting changes. However, in this presentation we present the comparable period of last year, Q3 and YTD 30 September 2018, as reported previously.



In the nine month period ending 30 September 2019, operating leases were capitalized onto the balance sheet to the tune of KWD 2.4 million, and rent expense was reduced by KWD 766k as it was reclassified to additional depreciation of KWD 722k and additional interest of KWD 44k.

As for revenue contribution by business line for Mezzan Group. The food group accounted for 72.1% of total group revenue in the first nine months of 2019, for a growth of 3.8% compared to the first nine months of 2018; while the revenue of non-food group accounted for the balance of 27.9% of total group revenue, for a growth of 8.9%.

Within food group, food manufacturing and distribution contributed to 48.9% of the revenue during the first nine months in 2019, registering a strong 7.0% growth compared to previous comparable period which was driven by strong performance in Kuwait, UAE and KSA.

Our catering business contributed to 15.8% of revenue in first nine months of 2019 for a decline of 7.8% although this did not impair profitability. To the contrary, the catering businesses witnessed growth in profitability.

Lastly, Revenue from our Services segment within the Food Group increased by 11.6% in the first nine months of this year and contributed to 7.4% to our 2019 revenues.

In our non-food group FMCG and Healthcare had a very solid performance in the period 2019, and the revenue of the segment now accounts for 25.7% of Mezzan's 2019 YTD revenue, and a growth of 10.7% compared to comparable period in 2018, while revenue of industrials group slightly declined by 8.1% and contributed to 2.2% in YTD 2019.

Geographically, Kuwait contributed to 70.2% of Mezzan's total top line and was up 3.4% 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 as Garry mentioned earlier increased by 9.9% compared to the first nine months in 2019. The revenue increase in UAE is driven by measures we took over the last year on both trading and manufactured items alike.

Revenue in Qatar grew by 7.2% in the first nine months of 2019 compared to comparable period in 2018 now contributes to 10.1% of Mezzan's revenue.

Saudi Arabia accounted for 2.1% of Mezzan's revenue in the first nine months of 2019 for a growth of 16.3% compared to the first nine months of 2018. The increase resulted from securing new stock into Saudi Arabia through the added chips and snacks capacities now on line in UAE.

In Jordan, sales were up by 10.6% and that market contributed to 2.4% of Mezzan's revenue. Revenue from operations in Afghanistan was up 24% during the first nine months of this year. This market accounts for 3.0% of Mezzan while operations in Iraq accounts to only 0.7% of Mezzan's total top line.

Moving to the Profit and Loss, Mezzan Group recorded revenue of KWD169.8 million in the first nine months of 2019, for an increase of 5.2% compared to the first nine months in 2018. As explained before, this was driven by topline growth in all key markets.



Gross profit reached KWD38.7 million for the first nine months in 2019 compared to KWD 35.1 million in the previous comparable period, and Gross Profit Margin reached 22.8%, an enhancement of approximately 110 bps.

Selling, general, and administrative expenses (SG&A) expenses increased by 7.6 % in the nine-month period ending 30 September 2019 mostly on the back of new business.

Financing costs and other expenses increased to KWD2.6 million in the first nine months of 2019 compared to KWD 2.0 million in comparable period of 2018. The increase is attributable to higher borrowings due to funding the acquisitions of KSPICIO and other new businesses in Q3.

Net profit had reached KWD 9.0 million in the nine-month period ending 30 September up by 13.9% from comparable period in 2018.

Net profit attributable to equity holders of the parent company reached KWD 9.1 million in the first nine months of 2019 compared to KWD 8.0 million in the comparable period of 2018 for an increase of 13.5% increase.

It is key to mention that the growth in profitability in the year to date was driven by Q3 results where revenue increased by 5.3% while EBITDA increased by 42.8%, Net Income by 65.6% and Net Profit to Shareholders of Parent company increased by 49.8% to reach KWD 1.8 million.

From a cash flow perspective, Mezzan recorded operating cash flow before working capital changes of KWD18.7 million in the first nine months in 2019, up by KWD 3.2 million from comparable period from previous year.

In the first nine months, we invested in KWD13.5 million in working capital compared to KWD6.0 million in the first nine months of 2018. Investment in working capital was primarily driven by the acquisition of new businesses, both KSPICO and new agencies.

Cash flows from Operating Activities reached KWD 5.2 million in the period 2019, compared to KWD 9.5 million in 2018.

Cash Flows from Investing Activities amounted to KWD 26.1 million in YTD 2019 compared to KWD 8.0 million in YTD Sep 2018 driven by the expansion as described earlier.

And our cash flows from financing activities reached KWD 8.2 million in YTD 2019, down from KWD 12.8 million from Comparable period 2018. Which led to debt to increase by KWD 29.1 million in 30 September 2019. Again, funding growth.

From a balance sheet perspective, it is key to remember here that Q3 witnessed the completion of several inorganic initiatives including the acquisition of 66.994% stake (majority stake) in KSPICO as well as our entrance into Joint Venture business to obtain the rights of Medtronic and Covidien, which were financed through borrowings.

That led to increasing the balance sheet size, assets to reach KWD266.8 million as of 30 September 2019, and given the bank debt funding, increase our Net Debt to reach KWD75.4 million and Net Debt to Capitalization



Ratio to 40.4%, Net Debt to Equity Ratio to reach 63.5% while Equity to shareholders of parent company reached KD 110.4million.

And now allow me to open the floor for Q&A.

**Fawaz Alsirri:**

Thank you gentlemen. We will now be taking in our audience's questions. Just give us a minute. Let us take a look at what we've got online and we'll be answering the questions by the order of which they were received. Just give us a few more seconds, we already have questions coming in.

The first question has a number of sections three questions. So I'm going to read them all at once and then you can tackle them one by one:

- 1) What is the current utilization in the water line in Kuwait? And, how will the expected change in the Pharmacies law in Kuwait impact Mezzan?
- 2) How are you planning to tackle a challenging bottled water market in Qatar?
- 3) Can you throw some color on the investment in the distribution in KSA? For how long can we expect this to go on?
- 4) Can you throw some color on the Macro outlook in UAE and KSA?

**Garrett Walsh:**

Let me try and answer those in order. In terms of the utilization of the waterline in Kuwait, I would say roughly, probably at about two thirds utilization at this stage. Plenty of room to grow before we need to invest in capital further.

And in terms of the pharmacy law in Kuwait, we have a number of pharmacies within our business and the co-op sector does not form a big portion of those. So we do not expect it to have a significant impact on us. And in terms of our approach going forward, I would probably argue that there's as many upsides as downsides, so really don't see it as having a big impact.

In terms of how are we trying to tackle a challenging water market in Qatar, we continue to look at innovation in terms of the products that we offer the consumer. We will be bringing some new products to the market over the next couple of months, and whilst at the same time focusing on getting our fundamentals right in the down trade market in particular.

In terms of the investment in distribution in KSA, we now have warehouses operating in Riyadh, Jeddah, Dammam and Hafr Al-Batin. We do not see ourselves investing in any more warehousing currently. We believe that we have enough to service the market through the next 18 months, and then we will re-examine the situation again, and therefore we don't expect that situation to continue.

In terms of the macro outlook in the UAE and KSA, I am afraid I am really not qualified to make a comment on that, other than to say that from our perspective where we're seeing good growth in both markets and we expect that to continue.



**Fawaz Alsirri:**

Thanks. Let's look at the rest of the list of questions.

So, we have a question: do you have a plan to improve sales of water in Qatar, and can you introduce new products there beside snacks to improve the mix of sales? Should we expect pressures of increasing distribution in KSA to continue in 4Q?

**Garrett Walsh:**

Thanks for the question, and I think I've already answered the question on Qatar. We will be looking at innovation there to improve the mix. In terms of distribution, I believe I've answered that as well, we do not see ourselves expanding our warehousing footprint any further at this point.

**Fawaz Alsirri:**

Thanks. We have a follow up question asking about the new Pharmacies law in Kuwait - Will the new law change the Pharma segment business dynamics for Mezzan? If yes, how?

**Garrett Walsh:**

As I've answered before, I don't see it having a significant impact on our business. We own, from memory I think 14 pharmacies and certainly in the low teens. We are looking at a number of expansions in that area, but none of them will be affected by this new law. And long term, I think it'll be both positive and negative.

**Fawaz Alsirri:**

What's the sustainable SG&A growth level expected going forward? How much of the earnings growth was attributable to the acquisitions?

**Fares Hammami:**

Sure. I'll tackle the second part of the question first. We witnessed growth on both organically and inorganically, in the sense that our profitability enhanced because of acquisitions. I would say approximately 55% to 60% of the growth in our profitability came from organic or from the existing platform and then the rest came from the acquisitions of the new business.

In terms of SG&A growth, obviously for the next four quarters, including this one, comparators will have to include the new business that we acquired. So, if you compare Q4 with Q4 and Q1 next year with this years, you'll obviously see the same level of growth because of the expansion through the acquisitions of agencies.

**Fawaz Alsirri:**

There's a question: asking Out of the KWD 1.9M Q3 2019 net profit, what was the profit from services/Afghanistan as a % of specifically Q3 2019 profit?

**Fares Hammami:**

Sure. We don't announce/disclose the cross information of contribution of Services in Afghanistan, so we can't answer that question per se. However, I would say that in the year-to-date, "services" as a segment did contribute to around 30% of the profitability of the year-to-date.



**Fawaz Alsirri:**

We have another question , If you plan to introduce new products in Qatar, will this require capex or will you utilize the existing facilities there.

**Garrett Walsh:**

Hi again, good question. No, we won't need to spend significant capex.

**Fawaz Alsirri:**

Thank you.

We have a question. The question is can you give more color on reasons behind the decline in catering revenue in 3Q19 alone, as well as Saudi revenue? When do you expect Saudi operations to start contributing to profitability?

**Fares Hammami:**

We always maintained that we have two operations of catering, one in Kuwait, one in Qatar. Qatar is definitely doing very well from a top-line and bottom-line perspective and we're seeing some swing in the profitability, upside swing, in the Kuwaiti operation, despite a decline in revenue.

The decline in catering revenue witnessed in Q3 is simply because we had a one-off sale, revenue, that occurred in Q3 2018 and that's non-recurring. This did not come at the expense of any profitability erosion.

**Fawaz Alsirri:**

Hamad has a follow up question, he's asking "total service for q3 specifically services net income contribution, Q3 specifically, not YTD please".

**Fares Hammami:**

Around KWD900,000 in Q3 is from Services segment at large. Again, we disclose these in the full financial statements.

**Fawaz Alsirri:**

Thank you.

We've answered all questions that we have received so far. We'll wait for another minute or so. If anyone has any questions, please send them through.

All right, ladies and gentlemen, we haven't received any new questions and with that we will be concluding today's call. Thank you all for joining us, thank you Garry, thank you Fares. And we'll see everyone at the next call, which would be for the year-end results. Thank you again and have a good day.

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