



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

Date: 14/05/2019

Ref.: MHC/Disclosure/2019/057

Boursa Kuwait Company

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

Subject: Supplementary Disclosure from Mezzan Holding – Minutes of Analysts/Investor Conference Call for Q1-2019

Reference to the above subject and pursuant to the provisions of Clause 24 of Article (4-1-1), Chapter 4 of Module 10 (Disclosure and Transparency) of the Executive Bylaws of Law No. 7 of 2010 concerning establishment of the Capital Markets Authority and in compliance with “Continued Obligation of the Premier Market Companies” as per Resolution No. (1) for the year 2018, Article (8-4-2).

Attached hereto are the minutes of the Analysts Conference Call for Q1-2019, which was held through Live Webcast session on Monday 13th May 2019 at 02:15 pm.

Mezzan Holding Company KSCP

Walid Ali Khalil
Group Legal Manager





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

Supplementary Disclosure Form

Date	14/05/2019
Name of Listed Company	Mezzan Holding Company KSCP
Disclosure title	Supplementary Disclosure from Mezzan Holding – Minutes of Analysts/Investor Conference Call for Q1-2019
Date of Previous Disclosure	13/05/2019
Developments that occurred to the disclosure	Attached hereto are the minutes of the Analysts Conference Call for Q1-2019 which was held through Live Webcast session on Monday 13th May 2019 at 02:15 pm.
The financial effect of the occurring developments (if any)	-

Mezzan Holding Company KSCP

Walid Ali Khalil

Group Legal Manager





Transcript of Q1-2019 Mezzan Holding Company KSCP Earnings Call Webcast Transcript

Date: Monday, 13 May 2019

Time: 15:30 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

Fawaz Alsirri:

Good afternoon ladies and gentlemen and welcome to this Mezzan Holding call to announce and discuss the company's full year earnings for Q1 2019.

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. Garry 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 pick up the call but before I do, allow me to take you through the format of the call.

For the next 10-15 minutes, the speaker's will make their statements on the company's Q1 2019 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 during the presentation. Starting from now and we will address it during the Q&A session.

Before I handover the mic, I would like mention that this call is held live 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.

Garry, The mic is 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 first quarter in 2019.

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 in Q1 2019, then I will go through the Q1 2019 financial highlights, after which I will



hand over to Fares, who will take you through the detail of the financial performance. Lastly, we will be opening the floor for Questions.

From a tailwinds perspective, we are glad to state that Q1 2019 was the first quarter were we operate after the launch of the numerous projects which were completed last year. As we ramp production capacities and realize efficiency enhancements in the future, we hope we see the full impact of these projects come on board during the year.

While our revenue of consumer goods, both Food and Non Food both grew at healthy rates, food manufacturing and distribution segment, most core to our business, particularly grew at double digits, first time in several quarters.

We have also seen revenue grow in all key markets.

The operations in the UAE, which were a drag on our performance since the introduction of excise duty, reversed course and we see healthy revenue and recovery in both the energy drinks segment as well as the manufacturing segment as we ramp up production of chips and snacks from the new lines we launched late last year. It is key to note however, that with the introduction of excise duty on energy drinks in Oman shortly, we do expect a short term spike in parallel market in Q2.

Furthermore, these lines were able to secure more product into KSA, and as such our sale in KSA started to grow again as we secure more listings.

In addition, Catering in Qatar witnessed yet another positive quarter. The new lines of chips in Qatar are also delivering as planned.

Finally, the new capacities added will help drive margins even further going forward.

From a headwinds perspective, new listings in key accounts in KSA as well as expanding distribution capacities into Jeddah & Dammam, aimed at increasing our footprint in a key market should be driver of future growth for the group. Despite the fact that they are adding pressure on the cost base and as such impacting profitability short term. These are however strategic and we hope to see fruition of this strategy during the year.

We still face pressure in the water business in Qatar given changing market dynamics but we counter that with ramping production of potato chips locally which is helping subside the impact and improve profitability.

We have seen heavy promotional support in some categories which weighed down on margins but we don't expect this to sustain beyond Ramadan.

Finally, Depreciation expense has increased due to the newly commissioned lines, despite it being non-cash expense, and Interest expense have increased given higher borrowing and interest rate environment.

In terms of our financial highlights and headline numbers therefore for the quarter, Revenue reached KWD62.6 million for a growth of 6.5% compared to Q1 2018 and Gross Profit of KWD 14.5 million for an increase of 8.4%.



Mezzan reported EBITDA of KWD 7.9 million in Q1 2019 which is a 9.8% increase compared to Q1-2018 reported numbers. This is important in light of the increased capacities and cost cutting initiatives we completed last year.

Mezzan's net profit to shareholders of the parent company reached KWD 5.1million during Q1 2019, compared to KWD 5.0 million during the Q1 2018 comparable period, i.e for an increase of 1.7%.

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 in 2019 reflect these accounting changes. However, in this presentation we present the comparable period of last year, Q1 2018, as reported previously.

In Q1 2019, operating leases were capitalized onto the balance sheet for KWD 2.4 million, and rent expense was reduced by KWD250k as it was reclassified to additional depreciation of KWD235k and additional interest of KWD15k.

Let's talk now about the revenue contribution by business line for Mezzan Group. The food group accounted for 68% of total group revenue in Q1 2019, for a growth of 6.8% compared to Q1 2018; while the revenue of non-food group accounted for the balance of 32% of total group revenue, for a growth of 6.1%.

Within food group, food manufacturing and distribution contributed to 47.7% of Q1 2019 revenue, registering a strong 11% increase compared to Q1 2018 numbers which was driven by strong performance in Kuwait, UAE and KSA.

Our catering business contributed to 14.1% in Q1 2019, which was lower by 7.5% compared to Q1 2018 revenue. But this did not impair profitability of the segment. And revenue from our Services segment increased by 13.6% in Q1 2019 compared to Q1 2018, and contributed to 6.2% to our 2018 revenues.

In our non-food group FMCG and Pharma had a very solid performance in the first quarter, and the revenue of the segment now accounts for 29.7% of Mezzan's Q1 2019 revenue, and a growth of 6.4% compared to comparable period in 2018, while revenue of industrials group slightly increased by 1.4% and contributed to 2.3% in Q1 2019.

Looking at the Group from a per country basis, Kuwait, our home market, our largest market, contributed 72.5% of Mezzan's total top line and was up 2.9% resulting from a strong performance from food manufacturing and distribution and catering and services and non-food FMCG businesses alike.

Revenues from our operations in the United Arab Emirates increased by 26.2% compared to Q1 2018.. It is opportune to remind investors that the implementation of excise tax started on 1st October 2017, making the comparison between 2018 and 2019 on equal footing. The revenue increase in UAE is due to the efforts we have taken on both trading and manufacturing items as well as restructuring exercise we undertook and the new lines we launched towards the end of last year.



Revenues in Qatar grew by 9.1% in the q1 2019 period compared to Q1 and now contributes to 9% of Mezzan's revenue.

Saudi Arabia accounted for 2.3% of Mezzan's revenue in the Q1 2019 period for an increase of 19.1% from the previous comparable quarter. 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 30.4% and that market contributed to 2.5% of Mezzan's revenue. Revenue from operations in Afghanistan was up 35.5% during Q1 2019. This market accounts for 2.3% of Mezzan, while operations in Iraq accounts to only 0.3% of Mezzan's total top line.

As for the profit and loss. Mezzan Group recorded revenue of KWD62.6million, an increase of 6.5% compared to Q1 2018 comparative period. All markets showed growth in Q1 2019.

Gross profit reached KWD14.5 million for Q1 2019, up by 8.4% from Q1 2018 levels.

Selling, general, and administrative expenses (SG&A) expenses increased by 11.2% mostly on the back of increases selling and distribution expenses including promotional activities.

Financing costs and other expenses increased to KWD0.8 million in Q1 2019 compared to KWD 0.5 million in Q1 2018.

Net profit had reached KWD 5.0 million in Q1 2019, flat from last year.

Net profit attributable to equity holders of the parent company reached KWD 5.1 million in Q1 2019 compared to KWD 5.0 million in the comparable period of Q1 2018 for a modest 1.7% increase.

From a cash flow perspective , Mezzan recorded operating cash flow before working capital changes of KWD7.9 million in Q1 2019, up by KWD 0.4 million from Q1 2018 levels.

In Q1 2019, we invested in KWD6.0 million in working capital compared to KWD3.6 million in the comparative quarter in the previous year. The growth in receivables was curbed by dropping inventory and an increase in payables.

Cash flows from Operating Activities reached KWD 2.0 million in Q1 2019, compared to KWD 3.9 million in Q1 2018.

Cash Flows from Investing Activities net of exits amounted to a mere KWD 1.2 million in Q1 2019 compared to KWD 3.5 million in Q1 2018, as Mezzan has recently completed its largest capex program (which started in 2017) end of last year.

And our cash flows from financing activities increased to reach KWD 1.1 million, up by KWD 0.4 million from last year driven by higher interest expense and purchase of treasury stock.

The net impact on our debt was increase of KWD 0.3million in Q1 2019.



From a balance sheet perspective, we remain to enjoy a healthy balance sheet with total assets growing nicely to KWD 225.4 million, equity to the holders of parent company at KWD111.1 million, net debt of KWD 45.9 million, and a net debt equity of 41.3%.

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

Fawaz Alsirri:

Thank you Garry, and thank you Fares, we will now be starting our Q & A segment. We already have a question that we received. The question reads, What steps is Mezzan taking to tackle the decline catering business in Kuwait? And what can we expect for the year?

Garry Walsh:

The decline was driven by a one-off contract that we had in March last year, which was an opportunistic contract, and we expect the bottom line day trade to continue to improve this year. So it is really nothing to worry about.

Fawaz Alsirri:

Thank you. And we're now waiting for more questions to come in. So if you're thinking about asking a question, please go ahead and send it through. We're going to give everyone about a minute to receive their questions. If we don't get any questions by then, we will be concluding today's call.

All right, we have a follow up question "How long can we expect increased spending in Saudi Arabia?"

Garry Walsh:

I think product listings were obviously are one-off cost, when you introduce the products and accounting policy where we take that hit, and in the month in which it occurs, we don't believe in apportioning it over future periods. And that is obviously a one-off and won't recur in terms of the establishment of the distribution sectors, in Jeddah and Dammam and we would expect that cost to continue, and obviously the returns on those ramp up as you go.

Fawaz Alsirri:

Thank you, we have more questions coming in. "Do you have any financial targets for 2019?"

Mohammed Khajah:

Those were communicated back in the 2018 annual call. Basically we have concluded that it's going to be, high single digits growth for the revenue, and high double digits growth for EBITDA and Net Income.

Fawaz Alsirri:

Thank you and that was Mohammad Khajah, head of investment relations at Mezzan Holding.

The next question is, "Can you please repeat the reason behind the significant growth in the UAE revenue?"

Garry Walsh:

Sure, and within the UAE, we have three businesses, effectively. We have a factory which manufactures snack products, and that factory is performing very well. We've a factory which manufactures meat products, both for retail and for food service, and that factory is performing very well, and has picked up some new tenders. And finally we have our distribution service, which distributes both our own products and third-party products such as Red Bull or S.Pellegrino. All three businesses enjoyed very strong growth in Q1.

Fawaz Alsirri:

Next up is a question is, "Hi I would like to know what was the main driver behind the margin enhancement in the first quarter."

Garry Walsh:



Hi and as you know, our focus is on businesses where we manufacture and distribute it ourselves, and that is largely because we enjoy a much wider margin in those businesses. In addition, we've invested in a number of manufacturing assets over the last year. So the margin enhancement, from group level, is driven by the growth in that business and within that business segment, is driven by the investment in Capex over the last 12 months.

Fawaz Alsirri:

Thank you Garry, and thank you Fares, and thank you Mohammad, I believe with that we have answered our last question for the call. A reminder to everyone, a live recording of this call will be available in about two hours on the same link. Thank you for joining us and we look forward to seeing you in the second quarter earnings call. Have a good day.
