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

Date: 16/08/2020

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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 Q1-2020 & Q2-2020

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 first quarter and the second quarter of the year 2020 which was held through Live Webcast session on Wednesday, 12th August at 02:30 pm Kuwait Time.

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

Mezzan Holding Company KSCP

Vice Chairman

Mohamed Jassim AlWazzan

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

س.ت: ٧٨٠٣١ رأس المال مدفوع بالكامل ٣١,١٣٢,٥٠٠ د.ك - ص.ب: ١٢٤ الصفاة ١٣٠٠٢ الكويت - العارضية، قطعة ١، قسيمة ٢٨٧ - ت: ٢٢٢٨٦٤٤٤ - ف: ٢٤٨٤٣٩٦٤
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Transcript of Earnings Call/Webcast
For Q1 and Q2 2020
Mezzan Holding Company KSCP

Date: Wednesday, 12 August 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 the first half ending 30 June 2020. This webcast covers Q1 and Q2 results. Today is Wednesday 12 August 2020 and this call is held live from Kuwait and Dubai. A recording will be available on the same link within two hours. The earnings we will discuss today were filed and announced about a little less than 24 hours ago. They have been posted on the Boursa Kuwait website and on our website: www.mezzan.com

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 everyone.

I hope that you and your family and colleagues are safe and complying with directives of your health authorities. I will soon handover the mic to Garrett 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, we hope that you and your families and colleague are doing well and staying healthy in these times.

I would like to start this call by stating that these are quite difficult times for all of us and that we at Mezzan, and all of our employees from the front-liners and support teams, are doing whatever we can to continue putting food and beverage, medicine and other healthcare supplies on the shelves for our consumers, and have taken the reasonable and required measures to ensure the health safety of our staff.

I would also like to extend a sincere thank you message to each member of the Mezzan family who have for the past few weeks particularly, doubled their efforts to make sure the communities we serve in the region and elsewhere, are able to find our portfolio at all times.

I would like to remind everyone that within March of this year, Kuwait's Capital Markets Authority required all listed companies on Boursa Kuwait to publish its interim financial statement for the 3 month period ended 31 March 2020 only whilst publishing their interim financial statement for the 3-month period and 6 month period ending 30 June 2020.

And as such, I welcome the opportunity to share with you our results for the first quarter and second quarter of 2020 in this call.

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

I would like to start by discussing the Impact of COVID-19

Allow me to start by stating that as a company operating in the consumer space at large, COVID presented both opportunities and challenges to our operations. That depended on country of operation, product portfolio or service offering and sales channel.

For example while we saw high demand for parts of our portfolio such as essentials like rice, vegetables, tuna, and detergents and sanitizers, we saw other parts of our portfolio witness drop in demand, such as non-sanitizer/detergent consumer and beauty products and non-essential foodstuff.

While we saw high demand from the modern trade and cooperative sales channels, we saw diminished sales to other segments of the market such as food service, schools, baqqalas, wholesaler and distributors (particularly to manage credit risk) as well as exports due to shut-down for a good portion in H1.

For example, while we were able to pick up some catering business to serve quarantine locations, we lost other catering businesses such as private catering.

From a tailwinds perspective, I am glad to say that the first half of 2020 witnessed improvement in our operational performance driven by both the organic as well as recently completed inorganic transactions completed in the second half of last year. initiatives

We witnessed topline growth in all core business units. However, I would like to highlight strong performance in the food manufacturing and distribution, catering as well as FMCG and healthcare segments. Each of these core units grew by healthy rates in the first half of the year.

Our Kuwait operations, our home market, saw double digit rate of growth driven by both inorganic and organic initiatives as well as opportunistic sales.

We also witnessed enhanced profitability measure, where in H1 2020, GPM enhanced by 80 basis points, and EBITDA Margin enhanced by c.60 basis points. Key to note that this was driven by economics of scale and impact of operating leverage as well as better cost control measures.

Lastly, we were successful in bringing our debt levels down, by c. KD 16mn from the levels of 31 December 2020 as a result of enhanced working capital management.

From a headwinds perspective, we saw some sectors perform worse than last comparable period due to closure (full or partial) of segments of markets as part of repercussions of Covid-19.

We witnessed some ongoing interruption of operation in Qatar which weighed down on both revenue and performance in our operations in that market. We believe that these interruptions have so far subsided in Q3 and directionally, we should be heading towards positive territory.

We also saw demand from food service industry drop given the low activity during the closure and lockdowns or curfew. This led to a drop of sales in UAE in particular. We started seeing some encouraging reversal of these trends over the last few weeks as lock down eased and we have seen rise in commercial activity since.

We also witnessed some one-off expenses of re-locating staff from certain labor accommodation to on-site accommodation as approved by regulatory authorities to ensure diminished business interruptions during lockdown periods.

As for financial performance for H1, happy to report that Mezzan recorded improved operational and financial results in 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.

Today, we will announce the results of both Q1 and Q2 2020 in accordance with the requirements of the Kuwait Capital Markets Authority. As such, the presentation will address both periods as well as H1 2020.

In terms of our financial highlights and headline numbers

for H1 ended 30 June 2020;

- Mezzan's revenue reached KWD 134.3 million up from KWD 115 million in the previous comparable period, for a growth of 16.7%.
- Gross Profit reached KWD 31.9 million compared to KWD 26.3 million in the comparable period, for an increase of 21.3%. Gross Profit Margin enhanced by 80 basis points to reach 23.8%
- While EBITDA reached KWD 15.8 million, up from KWD 12.8 million in previous year, for an increase of 23.2%. EBITDA margin increased by 60 basis points to reach 11.8%.
- The group achieved a net profit of KD 9 million during the first half of 2020 compared to KD 7.2 million in the first half of last year, an increase of 25.4% and net profit margin increased by about 50 basis points to reach 6.7% compared to 6.2% of the comparable period.
- Finally, Mezzan's net profit to shareholders of the parent company reached KWD 8.1 million during H1 2020, compared to KWD 7.3 million during the comparable period of the previous year for an increase of c.11.1%

In terms of our financial highlights and headline numbers
for Q1 ended 31 March 2020;

- Mezzan's revenue reached KWD 74.4 million up from KWD 62.6 million in the previous comparable period, for a growth of 18.8%.
- Gross Profit reached KWD 16.6 million compared to KWD14.5million in the comparable period, for an increase of 14.6%.
- While EBITDA reached KWD 8.6 million, up from KWD 7.9 million in previous year, for an increase of 8.8%.This is important in light of the increased production capacities and efficiency enhancing activities we completed.
- The group achieved a net profit of KD 5.2 million during the first quarter of 2020 compared to KD 5.0 million in the first quarter of 2019, an increase of 2.7%
- Finally, Mezzan's net profit to shareholders of the parent company reached KWD 4.6 million during Q1 2020, compared to KWD 5.1 million during the comparable period of the previous year. The drop resulted from a higher ownership of Mezzan Foods in KSA as Mezzan acquired an additional stake of 29% towards the end of last year as well as one off expenses for Covid-19.

In terms of our financial highlights and headline numbers
for Q2 ended 30 June 2020;

- Mezzan's revenue reached KWD 59.9 million up from KWD 52.4 million in the previous comparable period, for a growth of 14.2%.
- Gross Profit reached KWD 15.3 million compared to KWD11.8 million in the comparable period, for an increase of 29.5%.
- While EBITDA reached KWD 7.2 million, up from KWD 4.9 million in previous year, for an increase of 46.3%.This is important again in light of the increased production capacities and efficiency enhancing initiatives we completed recently.
- The group achieved a net profit of KD 3.9 million during the second quarter of 2020 compared to KD 2.2 million in the second quarter of 2019, an increase of 77.9%
- Finally, Mezzan's net profit to shareholders of the parent company reached KWD 3.5 million during Q2 2020, compared to KWD 2.2 million during the comparable period of the previous year.

And at this point I will hand over to Fares to take you through the financials in more detail discussing the performance of Q1 and Q2 2020.

Fares Hammami

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

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

And as Garrett stated earlier - we will discuss the results of both Q1 and Q2 2020 as well as H1'20 in accordance with the requirements of the Kuwait Capital Markets Authority.

As for revenue contribution by business line at Mezzan Group:

- In H1'2020, the food group accounted for 66.9% of total group revenue in H1, for a growth of 9.5% compared to H1'19; while the revenue of non-food group accounted for the balance of 33.1% of total group revenue, for a growth of 34.8%.

- As for Q2'20, Mezzan's food group accounted for 72.9% of total group revenue, for a growth of 10.4% compared to previous comparable period; while revenue of non-food group accounted for the balance of 27.1% of total group revenue, for a growth of 26.3%.

- In Q1'20, food group accounted for 62.2% of total group revenue, for a growth of 8.6% compared to previous comparable period; Non-food group accounted for the balance of 37.9% of total group revenue, for a growth of 40.3%.

As for details of the segments:

In H1 2020

- Within food group, food manufacturing and distribution contributed to 46% of the revenue in H1'2020, registering a strong 10% growth compared to previous comparable period, which was driven by strong performance in Kuwait and the UAE.
- Our catering business contributed to 14.3% of H1 revenue in 2020 for an increase of 7.5% driven by Kuwait operation as we picked up new opportunities.
- Revenue from our Services segment within the Food Group increased by 10% in H1 and contributed to 6.7% to H1'2020 revenues.
- In our non-food group FMCG and Healthcare had a very solid performance in the period ended 30 June 2020 and the revenue of the segment now accounts for 31.5% of Mezzan's H1'2020 revenue, for a growth of 39.6% compared to comparable period in 2019. The growth was particularly from the acquisition of KSPICO and other new activities we completed in the second half of last year.

- While revenue of industrials group declined by 21% and contributed to 1.5% in H1’2020.

As for Q2 2020

- Within food group, food manufacturing and distribution contributed to 47.9% of the revenue in Q2’2020, registering a strong 9.2% growth compared to previous comparable period which was driven by strong performance in Kuwait, UAE and KSA from a topline perspective
- Our catering business contributed to 17.5% of Q2 revenue in 2020 for an increase of 16.5% driven by Kuwait operations as explained earlier.
- Lastly, Revenue from our Services segment within the Food Group increased by 4.6% in Q2 and contributed to 7.5% to Q2’2020 revenues.
- In our non-food group FMCG and Healthcare had a very solid performance in the period ended 30 June 2020, and the revenue of the segment now accounts for 25.7% of Mezzan’s Q2’2020 revenue, for a growth of 31.4% compared to comparable period in 2019. The growth was driven by new acquisition, which were completed in H2 2019.
- While revenue of industrials group declined by 25.3% and contributed to 1.4% in that quarter.

As for Q1 2020

- Within food group, food manufacturing and distribution contributed to 44.6% of the revenue in Q1’2020, registering a strong 10.7% growth compared to previous comparable period which was driven by strong performance in Kuwait and UAE.
- Our catering business contributed to 11.6% of Q1 revenue in 2020 for a decline of 1.7% although this did not impair profitability. To the contrary, the catering businesses witnessed growth in profitability during that period.
- Lastly, Revenue from our Services segment within the Food Group increased by 15.8% in Q1 and contributed to 6% to 2020 revenues.
- In our non-food group FMCG and Healthcare had a very solid performance in the period ended 31 March 2020, and the revenue of the segment now accounts for 36.2% of Mezzan’s Q1’2020 revenue, for a growth of 44.8% compared to comparable period in 2019. The growth was driven by organic and inorganic growth within healthcare segment.
- While revenue of industrials group declined by 17.6% and contributed to 1.6% Q1’2020.

We now move on to discuss operations per geography

In the first half of 2020

- Operations in Kuwait contributed to 75.5% of Mezzan's revenue, up 23.6% 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 2.4% compared to H1’2019 on the back of lower Food Service (Restaurants/Hotels) activity.
- Revenue in Qatar decreased by 5.7% in H1’2020 compared to H1’2019 now contributes to 8% of Mezzan's revenue. Drop on the back of timed business interruption as Garrett mentioned earlier.
- Saudi Arabia accounted for 1.9% of Mezzan’s revenue in H1’2020 for an increase of 0.5% compared to H1’2019
- In Jordan, sales increased by 6.5% and that market contributed to 2.2% of Mezzan's revenue.
- Revenue from operations in Afghanistan was up 0.1% during H1’2020. This market accounts for 2.3% of Mezzan while operations in Iraq accounts to only 1.1% of Mezzan's total top line.

Q2’20

- Geographically, Kuwait contributed to 74.4% of Mezzan's total top line and was up 21.6% 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 6.2% compared to Q2’2019 due to partial lockdown and lower food service activity felt in Q2 2020.
- Revenue in Qatar decreased by 7.8% in Q2’2020 compared to Q2’2019 now contributes to 8.8% of Mezzan's revenue. Drop again is due to partial interruption of operations which have since subsided.
- Saudi Arabia accounted for 2.1% of Mezzan’s revenue in Q2’2020 for an increase of 19.1% compared to Q2’2019. The increase resulted from securing new stock into Saudi Arabia through the added chips and snacks capacities.

- In Jordan, sales increased by 17.4% and that market contributed to 2.3% of Mezzan's revenue.
- Revenue from operations in Afghanistan was down by 3.5% during Q2'2020. This market accounts for 2.7% of Mezzan while operations in Iraq accounts to only 1.1% of Mezzan's total top line.

Q1'20

- Kuwait contributed to 76.4% of Mezzan's total top line and was up 25.3% 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 increased by 0.7% compared to Q1'2019.
- Revenue in Qatar decreased by 3.6% in Q1'2020 compared to Q1'2019 now contributes to 7.3% of Mezzan's revenue.
- Operations in Saudi Arabia accounted for 1.7% of Mezzan's revenue in Q1'2020 for a decline of 12.7% compared to Q1'2019.
- In Jordan, sales were down by 2% and that market contributed to 2% of Mezzan's revenue.
- Revenue from operations in Afghanistan was up 4.3% during Q1'2020. This market accounts for 2% of Mezzan while operations in Iraq accounts to only 1% of Mezzan's total top line.

Moving to the Profit and Loss, we will first discuss H1 then Q1 then Q2 2020

In H1'2020, Mezzan Group recorded

- Revenue of KWD 134.3 million, for an increase of 16.7% compared to H1'2019. As explained before, this was driven by topline growth in both Food and Non-Food segments alike as well as from organic and inorganic initiatives.
- Gross profit reached KWD 31.9 million in H1'2020 compared to KWD 26.3 million in the previous comparable period, and Gross Profit Margin reached 23.7%, an enhancement of approximately 80 bps.
- Selling, general, and administrative expenses (SG&A) expenses increased by 20.1 % in H1'2020 ending 30June 2020 mostly on the back of new business and acquisitions completed in H2 2019.
- EBITDA reached KWD 15.8 million, up from KWD12.8 million in previous year, for an increase of 23.2%. This is important in light of the increased production capacities and efficiency enhancing initiatives we completed recently as well inorganic growth and capex we have completed over the past 3 years.
- Financing costs and other expenses increased to KWD 1.9 million in H1'2020 compared to KWD 1.7 million in H1'2019. Financing cost increased by around KWD 0.2 million compared to last year primarily for funding the acquisitions and growth in working capital which were completed in H2 2019.
- In summary, Net profit had reached KWD 9 million in H1'2020 ending 30 June higher by 25.4% from comparable period in 2019.
- Net profit attributable to equity holders of the parent company reached KWD 8.1 million on H1'2020 compared to KWD 7.3 million in the comparable period of 2019 for an increase of 11.1%.

Now discussing the Profit and Loss for Q2'2020, Mezzan Group recorded

- Revenue reached KWD 59.9 million, for an increase of 14.2% compared to Q2'2019 from growth in both Food and Non Food segments.
- Gross profit reached KWD 15.3 million in Q2'2020 compared to KWD 11.8 million in the previous comparable period, and Gross Profit Margin reached 25.5%, an enhancement of approximately 300 bps compared to gross profit of the comparable period.
- Selling, general, and administrative expenses (SG&A) expenses increased by 19.1 % in Q2'2020 ending 30June 2020 mostly on the back of new business.
- EBITDA reached KWD 7.2 million, up from KWD4.9 million in previous comparable period, for an increase of 46.3%.
- Financing costs and other expenses increased slightly to KWD 0.85 million in Q2'2020 compared to KWD 0.81 million in Q2'2019. Financing cost increased by around KWD 0.04 million compared to last year funding the acquisitions and growth in working capital completed in H2'19 but also reflects the lower borrowing rates which started towards the end of Q1 2020.
- Net profit for Q2'20 reached KWD 3.9 million in higher by 77.9% from comparable period in 2019.

- Net profit attributable to equity holders of the parent company reached KWD 3.5 million in Q2'2020 compared to KWD 2.2 million in the comparable period of 2019 for an increase of 55.2%.

In Q1'2020, Mezzan Group recorded

- Revenue reached KWD 74.4 million, for an increase of 18.8% compared to Q1'2019. As explained before, this was driven by topline growth in almost all key markets.
- Gross profit reached KWD 16.6 million in Q1'2020 compared to KWD 14.5 million in the previous comparable period, and Gross Profit Margin reached 22.3%.
- Selling, general, and administrative expenses (SG&A) expenses increased by 21.2% in Q1'2020 ending 31 March 2020 mostly on the back of new business and acquisitions.
- EBITDA reached KWD 8.6 million, up from KWD7.9 million in previous year, for an increase of 8.8%. This is important in light of the increased production capacities and efficiency enhancing initiatives we completed recently as well inorganic growth we have completed recently.
- Financing costs and other expenses increased to KWD 1 million in Q1'2020 compared to KWD 0.8 million in Q1'2019. Financing cost increased by around KWD 0.2 million compared to last year primarily funding the acquisitions of KSPICO and working capital of new businesses.
- Key to not here that lower borrowing rates were witnessed towards the end of Q1'20 so the impact on that in this quarter was limited.
- In summary, Net profit had reached KWD 5.2 million in Q1'2020 ending 31 March higher by 2.7% from comparable period in 2019 which were 5.0mn.
- Net profit attributable to equity holders of the parent company reached KWD 4.6 million in Q1'2020 compared to KWD 5 million in the comparable period of 2019 for a decrease of 8.4%.
- It is key to note here that in Q1'19, Mezzan owned 70% stake in Mezzan Foods (KSA) while it owned a 99% stake in that subsidiary in Q1'20 and hence we locked more losses to shareholders of parent company. In addition we recorded profits from recently acquired non-fully owned operations that and hence locked less of the profits of such operations (in Minority Interest) which explains the drop of net profit attributable to equity holders of the parent company.

Moving on to discussing cash flow, again I will talk about H1 then Q2 and then Q1

In H1'20

- Mezzan recorded operating cash flow before working capital changes of KWD18.1 million in H1'2020, up by KWD 5.1 million from comparable period from previous year on the back larger activity.
- In H1'2020, we have recorded an *in*flow of working capital cash flow of KWD 4.1 million compared to an *investment* in working capital of KWD 11 million in comparable period 2019 on the back of enhanced working capital management.
- Key to note here that Mezzan's Cash flows from Operating Activities reached KWD 22.2 million in H1'2020, compared to KWD 2 million in H1'2019 which is in important milestone for Mezzan Group.
- Cash flows used in investing activities reached KWD 2.4 mn mostly on the back of maintenance capital expenditure
- As such, we recorded *positive* Cash Flows before Financing Activities of around KWD 19.8 million in H1'2020 compared to a KWD -0.4 million in H1'2019
- As such, our Net Debt decreased by KWD 17.3 million in H1'2020, compared to an increase of KWD 7.7 million in the comparable period 2019.

Q2'20

The enhancement of cash flows in H1 was driven primarily by Q2 where

- Operating cash flow before working capital changes of KWD8.9 million in Q2'2020, up by KWD 3.8 million from comparable period from previous year.
- positive working capital cash flow of KWD 7.9 million compared to an investment of KWD 5 million in 2019.
- Cash flows from Operating Activities reached KWD 16.8 million in Q2'2020, compared to KWD 0.1 million in Q2'2019.

- Cash flows used in investing activities reached a mere KWD0.4 mn compared to 1.2mn last year
- As such, in Q2'20 , we recorded cash flows before financing activities of KWD 16.4 million in compared to an investment of KWD1.1 million in Q2'2019
- As such, Net Debt decreased by KWD 15.3 million in Q2'2020, compared to an increase of KWD 7.3 million in the comparable period 2019.

In Q1'20 Mezzan recorded

- Operating cash flow before working capital changes of KWD9.2 million in Q1'2020, up by KWD 1.3 million from comparable period from previous year.
- In Q1'2020, we invested in KWD 3.8 million in working capital compared to an investment of KWD 6 million in 2019.
- Cash Flows from Operating Activities reached KWD 5.4 million in Q1'2020, compared to KWD 2 million in Q1'2019.
- Cash Flows used in Investing Activities reached KWD2 mn in Q1 mostly on the back of maintenance capex.
- A positive Cash Flows before Financing Investing Activities amounted to KWD 3.3 million in Q1'2020 compared to a KWD 0.8 million in Q1'2019
- As such, our Net Debt *dropped* by KWD2.1 million in Q1'2020, compared to an *increase* of KWD 0.4 million in the comparable period 2019

Moving on to the balance sheet, As of 30 June 2020, Mezzan's balance sheet size reached KWD263mn, equity of KWD119 mn and Net Debt of KWD58mn.

As the next slide shows, assets, equity and Net Debt were KWD277mn, KWD119mn and KWD73mnn, respectively, as of 31 March 2020.

I would like to highlight a note on Mezzan's indebtedness. As the following chart depicts, the level of borrowing as measured by Net Debt.

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

Happy to see our debt levels considerably going down, to reach KWD57.6mn in June 2020.

I will now move on to Fawaz to start the Q&A session.

Q&A Session

Fawaz Alsirri:

Thank you gentlemen. Thank you, Garrett and thank you, Fares, for taking us through two quarters this time. These are unusual times indeed. We will now be taking our audience's questions. We have a couple of questions coming in. Just give us a minute and we will take them one by one.

We're going to start off with a question. Well, its starts with a congratulations on the results. Have you started witnessing a pickup in products that were impacted in the first half or a slowdown in product that had good performance during the same period?

The second question, Garrett you will be taking this one, do you see expatriates leaving Kuwait affecting the demand side? And can you share the average annual change in number of expatriates in Kuwait to date?

The third part of this question is can we expect second quarter gross profit margin levels sustainable going forward? And I think that's four questions in one, I'll handover to Garrett.

Garrett Walsh:

Hi, in terms of having witnessed the pickup in products that were impacted in half one, yes we have. But, again, as we said, it really is very channel dependent. So if I give you an example, within Kuwait, we've started seeing a recovery in the beauty products and that we do there, but in that particular instance, the other FMCG products have also continued to perform strongly. On the food service side, I would anticipate that in August, we'd probably be back to 60 to 70% of where we were pre COVID. So it is recovering, but slowly. So far we haven't really seen a let up in the products that we had a pick-up in. However, we have seen some sectoral changes. So for example, in catering in Kuwait, we've moved back from supplying quarantine meals to supply our regular contracts. So it really is sectoral by sectoral and we're just having to watch it every single day.

In terms of the expatriates leaving Kuwait. As we all know, the majority of demand in Kuwait is driven by the Kuwaitis. That's where the purchasing power sits. Yes, share of throat is an important measure and the number of throats will decline. However, we don't see it as having a material impact on the business over the short to medium term.

In terms of the actual expatriates who've left, I don't have those numbers to hand, but Fares is a bit of a numbers buff so I'm sure he can find them and email them off to you.

In terms of the gross margins, we would certainly, as we flagged during our call on our year end numbers, we certainly expect to see the gross margins continue to be positive year on year. Again, it depends on the mix of business where that settles out. But, certainly expected to be positive year on year.

Fawaz Alsirri:

Thank you, Garrett. Next: can you please provide some feedback on the following:

One, it seems that margins improved year on year in second quarter at a larger magnitude than the first quarter. Can you point out the reason for that?

The second question is, did you see improved margin performance in the first half sustainable? That was similar to the questions that we just answered.

Do you see it as sustainable for the rest of 2020 and 2021?

Three, how do you see revenue growth for the remainder of 2020?

Four, can you comment on the difference in minority interest expenses in the first half compared with the first half of 2019 Last year?

The fifth question is, do you plan on reducing debt further during the remainder of the year?

Garrett Walsh:

In terms of the first question which was related to the margins in Q2 versus Q1. Q1 for us, is, always has been, and always will be, skewed by the behavior of the co-ops in Kuwait. Where they essentially buy probably 40% of their consumption for a year in that first quarter. So the margins will always be skewed by that. And that is the large reason for the difference between Q1 and Q2. And that's kind of a constant theme year on year.

In terms of do we see the margin performance in half one sustainable. As I said, we certainly see an improvement being sustainable. At the moment there's just so many moving parts, you're trying to get the balance right between having a strong supply chain and guaranteed products available for your consumers at the same time, not being overstocked. At the same time, coping with price fluctuations for all of your supply chain positive and negative driven by the impact on their businesses of COVID-19. So, as I said, we expect to see the margins continue to be positive year on year. But I wouldn't put a number on that.

On the revenue growth side, I think we guided high double digits at the outset. I think we've maintained that view. As a point of interest, we are actually internally in-line with our projections, albeit the mix has changed substantially. So I don't see our guidance in terms of year end is changing at all.

On the minority interest, I believe this question was posted before. Fares explained that during his commentary, but if I've misread that please feel free to repost and Fares will answer it the second time around.

Do we plan on reducing debt further during the remainder of the year? Yes, we would certainly like to, but again, it's a balancing act.

We're currently probably carrying more stock than we would like, on the off chance that there will be a second wave of COVID. Really our debt will depend on our ability to unwind that.

Depending on what way things go, I'm sure Fares and his team will continue to do the improved job on receivables and payables that they have been doing so far, but the stock really is a big determinant of where we wind up.

Fawaz Alsirri:

Next up is a question Garrett as well. Three part question. So we'll just take it one by one this time So the first question is what was the primary growth driver in FMCG and pharma segment? Organic or inorganic growth?

Garrett Walsh:

Obviously the primary was inorganic because we made acquisitions, however, there was good growth within the organic as well. And again, in line with our expectations. As I referred to earlier on, real shift in mix, with sanitizer products going through the roof and other products such as makeup remover, shampoo, et cetera not performing as well. Given that people effectively, were not going out.

Fawaz Alsirri:

And you've also said there's some inorganic growth, what was the KSPICO's contribution to revenue and profits in the first half?

Garrett Walsh:

I don't think we disclose such details but if Fares does choose to answer that he can come in at the end of this question and answer it.

Fawaz Alsirri:

Can you throw more color on the food manufacturing division and distribution segment and the quarterly seasonality in revenue?

Garrett Walsh:

I think I answered that already. Where you really see a very strong performance in Kuwait food during Q1 versus the rest of the year. I mean, even if you look at this period where you would say it was COVID hit, I think Q1 from memory, for Kuwait food, was about KWD26 million and it's KWD24 million in Q2. So we really do see a very, very strong first quarter. That happens every year. It is the way our business is driven.

In terms of looking forward, we expect to see over the year strong growth in all of our different food segments.

Fawaz Alsirri:

Next is a question about gross margins you expect going into the second half. So one more time, what's your outlook?

Garrett Walsh:

As I said, we expect a definite improvement year on year. It really depends on the channel. Each channel has its own margins. We know, whatever the scenario is, we will improve. I think the challenge will be by how much in each channel, depending on how the markets move over the next six months.

Fawaz Alsirri:

I have a couple more questions. Let me just go through them for a second. Actually, while I go through them, Fares I'm going to throw a question at you. Just to not keep people waiting online. Fares we have a question: excluding M&A, where do you debt in 12 months? Is there a target level of gearing?

Fares Hammami:

Sure. Basically to put things in context, our debt level went up since acquisition. And that's typical for companies that go through an acquisition, especially when these acquisitions are transformational in nature.

We worked hard in the last six months to pay down as much of the debt down and, we were able to reduce our net debt that from KWD 75.5 million in September 2019 to KWD 57.6 Million in 30 June 2020 so far.

In terms of level of gearing, obviously, historically we've maintained anywhere from two to three times, Net Debt to EBITDA. We're now hovering around 2.4x. And obviously that takes into account last 12 months. And the current last 12 months here includes H2 2019. So obviously we look forward to getting that reduced even further from a multiples perspective. I hope that answers the question.

Fawaz Alsirri:

Thank you. Next up is a question for Garrett why did KSA revenue decline year on year in the first quarter of 2020? Is KSA growth in the second quarter sustainable going forward? And why did the gross margin decline in the first quarter?

Garrett Walsh:

In terms of KSA performance in Q1, coming into the year, we made a very definitive choice in terms of what channels we wanted to play in and that was reflected in Q1.

In terms of Q2, we obviously saw that really starting to play well, where we have significant year on year growth. And yes, we would expect that to be sustainable over the year.

In terms of the gross margin decline in the first quarter, I'm assuming that's the same question again, which I hope is asked and answered.

Fawaz Alsirri:

Thanks. Next up is multiple questions in one so we'll do them one by one. What has led to the weak bottom line performance in the food and catering business in the first quarter of 2020?

Fares Hammami:

Sure... If I heard the question correctly again because I'm not in the same room, it relates to the catering segment? Garrett Walsh: Food and catering

Fares Hammami:

So basically it depends on the portfolio on mix.

So in terms of catering there are contracts in Kuwait and in Qatar, and as such, it depends where we are in the life of certain contracts. If we win them and then they are profitable when they come on board or if they're losing then when they leave the portfolio. So that's on the catering side.

On the food manufacturing and distribution, again, there's a lot of moving parts. As we said, there are certain sales channels that went up, certain product portfolios that went up.

So as Gary mentioned in the very first part of this presentation, there are certain winners and certain losers. We've definitely seen some movement within the portfolio as such. So depending on where we are on the portfolio.

Fawaz Alsirri:

Could we get an update on KSA and improvement in sales in the second quarter of 2020?

Fares Hammami:

All right. So I'll answer that. Obviously, Saudi, we are putting more products on the shelf slowly but surely. And as Garrett mentioned, we took some decisions earlier on this year, and even last few quarters, but more so this year to go through certain sales channels directly ourselves. And we definitely saw a better pick up in the second quarter as we were doing stuff within our own infrastructure, as opposed to selling to wholesalers / distributors. So that's on Saudi sales growth.

Fawaz Alsirri:

Can we get an update on the KSA improvement in the sales in the second quarter? And do you believe that the business has turned around?

Fares Hammami:

I believe for the first part of the question, I just answered that. And the second part, we do believe that Saudi is a work in progress, but we definitely hope that we are progressing our operations over there definitely have done good work in the past, and we hope that we now start seeing the yields of that.

Fawaz Alsirri:

There is a significant jump in catering business in the second quarter, what has contributed to that?

Fares Hammami:

In catering we do operations in both Kuwait and in Qatar. So again, just like everything Gary mentioned in the very first part of his presentation, we can't pick one big brush and paint the entire image with it. Some catering business went well. We were able to pick up some opportunities in catering in Kuwait. We also saw part of the catering business drop. For example, private catering or certain catering that, in Qatar, for example, we witnessed some weakness in sales. But on a net basis it was positive growth.

Garrett Walsh:

I think it's just worth mentioning, overall, I think versus our internal projections, our catering turnover across the two markets at the end of the half year was broadly in line with our projections. So as Fares says, you win some contracts, you lose some contracts.

Obviously COVID has driven that through the roof in terms of fluctuations. But overall, we were in line with our projections at the top line level.

Fawaz Alsirri:

If you could provide an update on your receivables, especially those related to the pharmaceutical business acquired? Garrett ?

Garrett Walsh:

As I think we've mentioned on these calls before we, we factor receivables with the MOH in Kuwait. We have rolled the new pharmaceutical businesses in under that arrangement which we believe is the right thing to do. And give us a very good payment profile versus the health market in general, in Kuwait.

In terms of the customers for those businesses outside Kuwait, we continue to manage those relationships well and closely. And we're always trying to reduce our receivables. But at this point we don't see any issues of concern.

Fawaz Alsirri:

Thank you. We have one last question for today's call. Give me a second, please. What were the net margins for each of the segments during the period. I believe that Mezzan doesn't disclose those numbers. What are the normal margins for these business segments? And three, are you witnessing a closure of small stores, restaurants in the economies you're operating in and what's the expected outflow of white collar expatriates?

So I think Gary, if we can just focus in the last two parts, are you witnessing a closure of small stores, restaurants in the economies you are operating in? And do you see an expected outflow of white collar?

Garrett Walsh:

Sure. I think certainly. A pattern of closures is probably one of the few common themes across our portfolio at this stage.

Where we see in every country those smaller, particularly restaurants, are closing. But also some of the baqqalas are going out of business. Nothing significant from the point of view of the business exposure, but certainly something we need to be conscious of and watching very closely in terms of receivables.

As Fares mentioned, we took some decisions to move away from certain channels in Saudi, as a result of wanting to be conscious and cognizant of the exposure there, but overall, it's not having a significant impact.

In terms of the expected outflow of white collar expatriates. Honestly in Kuwait, I wouldn't see it being a significant issue in the short term. As I said, the consumption power is with the nationals. That's where the majority of the population who actually purchase our products.

In Qatar it hasn't been a theme.

In the UAE I believe that we'd probably be more cognizant of what will be the situation with the tourist industry going forward rather than worrying about the demographics within the UAE.

Fawaz Alsirri:

Thank you Garrett. And with that we have answered every question we had, and that was the last question that came in. I think we'll be concluding our call today.

Thank you everyone for joining today's call, wherever you may be.

We look forward to having our next webcast to announce and discuss our third quarter earnings.

Thank you, Garrett, Thank you, Fares. And thank you everyone who joined today's call. Have a good day.

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