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Boursa Kuwait Company

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Subject: Minutes of the Analyst / Investor Conference Call for Results of Financial Year ended on 31/12/2020

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 financial year ended on 31/12/2020, which was held through live webcast session on Monday, 22 March 2021 at 01:00 pm Kuwait Time.

Attached hereto are the minutes of the Conference of the Investors earning call for results of financial year ended on 31/12/2020.

Mezzan Holding Company KSCP

Group Legal Manager

Walid Ali Khalil



Transcript of Earnings Call/Webcast for FY 2020

Mezzan Holding Company KSCP

Date: March 22, 2021

Time: 13.00 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

Fawaz Alsirri:

Hello and welcome ladies and gentlemen. This call is held to discuss Mezzan Holding's Q4 and full-year earnings, which were announced yesterday.

Today is Monday, March 22, 2021 and this call is held live from Kuwait and Dubai and a recording of this call will be available on the same link within two hours.

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

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

A very warm welcome to everyone, we hope that you and your colleagues, and your families are safe in these tough times.

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 format for today's call.

First, for the next 10-15 minutes, the CEO and CFO will each deliver their statement after which we will have a Q&A session.

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

Also, 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, or achievements or results.

Mr. Walsh, you may start.

Transcript of Earnings Call – FY2020



Garrett Walsh:

This afternoon we will take you through a short presentation reviewing both the tailwinds we enjoyed and headwinds we faced during 2020.

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. For those of you who have not yet met Nabil, he has been promoted from Finance Director following the departure of Fares Hammami to NBK Capital. I would like to wish them both well in their new roles and thank them for their contribution to today's results.

Lastly, we will be happy to receive your questions and answer as much as possible today. And due to the shorter time than usual and 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 and we will get back to you.

From a tailwinds perspective:

I am glad to say that during 2020 we have witnessed improvement in our operational performance driven by both the heritage portfolio, inorganic growth as well as opportunistic Covid-related businesses.

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

It is worthy to note here that the growth in topline witnessed throughout the year and continued in Q4 was coupled with operating leverage and economies of scale led to expansion of various profitability margins including gross profit, EBITDA, operating profit and net margins.

Since the beginning of 2020, we also witnessed an improvement in the working capital cycle which enabled us to reduce our borrowing and financing costs. Our Net Debt in 2020 was lower by 28% compared to the Net Debt of 2019. And we are pleased to see that our Net Debt and Net Debt to EBITDA are back to pre-acquisitions levels.

From headwind perspective:

We witnessed a diminishing trend of supply chain disruptions which have improved throughout the year from earlier months of 2020.

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

Covid related one-off costs, including staff relocation costs.

Our operations in Afghanistan were impacted by the reduction of U.S troops. As a result, our food services segment in Afghanistan dropped compared to 2019.

Lastly, our catering business in Qatar declined in 2020 due to Covid related interruptions.

Transcript of Earnings Call – FY2020



As for financial performance for Q4, Happy to report that Mezzan recorded improved operational and financial results from 2019 as evidenced by enhancement in key operational metrics including Revenue, Gross Profit and Gross Profit Margin, EBITDA and EBITDA Margin as well and Net income and Net Income to shareholders of parent company.

Our 2020 performance, is testimony to our dynamic business model and strategy, as well as our ability to adapt promptly to the adverse operating conditions that the pandemic imposed on us.

In terms of our financial highlights and headline numbers for YTD Q4 ended 30 December 2020:

- Mezzan's revenue reached KWD 246.4 million up from KWD 222.5 million in the previous comparable period, for a growth of 10.8%.
- Gross Profit reached KWD 59.3 million compared to KWD 48.7 million in the comparable period, for an increase of 21.7%. Gross Profit Margin enhanced by 220 basis points to reach 24.1%.
- While EBITDA reached KWD 25.4 million, up from KWD 18.5 million in previous year, for an increase of 36.9%. EBITDA margin increased by c.200 basis points to reach 10.3%.
- The group achieved net profit of KD 12.6 million during the twelve months of 2020 compared to KD 6.3 million in the first 12 months of the year, an increase of 98.7% and Gross profit margin increased by about 220 basis points to reach 24.08% compared to 21.91% of the comparable period.
- Finally, Mezzan's net profit to shareholders of the parent company reached KWD 10.9 million during YTD'2020, compared to KWD 5.6 million during the comparable period of the previous year for an increase of c.93.9%.
- Key to note that our EBITDA has increased by c.378.1% in Q4 alone compared to the previous year's level, to reach a record level KWD 4.0mn.

Finally, before handing over to Nabil I would like to draw your attention to our innovative approach to dividends this year. We have always been clear that Mezzan is not an investment or real estate company but rather a pure trading company. We stepped into support of our shares when we felt that they were undervalued but now that they are trading around our book value we believe it is appropriate to return them to shareholders rather than take the gain as our performance continues to improve. This has no impact on our issued shares or cash flow and reflects our confidence in the long-term value of our shares and our business model.

And at this point I will hand over to Nabil to take you through the financials in more detail discussing the performance of Q4 2020.

Nabil Ben Ayed:

Thank you Garry, thank you Fawaz, and thank you everyone for attending the call.

As for revenue contribution by business line at Mezzan Group:

- In YTD 2020, the food group accounted for 67.2% of total group revenue in YTD 2020, for a growth of 3.2% compared to YTD 2019; while the revenue of non-food group accounted for the balance of 32.8% of total group revenue, for a growth of 30.4%.

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- In YTD 2020, Revenue of Food Manufacturing and Distribution increased by 6.8% contributing to 46.6% of Group revenue.
- Revenue of Food Catering decreased by 5.9% contributing to 13.6% of Group revenue.
- Revenue of Food Services decreased by 0.8% contributing to 7.0% of Group revenue.
- Revenue of FMCG and Healthcare increased by 34.1% contributing to 31.0% of Group revenue.
- Revenue of Industrial segment decreased by 11.5% contributing to 1.8% of Group revenue.

We now move on to discuss operations per geography FY2020:

- Operations in Kuwait contributed to 73.1% of Mezzan's revenue, up 16.7% 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 2.1% compared to YTD 2019 due to an improvement in our light snacks business.
- Revenue in Qatar decreased by 12.1% in YTD2020 compared to YTD2019 now contributes to 8.1% of Mezzan's revenue. Drop due to catering business impact by Covid.
- Saudi Arabia accounted for 2.0% of Mezzan's revenue in YTD 2020 for an increase of 7.0% compared to YTD 2019.
- In Jordan, sales increased by 14.4% as we have seen an improvement to our and FFV business in Jordan, that market contributed to 2.6% of Mezzan's revenue.
- Revenue from operations in Afghanistan was down 16.7% during YTD2020, due to the reduction of troops during the year. The Afghanistan market accounts for 2.3% of Mezzan.
- While our operations in Iraq account for only 1.0% of Mezzan's revenue with an increase of 17.7% compared to 2019.

Moving to the Profit and Loss, We will first discuss YTD 2020 then Q4 2020:

In YTD 2020, Mezzan Group recorded

- Revenue of KWD 246.4 million, for an increase of 10.8% compared to YTD 2019. As explained before, this was driven by topline growth both food and Non Food segments alike as well as organically and inorganically.
- Gross profit reached KWD 59.3 million in YTD Q4 '2020 compared to KWD 48.7 million in the previous comparable period, and Gross Profit Margin reached 24.1%, an enhancement of approximately 2.2%.
- Selling, general, and administrative expenses (SG&A) expenses increased by 17.0 % in YTD2020 mostly on the back of new business and acquisitions, in addition to provisions.
- EBITDA reached KWD 25.4 million, up from KWD18.5 million in the previous year, for an increase of 36.9%.
- 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.

Transcript of Earnings Call – FY2020



- Financing costs and other expenses decreased to KWD 3.8 million in YTD 2020 compared to KWD 6.1 million in YTD 2019.
- In summary, Net profit had reached KWD 12.6 million in YTD 2020 ending 31 December higher by 98.7% from comparable period in 2019.
- Net profit attributable to equity holders of the parent company reached KWD 10.9 million on YTD 2020 compared to KWD 5.6 million in the comparable period of 2019 for an increase of 93.9%.

Moving to the Profit and Loss for Q4'2020, Mezzan Group recorded

- Revenue reached KWD 52.0 million, for a decrease of 1.2% compared to Q4'2019. In Mezzan's food services and catering segments.
- Gross profit reached KWD 12.3 million in Q4'2020 compared to KWD 10.0 million in the previous comparable period, and Gross Profit Margin reached 23.5%, an enhancement of approximately 4.5%.
- Selling, general, and administrative expenses (SG&A) expenses increased by 3.6 % in Q4'2020 ending 31 December 2020 mostly on the back of provisions posted during the quarter.
- EBITDA reached KWD 4.0 million, up from KWD 0.8 million in previous year, for an increase of 378.1%.
- Financing costs and other expenses decreased to KWD 1.3 million in Q4'2020 compared to KWD 3.4 million in Q4'2019.
- Net profit for Q4'20 reached KWD 0.7 million, higher by 137.7% from the comparable period in 2019.
- Net profit attributable to equity holders of the parent company reached KWD 0.65 million in Q4'2020 compared to a loss of KWD 3.5 million in the comparable period of 2019 for an increase of 118.9%.

From a cash flow perspective, YTD 2020 Mezzan:

- Mezzan recorded operating cash flow before working capital changes of KWD 30.7 million in YTD 2020, up by KWD 8.4 million from comparable period from previous year on the back larger activity.
- In YTD 2020, we have recorded an inflow of working capital cash flow of KWD 6.6 million compared to an investment in working capital of KWD 11.4 million in 2019 on the back of enhanced working capital management.
- Key to note here that Mezzan's Cash flows from Operating Activities reached KWD 37.3 million in YTD 2020, compared to KWD 10.9 million in YTD 2019 which is an important milestone for Mezzan Group.
- Cash flows used in investing activities reached KWD 6.0 million mostly on the back of maintenance capital expenditure.
- As such, we recorded positive Cash Flows before Financing Activities amounted to KWD 31.3 million in YTD 2020 compared to a KWD -17.9 million in YTD 2019.
- Our Net Debt stood at KWD 53.5 million in YTD 2020, Down by KWD 20.9 million from 2019 levels.

Transcript of Earnings Call – FY2020



As of 31 December 2020, Mezzan's balance sheet size reached KWD253 million, equity to shareholders of parent company of KWD109 million and Net Debt of KWD53.5 million.

A note on Mezzan's borrowings:

We are pleased to see our debt levels going down, to reach KWD 53.5mn in December 2020 which is lower by KWD 20.9mn from December 2019 levels . Our Net Debt to EBITDA has reached 2.1x and is now at pre-acquisition levels.

Fawaz Alsirri:

We currently don't have any questions coming in. We will wait until we start getting questions for about two minutes or so.

Thank you. The questions are beginning to come in. Let me take a look. A question is from Nishit Lakhotia, Nishit is asking, "How much was COVID support from government in fiscal year 21 in terms of salaries for Kuwaiti employees?" Nabil?

Nabil Ben Ayed:

Thank you for the question. I will say, unfortunately, we don't disclose that, but what I can say, yes, the group had received support from the government, but in the other hand, we had costs to cover for the COVID-19 reality had imported a displacement of our workers from one side to other one. So that had generated cost for the company. In one hand, we have support from the government, at the other hand, we had costs to bear. Thank you.

Fawaz Alsirri:

Thanks. Next up, we have a question on CapEx. The question is from Nishit as well. Nishit is asking, "Do you have any CapEx guidance for the year 21?" Nabil?

Nabil Ben Ayed:

Yes, we are planning to have a CapEx for about 15 million for next year. This will support our activities and maintenance CapEx, which is mandatory for us to maintain our performance level in the field level.

Fawaz Alsirri:

Thank you Nabil. The next question is for Garry, It's from Talal Mohammad. Talal is asking the MOCI Kuwait has suspended/restricted the marketing festivals due to COVID in 2020, was it a main reason in affecting the profit margin positively? Garry?

Garry Walsh:

In terms of the question, it didn't impact our margins substantially, as you're aware, a lot of our business is agency business and the vast majority of our agency principals actually cover our promotional and marketing spends. So for example, in the case of Dettol and where they wouldn't have needed to spend in Kuwait in 2020 to drive their top line number, we wouldn't have seen a benefit of that in terms of marketing or promotional saving. Within our own brand the vast majority of the improvement was driven by improving the amount throughput through the factories.



Fawaz Alsirri:

Thank you. The next question is from, let me take a look, it's also from Nishit. Nishit asking, what is the margin improvement in 2020? Is it sustainable? Should we expect further improvement in 21, or these levels are more sustainable? Gary that question is for you.

Garry Walsh:

From a net profit level and we obviously have a lot of moving parts in our business at the minute, and we, no secrets, and we were very clear on the fact that we had some COVID business come through in our catering business in Kuwait last year, which was very helpful. And we hope and pray that, that won't happen again this year for obvious reasons. And also we have our services business, really being impacted by the troop withdrawals, both in Afghanistan, and in Iraq. So we have some negative headwinds going into this year. As against that, we continue to see a very strong performance from our recent acquisitions in the medical space. We continue to see a very strong performance from our food manufacturing and distribution businesses. So in the round we expect to finish 2021 slightly ahead of 2020, probably in the low, mid-single digits kind of range.

At this point, we obviously guide further as we go through the year, but at this point, we'd be confident that we can cope with the headwinds. I'll be it this year comes with a health warning in terms of, vaccination programs, will the consumers travel after the vaccination programs? Will the schools reopen on time and what will the Americans do in terms of troop numbers eventually? So there's a number of moving parts, but at this point, we remain confident that we can continue to drive growth through this year and then accelerating out as we go into next year.

Fawaz Alsirri:

Thank you very much, Gary. That's the last question we received. I think with that, we will be concluding today's call, but thank everyone for joining us today and bearing with us during the Q and A session. Like I said, at the beginning of the call, a live recording of this call is going to be available on the very same link to you in about two hours or so. Thank you all for joining us. I look forward to see you in the next call for the first quarter. Thank you and have a good day.