



ميزان 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 Q1-2021

Reference to the subject line and in compliance with “Continued Obligation of the Premier Market Companies” as per Resolution No. (1) for the year 2018, Article (8-4-2). Mezzan Holding Company KSCP is pleased to announce that it held the Analyst / Investor Conference Call for the Results of the **first quarter of the year 2021** which was held through Live Webcast session on Monday, 17th May 2021 at 02:30 pm Kuwait Time.

Enclosed are the minutes of the Conference of the Investors earning call.

Mezzan Holding Company KSCP

Group Legal Manager

Walid Khalil



Transcript of Earnings Call/Webcast for Q1 2021

Mezzan Holding Company KSCP

Date: May 17, 2021

Time: 14.30 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:

Good Afternoon ladies and gentlemen. Welcome to Mezzan Q1 2021 earnings call. This call is held to discuss Mezzan Holding's Q1 2021 earnings, which were announced on 11 May 2021.

Today is Monday, May 17, 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 allow me to introduce our speakers for the call:

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

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



Garrett Walsh:

Thank you Fawaz and Good afternoon everyone and I hope you had a lovely Eid break.

We will take you through a short presentation reviewing both the tailwinds we enjoyed and headwinds we faced during Q1 2021.

I will then discuss financial highlights, after which I will hand over to Nabil, who will take you through the details of the financial performance.

Lastly as Fawaz said, 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 very quickly.

From a tailwinds perspective:

- I am glad to say that during Q1 2021 we have witnessed continued progress in our core brands. Kitco continues to progress across the region off the back of strong NPD (New Product Development) on Mexita, Kettle Chips and Tabasco Stix last year. At the same time Khazan is showing steady growth within its core markets and our water business continues to progress in both Qatar and Kuwait.
- In Q1 2021, we also witnessed good cash management and an improvement in the working capital cycle which enabled us to reduce our borrowing and financing costs. Our Net Debt in Q1 2021 was lower by KWD 23.5 million compared to the Net Debt of Q1 2020. And we are pleased to see that our Net Debt and Net Debt to EBITDA are back to pre-acquisitions levels.
- Also, during Q1 2021 our Kuwait Lube Oil Co. refinery operations is now running the new refinery through a phased start up process and this is impacting positively on our industrial segment.

From headwinds perspective:

- For our Food Group, we are annualising against the panic buying that we have witnessed at the start of Covid-19 pandemic. Kuwait went into lockdown on the 16th March last year with similar dates across the region. We expect this effect to reverse from May onwards as we saw the stockpiling last year unwind.
- Our operations in Afghanistan and Iraq were impacted by the withdrawal of U.S troops. As a result, our food services segment in Afghanistan and Iraq dropped compared to Q1 2020.
- As we have witnessed a peak in our catering business in Kuwait during the first few months of the pandemic, it is now time to annualise against that peak in 2021. This will continue through Q2 and then normalize.
- Curfews and restrictions in the region continue to cause turbulence and doubts as 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.

As for financial performance for Q1 2021, we are pleased to announce consistently strong quarterly profits since the beginning of Covid-19 pandemic, while maintaining a steady financial position, stable asset quality metrics and strong capitalization. This increases our confidence, and confirms that we are on the right course to achieving Mezzan's strategic objectives and encourages us to enhance our efforts as we continue on our path to leadership in the sector and ability to meet the needs of our customers.

In terms of our financial highlights and headline numbers for YTD Q1 ended 31 March 2021:

- Mezzan's revenue reached KWD 73.4 million up from KWD 74.4 million in the previous comparable period, for a decline of 1.4%.
- Gross Profit reached KWD 16.2 million compared to KWD 16.6 million in the comparable period, for a decrease of 2.5%. Gross Profit Margin decreased by 20 basis points to reach 22.1%.
- While EBITDA on the other hand, reached KWD 8.7 million, up from KWD 8.6 million in previous year, for an increase of 1.0%. EBITDA margin increased by c.10 basis points to reach 11.8%.
- The group achieved net profit of KD 5.6 million during the three months of 2021 compared to KD 5.2 million in the first 3 months of the year, an increase of 8.0% and Net profit margin increased by about 40 basis points to reach 7.6% compared to 6.9% of the comparable period.
- Finally, Mezzan's net profit to shareholders of the parent company reached KWD 5.0 million during YTD'2021, compared to KWD 4.6 million during the comparable period of the previous year for an increase of c.6.8%.
- Key to note that our EBITDA has increased by c.1.0% in Q1 alone compared to the previous year's level, to reach a record level KWD 8.7mn.

And at this point I will hand over to Nabil to take you through the financials in more detail discussing the performance of Q1 2021.

Nabil Ben Ayed:

Thank you Garry, thank you Fawaz, Eid Mubarak to all of you and thank you everyone for attending the call. I will walk you through Q1 2021 Mezzan Performance.

As for revenue contribution by business line at Mezzan Group:

- In YTD 2021, the food group accounted for 60.8% of total group revenue in YTD 2021, for a decline of 3.6% compared to YTD 2020; while the revenue of non-food group accounted for the balance of 39.2% of total group revenue, for a growth of 2.2%.
- In YTD 2021, Revenue of Food Manufacturing and Distribution increased by 2.0% contributing to 46.0% of Group revenue.
- Revenue of Food Catering decreased by 15.6% contributing to 10.0% of Group revenue.
- Revenue of Food Services decreased by 21.1% contributing to 4.8% of Group revenue.



- Revenue of FMCG and Healthcare increased by 1.5% contributing to 37.3% of Group revenue.
- Revenue of Industrial segment increased by 19.1% contributing to 1.9% of Group revenue.

We now move on to discuss operations per geography for Q1 2021:

- Operations in Kuwait contributed to 78.0% of Mezzan's revenue, up 0.6% resulting from a stable performance from food manufacturing and distribution and non-food FMCG and Healthcare businesses alike.
- Revenue from our operations in the United Arab Emirates contributed to 10% of Mezzan's revenue, increased by 3.6% compared to YTD 2021 due to an improvement in our distribution business.
- Revenue in Qatar decreased by 18.1% in YTD 2021 compared to YTD 2020 now contributes to 6% of Mezzan's revenue. Drop due to catering business impact by Covid closures and restrictions.
- Saudi Arabia accounted for 2% of Mezzan's revenue in YTD 2021 for an increase of 15.6% compared to YTD 2020 on the back of introduction of new products and enhancing our workforce and warehousing facilities.
- In Jordan, sales increased by 16.5% as we have seen an improvement to our distribution coverage in Jordan, that market contributed to 2.4% of Mezzan's revenue.
- Revenue from operations in Afghanistan was down 57.3% during YTD 2021, due to the withdrawal of U.S troops. The Afghanistan market accounts for 0.9% of Mezzan.
- While our operations in Iraq account for only 0.7% of Mezzan's revenue with a decrease of 33.1% compared to YTD 2020, also due to the withdrawal of U.S troops from the country.

Moving to the Profit and Loss:

In YTD 2021, Mezzan Group recorded:

- Revenue of KWD 73.4 million, for a decrease of 1.4% compared to YTD 2020. This was driven by Food Group decline of 3.6% largely due to the decrease in Food Services and Catering lines.
- Gross profit reached KWD 16.2 million in Q1 2021 compared to KWD 16.6 million in the previous comparable period, and Gross Profit Margin reached 22.1%, a decrease of approximately 0.2%.
- EBITDA reached KWD 8.7 million, up from KWD 8.6 million in the previous year, for an increase of 1.0%, driven by the decrease in Selling, general, and administrative expenses (SG&A) expenses.
- Financing costs and other expenses decreased to KWD 0.6 million in YTD 2021 compared to KWD 1.0 million in YTD 2020.
- In summary, Net profit had reached KWD 5.6 million in YTD 2021 ending 31 March higher by 8.0% from comparable period in 2020.



- Net profit attributable to equity holders of the parent company reached KWD 5.0 million on YTD 2021 compared to KWD 4.6 million in the comparable period of 2020 for an increase of 6.8%.

From a cash flow perspective, YTD 2021:

- Mezzan recorded operating cash flow before working capital changes of KWD 9.2 million in YTD 2021, same as KWD 9.2 million from comparable period from previous year on the back larger activity.
- In YTD 2021, we have recorded an inflow of working capital cash flow of KWD 2.6 million compared to an investment in working capital of KWD 3.8 million in Q1 2020 on the back of enhanced working capital management.
- Key to note here that Mezzan's Cash flows from Operating Activities reached KWD 6.6 million in YTD 2021, compared to KWD 5.4 million in YTD 2020.
- Cash flows used in investing activities reached KWD 1.5 million mostly on the back of maintenance capital expenditure.
- As such, we recorded positive Cash Flows before Financing Activities amounted to KWD 5.1 million in YTD 2021 compared to a KWD 3.3 million in YTD 2020.
- Our Net Debt stood at KWD 49.5 million in YTD 2021, Down by KWD 23.4 million from 2020 levels.

From a balance sheet perspective:

As of 31 March 2021, Mezzan's balance sheet size reached KWD 267.6 million, equity to shareholders of parent company of KWD 114.6 million and Net Debt of KWD 49.5 million.

A note on Mezzan's borrowings:

We are pleased to see our debt levels going down, to reach KWD 49.5 in March 2021 which is lower by KWD 23.4mn from March 2020 levels . Our Net Debt to EBITDA has reached 5.7x and is now at pre-acquisition levels.

And now, I open the floor to your Q&A.

Fawaz Alsirri:

Thank you gentlemen, now the floor is open to your questions.

We have received zero questions so far, but we will keep the floor open for the next minute and then we will take it from there.

Fawaz Alsirri:

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We have one question that we've received from Samir Murad from NBK Capital. Samir's asking, what are the steps you are taking that are leading to working capital improvement? Nabil?

Nabil Ben Ayed:

Thank you for the question. Mainly the key for an improvement of working capital is due to a better management of collection, plus a better management for our payables, with an optimization of our capital expenditure. That's the key optimization of our working capital. Thank you.

Fawaz Alsirri:

Thank you. Let's see. We have a follow-up question from Samir. Samir is asking: What is the guidance for capex in 2021? Any special projects included? That question is going to be taken by Garry.

Garry Walsh:

Hi Samir. And in terms of our CapEx guidance for this year, we probably anticipate spending around 14 or 15 million KWD. Within that we're looking at expanding our plastics business and completing labour accommodation in Qatar and purchasing farmland in Kuwait, building a line in Saudi and that doesn't include if we were to do an acquisition, which would obviously be on top of that. As Nabil pointed out, our net debt to EBITDA on a quarterly basis is now down to 5.7%. And so we really see that as a good opportunity on a go-forward basis to look at what's available out there and lots of companies at this point, looking at what their options are.

Fawaz Alsirri:

Thank you, Garry. We have a couple of questions from Talal, but Talal before I get to your question, we just got another follow-up from Samir. So we'll take Samir's question and then we'll come back to Talal's two questions.

Samir is asking how much of a negative impact did the drop in Afghanistan have on the bottom line? Garry?

Garry Walsh:

I think Samir is probably well aware of this, we don't provide those data points. However, I think it's fair to say that with the withdrawal of the U.S. troops in September, we would anticipate that income stream ending probably in mid-June, and it's been on a decline for the last 12, 18 months anyway. We would see the income stream there ending at the end of June, probably. However, we continue to have good business with the U.S. Troops, and we have good business with the UN in Jordan within that segment. Those are both performing strongly for us currently. It's going to be witnessed by the increase in our Jordan sales in the period.

Fawaz Alsirri:



Next we have two questions from Talal, Talal Samhoury from Aventicum, Talal is asking, where is the Saudi growth coming from? Which sector? Garry, I believe that question is for you.

Garry Walsh:

The Saudi growth is predominantly being generated by our KITCO brand. And we are building a nice position with our meat business. And, there are ongoing challenges with the SFDA in that sector. And we've also launched our rice business in Saudi, but the majority of the growth is currently coming from the Kitco brand. The basic potatoes snacks.

Fawaz Alsirri:

Talal's second question is, are you going to scale down and eventually close the catering business to U.S. Troops? Or are there any other avenues for growth in this sector?

Garry Walsh:

And I think, within Afghanistan and yes, we will close. And I think the security situation as such and over the next six months is probably too uncertain. And there are other things that we might look at in the longer term, but in the short to medium term, and we will certainly exit Afghanistan. But as I said, we continue to see a strong performance with our UN business and with the Americans within the Iraq Jordan and Kuwait contract.

Fawaz Alsirri:

Thanks Garry. Next up is a question from Alaa Tolba , Alaa is asking, can you shed more light on the bottled water recovery witnessed and provide an update on the competitive landscape, post lifting the blockade?

Garry Walsh:

Sure. And I think firstly, the blockade has been lifted and obviously the regulatory framework is very different from what it was when the blockade first went into position. So currently we, and I assume many others have applied for SFDA approval to start shipping water into Saudi and ESMA approval to start shipping water into the UAE. And I think once those are in place for people, we'll start seeing the competitive landscape change. But at the moment it really is the same competitors fighting for the same market as it's always been.

Fawaz Alsirri:

While on the topic, we have a question from Ibrahim and what Ibrahim is asking, what was the main reason for your operation size decline (in Qatar) and are you expecting new markets to get into? And his third one is actually three in one, his last question is, what policies do you place to protect your workers from human rights violations?

So question number one, what's the main reason for your operation size decline? Question number two. Are you exploring new markets to get into? Question number three, what policies do you place to protect the workers from human rights violations «I believe in Qatar as well.

Garry Walsh:



In terms of the operation size decline in Qatar, Qatar itself has gone through a massive building program to get ready for the games. And obviously a lot of those contracts are now coming to an end. And, as we provided a lot of the labour camps, etc, and with food and services, you would expect that business to taper out, hopefully as we go towards the end of the year, we will be in a position to announce some new business around actually servicing the games themselves. So I think what the Qatar catering business is going through at the minute is entirely predictable, entirely expected. And we're very confident that that business will have a very strong end of this year and a very strong 2022 as a result of getting into those new customers.

And we've also moved out of traditional catering and more into facilities management as well, which should help as well. And in terms of policy to protect our workers from human rights violations, we comply fully with all the relevant legislation that's been introduced, as you're aware, the minimum wage has been increased in Qatar, we comply fully with that as there are rules around accommodation, etc. We comply fully with that. So from our health and safety teams, we spend a lot of time inspecting and making sure that everything is as it should be off the top of my head, we probably have 1700 to 2000 employees in Qatar. So it's important that we treat them and all of our employees with respect. As you know, when COVID hit last year, we put a huge focus on protecting our workforce. We believed at the time that was the right thing to do. And we still believe that that's the right thing to do. Although we are a listed company, it's a tradition that comes to us from our founder Jassim Alwazzan, who was well known for looking after his employees in good and bad circumstances.

Fawaz Alsirri:

Thank you Garry. With that, we've answered every question that we've received on today's call, and I think we will be concluding the call at this point. Thank you everyone for joining us. Thank you, Garry and Nabil for taking us through the quarter and providing us some context for the future. And we hope everyone has a good day and we'll look forward to having our next call for the Q2 earnings in about two months' time. Thank you everyone. And have a good day.