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

Date: 15/08/2021

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Boursa Kuwait Company

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Subject: Minutes of the Analyst / Investor Conference Call for Q2-2021

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 second quarter of the year 2021 which was held through Live Webcast session on Wednesday, 11th August at 11:00 am Kuwait Time.

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

Mezzan Holding Company KSCP

Vice Chairman

Mohamed Jassim AlWazzan

Transcript of Earnings Call/Webcast for Q2 2021

Mezzan Holding Company KSCP

Date: August 11, 2021
Time: 11.00 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:

Good morning and Good afternoon ladies and gentlemen. This call is held to discuss Mezzan Holding's Q2 earnings for the fiscal year 2021, which were announced yesterday "10 August 2021".

Today is Wednesday, August 11, 2021 and this call is held live from Kuwait and Dubai and a recording of this call will also be available on the same link within two or three 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. I am with:

- Mr. Garry Walsh, the company's CEO, who is joining us from Dubai.
- Mr. Nabil Ben Ayed, the company's Group CFO, who is joining us from Kuwait.

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 usual format.

As you know, first, the CEO and the CFO will each deliver their statement for the next 10 minutes or so, then we will open the floor to the Q&A.

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.

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, achievements or results.

And now, I will be handling the mic to Mr. Garry Walsh.

Garry the mic is yours.

Garrett Walsh:

Thank you Fawaz and Good morning everyone.

We will take you through a short presentation reviewing both the tailwinds we enjoyed and headwinds we faced during Q2 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. 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.

Overall, we are happy to see the business returning to more normal phase and consumption pattern, as the exceptionally income in Q2 2020 was not repeated, thankfully. There is a significant underlying growth compared to 2019 which Nabil will take you through in more details later.

From a tailwinds perspective:

- We are witnessing markets returning to normal consumption patterns as channels started to reopen.
- Our business in the UAE is continuing to see good top line growth.
- Qatar consumer business continuing to progress.
- Mezzan business in KSA is performing well in a very challenging environment.
- Our catering business in Qatar has started to make key wins as FIFA World Cup approaches.
- Receivables continue to be managed aggressively, leading to a good cash flow benefit.

From headwinds perspective:

- Market conditions are driving up the cost of many raw materials. Our manufacturing segment faces challenges through the supply chains. As prices continue their upward climb, we're still dealing with the two supply chain headwinds, plaguing the industry throughout the pandemic: slowing supplier deliveries and labour availability.
- Our catering performance reflects the emergency meals in 2020 not being repeated this year. But we are pleased to see the progress in the underlying business.
- Annualizing against Food segment, as the base year was inflated by one-off Covid-19 related purchases during Q2 2020.
- Food Services segment down, as the United States Armed Forces are concluding their mission in Afghanistan. All our people were safely extracted during June 2021.
- Travel and movement restrictions continue to drive workforce and talent pressure.

<u>In terms of our financial highlights and headline numbers for H1 2021 ended 30 June 2021:</u>

- Mezzan's revenue reached KWD 134 million down slightly from KWD 134.3 million in the previous comparable period, for a slight decline of 0.2%.

- Gross Profit reached KWD 29.5 million compared to KWD 31.9 million in the comparable period, for a decrease of 7.4%. Gross Profit Margin decreased by 170 basis points to reach 22%.
- While EBITDA, reached KWD 14.3 million, down from KWD 15.8 million in the comparable period, for decrease of 9%.
- The group achieved net profit of KD 8.3 million during the first half of 2021 compared to KD 9.01 million in the first half of 2020, a decrease of only 7.3%
- Finally, Mezzan's net profit to shareholders of the parent company reached KWD 7.2 million in the first half of 2021, compared to KWD 8.1 million during the comparable period of the previous year for a decrease of 10.9%.

At this point I will hand over to Nabil to take you through the financials in more details discussing the performance of H1 2021.

Nabil Ben Ayed:

Thank you Garry and Fawaz. And thank you everyone for attending the call. I will walk you through H1 2021 Mezzan Performance.

As for revenue contribution by business line at Mezzan Group:

- In YTD 2021, the food group accounted for 63.6% of total group revenue in, for a decline of 5.2% compared to YTD 2020; while the revenue of non-food group accounted for the balance of 36.4% of total group revenue, for a growth of 10%.
- In YTD 2021, Revenue of Food Manufacturing and Distribution increased by 2.3% contributing to 47.2% of Group revenue.
- Revenue of Food Catering decreased by 20.7% contributing to 11.3% of Group revenue.
- Revenue of Food Services decreased by 23.1% contributing to 5.1% of Group revenue.
- Revenue of FMCG and Healthcare increased by 8.8% contributing to 34.3% of Group revenue.
- Revenue of Industrial segment increased by 33.8% contributing to 2% of Group revenue.

We now move on to discuss operations per geography for H1 2021:

- Operations in Kuwait contributed to 75.6% of Mezzan's revenue, up 0.02%.
- Revenue from our operations in the United Arab Emirates contributed to 10.9% of Mezzan's revenue, increased by 19.6% compared to H1 2020 due to an improvement in our distribution business.
- Revenue in Qatar decreased by 10.1% in H1 2021 compared to H1 2020 and contributes to 7.2% of Mezzan's revenue. The drop is majorly due to the decline in catering business.
- Saudi Arabia accounted for 2% of Mezzan's revenue in H1 2021 for an increase of 9.9% compared to H1 2020 on the back of introduction of new products and enhancing our workforce and warehousing facilities.
- In Jordan, sales increased by 22.6% as we continue to improve our distribution coverage. Jordan revenue contributed to 2.7% of Mezzan's revenue.

- Revenue from operations in Afghanistan was down 72.5% during H1 2021, due to the withdrawal of The United States Armed Forces from Afghanistan. Afghanistan market accounted for 0.6% of Mezzan revenue.
- While our operations in Iraq accounted for only 1% of Mezzan's revenue with a decrease of 16.1% compared to H1 2020, also due to the withdrawal of U.S troops from the country.

Moving to the Profit and Loss:

In H1 2021, Mezzan Group recorded:

- Revenue of KWD 134 million, for a decrease of 0.2% compared to H1 2020. This was driven by Food Group decline of 5.2% largely due to the decrease in Food Services and Catering lines.
- Gross profit reached KWD 29.5 million in H1 2021 compared to KWD 31.9 million in the previous comparable period, and Gross Profit Margin reached 22.1%, a decrease of approximately 1.7%.
- EBITDA reached KWD 14.3 million, down from KWD 15.8 million in the previous year, for a decrease of 9%, caused by the increase in Selling, general, and administrative expenses (SG&A) expenses.
- Financing costs and other expenses decreased to KWD 1.3 million in H1 2021 compared to KWD 1.9 million in H1 2020.
- In summary, Net profit had reached KWD 8.3 million in H1 2021 ending 30 June, lower by 7.3% from H1 2020.
- Net profit attributable to equity holders of the parent company reached KWD 7.2 million on H1 2021 compared to KWD 8.1 million in the comparable period of 2020 for a decrease of 10.9%.

From a cash flow perspective, H1 2021:

- Mezzan recorded operating cash flow before working capital changes of KWD 15.4 million in H1 2021, compared to KWD 18.1 million in H1 2020. Lower by KWD 2.7 million due to lower Net Profit and reduction in working capital.
- In H1 2021, we have recorded an inflow of working capital cash flow of KWD 2.3 million compared to an investment in working capital of KWD 4.1 million in H1 2020.
- Mezzan's Cash flows from Operating Activities reached KWD 13.1 million in H1 2021, compared to KWD 22.2 million in H1 2020.
- Cash flows used in investing activities reached KWD 2.9 million mostly on the back of maintenance capital expenditure.
- As such, we recorded positive Cash Flows before Financing Activities amounted to KWD 10.2 million in H1 2021 compared to a KWD 19.8 million in H1 2020.
- Our Net Debt stood at KWD 51 million in H1 2021, Down by KWD 6.7 million from H1 2020 levels.

From a balance sheet perspective:

As of 30 June 2021, Mezzan's balance sheet size reached KWD 256.7 million, equity to shareholders of parent company of KWD 111 million and Net Debt of KWD 51 million.

Our Net Debt to EBITDA has reached 9x and is lower by 0.9x compared to June 2020.

And now, I open the floor to your questions.

Fawaz Alsirri:

Thank you Nabil and thank you Garry for taking us through the details of H1 2021.

We will now take our audience's questions. Please give us a moment to go through the list and see if we can group similar questions together, in the interest of saving everyone's time.

And, we are back. We don't have any questions coming in but we will hang loose and wait to get everyone's a chance to digest the information, and if they have any questions to send our way, we encourage them to do so. So, we will hang tight and wait for a minute or so.

Fawaz Alsirri:

Thank you Nabil and Garry for taking us through the first half of the year. We will now be taking in our audience's questions. Please give us a moment to go through the list and see if we can group similar questions together. In the interest of saving everyone's time.

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We already do have a couple of questions coming in. Let me just go through them, we have 1, 2, 3.

We have a question from Vishal Gupta asking about the FIFA World Cup and asking for it to be quantified.

We have a question from Wei Nien Chow asking for sense of 2022 outlook for both the food and FMCG business.

We have a question from Nishit Lakhotia asking how sizable could be the impact of FIFA 2022 contracts, assuming a normal event, in terms of the revenue and bottom line perspective.

We have a question from Siju Philip asking, can you give us colour on the World Cup and the Arab contract won by your Qatari subsidiaries?

So that's the 1, 2, 3, 4 questions on FIFA World Cup. Garry, I'm going to hand this over to you. Just to recap a **question about quantifying the concession, a question about what's the outlook for 2022 in terms of a return to normal events and some insights on your Qatari subsidiary over there**, and I'll hand it over to you, Garry.

Garry Walsh:

Sure thank you Fawaz. Probably if life were to go back to normal and we were to use the same indices that existed during the Russian World Cup. One would expect the top line to be somewhere around the $80 million mark. Obviously that's dependent on the stadiums being full on people, being able to travel, et cetera, et cetera. So at this stage, I wouldn't be relying on that, but that's roughly what it would come out at if we use the same indices as the Russian event.

In terms of bottom line impact, it's far too early to quantify. The contract requires us to work with specific partners and all FIFA who have rights and obligations. We obviously have to respect those rights and obligations but we have to work through what they mean. In terms of pricing, in terms of visibility and in terms of sourcing, et cetera. Really too early to tell at this stage. The business will just give people some context. If the stadiums were 100% full, we would need to increase our headcount by somewhere in the order of 7,000 people for a period of two months at the end of next year.

In terms of the Arab games, which I believe one of the questions was out about I don't anticipate that to have a huge impact positive or negative on the bottom line at this stage. FIFA has still not issued the tickets. I think it will be fair to assume that it will be a very small scale event at this point. We hope not but at this point I wouldn't anticipate having an impact on our Q4 this year.

Fawaz Alsirri:

Thank you. Next, we have a question from Alaa Tolba. The question is for you Garry. **How feasible is it to raise prices to pass on to higher raw material prices in Kuwait and which product categories are negatively impacted by the higher raw material prices and slow deliveries from suppliers?**

Garry Walsh:

I will try to answer that as best as I can. We have a very complex business in Kuwait. So for example, in our plastics business where everybody's suffering from the same impact of cost price increases. It's relatively easy to pass those prices on; it's an industry wide issue. Customers are well conditioned for it, they are aware of it, and it is also one of the areas where we're suffering slow deliveries. So we are carrying higher stocks in that area than we would be comfortable with. In a funny way, that's protecting us at the minute because it means we bought at a slightly lower price, given that the price continues to rise.

But that can change tomorrow but for a business like that, it's very easy to pass on. And for our agency businesses and most of those contracts, not all, but all Garry Walsh:

I will try to answer that as best as I can. We have a very complex business in Kuwait. So for example, in our plastics business where everybody's suffering from the same impact of cost price increases. It's relatively easy to pass those prices on; it's an industry wide issue. Customers are well conditioned for it, they are aware of it, and it is also one of the areas where we're suffering slow deliveries. So we are carrying higher stocks in that area than we would be comfortable with. In a funny way, that's protecting us at the minute because it means we bought at a slightly lower price, given that the price continues to rise.

But that can change tomorrow but for a business like that, it's very easy to pass on. And for our agency businesses and most of those contracts, not all, but all the significant ones and contain clauses, which protect Mezzan, we will only suffer price increases if we can pass them on to the Market.

The key point to passing them on the market is the union of Co-Ops. The union of Co-Ops has been resistant to price changes over the last number of years. However, in the current circumstances, there has been some indication that they're willing to talk and we will have those conversations with them. In terms of the brands that we own ourselves, obviously we

have a number of mechanisms to pass on price, it's not just about headline price. We can reduce our promotional investment and we can look at offsetting cost saving initiatives, and we can look at reducing headcount costs elsewhere. So at the moment, those are the strands that we're going down. We're trying to push through price increases with the union of Co-Ops. We're looking at our headcount, very diligently. We're looking at our promotional matrix to make sure that we're generating proper returns. And we're looking at what opportunities we have to re-engineer products to generate cost savings.

So hope that answers the question.

Fawaz Alsirri:

Thanks Garry let's cut to another question from QIC. The question is, **can you give us a sense of the 2022 outlook for both the food and the FMCG business.** Garry.

Garry Walsh:

Sure I think we've guided and that we expect given all the one-offs that we're in last year. We expect revenue to come in somewhere around flat and maybe a little bit of growth and the bottom line to be up in the mid-single digits that still remains our goal. Within that we obviously expect to see a stronger page two, in terms of the food manufacturing and distribution businesses, and in terms of FMCG. If I give you an example, our baby food business, for example, last year, obviously there was a huge panic in March, April May to buy product to the point that our suppliers were actually airlifting stock in from Holland. We supplied all those orders in March, April, and May, and then obviously people realize, well, actually I can only consume so much baby powder.

So are our sales to the market collapsed through the second half of the year, we're seeing the early signs that those are reversing this year. So in our commodity lines, we expect to see a much stronger H2 performance than last year, but obviously we then have the catering one-offs and some mask one-offs in FMCG masking those underlying growth. I think as the Nabil's chart shows when you look versus 2019 we're showing good progress in both categories despite that and expected to finish slightly ahead a year on year by the end of the year.

Fawaz Alsirri:

Thank you Garry, we have one more question. I think this would be the last one it's from Ashish. Ashish is asking, what's your outlook on the catering contracts for the remainder of 2021 and full year 2022.

Garry Walsh:

Sure, I think Ashish if you look at it, we have a very strong catering business in both Kuwait and Qatar. Broadly the key contracts we have in Kuwait. We expect to run through the end of 2022, and we will see one contract exit on one contract enter. Hopefully that the timing for those will be concurrent but, the one coming in is a much better business than the one exiting so we're very comfortable with that. So seeing good underlying performance improvements there and expect that to continue through the end of this year and 2022, obviously without the quarantine meals from last year. In terms of Qatar again, our catering business has suffered in half one by comparison, but we have won plenty of new business, which will come on stream through the second half of the year and through 2022. Not only within the World Cup, but in some of the contracts surrounding the World Cup.

I think we flagged since two years ago that we expected to see a lull as we exit the construction related contracts and then picked up the World Cup related contracts and so far we're well on track in that context. So we would expect to see a good underlying performance in both Kuwait and Qatar this year and that to grow substantially as we go through 2022. It's worth saying that we are already taking steps to diversify our catering business and in Qatar into various different fields, such as facility management and landscaping to position ourselves well for after 2022. That we have good core businesses in those areas as well.

Fawaz Alsirri:

Thank you, Garry and we've answered all the questions that we received. I think it's time for us to conclude today's call. Ladies and gentlemen, thank you for joining us. Thank you Garry and thank you Nabil for taking us through the first half of the year. We'll see everyone at the next call. And thank you again and have a good day.

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