



# Leccio

**An Egyptian Exporter**

**Taher Gargour**

**Business Development**

**Colin Sykes**

**Group CFO**

**Q2 2007 results presentation**

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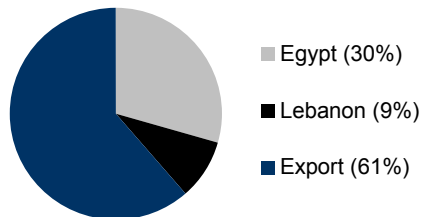


# Corporate Summary

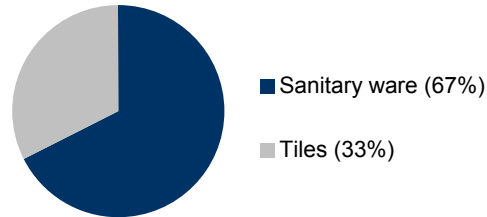
## Introduction: An Egyptian exporter

- Lecico Egypt S.A.E. is a leading sanitary ware producer in the Middle East and a large tiles producer
- Lecico was founded in 1959 and has been majority owned by the Gargour family since 1969
- The company has a global competitive advantage making European quality sanitary ware at Egyptian costs
- The company is a significant exporter with c60% of Lecico's sanitary ware sales volume going into Europe
- Lecico is in the midst of a major capacity expansion which will boost capacity to over 6.5m pieces of sanitary wary and fire clay
- This expansion will make Lecico approximately the sixth largest sanitary ware producer in the world
- 4.4 m sqm tile expansion also underway in Egypt, start-up of production expected by the end of the first half of 2007.
- Lecico has recently acquired certain assets of Sarreguemines in France; a manufacturer with sales of c0.4m pieces per annum

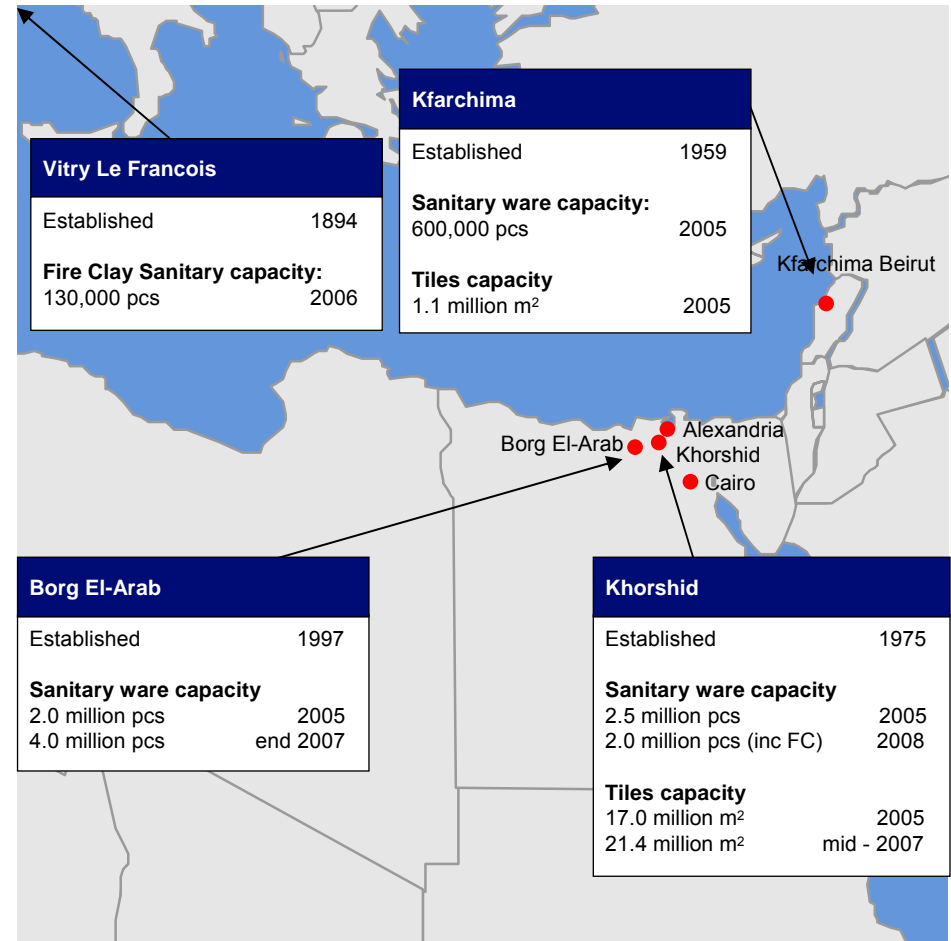
Split of domestic and export<sup>1</sup>



Split of sanitary ware and tiles<sup>1</sup>



Note: (1) 1H 2007



\* All production facilities are owned and controlled by Lecico



Corporate Profile

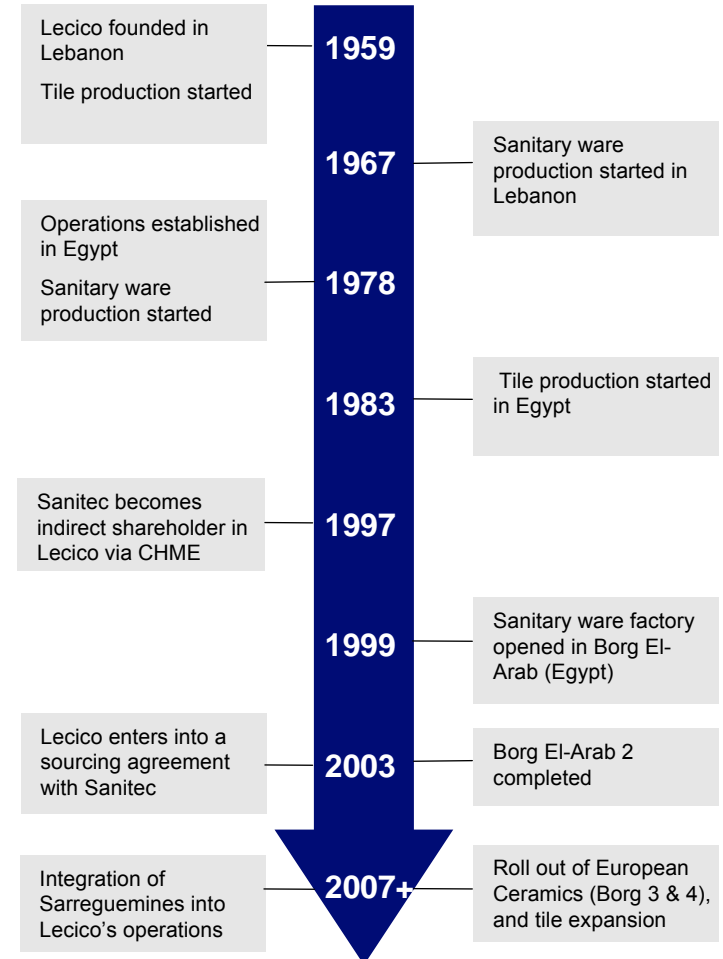
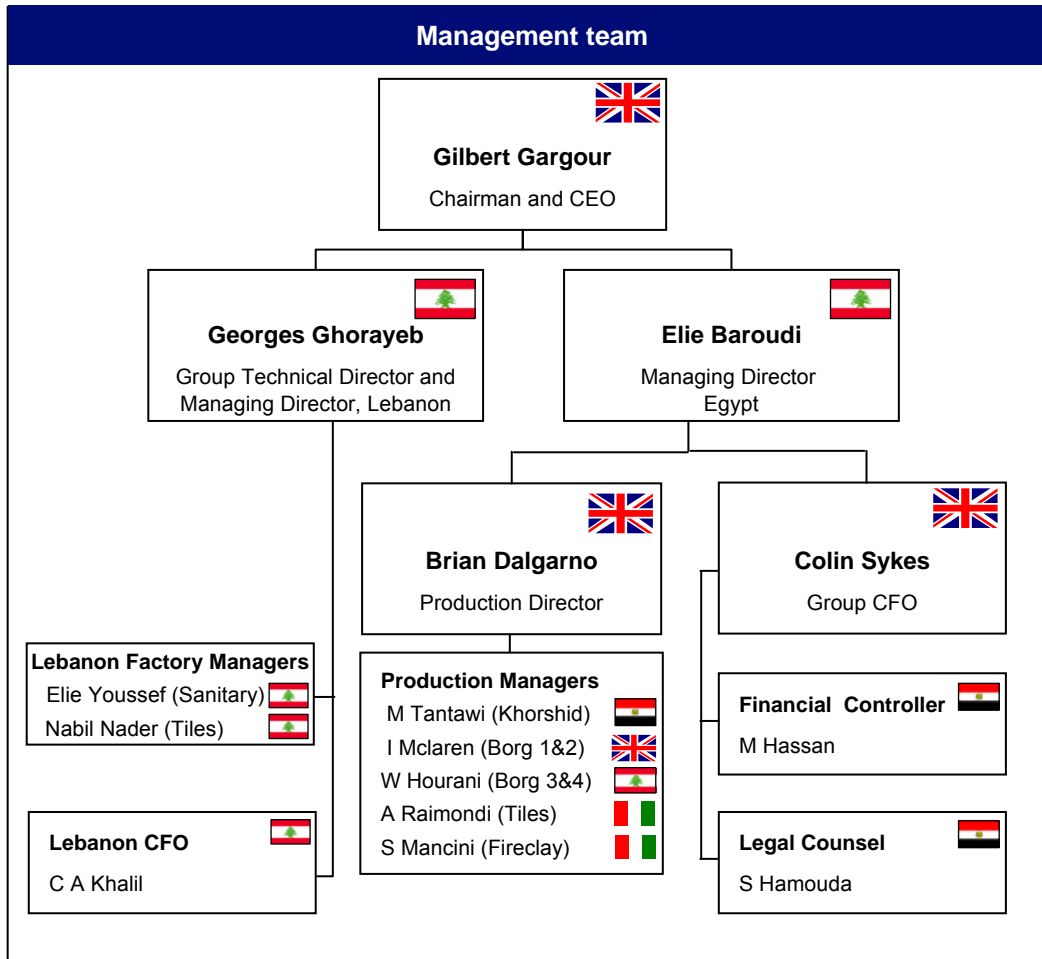
# Investment case



<b>Management and brand history</b> <ul style="list-style-type: none"><li>• Brand with over 47 years of history</li><li>• Egyptian, Lebanese and European expatriate management</li></ul>	<b>Regional leadership</b> <ul style="list-style-type: none"><li>• Sanitary ware market leader in Egypt and Lebanon</li><li>• Largest producer in the Middle East</li></ul>	<b>Growing exports</b> <ul style="list-style-type: none"><li>• Targeting growth in typically higher margin exports</li></ul>	<b>Significant cost advantage</b> <ul style="list-style-type: none"><li>• Economies of scale</li><li>• Low labour and energy costs</li><li>• European quality product</li></ul>
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# Strong management & over 45 years brand history

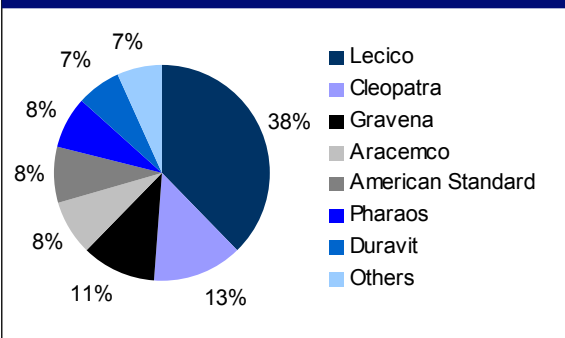


Senior management experience: average 17yrs with Lecico and 24yrs industry experience

## Domestic market leadership

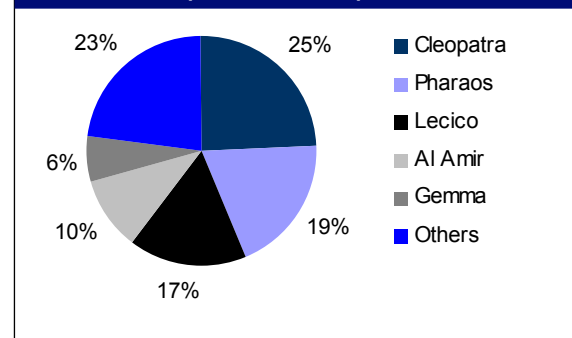
### Market leadership in Egypt

Sanitary ware market (4.5 million pieces)<sup>1</sup>



- Leading sanitary ware market share
- 2.0m piece Lecico capacity expansion ongoing

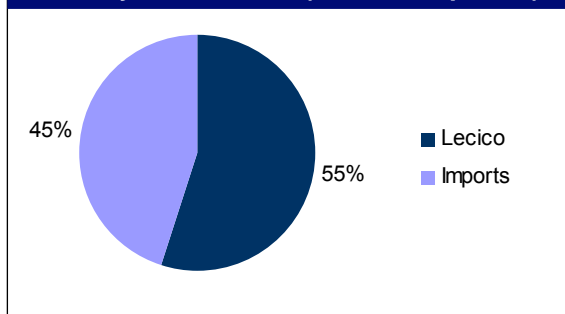
Tile market (80 million m<sup>2</sup>)<sup>1</sup>



- Competitive pricing to support distributors' sanitary ware sales
- 4.4 m sqm Lecico capacity expansion ongoing

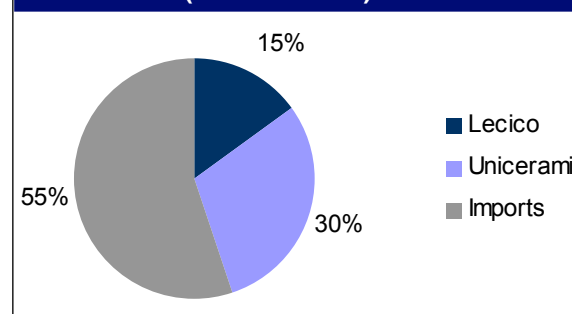
### Market leadership in Lebanon

Sanitary ware market (0.5 million pieces)<sup>1</sup>



- Leading sanitary ware market share
- Branded as European quality

Tile market (8.5 million m<sup>2</sup>)<sup>1</sup>



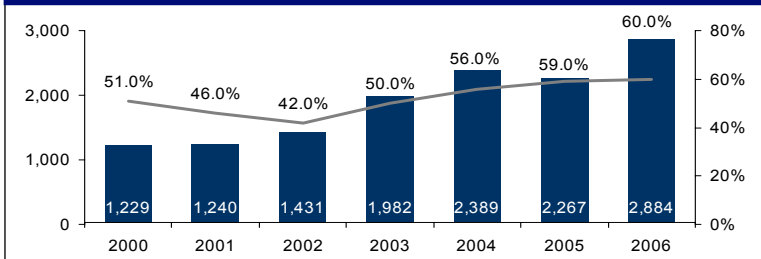
- Number two market share in tile sales
- Presence maintained to complement sanitary ware sales

Note: (1) Management estimates for 2005

## Growing exports

### Growth in group's exports

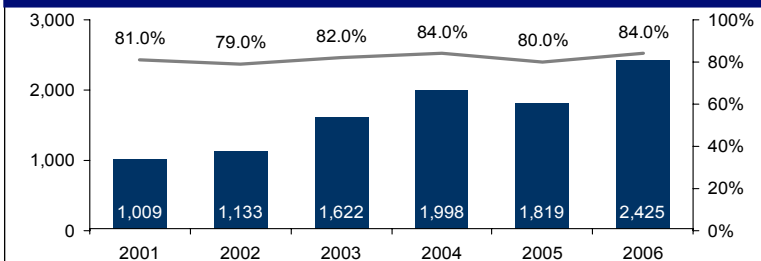
#### Lecico's total export volumes (sanitary ware)



- Sanitary ware export volumes grew at 15% CAGR (2001-2006)
- Volumes fell slightly in 2005 due to market slowdown in UK

### Export focus on Europe

#### Europe as percentages of total exports

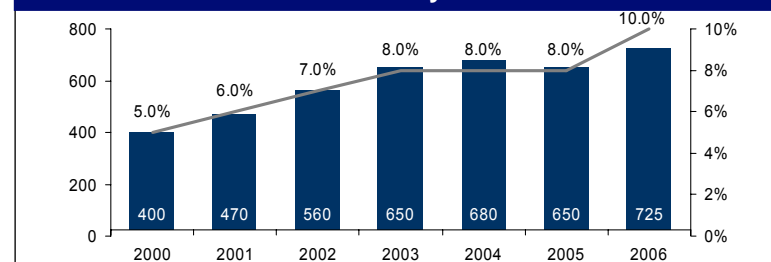


- Average of over 80% of exports are to Western Europe
- European export volumes (excluding UK) flat in 2005

#### Egypt's leading sanitary ware exporter

- Lecico exports c50% of its sales vs. 20% for local peers
- Lecico sells to over 50 countries (including OEM sales)
- Approximately 30% of exports are for other brands
- Lecico represents 50% of Egypt's sanitary ware exports with the balance split among 9 manufacturers

#### Growth of Lecico brand sanitary ware market share in UK



- UK estimated c10% market share in direct sales
- Around 50% of total exports are to UK (direct and OEM)

# Significant cost advantage



## International cost advantage

### Lecico produces sanitary ware at an all-in average cost of US\$12.90 / piece

- In Egypt, manufacturing cost averages US\$7.30 / piece of sanitary ware
- The difference reflects higher packing costs for EU-destined exports and significantly higher industrial cost in Lebanon
- Our information suggest other low cost producers' manufacturing cost averages US\$15-25 / piece
- While European producers average US\$25+ / piece depending on their market

### Why is Lecico able to produce so cheaply?

- **Egypt:** Low energy costs, low labour cost, low investment costs, low effective taxes
- **Size:** Economies of scale, standard global plant size: 1m pieces
- **Experience:** Over 45 years as a company and almost 40 years as a sanitary ware producer
- **Utilization:** 85-90% capacity utilization rate versus 70% industry average in Egypt
- **Efficiency:** Production per employee is > twice that of our local competitors

### Investment, distribution and overheads benefit from regional economies of scale

- Sanitary ware investment cost approx US\$12-15 / piece vs. US\$20-30 / piece global standard
- Low shipping cost to Europe: US\$1 per sanitary ware piece vs approx US\$5+ for Asian manufactures



Lecico

The Art of Ceramics

Lecico

The Art of Ceramics

Growth strategy

# Long-term sanitary ware growth strategy...



## Expand regional and international exports

- Aim to increase market growth
  - UK, Ireland, France



- Potential future markets

- Germany, Algeria, Saudi Arabia, Iraq, Syria



- New and expanded OEM contracts – Sanitec, IKEA, SFA, Setma

## Expand production capacity

- Sanitary ware capacity expansion: from 5.1m pcs in 2005 to 6.5m pcs by end 2007
- Expanding casting capacity to handle greater proportion of WCs in either plant
- Adding capacity in tiles (+4.4m sqm or 24% increase) and expanding fired clay capacity

## Lower production costs while keeping European quality

- Constructing in-house production facility for key raw material for tiles (frit plant)
- Local sourcing of raw materials without compromising quality
- Cost savings through improvements in manufacturing efficiency

...translates into concrete actions

## Strategy

### Expand regional and international exports

- Aim to increase market growth
  - UK, Ireland, France
- Expand in Europe
  - Germany, Greece, Italy, Spain
- Expand in the Middle East
  - Algeria, Saudi Arabia, Iraq, Syria, UAE
- Expand OEM activity
  - Sanitec, IKEA, SFA, Setma and others

### Expand production capacity and optimize costs

- Sanitary ware expansion: from 5.1m pieces in 2005 to 6.5m pieces of sanitary ware and fire clay by end 2007
- Expanding casting capacity to handle greater proportion of WCs in either plant
- Adding +4.4m sqm of tile capacity and expanding fired clay capacity.
- Constructing in-house production facility for tiles' key raw material (frit plant)



## Action

### Expand regional and international exports

- Started unbranded sales to UK builders merchants
- Started unbranded sales to DIY market in the UK
- Added new sales teams and product ranges for the UK
- Secured new DIY customers in France
- Acquired Sarreguemines in France
- Registration of complete packs with Norme Française
- Trading subsidiary now operating in Algeria
- Sales executives appointed in Germany & Greece
- Increased proportion of total Sanitec outsourcing
- Expanded most other European outsourcing contracts

### Expand production capacity and optimize costs

- First 1.0m piece line operational from 1Q 2007
- Tile line expected to be operational by late 1H 2007
- Three frit kilns have started operations.
- Lecico plans to add a further two frit kilns to take total capacity to 60 tons per day



**Sarreguemines**  
SANITAIRE



- Sarreguemines Sanitaire ([www.sarreguemines-sanitaire.com](http://www.sarreguemines-sanitaire.com)) is a long established French sanitary ware producer with a history dating back to the late 1700s
- Sarreguemines has sales of around 460 thousand pieces of sanitary ware per annum
- Sarreguemines' main customers include:



- Sarreguemines specialises in fine fireclay (FFC) with sales of approximately 130 thousand FFC pieces per annum (circa 28% of average sales volume) and adds roughly 20 new FFC models annually.
- In 2005, Sarreguemines reported revenues of EUR 18.6 million and operational (EBIT) losses of EUR 1.2 million
- Since July-2006, Sarreguemines has operated under court receivership
- In October 2006, Lecico acquired certain assets of Sarreguemines that included trade mark, inventory, warehousing and the fine fireclay manufacturing facility for EUR 1.5 million.
- Labour force was reduced from 253 members in 2005 to 143 currently

- Lecico believes Sarreguemines can be made profitable by the end of 2007 onward by:
  - Outsourcing the majority of production (330k pieces of vitreous china)
  - Reducing workforce to 143 members from 253 in 2005 (a net saving of around EUR 2.0 million)
- Over the coming years, Sarreguemines' vitreous china outsourcing will be transferred to Lecico
  - Synergies include turning transport costs (from China) into profit and adding volume to Lecico Egypt
- Sarreguemines acquisition will expand Lecico's footprint in Europe
  - Adding sales of around 220k pieces in France alone (over a 90% increase on 2005 sales volumes)
- Sarreguemines will add significant FFC design and manufacturing resources to Lecico
  - Sarreguemines' FFC capacity of 120k pieces will double Lecico's FFC capacity (120k as of 1Q 2007)
  - Sarreguemines' FFC know-how will help Lecico improve production techniques and yields
- Sarreguemines' products have a more European design that complements Lecico's more UK design style
- Lecico can cross-sell Sarreguemines into its existing European and Middle Eastern markets, positioning the acquisition as a high-end brand to compliment Lecico's mass market offering

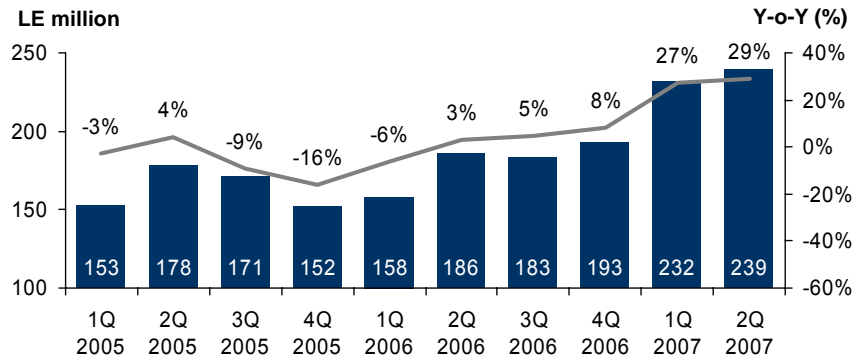
**Extracting synergies from combining Sarreguemines' activities with Lecico and leveraging the Sarreguemines brand will be extremely challenging and will take time**



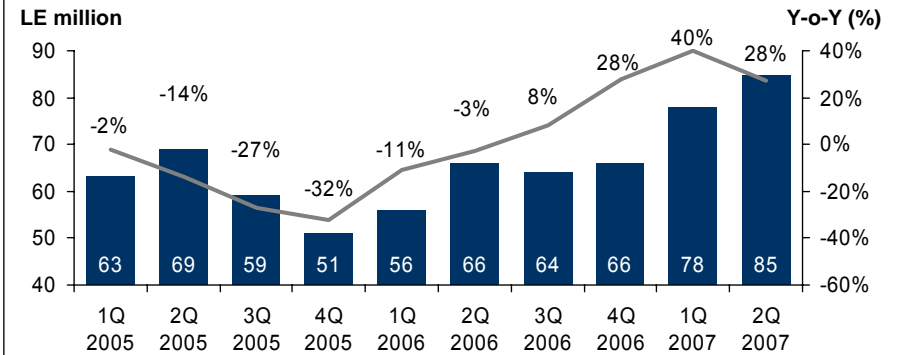
# Financial overview

## A Return to growth in 1Q 2007

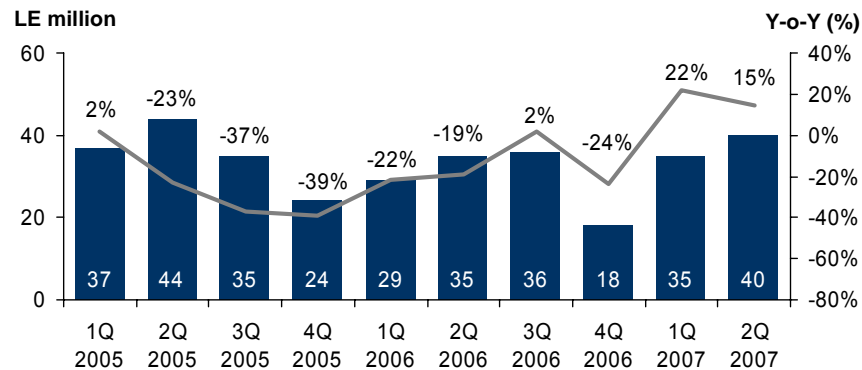
### Consolidated Sales (LE m) and change Y-o-Y (%)



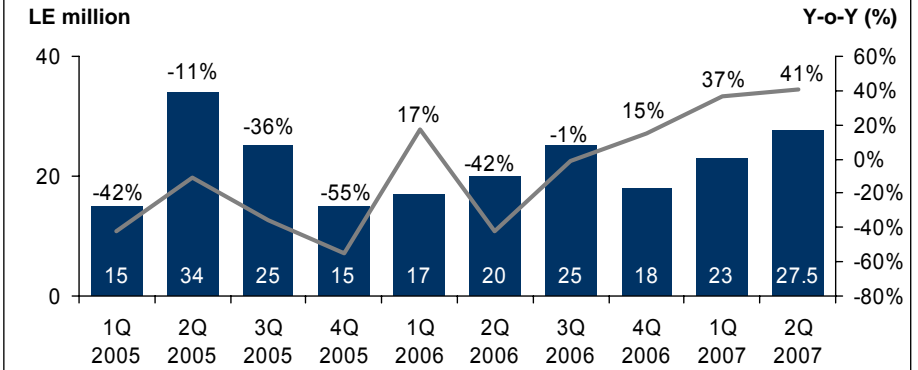
### Consolidated Gross Profit (LE m) and change Y-o-Y (%)



### Consolidated EBIT Profit (LE m) and change Y-o-Y (%)



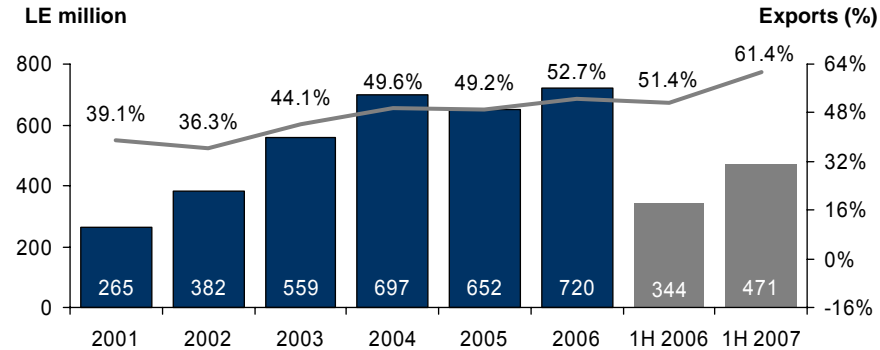
### Consolidated Net Profit (LE m) and change Y-o-Y (%)



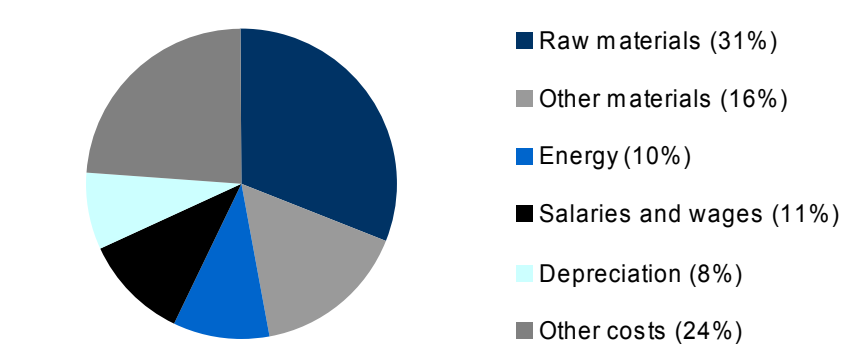
# Profit and loss



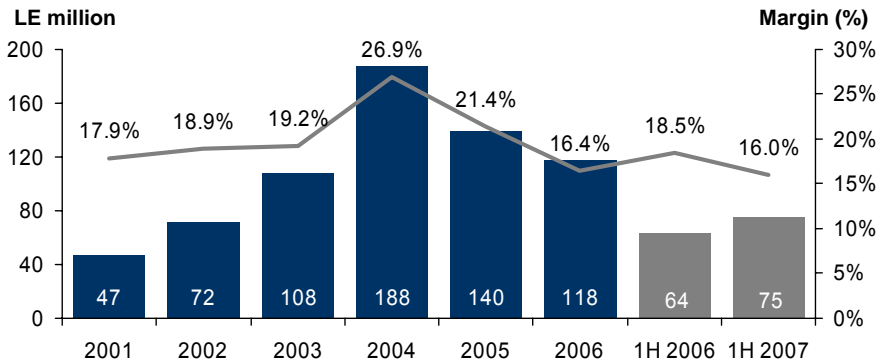
## Net sales



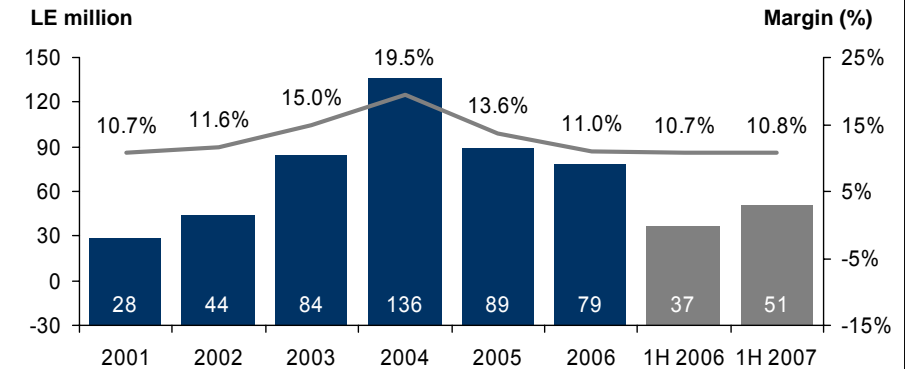
## Cost of sales breakdown (1H 2007)



## EBIT

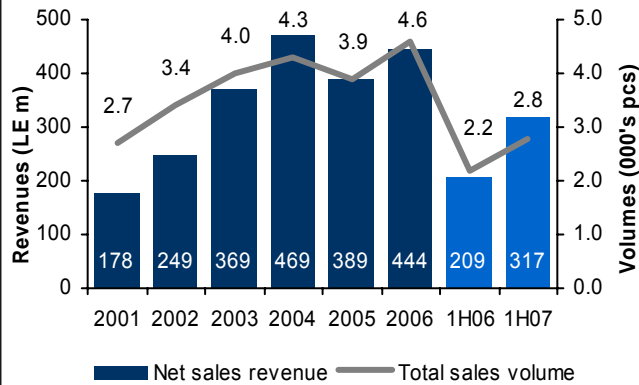


## Net Profit

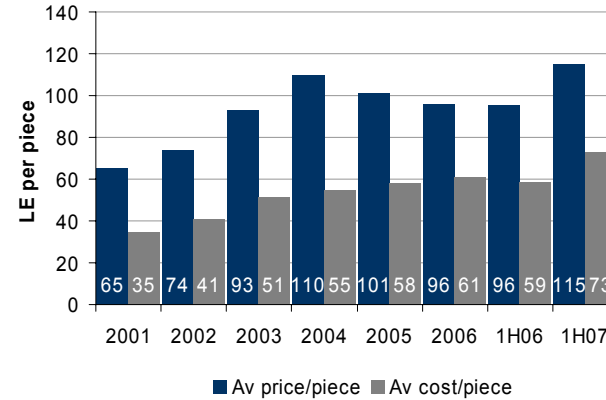


## Segmental analysis

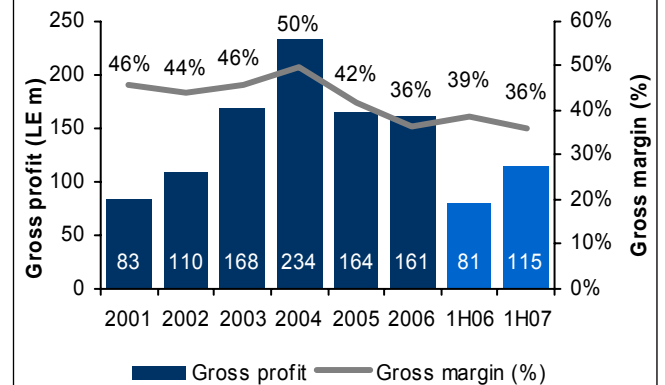
### Sanitary ware – sales volumes and revenue



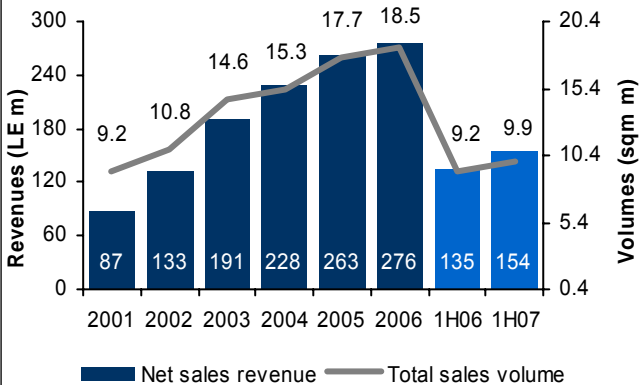
### Sanitary ware – selling price and cost per piece



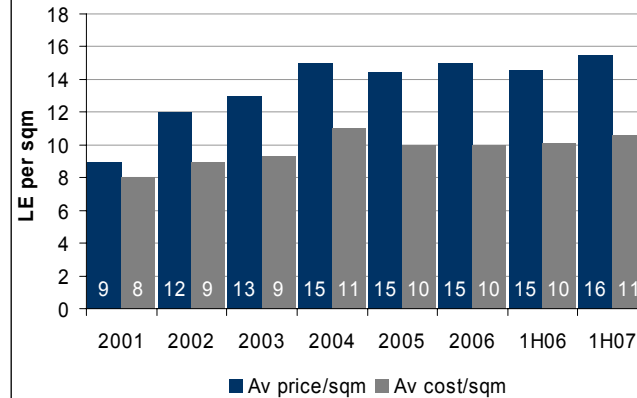
### Sanitary ware – gross profit and margin



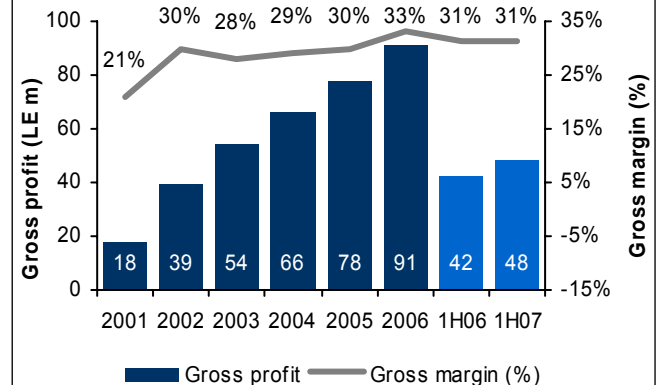
### Tiles – sales volumes and revenues



### Tiles – selling price and cost per sqm

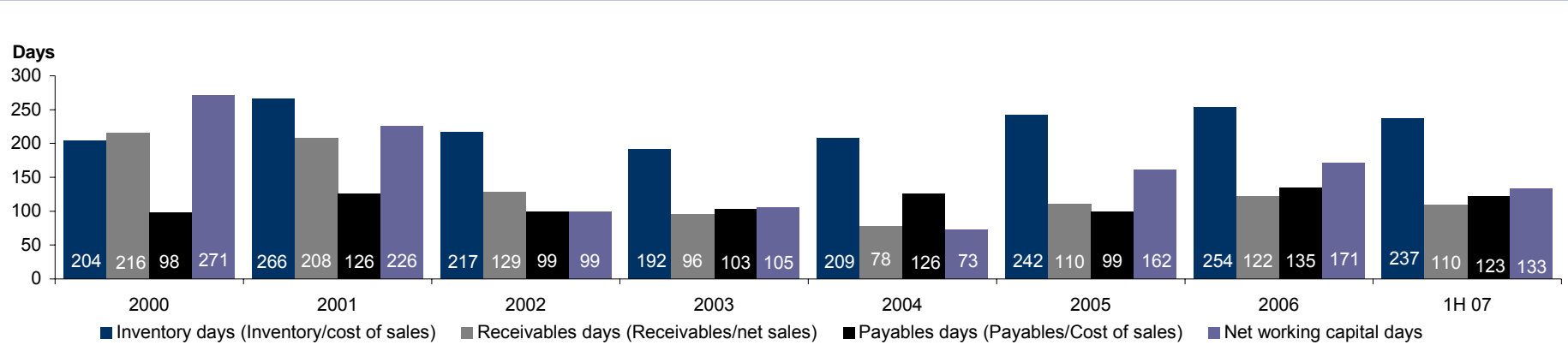


### Tiles – gross profit and margin

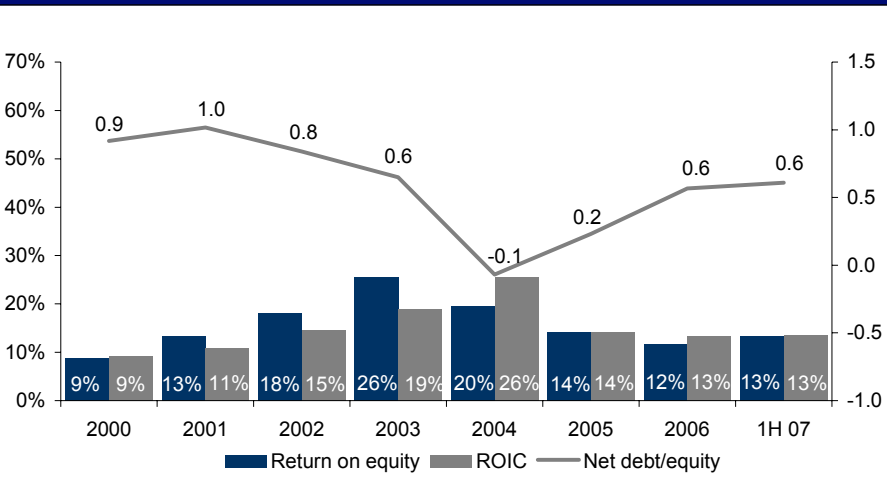


# Balance sheet and cash flow

## Working capital



## Returns and leverage

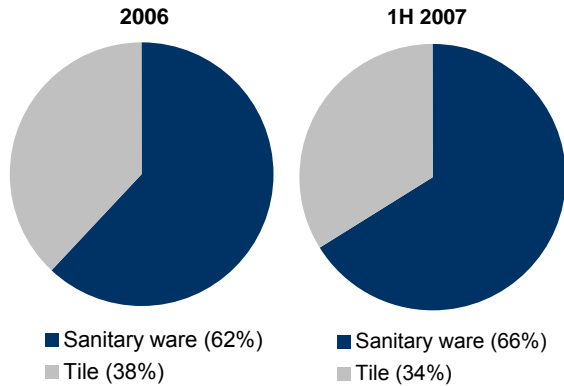


## Capital expenditures

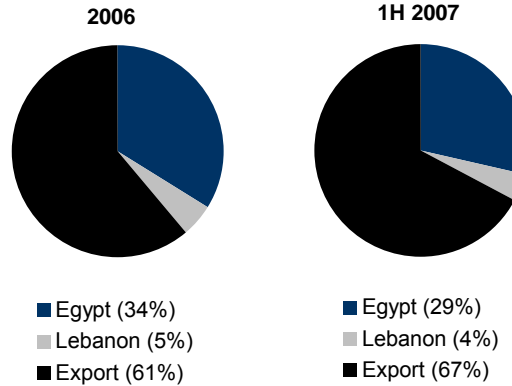
Project	Investment cost (LE m)	
	2007	2008
Khorshid frit plant	5.0	
Tile expansion and upgrade plans	10.0	
Borg El-Arab 3 & 4	35.0	15.0
Sanitary ware decoration		20.0
Maintenance work and other investments	45.0	45.0
<b>Total planned specific project capex</b>	<b>95.0</b>	<b>70.0</b>

## Revenues and margins

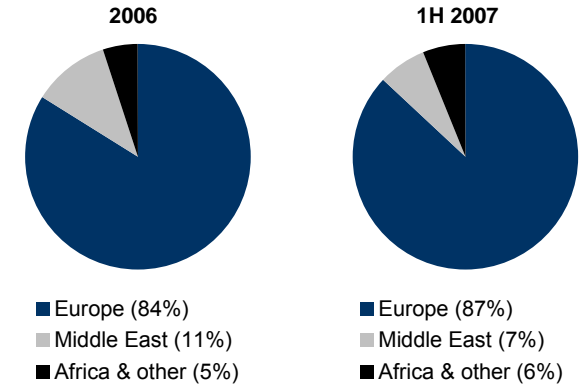
### Segmental sales breakdown (2006 vs. 1H 2007)



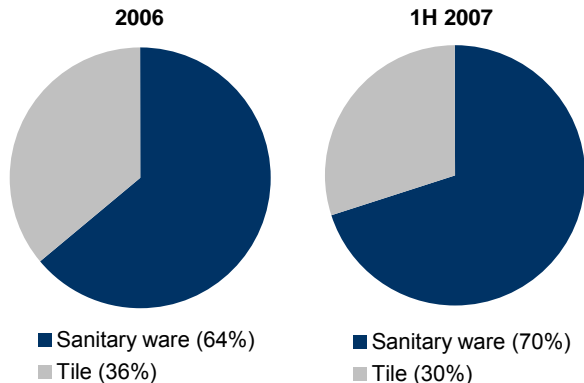
### Sanitary ware sales volume by geography



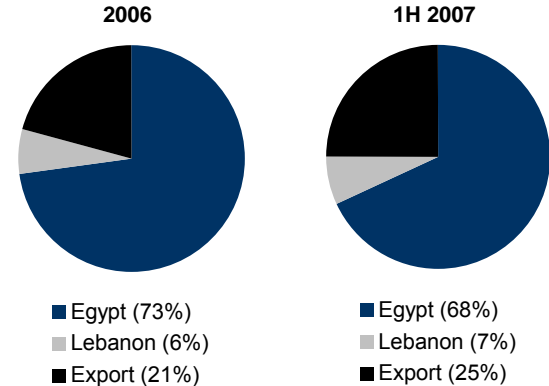
### Sanitary ware export volumes by geography



### Segmental gross profit (2006 vs. 1H 2007)



### Tile sales volume by geography



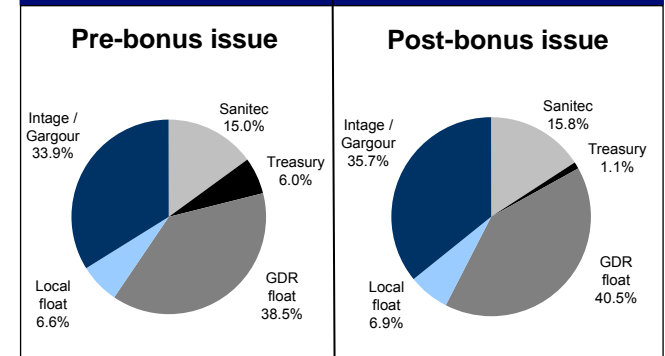
# Share performance and data



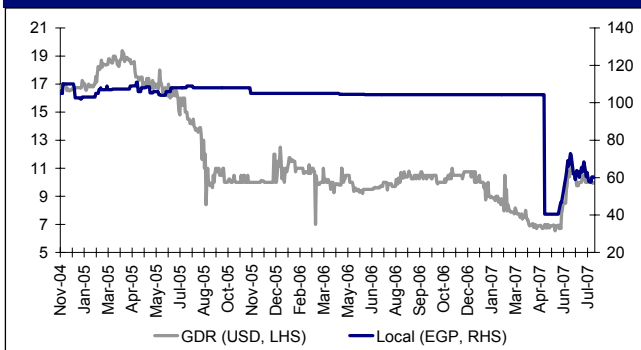
## Share structure and history

- Currently valued at a market cap of US\$ 200 million with a 48% float
- **Trading history:** GDR trades an average of US\$ 0.19 million daily but only trades on 39% of trading days (YTD through July 2007)
  - Lecico plans to improve local liquidity in 2007 by:
    1. Price adjustment to bring parity between GDR and local share (done 30 April, 2007)
    2. Plan to split stock with pressure to build local share float (pending market conditions)
  - Seeing benefit with sharp improvement in both shares liquidity in June and July
- **Share multiples:** Lecico now trades on 2006 multiples of:
  - 14.3x PER, 1.7x P/B and 9.3x EV/EBITDA (USD 8.00 GDR price)
  - Cash dividend of LE 1 per share (1.8% yield) boosted by 1:19 bonus issue expected in August (5.2% yield at market prices)

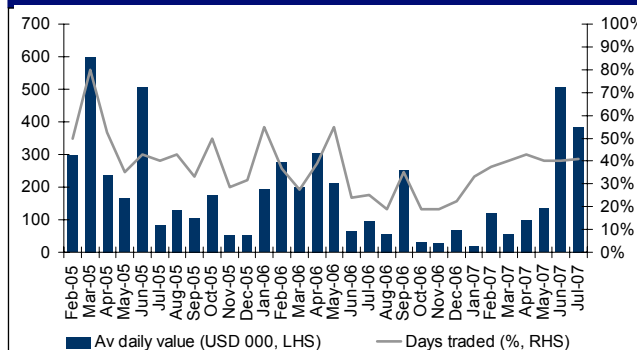
### Shareholding structure



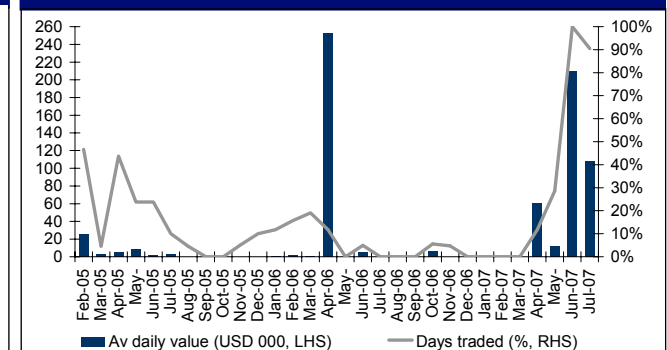
### GDR and Local share price



### Share liquidity overview (GDR)



### Share liquidity overview (Local)



# Thank you

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