

A modern bathroom with a wooden floor, white fixtures, and a large window. The room features a bidet on the left, a toilet in the center, and a sink on the right. The walls are light-colored with recessed shelves and a large mirror above the sink. The lighting is bright and even.

# Leccio

An Egyptian Exporter

**Taher Gargour**  
Business Development

**Colin Sykes**  
Group CFO

FY 2006 results presentation

March 2007

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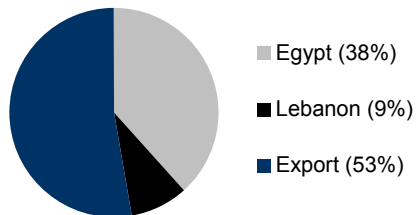


# Corporate Summary

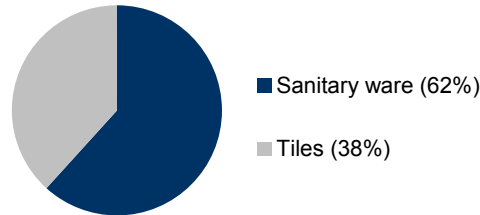
## Introduction: An Egyptian exporter

- 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 c53% 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 7m pieces of sanitary wary
- 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 in first half of 2007.
- Lecico has recently acquired certain assets of Sarreguemines in France; a manufacturer with sales of c0.4m pieces per annum

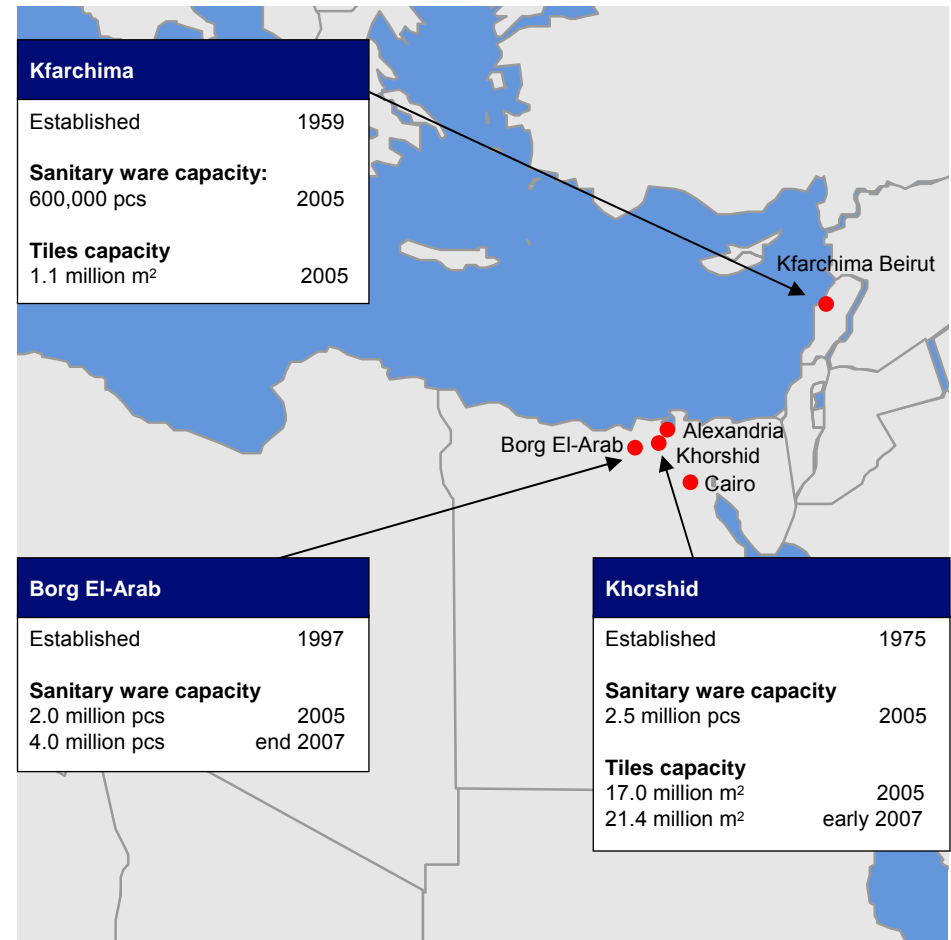
Split of domestic and export<sup>1</sup>



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



Note: (1) FY 2006



\* All production facilities are owned and controlled by Lecico

# Corporate Overview



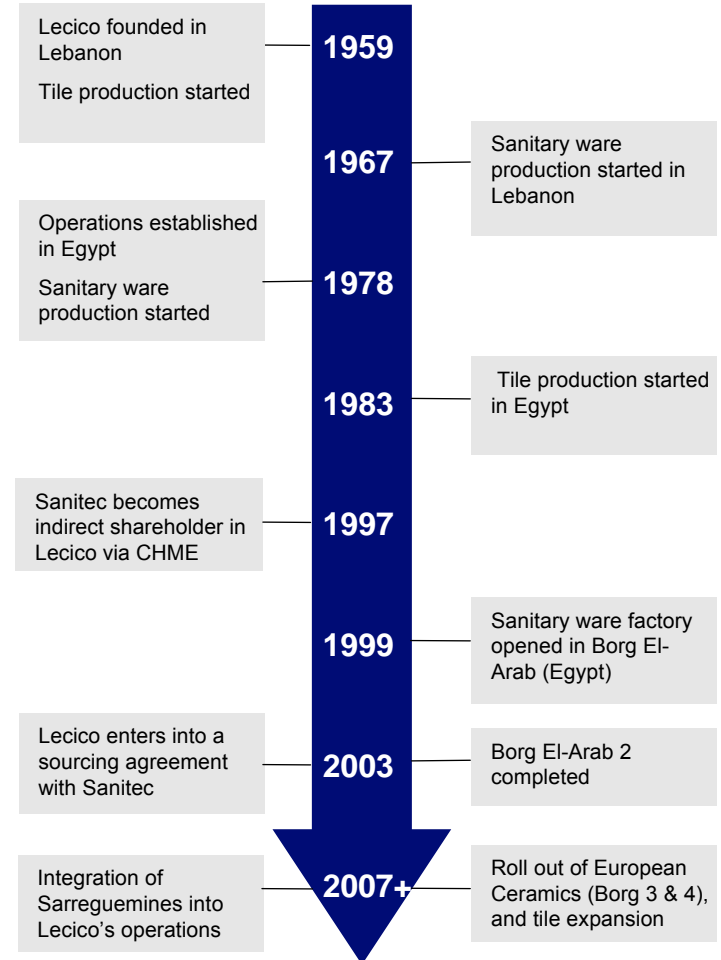
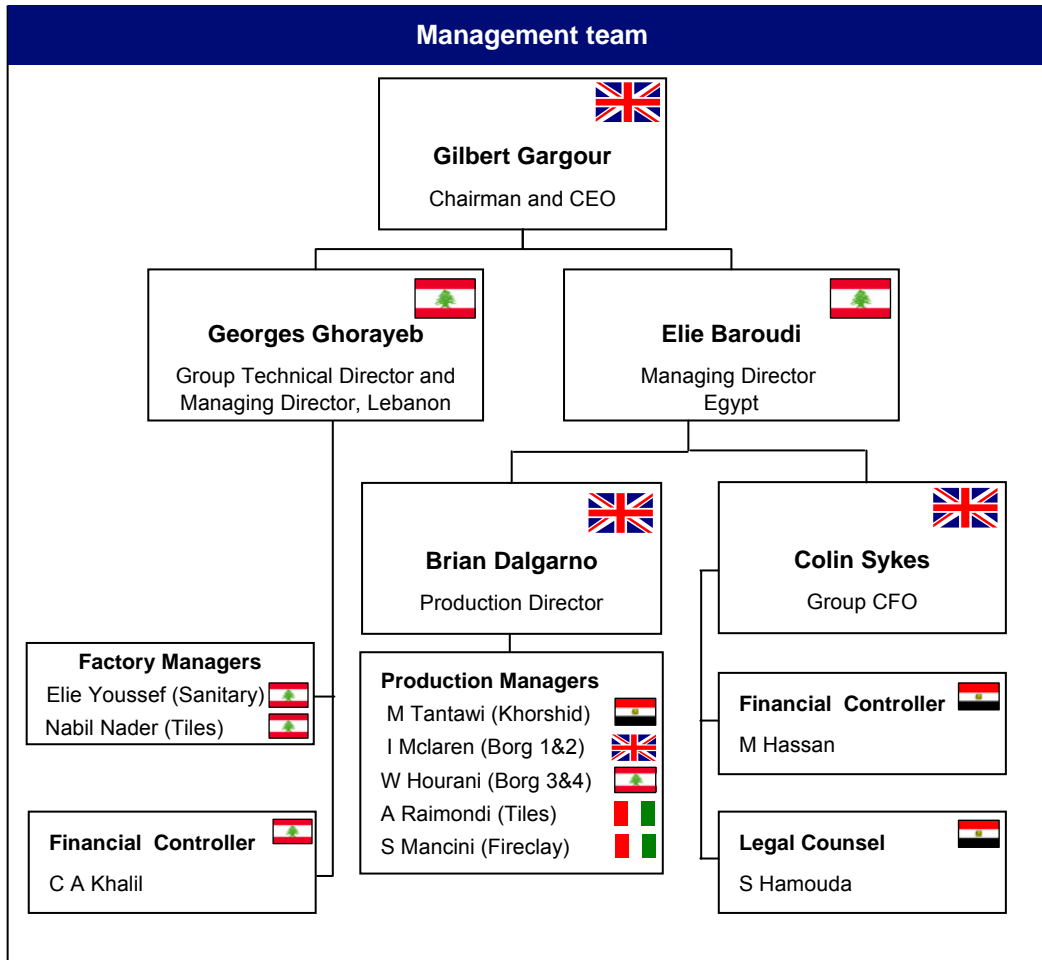
# Investment case



<b>Management and brand history</b> <ul style="list-style-type: none"><li>• Brand with over 45 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

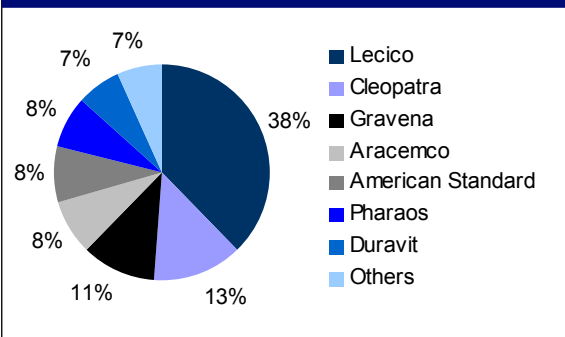


Senior management experience: average 16yrs with Lecico and 23yrs industry experience

## Domestic market leadership

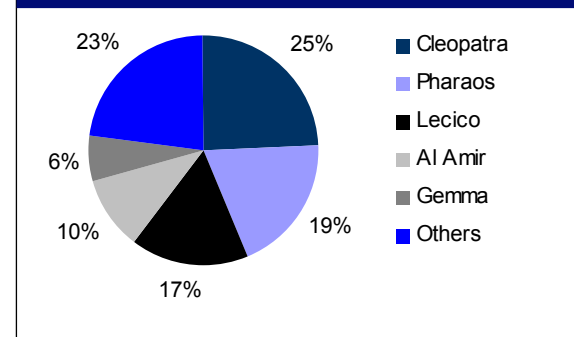
### Market leadership in Egypt

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



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

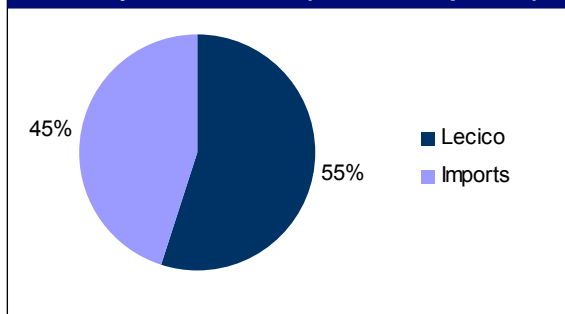
Tile market (80 million m<sup>2</sup>)<sup>1</sup>



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

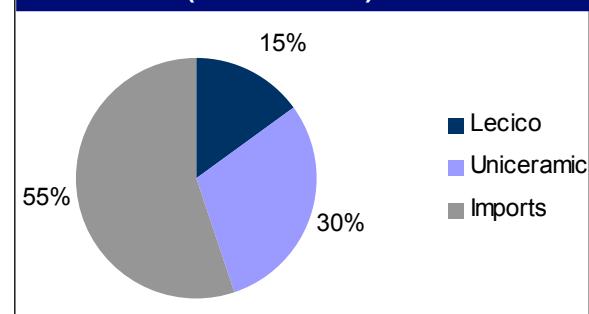
### Market leadership in Lebanon

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>



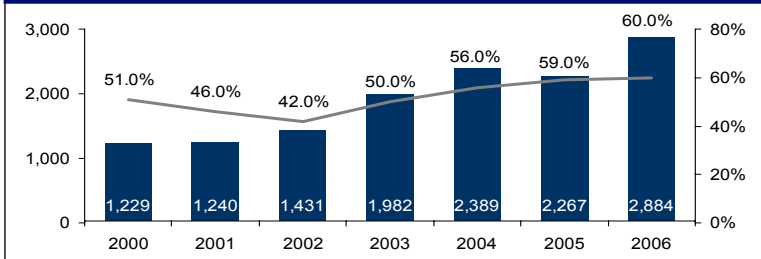
- Number two market share in tile sales
- Presence maintained to complement sanitary ware sales

Note: (1) Management estimates for 2005

## Growing exports

### Growth in group's exports

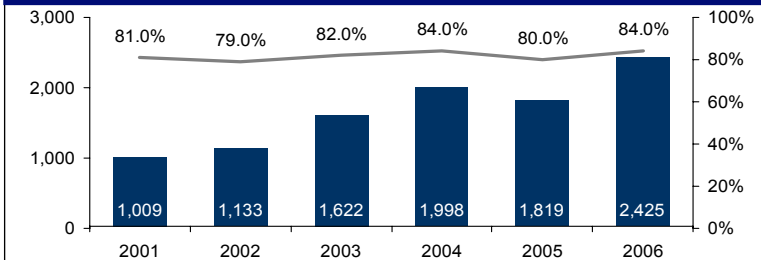
#### Lecico's total export volumes (sanitary ware)



- 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

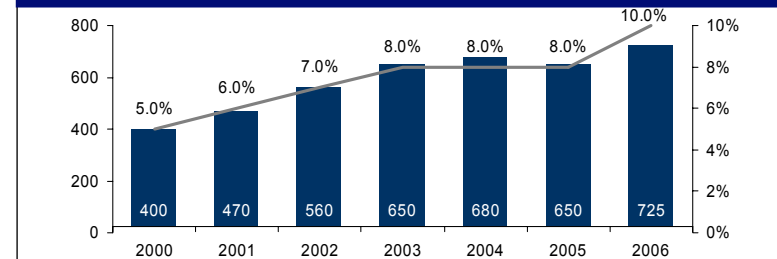


- Average of over 80% of exports are to Western Europe
- European export volumes (excluding UK) flat in 2005

#### 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\$10.6 / piece

- In Egypt, manufacturing cost averages US\$7.4 / 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\$10-15 / 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



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 7.1m 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 capacity expansion: from 5.1m pieces in 2005 to 7.1m pieces 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 certain assets of Sarreguemines in France
- Registration of complete packs with Norme Française
- First sale out of Lecico's Algerian subsidiary in 2Q 2006
- 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 to be operational by early 2Q 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

- 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 from 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' product range has a more high-end and European-style design that complements Lecico's more UK-design based range
- 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**

### **Revenue-led sequential recovery in operations...**

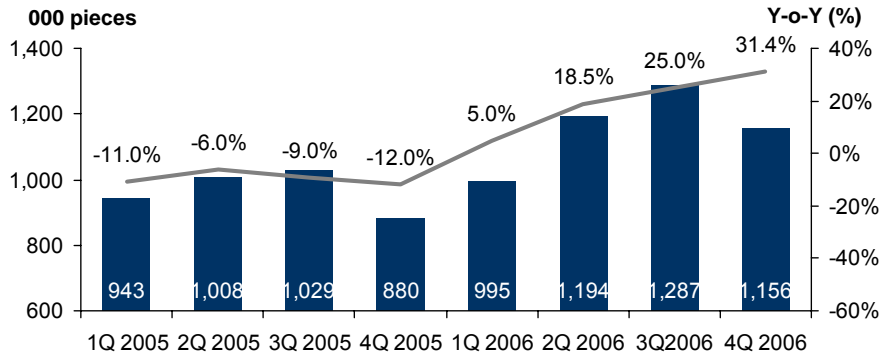
- Sanitary ware recovery drives 4Q revenues up 27% Y-o-Y (vs. 16% drop in 4Q 2005)
  - New DIY contracts in the UK and France help drive a 41% increase in sanitary ware export volumes to an all-time high
  - Egyptian sanitary ware market recovery with domestic sales volumes up 22% year-on-year in 3Q 2006
- Sales-led 29% 4Q gross profit growth sufficient to deliver 4% growth for the year despite weak 1H
  - Sanitary ware sales growth was strong enough in 4Q to help drive a 29% increase in consolidated gross profits Y-o-Y...
  - ...reversing the drop in gross profits for 9m 2006 and delivering a 4% consolidated gross profit growth for the year

### **...in a difficult operating environment**

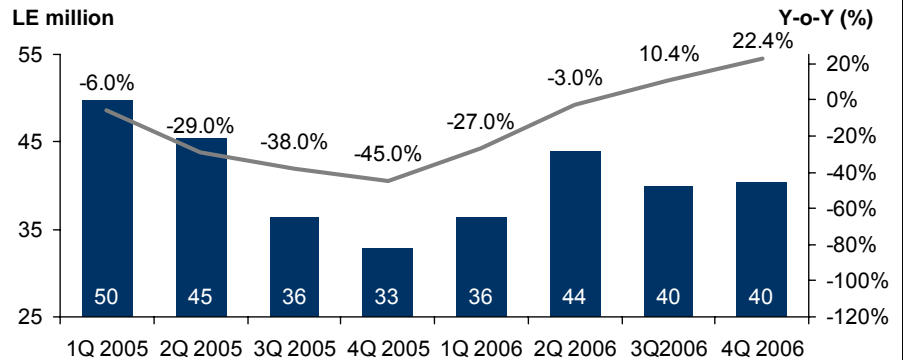
- Plant closure and continued instability in Lebanon weighed on revenue and profitability
  - Plant closure during war with Lebanon and continued political instability have had a significant impact on market demand and Lecico Lebanon activity
  - Volumes have gradually picked up to pre-war levels, but they are still behind 2005 levels
- Increase in gas and fuel prices in Egypt in late July inflated energy costs
  - Fuel price increase inflated energy cost per piece and per sqm in Egypt by 3% and 14% y-o-y, respectively in 3Q 2006
  - Cost optimization and volume benefits helped keep sanitary cost inflation limited at 5% y-o-y, respectively in 4Q 2006
  - Frit plant roll out offset inflationary impact of energy prices in the tile division, where costs were flat Y-o-Y
  - The probable suppressive impact of general inflation on retail consumption is not completely ruled out yet

# Continued recovery in a difficult period

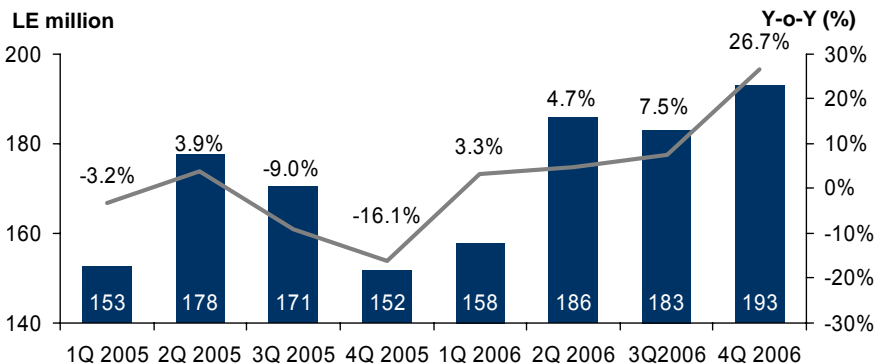
**Sanitary ware volume growth at highest level in 8 quarters**



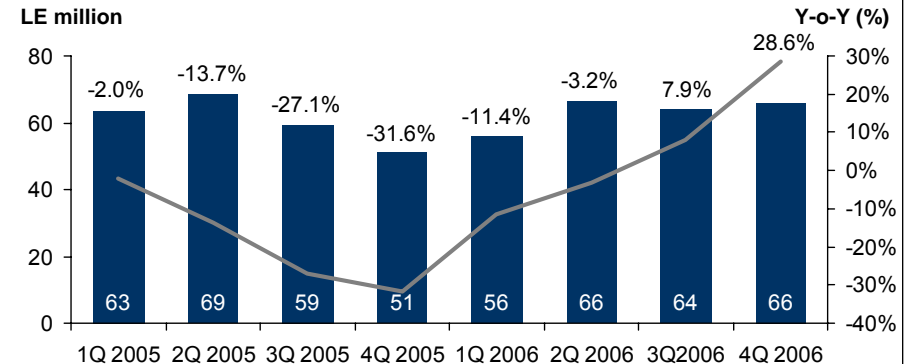
**Sanitary ware gross profit growth at highest level in 8 quarters**



**Consolidated sales revenue growth at highest level in 8 quarters**



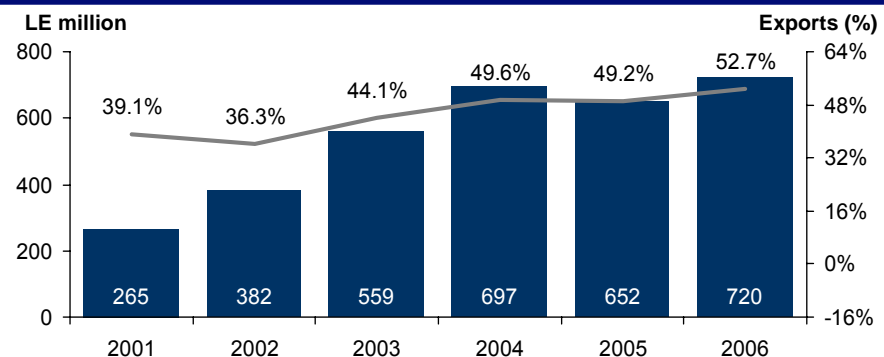
**Consolidate gross profit growth at highest level in 8 quarters**



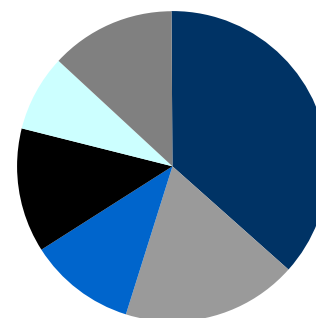
# Profit and loss



## Net sales

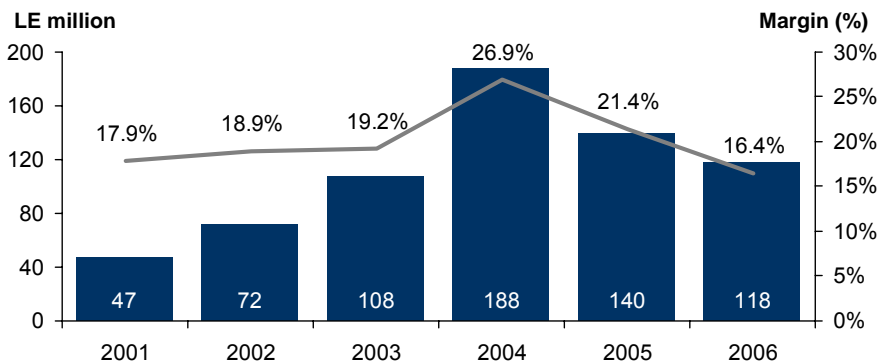


## Cost of sales breakdown (2006)

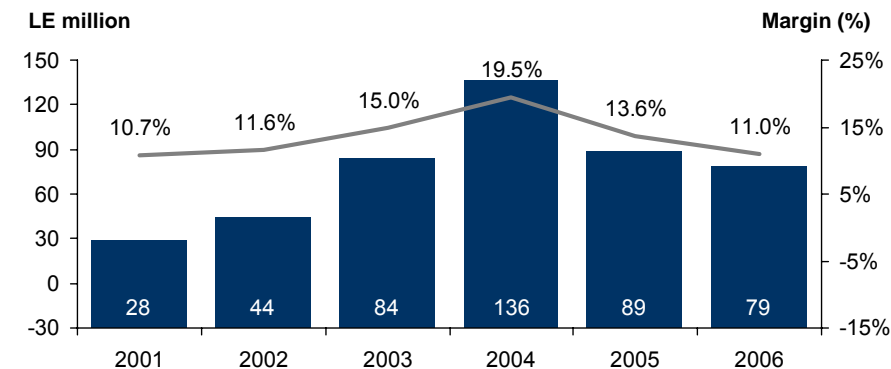


- Raw materials (37%)
- Other materials (18%)
- Energy (11%)
- Salaries and wages (13%)
- Depreciation (8%)
- Other costs (13%)

## EBIT



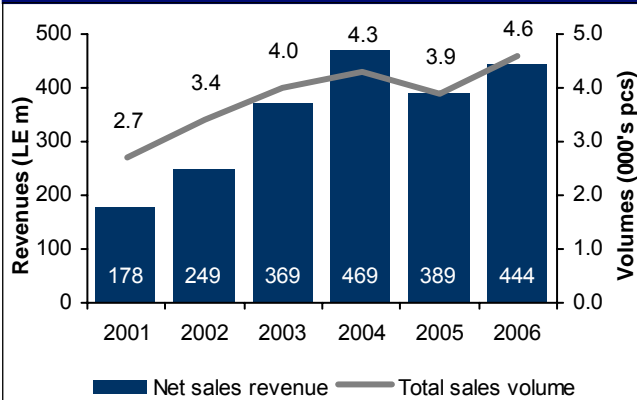
## Net Profit <sup>(1)</sup>



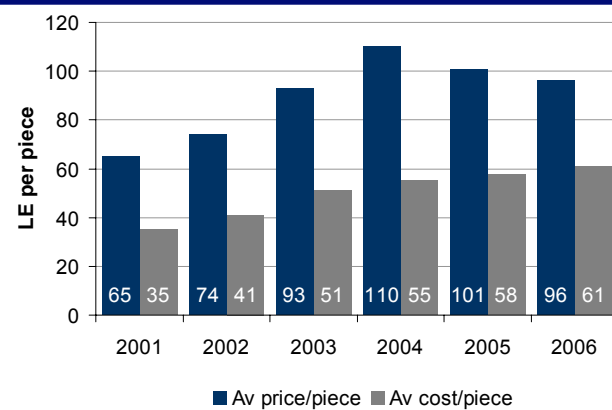
# Segmental analysis



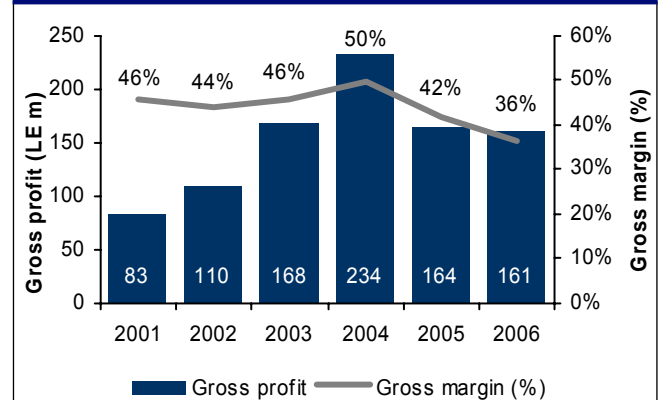
### Sanitary ware – sales volumes and revenue



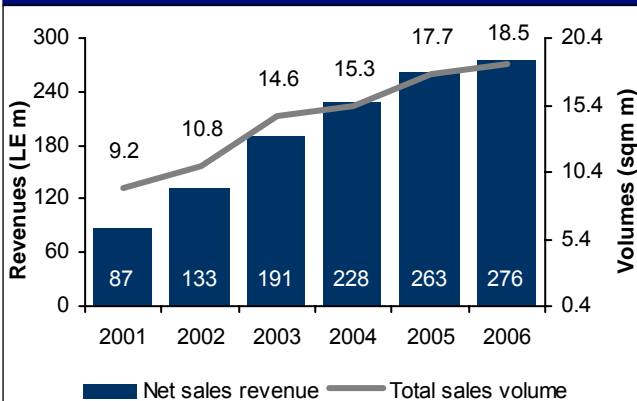
### Sanitary ware – selling price and cost per piece



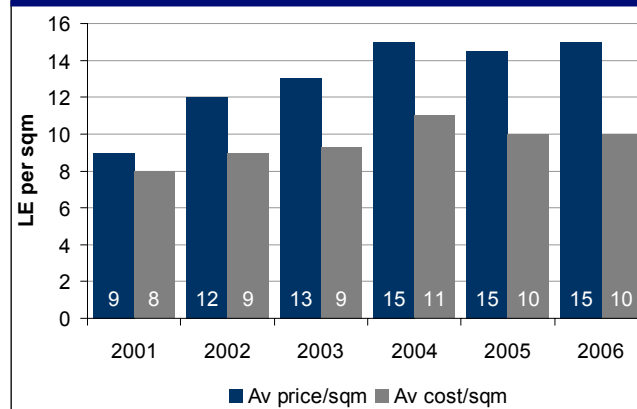
### Sanitary ware – gross profit and margin



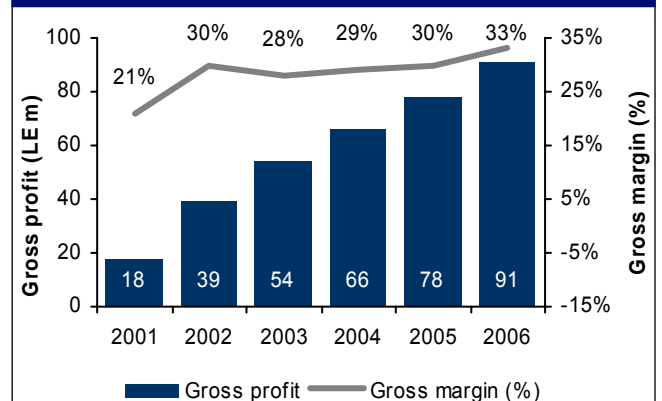
### Tiles – sales volumes and revenues



### Tiles – selling price and cost per sqm

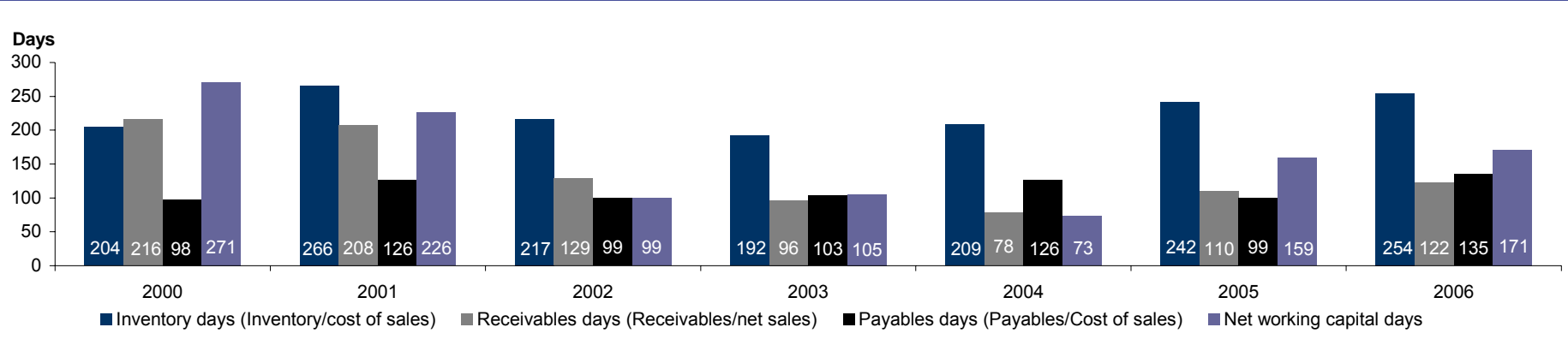


### Tiles – gross profit and margin

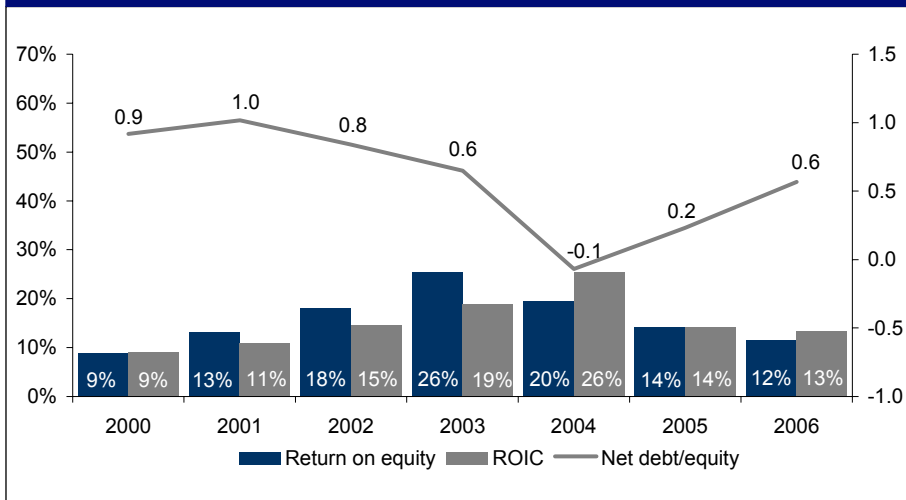


# Balance sheet and cash flow

## Working capital



## Returns and leverage

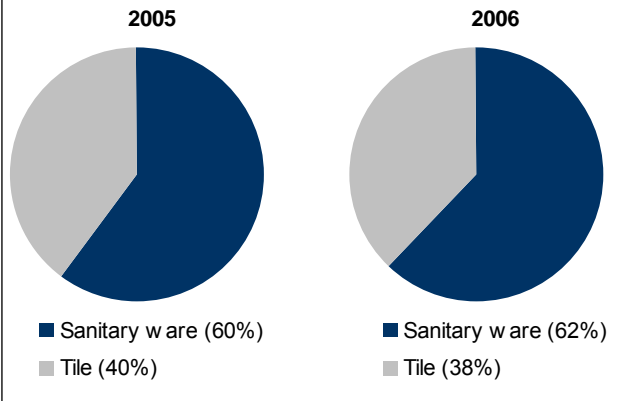


## Capital expenditures

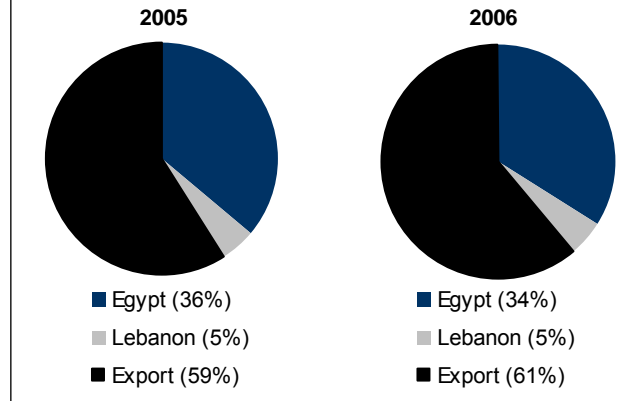
Project	Investment cost (LE m)	
	2006	2007
Khorshid frit plant	10.0	5.0
Fire Clay capacity expansion	25.0	0.0
Tile expansion and upgrade plans	50.0	10.0
Borg El-Arab 3 & 4	40.0	35.0
General maintenance work	38.0	35.0
<b>Total planned specific project capex</b>	<b>163.0</b>	<b>85.0</b>

## Revenues and margins

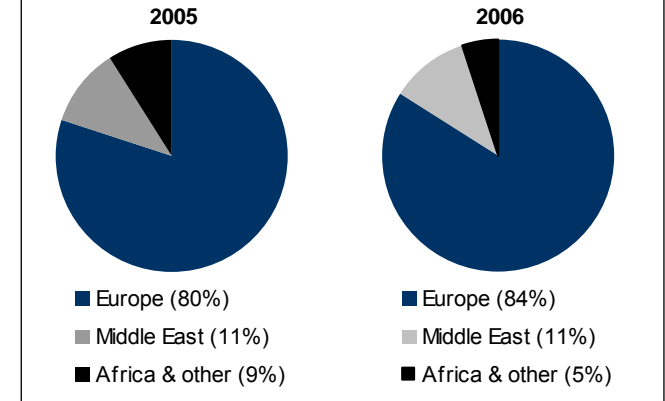
### Segmental sales breakdown (2005 vs. 2006)



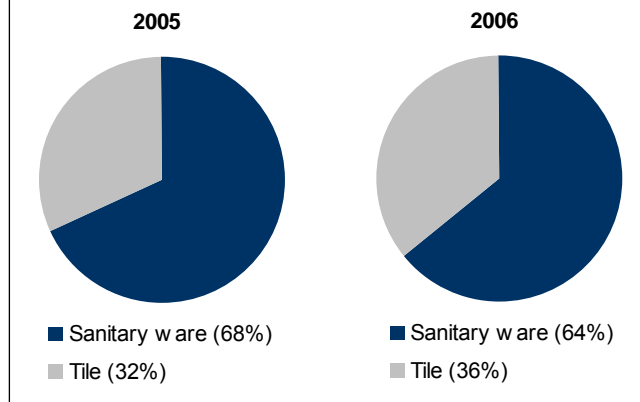
### Sanitary ware sales volume by geography



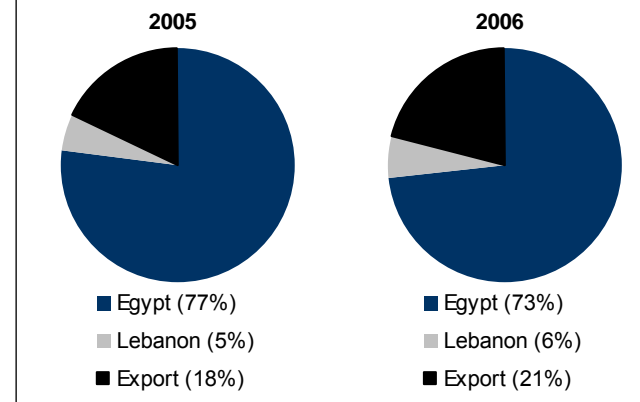
### Sanitary ware export volumes by geography



### Segmental gross profit (2005 vs. 2006)



### Tile sales volume by geography



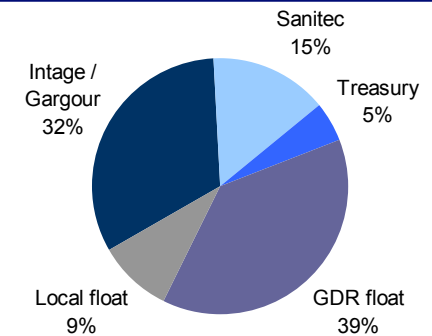
# Share performance and data



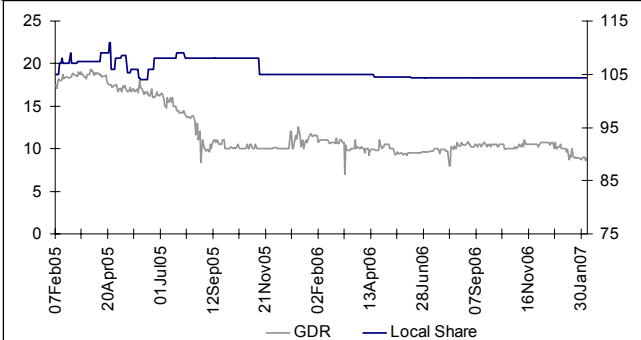
## Share structure and history

- Lecico listed in November 2004 and is currently valued at a market cap of US\$ 160 million with a 48% free float
  - **Trading history:** GDR trades an average of US\$ 0.15 million in trading a day and trades on 31% of market trading days (2006)
  - Lack of local liquidity and difficult operating year have led to shrinking liquidity
  - Lecico plans to address this by improving local liquidity in 2007
  - **Share multiples:** Lecico now trades on 2006 multiples of:
    - 11.6x PER, 6.6% Div Yield (2005), 1.4x P/B and 8.3x EV/EBITDA

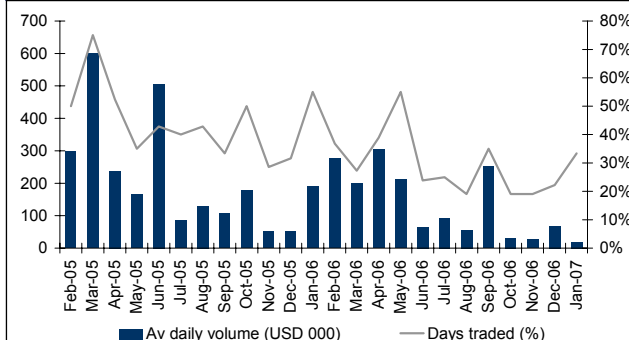
### Shareholding structure



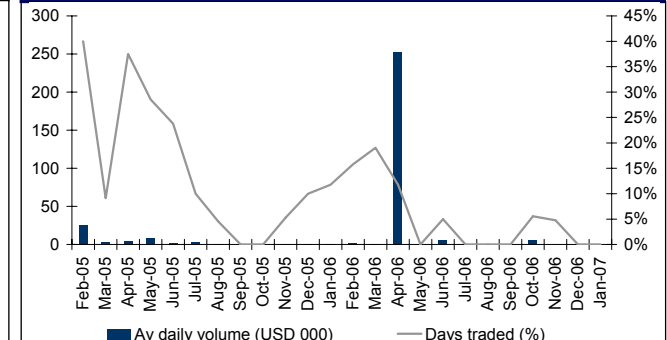
### GDR and Local share price



### Share liquidity overview (GDR)



### Share liquidity overview (Local)



# Thank you

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This presentation may contain certain “forward-looking statements”, relating to Lecico Egypt S.A.E. business, which can be identified by the use of forward-looking terminology such as “will”, “planned”, “expectations”, “forecast” or similar expressions, or by discussions of strategy, plans or intentions. Such statements may include descriptions of investments planned or currently under development by Lecico Egypt S.A.E. and the anticipated impact of these investments. Such statements reflect the current views of Lecico Egypt S.A.E. with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of Lecico Egypt S.A.E. to be materially different from any future results that may be expressed or implied by such forward-looking statements.