



**Leccio**

**An Egyptian Exporter**

**4Q 2008 Results Presentation**

**March 2009**

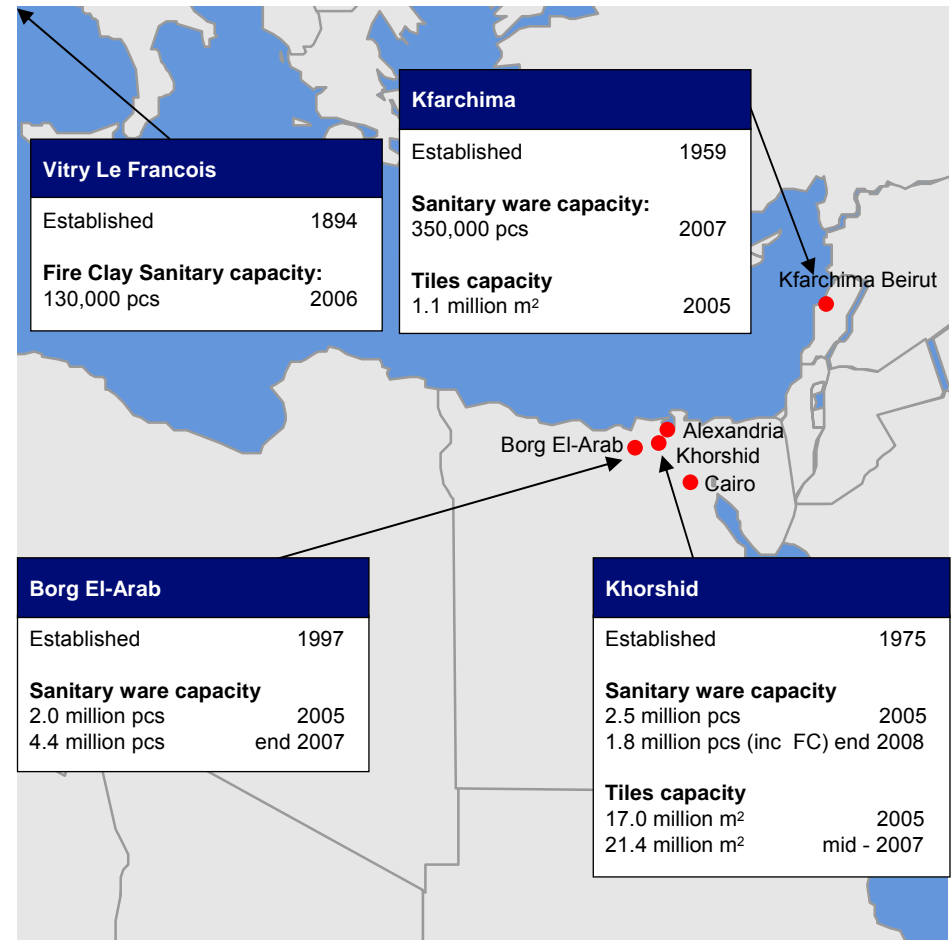
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# Corporate Summary

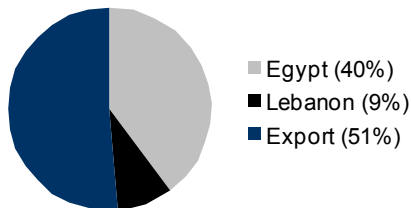
## Introduction: An Egyptian exporter

- Lecico Egypt S.A.E. is one of the world's largest sanitary ware producers 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 c50% of Lecico's sanitary ware sales volume going into Europe
- Lecico finished a major capacity expansion in 2007 which boosted capacity to 6.7m 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 (24% additional capacity) also completed in 2007.

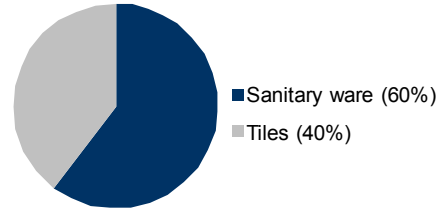


\* All production facilities are owned and controlled by Lecico

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



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





Corporate Profile

# Investment case



## Experience

- Brand with over 50 years of history
- Multi-national management
- Partnership with Sanitec

## Regional leadership

- Sanitary ware market leader in Egypt and Lebanon
- Largest producer in the Middle East

## Growing exports

- c 60% of sanitary ware is exported
- SW exports 12% CAGR (2000-08)
- 10%+ UK, France & Ireland mkt share

## Significant cost advantage

- USD 9.16/piece cost (50% of peers)
- c USD 2.00/piece shipping to Europe
- European quality product

## Aggressive expansion program

Tile capacity more than doubled and sanitary ware capacity grew 49% since 2000

Substantial further capacity expansion underway

## Strong historic growth record

22% Revenue CAGR (2000-2008)  
27% Net Profit CAGR

Supplier for key European brands

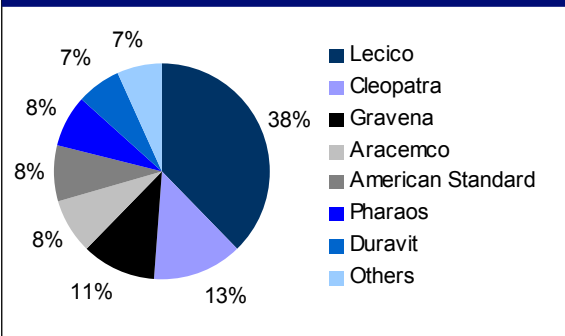
Export-led growth



## Domestic market leadership

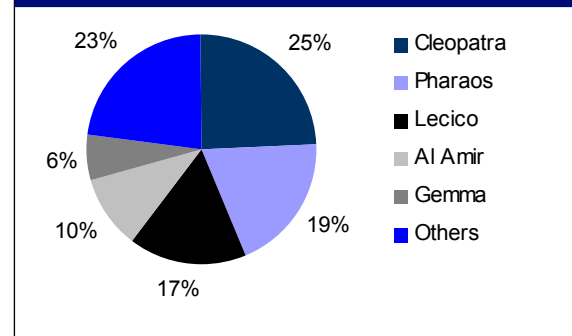
### Market leadership in Egypt

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



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

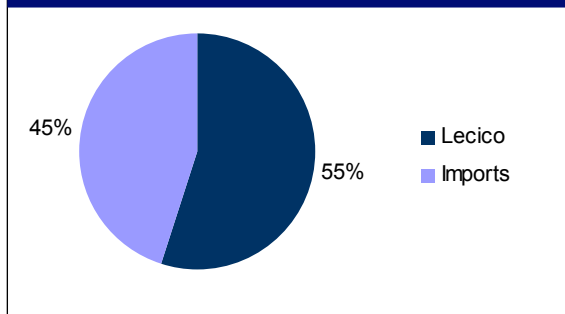
Tile market (80 million m<sup>2</sup>)<sup>1</sup>



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

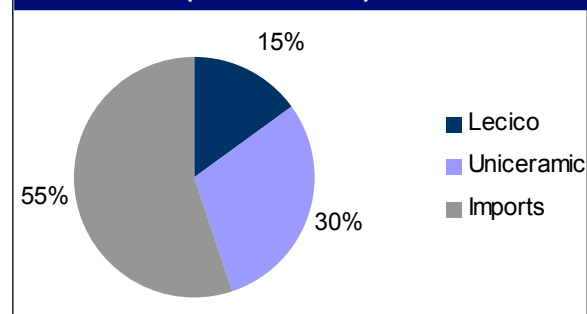
### Market leadership in Lebanon

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>



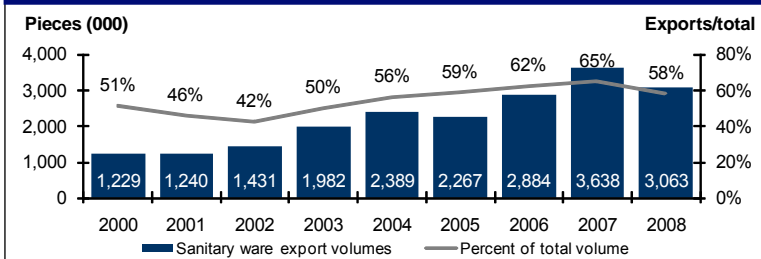
- Number two market share in tile sales
- Presence maintained to complement sanitary ware sales

Note: (1) Management estimates for 2005

## Growing exports

### Growth in group's exports

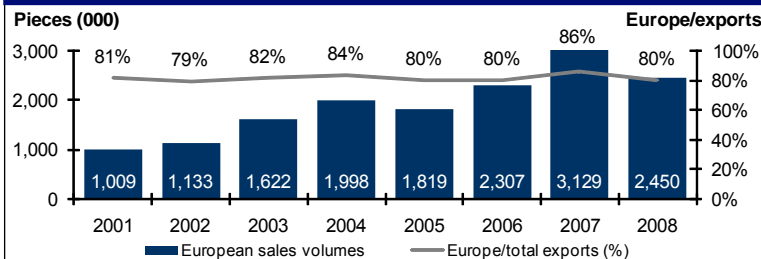
#### Lecico's total export volumes (sanitary ware)



- Sanitary ware export volumes grew at 14% CAGR (2001-2008)
- Volumes fell slightly in 2005 due to market slowdown in UK

### Export focus on Europe

#### Europe as percentages of total exports

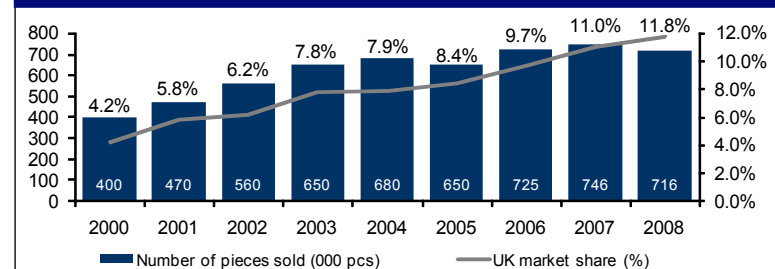


- Average of over 80% of exports are to Western Europe
- Drop in exports in 2008 due to Sanitec bridge in 2007

#### Egypt's leading sanitary ware exporter

- Lecico exports c60% of its sales vs. 20% for local peers
- Lecico sells to over 50 countries (including OEM sales)
- Approximately 33% of exports (16% of sanitary ware sales) 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 c12% market share in Lecico-branded sales
- A further c13% market share in OEM sales to the UK

# Significant cost advantage

## International cost advantage

### Lecico produces sanitary ware at an all-in average cost of US\$14.72 / piece

- In Egypt, ceramic manufacturing cost averages US\$9.16 / 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\$30+ / 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\$15-20 / piece vs. US\$25-40 / piece global standard
- Low shipping cost to Europe: US\$2 per sanitary ware piece vs approx US\$7+ for Asian manufactures



Lecico

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, Heritage, SFA and others

## Expand production capacity

- Sanitary ware capacity expansion: from 5.1m pcs in 2005 to 6.7m pcs
- Added 24% to tile capacity in 2007 with new plant (17% increase) by mid-2010
- Expanding fire clay and WC capacity within total sanitary ware production

## Lower production costs while keeping European quality

- In-house production facility for key raw material for tiles (frit plant)
- Local sourcing of raw materials without compromising quality
- Ongoing 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, Heritage/Bristan, SFA, Setma and others

### Expand production capacity and optimize costs

- Sanitary ware expansion to 6.7m pieces
- 4.4m sqm of new tile capacity
- Adding new porcelain tile plant to target export market
- Expanding casting capacity to handle greater proportion of WCs in either plant
- Improving yields and reducing scrap rates to cut costs
- In-house frit (tiles' key raw material) production facility



## Action

### Expand regional and international exports

- Unbranded sales to UK builders merchants - 15% of Lecico Plc sales in 2008 (from nothing in 2005)
- Sales to DIY in the UK - 24% of total UK sales in 2008
- Added new sales teams and product ranges for the UK
- Acquired Sarreguemines and secured new DIY customers in France
- Designing new sets with European designers to target French, German and Italian markets
- Trading subsidiary now operating in Algeria and Saudi Arabia – 27k pcs and 9k pcs sales respectively in 2008
- New outsourcing contracts secures Sanitec sourcing as condition for sale of shares

### Expand production capacity and optimize costs

- Second 1.0m piece line operational from 4Q 2007 and tile line fully operational from late 1H 2007
- Porcelain tile plant should be operational by late-2010
- Frit plant fully operational
- c2% improvement in scrap rates across Lecico in 2008



# Financial overview

## Strong year despite weak 4Q performance

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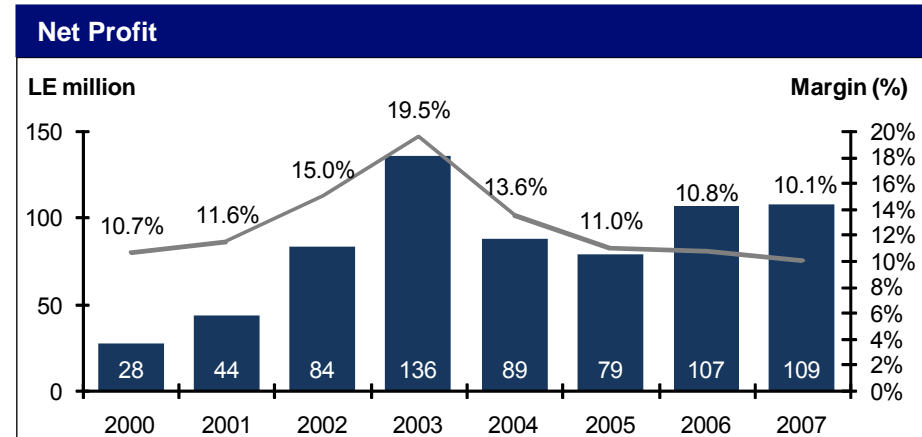
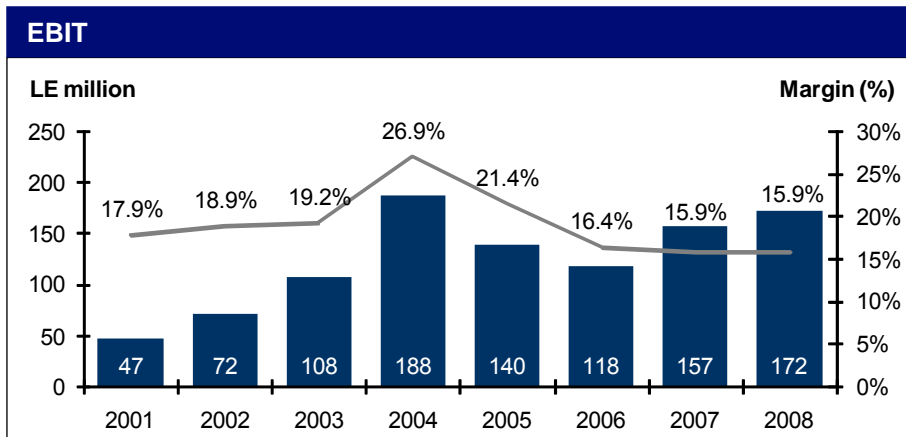
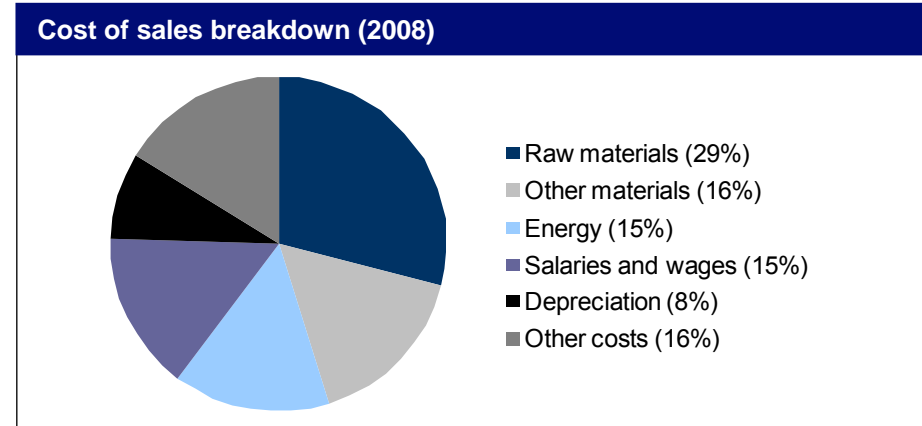
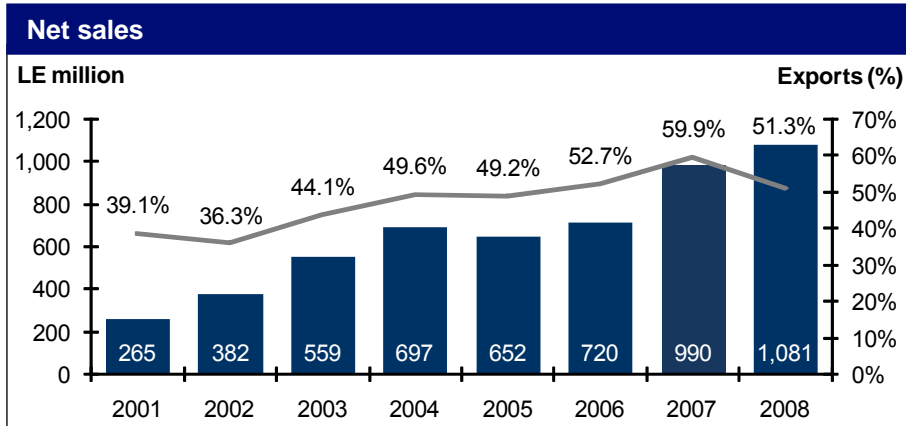
### **Solid growth across the P&L for FY 2008 despite...**

- Sales up 9%, gross profit and EBIT up 10% and net profit up 2% year-on-year
- Strong Egyptian market demand – 40% growth in Egyptian revenues
- Price increases – Average sanitary ware price up 3% and average tile price up 15%

### **...weak 4Q results with global crisis and exchange rate shifts**

- Sales down 11% year-on-year and net profit down 47% as a result of weaker performance in the sanitary ware division.
- Sanware gross profit down 39% as a result of 26% lower volumes due to weakening demand in export markets and 6% lower prices down 6% due to drop in Sterling and Euro fx rates
- Strong tile performance with tile gross profits up 160% on the back of 34% higher prices year-on-year and largely flat volumes

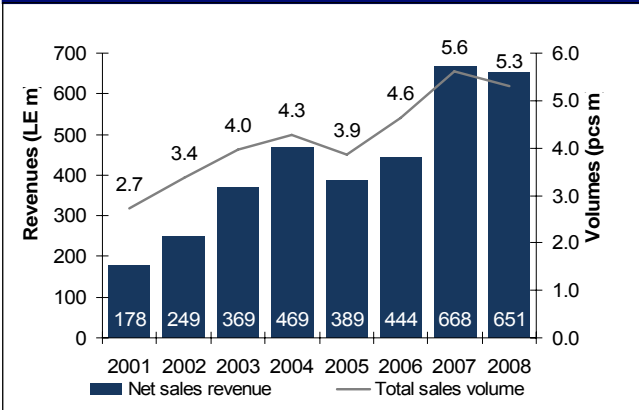
# Profit and loss



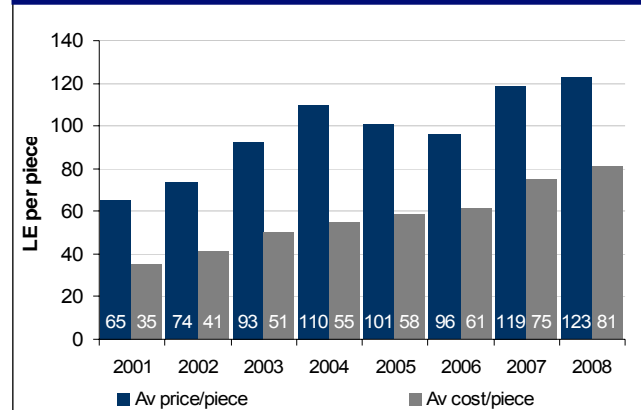
# Segmental analysis



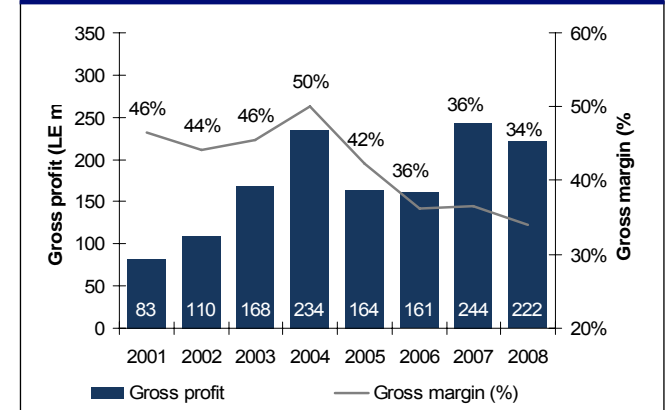
### Sanitary ware – sales volumes and revenue



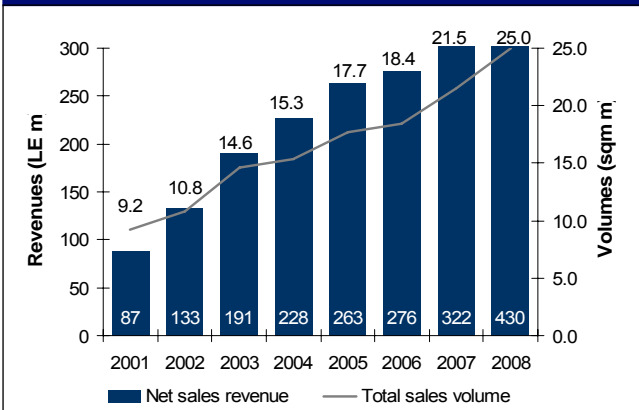
### Sanitary ware – selling price and cost per piece



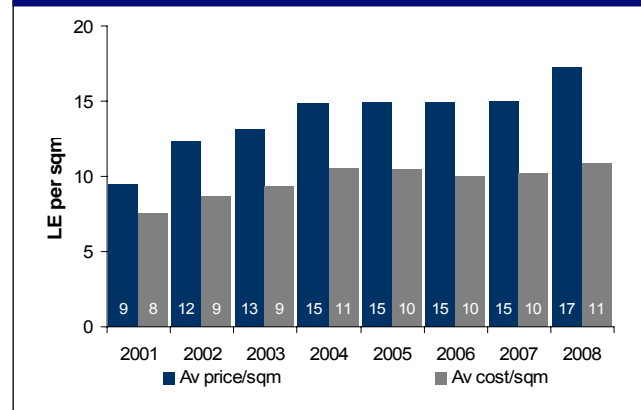
### Sanitary ware – gross profit and margin



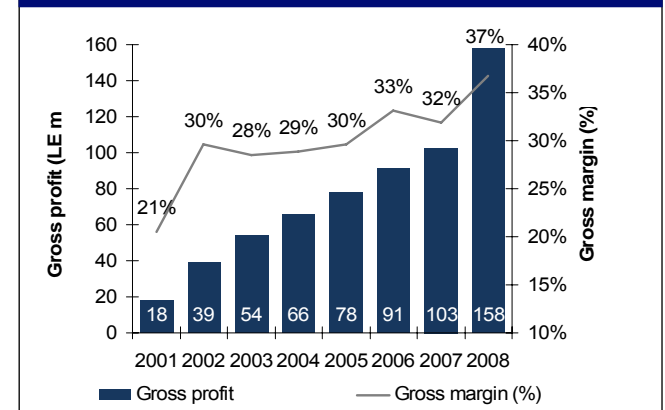
### Tiles – sales volumes and revenues



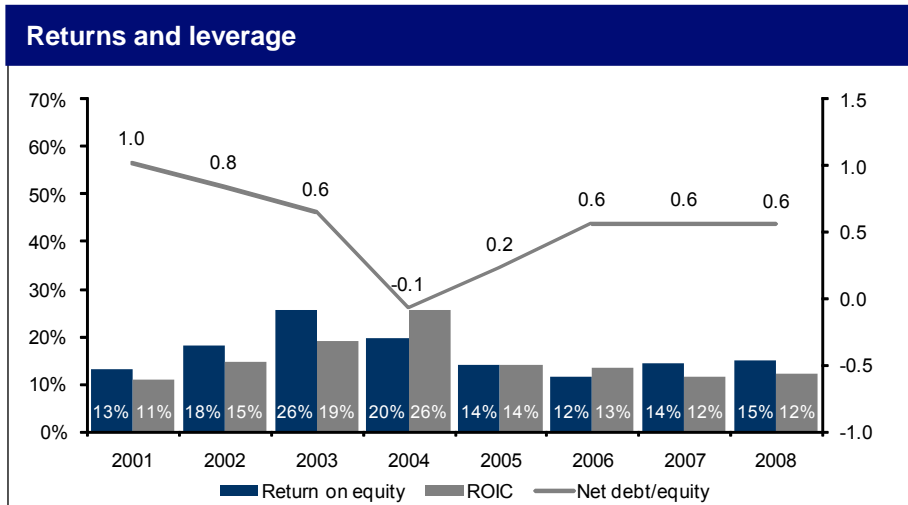
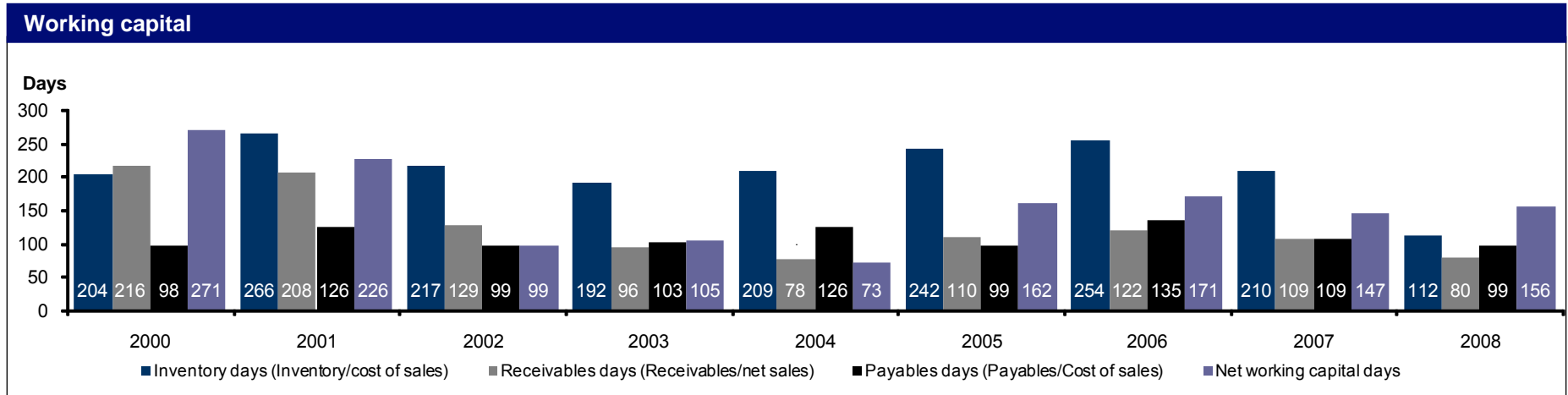
### Tiles – selling price and cost per sqm



### Tiles – gross profit and margin



# Balance sheet and cash flow



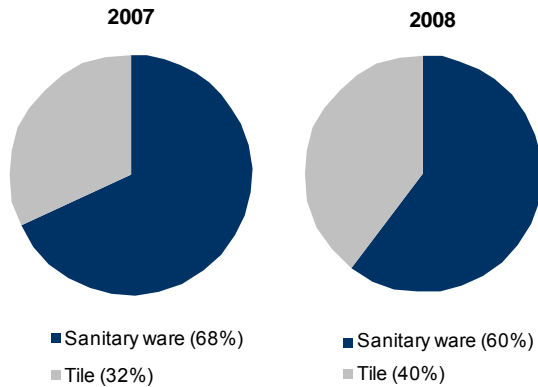
### Capital expenditures

Project	Investment cost (LE m)
Maintenance work and other investments	20.0
Gres Porcellanato Tile plant phase 1	20.0
<b>Total planned specific project capex</b>	<b>40.0</b>

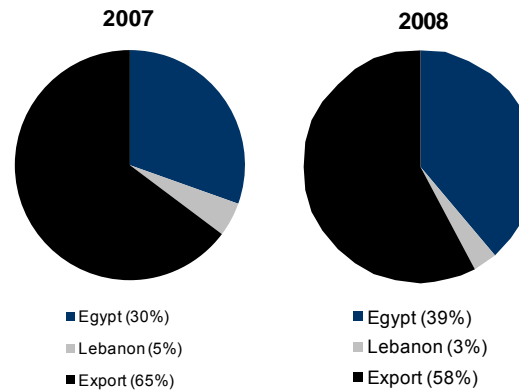
**2009**

## Revenues and margins

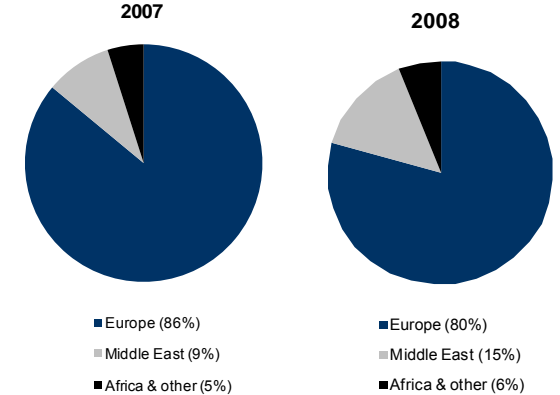
### Segmental sales breakdown



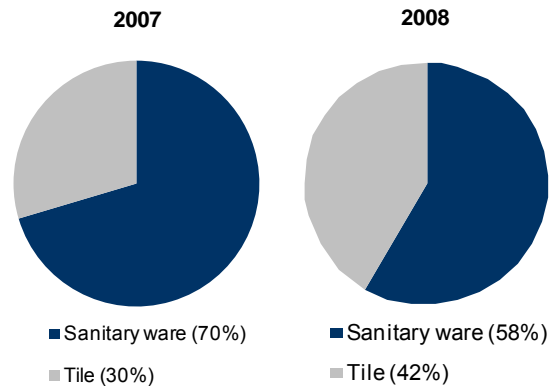
### Sanitary ware sales volume by geography



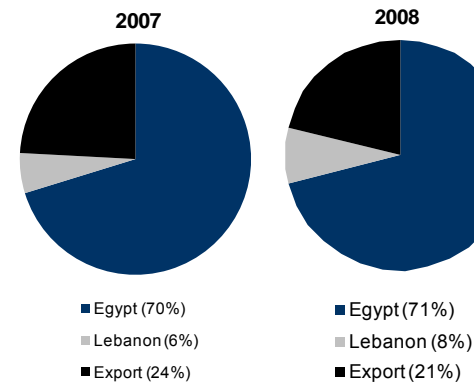
### Sanitary ware export volumes by geography



### Segmental gross profit



### Tile sales volume by geography



# Summary Income Statement



Profit and loss statement highlights						
(LE m)	4Q		%	FY		%
	2008	2007	08/07	2008	2007	08/07
Sanitary ware	125.5	179.0	70%	651.0	667.9	97%
Tiles	108.1	82.3	131%	429.6	321.5	134%
<b>Net sales</b>	<b>233.5</b>	<b>261.3</b>	<b>89%</b>	<b>1080.7</b>	<b>989.5</b>	<b>109%</b>
Sanitary ware/net sales (%)	53.7%	68.5%	(14.8%)	60.2%	67.5%	(7.3%)
Cost of sales	(152.4)	(169.7)	90%	(701.1)	(643.1)	109%
Cost of sales/net sales (%)	(65.2%)	(64.9%)	0.3%	(64.9%)	(65.0%)	(0.1%)
<b>Gross profit</b>	<b>81.2</b>	<b>91.6</b>	<b>89%</b>	<b>379.5</b>	<b>346.3</b>	<b>110%</b>
Gross profit margin (%)	34.8%	35.1%	(0.3%)	35.1%	35.0%	0.1%
Distribution and administration (D&A)	(42.4)	(44.6)	95%	(195.9)	(180.3)	109%
D&A/net sales (%)	(18.2%)	(17.1%)	1.1%	(18.1%)	(18.2%)	(0.1%)
Net other operating income/ (expense)	(4.1)	(5.8)	71%	(11.6)	(9.2)	127%
Net other operating income/ (expense) net sales (%)	(1.8%)	(2.2%)	0.5%	(1.1%)	(0.9%)	(0.1%)
<b>EBIT</b>	<b>34.7</b>	<b>41.2</b>	<b>84%</b>	<b>172.0</b>	<b>156.9</b>	<b>110%</b>
EBIT margin (%)	14.8%	15.8%	(1.0%)	15.9%	15.9%	0.1%
<b>Net profit</b>	<b>15.1</b>	<b>28.3</b>	<b>53%</b>	<b>108.8</b>	<b>107.0</b>	<b>102%</b>
Net profit margin (%)	6.5%	10.8%	(4.3%)	10.1%	10.8%	(0.7%)

## Balance Sheet Highlights



Balance Sheet (LE m)	31-Dec-08	31-Dec-07	FY08/FY07 (%)
Cash and short-term investments	196.0	293.9	67%
Inventory	431.2	370.2	117%
Receivables and related party debit balances	235.6	292.8	80%
<b>Total current assets</b>	<b>862.8</b>	<b>956.9</b>	<b>90%</b>
Net fixed assets, intangibles and other non-current assets	794.7	739.7	107%
<b>Total assets</b>	<b>1,657.5</b>	<b>1,696.6</b>	<b>98%</b>
Banks overdraft and current portion of long-term liabilities	499.9	511.5	98%
Trade and notes payable	68.6	85.0	81%
Other current payables and related party credit balances	104.5	85.5	122%
Provisions	17.3	19.9	87%
<b>Total current liabilities</b>	<b>690.2</b>	<b>701.9</b>	<b>98%</b>
Long-term loans	97.8	204.2	48%
Other long-term liabilities	141.7	32.6	435%
<b>Total non-current liabilities</b>	<b>239.5</b>	<b>236.8</b>	<b>101%</b>
<b>Total liabilities</b>	<b>929.7</b>	<b>938.7</b>	<b>99%</b>
Minority interest	9.4	8.8	107%
Total equity	718.4	749.1	96%
<b>Total equity, minorities and liabilities</b>	<b>1,657.5</b>	<b>1,696.6</b>	<b>98%</b>

# Thank you

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