An Egyptian Exporter

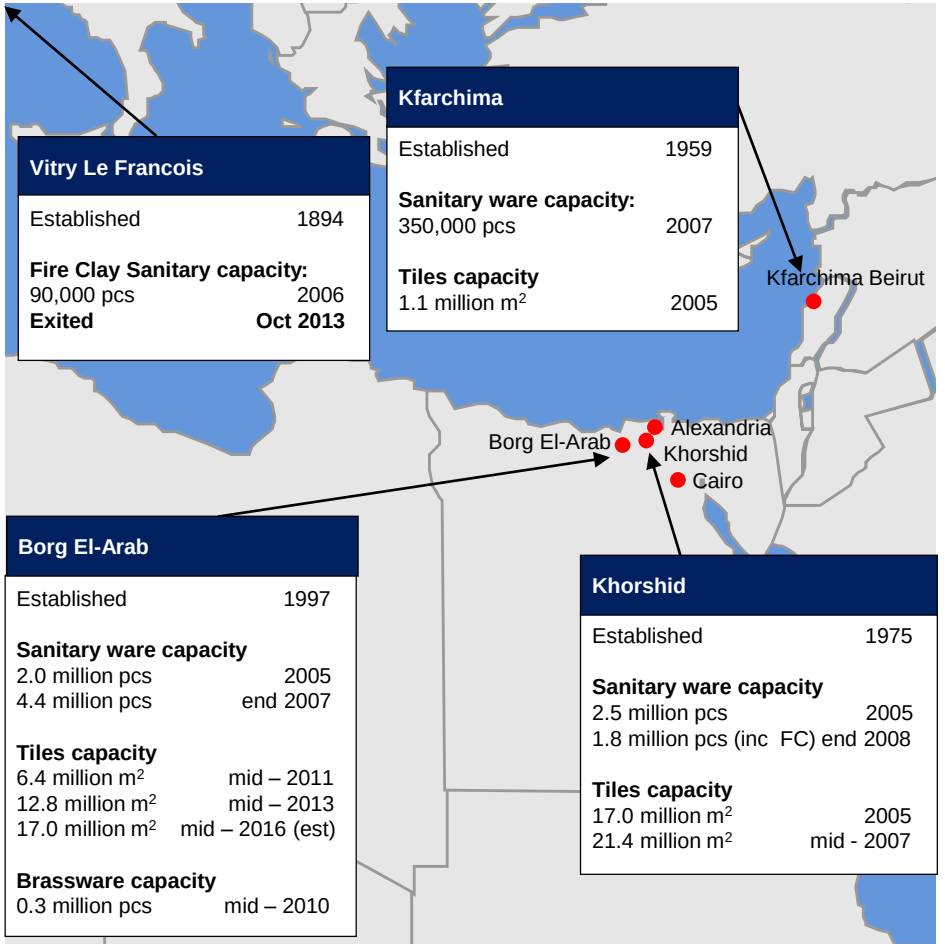
Second Quarter 2014 Results Presentation

August 2014

Corporate Summary

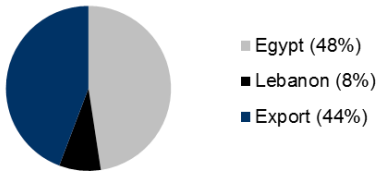
Introduction: An Egyptian exporter

- Lecico Egypt S.A.E. – one of the world's largest sanitary ware producers and a large tiles producer – 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 c45% of Lecico's sanitary ware sales volume going into Europe
- Lecico finished major expansions in sanitary ware in 2007 which boosted capacity to 6.7m pieces of sanitary ware and fired clay
- In Summer 2010, Lecico began brassware production with a 300,000 piece per annum capacity factory
- In Summer 2013, Lecico began production of the second (of three) lines at its new tile factory in Borg El Arab. The factory is expected to reach 17m sqm capacity over the coming 3 years
- In October 2013, Lecico surrendered its operations in France to the bankruptcy courts with a write-off of LE 103 million.

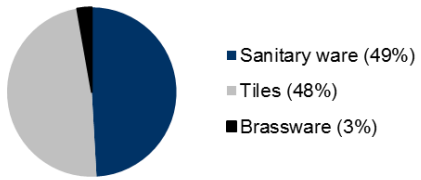


* All production facilities are owned and controlled by Lecico

Split of domestic and export[1]



Split of sanitary ware and tiles[1]



Note: (1) FY 2013

Corporate Profile

Investment case

Experience

- Brand with over 50 years of history
- Multi-national management
- Decades of OEM exports to Europe

Regional leadership

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

Growing exports

- c 55% of sanitary ware is exported
- SW exports 2.5% CAGR (2004-13)
- 10%+ UK, France & Ireland mkt share

Significant cost advantage

- USD 14.60/piece cost (40% of peers)
- c USD 1.50/piece shipping to Europe
- European quality product

Aggressive expansion program

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

Strong historic growth record

17% Revenue CAGR (2000-2013)

14% Net Profit CAGR (2000-2013)*

Supplier for key European brands

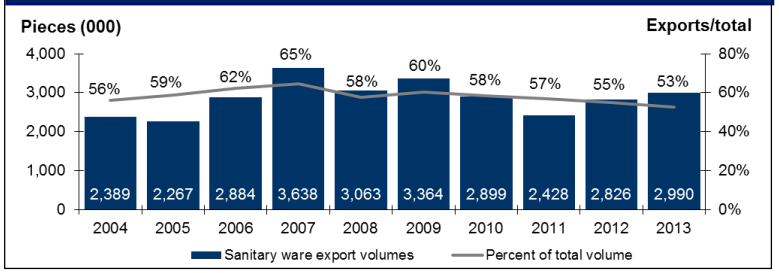
Export-led growth

* = 2013 net profit excludes write-off for France

Growing exports

Growth in group's exports

Lecico's total export volumes (sanitary ware)



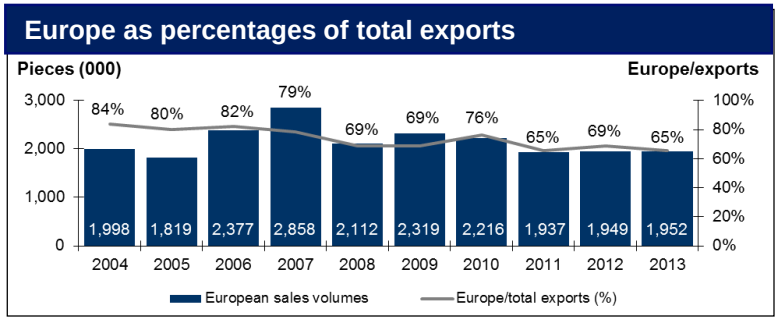
- Sanitary ware export volumes grew at 2.5% CAGR (2004-2013)
- Slow growth as a result of European crising 2008 onwards

Egypt's leading sanitary ware exporter

- Lecico exports c53% of its sales vs. 20% for local peers
- Lecico sells to over 50 countries (including OEM sales)
- Approximately 24% of exports (13% of sanitary ware sales) are for other brands
- Lecico represents over 50% of Egypt's sanitary ware exports with the balance split among 9 manufacturers

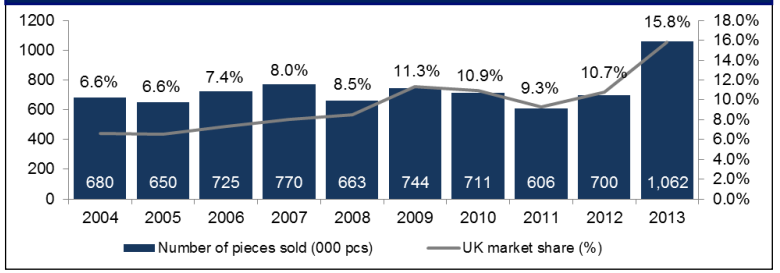
Export focus on Europe

Europe as percentages of total exports



- Average of over 65% of exports are to Western Europe
- Growth of Middle East exports and slowdown in Europe have reduced percentage in last few years

Growth of Lecico brand sanitary ware market share in UK



- UK estimated c16% market share in Lecico-branded sales
- A further c6% market share in OEM and white label sales to the UK

Significant cost advantage

International cost advantage

Lecico produces sanitary ware at an all-in average cost of US$14.60/piece

- In Egypt, manufacturing cost averages US$11.14/piece of sanitary ware
- The difference reflects higher packing costs for EU-destined exports and significantly higher industrial cost in Lebanon
- Our information suggests other low cost producers' manufacturing cost averages US$15-30 / piece
- While European producers average US$35+ / piece depending on their market

Why is Lecico able to produce so competitively?

- **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**: 80-90% capacity utilization rate versus 70% industry average in Egypt
- **Efficiency:** Production per employee is over twice that of our local competitors

Investment, distribution and overheads benefit from regional economies of scale

- Sanitary ware investment cost approx US$30-40 / piece vs. US$35-55 / piece global standard
- Low shipping cost to Europe: US$1.50 per sanitary ware piece vs. approx US$8+ for Asian manufactures

Cost increases 2014

Energy price increases add LE 200 million in costs

- In July, the government announced an massive increase in energy prices which will have a profound effect on Lecico's financials:

Item	Increase	Impact
Natural Gas	133% from USD 3.0/mbtu to USD 7.0/mbtu	70% of energy costs, energy is 20% of cogs
Electricity	33% from EGP 0.33/KwH to EGP 0.42/KwH	30% of energy costs, energy is 20% of cogs
Diesel petrol	64% from EGP 1.10/ltr to EGP 1.80/ltr	All goods and materials will face inflation
Cheapest (80 Octane) petrol	78% from EGP 0.90/ltr to EGP 1.60/ltr	General inflation in Egypt

- Lecico estimates that these changes increase cost by at least LE 200 million per year:
  - Change raise COGs to about LE 200 million per annum over budgeted 2H costs
    - Approximately LE 11 (USD 1.55) extra cost per piece of sanitary ware (c 30% of the LE 200 million plus increase in costs)
    - Approximately LE 4 (USD 0.55) extra cost per square meter (c 70% of the LE 200 million increase in costs)
- The additional LE 200 million in costs is more than our annualised profit

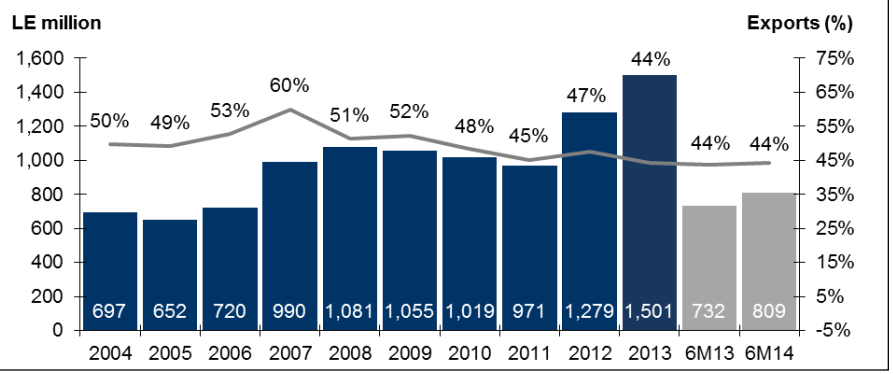
Lecico enacting significant price increases

- On average Lecico needs around a 15% price increase to cover the cost inflation
  - By segment we need a 9% increase in sanitary ware and a 20% increase in tiles average group consolidated prices
    - This would only absorb costs and would still result in lower margins (%)
  - To date, we have only agreed increased prices to our main Middle Eastern markets and raised pricing to subsidiaries
- So far, Lecico has raised average prices by around 8% (assuming volumes hold):
  - Tile average prices have increased 15% raising the average price USD 0.45/sqm vs USD 0.55 needed
  - Sanitary ware average prices have increased 3% raising the average price USD 0.35/pc vs USD 1.55 needed
  - This increase covers approximately LE 130 million annualised of the LE 200 million or more forecasted cost increase
- The Company is looking to roll out further increases between now and the start of 2015

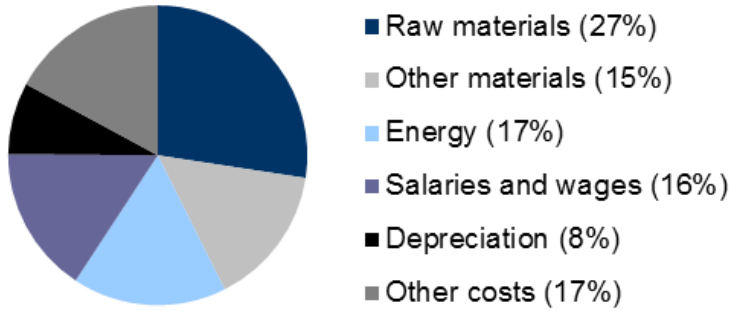
Financial overview

Profit and loss

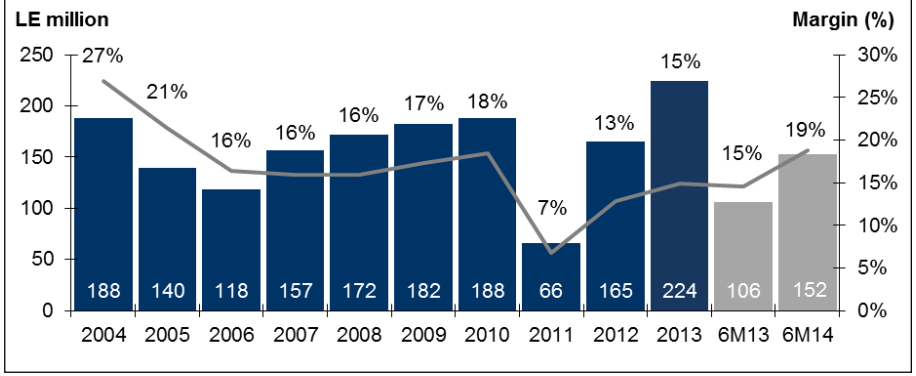
Net sales



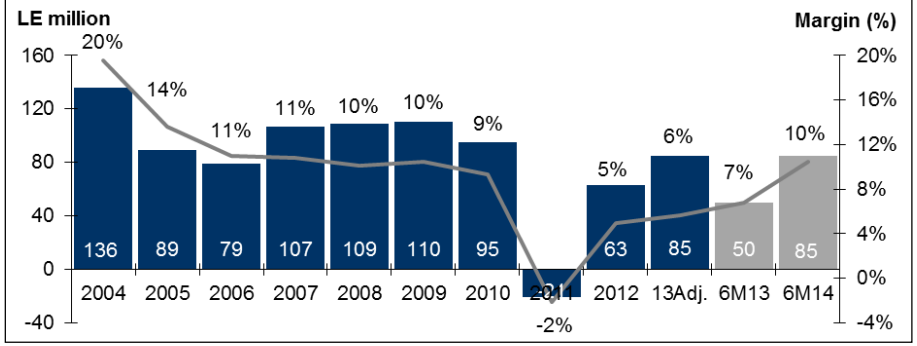
Cost of sales breakdown (1H 2014)



EBIT



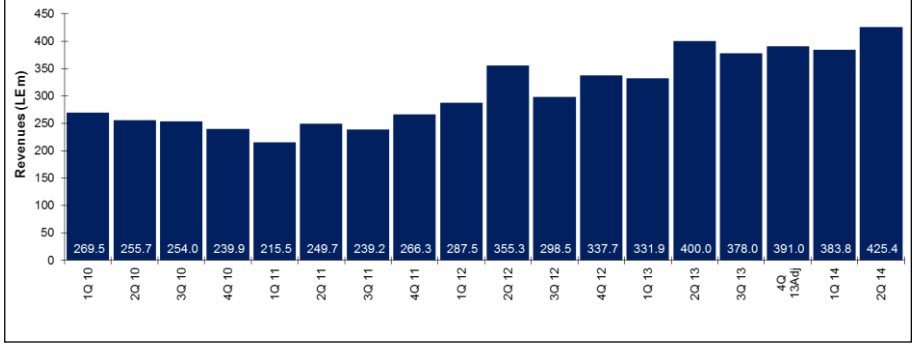
Net Profit *



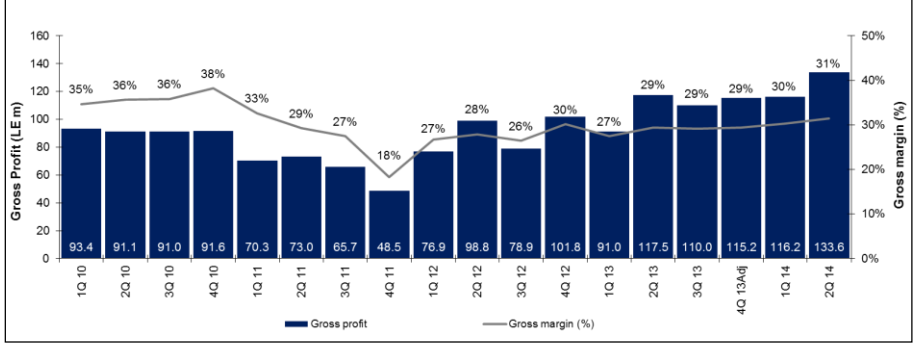
* = 2013 net profit excludes write-off for France

Quarterly P&L Trends

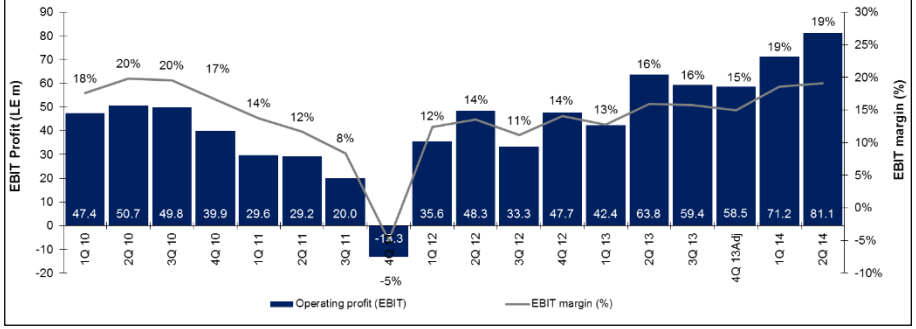
Net sales



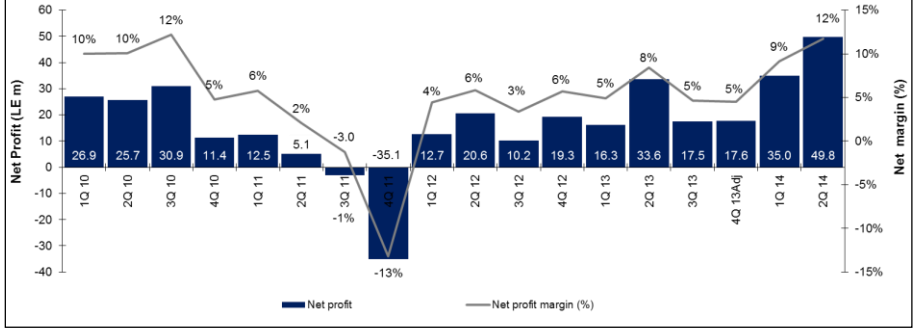
Gross profit*



EBIT*



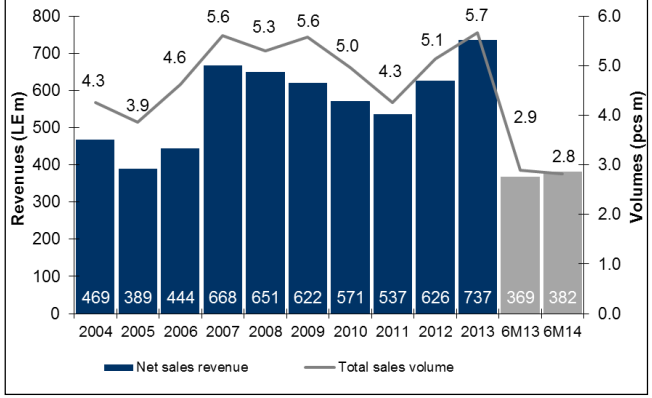
Net Profit*



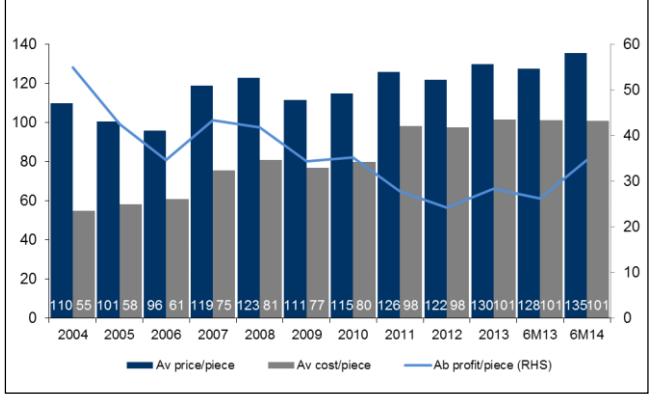
* = 4Q 2013 net profit excludes write-off for France

Segmental analysis

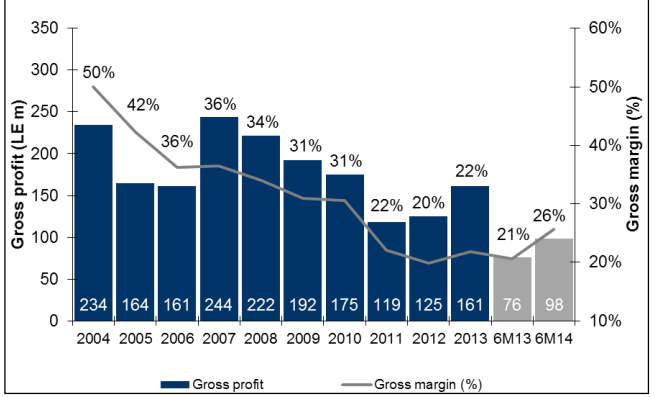
Sanitary ware – sales volumes and revenue



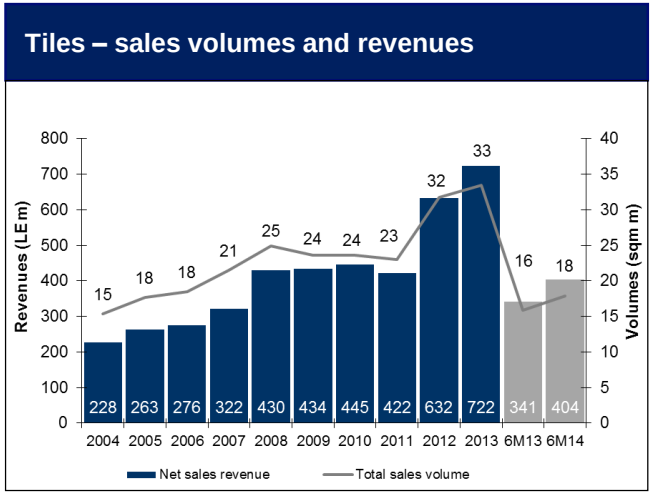
Sanitary ware – selling price and cost per piece



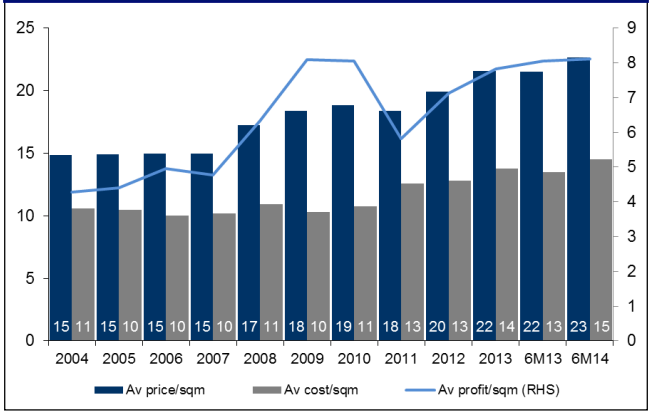
Sanitary ware – gross profit and margin



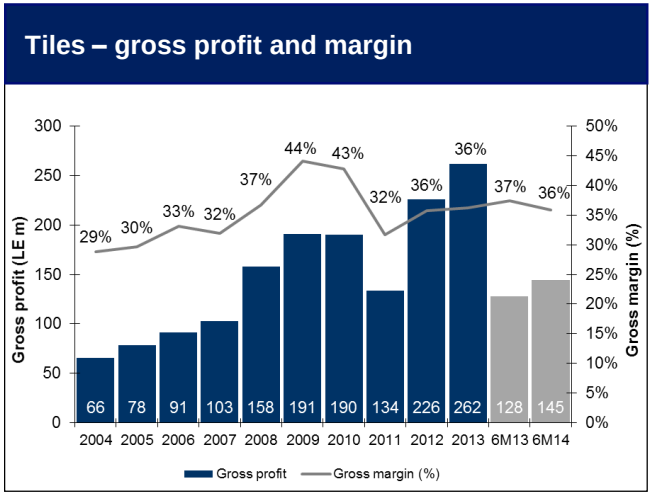
Tiles – sales volumes and revenues



Tiles – selling price and cost per sqm

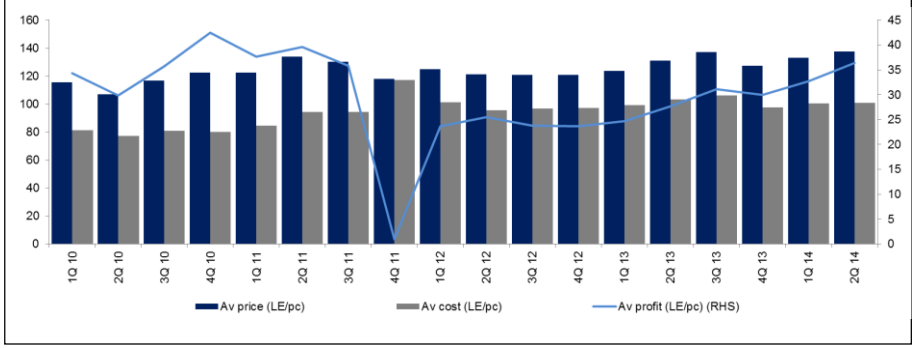


Tiles – gross profit and margin

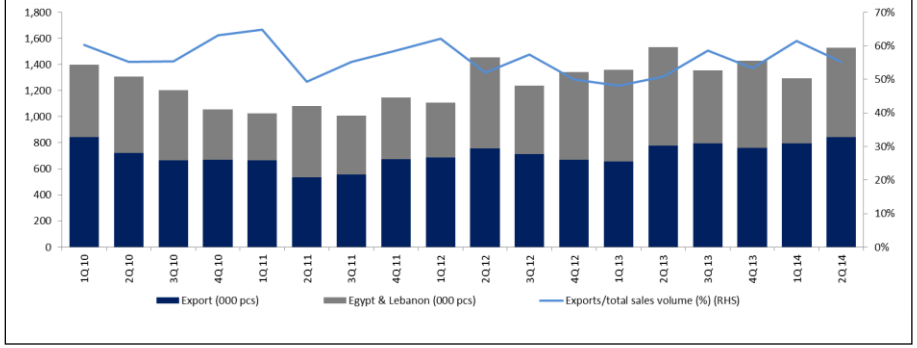


Quarterly Segmental trends

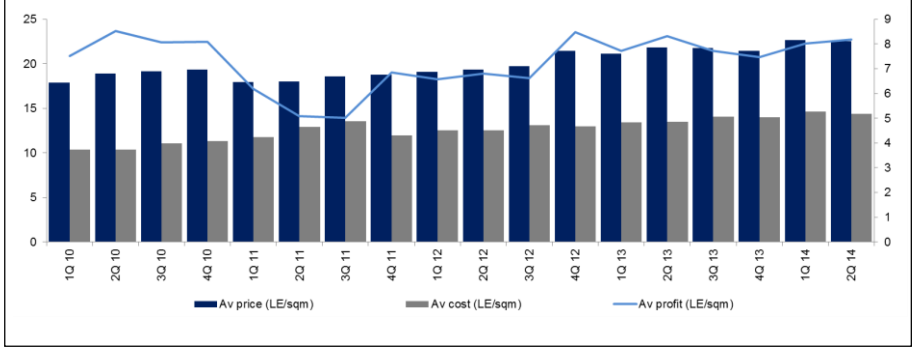
Sanitary ware average price, cost and profit per piece



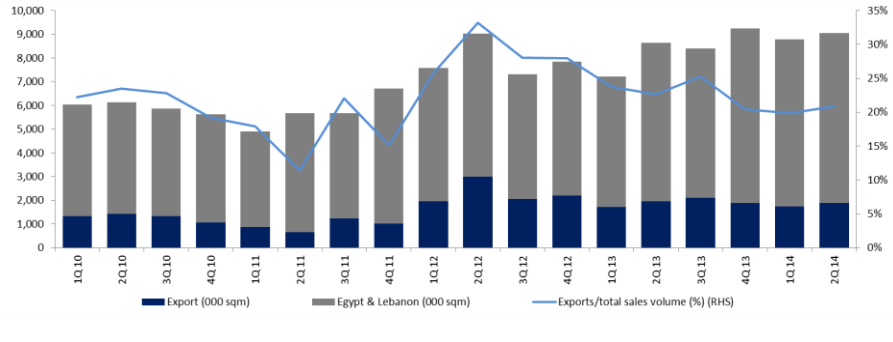
Sanitary ware sales volume



Tile Average Price, Cost and Profit per sqm

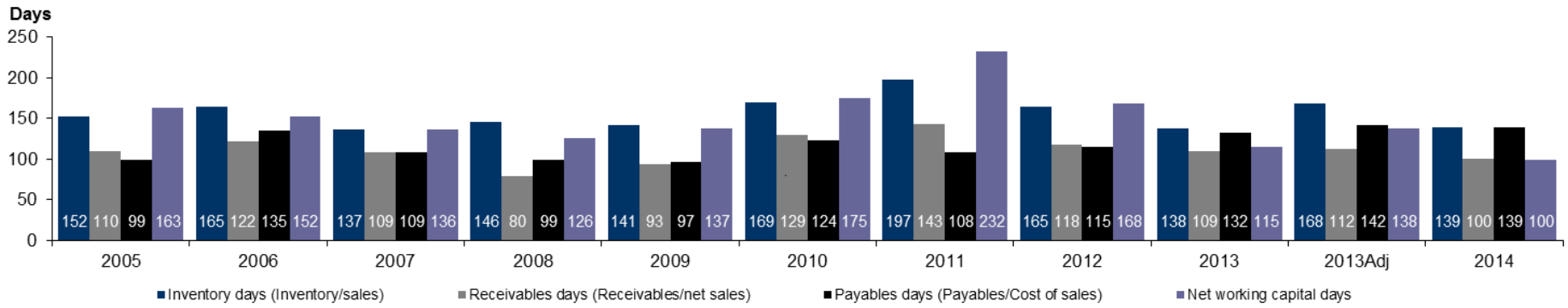


Tile sales volume

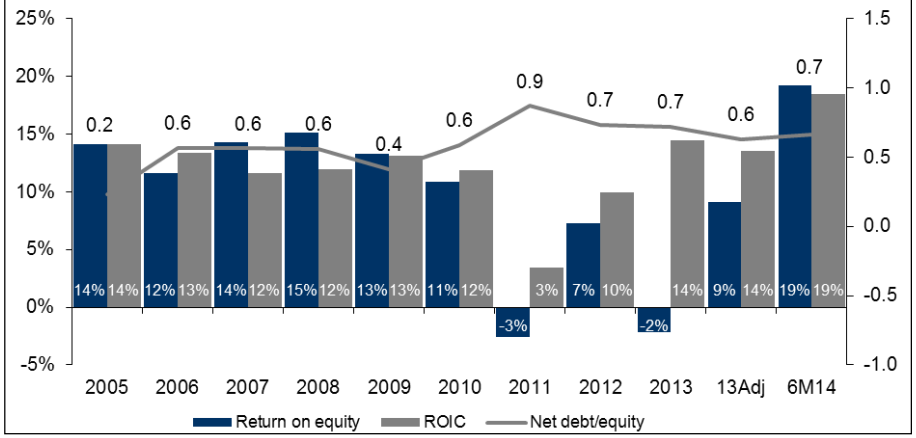


Balance sheet and cash flow

Working capital

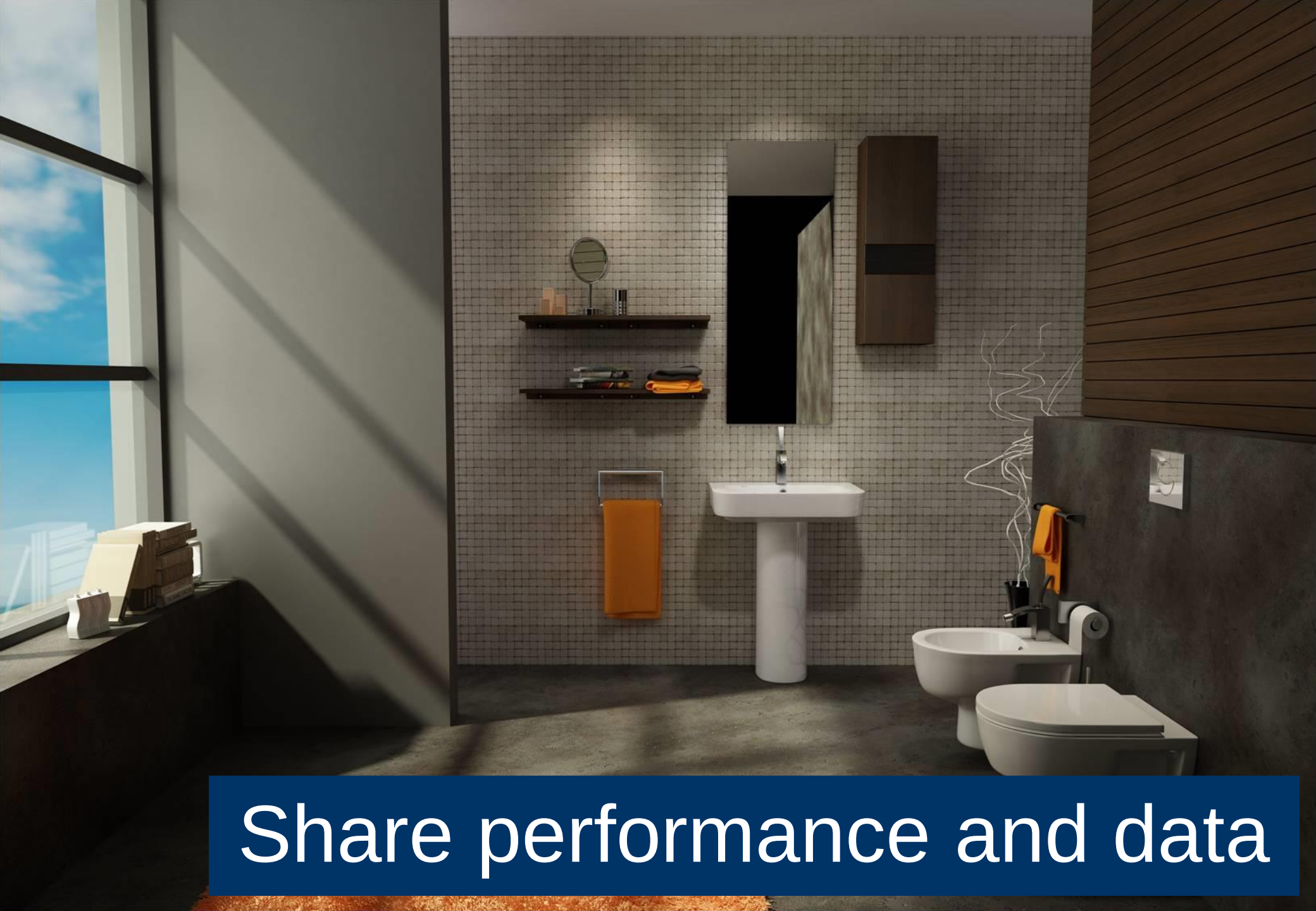


Returns and leverage



Capital expenditures 2014e

Tile Capacity Expansion (3/4 of total)	36.5
Maintenance Capital Expenditure	50.0
Total Capital Expenditure	**86.5**


Share performance and data

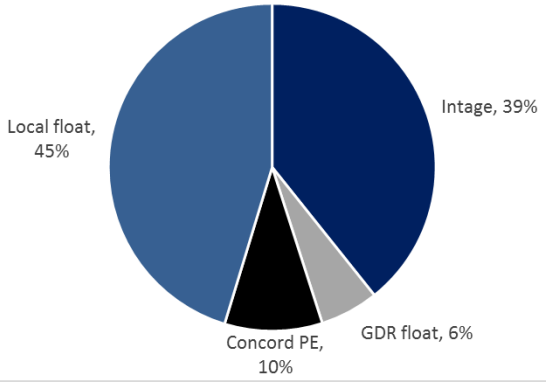
Shareholding structure and performance

Liquidity has moved to local share and improved

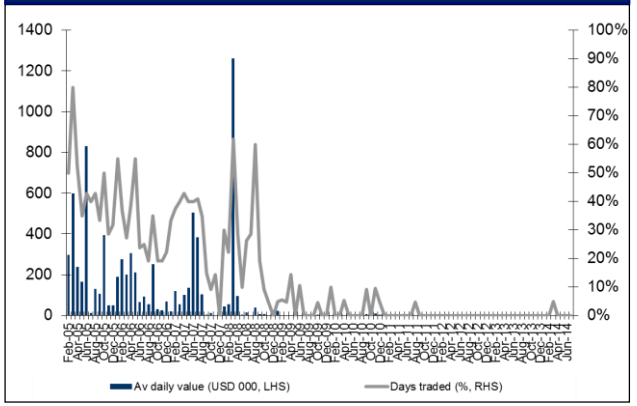
- **Lecico valued at a market cap of US$ 111 million with a 51% free float**
  - All activity is in the local share although a GDR does exist
  - Local share trades US$ 65,200 per day and on 91% of trading days (12 months through end July 2014)
  - Trading frequency has gone to 91% of market days from c 40% of market days in 2005-2007
  - Over the last 2 years GDR float has shrunk from 14% to 6% as most shareholders migrate to local share
  - The company plans to delist GDR by the end of the year and expects this will further reduce non-local float
- **Lecico trades at a PER multiple of 6.6x on rolling 12 months result through 2Q 2014 (excluding Lecico France write off of LE 103 million**
  - EV/EBITDA of 3.7x on rolling 12 months result through 2Q 2014
  - Price to book value of 0.89x
  - Dividend Yield of 5.5% based on 2013 dividend

Lecico share price

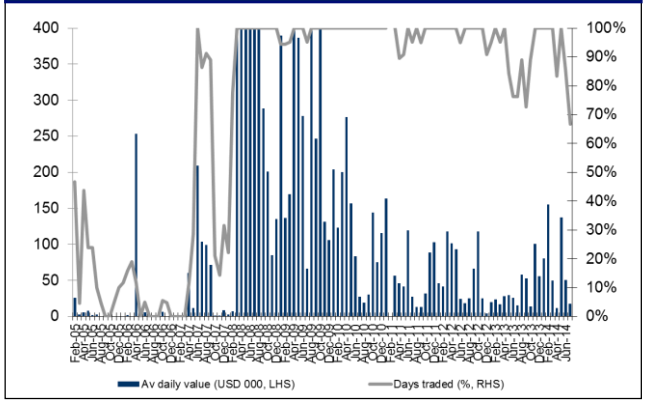
Shareholding structure



Share liquidity overview (GDR)



Share liquidity overview (Local)



Thank you

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