



## First quarter 2015 Results

**Alexandria, 12<sup>th</sup> May 2015** – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for first quarter 2015.

### Highlights

#### 1Q 2015

- Lecico revenue fell 14% to LE 329.2 million (53.5% from sanitary ware)
- Sanitary ware revenue up 2% to LE 176.0 million, sales volumes fell 4% to 1.24 million pieces (60.6% exports)
- Tile revenue fell 29% to LE 141.3 million, sales volumes fell 31% to 6.1 million square meters (16.6% exports)
- Brassware revenue fell 1% to LE 11.9 million, sales volume of 30,411 pieces
- EBIT fell 68% to LE 22.8 million, margin fell 11.7 percentage pts to 6.9%
- Net profit fell 94% to LE 2.2 million, margin fell 8.5 percentage pts to 0.7% compared to 9.1%.

Lecico Egypt Chairman and CEO, Gilbert Gargour, commented “The first quarter of this year was poor. The company has been affected by a confluence of factors: poor economic environment in Egypt as a result of economic uncertainties and the aggressive effort of government to control the budget deficit; and the substantial increases in costs that were added to our business. This has resulted in drawing funds out of the economy.

“This coincided with a very difficult international environment which has seen demand evaporate in several export markets, particularly Libya, Syria and Iraq, as a result of the political situation there. This has in turn affected the economies of the whole Middle East.

“At Lecico the most affected sector was the tile business. This business relied to a large extent on the area's export markets and as a consequence the industry aggressively tried to replace this demand in the weak local market resulting in very aggressive pricing.

“We begin to believe that this extraordinary situation is beginning to unwind, at least in Egypt where our government is beginning to feed projects into the economy.

“We detail later what we did to react to this situation in our tile business and review the more resilient sanitary and brass business. I am very proud of management's reactions to

this situation and this leaves me hopeful that we shall gradually recover from these poor results. Our company continues to benefit from significant advantages and strengths which should allow us to eventually return to the sterling performance we have been used to.”

Taher Gargour, Lecico Egypt MD, added, “The first quarter has been perhaps our most difficult quarter in terms of standard operations. The good news is that after an extremely slow January, we have seen an encouraging recovery in sales volumes in the past few months.

“In February, we took a number of tactical decisions to gain market share in Egypt and new markets in export. We introduced a range of lower cost and price solutions in tiles and sanitary ware and rolled back about half of the tile price increase done in August to meet competition.

“Following these actions, sales volumes in both tiles and sanitary have grown month-on-month and – if the trend continues – should see volumes in the second quarter improved on the fourth quarter of 2014.

“Tile sales recovery is even allowing us to restart in the second quarter some of the capacity we previously closed while steadily destocking the inventories we built at the end of last year.

“We are still facing a significant challenge in 2015 with pressure on volumes, revenues and costs. The good news is that we are seeing some improvement as a result of our marketing initiatives. We plan to follow on these first steps taken to recover with other initiatives over the course of the year. If we are spared any significant external shocks in the coming quarters, I hope to be able to improve our results quarter on quarter and deliver satisfactory numbers in these circumstances.”

## Lecico Revenue and Profitability

Profit and loss statement highlights			
(LE m)	1Q		% 15/14
	2015	2014	
Sanitary ware	176.0	172.4	102%
Tiles	141.3	199.4	71%
Brassware	11.9	12.0	99%
<b>Net sales</b>	<b>329.2</b>	<b>383.8</b>	<b>86%</b>
Sanitary ware/net sales (%)	53.5%	44.9%	8.5%
Cost of sales	(256.2)	(267.6)	96%
Cost of sales/net sales (%)	(77.8%)	(69.7%)	8.1%
<b>Gross profit</b>	<b>73.0</b>	<b>116.2</b>	<b>63%</b>
Gross profit margin (%)	22.2%	30.3%	(8.1%)
Distribution and administration (D&A)	(49.2)	(44.1)	112%
D&A/net sales (%)	(14.9%)	(11.5%)	3.4%
Net other operating income/ (expense)	(1.0)	(0.9)	113%
Net other operating income/ (expense) net sales (%)	(0.3%)	(0.2%)	(0.1%)
<b>EBIT</b>	<b>22.8</b>	<b>71.2</b>	<b>32%</b>
EBIT margin (%)	6.9%	18.6%	(11.7%)
<b>Net profit</b>	<b>2.2</b>	<b>35.0</b>	<b>6%</b>
Net profit margin (%)	0.7%	9.1%	(8.5%)

### 1Q 2015: Weak tiles sales and margins resulted in lower profits.

Lecico revenues for the quarter decreased by 14% to LE 329.2 million with lower sales volumes in all segments primarily in tiles (2.6 million square meters). Lecico has seen weaker demand in Egypt since the increase in energy and petrol prices in July 2014.

The shrinking of regional export markets at the same time has seen added capacity return to the domestic market and for the first time the Company is seeing industry-wide over capacity in tiles as well as sanitary ware.

Although the Company reduced tile prices by an average of 7% at the start of February, this only partially rolled back price increases done over 2014 and accordingly average prices were up year-on-year in all segments.

Average unit costs of sales were up significantly year-on-year as a result of the 133% increase in natural gas costs in July 2014 and significant increases in the cost of electricity and petrol.

As a result gross profit decreased by 37% to reach LE 73.0 million and the Company's gross profit margin fell 8.1 percentage points to 22.2% compared to 30.3% in the same period last year.

In absolute terms, distribution and administration (D&A) expenses increased by 12% to LE 49.2 million. Proportional D&A expenses were up 3.4 percentage points to 14.9% of net sales compared to 11.5% in the first quarter of 2014.

The Company also reported LE 1.0 million in other operating expenses compared to other operating expenses of LE 0.9 million in the first quarter of 2014.

EBIT fell 68% compared to same period last year to reach LE 22.8 million for the quarter with the EBIT margin decreasing 11.7 percentage points year-on-year to 6.9%.

Financing expenses were down 13% year-on-year during the first quarter of 2015 to reach LE 20.4 million compared to the same period in 2014 due to a reduction in cash and gross debt.

Finance income for the quarter reached LE 8.2 million compared to LE 1.8 million in the same period last year due to an LE 7.6 million exchange gain as a result of the devaluation of the Egyptian pound.

Lecico recorded a tax for the quarter of LE 0.6 million versus LE 6.4 million tax charges for the same period last year as a result of reported lower profits in the first quarter in 2015.

The company reported a net profit of LE 2.2 million compared to LE 35.0 million last year. Margin fell 8.5 percentage points to 0.7% compared to 9.1% for the same period of last year.

## Segmental analysis

### Sanitary ware

**1Q:** Sanitary ware sales volume decreased by 4% to 1.24 million pieces (55,000 pieces) largely as a result of exports falling by 6% (45,000 pieces) primarily as a result of slower regional sales.

Average sanitary ware prices were up 7% year-on-year to LE 142.1 per piece as a result of price increases done over 2014 and a weaker Egyptian pound increasing export prices.

Revenues rose up 2% year-on-year at LE 176.0 million. Exports represented 60.6% of volumes compared to 61.5% in the first quarter of 2014.

Average cost of sales up 8% at LE 108.4 per piece due to the increase in energy prices in July 2014.

Sanitary ware gross profit margin fell 0.9 percentage points to reach 23.7% and gross profits fell 2% to LE 41.7 million.

Sanitary ware segmental analysis	1Q		%
	2015	2014	15/14
Sanitary ware volumes (000 pcs)			
Egypt (000 pcs)	470	473	99%
Lebanon (000 pcs)	18	25	71%
Export (000 pcs)	751	796	94%
<b>Total sanitary ware volumes (000 pcs)</b>	<b>1,239</b>	<b>1,294</b>	<b>96%</b>
Exports/total sales volume (%)	60.6%	61.5%	(0.9%)
<b>Sanitary ware revenue (LE m)</b>	<b>176.0</b>	<b>172.4</b>	<b>102%</b>
Average selling price (LE/pc)	142.1	133.2	107%
Average cost per piece (LE/pc)	108.4	100.5	108%
Sanitary ware cost of sales	(134.3)	(130.0)	103%
Sanitary ware gross profit	41.7	42.4	98%
Sanitary ware gross profit margin (%)	23.7%	24.6%	(0.9%)

## Tiles

**1Q:** Tile sales volumes decreased by 31% year-on-year (2.69 million square meters) to reach 6.1 million square meters with decreased sales in Egypt and export markets.

Average net prices were up 2% at LE 23.2 per square meter with part of the price increase done in 2014 rolled back in February in the face of increased competition.

Tiles revenues fell 29% year-on-year to LE 141.3 million in the first quarter of 2015.

Average costs rose 29% year-on-year to reach LE 18.9 per square meter due to the increase in energy prices in July 2014 and the Company's decision to reduce production by 30% from the start of the year in the face of lower sales in domestic and export markets.

Tile gross profit margins fell by 16.8 percentage points to reach 18.5% and gross profit for the quarter fell 63% year-on-year to LE 26.2 million.

Tile segmental analysis	1Q		%
	2015	2014	15/14
Tile volumes (000 sqm)			
Egypt (000 sqm)	4,877	6,525	75%
Lebanon (000 sqm)	210	521	40%
Export (000 sqm)	1,011	1,744	58%
<b>Total tile volumes (000 sqm)</b>	<b>6,098</b>	<b>8,790</b>	<b>69%</b>
Exports/total sales volume (%)	16.6%	19.8%	(3.3%)
<b>Tile revenue (LE m)</b>	<b>141.3</b>	<b>199.4</b>	<b>71%</b>
Average selling price (LE/sqm)	23.2	22.7	102%
Average cost per sqm (LE/sqm)	18.9	14.7	129%
Tile cost of sales	(115.1)	(128.9)	89%
Tile gross profit	26.2	70.5	37%
Tile gross profit margin (%)	18.5%	35.4%	(16.8%)

## Brassware

**1Q:** Sales volumes for first quarter decreased by 10% to reach 30,411 pieces compared to 33,828 pieces in first quarter of 2014.

Average net prices rose 11% to reach LE 390.6 per piece due to product mix and price increases enacted over 2014.

Revenue for the quarter fell 1% year-on-year to reach LE 11.9 million.

Average cost per piece fell 12% to LE 224.1 per piece reflecting product mix.

Brassware gross profit margins rose 14.6 percentage points to reach 42.6% and gross profits increased by 51% to reach LE 5.1 million for the quarter.

Brassware segmental analysis	1Q		%
	2015	2014	
Brassware volumes ( pcs)			
Egypt ( pcs)	30,072	33,785	89%
Export ( pcs)	339	43	788%
<b>Total brassware volumes ( pcs)</b>	<b>30,411</b>	<b>33,828</b>	<b>90%</b>
Exports/total sales volume (%)	1.1%	0.1%	1.0%
<b>Brassware revenue (LE m)</b>	<b>11.9</b>	<b>12.0</b>	<b>99%</b>
Average selling price (LE/pc)	390.6	353.5	111%
Average cost per piece (LE/pc)	224.1	254.2	88%
Brassware cost of sales	(6.8)	(8.6)	79%
Brassware ware gross profit	5.1	3.4	151%
Brassware gross profit margin (%)	42.6%	28.1%	14.6%

## Financial position

The value of Lecico's assets were flat at the end of March 31, 2015 at LE 2,192.7 million with the Company reducing its cash balances and gross debt by LE 50.5 million and LE 14 million respectively over the first quarter and with fixed assets continuing to fall with depreciation and limited investments.

Total liabilities were down 1% at LE 1,289.8 million.

Gross debt was reduced 2% or LE 14 million over the first quarter 2015 to reach LE 862.6 million while net debt rose 6% at LE 667.5 million compared to LE 631.3 million at the end of 2014.

Net debt to equity increased 5% to reach 0.75x compared to 0.71x at the end of 2014.

## Recent developments and outlook

**Outlook for 2015:** The sharp slowdown in sales in Egypt in the fourth quarter of 2014 and the first quarter of 2015, combined with the virtual closure of Libya over the same period has added significant risk to sales volumes compounding the challenge of higher energy costs seen in the second half of 2014.

In July 2014, the government raised natural gas prices 133%, electricity 33% and diesel and petrol by over 60% creating the highest cost inflation Lecico has faced in its history. The Company estimates its cost of production will increase by 20% as a result of the direct and secondary impact of these cost increases.

The company increased prices by an average of 8% coming into effect over the course of August and September. This increase covered a portion of the increase in costs but still left Lecico facing a significantly lower return on activities going forward as seen in the results for the second half of 2014.

In the face of overcapacity in Egypt and increasingly aggressive competition from competitors in the industry, Lecico took a number of offensive and defensive measures in the middle of the first quarter to try and deliver the best possible performance as we weather this challenging period.

Offensively, the company introduced a number of time-limited promotions and introduced some lower cost products to try and recapture market share. In financial terms this translated into a 7% reduction in average tile prices, temporarily rolling back about half of the price increase done in August.

In addition the company is aggressively adding new retailers to its network and expanding its direct distribution efforts to try and get opportunities for market share growth in Egypt.

Following very slow sales in January, the company has seen an improvement in domestic sales as a result of these tactics. Barring any external shocks, the company is optimistic that sales to the Egyptian market should continue to improve from the levels seen in the fourth quarter of 2014 and the first quarter of 2015 over the coming quarters.

Defensively, the Company reduced its production capacity in tiles by 30% and in sanitary ware by 12%. This reduces Lecico's absolute energy and labour costs and matches production to current sales levels.

As a result of improving sales on the back of the company's marketing initiatives, the Company has begun gradually increasing tile production in the second quarter, restoring about a quarter of the reduced production capacity while continuing to reduce the stocks of tiles built up at the end of 2014.

Barring any external shocks, the company is optimistic that it will have an opportunity to restart more of its closed tile production capacity in the coming quarters.

Overall, the Company is seeing some improvement in sales and markets and hopes to see financial performance improve quarter-on-quarter in the coming quarters. It remains likely that the Company will report lower revenues and profitability in 2015 compared to the full year results of 2014. However, the success of Lecico's offensive and defensive measures, gives the Company hope that – barring any external shocks - 2015 financial results will show an improvement on the performance seen in the second half of 2014 on an annualized basis.

## **About Lecico**

Lecico (Stock symbols: LCSW.CA; LECI EY) is a leading producer of export-quality sanitary ware in the Middle East and one of the largest tile producers in Egypt and Lebanon, with over 50 years of experience in the industry and decades of experience as an exporter to developed markets.

Lecico benefits from significant cost advantages in labour, energy and investment costs resulting from its economies of scale and location in Egypt and Lebanon. Lecico's marketing strategy is to use its cost advantages to target the mass market with high quality pieces at competitive prices.

Lecico exports over half its sanitary ware production and has a significant presence in the United Kingdom and other European markets. Most of the Company's exports are done under the Lecico brand, although it also produces for a number of leading European brands.

## **For additional information, please contact:**

Taher G. Gargour  
Telephone: +203 518 0011  
Fax: +203 518 0029  
E-mail: [tgargour@lecico.com](mailto:tgargour@lecico.com)

**Visit our website at: [www.lecico.com](http://www.lecico.com)**

## **Forward-looking statements**

This release may contain certain "forward-looking statements", relating to the Company's 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 the company and the anticipated impact of these investments. Such statements reflect the current views of the Company 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 the Company to be materially different from any future results that may be expressed or implied by such forward-looking statements.

## Lecico Egypt consolidated income statement

Income statement			
(LE m)	1Q		%
	2015	2014	15/14
<b>Net sales</b>	<b>329.2</b>	<b>383.8</b>	<b>86%</b>
Cost of sales	(256.2)	(267.6)	96%
<b>Gross profit</b>	<b>73.0</b>	<b>116.2</b>	<b>63%</b>
Gross margin (%)	22.2%	30.3%	(8.1%)
Distribution expenses	(17.8)	(14.6)	122%
Administrative expenses	(31.3)	(29.5)	106%
Other Operating income	1.8	3.1	58%
Other Operating expenses	(2.9)	(4.0)	71%
<b>Operating profit (EBIT)</b>	<b>22.8</b>	<b>71.2</b>	<b>32%</b>
Operating (EBIT) margin (%)	6.9%	18.6%	(11.7%)
Investment revenues	0.0	(0.0)	-
Finance income	8.2	1.8	456%
Finance expense	(20.4)	(23.3)	87%
<b>Profits before tax and minority (PBTM)</b>	<b>10.6</b>	<b>49.6</b>	<b>21%</b>
PBTM margin (%)	3.2%	12.9%	(9.7%)
Income tax	(1.8)	(5.4)	34%
Deferred tax	1.2	(1.0)	-
<b>Net Profit after tax (NPAT)</b>	<b>10.0</b>	<b>43.3</b>	<b>23%</b>
NPAT margin (%)	3.0%	11.3%	(8.2%)
Employee profit participation	(7.7)	(8.1)	96%
<b>Net profit before minority interest</b>	<b>2.3</b>	<b>35.2</b>	<b>6%</b>
Minority interest	(0.1)	(0.2)	38%
<b>Net Profit</b>	<b>2.2</b>	<b>35.0</b>	<b>6%</b>
Net profit margin (%)	0.7%	9.1%	(8.5%)

## Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	31-Mar-15	31-Dec-14	3M15/FY14 (%)
Cash and short-term investments	195.1	245.7	79%
Inventory	708.7	667.9	106%
Receivables	476.7	449.6	106%
Related parties -debit balances	54.7	61.8	88%
<b>Total current assets</b>	<b>1,435.2</b>	<b>1,425.0</b>	<b>101%</b>
Net fixed assets	688.6	708.5	97%
Intangible assets	22.2	22.1	100%
Prepaid long-term rent	0.6	0.6	91%
Projects in progress	19.7	13.1	150%
Available for sale investments	5.7	5.4	106%
Long-term notes receivable	20.7	27.3	76%
<b>Total non-current assets</b>	<b>757.5</b>	<b>777.1</b>	<b>97%</b>
<b>Total assets</b>	<b>2,192.7</b>	<b>2,202.0</b>	<b>100%</b>
Banks overdraft	731.0	734.5	100%
Current portion of long-term liabilities	44.8	44.8	100%
Trade and notes payable	111.4	132.0	84%
Other current payable	243.2	223.4	109%
Related parties -credit balances	4.2	4.8	88%
Provisions	24.9	24.4	102%
<b>Total current liabilities</b>	<b>1,159.5</b>	<b>1163.9</b>	<b>100%</b>
Long-term loans	86.8	97.6	89%
Other long-term liabilities	1.3	1.3	99%
Provisions	10.0	9.6	104%
Deferred tax	32.3	33.7	96%
<b>Total non-current liabilities</b>	<b>130.3</b>	<b>142.2</b>	<b>92%</b>
<b>Total liabilities</b>	<b>1,289.8</b>	<b>1,306.1</b>	<b>99%</b>
<b>Minority interest</b>	<b>8.1</b>	<b>9.5</b>	<b>86%</b>
Issued capital	400.0	400.0	100%
Reserves	372.0	355.8	105%
Retained earnings	120.6	39.1	309%
Net profit for the year	2.2	91.6	2%
<b>Total equity</b>	<b>894.8</b>	<b>886.4</b>	<b>101%</b>
<b>Total equity, minorities and liabilities</b>	<b>2,192.7</b>	<b>2,202.0</b>	<b>100%</b>

## Lecico Egypt consolidated cash flow

Cash flow statement (LE m)	1Q		%
	2015	2014	
<b>Cash Flow from operating activities</b>			
Net profit for the period	2.2	35.0	6%
Depreciation and translation adjustment	25.8	24.6	105%
Intangible assets amortisation and translation adjustment	(0.0)	0.1	-
Income tax expense	1.8	5.4	34%
Income tax paid	(0.7)	(1.7)	41%
Deferred income tax	(1.4)	0.6	-
Prepaid rent expense	0.1	0.1	100%
Capital gains	(0.0)	(0.1)	40%
Provided provisions and translation adjustment	5.0	1.3	392%
Reversal of expired provision	(4.1)	(1.3)	319%
Employee share in net profit	7.7	8.1	96%
Increase (Decrease) in minority interest	(1.4)	0.0	-
Increase (Decrease) in translation reserve	18.4	(6.2)	-
(Increase) Decrease in Inventory	(37.4)	(40.9)	92%
(Increase) Decrease in Receivables	(22.3)	(9.7)	231%
Increase (Decrease) in Payables	(22.5)	42.5	-
Utilised Provisions	(1.0)	(0.4)	241%
Increase (Decrease) in Other Long Term Liabilities	(0.0)	(0.2)	5%
(Payments) / Received for acquiring current investment	57.9	4.8	1207%
Difference result from discounting of long term notes receivables	(0.5)	0.1	-
<b>Net cash from operating activities</b>	<b>27.5</b>	<b>62.0</b>	<b>44%</b>
<b>Cash flow from investing activities</b>			
Additions to fixed assets and projects	(12.7)	(13.5)	94%
Intangible assets	(0.1)	(0.1)	130%
Net change in available for sale investments	(0.3)	(0.0)	2300%
Proceeds from sales of fixed assets	0.2	0.1	202%
Increase (Decrease) in long-term notes receivable	7.1	(5.1)	-
<b>Net cash from investing activities</b>	<b>(5.7)</b>	<b>(18.5)</b>	<b>31%</b>
<b>Cash flow from financing activities</b>			
Increase (Decrease) in long-term loans	(10.9)	(5.9)	185%
Increase (Decrease) in current portion of long term liabilities	0.0	0.0	42%
<b>Net cash from financing activities</b>	<b>(10.9)</b>	<b>(5.8)</b>	<b>186%</b>
<b>Net change in cash &amp; cash equivalent during the period</b>	<b>10.9</b>	<b>37.7</b>	<b>29%</b>
Net cash and cash equivalent at beginning of the period	(546.7)	(593.1)	92%
<b>Net cash and cash equivalent at the end of the period</b>	<b>(535.9)</b>	<b>(555.4)</b>	<b>96%</b>