



Third Quarter 2018 Results

Drop in domestic market and high inflation drives LE 50.9m net loss

Alexandria, 13th November 2018 –Lecico Egypt announces its consolidated results for the third quarter of 2018. Revenue rose 9% to LE 691.2 million. Operating profit (EBIT) decreased 85% to LE 5.3 million (margin down 4.9 percentage points to 0.8%). Lecico reported a net loss of LE 50.9 million compared to a net loss of LE 5.2 million in the same period last year.

For the first nine months, revenue rose 16% to LE 2,049.2 million. Operating profit (EBIT) rose 25% to LE 170 million (margin rose 0.6 percentage points to 8.3%) including exceptional income of LE 76.5 million. Lecico reported a net loss of LE 21.5 million compared to a net profit of LE 27.2 million in the same period last year.

Lecico Egypt Chairman, Gilbert Gargour, commented “The third quarter results have been disappointing though predictable under the continuing austerity the economy is facing under. Continuing high interest rates, a spike in already high inflation and rumors of further currency adjustments have caused our local market to weaken significantly. In a cyclical business with heavy fixed costs, this loss of volume is very costly.

“The positive news is that exports continue to grow and reached record levels, but the continued inflation in local costs is also reducing the profitability of our export business.

“Lecico has a strong global competitive advantage, our financial performance has been under pressure because of a confluence of external shocks over the past years. I remain convinced that there are significant profits and cash flows to unlock from Lecico in a more stable, balanced operating environment and with the improvements we have made and continue to make to our business model and operations in this trying period.

“Lecico also has a strong competitive advantage in the local market due to the diversity of its sources of revenue. This will win through in the end, and we need to be patient and consistent.”

Taher Gargour, Lecico Egypt CEO, added, “The main negative factor impacting our numbers in the quarter was a sharp slowdown in sales in Egypt. Domestic sales fell 14%

quarter-on-quarter despite a price increase of around 13% as sanitary ware sales volumes in Egypt fell 16% quarter-on-quarter and tile volumes fell 26%. This sharp drop in our sales reflected an industry-wide slowdown in retail sales in the quarter.

“In the light of lower sales, we cut production quarter-on-quarter with corresponding diseconomies of scale compounding the inflationary spike in the quarter. Headline CPI inflation, which had averaged 0.6% per month in the first five months of the year rose to average 2.6% a month from June through September. The Company estimates these increases translate into a 7% increase on our cost of goods sold.

“More positively, our working capital is going in the right direction. Overall working capital was reduced. Working capital days also improved quarter-on-quarter. Unfortunately, the drop in operating profits meant negative cash flow despite this.

“The fourth quarter will remain challenging on core operations with improvement in Egypt likely tempered by a seasonal slowdown in Europe.

“Looking forward, we are to some extent forced to weather the cyclical negatives of Egypt’s economic reforms, which we hope will bring a period of strong recovery. We believe that Egyptian rates will come down and that the Pound will adjust to keep its competitiveness, but we cannot know when this will happen. In the meantime, we will try to rebuild margins regardless of improvement in the external operating environment. We will continue to build sales volumes and this will allow us to increase production and unlock economies of scale over time. We will push up prices both in export and local markets as aggressively as we can in our competitive environment. We will continue to find cost savings in our daily operations. We will work towards unlocking working capital and reducing our asset footprint. We will adjust debt mix to minimize interest while remaining conscious of exchange rate risk. Through these efforts, we will work towards the best possible result despite our challenges.”

The Full Statements for the period with analysis are available on Lecico’s Web site.

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, 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 other European brands.

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