



ميزان القابضة ش.م.ك.ع.  
MEZZAN HOLDING K.S.C.P.

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**Boursa Kuwait Company**

Mubarak Al Kabeer St.  
AlSharq, Kuwait  
P.O. Box 22235 Safat, 13083 Kuwait

**Subject: Minutes of the Analyst / Investor Conference Call for Q1-2022**

Reference to the subject line and in compliance with “Continued Obligation of the Premier Market Companies” as per Resolution No. (1) for the year 2018, Article (8-4-2). Mezzan Holding Company KSCP is pleased to announce that it held the Analyst / Investor Conference Call for the Results of the **first quarter of the year 2022** which was held through Live Webcast session on Tuesday, 17<sup>th</sup> May 2022 at 02:00 pm Kuwait Time.

Enclosed are the minutes of the Conference of the Investors earning call.

**Mezzan Holding Company KSCP**

Group Legal Manager

Walid Khalil



شركة ميزان القابضة  
MEZZAN HOLDING CO.

# Transcript of Mezzan Holding Earnings Call

**For Q1 2022**

Date Held

**17 May 2022**

**Transcript of Earnings Call/Webcast for Q1 2022**  
Mezzan Holding Company KSCP.

**Date:** May 17, 2022

**Time:** 14.00 Kuwait Time

**Speakers from Mezzan Holding Co. Executive Management:**

Mr. Garrett Walsh - Group CEO

Mr. Nabil Ben Ayed - Group CFO

**Moderator:**

Fawaz Alsirri – Bensirri Public Relations

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**Fawaz Alsirri:**

Hello and Good afternoon ladies and gentlemen. This call is hosted by Mezzan Holding and is held to discuss the company's 2022 first quarter earnings, which were announced yesterday morning.

Today is, May 17, 2022 and this call is held live from Kuwait and Qatar. A recording of this call will also be available on the same link within two hours.

My name is Fawaz Alsirri. I am the moderator on the call today, and allow me to introduce our speakers for the call. With us:

- Mr. Garry Walsh, the company's CEO, who is joining us today from Mezzan offices in Qatar
- Mr. Nabil Ben Ayed, the company's Group CFO, joining us from Mezzan offices in Kuwait.

Ladies and gentlemen, I will be handing over the mic to Garry in a few seconds to start the call right after I take you through our usual call format.

As you know, first, the CEO and the CFO will each deliver their statement for the next 10 minutes or so, then we will open the floor to the Q&A.

Now, to participate in the Q&A session, just type in your question on your screen at any time during the presentation, and we will get to it during the session. You can do that starting from now.

Also, some of the statements that might be made today may be forward looking. Such statements are based on the company's current expectations, predictions and estimates. There are no guarantees of future performance, achievements or results.

We will be starting the call now.

Mr. Walsh, the mic is yours. Garry you might have us on mute.

**Garry Walsh:**

Apologies, Fawaz. Sorry and Thank you. Good morning everyone.

We will take you through a short presentation reviewing both the tailwinds we enjoyed and headwinds we faced during Q1 2022.

I will then discuss financial highlights, after which I will hand over to Nabil, who will take you through the details of the financial performance for Q1 2022.

It does go without saying, that in the current global context, this is difficult time for everyone and the uncertainty we experienced in Q1 is likely to continue.

Lastly as Fawaz said, we will be happy to receive your questions and answer as much as possible today. If we are unable to cover all your questions, please feel free to send your questions to our Investor Relations team at [ir@mezzan.com](mailto:ir@mezzan.com) and we will get back to you very quickly.

#### **From a tailwinds perspective:**

- Price increase implemented in KSA: We stepped up pricing in a responsible manner in KSA and we will continue to observe and analyze the situation, as further pricing and mitigating actions over the course of the year is necessary.
- We are continuing to progress very strongly in the KSA and UAE markets, our revenues sharply rose by 36% and 21.7% respectively, and:
- I am pleased to report that our KITCO salty snacks launch in Jordan is very much on track.

#### **From headwinds perspective:**

- Cost inflation continues to rise sharply: The war in Ukraine has caused severe challenges and setbacks in global and regional economic prospects, which were already strained by Covid-related supply chain issues.
- Kuwait prices remained unchanged due to regulatory restraint: Price adjustments is a key theme for the first half of the year, and we are in line with price adjustments in all markets, except in Kuwait, our biggest market, where our pricing remained unchanged due to the extension of Covid-related regulatory pricing caps. We hope these caps to be eased soon, which will positively impact our profitability in the future.
- Credit collection and payment issues in Qatar, which forced us to book an unexpected credit losses in Q1 2022. We anticipate this situation to reverse from Q3 onwards, given an arrangements that we have put in place.
- The maintenance in our KSPICO factory: We went through a series of upgrades which have entailed rolling shutdowns, in order to meet in order to meet the required standards regional GFD authorities, which we expect to complete in Q2 2022. It is anticipated that in the full year results we will closely mirror 2021.

#### **In terms of our financial highlights and headline numbers for Q1 2022:**

- Our revenue reached KWD 72.5 million down slightly from an already solid Q1 2021 revenue of KWD 73.4 million, for a slight decline of 1.2%.
- Gross Profit reached KWD 14.6 million compared to KWD 16.2 million in the comparable period, for a decrease of 10.1%. Gross Profit Margin decreased by 200 basis points to reach 20.1%.
- While EBITDA, reached KWD 6.2 million, down from KWD 8.7 million in the comparable period, for decrease of 28.3%.
- The group achieved net profit of KWD 3.1 compared to KWD 5.6 million in Q1 2021, a decrease of 44.9%.
- Finally, Mezzan's net profit to shareholders of the parent company reached KWD 2.9 million for Q1 2022, compared to KWD 5 million in Q1 2021, for a decrease of 40.7%.

At this point I will hand over to Nabil to take you through the financials in more details discussing the performance of the first quarter ended 31 March 2022.

**Nabil Ben Ayed:**

Thank you Garry and Fawaz. And thank you everyone for attending the call. I will walk you through the financial results as of 31 March 2022:

As for revenue contribution by business line at Mezzan Group:

- In Q1 2022, the food group accounted for 63.2% of total group revenue, for an increase of 2.7% compared to Q1 2021; while the revenue of non-food group accounted for the balance of 36.8% of total group revenue, for a decline of 7.3%.
- In Q1 2022, Revenue of Food Manufacturing and Distribution increased by 7.2% contributing to 49.9% of Group revenue.
- Revenue of Food Catering decreased by 7.6% contributing to 9.4% of Group revenue.
- Revenue of Food Services decreased by 18.3% contributing to 4% of Group revenue.
- Revenue of FMCG and Healthcare decreased by 8% contributing to 34.8% of Group revenue.
- Revenue of Industrial segment increased by 5.6% contributing to 2% of Group revenue.

**We now move on to discuss operations per geography for Q1 2022:**

- Operations in Kuwait contributed to 75.2% of Mezzan's revenue, down by 4.8%.
- Revenue from our operations in the United Arab Emirates contributed to 12.3% of Mezzan's revenue, increased by 21.7% compared to Q1 2021 due to the improvement in our distribution business and launch of new products.
- Revenue in Qatar increased by 4.1%, and contributes to 6.3% of Mezzan's revenue.
- Saudi Arabia accounted for 2.7% of Mezzan's revenue for an increase of 36% on the back of introduction of new brands in the Saudi market.
- In Jordan, sales increased by 11% as we continue to improve our distribution coverage, product portfolio and KITCO successful launch. Jordan revenue contributed to 2.7% of Mezzan's revenue.
- While our operations in Iraq accounted for only 0.7% of Mezzan's revenue with an increase of 2.4%.

**Moving to the Profit and Loss:**

In the 3 months period, ended 31 March 2022, Mezzan Group recorded:

- Revenue of KWD 72.5 million, for a decrease of 1.2% compared Q1 2021.
- Gross profit reached KWD 14.6 million, compared to KWD 16.2 million in Q1 2021, and Gross Profit Margin reached 20.1%, compared to 22.1% in Q1 2021.
- EBITDA reached KWD 6.2 million, down from KWD 8.7 million in Q1 2021, for a decrease of 28.3%.
- SG&A and other expenses increased to KWD 10.7 million, compared to KWD 9.8 million in Q1 2021, for an increase of 9.4%.
- In summary, Net profit had reached KWD 3.1 million in Q1 2022, lower by 44.9% from the same period in 2021.
- Net profit attributable to equity holders of the parent company reached KWD 2.9 million, compared to KWD 5 million in Q1 2021 for a decrease of 40.7%.

**From a cash flow perspective:**

- Mezzan recorded operating cash flow before working capital changes of KWD 7.7 million in Q1 2022, compared to KWD 9.2 million in Q1 2021. Lower by KWD 1.5 million.
- We have recorded an outflow of working capital cash flow of KWD 2 million compared to an investment in working capital of KWD 2.6 million last year.
- Mezzan's Cash flows from Operating Activities reached KWD 5.7 million in Q1 2022, compared to KWD 6.6 million in Q1 2021.
- Cash flows used in investing activities reached KWD 8 million compared to 1.5 in Q1 2021.
- As such, we recorded a negative Cash Flows before Financing Activities amounted to KWD 2.3 million in Q1 2022 compared to a positive Cash Flow before Financing Activities of KWD 5.1 million in Q1 2021.
- Our Net Debt stood at KWD 58.2 million as of 31<sup>st</sup> March 2022, up by KWD 5.2 million from December 2021, mainly due to KWD 1.2 million increase in bank overdraft and KWD 2.3 million decrease in cash balances

**From a balance sheet perspective:**

As of 31 March 2022, Mezzan's balance sheet size reached KWD 277.5 million, equity to shareholders of parent company of KWD 112.8 million and Net Debt of KWD 58.2 million.

Our Net Debt to EBITDA has reached 3.01x and is down by 0.27x compared to 31 December 2021.

And now, I open the floor to your questions, and thank you.

**Fawaz Alsirri:**

Thank you very much, gentlemen. Thank you, Garry. And thank you Nabil for taking us through the quarter. We do have a series of questions coming in. Allow me a minute just to see if I can group similar questions together in the interest of your time. Garry, I have a couple of questions ready to go to you. We have two questions. One is from Nishit Lakhota and the other one is from Ammara Khan asking about the same topic. And I think we have another one coming in also on the same topic. And that is in regards to the price caps in Kuwait and the prospect of their lifting and going forward. I'll leave that with you, and then once we answer that question, I'll come back to the other questions.

**Garry Walsh:**

Sure. I think as most attendees on the call would be aware when COVID started a number of trading entities engaged in price gouging. As a protection against that the government enacted very strict protocols around price increases to prevent any price changes during the period of COVID. We would obviously hope that as COVID is winding down, and I'm pleased to say the situation in Kuwait is almost back to normal, and that as it's winding down, the government will quickly remove that restriction, which will allow price increases to flow smoothly through the market as they've done in the past, always based on proper documentation, support, logic, etcetera. I would say that from our discussions with the government, they recognize the importance of this topic. They recognize that in the scenario we're in at the minute where some products are going through hyperinflation, that it is simply not tenable for traders to continue to import those products.

We have already seen a number of our agency partners stopped shipping certain lines to Kuwait because they cannot make money off those products anymore. For example, for one of our key lines, we can demonstrate very clearly that the prices in the UAE and in Saudi are currently 30% higher than those enjoyed by the Kuwaiti consumers. So obviously our principals look at that and decide to ship the product elsewhere. Now from a... We have two businesses, as everybody's aware. We have our own manufacturing and distribution business where we have to look sensibly ourselves and say, what can we do in the short term, in terms of reducing supply, reducing promotions, reducing investment in the market to cover the impact on our business.

And then we also have partner businesses. The vast majority of our partner businesses, our contracts with the partners contain a clause, which basically says that we will only accept price where we can recover the price. So at the moment, those products are in abeyance. Those issues are in abeyance. However on items like barley, wheat, meat, packaging, plastic resin, re we are seeing significant and enduring cost increases. Outside Kuwait, we have been successful in recovering those in Saudi. We are about 50% through the process in UAE and very comfortable that that process is progressing well. We're in final negotiations with retailers, having got government approval where appropriate. In Qatar, we're expecting positive news momentarily. And in Kuwait, as I say, we are hopeful that the government will recognize that COVID has ended and that, as such, they can safely remove the COVID crash barriers they had put in place. I didn't see the specific questions if I was, but I hope that that answered them.

**Fawaz Alsirri:**

Thank you, Garry. Our next question is for Nabil. Nabil, we have a question from Nishit Lakhotia. Nishit is asking, there is a 1.1 million KD provision charge in the first quarter on receivables. Question is, is it mainly due to collection issues in Qatar? And also what do you expect in the coming quarters?

**Nabil Ben Ayed:**

Thank you for the question. Yes. I confirm that the ECL that we had in Q1 related to Qatar, and basically we have a plan to recover that hopefully in end of 2022. So we are working on that. We're working on mitigating the risk and collecting back the ECL, hopefully by the end of 2022.

**Fawaz Alsirri:**

We have another question for Nabil. The question is from Ms. Ammara Khan. Ammara is asking what's the status of high receivables from Kuwaiti government as a client? And what is the plan for factoring those receivables? Nabil?

**Nabil Ben Ayed:**

Yeah, the Kuwaiti government has a plan, in fact, to finance that the ministries close down their debts with the market. So that plan is still in progress, and hopefully we will benefit out of it. For the factoring we cover, we say, the part of the sales that we have it on a monthly basis, and it is ongoing process, of course. It helps us, of course, to mitigate the risk of the market and also to inflow the cash into our balance, let's say, in a monthly basis. Thank you.

**Fawaz Alsirri:**

Thank you. I see the questions are coming in online. We have, I think, four more questions coming in. Just give me a second. We have two questions from Ms. Ammara Khan. Garry,

those questions are coming to you. Her first question is on FIFA. The question is since ticket sales for FIFA were to conclude in May, what is the expected outlook compared to the results after the Arab Cup? That's her first question about FIFA expected results. Her second question is what are the plans for coping with supply chain issues for commodities and commodity transportation, and also the impact of agency business? So FIFA and supply chain and commodities.

**Garry Walsh:**

Okay, thanks Fawaz. I notice you always give me the easy ones, so I appreciate that. Ammara, the ticket sales for FIFA, I don't believe they've officially declared what the numbers are at this point. So therefore, I will be directional rather than specific. So as you will be aware, I think there's about 3.1 million tickets available for the event in Qatar. At this point, the high likelihood is that upwards of 85, 90% of those tickets will be sold or have already been sold, and I would expect an announcement on that momentarily. For us, obviously there's two issues, so... Sorry, I should preface, for those 3.1 million tickets they've had 21 million applications.

Now, for us as a supplier, we actually need to know in detail, which event, which stadium, which attendance, etcetera, so that we can position ourselves properly. However, from memory, I think that would be an event probably in the order of 10 times, if not more, the size of the Arab Games. There will also be different products available during the World Cup than there were during the Arab Cup, which will also have a demonstrable effect on sales. So I would hope that FIFA will issue the official number shortly and the official product range shortly, which will allow us to put together a proper P&L, which I'm more than happy to ask Omar to share in a directional sense with everybody once we have it available, but suffice to say that versus the Arab Games, we expect it to be substantially larger, and as we operate off a fixed cost base to be substantially more successful for us.

In terms of the questions you've asked on supply chain and agency, I think I've answered the agency piece already. So far we are having some items withdrawn by agencies, but realistically I think we've accepted price increases from one very small principal. So that's not really a topic of concern. From the supply chain point of view there is definitely a challenge there. I was talking to a supplier in the States late last night, who is more than willing to provide the products, more than willing to manufacture them at the price that we've had agreed for a long period of time. However, simply can't obtain the shipping. And that's been a pattern that we are going through across the business. Where appropriate, we have increased the level of stocks that we hold of some key commodities, but we're also very fortunate in that many of our suppliers are of longstanding, and therefore they're working with us to prioritize our shipment in terms of getting the product into the market.

So far, I would say we've suffered some minor disturbance, particularly on rice coming into Ramadan, but bizarrely over the long term that will probably work out better for us as the product that was delivered midway through the Ramadan is at a substantially lower price than is currently available in the market. So I have no doubt that that will actually positively benefit our P&L over the long term. So, as I say, it's a watching brief. It varies by commodity day by day, but our procurement team are all over it and we're trying to react as best we can, as I believe as everybody else.



**Fawaz Alsirri:**

Thank you very much, Garry. We have a question from Talal Samhouri to you, Garry. The question is, what are the products being marketed in Saudi Arabia? And where was the expansion from?

**Garry Walsh:**

Sure. So the expansion in Saudi was really pleasing. Actually on our own brands, which are obviously dear to our heart, we are continuing to make very good double digit progress, despite a very poor February off the back of the price increases. So we had a strong January, a poor February as we push through price and then a very strong March. We've also been supported by some new products that we've introduced. Heineken ZERO being one of them, ZERO point ZERO being one of them. Some products from a company called ABC in Kuwait, which are not particularly consumer focused but are performing very well for us, and a range of noodles from a company called Mie Sedaap in Indonesia, which are again performing very well for us. So story in Saudi is a strong performance from our core KITCO and KHAZAN ranges, supported by strong introductions from new partners. And from a distribution point of view, we have increased our capacity in Jeddah. However, in the rest of the market all the volume is effectively incremental, with little or no extra cost.

**Fawaz Alsirri:**

Thank you very much. We have no questions coming in at the moment, and we've answered the questions that we did get. Thank you, Garry. And thank you, Nabil, for today's call. We will now be concluding the call, and we'll see everyone at the next quarter. A quick reminder, a live recording of this call will be available on the same link you used in about two hours. Thank you. Thank you again, everyone. And have a good day.

-ENDS-