

# RAK CERAMICS

THE 15TH ANNUAL ONE ON ONE EFG HERMES CONFERENCE  
DUBAI

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MARCH 2019

# Attendees



## **Abdallah Massaad**

### Group Chief Executive Officer

Abdallah Massaad is Group CEO of RAK Ceramics, and has over 22 years experience in ceramics manufacturing, sales management, product marketing and business leadership. Prior to RAK Ceramics, Mr. Massaad was General Manager of ICC SARL, Lebanon.

Mr. Massaad holds post graduate qualifications in Management (DEA in Business Administration) and an undergraduate degree (Maitrise in Business Administration - Marketing) from Université Saint-Esprit de Kaslik, Lebanon.



## **PK Chand**

### Group Chief Financial Officer

Pramod Kumar Chand is the Group Chief Financial Officer of RAK Ceramics. Mr. Chand has wide experience in dealing with corporate finance matters including treasury and working capital financing, project finance, venture capital, debt & equity capital market instruments, fund raising processes and general management.

Mr. Chand is a Member of the Institute of Chartered Accountants of India (CA) and has been a rank holder and winner of A F Ferguson award.



## **Wassim Moukahhal**

### Executive Board Member

Wassim Moukahhal is a member of the Board of Directors and the Executive Committee of RAK Ceramics. Mr. Moukahhal is currently serving as Managing Director of Samena Capital Investments Limited in Dubai and has more than 12 years of experience in private equity investments within the MENA region.

Mr. Moukahhal holds an MBA from the Wharton School at the University of Pennsylvania and a Bachelor's degree in Economics and Finance from McGill University.

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# Company Overview

► Overview

Strategy

Results

# RAK Ceramics at a glance

+25 YEARS  
Ceramic expertise

One of the largest ceramic brands in the world.



15,000  
Global workforce



+150  
Countries exported

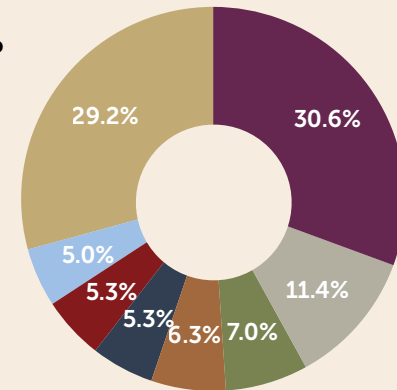


+1 BILLION SQM  
Tiles supplied worldwide

US\$486 MN  
Market Cap.

US\$755 MN  
Group turnover

## OWNERSHIP



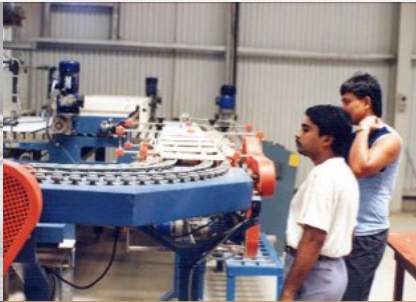
- Samena Capital
- Al Rajhi Holdings, KSA
- General Pension Social Authority, UAE
- RAK Government
- Institutional Investments
- RAK Royal Family Members
- H.H. Sheikh Saud Bin Saqr Al Qasimi
- Retail Investors

# Brief history



1989

Founded by H.H. Sheikh  
Saud Bin Saqr Al Qasimi



1991

First tile plant began in  
the UAE



1993

First sanitaryware plant  
began in the UAE



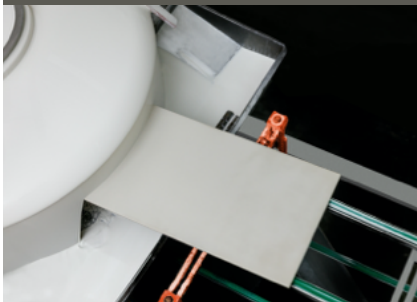
2000

Opening of First overseas  
tile plant in Bangladesh



2004

RAK Porcelain was  
established



2006

India operations began



2010

Became the world's  
largest ceramics  
manufacturer



2014

Samena Capital acquires  
31% stake in RAK  
Ceramics



2016

Launch of new brand  
identity



2018

Saudi Arabia  
expansion announced

# Business lines

## TILES

We offer **6,000+ models**, **one of the largest collections** of ceramic wall and floor tiles, gres porcelain and super-sized slabs in the industry.



## SANITARYWARE

Complete solutions provider offering products designed to suit **all budgets** and **tastes** with **accessories** and **bathroom furniture**.



## TABLEWARE

Products supplied to over **20,000** hotels across more than **140 countries** with clients including JW Marriott, Hilton, Hyatt, and Sheraton amongst others.



## FAUCETS

Eco-friendly faucets and bathroom fittings with a strong focus on water-saving technology, offering up to **60% saving** on water consumption.



# Manufacturing footprint

## 2019 GLOBAL PRODUCTION

- **22 plants worldwide**
- **16 Tiles Plants** in UAE (10), India (3), Bangladesh (1), Iran (1) and China (1).
- **4 Sanitaryware Plants** in UAE (2), India (1), and Bangladesh (1)
- **Tableware** - UAE (1)

123<sub>MN</sub>

Square metres of tiles

5<sub>MN</sub>

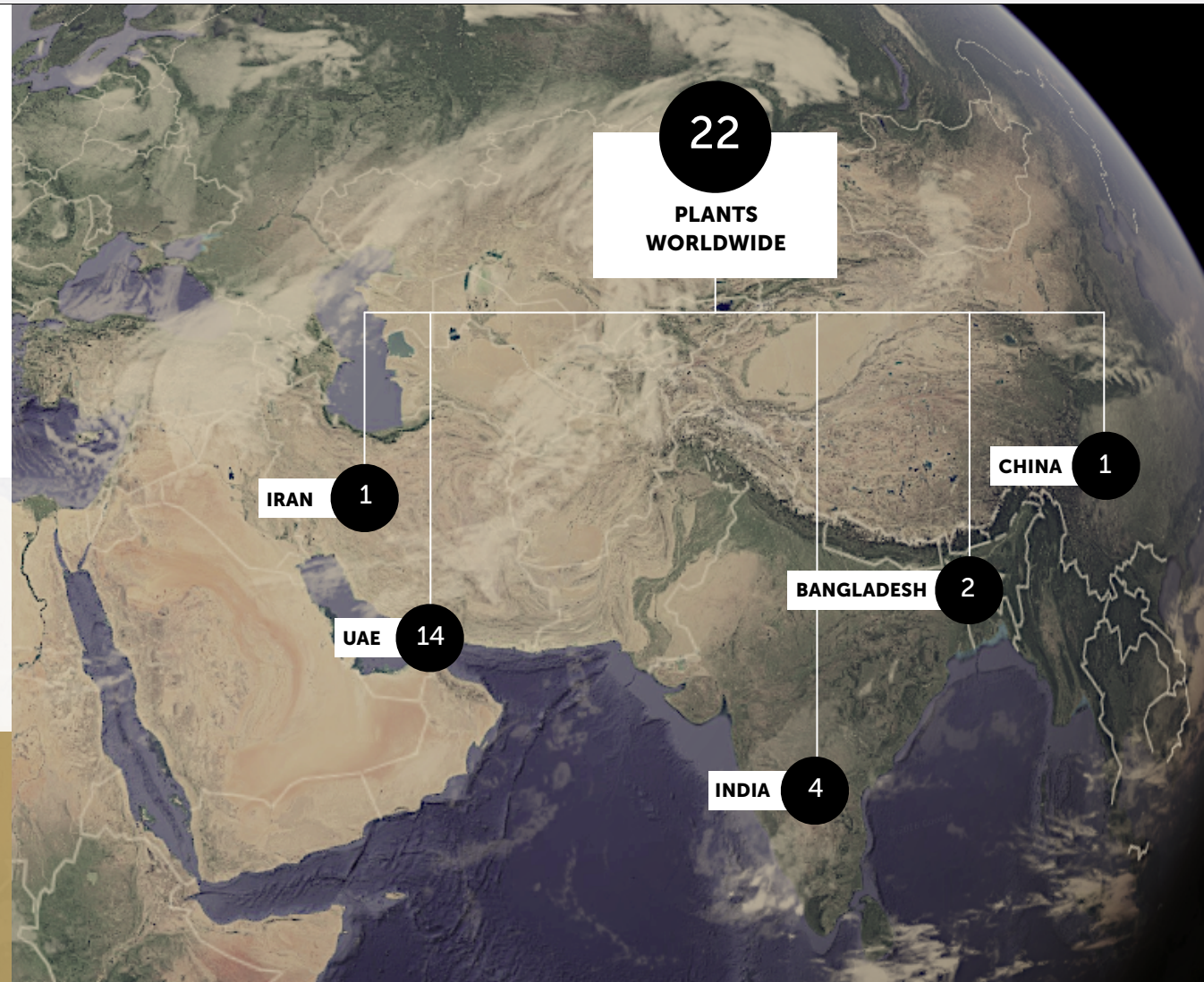
Pieces of sanitaryware

24<sub>MN</sub>

Pieces of tableware

1<sub>MN</sub>

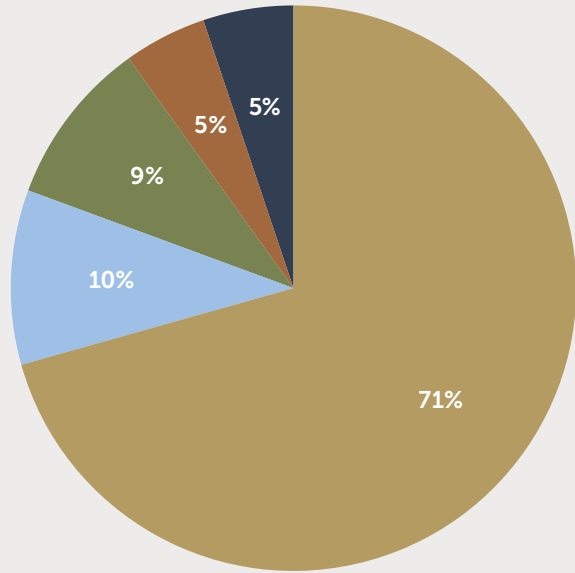
Faucets and taps





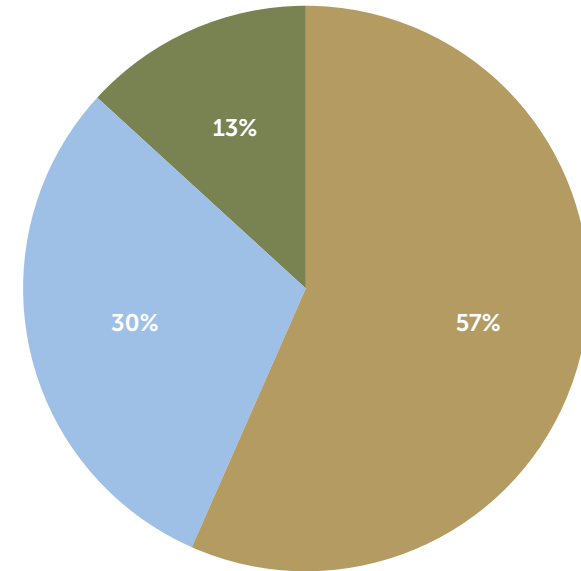
# Production capacity by location

## TILES



- UAE (82mn sqm)
- Bangladesh (11.6mn sqm)
- India (18mn sqm)
- Iran (6mn sqm)
- China (5.5m sqm)

## SANITARYWARE



- UAE (3.0mn pieces)
- Bangladesh (1.6mn pieces)
- India (0.7mn pieces)

## TABLEWARE

100% of Tableware produced in UAE (24mn pieces)

## FAUCETS

100% of Faucets produced in UAE (1mn pieces)

# Market position in focus markets - Tiles

Our market share in United Arab Emirates has increased from 22% in 2017 to 25% in 2018 driven by increase in project sales. The three largest ceramics producers in the region account for >80% of the total production capacity.

UAE market grew by +3.6% in 2017 compared to 2016

Bangladesh markets continue to grow with tile consumption increasing +7.0% in 2017 compared to 2016.

## UNITED ARAB EMIRATES

#1

Market Size*	86 (MN SQM)
Market Share	25%

## BANGLADESH

#1

Market Size*	76 (MN SQM)
Market Share	10%

## SAUDI ARABIA

#2

Market Size*	203 (MN SQM)
Market Share	7%

## INDIA

#5

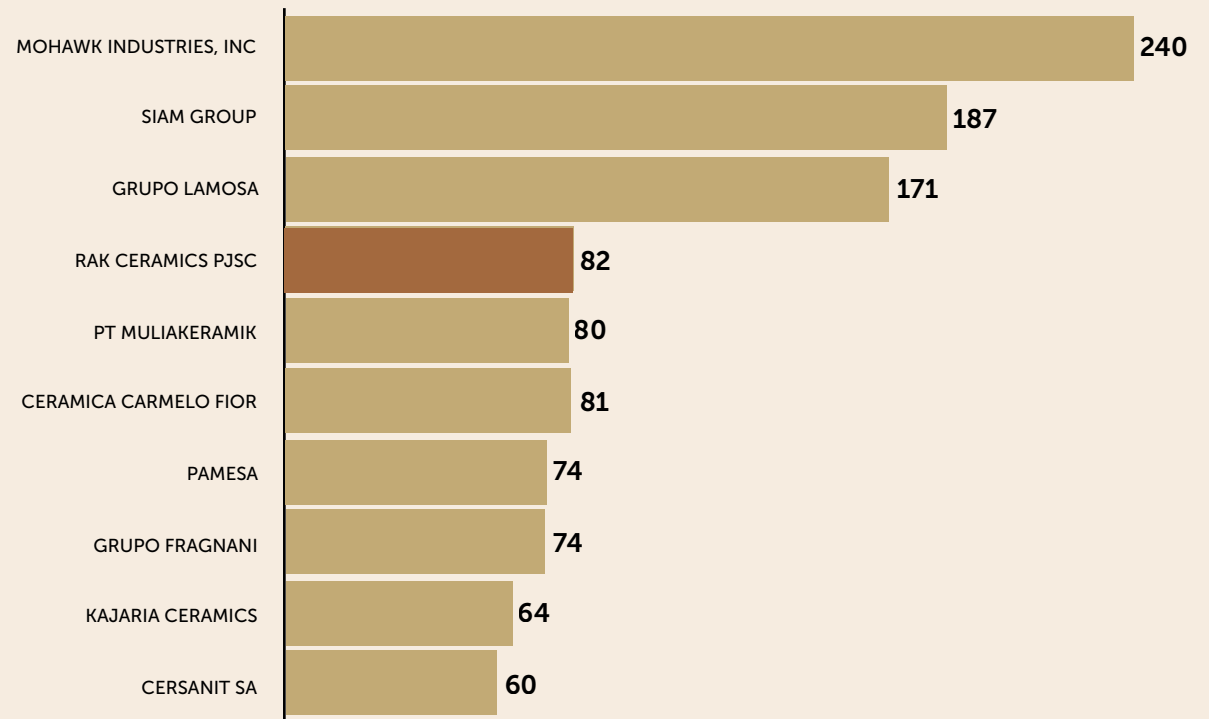
Market Size*	760 (MN SQM)
Market Share	2%

Source: 2017 Ceramic World Review, \*2018 data unavailable.

# Global market position - Tiles

In 2018 RAK Ceramics retained its position as the 4th largest tile producer globally.

**PRODUCTION (MILLION SQM)**



Source: \*Ceramic World Review 2017

# Vision and key strengths

The world's leading ceramics lifestyle solutions provider.



## EXPERIENCE

We have helped to create some of the world's most iconic buildings.



## WIDE RANGE

We are known for our wide product range and our ability to produce bespoke ranges for small and large scale projects.



## INNOVATION

Innovation is at the heart of our philosophy and we have continuously led the way in terms of product development.



## QUALITY

We are able to consistently manufacture high quality products with an impeccable finish.

# Business Strategy Update



Overview

► Strategy

Results

# Value creation plan achievements

	ISSUES AND OPPORTUNITIES IDENTIFIED	VALUE CREATION INITIATIVES AND IMPACT
<b>TRANSFORM "RAK INC." BACK TO "RAK CERAMICS"</b>	Exit of Non -Core operations	<ul style="list-style-type: none"> <li>✓ Divestment proceeds of &gt;USD 130m from 12 non-core exits</li> <li>✓ Proceeds used to fund capex, de-lever the balance sheet and pay dividends</li> </ul>
	Loss-making Sudan & China operations	<ul style="list-style-type: none"> <li>✓ RAK Sudan exit generated proceeds of AED 220m</li> <li>✓ Shut down of RAK China removed losses from consolidated P&amp;L</li> </ul>
<b>REFOCUS AND GROW THE CORE BUSINESS</b>	Production capacity	<ul style="list-style-type: none"> <li>✓ Increased Bangladesh tiles capacity by 45% to 11.6mn sqm</li> <li>✓ Increased SW capacity by 20% in the UAE and 25% in Bangladesh</li> </ul>
	"Push" sales & distribution model	<ul style="list-style-type: none"> <li>✓ Switched to a "Pull" sales &amp; distribution model</li> <li>✓ Created a B2B sales team targeting real estate and hospitality sectors</li> <li>✓ Flaashin wins: Emaar and Al Habtoor (UAE). H&amp;M and Starbucks (Int'l)</li> </ul>
	Manufacturing brand	<ul style="list-style-type: none"> <li>✓ Switched to a life style brand</li> <li>✓ New brand launched in Q3 2016</li> </ul>
	Inefficient distribution network in key markets	<ul style="list-style-type: none"> <li>✓ Acquired UK, Germany, Italy and Saudi Arabia distribution JV's</li> <li>✓ Gained control over access into new markets, channels and customers</li> </ul>
	Untapped value in India operations	<ul style="list-style-type: none"> <li>✓ Initiated a turnaround plan</li> <li>✓ Production capacity increased by 38% through Morbi acquisitions</li> <li>✓ Dealer network rationalized &amp; new brand rolled-out</li> </ul>
	Tableware potential; candidate for unlocking value	<ul style="list-style-type: none"> <li>✓ RAK Porcelain has grown from a start-up into a leading player in the HoReCa industry. Strategic discuss underway to further scale the business and unlock value</li> </ul>
<b>INSTITUTE A WORLD-CLASS CORPORATE GOVERNANCE STRUCTURE</b>	Improve corporate governance structures across the group	<ul style="list-style-type: none"> <li>✓ Overhauled corporate structure; streamlined ownership of subsidiaries</li> <li>✓ Added Independent Directors to the Board</li> </ul>
	Gaps in HR and Investor Relations	<ul style="list-style-type: none"> <li>✓ Recruited top-talent into leadership positions</li> </ul>

# Value creation plan achievements (Cont'd)

## NON-CORE ASSETS DIVESTED; PROCEEDS REINVESTED IN CORE BUSINESS

12

# of exits since Q2 14

>US\$130MN

In divestment proceeds

>US\$110MN

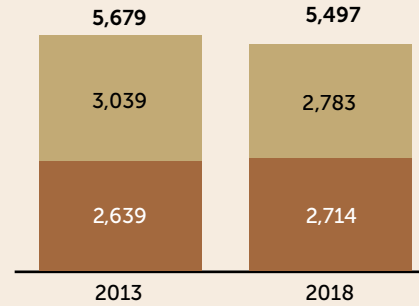
reinvested in core production capacity

>US\$275MN

In cash dividends (2014-2018) and three 5% stock dividends

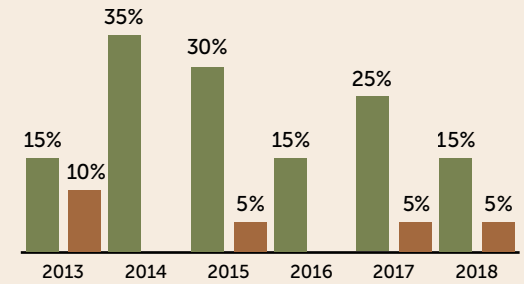
## BALANCE SHEET REDUCED AND DIVIDENDS DISTRIBUTED

### TOTAL ASSETS (AED MN)



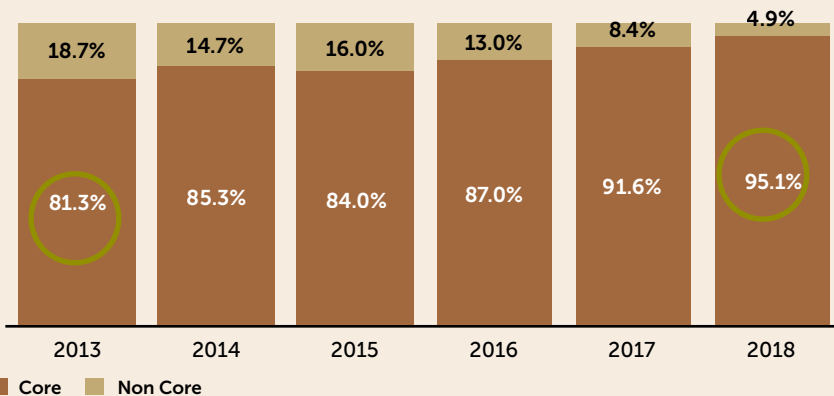
■ Shareholder Equity ■ Total Liabilities

### DIVIDEND PAID



■ Cash ■ Stock

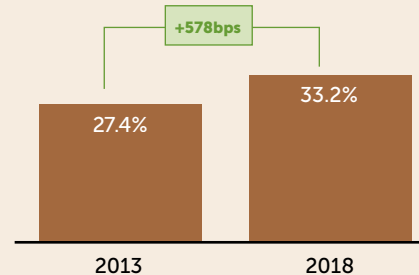
## CORE BUSINESS NOW CONTRIBUTES THE MAJORITY OF THE TOPPLING



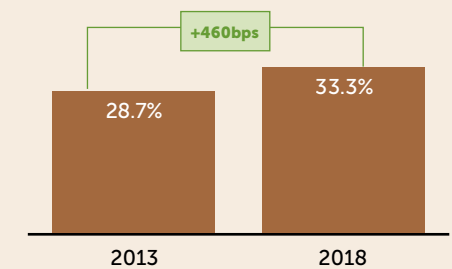
■ Core ■ Non Core

## PROFITABILITY ENHANCED TO RECORD LEVELS

### CONSOLIDATED GP MARGINS (%)



### CORE GP MARGINS (%)



# Strategic initiatives 2019-2021

UAE	<ul style="list-style-type: none"> <li>• Build a manufacturing facility in Saudi Arabia, adding c.10mn sqm of low-cost production capacity</li> </ul>
INDIA	<ul style="list-style-type: none"> <li>• Execute the turnaround strategy to scale revenues and enhance profitability, putting the company on-track to become a top-5 ceramics player</li> <li>• The turnaround positions the company as an export-hub catering to key markets in Europe and the Asia Pacific</li> <li>• Priorities in 2019 include:             <ul style="list-style-type: none"> <li>✓ Production expansion by ramping up commercial production at the recently acquired Morbi facilities</li> <li>✓ Distribution: win project orders of scale from developers</li> <li>✓ Production cost optimization</li> </ul> </li> </ul>
BANGLADESH	<ul style="list-style-type: none"> <li>• Maintain market leading position</li> </ul>
RAK PORCELAIN (TABLEWARE)	<ul style="list-style-type: none"> <li>• Achieve further scale through a strategic transaction, in order to unlock shareholder value</li> <li>• The business is at a stage where it can achieve further scale through acquiring or partnering with strategic players to (i) enter new markets, (ii) grow the product portfolio and/or (iii) add new distribution channels</li> </ul>
IRAN PLANT	<ul style="list-style-type: none"> <li>• Maintain production at required levels, until sanctions are lifted</li> </ul>
REAL ESTATE	<ul style="list-style-type: none"> <li>• Aim to monetize the real estate portfolio by partnering to develop the sea-front land (book value: c.AED 900mn, size: 270.000 sam) and Sell Acacia Hotel</li> </ul>



# GCC expansion strategy 2019-2021

The Board has approved the construction of a secondary, low-cost manufacturing facility in Saudi Arabia. This will enable the company to be more competitive in the commodity/fast-moving segments of regional and European markets

## SITUATION BACK GROUND

- RAK Ceramics is facing the below challenges which are slowing down growth in core profitability:
  - a high cost of production from input costs in Ras al Khaimah
  - transportation costs to end-markets, and
  - increasing competition in export markets
- To increase profitability levels, low-cost manufacturing bases need to be established to allow company to be more competitive in the commodity/fast moving segment of key markets such as Saudi Arabia, Europe and Africa.
- In February 2019, the Board of Directors approved the establishment of a Greenfield manufacturing facility in Saudi Arabia
  - Saudi Arabia was selected as it has highest growth potential, given the expected real estate and construction boom.
  - Producing in Saudi Arabia at a lower cost will help bridge the gap between the current net income run-rate and target earnings level
- The specific location for the facility was evaluated based on:
  - The quantity and cost of gas available
  - Proximity to key-end markets
  - Availability of local raw materials
- The facility will have an initial production capacity of 10mn square meters per annum

The state-of-the-art production facility will utilize the latest technology in ceramics manufacturing

~US\$100M

Investment

~2 YEARS

Estimated time line of commissioning

	RAS AL KHAIMAH	SAUDI ARABIA
Gas price/MMBtu	US\$ 10.91 Variable	US\$1.62 Fixed until 2039
Electricity price/ KWH	US\$0.13	US\$0.05
Water price/m3	US\$2.37	US\$2.13

# GCC expansion strategy 2019-2021 (Cont'd)

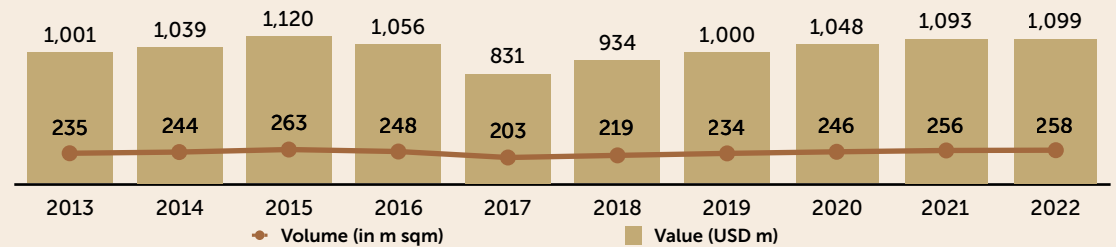
The Saudi Arabian construction sector is expected to witness a recovery driven by a large number of infrastructure projects, in line with the government's aim to diversify the oil-based economy

- The market is expected to witness moderate growth to register a CAGR of 5.75% from 2017 to 2021, as the construction sector in Saudi Arabia is expected witness a modest recovery starting in 2019.
- The central and the western regions currently contribute around 80% of the overall demand, which is likely to continue over the medium term with the majority of projects located in these regions.
- The central region currently has the largest share of projects under construction mainly due to major residential developments and Sudair Industrial City.
- The mega-projects (NEOM, Red Sea Project) announced as part of Vision 2030 are located mainly in the north-west of the country Saudi. The continuing renovation and expansion work in the Two Holy Cities of Makkah and Madinah mean that demand will continue to grow in the west.

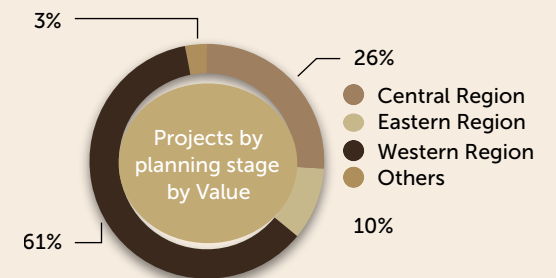
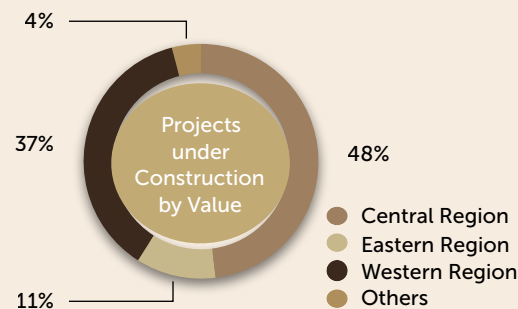
## TILES MARKET FORECAST IN SAUDI ARABIA

CERAMIC TILE MARKET VOLUME AND MARKET VALUE 2013-2022

2018-2022 VOLUME CAGR 5.75%



## VALUE OF SAUDI ARABIA PROJECTS IN CONSTRUCTION AND PLANNING STAGE, BY REGION



# Financial Performance



Overview

Strategy

▶ Results

# Financial performance trend

## FY 2018 RESULTS

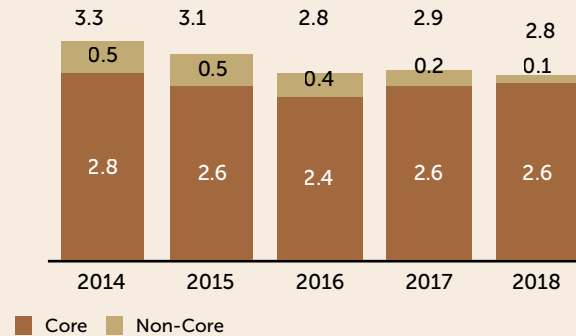
Core revenue increased by +1.0% in 2018 as a result of steady growth in tiles by +0.4% and strong growth in tableware by +11.0% YoY driven by the United states, Europe and Asian markets

Total revenue decreased by -2.8% YoY.

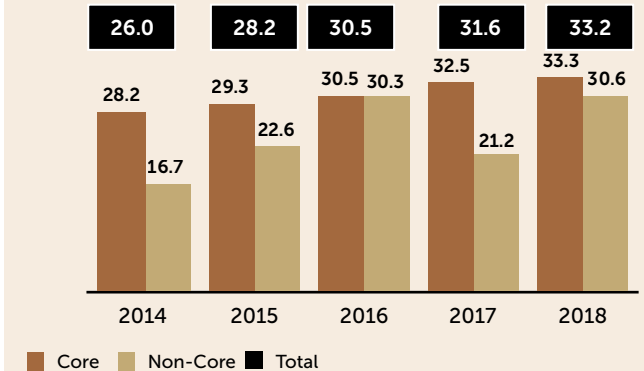
Total gross profit margin of 33.2%, +160bps compared to 2017, an all-time high.

Core gross margins increased +80bps in 2018 despite increase in energy and raw material prices.

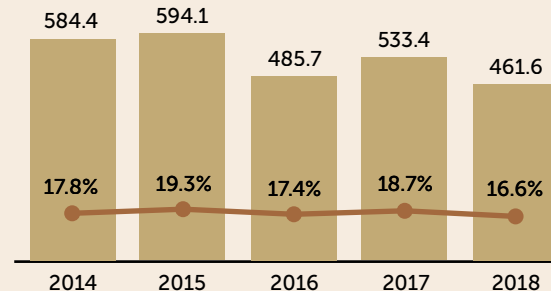
REVENUE (AED BN)



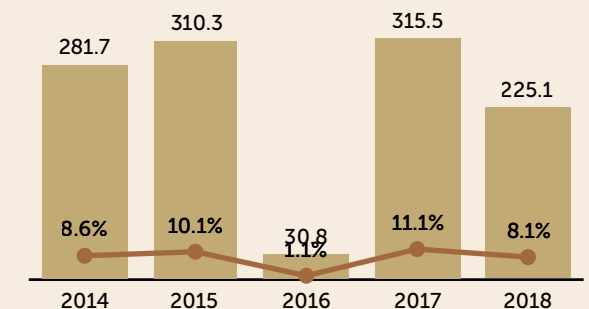
GROSS PROFIT (%)



EBITDA (AED MN) AND MARGIN (%)



NET PROFIT (AED MN) AND MARGIN (%)



# FY 2018 Highlights and challenges

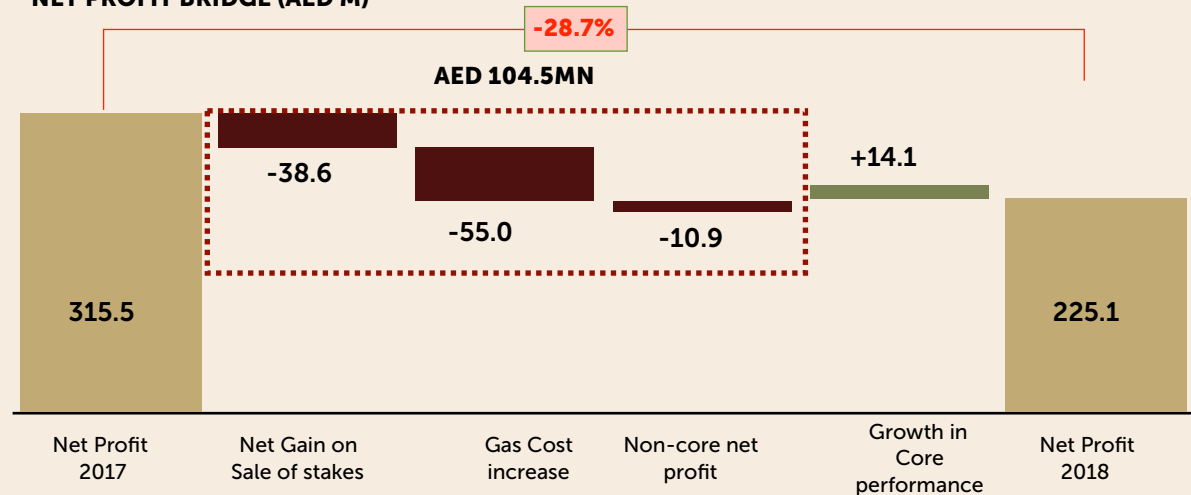
## 2018 HIGHLIGHTS

- Revenue growth in the UAE, India and Tableware business
- Stable performance in Bangladesh
- Continued cost efficiencies, increasing gross profit margins
- Increased A- Grade production across all tile plants
- Iran Turnaround
- Robust performance in Tableware and Kludi RAK

## 2018 CHALLENGES

- Europe profitability still struggling
- India turnaround; despite revenue growth in INR, gross profit margins were lower than target owing to unabsorbed fixed costs related to earlier plant shut-down
- Impact of Saudi Arabia integration (reduction in overheads) delayed
- China exit still in progress

### NET PROFIT BRIDGE (AED M)



2017 reported net profit of AED 315.5mn included extraordinary gains of 38.6mn, related to the disposal of RAK Warehouse and Electro RAK

In 2018 reported net profit of AED 225.1mn (-28.7% YoY), is driven by:

- An AED 55.0mn increase in the company's gas bill, with gas at an average price of \$10.86/ mmbtu in 2018 (+27% YoY)
- A reduction in non-core profit of AED 10.9mn, following the discontinuation of operations at Al Hamra Construction (non-core asset)
- Growth in core business profitability of AED 14.1mn; driven by operational efficiency improvements and higher gross profit in the UAE, Bangladesh and the Tableware business

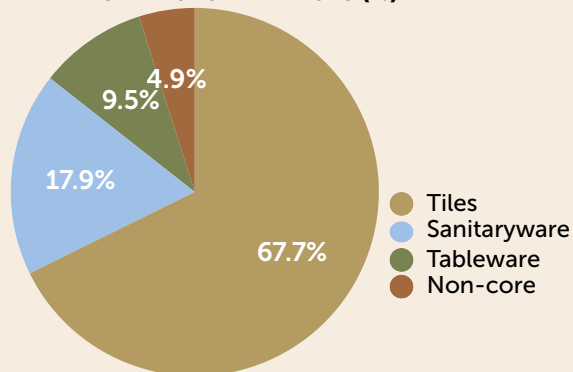
# FY 2018 Performance by segment

## FY 2018 RESULTS

Core revenue in 2018 increased by +1.0% due to strong performance in tiles and tableware segments.

Effective from 1st Jan 2018, revenue recognition is changed as per IFRS 15. Based on dispatches core revenue increased by +1.7% YoY.

### REVENUE BY SEGMENT 2018 (%)



### REVENUE BY SEGMENT (AED MN)

	2018	2017	
	Amount	Amount	Growth
<b>Tiles</b>	1,878.9	1,871.3	0.4%
<b>Sanitaryware</b>	497.5	505.9	-1.7%
<b>Tableware</b>	264	237.8	11.0%
<b>Total Core</b>	<b>2,640.4</b>	<b>2,615.0</b>	<b>1.0%</b>
<b>Non-Core</b>	135.8	239.9	-43.4%
<b>Total Revenue</b>	<b>2,776.2</b>	<b>2,854.9</b>	<b>-2.8%</b>

# FY 2018 Performance by region

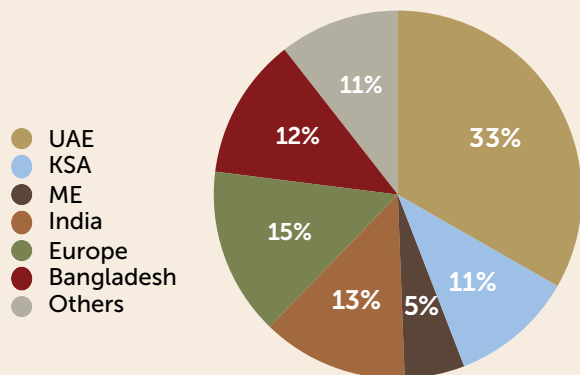
## FY 2018 RESULTS

UAE and Saudi Arabia markets are key drivers of growth year on year.

In local currency growth in India is +2.5%

Due to election in December 2018 in Bangladesh revenue in local currency decreased -1.3%.

### REGIONAL CONTRIBUTION 2018(%)



### TILES & SANITARY WARE REVENUE BY REGION (AED MN)

	2018	2017	
	Amount	Amount	Growth
<b>UAE</b>	792.8	754.5	<b>5.1%</b>
<b>Saudi Arabia</b>	258.1	225.3	<b>14.6%</b>
<b>Middle East</b>	124.8	138.6	<b>-9.9%</b>
<b>India</b>	307.2	322.6	<b>-4.8%</b>
<b>Europe</b>	352.1	368.9	<b>-4.6%</b>
<b>Bangladesh</b>	297.7	316.6	<b>-6.0%</b>
<b>Africa</b>	87.2	125.0	<b>-30.3%</b>
<b>Rest of the world</b>	156.5	125.6	<b>24.6%</b>
<b>Total</b>	<b>2,376.4</b>	<b>2,377.1</b>	<b>-0.0%</b>

# Gross profit margins trend

## FY 2018 RESULTS

Total gross margin increased by +160bps YoY to an all time high of 33.2%

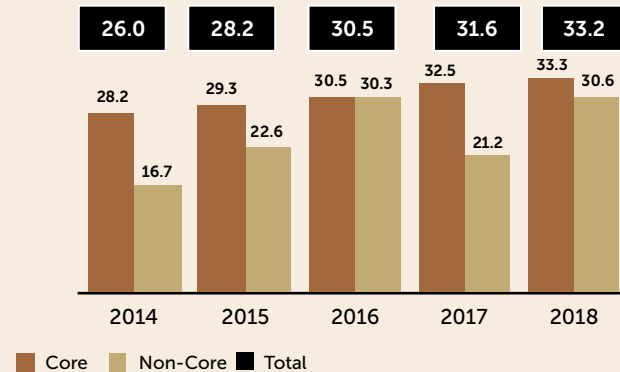
Core margin increased by +80bps YoY to 33.3% driven by improvements in operational efficiencies, higher gross profits in UAE, Bangladesh and tableware.

Margins improved despite an increase of AED55m YoY in energy costs at an average gas price of US\$10.9/MMBtu.

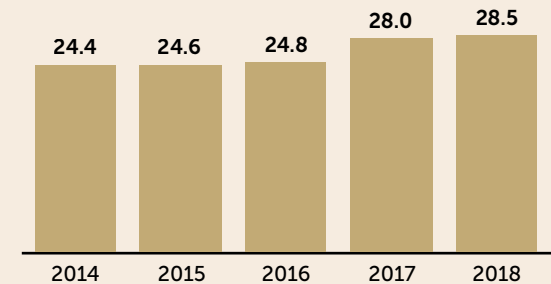
RAKC is at significant disadvantage to its peers as it pays a higher gas price, however RAKC remains profitable.

RAKC would deliver higher core income growth if gas costs were competitive; management are developing a strategy to address the situation.

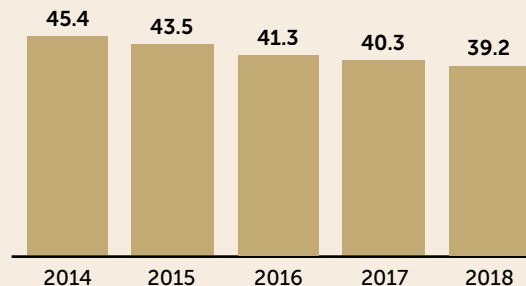
**GROSS PROFIT (%)**



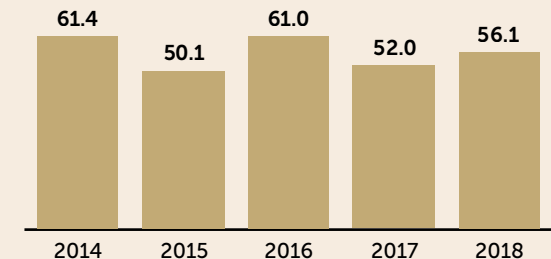
**TILES GROSS PROFIT (%)**



**SANITARYWARE GROSS PROFIT (%)**



**TABLEWARE GROSS PROFIT (%)**





# Tableware performance trend

## FY 2018 RESULTS

The tableware business continues to show growth with revenues increasing by +11.0% YoY to AED 264m driven by growth in United States, Europe and Asian markets.

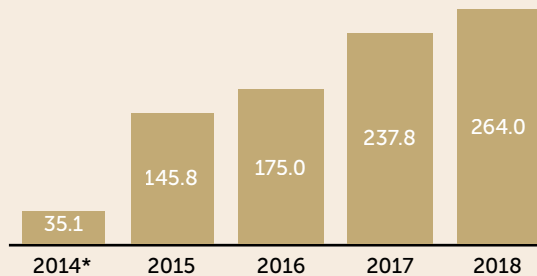
Strategic focus on growth in Europe and United States.

US Market growth in progress.

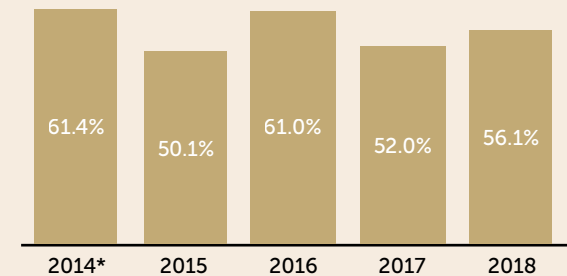
Opened new flagship showroom in Ras al Khaimah , UAE and distribution center in Pennsylvania, USA. Frankfurt showroom is operational.

Logistics centre under construction in Luxembourg, full benefits from these investments in Q2 2019.

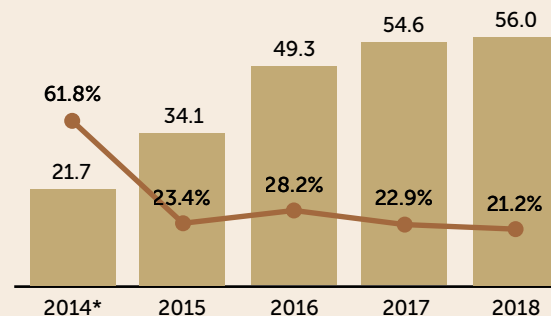
REVENUE (AED MN)



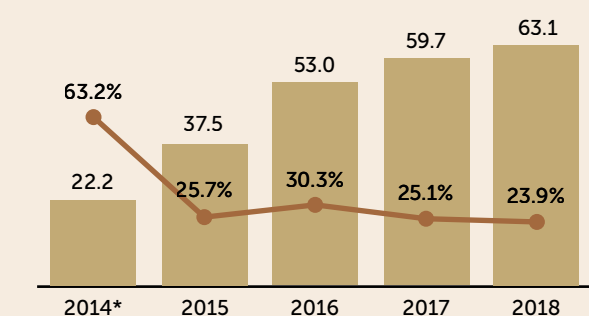
GROSS PROFIT MARGIN (%)



NET PROFIT (AED MN) AND MARGIN (%)



EBITDA (AED MN) AND MARGIN (%)



\*Consolidated from Q4 2014

# Balance sheet evolution

## FY 2018 RESULTS

Return on equity is 8.1% in 2018.

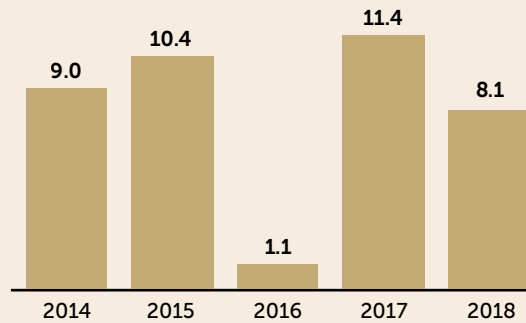
Operating Cycle is stable at 280 days.

Payable days has also increased from 66 days in 2017 to 74 days in 2018.

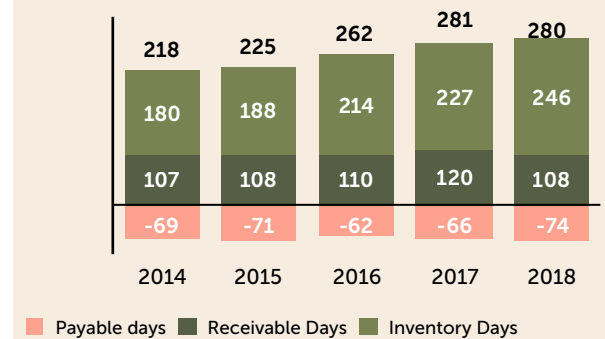
Capex in 2018 is higher due to Co-Gen plants installation and in India JV plants.

Capex guidance for 2019 is ~AED 250mn including ~AED 125mn for Maintenance.

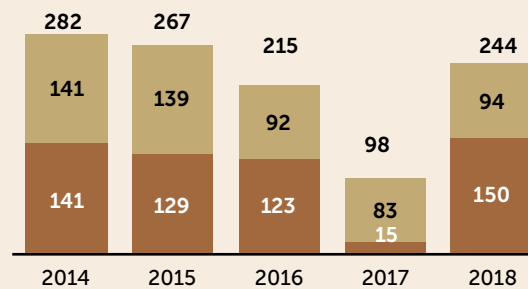
RETURN ON EQUITY (%)



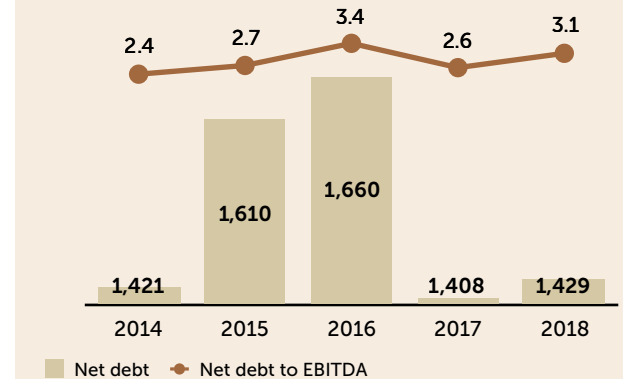
OPERATING CYCLE (DAYS)



CAPEX SPENDING (AED M)



NET DEBT (AED M)



# RAK

## CERAMICS

