

# RAK CERAMICS

THE 9TH ANNUAL EFG HERMES CONFERENCE  
LONDON

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SEPTMBER 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 and 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.

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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.



~12,000  
Global workforce



+150  
Countries exported

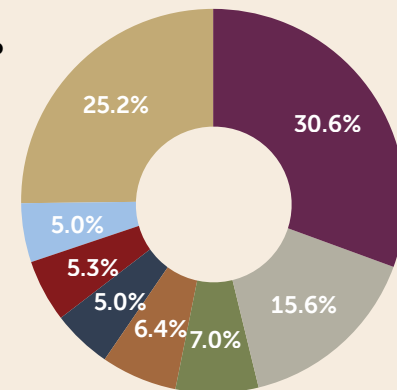


+1 BILLION SQM  
Tiles supplied worldwide

~US\$410 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



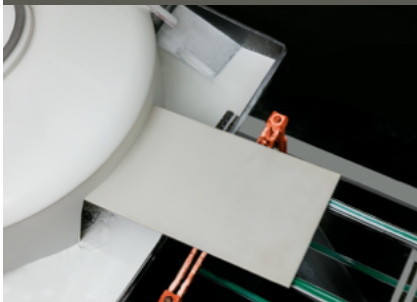
2000

Opening of first overseas tile plant in Bangladesh



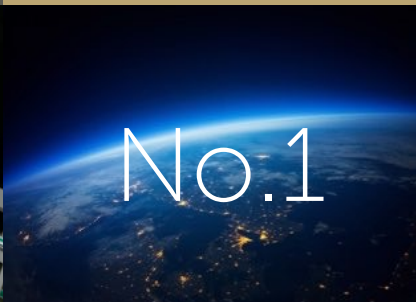
2004

RAK Porcelain was established



2006

Indian 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 **40,000** hotels across more than **165 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

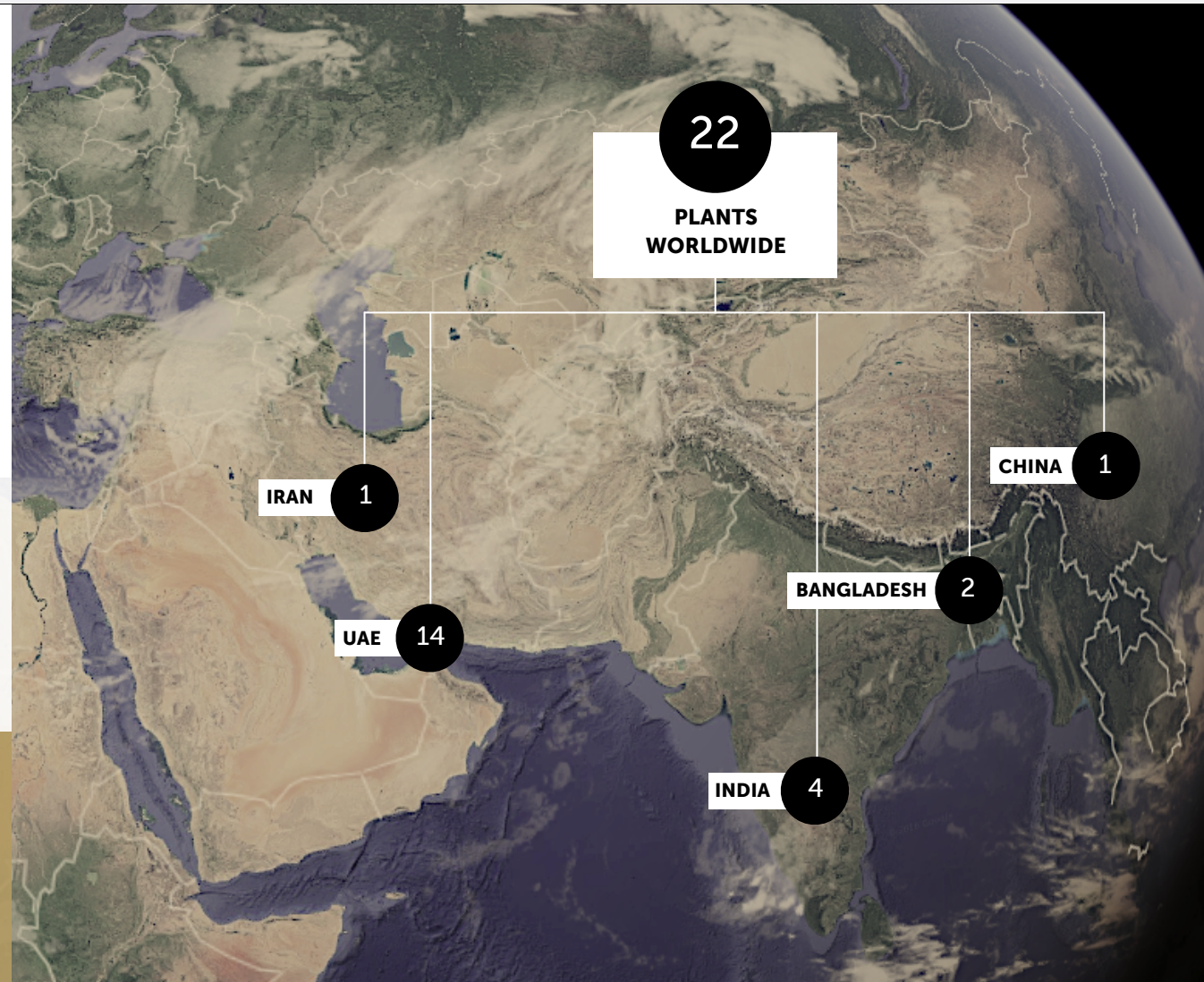
- **22 plants worldwide**
- **16 Tiles Plants** in UAE (10), India (3), Bangladesh (1), Iran (1) and China (1).
- **4 Sanitaryware Plants** in UAE (2), India (1), and Bangladesh (1)
- **Tableware** - UAE (1)
- **Faucets** - UAE (1)

123<sub>MN</sub>  
Square metres of tiles

5<sub>MN</sub>  
Pieces of sanitaryware

24<sub>MN</sub>  
Pieces of tableware

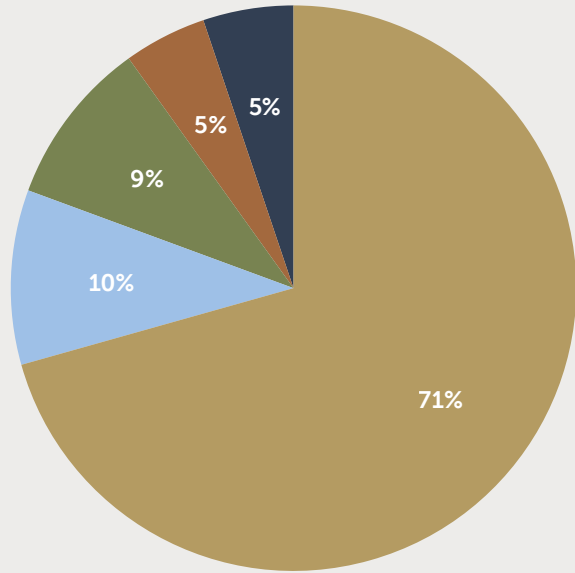
1<sub>MN</sub>  
Pieces of faucets an taps





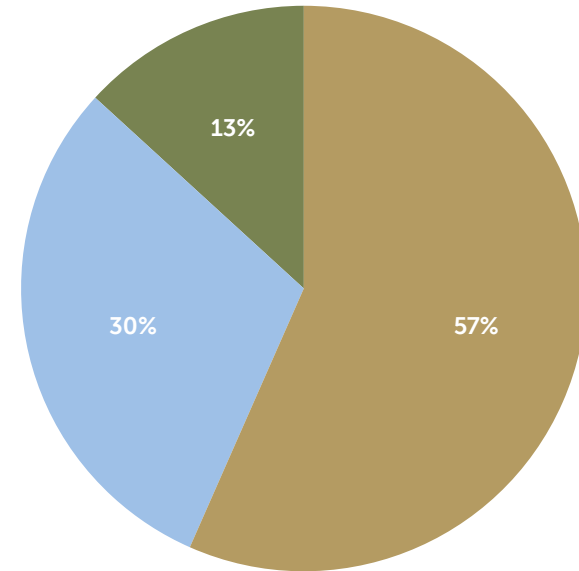
# Production capacity by location

## TILES



- UAE (82mn sqm)
- Bangladesh (11.6mn sqm)
- India (18mn sqm)
- Iran (6mn sqm)
- China (5.5mn 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 the United Arab Emirates has increased from 22% in 2017 to 25% in 2018 driven by an 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 continues 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

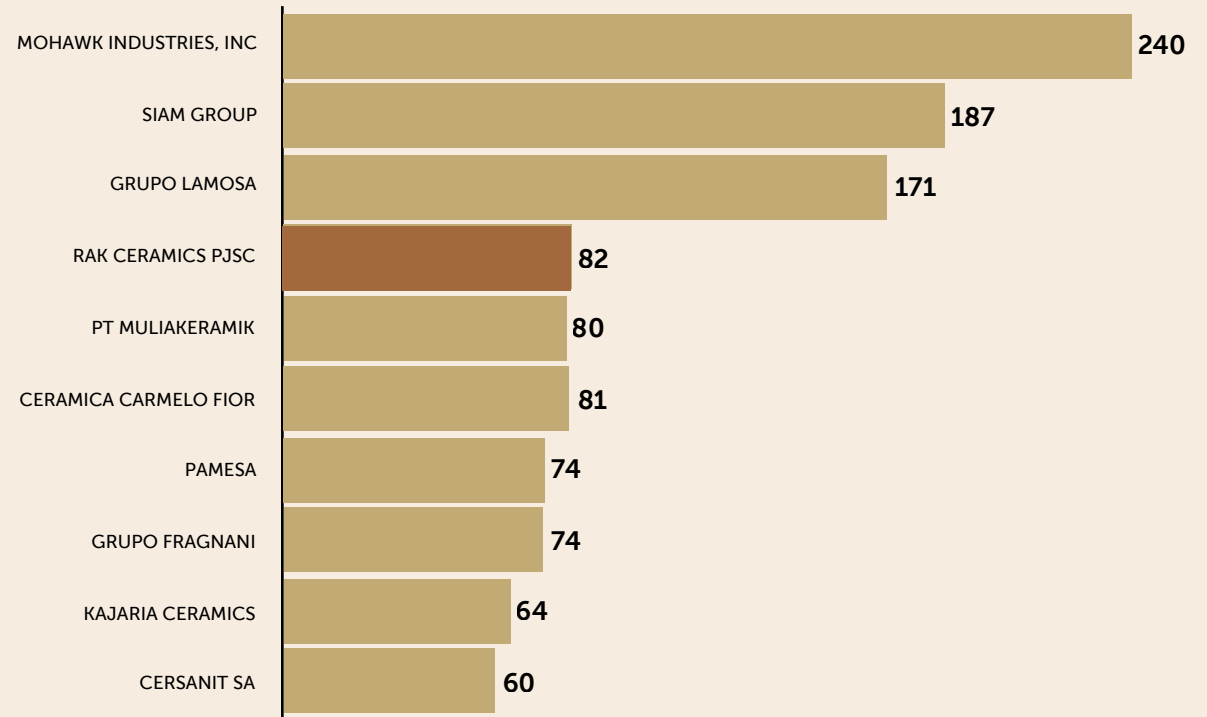
#5	
Market Size*	760 (MN SQM)
Market Share	2%

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

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# 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>
<b>REFOCUS AND GROW THE CORE BUSINESS</b>	Loss-making Sudan and 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>
	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 and distribution model	<ul style="list-style-type: none"> <li>✓ Switched to a "Pull" sales and distribution model</li> <li>✓ Created a B2B sales team targeting real estate and hospitality sectors</li> <li>✓ Flagship 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 lifestyle 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 rationalised and 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 discussions are now taking place 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
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

Number of exits since Q2 14

>US\$130MN

Divestment proceeds

>US\$110MN

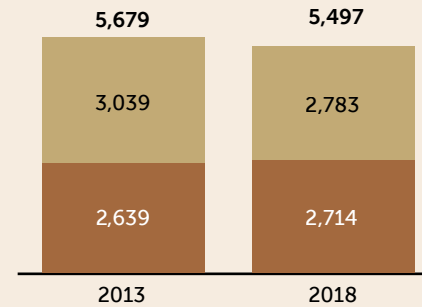
Reinvested in core production capacity

>US\$275MN

Cash dividends (2014-2018) and three 5% stock dividends

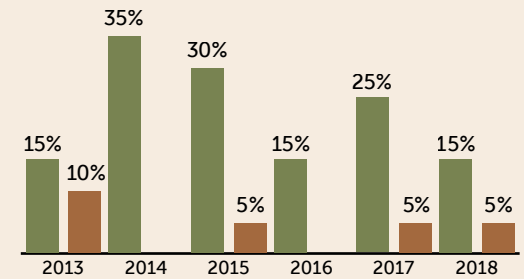
## BALANCE SHEET REDUCED AND DIVIDENDS DISTRIBUTED

### TOTAL ASSETS (AED MN)



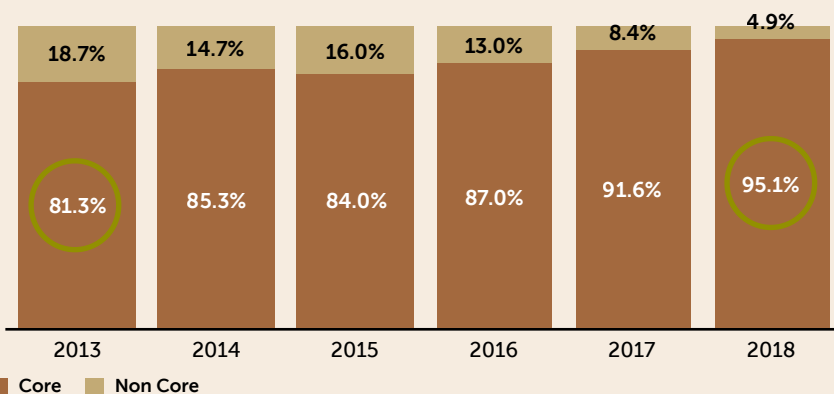
■ Shareholder Equity ■ Total Liabilities

### DIVIDEND PAID



■ Cash ■ Stock

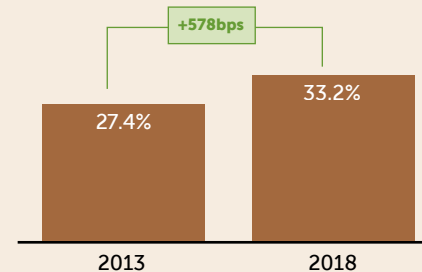
## CORE BUSINESS NOW CONTRIBUTES THE MAJORITY OF THE TOPPLING



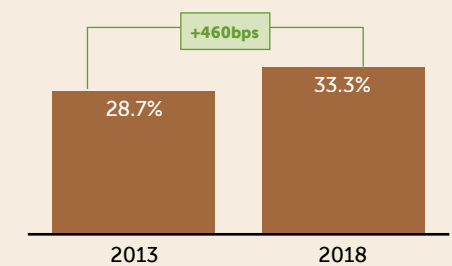
■ Core ■ Non Core

## PROFITABILITY ENHANCED TO RECORD LEVELS

### CONSOLIDATED GP MARGINS (%)



### CORE GP MARGINS (%)



# Strategic initiatives 2019-2021

GCC	Evaluate options for adding a manufacturing facility in Saudi Arabia, with c.10mn sqm of low-cost production capacity
INDIA	<p>Execute the turnaround strategy to scale revenues and enhance profitability, putting the company on-track to become a top-5 ceramics player in the country.</p> <p>The turnaround positions the company as an export-hub catering to key markets in Europe and the Asia Pacific</p> <p>Priorities in 2019 include:</p> <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 optimisation</li> </ul>
BANGLADESH	Maintain market leading position
RAK PORCELAIN (TABLEWARE)	<p>Achieve further scale through a strategic transaction, in order to unlock shareholder value</p> <p>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</p>
IRAN PLANT	Maintain production at required levels, until sanctions are lifted
REAL ESTATE	Aim to monetise the real estate portfolio by partnering to develop the sea-front land (book value: c.AED 900mn, size: 270,000 sqm) and sell Acacia Hotel



# 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

- Facing a number of challenges which are slowing down growth in core profitability:
  - 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 the 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 the 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 sqm per annum

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

~US\$100MN  
Investment

~2YEARS  
Estimated time line of commissioning

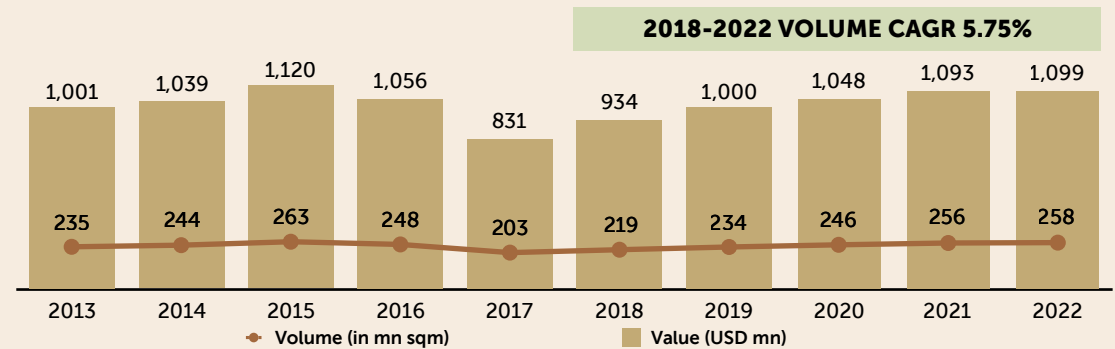
	RAS AL KHAIMAH	SAUDI ARABIA
Gas price/MMBtu	US\$ 10.91 Variable	US\$1.62 Fixed until 2039
Electricity price/KWH	US\$0.13	US\$0.05
Water price/m3	US\$2.37	US\$2.13

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

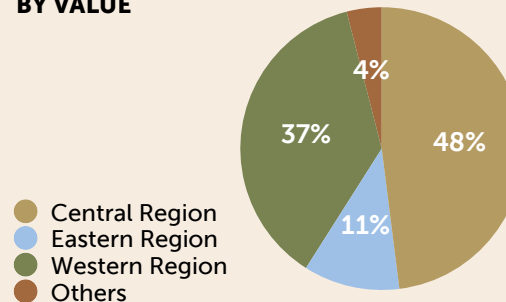
The Saudi Arabian construction sector is expected to witness a recovery driven by a large number of infrastructure projects, in line with the government's aim to diversify the oil-based economy

- 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 to 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. 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.

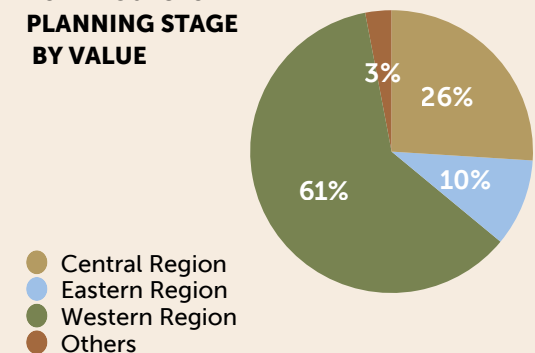
**KSA CERAMIC TILE MARKET VOLUME AND MARKET VALUE 2013-2022**



**KSA PROJECTS UNDER CONSTRUCTION BY VALUE**



**KSA PROJECTS IN PLANNING STAGE BY VALUE**



# Financial Performance



Overview

Strategy

▶ Results

# Financial performance trend

Total revenue decreased by -6.8% YoY in H1 2019

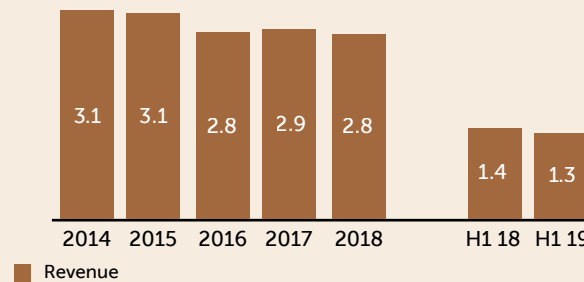
On constant currency as of H1 2018, the total revenue decreased by -2.6% YoY.

Sanitaryware revenue increased by +6.7% YoY driven by all major markets except Bangladesh.

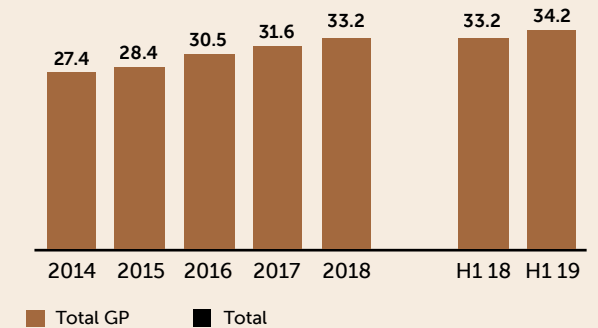
Total gross profit margin of 34.2%, +100bps YoY compared to H1 2018, an all-time high.

EBITDA margins improved by +250bps YoY to 18.6% in H1 2019 compared to H1 2018.

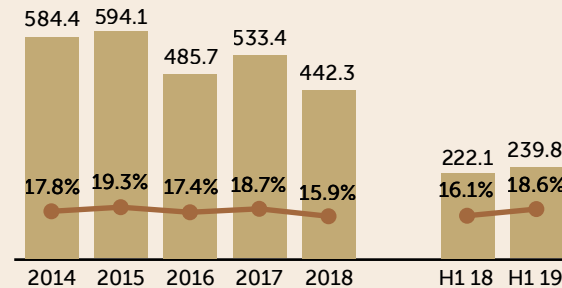
REVENUE (AED BN)



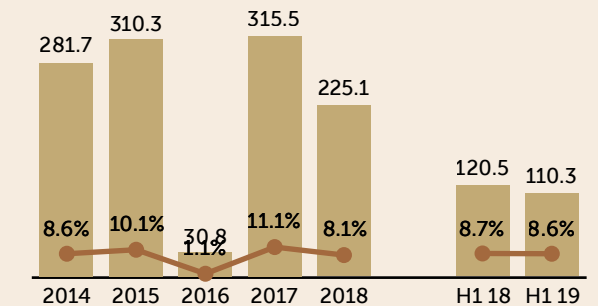
GROSS PROFIT (%)



EBITDA (AED MN) AND MARGIN (%)



NET PROFIT (AED MN) AND MARGIN (%)

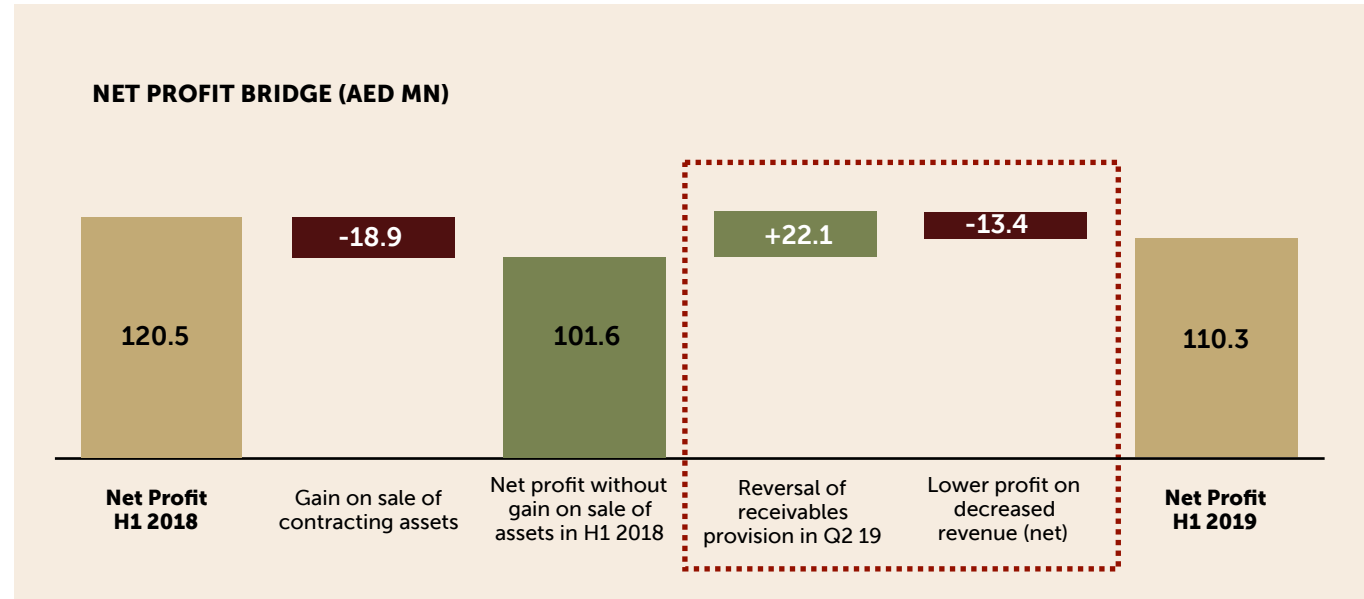


# H1 2019 highlights and challenges

H1 2018 reported net profit includes a gain on sale of contracting assets of AED 18.9mn.

H1 2019 net profit includes the reversal of an AED 22.1mn receivables provision.

Reduction of AED 13.4mn in operational net profit is due to a decrease in revenue of AED 93mn.



## H1 2019 HIGHLIGHTS

- Revenue growth in sanitaryware, tableware and faucets businesses.
- Continued cost efficiencies, increasing gross profit margins to an all-time high.
- Increased A-Grade production across all tile plants.
- Commercial production of slabs started in the Morbi JV in India with capacity utilisation reaching 70%.
- Work force and warehouse rationalization is complete in Saudi and benefits are being realised across distribution entities.

## H1 2019 CHALLENGES

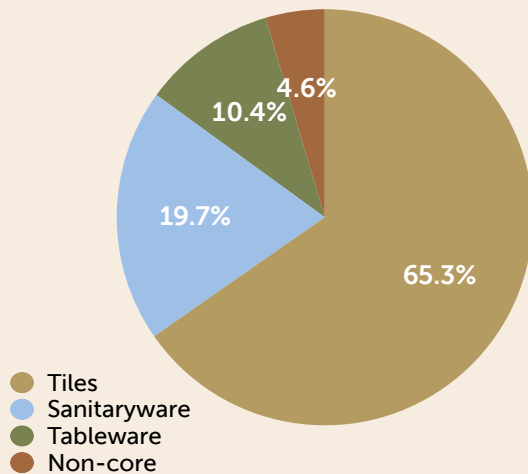
- Tiles revenue decreased by -10.4% YoY
- Europe profitability still struggling
- India turnaround; revenue growth in INR-6.7% YoY, gross profit margins were lower than target owing to unabsorbed fixed costs related to partial plant shut-down
- China exit still in progress
- Finished goods inventory reduction.

# H1 2019 vs H1 2018 performance by segment

Sanitaryware revenue in H1 2019 increased by +6.7% YoY due to strong performance in all markets except Bangladesh.

On constant currency of H1 2018, the tableware revenue increase is +9.5% YoY.

REVENUE BY SEGMENT H1 2019 (%)



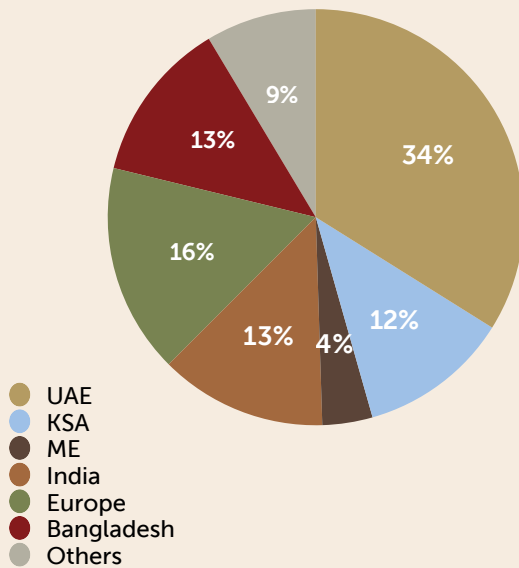
REVENUE BY SEGMENT (AED MN)

	H1 2019	H1 2018	
	Amount	Amount	Growth
<b>Tiles</b>	840.2	937.6	<b>-10.4%</b>
<b>Sanitaryware</b>	254.0	238.2	<b>6.7%</b>
<b>Tableware</b>	134.3	129.4	<b>3.8%</b>
<b>Others</b>	59.2	75.9	<b>-22.0%</b>
<b>Total Revenue</b>	<b>1,287.7</b>	<b>1,381.1</b>	<b>-6.8%</b>

# H1 2019 vs H1 2018 performance by region

Market sentiment continues to be weak resulting in a decrease in revenue across all markets.

**REGIONAL CONTRIBUTION H1 2019(%)**



**TILES & SANITARYWARE REVENUE BY REGION (AED MN)**

	H1 2019	H1 2018	
	Amount	Amount	Growth
<b>UAE</b>	371.5	391.0	<b>-5.0%</b>
<b>Saudi Arabia</b>	127.8	136.6	<b>-6.5%</b>
<b>Middle East</b>	42.3	55.6	<b>-23.9%</b>
<b>India</b>	142.1	163.1	<b>-12.9%*</b>
<b>Europe</b>	178.4	179.0	<b>-0.3%*</b>
<b>Bangladesh</b>	137.8	144.0	<b>-4.3%*</b>
<b>Africa</b>	46.5	36.0	<b>29.2%</b>
<b>Rest of the world</b>	47.7	70.3	<b>-32.1%</b>
<b>Total</b>	<b>1,094.1</b>	<b>1,175.6</b>	<b>-6.9%</b>

\*Revenue growth rates in local currency:

- India: -11.0% YoY in Q2 19 and -8.0% YoY in H1 19
- Europe: -1.6% YoY in Q2 19 and -3.7% YoY in H1 19
- Bangladesh: +0.2% YoY in Q2 19 and -4.8% YoY in H1 19

# Gross profit margins trend

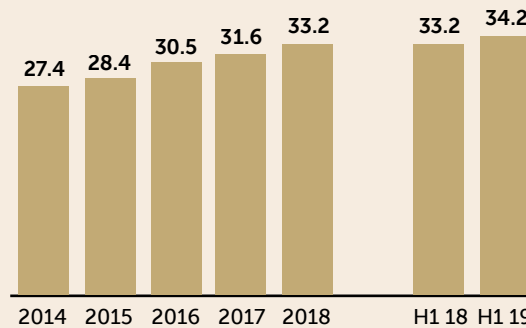
Total gross profit margin increased by +100bps YoY to an all time high of 34.2%

Tiles margin increased by +130bps YoY to 29.9% driven by improvements in operational efficiencies and higher gross profits in the UAE and Bangladesh

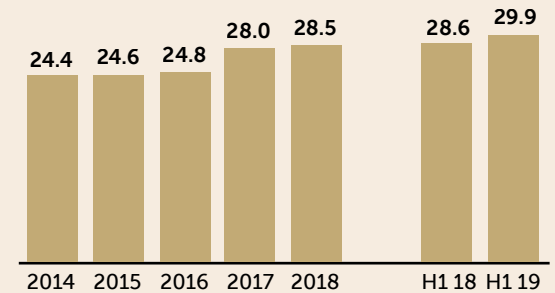
RAKC is at significant disadvantage to its peers as it pays a higher gas price, however RAKC remains profitable.

RAKC would deliver higher income growth if gas costs were competitive. As a strategy, gas cost has been partially hedged by hedging the crude effective April 2019 (Gain of AED 0.7 mn recorded in Q2 2019).

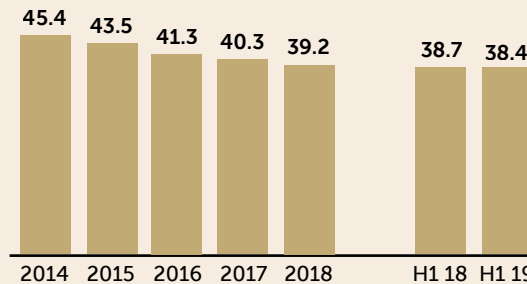
**GROSS PROFIT (%)**



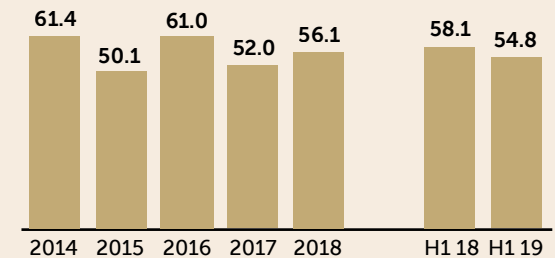
**TILES GROSS PROFIT (%)**



**SANITARYWARE GROSS PROFIT (%)**



**TABLEWARE GROSS PROFIT (%)**





# Tableware performance trend

The tableware business continues to show growth with revenues increasing by +3.8% YoY to AED 134.3m.

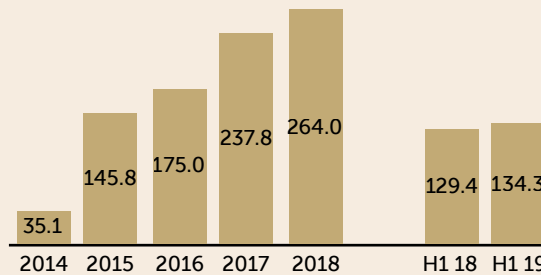
On constant currency of H1 2018, revenue increase is +9.5% YoY driven by growth in United States, GCC and African markets.

Strategic focus on growth in Europe and United States.

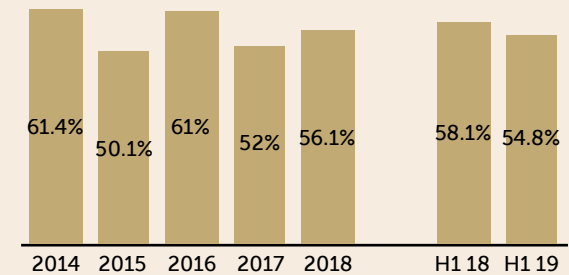
RAK Porcelain affirms its position in the USA tableware industry as a reliable tableware brand with its 5th NRA under the RAK Porcelain brand.

Luxembourg warehouse completed, with higher storage capacity and dispatch capability, the warehouse will help to streamline logistics operations and improve business in coming months.

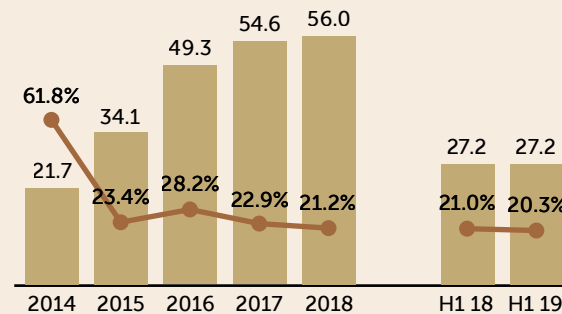
**REVENUE (AED MN)**



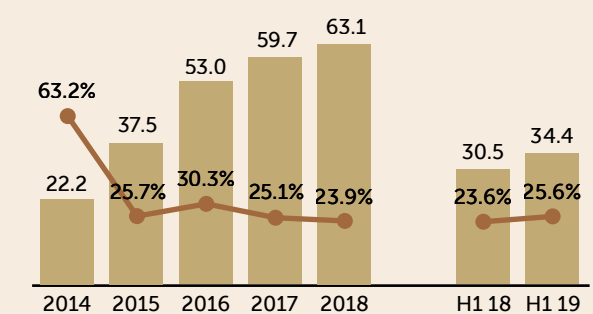
**GROSS PROFIT MARGIN (%)**



**NET PROFIT (AED MN) AND MARGIN (%)**



**EBITDA (AED MN) AND MARGIN (%)**



\*Consolidated from Q4 2014

# Balance sheet evolution

## H1 2019 RESULTS

Return on equity is 8.4% in H1 2019.

Inventory days increased by 10 days to 256 days mainly due to an increase in raw materials stock.

Payable days has also increased from 74 days in 2018 to 84 days in 2019.

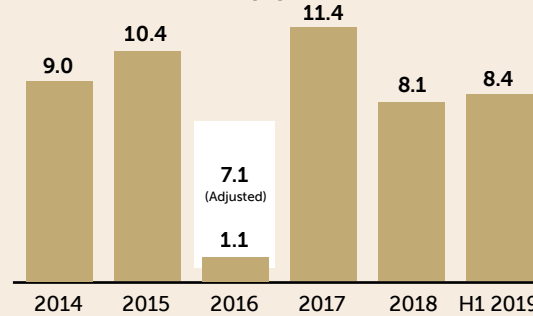
Operating cycle increased to 285 days.

Capex in 2018 is higher due to the installation of a co-gen plant in the UAE and the Indian JV plants.

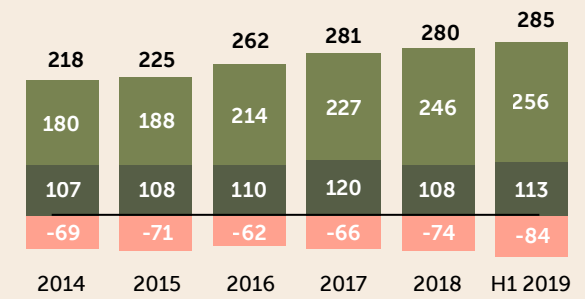
Capex for 2019 includes AED 32mn for the Morbi JV greenfield project and AED 14mn for the Luxembourg tableware warehouse.

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

RETURN ON EQUITY (%)

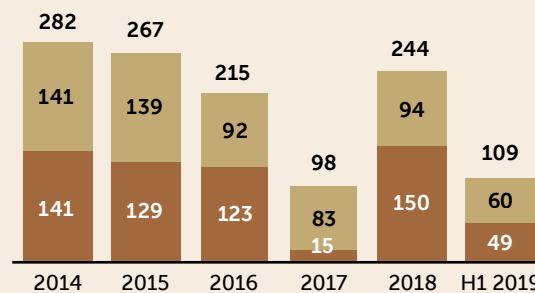


OPERATING CYCLE (DAYS)



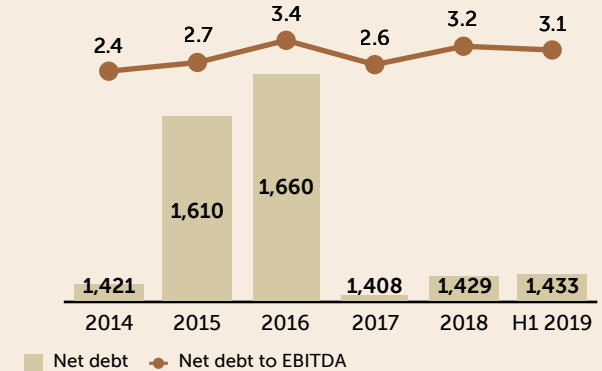
Payable days Receivable Days Inventory Days

CAPEX SPENDING (AED MN)



Growth Maintenance

NET DEBT (AED MN)



# RAK

CERAMICS

