

# RAK

## CERAMICS

THE 8TH ANNUAL LONDON EFG HERMES CONFERENCE  
FRONTIER EMERGING MARKETS

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SEPTMBER 2018

# 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

Industry

Strategy

Results

# RAK Ceramics at a Glance

+25 YEARS  
Ceramic expertise

One of the largest ceramic brands in the world.



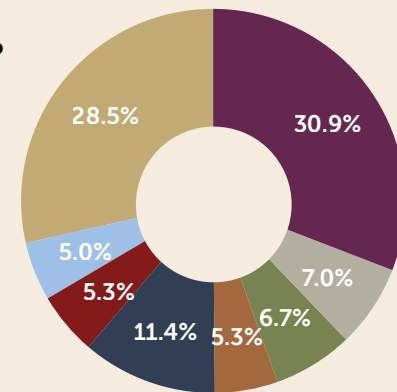
15,000  
Global workforce

+150  
Countries exported



+1 BILLION SQM  
Tiles supplied worldwide

## OWNERSHIP



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

US\$577 MN  
Market Cap.

~\$800 MN  
Group turnover



# 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



2007

Kludi RAK was established



No.1

2010

Became the world's largest ceramics manufacturer



SAMENA CAPITAL

2014

Samena Capital acquires 31% stake in RAK Ceramics



RAK CERAMICS

2016

Launch of new brand identity

# Core 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

## 2017 GLOBAL PRODUCTION

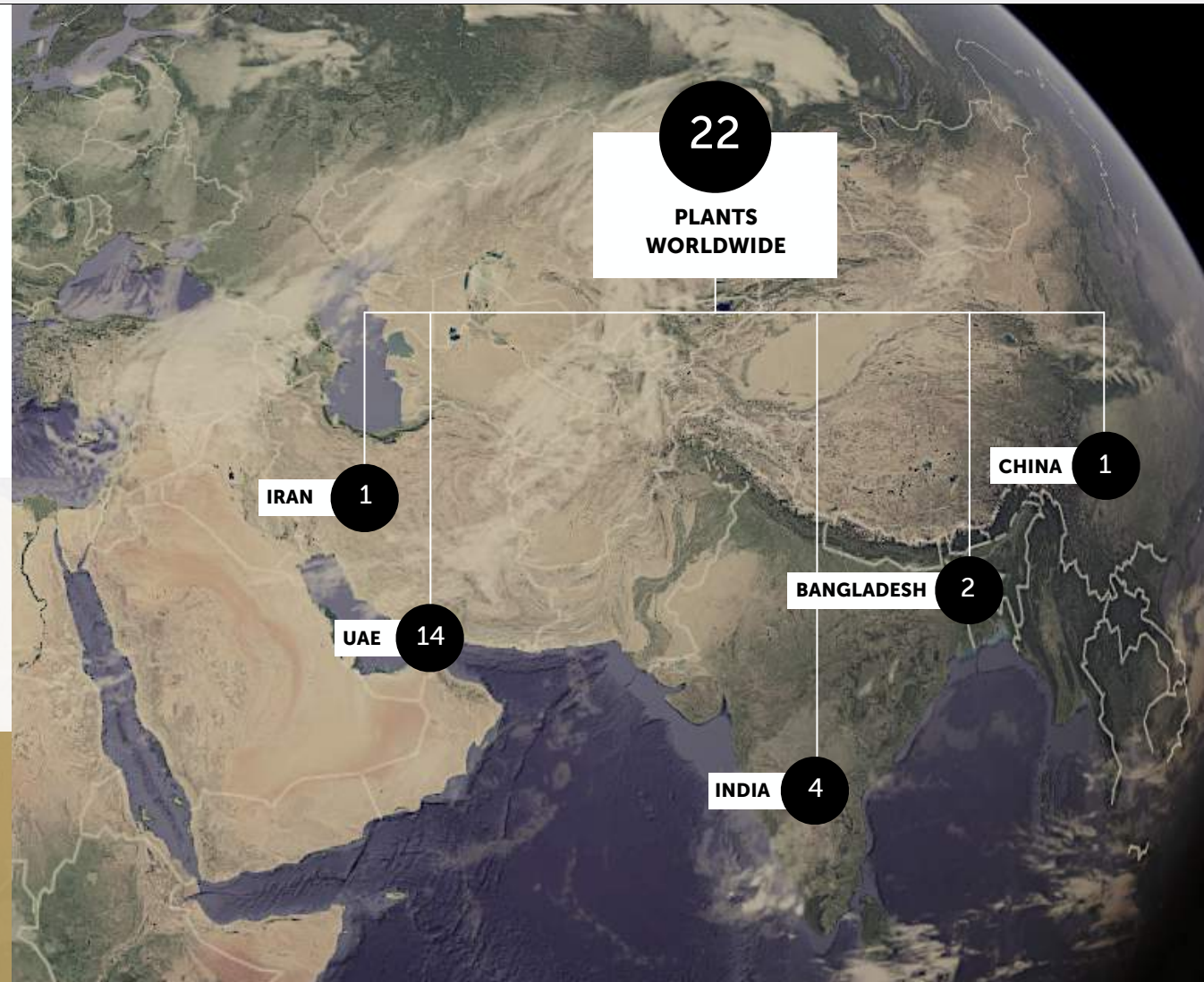
- **22 plants worldwide**
- **16 Tiles Plants** in UAE (10), India (3), Bangladesh (1), Iran (1) and China (1).
- **4 Sanitaryware Plants** in UAE (2), India (1), and Bangladesh (1)
- **Tableware** - UAE (1)
- **Faucets** - UAE (1)

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

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

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

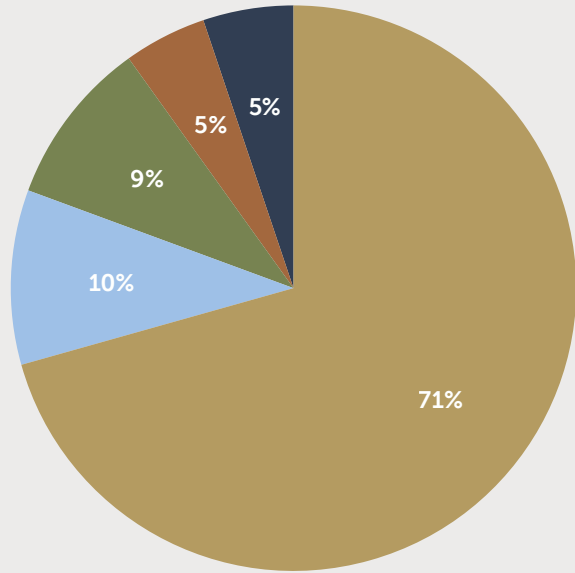
1<sub>MN</sub>  
Faucets and taps





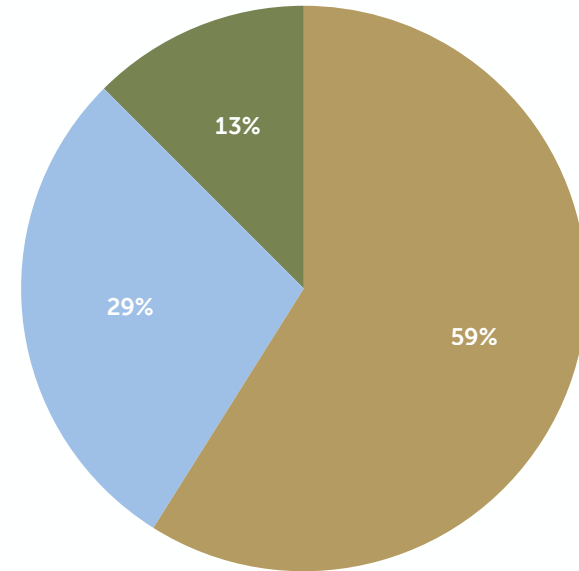
# Production Capacity by Location

## TILES



- UAE (82mn sqm)
- Bangladesh (11.6mn sqm)
- India (11mn sqm)
- Iran (6mn sqm)
- China (5.5m sqm)

## SANITARYWARE



- UAE (2.7mn 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)

# 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.

# Competitive Landscape



Overview

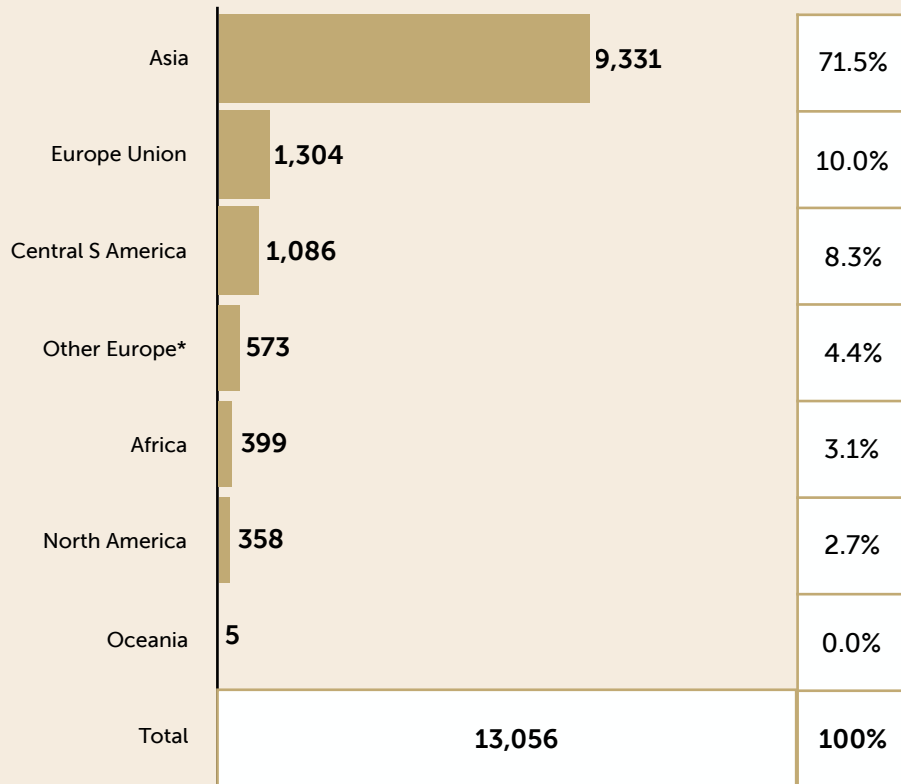
▶ Industry

Strategy

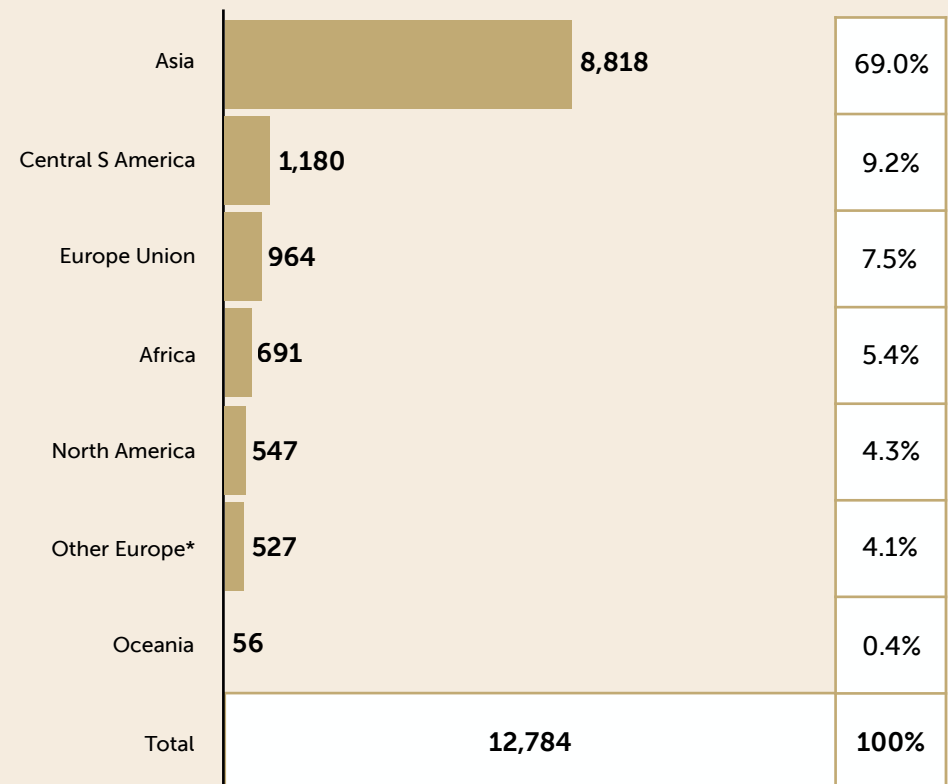
Results

# World Production and Consumption - Tiles

**WORLD PRODUCTION (MILLION SQM & CONTRIBUTION %)**



**WORLD CONSUMPTION (MILLION SQM & CONTRIBUTION %)**



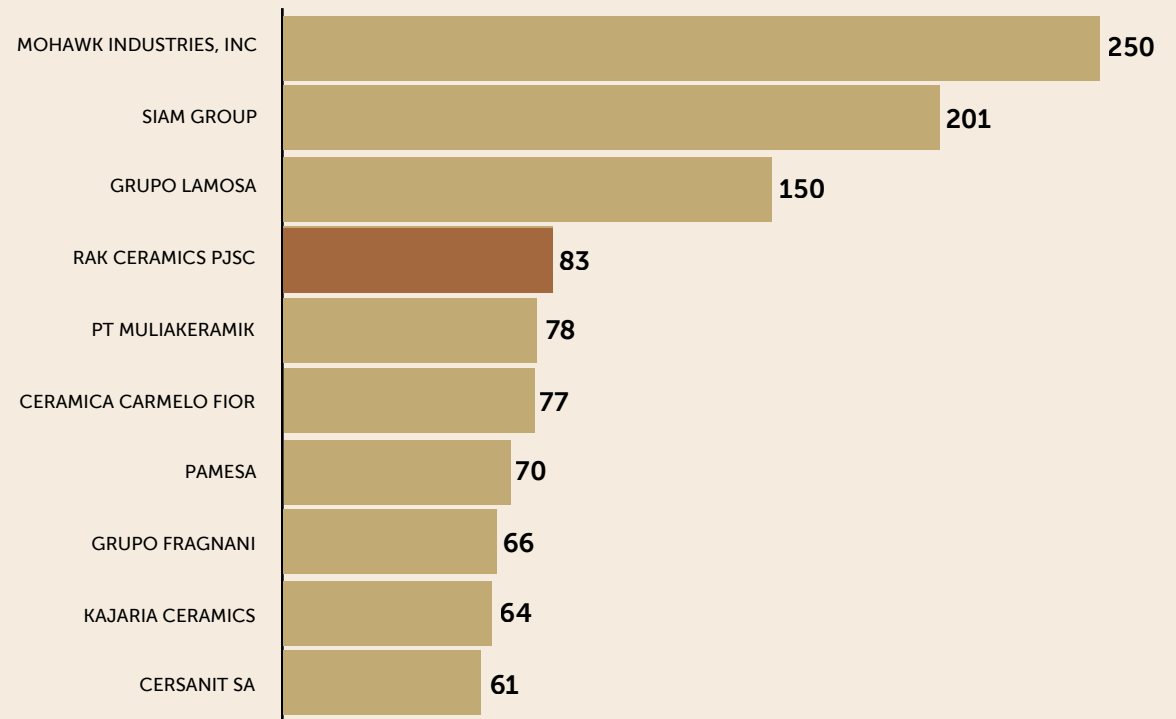
Source: Ceramic World Review. \*Excluding Turkey  
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# Market Position - Tiles

In 2016 RAK Ceramics retained its position as the 4th largest tile producer globally.

**PRODUCTION (MILLION SQM)**



# Market Position, Focus Markets - Tiles

The Middle East flooring market is growing due to the high volume of construction activities in the region. The three largest ceramics producers in the region account for >80% of the total production capacity.

India markets continue to grow with ceramic tile consumption increasing 6.1% compared to 2015\*\*.

## UNITED ARAB EMIRATES

#1

|              |             |
|--------------|-------------|
| Market Size* | 86 (MN SQM) |
| Market Share | 22%         |

## BANGLADESH

#1

|              |             |
|--------------|-------------|
| Market Size* | 59 (MN SQM) |
| Market Share | 17%         |

## SAUDI ARABIA

#2

|               |              |
|---------------|--------------|
| Market Size** | 263 (MN SQM) |
| Market Share  | 8%           |

## INDIA

#5

|               |              |
|---------------|--------------|
| Market Size** | 763 (MN SQM) |
| Market Share  | 2%           |

Source: 2015 Brokers research report. \*Source: 2017 Ceramic World Review \*\* 2016 Ceramic World Review, 2017 data unavailable.

# Business Strategy Update



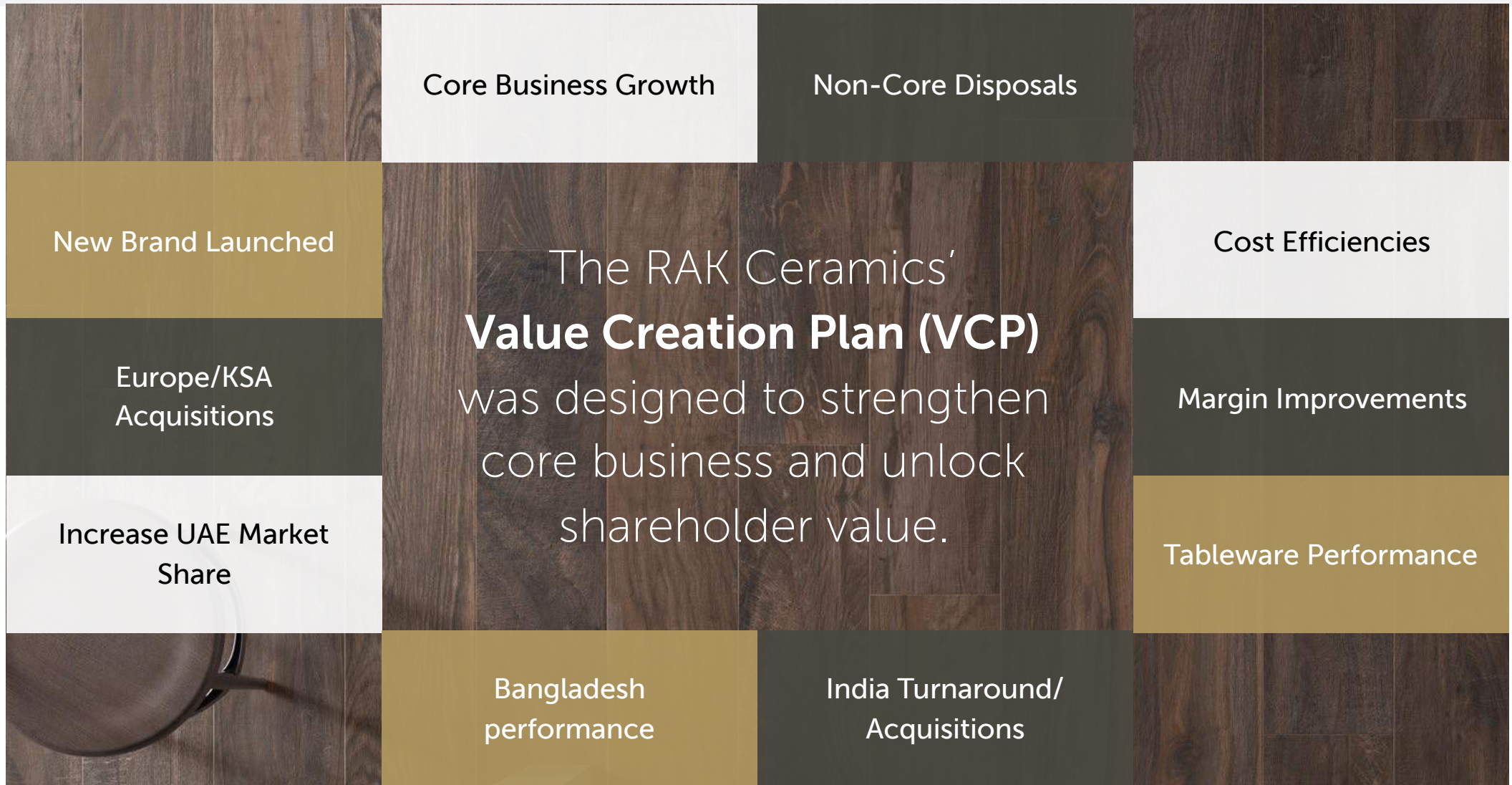
Overview

Industry

► Strategy

Results

# Summary of Key Achievements of VCP





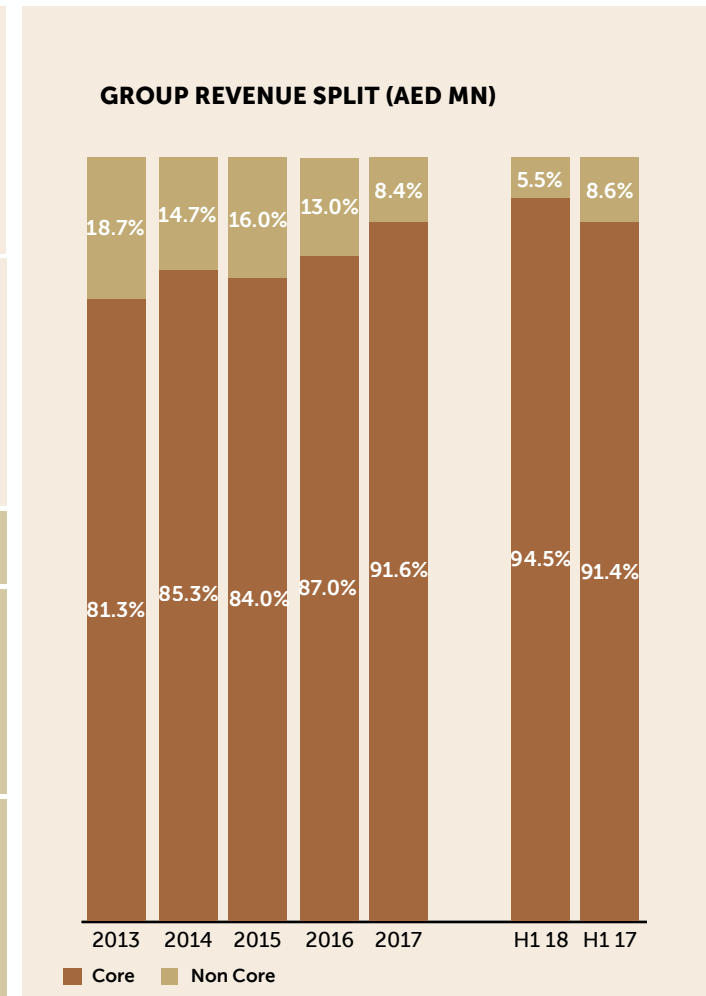
# Non-Core Divestments

Non-core revenue contribution to total revenues has steadily declined to an all time low of 5.5%.

In 2017, Electro RAK and RAK Warehouse Leasing were divested with net gain of AED38.6m and rough grading business was terminated.

In 2018, non-core revenue is expected to reach an all-time low with Ceramin being only remaining major contributor of revenue of ~AED80.0m.

|                                     |                              |
|-------------------------------------|------------------------------|
| 12                                  | >US\$130 MN                  |
| Exits since Q2 14                   | Divestment proceeds          |
| AED900 MN                           | ~3.0x                        |
| Land Value<br>(270,000 sqm)         | Net Debt / EBITDA            |
| <b>2018 OUTLOOK</b>                 |                              |
| Discontinued rough grading business | -50%                         |
|                                     | Non-core revenue             |
| Significant impact on Net Profit    | No further significant exits |



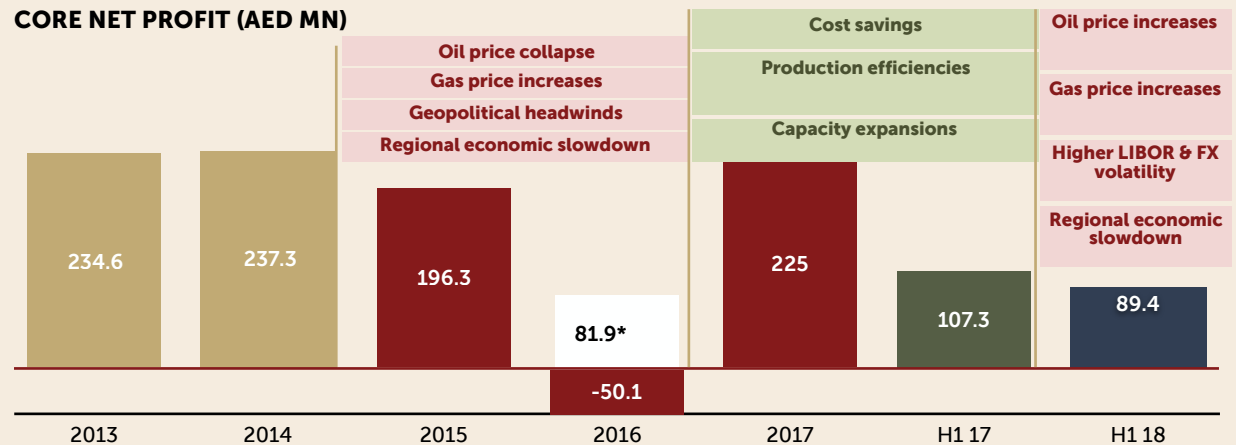
# Core Business Performance

Increase in energy and raw material prices have been partly offset by improved efficiencies and cost control.

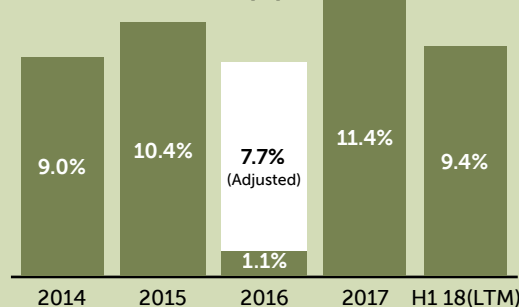
Improved gross profit margins.

Continued investment in the core business despite economic and geopolitical challenges.

**CORE NET PROFIT (AED MN)**



**RETURN ON EQUITY (%)**



Higher SG&A on consolidation of Saudi JV's in H1 2018

Extraordinary net gain of AED38.6mn in H1 2017

\* Adjusted excluding extraordinary provision of AED 132m  
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# Value and Growth in India & Bangladesh

| BANGLADESH  |  |  | INDIA  |                                 |
|---|--|--|--|---------------------------------|
| \$197 <sub>MN</sub><br>Market Cap.<br><small>as at 31st August 2018</small> | 23%<br>Ownership of Market Cap.                                | -2.8%<br>Revenue Growth                      | Only multinational ceramics producer in India                                |                                 |
| 68%<br>Ownership  | 15%<br>Ownership of Group Net Income.                          | 12 <sub>MN SQM</sub><br>Tile Production Cap. | 18 <sub>MN SQM</sub><br>Tile Production Cap. with new expansion/acquisitions | 15%<br>of Group Production Cap. |
| Growth/<br>Value  | 3.4% of shares sold in 2017 at 21.7x P/E to monetize valuation |  | Expand dealers network and rolled new brand across distributors              |                                 |
|   | Executed shop-in- shop branding concept                        |  | Expansions of acquired plant in progress, due in Q4 2018                     |                                 |
|   | Evaluating infrastructure for future growth                    |  | Become a top 5 pan India Ceramics player by 2020                             |                                 |

# Restructure/Turnaround of Europe & Saudi Arabia

## EUROPE

## SAUDI ARABIA

Completed acquisitions of distribution JVs into full ownership to give greater control and access into key markets

### Restructure /Turnaround

AED 179mn of Tiles and Sanitaryware sales in H1 2018 +2.8%

Revenue impact for IFRS-15 , on dispatches+3.1% YoY

Hired new VP, initiated project to increase no. of customers

Cancelled non-profitable agents/distributors

Control on overheads through back-office consolidation

Restructuring of agency agreements to improve efficiency

### Restructure /Turnaround

AED 136.6m of Tiles and Sanitaryware sales in H1 2018 + 18.2%

Acquisition of Saudi Arabia JV's completed

Post acquisition integration with acquired JV's in progress

Access key markets, open up new channels and customers

Branding in dealer showrooms initiated

Integrate back office operations with UAE headquarters



# Tableware Performance Overview

The tableware business continues to show growth with revenues increasing by 14.2% YoY to AED 129.4m driven by growth in United States, Europe & Asian markets.

Strategic focus on growth in Europe and United States.

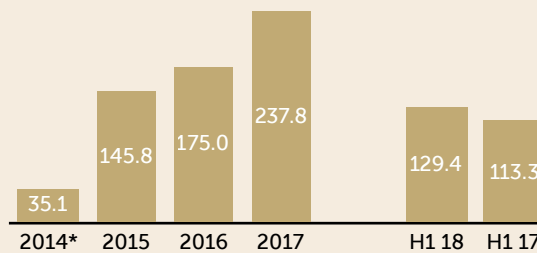
Tie up with Stozle Glassware as official supplier for their products.

US Market growth in progress.

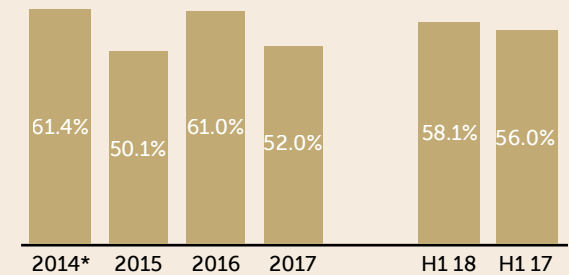
Opened new flagship showroom in Ras al Khaimah, UAE and distribution center in Pennsylvania, USA.

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

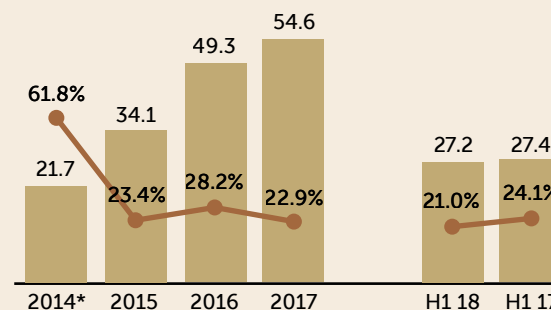
**REVENUE (AED MN)**



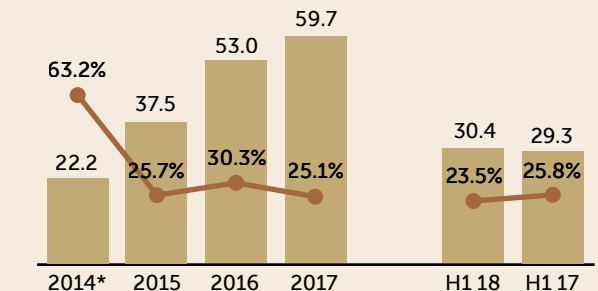
**GROSS PROFIT MARGIN (%)**



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

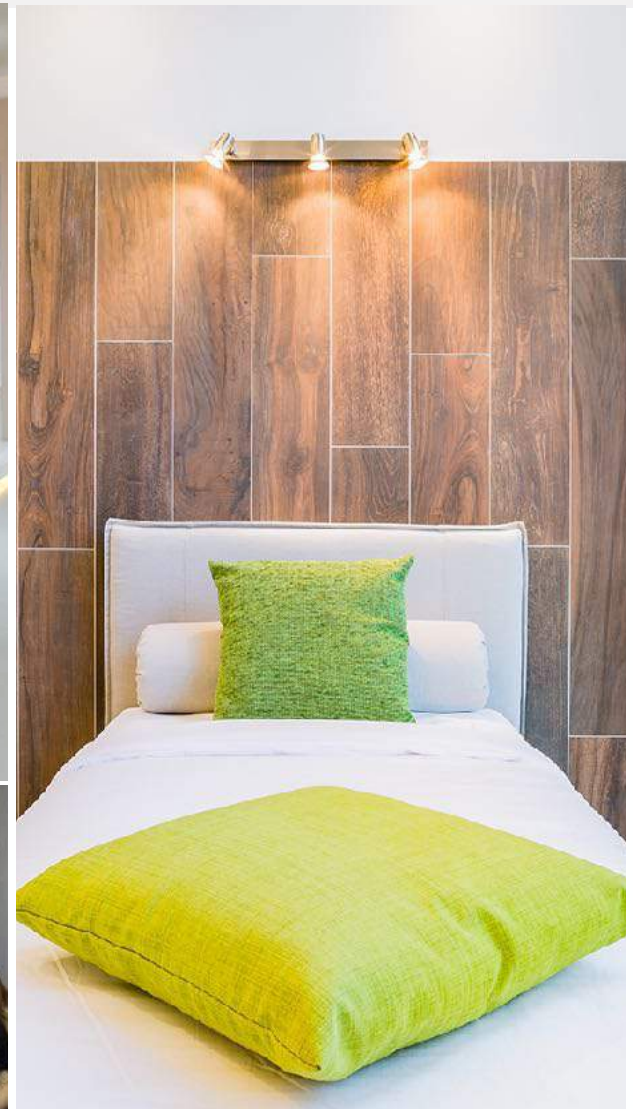


**EBITDA (AED MN) & MARGIN (%)**



\*Consolidated from Q4 2014

# New Brand Identity

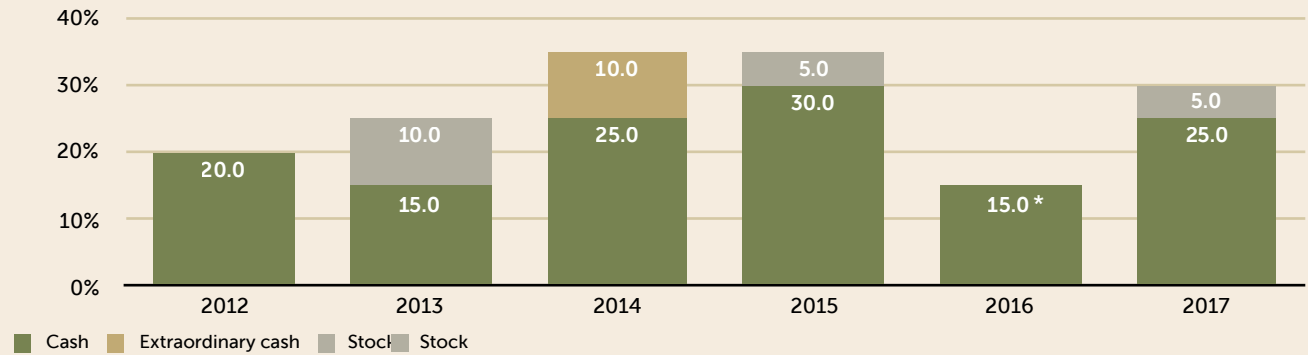


# Dividend Highlights

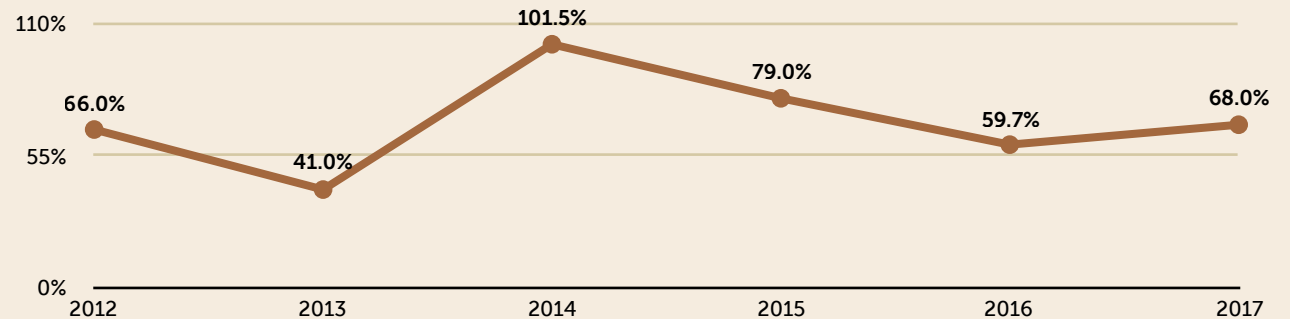
## Extract from company dividend policy in 2014

“Payout ratio in excess 60% of consolidated net income subject to consideration factors such as the business outlook, capital requirements for growth opportunities, expansion plans, optimal leverage levels and healthy cash reserves in addition to regulatory approvals”

**DIVIDEND PAYOUT (%/SHARE)**



**DIVIDEND PAYOUT RATIO (%)**



\* Adjusted excluding extraordinary provision of AED 185m  
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# 2018 Priorities

Maintain/Increase market share and profitability of UAE, India, Bangladesh, Porcelain and Kludi-RAK

Europe profitability improvement

Continue product portfolio optimization

Optimized production

India turnaround and hub for exports

Continue focus on branding roll out supported by shop in shop concept

Continue cost efficiencies and manage margins

Finalise post acquisition integration in Saudi Arabia

Identify opportunistic acquisitions



# Financial Performance



Overview

Industry

Strategy

▶ Results

# H1 2018 Financial Highlights

**Core revenues** increased by +1.8% to AED1.30bn YoY.  
**Total revenues** decreased by -1.5% to AED1.38bn YoY due to decrease in non-core revenues by -37.0%.

+1.8%

**Core gross profit margin** increased by +20bps to 33.4% compared to H1 2017.

**Total gross profit margin** increased by +70bps to 33.2%.

33.4%

**SG&A and finance cost (net)** increased by +10.5% to AED385m. SG&A increased on consolidation of Saudi entities, India and Tableware. Finance cost increased due to FX loss and increased LIBOR.

+10.5%

**Reported net profit** of AED120.5, with margins of 8.7%  
**Like for like net profit** (exc provision and gains) of AED108.3m, -20.5% compared to H1 2017 with margins of 7.8%

AED120.5M

**Core EBITDA** decreased by -8.4% to AED206.3m YoY, with margin of 15.8% a decrease of -180bps.

**Total EBITDA** decreased by -12.6% to AED228.8 YoY.

AED228.8M

**Net Debt** increased by 7.7% to AED1.52bn compared to December 2017 and Net Debt to EBITDA increased from 2.64x to 3.03x for payment of dividends.

3.03x

# Financial Performance

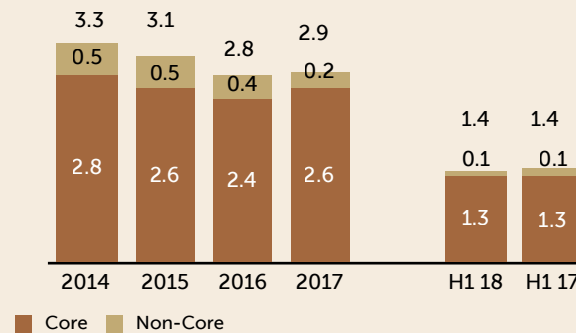
Core revenue increased by 1.8% in H1 2018 as a result of steady growth in tiles by 1.6% & strong growth in tableware by 14.2% YoY driven by the United states, Europe & Asian markets

Total revenue is stable YoY.

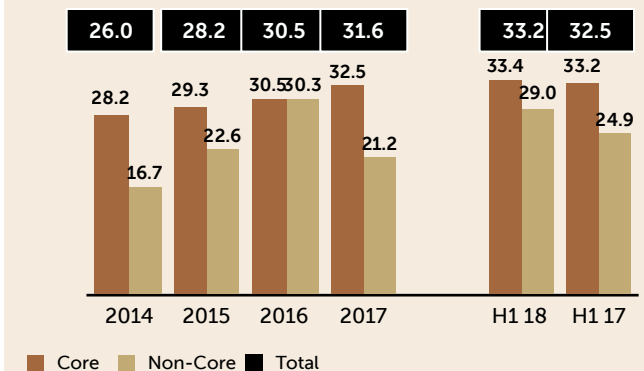
Total gross profit margin of 33.2%, +70bps compared to H1 2017, an all-time high.

Core gross margins increased +20bps in H1 2018 despite increase in energy & raw material prices.

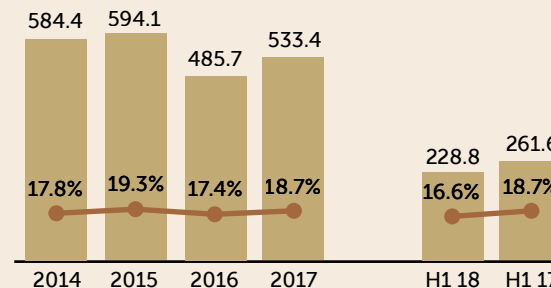
**REVENUE (AED BN)**



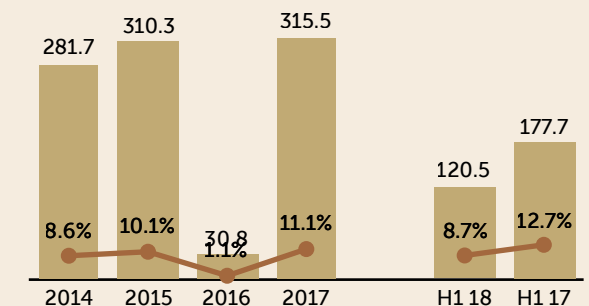
**GROSS PROFIT (%)**



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



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

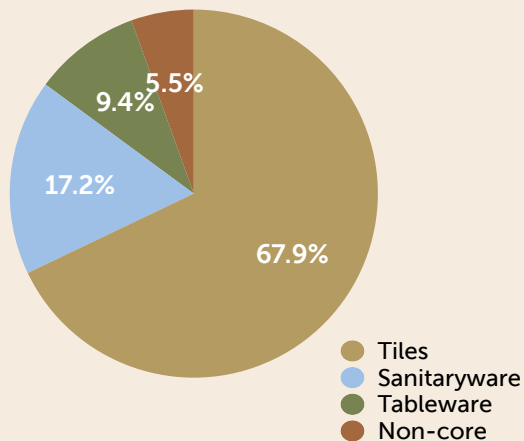


# Segment Performance

Core revenue in H1 2018 increased by +1.8% due to strong performance in tiles & tableware segments.

Effective from 1st Jan 2018, revenue recognition is changed as per IFRS 15. Based on dispatches core revenue increased by +3.8% YoY.

## REVENUE BY SEGMENT H1 2018 (%)



## REVENUE BY SEGMENT (AED MN)

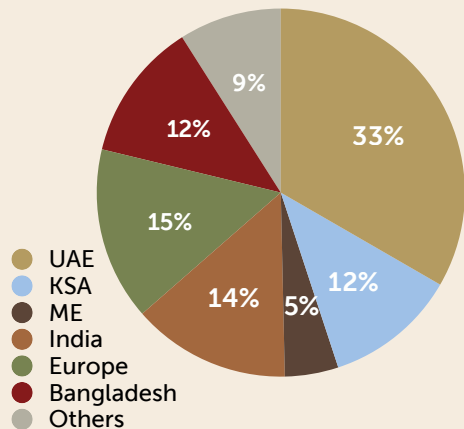
|                      | H1 2018        | H1 2017        |               |
|----------------------|----------------|----------------|---------------|
|                      | Amount         | Amount         | Growth        |
| <b>Tiles</b>         | 937.6          | <b>923.1</b>   | <b>1.6%</b>   |
| <b>Sanitaryware</b>  | 238.2          | <b>245.3</b>   | <b>-2.9%</b>  |
| <b>Tableware</b>     | 129.4          | <b>113.3</b>   | <b>14.2%</b>  |
| <b>Total Core</b>    | <b>1,305.2</b> | <b>1,281.7</b> | <b>1.8%</b>   |
| <b>Non-Core</b>      | 75.9           | <b>120.5</b>   | <b>-37.0%</b> |
| <b>Total Revenue</b> | <b>1,381.1</b> | <b>1,402.2</b> | <b>-1.5%</b>  |

# Tiles & Sanitaryware Regional Performance

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

Revenue in Bangladesh decreased -2.8% due to Ramadan & EID holidays.

REGIONAL CONTRIBUTION H1 2018(%)



REVENUE BY REGION (AED MN)

|                     | H1 2018        | H1 2017        |               |
|---------------------|----------------|----------------|---------------|
|                     | Amount         | Amount         | Growth        |
| <b>UAE</b>          | <b>391.0</b>   | <b>357.4</b>   | <b>9.4%</b>   |
| <b>Saudi Arabia</b> | <b>136.6</b>   | <b>115.5</b>   | <b>18.3%</b>  |
| <b>Middle East</b>  | <b>55.6</b>    | <b>74.4</b>    | <b>-25.3%</b> |
| <b>India</b>        | <b>163.1</b>   | <b>149.9</b>   | <b>8.8%</b>   |
| <b>Europe</b>       | <b>179.0</b>   | <b>191.0</b>   | <b>-6.3%</b>  |
| <b>Bangladesh</b>   | <b>144.0</b>   | <b>148.1</b>   | <b>-2.8%</b>  |
| <b>Africa</b>       | <b>36.0</b>    | <b>68.6</b>    | <b>-47.5%</b> |
| <b>Asia Pacific</b> | <b>45.9</b>    | <b>45.9</b>    | <b>0.0%</b>   |
| <b>Americas</b>     | <b>7.2</b>     | <b>9.4</b>     | <b>-23.4%</b> |
| <b>Central Asia</b> | <b>17.3</b>    | <b>8.0</b>     | <b>116.3%</b> |
| <b>Total</b>        | <b>1,175.7</b> | <b>1,168.2</b> | <b>0.6%</b>   |



# Gross Profit Margins

Total gross profit margin of 33.2%, +70bps compared to H1 2017, an all-time high.

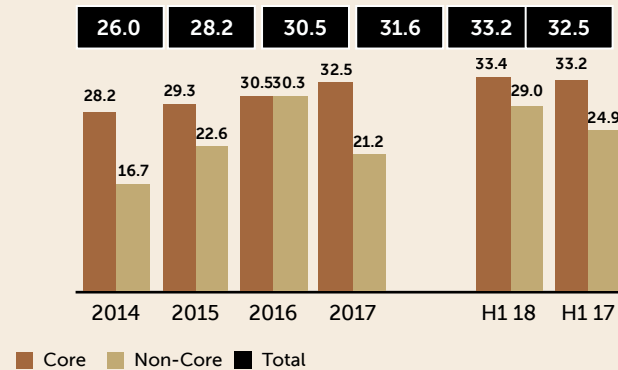
For better efficiencies across all plants, core gross margins increased +20bps in H1 2018 despite increase in energy & raw material prices, .

Tiles margin were stable at 28.6% YoY.

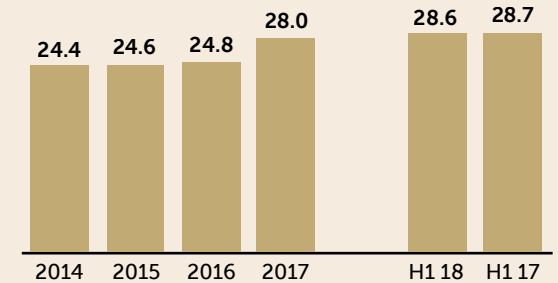
Tableware margins increased by +210bps due to growth in US & Europe operations.

Sanitaryware margins remained slightly lower due to higher energy costs and lower revenue..

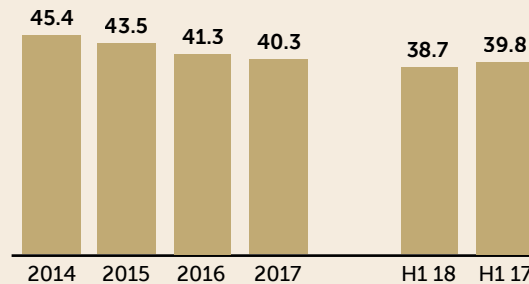
**GROSS PROFIT (%)**



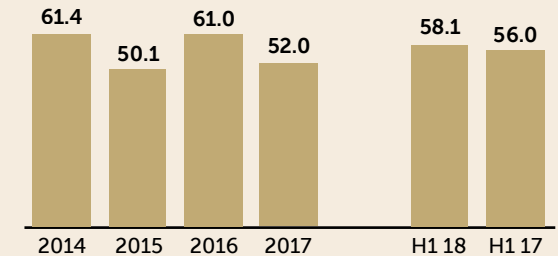
**TILES GROSS PROFIT (%)**



**SANITARYWARE GROSS PROFIT (%)**



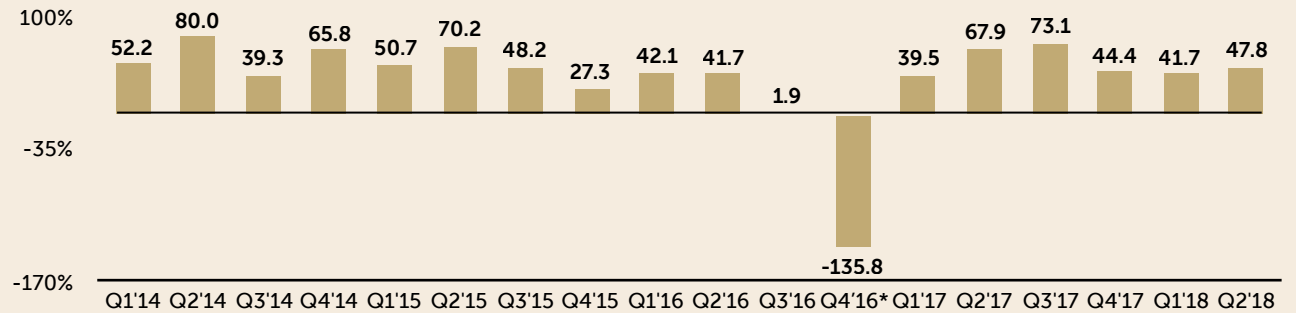
**TABLEWARE GROSS PROFIT (%)**



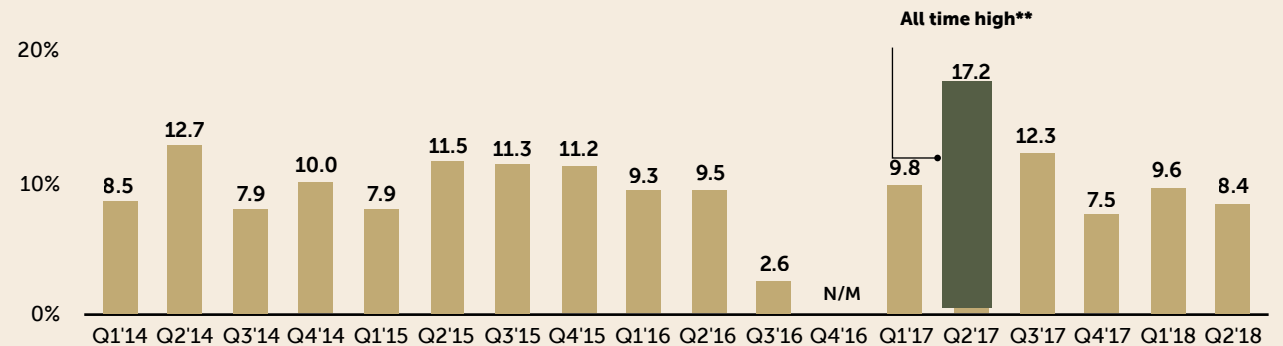
# Core Net Profit and Shareholder Return

Core net profit increased by +14.3% compared to Q1 2018 with a margin improvement of +40bps QoQ.

**CORE NET PROFIT (AED MN)**



**RETURN ON EQUITY (%)**



\* Includes extraordinary provision of AED131.8m \*\*Includes extraordinary Net Gain of AED34.8m towards sale of RAK Warehouse Leasing stake. Impact was 5.3%.

# Balance Sheet Evolution

## MANAGEMENT COMMENTS

Return on equity is 9.4% in H1 2018 (LTM).

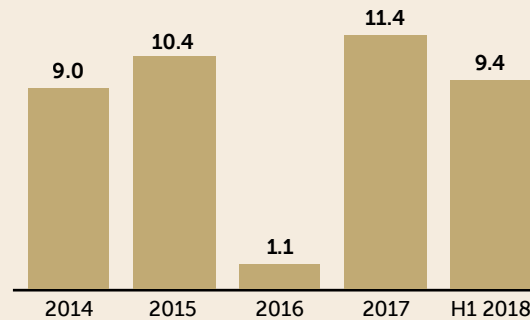
Operating Cycle increased compared to 2017 due to an increase in inventory days on the consolidation of RAK Saudi LLC (Saudi Arabia JV) and for building raw materials and spare stocks.

Payable days has also increased from 66 days in 2017 to 78 days in H1 2018.

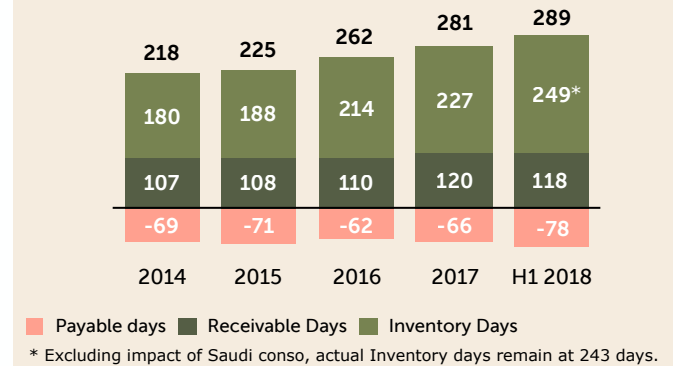
Capex in H1 2018 is higher due to Co-Gen plants installation in progress.

Capex guidance for 2018 is ~AED 300mn including ~AED 100mn for Morbi (India) expansions.

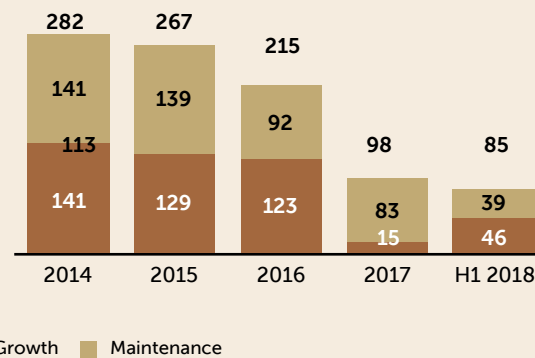
## RETURN ON EQUITY (%)



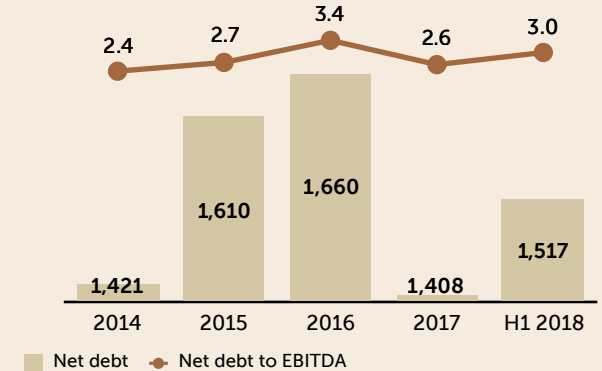
## OPERATING CYCLE (DAYS)



## CAPEX SPENDING (AED M)



## NET DEBT (AED M)



# Market Valuation

## CURRENT VALUATION (AED M)

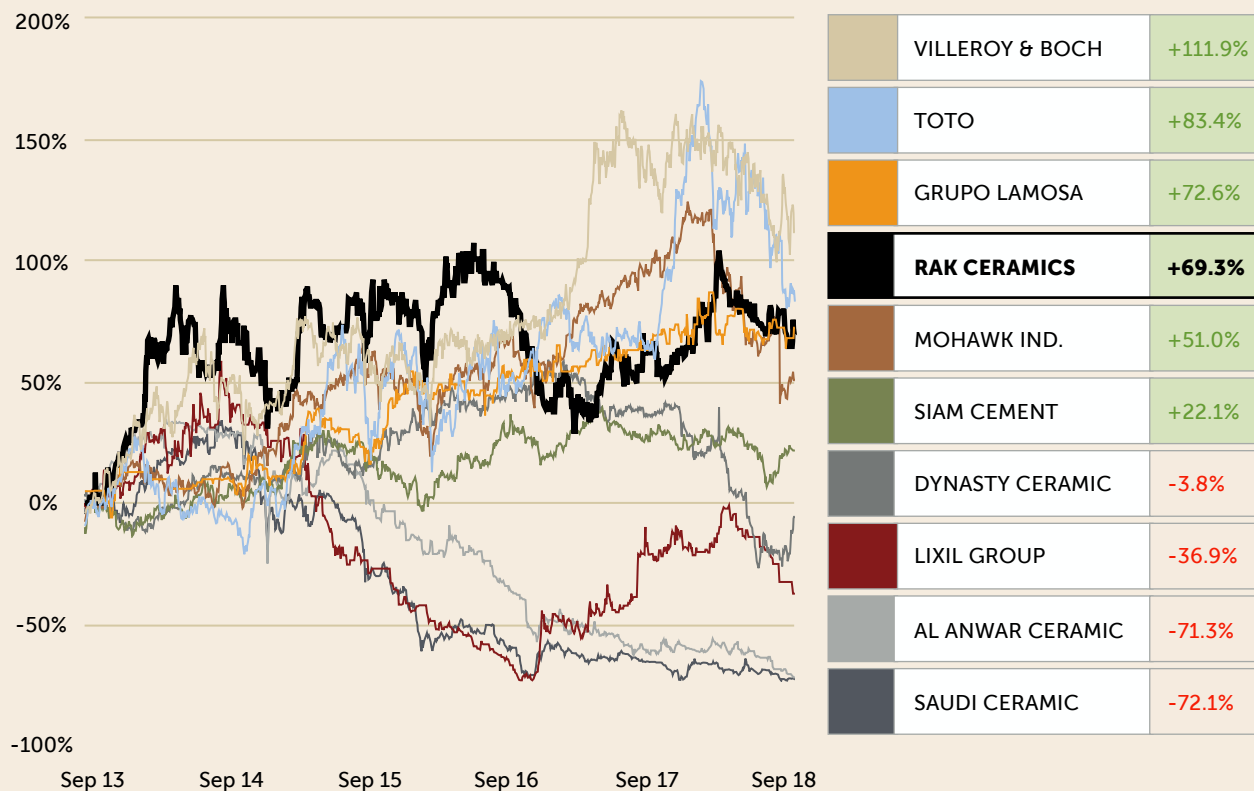
|                         | 31/08/18     | 31/12/17 |
|-------------------------|--------------|----------|
|                         | Amount       | Amount   |
| Share price             | 2.35         | 2.75     |
| Number of shares        | 901          | 858.4    |
| <b>Market Cap</b>       | <b>2,118</b> | 2,360    |
| Net debt                | 1,517*       | 1,407    |
| Minorities              | 185*         | 186      |
| <b>Enterprise Value</b> | <b>3,820</b> | 3,955    |

\*Net debt and minorities as of 30th June 2018

## LTM TRADING MULTIPLES

|             | Multiple |
|-------------|----------|
| EV / Sales  | 1.3x     |
| EV / EBITDA | 7.6x     |
| P / E       | 10.5x    |
| P / B       | 0.9x     |

## RELATIVE RETURNS - DIVIDEND ADJUSTED SHARE PRICE PERFORMANCE (%)



# RAK

## CERAMICS

