

RAK

CERAMICS

EARNINGS PRESENTATION – Q1 2023 RESULTS

MAY 2023

Agenda



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Speakers



Abdallah Massaad
Group Chief Executive Officer

Abdallah Massaad is Group CEO of RAK Ceramics and has more than 24 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 Group CFO 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 the A F Ferguson award.

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EXECUTIVE SUMMARY



Speaker: Abdallah Massaad
Group CEO

Q1 2023 Highlights

Q1 2023 in Brief

- **Q1 2023 registered strong revenue growth** despite difficult market conditions supported by performance of our Tiles and Tableware segment and our strong foothold in the UAE market. As we enter in Q2 2023, we prepare ourselves for the foreseeable challenging times ahead driven by increased competition, higher interest rates, currency devaluation, and recessionary fears in major markets.

Resilient growth amid challenging market conditions

- Rising interest rates, higher costs of living and ongoing geopolitical uncertainties continue to dent demand and consumption globally
- While **Saudi market** continues to face a significant challenge due to a increasing local players aggressively engaging in price war, business in the **UAE** has yet again continued to grow, despite increasing competition from imports
- Earnings continue to be under scrutiny in **India and Bangladesh** due to slowing economic growth and the reduced ability to pass on any additional input costs to increasingly constrained consumers
- Recession concerns intensifying in **Europe** has adversely impacted the growth and margin over the course of Q1 2023
- **Tableware** business delivered a robust performance driven by successful launch of a new series of products and benefiting from the growing tourism industry
- **KLUDI group** performance has shown early signs of growth, even amidst the ongoing implementation of the turnaround strategy

Q1 2023 initiatives & updates aiming to strengthen our Brand

- **International trade events:** Participated in ISH Fair (Sanitaryware) and Ambiente, Frankfurt to showcase products
- **Launch new showrooms:** 2 new showrooms in India; 3 exclusive dealer's showroom in Bangladesh.
- **New collection:** Launched Elie Saab Bathroom, Surface & Tableware collections across 5 showrooms
- **Awards & recognitions:** Won 'Stevie Gold Honorary Award for Excellence and Good Reputation' and the 'Stevie Silver Award for Excellence in Innovation in Manufacturing Industries'.

**Q1 2023
Total Revenue**
AED 882.4M
↑ 12.7% YoY

**Q1 2023
GP Margin**
37.9%
↑ 0.9% YoY

**Q1 2023
Reported Net Profit**
AED 80.1M
↑ 14.9% YoY

BUSINESS HIGHLIGHTS



Speaker: Abdallah Massaad
Group CEO

Q1 2023 Key Market Updates

RAK Ceramics

UAE market has shown strong performance primarily driven by project channel business attributed to the rising real estate market growth in the UAE. While we continue to face challenges due to rising natural gas prices and competition from increasing imports, we have been successful in maintaining our margin in UAE market. E-commerce continued picking up following increased marketing efforts.

Our performance in Saudi market continues to face challenges due to intense competition and price war from local manufacturers. However, we remain committed to our premium positioning & differentiated product strategy, which has allowed us to strengthen our position in the retail and projects segment. We plan to expand our retail footprint by opening new showrooms in the coming quarters.

Our sales in other Middle East markets has shown growth potential. We continue to focus on strengthening our brand position in these markets as we face rising competition from regional manufacturers

Despite the looming recessionary fears in Europe, our performance in Germany and Italy has been resilient, while demand in the UK, specifically for sanitaryware, has been impacted. However, we remain confident about our growth prospect in Europe, given the declining inflation and rationalization of freight rates.

RAK Porcelain

Our tableware business registered robust performance on the back of successful launch of new series of products and benefiting from the growing demand, mostly from regional markets.

Performance remained solid despite impact of rising input costs.

RAK India

India market experienced a decrease in revenue attributed to a slowdown in the construction sector and tight liquidity caused by an increase in interest rate.

Although we face challenges due to rising energy cost and currency devaluation, we continue to expand our dealer network and open new showrooms to improve our brand visibility.

RAK Bangladesh

Our performance in Bangladesh was impacted by drop in gas supply pressure coupled with increased price and currency devaluation.

Despite the challenges, we continue to expand our showrooms network and focus on market penetration and product differentiation.

KLUDI

Revenue from KLUDI remained stable with a slight decrease mainly due to currency devaluation and drop in demand in Europe as a result of geopolitical and economic challenges.

Despite these challenges, we are confident in the future prospects of KLUDI, as we continue to implement our turnaround plan.

Q1 2023 Key Strategic Updates

Advancements on Expansionary Front

UAE expansion projects

- Commercial production of smart tiles factory in UAE with production capacity of 4.6m sqm of GP tiles has started. This smart Factory features integration of automation and IoT technologies to revolutionize tile manufacturing.
- **Sanitaryware** production commenced for enhanced capacity of 260k pcs and reached 80% capacity utilization. Full capacity utilization is likely to be achieved in Q3 2023
- **Tableware** capacity expansion by 10mn pcs is scheduled to complete in Q3 2023; commercial production is targeted in Q4 2023.

Bangladesh expansion project

- Upgradation work for enhancing capacity of existing line for tiles is under implementation and is expected to commence commercial production in Q1 2024

Greenfield projects

- **Bangladesh**: For greenfield plan, land mutation certificate has been received. We are working on shortlisting consultants to design factory layout which is expected to complete by Q3 2023, followed by commencement of construction process.
- **Saudi Arabia**: Application has been filed with Ministry of Energy to support with Gas allocation approval. We are working on finalizing the factory layout plan and obtaining environmental clearances and approvals.

Sustainable initiatives

We are deeply committed to sustainability and have made significant investments in new technologies to reduce environmental impact.

These include efficient online mosaic production, environment-friendly processes for recovering and recycling tiles and an advanced scanning solution.

We are also developing a fully digitalized plant that will provide real-time data on deviations without compromising productivity or quality, improving employee and community safety as well as product quality.

Our recent investment in sanitaryware production line will allow us to incorporate latest technology into the heat exchanger system of kilns, with the capability for future conversion to hydrogen fuel and waste heat recycling.

Our long-term investment in waste utilization and energy consumption will help positively and contribute to our local environment.

Q1 2023 Key Challenges

Critical Parameters	Key Challenges	Our Action
Energy Prices	Increase in Gas prices across manufacturing locations (UAE, Bangladesh & India) impacting productivity and quality	<ul style="list-style-type: none"> • Translate increase in gas price onto selling price while remaining in line with the market • Improve production efficiency and utilization to minimize the impact of gas supply disruption on product quality
Rising interest cost	Continued and consistent increase in interest cost globally has tightened liquidity condition impacting consumer spending specifically investments in real estate	<ul style="list-style-type: none"> • Implement cost optimization measures to improve profitability and cash flow • Continue investing in differentiated products and brand enhancement with a focus on enhancing customer value proposition
Currency devaluation	Devaluating currencies, given increased uncertainty and rising worry of a global recession	<ul style="list-style-type: none"> • Opt for natural currency hedging techniques to limit working capital exposure • Focus on diversified revenue streams geographically to minimize bottom line effect
Custom duty in Saudi	Custom Duty in Saudi Arabia on imports from the UAE burdening distributors	<ul style="list-style-type: none"> • Translating increase cost onto pricing • Continued effort to comply with local laws to avail custom duty exemption
Macro Challenges	Rising concerns around global recession due to inflation and interest rate hikes	<ul style="list-style-type: none"> • Optimize production footprint, efficiencies & utilization to reduce impact on margin

Q1 2023 FINANCIAL RESULTS UPDATE



Speaker: PK Chand
Group CFO

Q1 2023 Performance Snapshot

Total revenue increased by +12.7% YoY to AED 882.4m driven by increase in Tiles (+0.9%), Tableware (+28.9%) and faucets following consolidation +AED 105.1m, hindered however by Sanitaryware revenue (-16.6%)

AED 882.4M

Total gross profit margin increased by +90bps YoY to reach 37.9% driven by increase in tiles and tableware margin

37.9%

Total EBITDA increased to AED 157.1m compared to 129.7m in last year. Margin increased by + 1.2% YoY to 17.8%

AED 157.1M

Reported net profit increased to AED 80.1m in Q1 2023 versus AED 69.7m in Q1 2022. NP Margin is 9.1% compared to 8.9% in last year

AED 80.1M

Net profit after minority increased to AED 73.4m compared to AED 56.6m in last year. Margin is 8.3% compared to 7.2% in last year

AED 73.4M

Net debt increased by AED 157.7m to AED 1.46 bn in March 2023 compared to 1.30 bn in December 2022 mainly due to payment of AED 112.2m as Dividend and increase in working capital.

Net debt to EBITDA increased to 2.42x in March 2023 vs 2.26x in December 2022.
AED 1.46BN

Financial Highlights

Amount in AED M	Quarterly comparison				
	Q1 22	Q4 22	Q1 23		
	Amount	Amount	Amount	YoY Growth	QoQ Growth
Revenue	783.1	900.7	882.4	12.7%	-2.0%
Gross margin (%)	37.0%	34.2%	37.9%	0.9%	3.7%
EBITDA	129.7	137.6	157.1	21.2%	14.2%
Reported net profit/(loss)	69.7	78.0	80.1	14.9%	2.7%
Capital expenditure	23.9	62.0	44.7	NM	NM
Net debt	975.2	1,301.1	1,458.8	49.6%	12.1%
Net debt / EBITDA	1.93x	2.26x	2.42x	25.4%	7.0%

* EBITDA Slides # 24

Revenue Highlights Q1 2023

MANAGEMENT COMMENTS

Total revenue increased by +12.7% YoY to reach AED 884.2m driven by mainly tiles and tableware segments, followed by Kludi Group consolidation which added AED 105.1m in Q1 2023. Excluding Kludi, revenue decreased by -0.7% YoY which is pre-dominantly due to currency depreciation. On constant currency of last year, revenue increased by +3.5% YoY excluding Kludi consolidation.

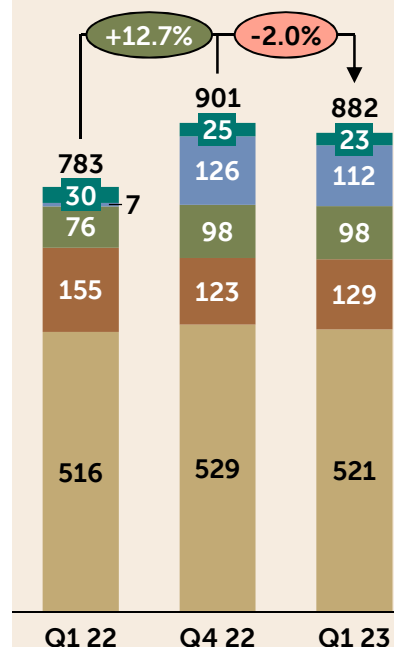
Tiles revenue is higher by +0.9% YoY at AED 520.9m driven by increase in selling price due to change in product mix and higher sales in UAE market.

Sanitaryware revenue is lower by -16.6% YoY at AED 129.2m due to i) lower off-take in European markets given on-going economic challenges and ii) disruption in Bangladesh business due to intermittent lower pressure in gas supply.

Tableware revenue increased by +28.9% YoY at AED 97.6m driven by introduction of differentiated products.

Faucets revenue is AED 111.6m in Q1 2023, out of which contribution from KLUDI Group is AED 105.1m.

TOTAL REVENUE (AEDM)



	Quarterly comparison				
	Q1 22	Q4 22	Q1 23		
	Amount	Amount	Amount	YoY Growth	QoQ Growth
United Arab Emirates	152.3	191.8	189.9	24.7%	-1.0%
Kingdom of Saudi Arabia	123.0	133.9	120.0	-2.4%	-10.4%
Middle East (Ex. UAE & KSA)	36.3	33.1	35.3	-2.7%	6.7%
India	99.5	101.9	91.0	-8.5%	-10.7%
Europe	108.9	86.2	97.1	-10.8%	12.7%
Bangladesh	85.5	61.4	69.6	-18.6%	13.3%
Africa	37.2	27.6	28.5	-23.3%	3.4%
Rest of the world	28.4	16.3	18.6	-34.6%	14.0%
Tiles and SW revenue	671.1	652.2	650.1	-3.1%	-0.3%
Tableware revenue	75.7	98.0	97.6	28.9%	-0.4%
Faucets revenue	6.7	125.6	111.6	-NM	-11.2%
Others revenue	29.6	25.3	23.2	-21.8%	-8.5%
Total Revenue	783.1	900.7	882.4	12.7%	-2.0%

Gross Profit Margin

MANAGEMENT COMMENTS

Total gross profit margin increased by +90bps YoY to 37.9%, for Q1 2023 driven by higher margins in Tiles & Tableware segment.

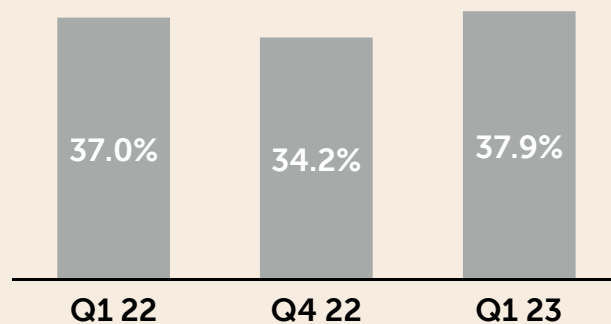
Tiles margin in Q1 2023 increased by +360bps compared to Q1 2022 to 38.9% mainly due to change in product mix and higher sales in UAE market. QoQ margin remained stable.

Sanitaryware margin decreased by -260bps YoY to 36.0% in Q1 2023 mainly due to lower revenue and higher energy price.

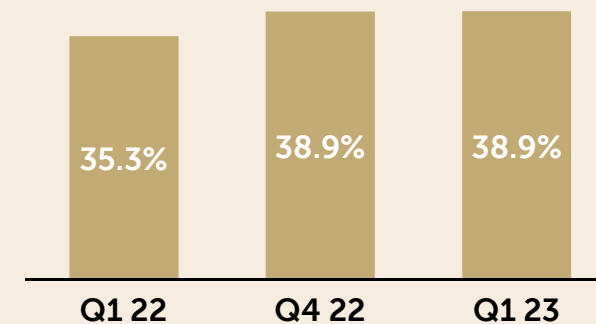
Tableware margin increased by +150bps YoY to 50.3% in Q1 2023 following top-line increase and change in product mix.

Noting that KLUDI Group consolidation was effective as of the 1st of June 2022, Faucets margin stood at 26.6% as of Q1 2023 compared to 16.7% in Q4 2022.

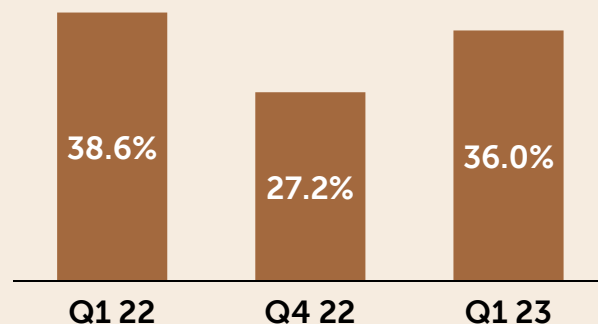
TOTAL GROSS MARGINS (%)



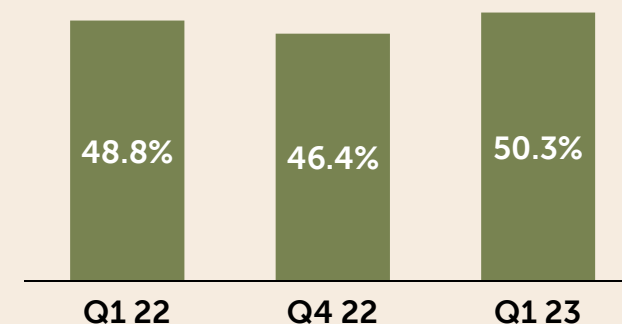
TILES GROSS MARGINS (%)



SANITARYWARE GROSS MARGINS (%)

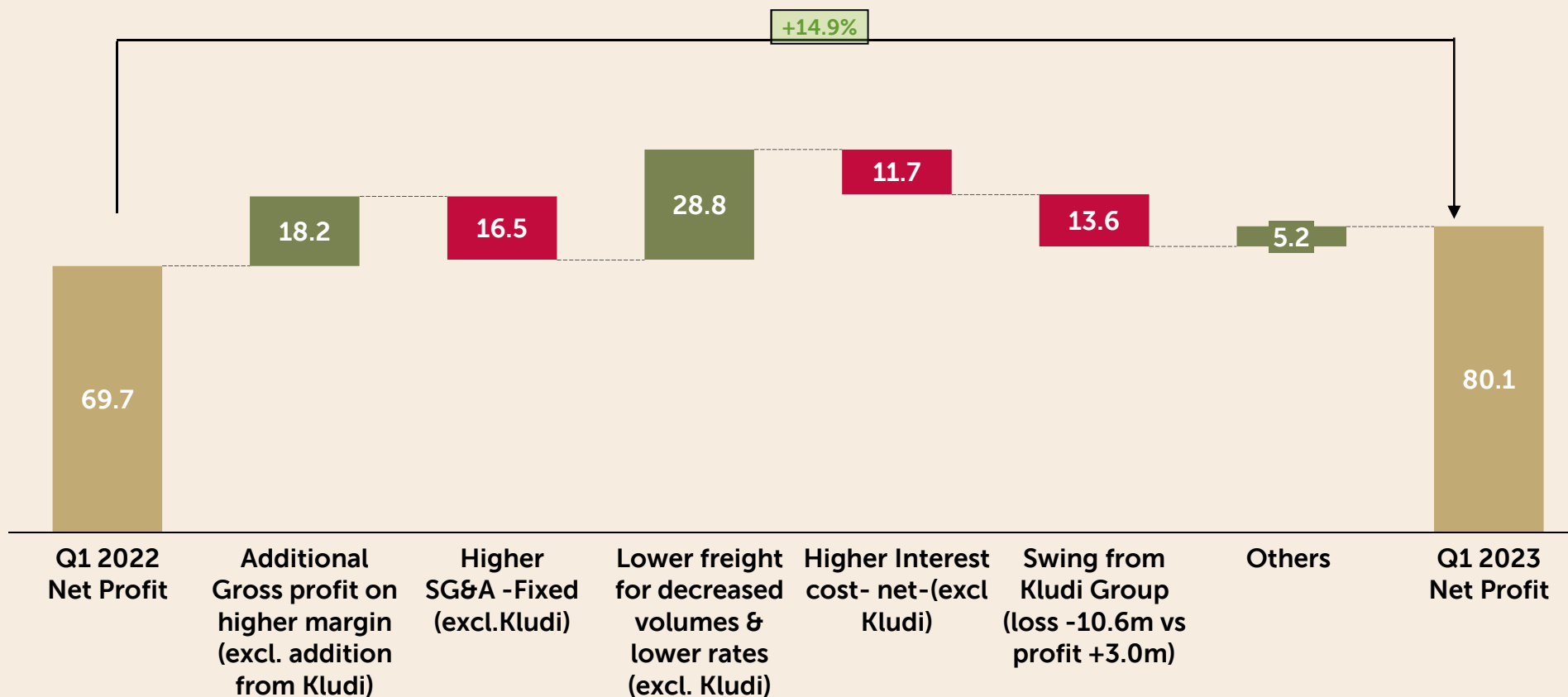


TABLEWARE GROSS MARGINS (%)



Profitability Bridge

Q1 2023 vs Q1 2022 Profit Bridge (AEDM)



Balance Sheet Highlights

MANAGEMENT COMMENTS

Overall working capital cycle increased from 145 days in Q4 2022 to 156 days in Q1 2023. In absolute terms, working capital increased by AED 111m QoQ to AED 1.52bn in Q1 2023, mainly due to increase in receivables and reduction in trade payables.

Inventory days reduced from 197 days to 191 days QoQ.

Trade receivable days increased from 84 days to 88 days QoQ.

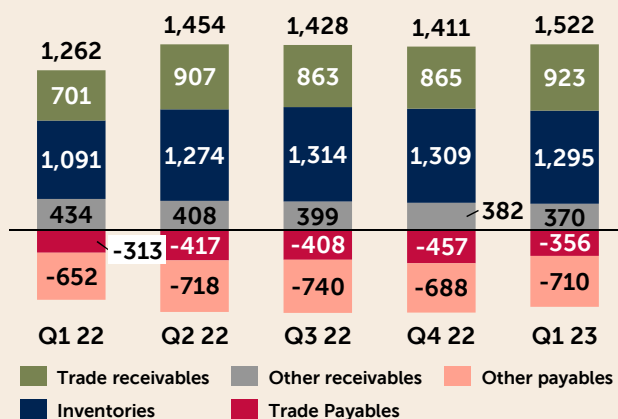
Trade payable decreased from 63 days in Q4 2022 to 52 days in Q1 2023 mainly due to lower purchases made during the quarter.

Net debt increased by AED 157.7m to AED 1.46 bn in March 2023 compared to AED 1.30 bn in December 2022 mainly due to payment of AED 112.2m as Dividend and increase in working capital.

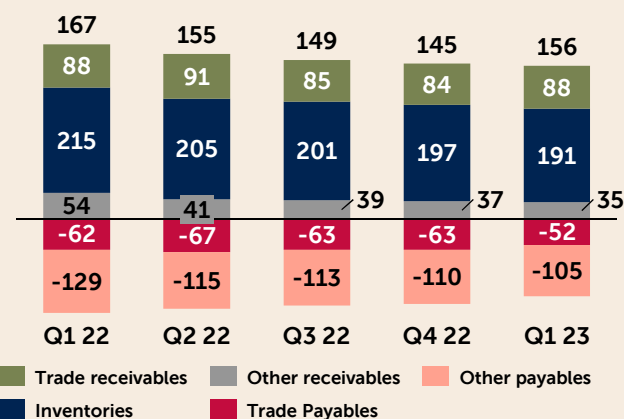
Net Debt to EBITDA increased to 2.42x in March 2023 vs 2.26x in December 2022.

Capex guidance for 2023 remains at AED 300-350m.

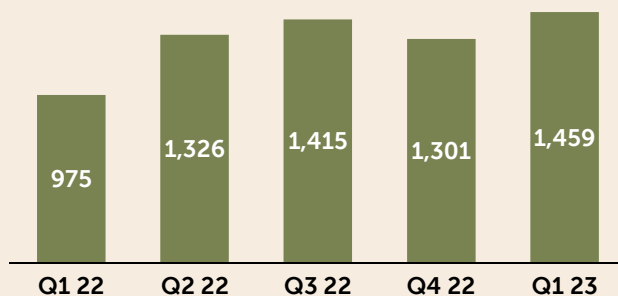
WORKING CAPITAL (AEDM)



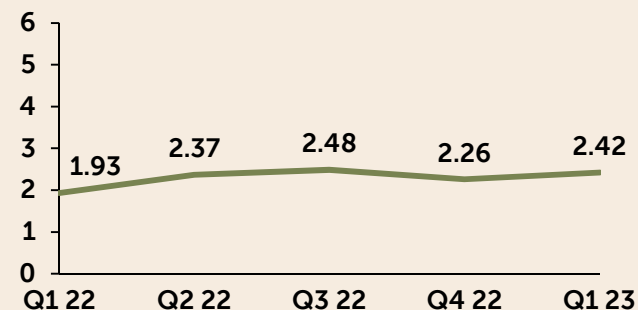
WORKING CAPITAL CYCLE (LTM DAYS)



NET DEBT (AEDM)



NET DEBT TO EBITDA (X)



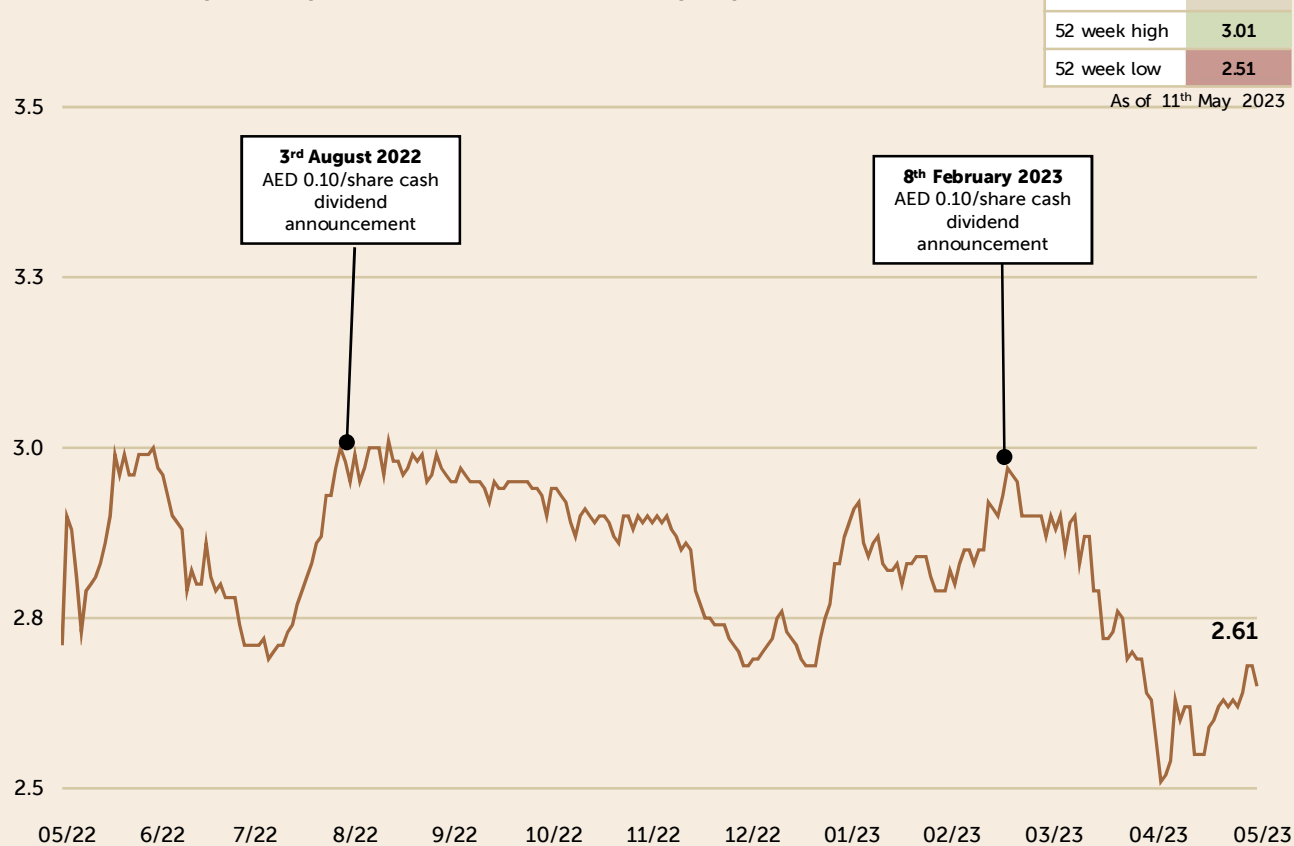
SHARE PRICE UPDATE



Speaker: PK Chand
Group CFO

RAK Ceramics Share Price Movement

RAK CERAMICS (RAKCEC) SHARE PRICE PERFORMANCE (AED)



CURRENT VALUATION (AED M)

	11/05/2023	31/12/2022
	Amount	Amount
Share price	2.61	2.83
Number of shares (in Mn)	994	994
Market Cap	2,594	2,812
Net debt	1,459*	1,301
Minorities	124*	133
Enterprise Value	4,176	4,246

*Net debt and minorities as of 31st March 2023

LTM TRADING MULTIPLES

As of 11 th May 2023	Multiple
EV / Sales	1.1x
EV / EBITDA	6.9x
P / E	9.0x
P / B	1.3x

CLOSING REMARKS



Speaker: Abdallah Massaad
Group CEO

2023 Priorities

Protect Market Share

Maintain healthy competition across all core markets and segments albeit increased challenges

Production Capabilities Growth

Rationalize footprint and increase capacity across all core businesses via plant additions, enhancements in addition to greenfield

Operational Diversification

Explore and diversify into new markets in terms of sales, sourcing and potentially manufacturing

Digital Acceleration

Improve operating model practicing agility and digitization to enable enhanced analytics and data-driven decision-making capabilities

B2C, D2C & Retail Expansion

Focus on strengthening retail presence in focus markets via opening new showrooms, refurbishing existing outlets, and rolling out e-commerce into additional markets

KLUDI Turn-around

Transform KLUDI into a global high-end faucet brand, complementing RAK Ceramics sanitaryware offering, and build-on identified synergies and integration plan to improve performance

Business, Operations & Risk management

Optimize operations enhancing efficiencies and mitigate actively rising risks improving bottom-line performance across all subsidiaries

Sustainability stimulation

Define and implement a sustainability strategy incorporating ESG initiatives into RAK Ceramics identity and across all operations

Q&A



Abdallah Massaad
Group CEO



PK Chand
Group CFO

APPENDIX

EBITDA Working

	Quarterly comparison		
	Q1 22	Q4 22	Q1 23
Amount in AED M	Amount	Amount	Amount
Net profit/(loss) after tax	69.7	78.0	80.1
Tax	6.9	(10.6)	5.0
Interest- net	12.2	23.0	24.8
Depreciation & amortization	40.9	47.3	47.5
Impairment on Investment properties	-	0.9	-
(Gain) on sale of assets/CWIP write-off	(0.0)	(1.1)	(0.2)
EBITDA	129.7	137.6	157.1

Thank You

CONTACT US

If you have any questions or require further information, please do not hesitate to contact our investor relations department.

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