

# RAK

## CERAMICS

EARNINGS PRESENTATION - Q2 & H1 2020 RESULTS

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AUGUST 2020

# Attendees



**Abdallah Massaad**  
Group Chief Executive Officer

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

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# Key business highlights

## **Growth in Saudi Arabia**

The imposition of anti-dumping duty on imported tiles from China and India, effective 6th June 2020, has increased demand for our products.

## **Margin Improvement**

Gross profit margins have been affected due to lower productivity during Q2 on account of plant shutdowns resulting higher unabsorbed fixed costs.

## **Savings in fixed SG&A expenses**

Significant savings in fixed SG&A expenses as a result of reductions in discretionary expenses and stringent control in overheads and manpower headcount across the group of companies.

## **Liquidity Management**

We have taken measures to manage liquidity and placing non-essential CAPEX plans on hold. Presently our liquidity position is at a comfortable level.

## **Product Differentiation**

Continued investment in product development and innovation and partnerships with renowned international designers.

## **COVID-19 Initiatives recovery**

Continued implementation of COVID-19 operational initiatives showing signs of recovery post lockdown. Production has restarted in Bangladesh and India in June and July in phases.

# Early signs of recovery across global operations

## **UAE Production Optimisation**

Production lines were optimised to meet demand. From July production began running at an optimal capacity due to increasing demand from Saudi Arabia. Cost saving measures were initiated to limit discretionary expenses.

## **Saudi Arabia Border Closures**

Saudi borders were closed with sales and deliveries being affected, however from June onwards deliveries were managed by switching the trucks between the Saudi Arabia and the United Arab Emirates borders.

## **European recovery**

Lockdowns continued across Europe in April and May, with Italy, the UK being significantly impacted, however revenue is improving month by month.

## **Bangladesh rebound**

Following a lockdown in April and May, production resumed in June and July in phases and is currently operating at full capacity. The market has shown signs of recovery following an easing of lockdown measures and an increase in sales.

## **India phased reopening**

The government eased lockdown measures in June following a two-month closure. As a result, we have restarted production in Samalkot and Morbi in June with another Morbi plant restarting in July. Various cost reduction measures have initiated.

## **Tableware Optimisation**

RAK Porcelain, our tableware business, was severely impacted due to a slowdown in the hospitality and airlines sectors. Production is currently operating at a 65% capacity.

# Q2 2020 Key financial highlights

**Total revenue** decreased by -37.3% YoY to AED 411.3m mainly due to COVID-19 lockdowns across all the major markets.

AED 411.3M

**Total gross profit margin** decreased by -580bps YoY to 28.5%, due to a decrease in revenue and plant shutdowns which resulted in unabsorbed fixed costs of AED 25m during the Q2.

28.5%

**Savings in SG&A fixed** is AED 31.1m YoY due to various cost saving measures initiated and by avoiding discretionary expenses.

AED -31.1M

**Reported net loss** is AED -19.8m compared to net profit of AED 73.4m YoY. Last year net profit included a AED 22.1m provision reversal. **Net loss after minority** is AED -11.6m compared to profit of 61.2m in Q2 19.

AED -19.8M

**Like for like net loss\*** is AED -13.7m compared to profit of AED 52.3m in Q2 19 mainly due to a revenue decrease of AED -245m YoY

AED -13.7M

**Total EBITDA** is positive at AED 40.5m compared to 141m in Q2 19. Margin is 9.9% compared to 21.5% in Q2 19.

AED 40.5M

\*exc. provisions and gains

# Monthly revenue recovery by end market

	MONTHLY IMPROVEMENTS				QUARTERLY COMPARISON		
	Q1 20	April 20	May 20	June 20	Q2 20	Q2 19	
<b>United Arab Emirates</b>	<b>159.5</b>	47.2	39.4	51.7	<b>138.4</b>	190.9	<b>-27.5%</b>
<b>Kingdom of Saudi Arabia</b>	<b>91.5</b>	18.6	9.2	41.3	<b>69.1</b>	70.7	<b>-2.2%</b>
<b>Middle East</b> (Ex. UAE and KSA)	<b>20.9</b>	6.8	5.7	7.1	<b>19.7</b>	22.5	<b>-12.5%</b>
<b>India</b>	<b>57.7</b>	0.0	12.9	16.2	<b>29.1</b>	67.3	<b>-56.8%</b>
<b>Europe</b>	<b>81.6</b>	18.9	21.3	25.1	<b>65.3</b>	89.3	<b>-26.8%</b>
<b>Bangladesh</b>	<b>63.1</b>	1.1	3.7	16.4	<b>21.2</b>	62.5	<b>-66.1%</b>
<b>Africa</b>	<b>17.1</b>	1.9	2.9	4.6	<b>9.4</b>	26.3	<b>-64.4%</b>
<b>Rest of the world</b>	<b>16.8</b>	5.5	5.6	6.3	<b>17.4</b>	24.4	<b>-28.6%</b>
<b>Tiles and sanitaryware revenue</b>	<b>508.4</b>	<b>100.2</b>	<b>100.7</b>	<b>168.6</b>	<b>369.5</b>	<b>553.7</b>	<b>-33.3%</b>
<b>Tableware revenue</b>	<b>51.3</b>	4.6	5.5	11.3	<b>21.4</b>	74.0	<b>-71.0%</b>
<b>Others revenue</b>	<b>33.0</b>	4.9	5.6	9.8	<b>20.4</b>	28.3	<b>-28.0%</b>
<b>Total Revenue</b>	<b>592.8</b>	<b>109.7</b>	<b>111.9</b>	<b>189.7</b>	<b>411.3</b>	<b>656.1</b>	<b>-37.3%</b>

# H1 2020 Key financial highlights

**Total revenue** decreased by -20.6% YoY to AED 1.0bn due to lower revenue in Q2 on account of COVID-19 lockdowns. On constant currency basis, as of H1 2019, the total revenue decrease is -19.8% YoY.

AED 1.0<sub>BN</sub>

**Total gross profit margin** decreased by -210bps YoY to 31.0%, due to lower revenue and lower productivity resulting higher unabsorbed fixed costs by AED 28m.

31.0%

**Reported net profit** decreased to AED 10.5m from 110.3m in H1 19 due to lower revenue by AED-261m. H1 19 net profit includes AED 22.1m provision reversal. **Net profit after minority** decreased to AED 14.1m from AED 90.2m in H1 19.

AED 10.5<sub>M</sub>

**Like for like net profit\*** decreased by -68m YoY to AED 22.6m, with a margin decrease of -490bps YoY to 2.2%, mainly due to lower revenues.

AED 22.6<sub>M</sub>

**Total EBITDA** decreased by -43.4% YoY to AED 135.7mn, with a margin decrease of 5.4% YoY to 13.5%.

AED 135.7<sub>M</sub>

**Net Debt** increased from AED 1.37bn in Dec 19 to AED 1.47bn in Jun 20. **Net Debt to EBITDA** increased from 2.85x in Dec 19 to 3.88x in June 20 on dividend payments of AED 177m. (June 19, Net debt to EBITDA 3.11x).

3.88<sub>x</sub>

\*exc. provisions and gains



# Net profit bridge

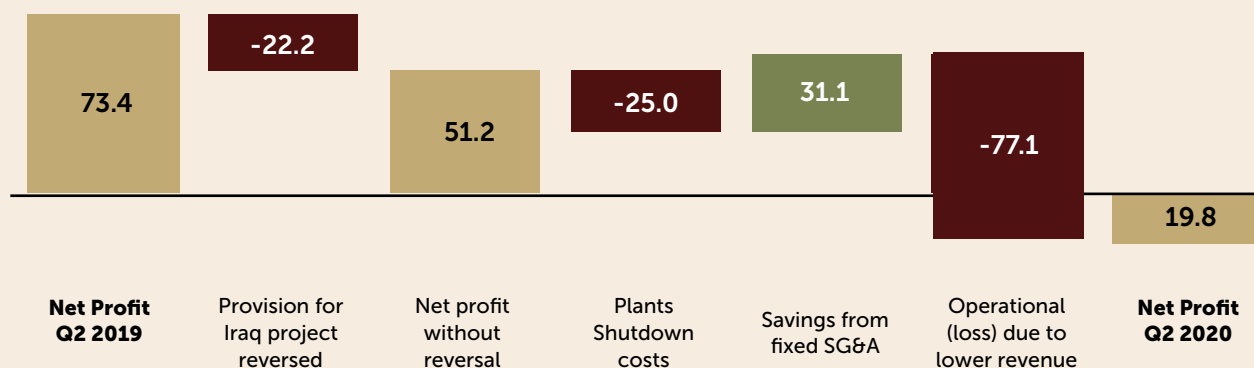
## MANAGEMENT COMMENTS

Revenue in all markets, except Saudi Arabia, was negatively impacted during Q2 20 due to COVID-19.

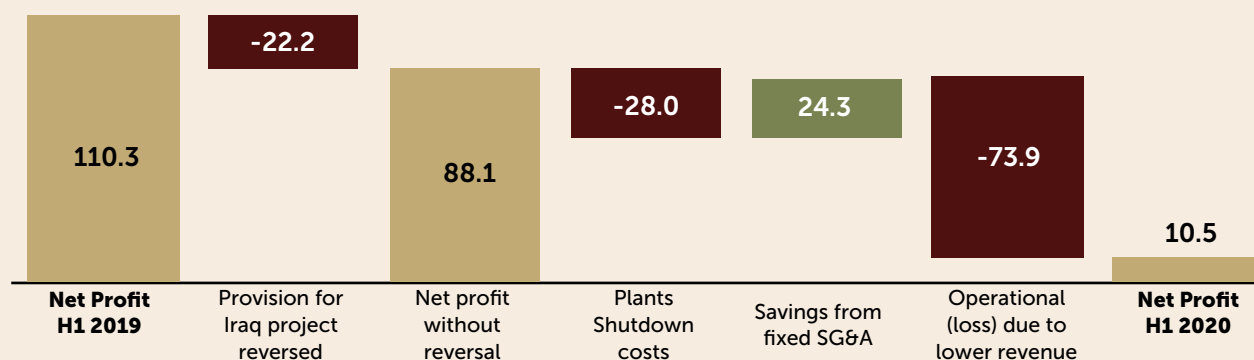
Revenue in April and May 20 was severely impacted however, from June, as a result of lockdown easing, revenue started a slow recovery in Europe, India and Bangladesh.

Reported net loss in Q2 2020 is AED -19.8m compared to a net profit of 73.4m YoY. Q2 19 included a reversal of receivables provision of AED 22.1m. Loss is mainly due to lower revenue impacting the bottom line by AED 77.1m.

### Q2 2020 VS 2019 (AEDM)



### H1 2020 VS 2019 (AEDM)



# Revenue highlights

## MANAGEMENT COMMENTS

Q2 2020 performance was impacted due to lockdowns in India, Bangladesh and Europe.

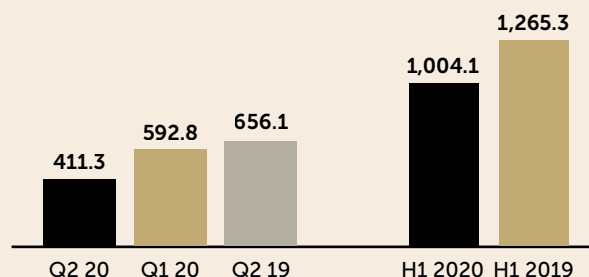
Total revenue decreased by -37.3% YoY (-36.4% on constant currency basis).

Tiles revenue is lower by -32.7% YoY due to lower sales in all markets.

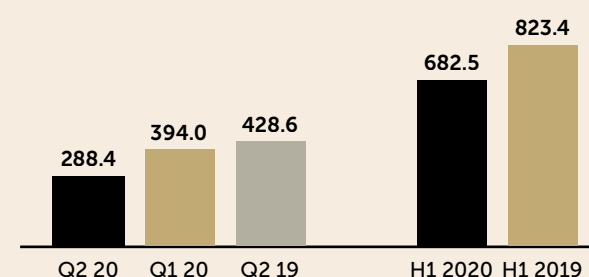
Sanitaryware revenue decreased by -35.3% YoY. Tableware revenue was severely impacted due to Covid 19 impact in the hospitality and airlines sectors resulting in revenue decrease of -71% YoY.

Revenue from other business decreased by -27.6% YoY to AED 20.5m due to lower sales in ceramic raw material trading and paints businesses.

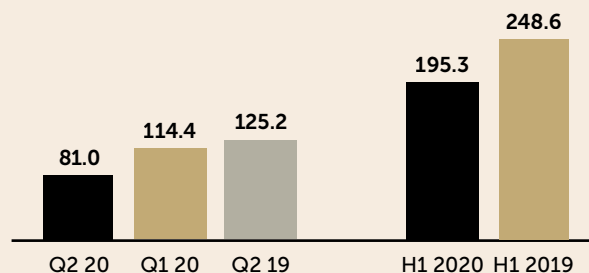
## TOTAL REVENUE (AEDM)



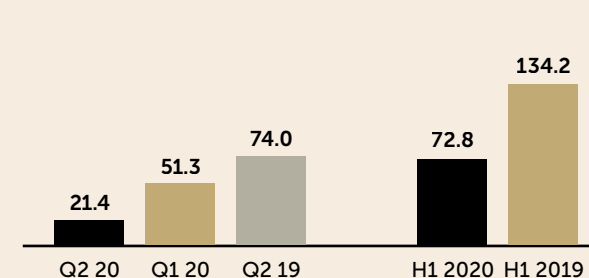
## TILES REVENUE (AEDM)



## SANITARYWARE REVENUE (AEDM)



## TABLEWARE REVENUE (AEDM)



# Tiles revenues by end market

	QUARTERLY COMPARISON					YEARLY COMPARISON		
	Q2 20	Q1 20		Q2 19		H1 20	H1 19	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>United Arab Emirates</b>	<b>108.1</b>	123.0	<b>-12.1%</b>	151.3	<b>-28.6%</b>	<b>231.1</b>	293.2	<b>-21.2%</b>
<b>Kingdom of Saudi Arabia</b>	<b>64.1</b>	86.1	<b>-25.6%</b>	64.9	<b>-1.3%</b>	<b>150.2</b>	112.6	<b>33.4%</b>
<b>Middle East (Ex. UAE and KSA)</b>	<b>17.2</b>	18.5	<b>-6.8%</b>	19.7	<b>-12.4%</b>	<b>35.7</b>	37.9	<b>-5.7%</b>
<b>India</b>	<b>27.1</b>	52.9	<b>-48.7%</b>	63.2	<b>-57.1%</b>	<b>80.0</b>	132.6	<b>-39.7%</b>
<b>Europe</b>	<b>34.3</b>	38.5	<b>-10.8%</b>	43.8	<b>-21.7%</b>	<b>72.8</b>	85.5	<b>-14.9%</b>
<b>Bangladesh</b>	<b>13.4</b>	46.2	<b>-71.0%</b>	42.4	<b>-68.4%</b>	<b>59.6</b>	83.4	<b>-28.5%</b>
<b>Africa</b>	<b>8.5</b>	14.7	<b>-41.9%</b>	21.9	<b>-61.0%</b>	<b>23.3</b>	38.2	<b>-39.0%</b>
<b>Rest of the world</b>	<b>15.6</b>	13.9	<b>11.9%</b>	21.3	<b>-26.8%</b>	<b>29.8</b>	40.0	<b>-25.5%</b>
<b>Total</b>	<b>288.3</b>	<b>393.9</b>	<b>-26.8%</b>	<b>428.6</b>	<b>-32.7%</b>	<b>682.5</b>	<b>823.3</b>	<b>-17.1%</b>

# Sanitaryware revenues by end market

	QUARTERLY COMPARISON					YEARLY COMPARISON		
	Q2 20	Q1 20		Q2 19		H1 20	H1 19	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>United Arab Emirates</b>	<b>30.3</b>	36.5	<b>-17.1%</b>	39.5	<b>-23.4%</b>	<b>66.8</b>	78.1	<b>-14.6%</b>
<b>Kingdom of Saudi Arabia</b>	<b>5.1</b>	5.4	<b>-5.4%</b>	5.8	<b>-12.1%</b>	<b>10.5</b>	11.8	<b>-11.1%</b>
<b>Middle East (Ex. UAE and KSA)</b>	<b>2.4</b>	2.4	<b>-0.7%</b>	2.8	<b>-13.2%</b>	<b>4.9</b>	4.4	<b>9.7%</b>
<b>India</b>	<b>1.8</b>	4.8	<b>-61.7%</b>	4.1	<b>-55.3%</b> *	<b>6.6</b>	9.5	<b>-30.2%</b>
<b>Europe</b>	<b>31.0</b>	43.1	<b>-28.1%</b>	45.5	<b>-31.7%</b> *	<b>74.2</b>	85.9	<b>-13.6%</b>
<b>Bangladesh</b>	<b>7.8</b>	16.9	<b>-53.9%</b>	20.1	<b>-61.3%</b> *	<b>24.6</b>	43.6	<b>-43.6%</b>
<b>Africa</b>	<b>0.8</b>	2.4	<b>-67.0%</b>	4.3	<b>-81.6%</b>	<b>3.2</b>	7.5	<b>-57.3%</b>
<b>Rest of the world</b>	<b>1.8</b>	2.9	<b>-38.0%</b>	3.1	<b>-43.6%</b>	<b>4.6</b>	7.7	<b>-39.7%</b>
<b>Total</b>	<b>81.0</b>	<b>114.4</b>	<b>-29.2%</b>	<b>125.2</b>	<b>-35.3%</b>	<b>195.3</b>	<b>248.5</b>	<b>-21.4%</b>

# Gross profit margins

## MANAGEMENT COMMENTS

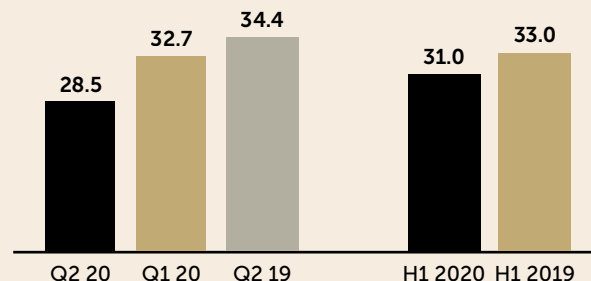
Total gross margin decreased by -580bps YoY to 28.5% due to lower revenue and lower productivity which resulted in unabsorbed fixed costs of AED 25m in Q2.

Tiles margin decreased by -230bps YoY to 27.9% due to the shutdown of plants in India, Bangladesh and reduced production in the United Arab Emirates during April and May.

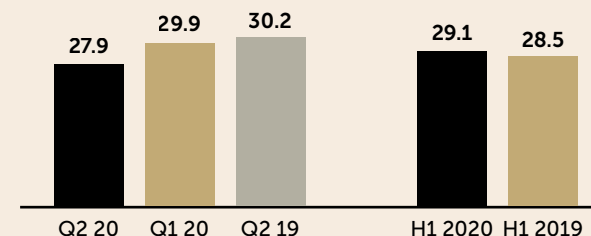
Sanitaryware margin is lower by -9.4% YoY to 26.2% due to lower sales and lower productivity.

Tableware margins decreased by -9.2% YoY to 48.1% due to a lower revenue and lower productivity.

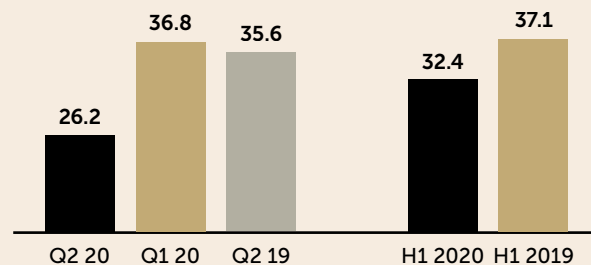
### TOTAL GROSS MARGINS (%)



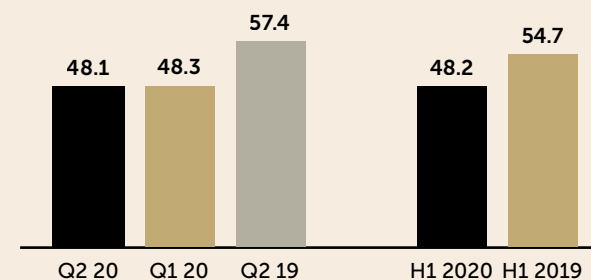
### TILES GROSS MARGINS (%)



### SANITARYWARE GROSS MARGINS (%)



### TABLEWARE GROSS MARGINS (%)



# Financial highlights

Amount in AED M	QUARTERLY COMPARISON			YEARLY COMPARISON		YEARLY COMPARISON		
	Q2 20	Q1 20		Q2 19		H1 2020	H1 2019	
	Amount	Amount	Growth	Amount	Growth	Amount	Amount	Growth
<b>Revenue</b>	<b>411.3</b>	592.8	<b>-30.6%</b>	656.1	<b>-37.3%</b>	<b>1,004.1</b>	1,265.3	<b>-20.6%</b>
<b>Gross margin (%)</b>	<b>28.5%</b>	32.7%	<b>-4.2%</b>	34.4%	<b>-5.9%</b>	<b>31.0%</b>	33.0%	<b>-2.1%</b>
<b>SG&amp;A Fixed Expenses</b>	<b>89.4</b>	117.8	<b>28.5</b>	120.6	<b>31.1</b>	<b>207.3</b>	231.6	<b>24.3</b>
<b>EBITDA</b>	<b>40.5</b>	95.2	<b>-57.4%</b>	141.0	<b>-71.3%</b>	<b>135.7</b>	239.7	<b>-43.4%</b>
<b>Reported net profit</b>	<b>-19.8</b>	30.2	<b>-165.3%</b>	73.4	<b>-126.9%</b>	<b>10.5</b>	110.3	<b>-90.5%</b>
<b>Adjustments for Like for Like net profit (net)*</b>	<b>6.0</b>	6.1	n/a	-21.1	n/a	<b>12.1</b>	-19.8	n/a
<b>Like for like net profit</b>	<b>-13.7</b>	36.3	<b>-137.8%</b>	52.3	<b>-126.2%</b>	<b>22.6</b>	90.4	<b>-75.0%</b>
<b>Capital expenditure</b>	<b>24.7</b>	27.6	<b>11.7%</b>	41.9	<b>69.7%</b>	<b>52.3</b>	109.4	<b>-52.2%</b>
<b>Net debt</b>	<b>1,468.1</b>	1,487.0	<b>-6.3%</b>	1,432.5	<b>-3.8%</b>	<b>1,468.1</b>	1,432.5	<b>-3.8%</b>
<b>Net debt / EBITDA</b>	<b>3.88x</b>	3.10	<b>-25.2%</b>	3.11x	<b>-24.8%</b>	<b>3.88x</b>	3.11x	<b>-25.2%</b>

\* Adjustments of AED 6 mn in Q2 2020 includes provision of AED 6.0mn for receivables

\* Adjustments of AED -21.1 mn in Q2 2019 includes the reversal of an AED 22.1mn receivables provision and additional provision of AED 1.1mn for receivables .

# Operating cycle

## MANAGEMENT COMMENTS

Inventory days increased from 261 days to 287 days QoQ due to decreased revenue.

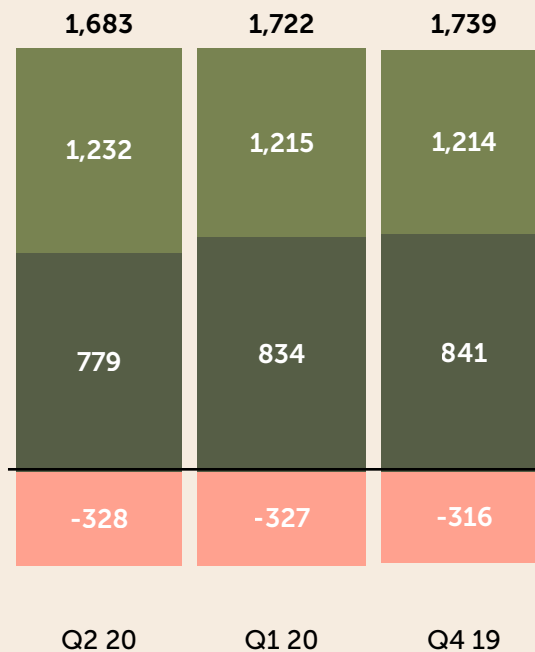
Trade receivable days increased to 123 days QoQ due to decreased LTM revenue

Trade payable days increased from 70 days to 77 days QoQ.

Overall working capital days is also increased QoQ from 310 days to 333 days due to reduction in LTM sales. In absolute terms overall working capital has reduced by AED 39mn QoQ.

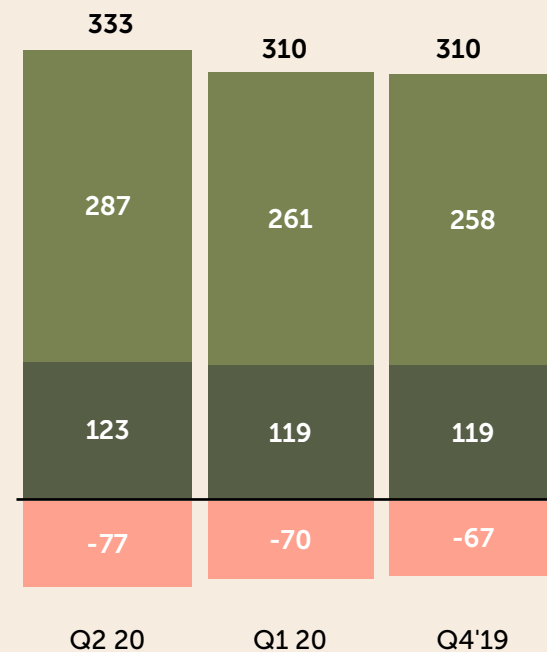
Due to current pandemic, we continued to take measures to manage our liquidity and placing non-essential Capex plans on hold.

## OPERATING CYCLE (AEDM)



Trade Payables Trade receivables Inventories

## OPERATING CYCLE (LTM DAYS)



Payable days Receivable Days Inventory Days

# 2020 Priorities

## **Protect Market Share**

Protect the UAE, Bangladesh market share and tableware and faucets businesses.

## **Saudi Arabia**

Growth in Saudi Arabia by emulating the UAE model

## **Operational Turnaround**

Turnaround Europe and Indian operations

## **Export Markets**

Diversify and improve profitability in export markets

## **Branding and Retail Footprint**

Continue investment in branding and Increase retail footprint by opening new showrooms in core markets

## **COVID-19 Measures**

Continue to implement Initiatives designed to mitigate the impact of COVID-19



# Contacts

## **INVESTOR RELATIONS**

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

### **Investor Relations**

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# RAK

## CERAMICS

