

RAK

CERAMICS

EARNINGS PRESENTATION – Q2/H1 2023 RESULTS

AUGUST 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 25 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

Q2 2023 Highlights

Q2 2023 in Brief

- Amidst the backdrop of daunting challenges including volatile market conditions across all core markets (excluding UAE) fueled by higher interest rates and currency devaluation, our steadfast resilience enabled us to limit the drop in our revenue to 5.9% during the second quarter of 2023.

Q2 Business Performance: Navigating Challenges and Embracing Growth Opportunities Across Markets and Segments

- Our **Tiles segment** business encountered notable challenges in most regions, except for the **UAE & Middle East**, where we saw strong **growth driven by projects and wholesale channels**. However, in markets like **KSA, India, and Bangladesh**, we faced hurdles due to increased **local competition**, liquidity constraints stemming from rising interest rates, and concerns about a potential economic downturn.
- Similarly, the **Sanitaryware & Faucets segment** business experienced obstacles in all markets except the UAE, with **inflation and higher interest costs** impacting household savings and leading to **delays in major renovation and development projects**, especially in the **UK, Bangladesh, and India**.
- On a brighter note, our **Tableware division** delivered **robust performance**, mainly driven by the European market, and we are optimistic about its future prospects.
- In the **UAE**, we faced intense **competition and pricing pressure due to imports**, resulting in challenges for both wholesale and retail channels. However, we achieved impressive revenue growth primarily driven by **increased project channel sales**.
- In **Saudi Arabia**, we encountered a significant decline in revenue largely attributed to increased **competition from local and ceramic plants backed by Chinese investors** impacting our wholesale business.
- In **Europe**, especially the UK, we faced a downturn due to **recessionary fears**, currency devaluation, and **rising interest costs** impacting consumer spending capacity.
- In **India**, we encountered challenges stemming from rising interest rates and **tight liquidity** as well as **heavy monsoons causing floods** in many regions resulting in a decline in revenue.
- Bangladesh** continues to experience difficulties due to **pressure drop in Gas** supply impacting productivity and quality thus impacting our revenue.

Total Revenue

AED 872.0M
↓ -5.9% YoY

GP Margin

37.3%
↓ -110bps YoY

Reported Net Profit

AED 75.1M
↓ -26.5% YoY

EBITDA

AED 155.3M
↑ Margin 17.8% +10bps YoY

BUSINESS HIGHLIGHTS



Speaker: Abdallah Massaad
Group CEO

Q2 2023 Key Market Updates

RAK Ceramics

In the UAE market, we encountered rising competition and pressure on average selling prices due to increasing imports receiving waivers on anti-dumping and customs duties, along with lower freight rates specifically from India. This impacted both wholesale and retail channels. Despite these challenges, our revenue and gross margins grew primarily driven by an increase in project channel sales.

Our performance in Saudi market faced a decline in revenue and margins mainly on account of increased competition from local and ceramic plants backed by Chinese investors which significantly impacted our wholesale business. Nevertheless, we managed to sustain our gross margins by focusing on differentiated products and the premium segment.

Europe, particularly the UK, continued to face a decline due to recessionary fears, currency devaluation, and rising interest costs that impacted consumer spending capacity. While revenue in Germany and Italy showed resilience, the overall de-growth resulted mainly from the impact on the sanitaryware business.

Our sales in other Middle East markets has shown growth potential mainly from Bahrain, Kuwait & Oman. We continue to focus on strengthening our brand position in these markets.

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 primarily fueled by the European market.

RAK India

In India, rising interest rates and tight liquidity resulted in revenue decline. Heavy rainfall & floods in some regions further caused delay in projects thus impacting sales.

As we continue to expand our dealer network specifically in South India, we anticipate yielding positive results in terms of revenue and margins

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

While the European economy faces recessionary pressures, affecting the construction and sanitary industry, we have managed to achieve growth in revenue and gross margin for KLUDI.

We continue to unlock synergy values from implementing our turnaround plan,

Q2 2023 Key Challenges

Core Markets	Key Challenges	Our Actions
UAE	With the increased relaxation in custom duties and anti dumping policies coupled with reduced freight cost, we continue to encounter increasing competition from cheap imports	<ul style="list-style-type: none"> • Implement cost optimization measures to improve profitability and cash flow • Continue to strengthen our brand presence by adding new showrooms, participating in exhibitions and investing in enhancing customer value proposition
Saudi Arabia	<p>Increased competition from local and ceramic plants backed by Chinese investors with cheaper substitutes impacted our Wholesale business..</p> <p>Custom Duty on imports continues to burden our prices & margins</p>	<ul style="list-style-type: none"> • Invest in differentiated products and brand enhancement • Strengthen our brand presence by adding new showrooms • Continue effort to avail custom duty exemption
Europe	Recessionary fears, currency devaluation, and rising interest costs continue to impact consumer spending capacity	<ul style="list-style-type: none"> • Opt for natural currency hedging techniques to limit working capital exposure • Leverage on normalized freight cost to maintain our margins in the region
India	Rising interest rates, tight liquidity and heavy monsoons resulted in delay of projects and renovation	<ul style="list-style-type: none"> • Expand and strengthen dealer network across India
Bangladesh	Continued fluctuations in Gas supply impacting production cost and quality	<ul style="list-style-type: none"> • Improve production efficiency & utilization to minimize the impact of gas supply disruption on product quality

Q2 2023 Key Strategic Updates

Advancements on Expansionary Front

Expansion & Upgradation Projects

- UAE: Tableware capacity expansion by 10mn pcs is scheduled to complete in Q3 2023; commercial production is targeted in Q4 2023.
- India: Plan approved to modify existing facility in Samalkot Plant to enable production of large format tiles and upgradation of Gris Plant allowing production of GVT products
- Bangladesh: Upgradation work for enhancing existing line tiles capacity under implementation. Expected to commence commercial production in Q2 2024

Greenfield projects

- Bangladesh: Land mutation certificate and all other necessary approvals and permissions have been received. Finalized civil engineers and consultants to design factory layout which is expected to complete by Q3 2023, followed by commencement of construction process.
- Saudi Arabia: We are in discussion with the Ministry of Energy and Ministry of Industry to support with Gas allocation approval. We are also in parallel working on finalizing the factory layout plan and obtaining environmental clearances and approvals.

- **International trade events**: Participated in Clerkenwell Design Week (UK's largest independent design festival); Coverings 2023: Trade show and exposition in Florida, USA; BAU München 2023: Trade fair in Germany and International Luxury Architecture Show in Bangladesh.
- **Upgrade showroom**: Revamped showroom in UAE and launched new showroom in Saudi Arabia.
- **Awards & recognitions**: Won 'Best Sanitaryware Brand' award at the BKU Awards 2023 and 'Business Excellence Award' at The Bizz Hybrid Award in Houston, Texas

Q2/H1 2023 FINANCIAL RESULTS UPDATE



Speaker: PK Chand
Group CFO

Q2 2023 Performance Snapshot

Total revenue decreased by -5.9% at AED 872.0m primarily attributable to continued macro-economic challenges and the increased competition across core markets (except UAE).

Tiles revenue decreased by -16.4% and SW -8.9% YoY. Tableware revenue is higher by +3.0% YoY.

AED **872.0M**

Total gross profit margin decreased by -110bps YoY to 37.3% due to lower capacity utilisation in line with the demand which resulted in unabsorbed fixed costs impacting to gross profit margin.

37.3%

Total EBITDA decreased by -5.5% YoY to AED 155.3m. Margin increased by +10bps YoY to 17.8%

AED **155.3M**

Reported net profit decreased to AED 75.1m in Q2 2023 versus AED 102.2m in Q2 2022. NP Margin is 8.6% compared to 11.0% in last year

AED **75.1M**

Net profit after minority decreased to AED 69.6m compared to AED 91.2m in last year. Margin is 8.0% compared to 9.8% in last year

AED **69.6M**

Net debt decreased by AED 9.5m in June 2023 at 1.45bn compared to 1.46bn in March 2023

Net debt to EBITDA increased from 2.42x in Q1 2023 to 2.44x in Q2 2023.

AED **1.45BN**

H1 2023 Performance Snapshot

Total revenue increased by +2.6% YoY to AED 1.75bn mainly due to additional revenue of AED 165m from Kludi Group. (Excl. Kludi Group, revenue is lower by -7.3% YoY).

Tiles (-8.4%), SW (-12.9%) & tableware by (+14.9%) YoY

AED 1.75BN

Total gross profit margin remained stable YoY at 37.6% YoY..Excl. Kludi Consolidation, total GP Margin is 39.5% vs 38.1% in last year.

37.6%

Total EBITDA increased to AED 312.4m compared to 294.0m in last year. Margin increased to 17.8% compared to 17.2% in last year.

AED 312.4M

Reported net profit profit is AED 155.2m compared to 171.9m in last year.(Last year profit included net one-off gain of AED 1.9m). NP Margin is 8.8% compared to 10.1% in last year

AED 155.2M

Net profit after minority is AED 143.0m compared to AED 147.8m in last year. Margin is 8.2% compared to 8.6% in last year.

AED 143.0M

Net debt increased by AED 148.0m in June 2023 at 1.45bn compared to December 2022 due to increase in working capital and payment of Dividend of AED 112.2m

Net debt to EBITDA also increased from 2.26x in December 2022 to 2.44x in June 2023.

AED 1.45BN

Financial Highlights

	Quarterly comparison					Yearly Comparison		
	Q2 22	Q 1 23	Q2 23		H1 2022	H1 2023		
Amount in AED M	Amount	Amount	Amount	YoY Growth	QoQ Growth	Amount	Amount	YoY Growth
Revenue	927.0	882.4	872.0	-5.9%	-1.2%	1,710.1	1,754.4	2.6%
Gross margin (%)	38.4%	37.9%	37.3%	-1.1%	-0.6%	37.8%	37.6%	-0.2%
EBITDA	164.2	157.1	155.3	-5.5%	-1.2%	294.0	312.4	6.3%
Reported net profit/(loss)	102.2	80.1	75.1	-26.5%	-6.3%	171.9	155.2	-9.7%
Capital expenditure	35.6	44.7	48.8	37.0%	9.1%	59.5	93.5	57.2%
Net debt	1325.8	1,458.8	1,449.2	9.3%	-0.7%	1,325.8	1,449.2	9.3%
Net debt / EBITDA	2.37x	2.42x	2.44x	3.2%	0.9%	2.37x	2.44x	3.2%

* EBITDA Slides # 26

Revenue Highlights Q2/H1 2023

MANAGEMENT COMMENTS

While we encountered several challenges in the form of volatile market conditions across most core markets (excluding the UAE), higher interest rates and currency devaluation, we demonstrated resilience and achieved stable revenue growth in Q2 2023.

Total revenue decreased by -5.9% YoY in Q2 2023 at AED 872.0m.

Tiles revenue declined by -16.4% YoY at AED 497m which was largely impacted across all markets except UAE, Middle East, Germany & Italy. Growth in UAE was largely driven by project and wholesale channels,

Sanitaryware revenue is lower by -8.9% YoY at AED 133.2m due to challenges in all markets except UAE. These challenges are primarily attributed to inflation and higher interest costs which are affecting household savings and causing a deferment in major house renovation and development projects.

Tableware revenue increased by +3.0% YoY at AED 92.0m driven by introduction of differentiated products.

Faucets revenue is AED 116.5m in Q2 2023, out of which contribution from KLUDI Group is AED 110.6m.

TOTAL REVENUE (AEDM)

	Quarterly comparison					Yearly comparison		
	Q2 22	Q1 23	Q2 23			H1 2022	H1 2023	
	Amount	Amount	Amount	YoY Growth	QoQ Growth	Amount	Amount	Growth YoY
United Arab Emirates	164.4	189.9	194.4	18.2%	2.4%	316.7	384.3	21.3%
Kingdom of Saudi Arabia	184.2	120.0	85.5	-53.6%	-28.8%	307.1	205.5	-33.1%
Middle East (Ex. UAE & KSA)	39.5	35.3	43.7	10.6%	23.8%	75.8	79.0	4.3%
India	109.6	91.0	85.7	-21.8%	-5.8%	209.1	176.7	-15.5%
Europe	116.7	97.1	109.7	-6.0%	12.9%	225.7	206.8	-8.4%
Bangladesh	74.0	69.6	61.4	-17.1%	-11.8%	159.5	131.0	-17.9%
Africa	30.2	28.5	29.8	-1.0%	4.6%	67.4	58.4	-13.4%
Rest of the world	22.8	18.6	20.4	-10.5%	9.8%	51.2	39.0	-23.9%
Tiles and SW revenue	741.4	650.1	630.6	-14.9%	-3.0%	1,412.5	1,280.7	-9.3%
Tableware revenue	89.2	97.6	92.0	3.0%	-5.8%	164.9	189.6	14.9%
Faucets revenue	56.0	111.6	116.5	-NM	4.4%	62.7	228.1	264.0%
Others revenue	40.4	23.2	32.9	-18.6%	42.0%	70.0	56.0	-20.0%
Total Revenue	927.0	882.4	872.0	-5.9%	-1.2%	1,710.1	1,754.4	2.6%

Gross Profit Margin

MANAGEMENT COMMENTS

Total gross profit margin decreased by -110bps YoY to 37.3% for Q2 2023 and remained stable at 37.6% YoY in H1 2023 driven by higher margins in Tiles & Tableware segment through combination of increased prices, improved production efficiencies and shift in our product mix.

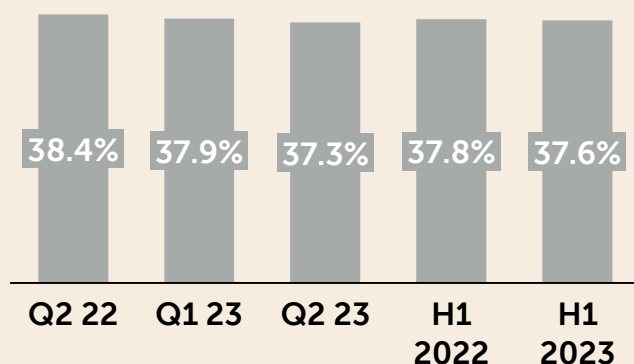
Tiles margin in Q2 2023 decreased by -100bps compared to Q2 2022 at 39.1% mainly due to change in product mix. In H1 2023 GP% increased by +110bps at 39.0%.

Sanitaryware margin remained stable YoY at 34.9% in Q2 2023 despite lower revenue. In H1 2023 Gross profit margin decreased by -140bps at 35.4% due to and lower productivity.

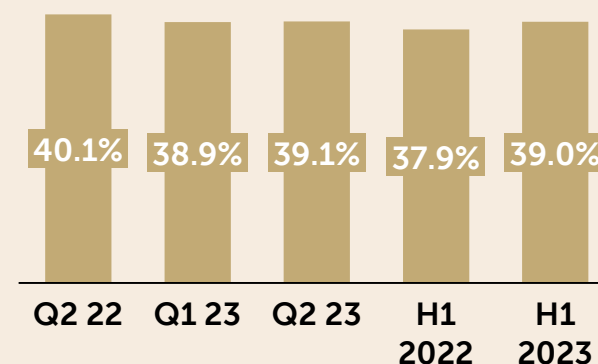
Tableware margin increased by +20bps YoY to 51.0% in Q2 2023 following top-line increase and change in product mix.

Noting that KLUDI Group consolidation was effective as of the 1st of June 2022, Faucets margin remained stable at 25.1% as of Q2 2023 compared to 25.2% in Q2 2022.

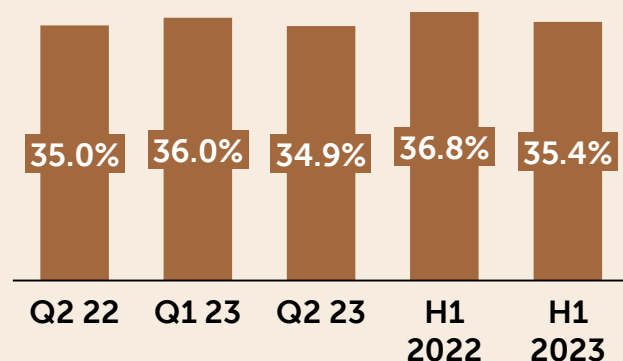
TOTAL GROSS MARGINS (%)



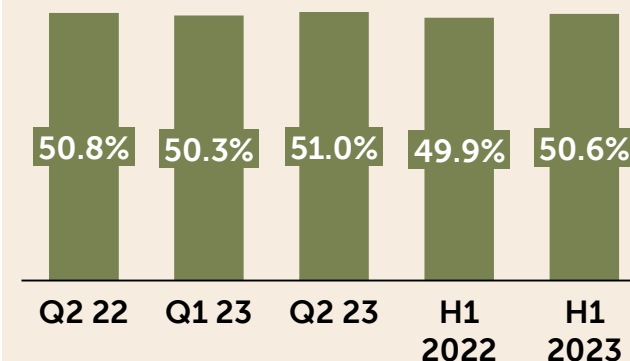
TILES GROSS MARGINS (%)



SANITARYWARE GROSS MARGINS (%)

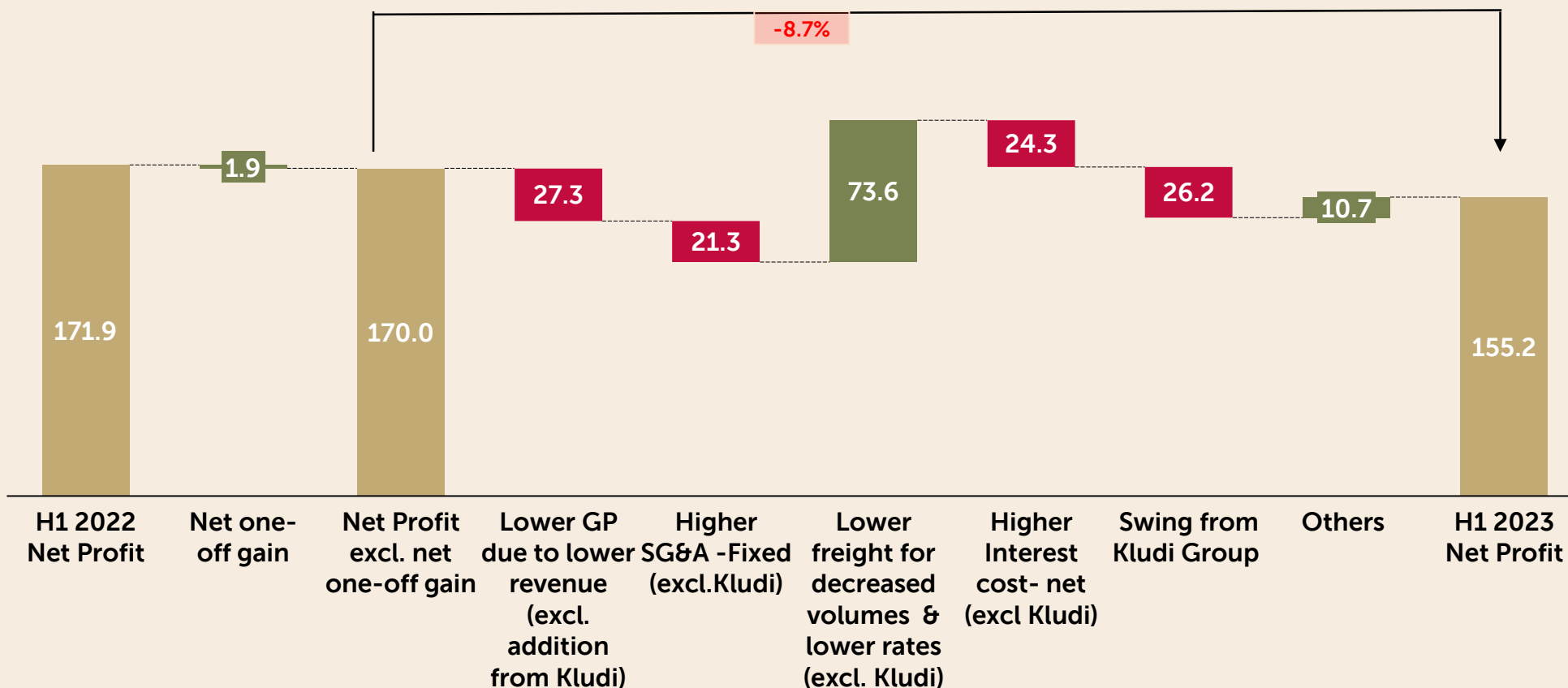


TABLEWARE GROSS MARGINS (%)



Profitability Bridge

H1 2023 vs H1 2022 Profit Bridge (AEDM)



Balance Sheet Highlights

MANAGEMENT COMMENTS

Overall working capital cycle increased from 156 days in Q1 2023 to 163 days in Q2 2023. In absolute terms, working capital increased by AED 48m to AED 1.57bn in Q2 2023, mainly due to increase in receivables and Inventories.

Inventory days increased from 191 days to 199 days QoQ

Trade receivable days increased from 88 days to 90 days QoQ.

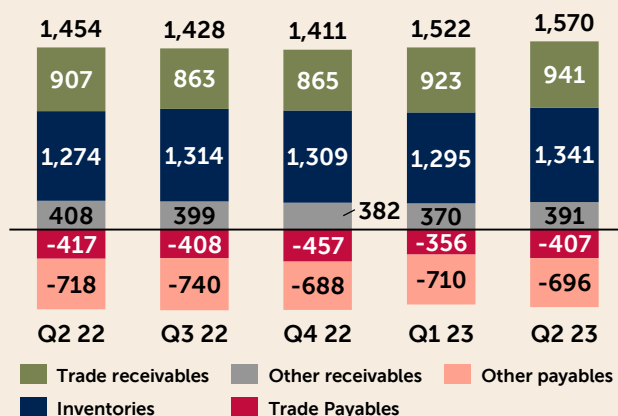
Trade payable increased from 52 days in Q1 2023 to 61 days in Q2 2023.

Net debt increased by AED 148m to AED 1.45 bn in June 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.

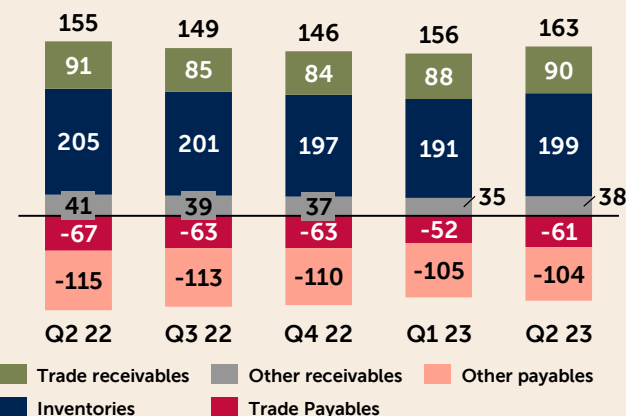
Net Debt to EBITDA increased to 2.44x in Q2 2023 vs 2.26x in December 2022.

Capex guidance for 2023 is at AED 250-300m.

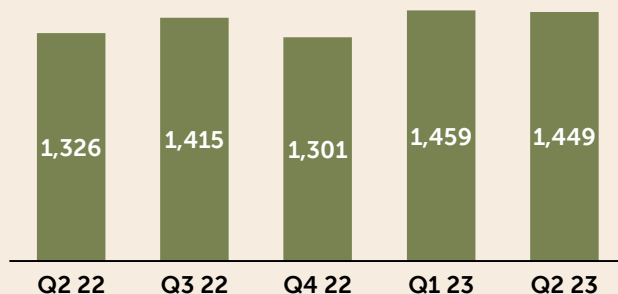
WORKING CAPITAL (AEDM)



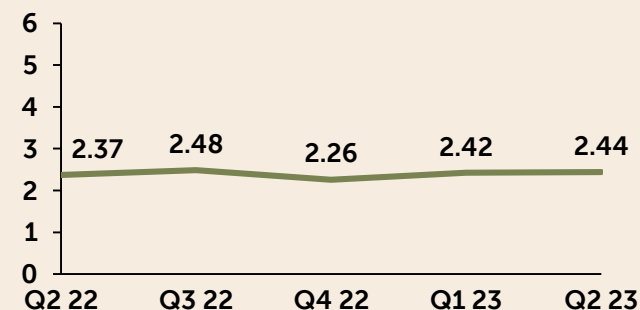
WORKING CAPITAL CYCLE (LTM DAYS)



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)

	03/08/2023	31/12/2022
	Amount	Amount
Share price	2.69	2.83
Number of shares (in Mn)	994	994
Market Cap	2,673	2,812
Net debt	1,449*	1,301
Minorities	129*	133
Enterprise Value	4,251	4,246

*Net debt and minorities as of 30th June 2023

LTM TRADING MULTIPLES

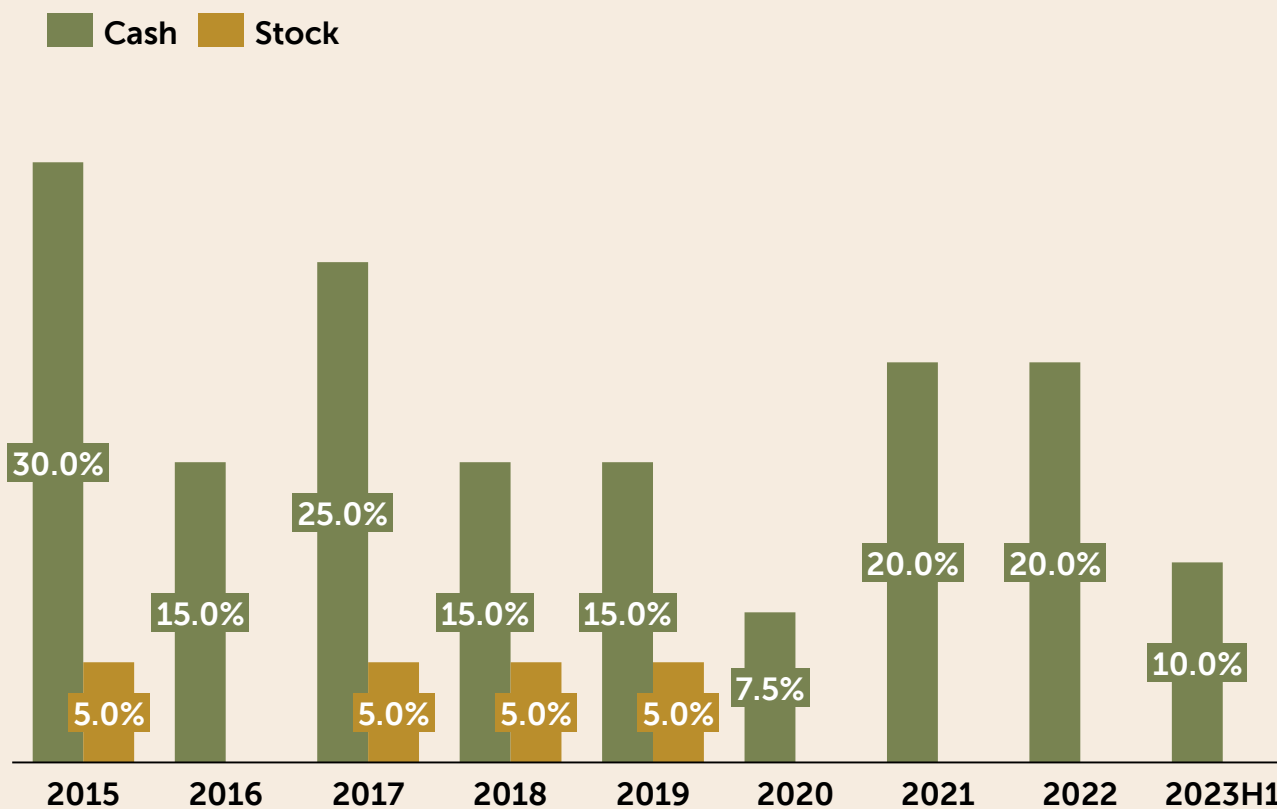
As of 3 rd August 2023	Multiple
EV / Sales	1.1x
EV / EBITDA	7.0x
P / E	9.7x
P / B	1.3x

Dividend Update

MANAGEMENT COMMENTS

In-line with its dividend policy commitment, the Board proposed to distribute interim cash dividend of 10 fils per share for first half of 2023 (AED 99.4million).

HISTORICAL ANNUAL DIVIDEND PAID (%)



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

	Q2 22	Q 1 23	Q2 23	H1 2022	H1 2023
Amount in AED M	Amount	Amount	Amount	Amount	Amount
Net profit/(loss) after tax	102.2	80.1	75.1	171.9	155.2
Tax	5.4	5.0	5.0	12.3	10.0
Interest- net	15.5	24.8	27.1	27.7	51.9
Depreciation & amortization	43.1	47.5	48.2	84.0	95.7
Gain on KLUDI Group acquisition accounting	-	-	-	(32.4)	-
Extra-ordinary Impairment provisions on other receivables	-	-	-	27.6	-
Impairment on Investment properties	-	-	-	2.9	-
(Gain) on sale of assets/CWIP write-off	0.0	(0.2)	(0.1)	(0.0)	(0.3)
EBITDA	166.2	157.1	155.3	294.0	312.4

Thank You

CONTACT US

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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