Aleid Foods
Third Quarter 2022 Results Conference Call
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Hadeel Elmasry (Arqaam Capital)

Good afternoon everyone, this is Hadeel from Arqaam Capital. Welcome to Aleid Foods Q3 2022 Earnings Webcast. We can start the panel by Mr. Mohammad giving us a brief about the results and the latest developments and then we can jump into Q&A after. Mr. Mohammad, the floor is yours. Just making sure that everyone can see the presentation shared by Amal and I'll get to your questions in the chat after Mr. Mohammad gives us a brief.

Mohammad Almutairi, CEO

Good afternoon everybody and thanks Hadeel for hosting our conference call. I'm welcoming everyone joining us today in our first earnings call and we will take you through our Aleid Foods Q3 earnings presentation. In the first slide, Aleid Foods has started setting the strategy and restructuring by adding new verticals for expansion which should diversify our business model, which has started in 2020. As we continue our strategy and plan, we announce our Goals_25 in March this year, which was a clear plan for regional expansion as a continuing for the strategy set earlier. We are going in line with our plan to diversify our business and continue growing our businesses in the market. Definitely, there are a lot of thing that are affecting or supporting (positive/negative) our business, we had very good performance plan as a distribution regardless of inflation and supply chain issues. And also in HORECA services, which is a new service we entered into the food business, we establish Legion Foods – which is a success story, as in a short period, Legion has become a major food supplier in HORECA segment. Part of our goals is the regional expansion, kicking off our operation in Riyadh, Saudi Arabia, is definitely one of the goals being achieved – especially as KSA is a big market, contributing 60% of the region.

Next slide, we had entered in our new verticals, branches, we had a very aggressive plan as F&B business with the cloud kitchen; however, we noticed that some branches are behind schedule. We are expecting improvement in the next quarters. We try to control and minimize the effect of inflation. In Kuwait, we have the price caps – it is very unique in coops (which is a big channel, controlled by the Union coop setting the prices and price caps), we faced some difficulties in increasing the prices in some international brands, but we have raised prices within the accepted range that can be adopted. In Q3, we noticed very good revenue growth, with 41.6% growth and also net profit increased 13.3%. Net margin there is a difference due to inflation and higher costs, with net margin at 9.1%. And since we are expanding and adding new branches, and new verticals, there is a growth in expenses to set up the new business and higher salaries, but this will improve in the future.

In the next slide, we try always to bring more details of the businesses contribution to revenues: the core distribution business had growth of 27%, we were expecting lower than this because of inflation. However, our performance was really good and it's contribution is 85% down from 95% of revenues and this is in line with our target, and indicates that we are going as planned. We have very good growth in subsidiaries due to Legion Foods and recent acquisition, and now it's 10.3% of revenues from 0.5%. Branches, as highlighted before, is a bit behind schedule and growth is 29% and contribution is still within an acceptable percent (4%). In the next slide, business performance for 9-month period, revenues grew 48% and net profit achieved good numbers, with growth 45%, and net margin contracted from 9.9% to

9.3% due to inflation impact in Q3. But still the net margin is within acceptable numbers. The breakdown of the distribution business is always monitored, and grew 33% and came down as contribution to the business from 97% to 87% and its in line with plan. We have very strong growth in subsidiaries and branches also. Regional expansion set in Q2 is still small as setting a new business outside Kuwait needs time. Extraordinary growth has been noticed in distribution business, which was led by the "Other brands" which grew 37.8% due to 1) price increase and 2) new brands added to our basket which contributed to the sales. Core business, which is frozen, witnessed good growth of 33.6% and there was a growth in commodity business (rice, pulses) of 33%. The growth in the frozen was supported by 1) availability of coop French fries was less and 2) supply chain shortage in French fries, so growth in this category was less. However, we witnessed good growth from the mix.

Next slide, our financial performance, we can see we had good working capital stability and contribution to revenues at 9.7%. CapEx, there is no big investment and this is our model, to invest in working capital more. But the acquisition we have, minimum capex has been invested in the last 2 years. Cash flow has been stable and also the debt or loans, we always try in our strategy to minimize the use of loans and fund working capital from existing/internal sources. We try to keep net debt/equity below 40%, it's at 30%, which is very low compared to the FMCG businesses. We have a buffer for the future to use.

Next slide, we talk about our strategy and share performance. Our share performance is good over the last 3 years, and our dividend strategy, we have been generous actually and we are setting a plan for next 3 years, between 70-80% payout from our profit. Next is a snap of Goal_25, which was announced in March 2022 and we are planning to double the business from 2021, along with diversifying our business, with distribution at 54% of revenues, subsidiaries at 16%, branches 8% and regional 25%. I really appreciate people joining, if there are questions we can answer.

Q&A via chat box (Answered by Mohammad Almutairi, CEO)

Any visibility on price increases in Kuwait since parliament was reshuffled?

The problem is only in coops, but other markets/channels its open, so we did have good increase in wholesale, hypers, groceries and foodservice of course. And also in Tamween, also contributed good numbers, and they sell through co-ops. Only co-ops under the Union has a 5% cap and can go to 10% with justifiable supporting documents about cost increase, they can accept it. Since they have new agency, so they already had new prices, so it affected the old brands, and we had a promotion as a buffer so we remove it to cover the cost.

1) **Which percentage of costs is logistics? And have you benefitted from the drop in freight?**
   We were not affected as our purchasing strategy, mainly the increase was from China, which is very minimal, only some of the pulses come from China. Otherwise, most of our products are not from China. Whatever cost has been increased, we try to manage and sell it with higher prices if the segment allows us.

2) **Can you comment on volume growth y/y in the distribution business?**
   We set a distribution target to be lower as a contribution of sales, but this segment overachieved. As per Goals_25 we are in line with our strategy.

3) **Would we see the revenue breakdown towards more wholesales/hypermarkets and away from co-ops given the stringent pricing?**
This is exactly what's happening, the highest growth in Q3 was in groceries and wholesale as well in the 9-month. Contribution of co-ops is minimum, 19%, and that helped us and allowed us to be flexible to raise prices, and help us to minimize the impact from higher costs.

4) **Can you talk more about F&B business: what brands do you have? How many stores do you plan to add in the next 3-5 years?**
We think the cloud kitchen is the future, as it's selling through an aggregator and online and you have many brands. We have 2 concepts: 1) chocolate and bakery, like Mourina Chocolates, and doing very well in B2B to supermarkets and coffee shops, and it has a good margin, and 2) hot foods , we already have 2 brands, one is a Kuwaiti concept and other is a Mexican concept. In the same item, we have an acquisition of a branch to complete and diversify our basket. We are also focusing on the digital team to help us sell online through aggregator or our own website. The next three quarters, Aleid will have good results from the investments over the past year.

5) **Do you have a dedicated team which you delegate each vertical? How hands-on are you?**
That's a very good questions, of course we focus on people and resources to reach our numbers. In Aleid Foods distribution, we have a GM, who has more than 30 years' experience, who I handed the business to him. In other business, like subsidiaries, there is a GM there and many directors, and in the branches, he is a partner, chef and entrepreneur. Most of the business were partners on the concept, so we fund the business, control it and help them in purchasing, supply chain, accounting and operation. That's why you notice very good achievement in the subsidiaries because they run the business with us. In branches, which is 100% owned by us, we have our own team, like chef Ziad Hamada. And the operation depends on the right people, we help and fund them and set goals to be achieved.

6) **Do you plan on coming to investor conferences in person?**
Yes, we will attend Arqaam Capital's conference in February next year and we want to be part of that.

Hadeel Elmasry (Arqaam Capital)

If we have no more questions, this concludes our call. Mr. Mohammad, thank you the very informative brief, and thank you everyone.