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Full Year 2022 Results

Management Discussion & Analysis Report

7 March 2023

AGTHIA GROUP PJSC | Fiscal Year 2022 Results

Delivering ahead of plan on our strategic vision

- Group net revenue up 33% YoY to AED 4.07 billion with positive like-for-like growth across all business segments
- Revenue growth in excess of 70% from key Snacking and Protein segments
- Net operating income +36% YoY, maintaining a profitable core while leveraging synergies and efficiencies
- Net profit +14% YoY to AED 247 million, at the top end of the range of analyst expectations¹
- Full-year Earnings per Share excluding Abu Auf +14% YoY, ahead of guidance²

Agthia Group PJSC (AGTHIA:UH) today announces full year results for the fiscal year ending 31 December 2022.

Delivering on our strategic vision

Our strategic vision is to be a leading food and beverage operator across MENAP and beyond by 2025. Two years into our transformative journey, it is clear our strategy is working. Agthia is far bigger, more efficient and has greater capabilities than ever before, and our increasing scale and diversification is giving us more choice over how we optimize our product and channel mix, procure more favorably and drive cost and production efficiencies across the supply chain.

- Over the past two years our revenue has doubled, and the transformation in our portfolio towards fast-growth, high margin categories, combined with disciplined cost management and our enduring focus on leveraging synergies and efficiencies, has underpinned strong, quality and profitable growth. Our EBITDA margin has increased by over 600bps to 14.2% and, on a normalized basis, operating profit has grown more than 200% with group net profit growth of 131%.
- Our revenue footprint has expanded into 45 countries, diversifying risk across the business, with 51% of our base now outside the UAE, compared to approximately 10% two years ago. Our product portfolio has transformed from a base of water, flour, and feed to a balanced mix of over 35 value-add and clearly tiered food and beverage brands in large, growing and scalable markets across four focal segments, including Protein and Snacking.
- The growth achieved has been incremental rather than substitutional to our legacy business, where we have maintained market leadership in UAE bottled water as well as Flour and Animal Feed in B2B channels and has been driven by our growing ability to acquire attractive consumer-centric businesses, optimize and integrate them into our Group, and create value through leveraging scale economies and platform synergies.
- This can be clearly seen through our first acquisition in January 2021, Al Foah, the successful integration of which formed the blueprint for how we create value. Phase one of our integration plan focused on enhancing Al Foah's operating model while protecting the base business, by the end of which we had successfully rightsized the organization, simplified systems and removed duplicate processes, co-located manufacturing and distribution assets, and optimized product cost through better process control.
- Phase two focused on strengthening Al Foah's business model through building power brands, diversifying sourcing to improve range assortment and de-risk dependence on UAE dates, improving the product portfolio through premiumization and value-add ranges, and increasing penetration of large, scalable retail markets (for example India, Bangladesh, Brazil, and North America) to de-seasonalize the business and grow post acquisition profitability.

¹ As at 06 March 2023, the company-compiled consensus estimate of analyst expectations for the 52-weeks FY22 full-year net profit was AED 237 million, with a range of AED 221 million to AED 250 million

² Full-year 2022 guidance issued on 8 August 2022 was for EPS growth, excluding the acquisition of Abu Auf, of 10-11%

Al Foah results bear testament to this clearly defined process to focus first on cost efficiencies and then leverage revenue growth on a leaner base, with revenue and net profit growth of 27% and over 200% respectively over the past two years.

2022 headline financials

- Group net revenue increased 33% year-on-year to AED 4.07 billion (+97% on a 2-year basis), with 22% growth from volume and 11% from pricing, as operational scale, brand diversification and effective tiering increased our ability to optimize product and channel mix. In line with our strategy to expand into high-growth segments in large, scalable markets, full-year revenue contribution from our Consumer business division increased by 520bps to 75% of Group total, and revenue growth from our Snacking and Protein segments exceeded 70%.
- Like-for-like (LFL) revenue growth was positive across all four business segments, with 9% growth at the Group level comprised of 12% and 13% LFL growth from our Snacking and Protein segments respectively, and high single-digit growth from our Agri-business.
- Gross profit increased 21% year-on-year to AED 1.2 billion, with the 273bps decline in gross margin incorporating an additional AED 270 million of commodity price inflation compared to the prior year.
- While much of this compression was beyond our control, we maintained our focus on productivity enhancement and disciplined management of costs throughout the period, integrating our back-office operations in the UAE, centralizing our procurement function, co-locating factories to drive capacity and production efficiencies, exiting loss-making operations to improve asset utilization (UAE Frozen Bakery and Palmera dates joint venture), and unifying management teams and support functions both in-country (Kuwait Bakery and Water) and cross-border (Protein in Egypt and Jordan, Snacking in UAE and Egypt) to promote knowledge sharing, idea generation and product cross-fertilization.
- Full-year EBITDA increased 27% year-on-year to AED 578 million, with the aforementioned actions reducing operating costs³ as a percentage of revenue by 257bps over the past year (aggregate efficiency gains of AED 132 million since January 2021), mitigating margin compression at the EBITDA level to 63bps, and supporting net operating income growth (+36% year-on-year) faster than revenue.
- Group net profit⁴ increased 14% year-on-year to AED 247 million, towards the top end of the range of analyst expectations⁵, with earnings per share up 9% year-on-year (or +14% excluding the contribution and associated costs relating to our acquisition of Abu Auf in Q4), notwithstanding higher interest, amortization charges and minority interest versus the prior comparable period.
- Strong profitability and proactive management of working capital (28-day improvement in our cash conversion cycle over the past two years, despite above average inventory levels over the past year to mitigate supply risk) underpinned good profit to cash conversion, with full-year operating cash flow of AED 316 million and free cash flow of AED 327 million.
- Our balance sheet remains robust with cash and equivalents of AED 1.0 billion post capital expenditure of AED 137 million and AED 184 million of debt prepaid during the period, liquidity of AED 1.9 billion and net debt to EBITDA of 2.3x. Our debt is dollar and AED-denominated, and we continue to achieve favorable borrowing terms from our supportive network of lending banks.

³ Operating costs = Selling, distribution, general & administrative expenses + research & development costs

⁴ Group net profit attributable to shareholders (excluding minorities)

⁵ As at 06 March 2023, the company-compiled consensus estimate of analyst expectations for the 52-weeks FY22 full-year net profit was AED 237 million, with a range of AED 221 million to AED 250 million

Segmental analysis

Revenue growth

Revenues (AED MN)	FY 2022	FY 2021	% YoY	Q4 2022	Q4 2021	% YoY
Protein & Frozen	1,147.5	655.5	75.0%	269.0	282.8	-4.9%
Snacking	945.9	540.1	75.1%	346.5	206.1	68.1%
Water & Food	950.8	940.6	1.1%	238.3	226.0	5.4%
Total Consumer Business	3,044.1	2,136.3	42.5%	853.8	714.9	19.4%
Agri-Business	1,023.3	931.3	9.9%	264.5	239.2	10.6%
Total Group	4,067.4	3,067.6	32.6%	1,118.2	954.1	17.2%

Protein and Frozen: LFL revenue growth of 13% (broadly balanced between price and volume) in AED terms masks a robust performance, pre FX translation, across our Egyptian operations, with strong brands and effective tiering supporting 28% LFL growth (of which 9% volume growth) in local currency revenue. Q4 LFL local currency revenue growth from our Egyptian operations was 31%, with Q4 LFL growth of 20% across the segment as a whole excluding the adverse impact of devaluation.

Egypt remains a strategically important market for us, not only in the favorable, long-term socio-demographics and structural demand for Protein, Snacking and Coffee products, but increasingly as a manufacturing hub for key regional and international export markets (for example North America, Africa, Eastern Europe, Saudi Arabia), leveraging low-cost capacity in our well-invested facilities and favorable trade agreements.

Across our Jordanian operations, proactive mix and channel management drove good volume growth in both Food Service and Saudi Arabia, underpinning 16% LFL revenue growth (51% total revenue growth year-on-year). Opportunities exist over the coming year to grow revenues from our QSR channel, utilizing new protein capacity in Egypt.

Snacking: LFL revenue growth of 12% was predominantly driven by record, volume-led growth in our Al Foah dates business, with new gifting ranges increasing market share in UAE Retail, and new Date Crown launches in non-seasonal, international retail markets (for example low unit packs in India and Indonesia to penetrate lower socio-demographic tiers, and 35g packs into India, Sri Lanka, Indonesia and Morocco) showing good growth. Our international sourcing and contract farming program, which enables us to improve date variety and extend sourcing beyond the UAE, supported higher volumes of bulk dates into Indonesia and Somalia, and our first full season of eZad, our e-marketplace for dates, saw close to 500 successful auctions. During the year we consolidated our acquisitions of BMB and Abu Auf, which collectively contributed revenue of AED 307 million.

Water & Food: LFL revenue growth of 1% was capped by a slower than expected performance in our Community Service division, with aggregate growth of approximately 6% across all other channels, and resumption of volume growth in UAE bottled water during Q4, post the sector-wide slowdown over the summer months. Our market leading position in UAE bottled water⁶ was underpinned by an improved mix, a better customer experience driving record levels of acquisition in our 5-gallon Home and Office Delivery business, and planned initiatives to increase brand awareness. High-single digit volume growth was achieved across our international water business.

⁶27.4% value share across the retail channel in the UAE based on AC Nielsen retail audit for bottled water excluding mineral water – FY22 submission

Agri-business: High single-digit LFL revenue growth reflected strong pricing across both Flour and Feed. Good growth in core Flour categories (market share of retail doubled over the past year) was supported by strong in market execution and improved product quality. In Feed, good mix management and strong pricing helped mitigate the adverse impact of significant inflation in raw material costs and volume decline across commercial farms due to strong open market pricing. Almost 30% of Feed revenues are now being generated through our Agrivita app, which creates a strong competitive advantage.

Profitability

Gross Profit (AED MN)	FY 2022	FY 2021	% YoY	Q4 2022	Q4 2021	% YoY
Protein & Frozen	292.3	177.5	64.7%	66.0	77.8	-15.2%
Snacking	285.1	178.7	59.5%	100.8	80.4	25.4%
Water & Food	357.4	376.1	-5.0%	91.0	86.5	5.3%
Total Consumer Business	934.9	732.4	27.7%	257.8	244.7	5.4%
Agri-Business	232.9	234.6	-0.7%	58.9	54.4*	8.2%*
Corporate costs	(10.2)	(10.3)	+0.8%	(2.4)	(2.6)	+7.2%
Total Group	1,157.6	956.7	21.0%	314.3	296.5*	6.0%*

*To aid meaningful year-on-year comparison, Q4'21 gross profit from our Agri-business has been adjusted to exclude a one-off AED 36.2 million price rebate received in the final quarter of 2021

Protein and Frozen

LFL gross profit across our Protein segment in aggregate grew 4.1% year-on-year (gross margin -217bps) as we balanced market share with significant inflation in meat and poultry costs and witnessed sequential devaluation of the Egyptian pound through most of the year. Excluding the adverse FX impact, LFL gross profit growth was 18% year-on-year, with gross margin of 25.5%.

Our focus on process automation, efficiency generation, shared procurement and optimizing capacity utilization underpinned some margin recovery at the EBITDA level (LFL EBITDA margin -79bps to 15.6%), with LFL net profit growth pre minority interests of 10% across the segment in AED terms (25% growth excluding FX impact).

Snacking

Net profit post minority interests in our Snacking segment increased by 59.7% year-on-year or 19.6% on a LFL basis, predominantly driven by strong volume growth, favorable channel mix and improved sorting and production processes in our dates business. During the period, we also relocated one of BMB's production facilities to our existing facility in Al Ain as part of our integration process, exited our loss-making Palmera dates joint venture, and agreed a strategic long-term lease covering the assets and operations of our Frozen Bakery business with the Middle East operations of La Lorraine, a Belgian-based Bakery Group with over 80 years of milling and bakery experience.

During our final quarter, we completed the acquisition of a 60% stake in Auf Group, a specialized healthy snacks and coffee manufacturer and retailer, which enhanced our footprint in the attractive, high-growth Egyptian snacking market and broadened our branded consumer product portfolio. Although a recent acquisition, we have already identified numerous product, channel, sourcing, manufacturing, and packaging synergies between Auf Group, Al Foah and BMB to grow our snacks platform and export operations alike, as well as revenue opportunities with our Consumer Business division in the UAE.

Water and Food

Full-year EBITDA margin was maintained year-on-year as positive pricing, combined with streamlining our UAE water operations and channel, distribution and manufacturing optimization in our Saudi operations, offset the impact of sector-wide softness in Q3 volumes during the Summer exodus and significantly higher PET and fuel costs throughout most of the year, the latter increasing 1.2% as a percentage of sales. Full-year net profit grew marginally ahead of sales, with a positive net margin performance year-on-year.

Agri-business

Notwithstanding an additional AED 178 million of commodity price inflation (equating to 8% of total direct costs in the prior year) reflecting supply chain challenges emanating from the Russia / Ukraine conflict and a wheat export ban from India, improved sourcing, good inventory management and strategic pricing throughout the year helped reduce the adverse impact on EBITDA margin to 155bps. Net profit for the segment as a whole increased marginally year-on-year.

EBITDA (AED MN)	FY 2022	FY 2021	% YoY	Q4 2022	Q4 2021	% YoY
Protein & Frozen	178.6	110.5	61.6%	43.5	46.7	-7.0%
Snacking	189.1	133.9	41.2%	80.4	61.6	30.4%
Water & Food	146.0	144.7	0.9%	40.1	29.4	36.7%
Total Consumer Business	513.6	389.1	32.0%	164.0	137.7	19.1%
Agri-Business	167.4	166.8	0.4%	42.8	37.6*	13.7%*
Corporate costs	(102.9)	(100.5)	-2.5%	(31.1)	(27.7)	-14.3%
Total Group	578.1	455.4	26.9%	175.6	148.1*	18.6%*

*To aid meaningful year-on-year comparison, Q4'21 gross profit from our Agri-business has been adjusted to exclude a one-off AED 36.2 million price rebate received in the final quarter of 2021

Expanding in-house capabilities to future proof our growth

During the year, we made good progress in future proofing our growth through investing in capability, capacity, and innovation.

Investing in capability

- **Strengthened our Leadership Team:** In line with our plans to transition to a consumer-centric, performance driven environment, we strengthened our Leadership Team over the past year through the following external appointments and internal promotions:
 - **Sherif Elfaham** joined as Group Chief Financial Officer, bringing strong strategic, commercial, and operational experience across a range of consumer-facing businesses, having spent over 20 years with Unilever in the UK, North Africa, Middle East, and Turkey.
 - **Vandy Dos Santos** joined as Chief Digital Officer, bringing over 30 years of experience in shaping and driving digital transformation, from leading the global digital healthcare team in Abbott Pharma Division to driving customer experience and omni-channel solutions across the Nestle Group and, more recently, the Global Digital and Technology transformation of Heineken.

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P.O.Box 37725, 17th Floor, Al Reem Island, Abu Dhabi, UAE. • T +971 2 5960600. • F +971 2 6726070 • www.agthia.com

- **Mubarak AlMansoori** moved from his previous position as Agthia's Chief of Human Capital and Corporate Services to the newly created role of **President of the Group's snacking business**. Mubarak also continues to lead on Government Relations for Agthia, further entrenching his well-established relationships with regulatory agencies in the UAE and internationally.
- **Abdulla AlMarzooqi** was promoted to Senior Vice President of Human Capital, extending Agthia's commitment to growing UAE national talent.
- **Finalized our digital roadmap:** Devised in conjunction with Bain & Company, this 5-year digital roadmap is intended to transform Agthia from a product-led to data-led, consumer centric organization through 1) creating a digital ecosystem to deliver breakthrough customer experiences and insights across all channels, thereby driving brand equity, leveraging data as a strategic asset to increase digital revenue streams, new channels to market and grow customer lifetime value and 2) implementing digital tools to optimize operational and process synergies across the Group.
- **Progressed our sustainability agenda:** We made continued progress across the four pillars of our sustainability agenda, collecting 558 tons of recyclables across 32,231 users through our sustainability-focused partnership with RECAPP. We also reduced our water usage ratio and GHG scope 2 emissions by 2.6% and 4.3% respectively. Following recent legislative change, we have also committed to launching rPET products, being one of only two companies with contractual offtake commitments with Veolia for a planned PET recycling plant in the UAE and were delighted to launch the UAE's first locally produced 100% rPET water bottle at Gulfood in February 2023.

Investing in capacity

- We finalized plans for the construction of our new Saudi manufacturing facility in the final quarter of 2022. Located in Jeddah, this 6,600 sqm site is planned to come on stream by Q1 2024 and is expected to play a key role in meeting local and export demand for Protein products.

Investing in innovation

- Innovation is the lifeblood of Agthia and plays a vital role in our strategic vision of being a leading food and beverage company in the MENAP region and beyond by 2025. Our dedicated Central Innovation Team support Agthia's commitment to doing things for the better, from innovative products that meet the evolving needs of consumers to process innovation that underpins our commitment to the planet. During the year, notable successes across our portfolio included:
 - **Dates:** rebranding of the Date Crown portfolio including new packaging, new ranges (Saffron and Cardamom infused date syrup) and new snacking pack sizes (35g pouch for UAE, 5g single serve pack for India and Indonesia) to address consumer preferences.
 - **Water:** New Al Ain premium glass bottle and the UAE's first locally produced 100% rPET water bottle.
 - **Protein and Snacking:** Chicken bucket, plant-based nuggets, Freakin' Healthy kids cookies, snack bars and plant-based cheese.
- Recognition of our innovation and sustainability efforts came through several prestigious awards in the year, including: 1) Best of Middle East Innovation award at the Gama Innovation Awards for **Freakin' Healthy plant-based cheese**, the UAE's first locally produced Clean Label plant-based cheese; 2) Gold and Silver awards at the Prime Awards for Al Ain water's cutting-edge innovation in bottle labelling which uses up to 50% less polypropylene, and development of the lowest gram per square metre corrugated box, made from 100% recycled paper; and 3) Gold in Design & Innovation at the Prime Awards for Al Foah dates' cost effective and flexible 5G packaging.

Khalifa Sultan Al Suwaidi, Chairman of Agthia Group, commented: "Agthia's strong performance this past year, in a challenging external environment, clearly demonstrates management's ability to acquire and consolidate value accretive businesses while leveraging synergies and maintaining a profitable core. I am confident that Agthia will continue to deliver value for all stakeholders in both the near and longer-term as it executes its strategy."

Alan Smith, Group Chief Executive Officer, commented: "Strong revenue and profit growth over the past year, across both recently acquired and legacy businesses, is testament to the tireless efforts and agility of all our colleagues across the Group. Our strategy to acquire, integrate and grow attractive businesses in value-add categories continues to bear fruit, and two years into our transformative journey to a leading food and beverage company in the MENAP region and beyond, we are far bigger, more efficient and have greater capabilities than ever before. We will continue to remain focused and agile in our execution, and are, more than ever, confident in the long-term growth trajectory of our business".

-End of announcement -



Khalifa Sultan Al Suwaidi
Chairman
07 March 2023

Conference Call details

The Consolidated Financial Statements for the Twelve Months ended 31st December 2022 will be available through the following link on Agthia Website: <https://www.agthia.com/investors/quarterly-results/>.

A conference call for analysts and investors will be held at 5:00pm UAE time on March 8th 2023. The presentation accompanying the call will be available on Agthia Group's website under the Investors section: <https://www.agthia.com/investors/results-call-materials/>

Investor Relations Enquiries

Agthia Group PJSC:

Roger Tejwani, Director of Investor Relations
+971 56 400 4596

Sahar Srour, Senior Investor Relations Manager
+971 56 680 4872

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