



## Second Quarter 2020 Results

**Alexandria, 13<sup>th</sup> August 2020** – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for the second quarter 2020.

### Highlights

#### 2Q 2020

- Lecico revenue down 36% to LE 382 million (55.8% from sanitary ware).
- Sanitary ware revenue down 44% to LE 213.1 million, volumes down 41% to 0.73 million pieces (63.1% exports).
- Tile revenue down 23% to LE 157 million, volumes down 21% to 4 million square meters (14% exports).
- Brassware revenue down 26% to LE 11.9 million, sales volume up 8% to 17,228 pieces.
- EBIT loss of LE 65.1 million compared to EBIT loss of LE 32 million in 2Q 2019.
- Net loss of LE 75 million compared to net loss of LE 86.9 million in 2Q 2019.

#### 1H 2020

- Lecico revenue down 29% to LE 878.5 million (59% from sanitary ware).
- Sanitary ware revenue down 31% to LE 518.6 million, volumes down 29% to 1.7 million pieces (67.1% exports).
- Tile revenue down 26% to LE 332.2 million, volumes down 24% to 8.4 million square meters (20.8% exports).
- Brassware revenues down 23% to LE 27.8 million, sales volume down 10% to 35,516 pieces.
- EBIT loss of LE 93.3 million compared to EBIT profit of LE 2.4 million in 2019.
- Net loss of LE 147.1 million compared to net loss of LE 114.9 million in 2019.

Lecico Egypt Chairman, Gilbert Gargour commented “The second quarter saw a fuller impact of the coronavirus pandemic on operational results. Our usual strong point of sanitary ware export sales was substantially lower as a result of closures in European markets.

“Egypt and generally tiles were less affected and benefitted from the restructuring of our tile production capacity last year.

“Despite lower sales we passed this difficult quarter with a significant reduction in our net debt as we collected LE 175 million from the sale of land in Lebanon primarily in the 1<sup>st</sup> quarter - and generated cash flow from operations in both the first and second quarter.

“The sale of property had no effect on profits because we had already revalued the properties on our balance sheet to reflect the effect of time and devaluations.

“The picture remains uncertain and – for us – much depends on whether export markets continue to recover and whether Egyptian demand remains consistent. Given the lack of clarity about how the virus will behave and how this will affect economic activity it is wise to remain cautious and prepare for a challenging year-end.

“I think your management is weathering the crisis well under very unpredictable conditions. The steps Lecico has taken to improve its cost structure and balance sheet put us in good stead to take advantage of a recovery when it comes.”

Taher Gargour, Lecico Egypt CEO, added, “I think the impact of the coronavirus on our business in the quarter was less severe than could have been imagined. Our split of activity between Egypt and export protected us from the worst of the contraction in European and Middle Eastern markets early in the quarter and we have seen a pretty sharp bounce back in most of our markets although sales are still not back to pre-COVID levels.

“Our work in 2019 to restructure our tile operations and our business in Lebanon have helped offset some of the impact of slowing sales in the quarter. The support offered by governments has also helped enormously with lower interest rates, lower gas prices and employment cost support all being utilized by Lecico in different markets.

“Our sale of land in Lebanon in March and the subsequent reduction of debt this quarter also helped keep our cash expenses low in the quarter and will help us going forward.

“I am proud of how our staff has been able to manage our cash through this challenging quarter. Our production and planning teams were able – through smart management of stocks and working capital purchases – to reduce inventories of all products and materials despite the sharp slowdown in activity. Our sales and finance teams ensured that trade receivables also were reduced in the quarter in absolute terms in what was a challenging period. All teams worked to reduce man hours and personnel costs as well and cut back on all possible expenditures to limit our operating losses too.

“As a result, Lecico generated cash in the quarter over and above the proceeds from the sale of land in Lebanon in a period when I expected to see the opposite given the external shocks to the business.

“This puts us in a stronger position to weather the challenges of the rest of the year. Although the challenges of the coronavirus may well increase again and we are far from a stable situation.

“As a management, our goal is to continue to offer best service to our customers, maintain our position in our markets – however limited those markets may be – while managing costs as best as possible and continuing to focus on tight cash control and working capital management in order to minimize our need for capital as we navigate this period. A lot of our success in this is dependent on external factors, but rest assured that the entire Lecico management team will continue to work towards the best possible result despite these challenges.”

## Lecico Revenue and Profitability

Profit and loss statement highlights						
(LE m)	2Q		%	1H		%
	2020	2019	20/19	2020	2019	20/19
Sanitary ware	213.1	380.6	56%	518.6	751.5	69%
Tiles	157.0	202.8	77%	332.2	449.2	74%
Brassware	11.9	16.1	74%	27.8	35.9	77%
<b>Sales</b>	<b>382.0</b>	<b>599.6</b>	<b>64%</b>	<b>878.5</b>	<b>1,236.6</b>	<b>71%</b>
Sanitary ware/sales (%)	55.8%	63.5%	(7.7%)	59.0%	60.8%	(1.7%)
Cost of sales	(370.7)	(542.4)	68%	(810.1)	(1,054.6)	77%
Cost of sales/sales (%)	(97.0%)	(90.5%)	6.6%	(92.2%)	(85.3%)	6.9%
<b>Gross profit</b>	<b>11.4</b>	<b>57.1</b>	<b>20%</b>	<b>68.5</b>	<b>182.1</b>	<b>38%</b>
Gross profit margin (%)	3.0%	9.5%	(6.6%)	7.8%	14.7%	(6.9%)
Distribution and administration (D&A)	(59.3)	(81.0)	73%	(132.2)	(165.4)	80%
D&A/sales (%)	(15.5%)	(13.5%)	2.0%	(15.0%)	(13.4%)	1.7%
Net other operating income/ (expense)	(17.2)	(8.2)	210%	(29.6)	(14.3)	207%
Net other operating income/ (expense) sales (%)	(4.5%)	(1.4%)	3.1%	(3.4%)	(1.2%)	2.2%
<b>EBIT</b>	<b>(65.1)</b>	<b>(32.0)</b>	<b>203%</b>	<b>(93.3)</b>	<b>2.4</b>	-
EBIT margin (%)	-	-	-	-	0.2%	-
<b>Net profit (loss)</b>	<b>(75.0)</b>	<b>(86.9)</b>	<b>86%</b>	<b>(147.1)</b>	<b>(114.9)</b>	<b>128%</b>
Net profit margin (%)	-	-	-	-	-	-

### 2Q 2020: Increased operating loss from coronavirus balanced by lower net finance expense

Lecico reported a drop in sales year-on-year in all segments with most export markets sharply down as they reduced economic activity in response to the coronavirus. Sanitary ware segment performance was more negatively affected by the coronavirus as it is primarily an export business. Operating losses grew year-on-year as lower sales and productivity cut gross margins which was only partially offset by lower overhead expenses as the Company cut costs and reduced activities. However, Lecico reported a lower net loss for the quarter thanks to a sharp reduction in interest expenses as the Company was able to reduce debt significantly following the sale of land in Lebanon and it benefitted from lower interest rates year-on-year in all markets.

Lecico revenues for the second quarter decreased by 36% year-on-year to reach LE 382 million (2Q 2019: LE 599.6 million) with lower revenues in sanitary and tile segments. Local revenues fell 24% year-on-year to reach LE 205 million (2Q 2019: LE 270.8 million) and export revenues fell 46% year-on-year to reach LE 177.6 million (2Q 2019: LE 328.8 million).

Quarter-on-Quarter revenues decreased by 23% (1Q 2020: LE 496.5 million). Local revenues decreased 9% quarter-on-quarter to reach LE 205 million (1Q 2020: LE 224.8 million) and export decreased 35% quarter-on-quarter to reach LE 177.6 million (1Q 2020: LE 271.7 million). Local market demand in Egypt was largely unaffected by the coronavirus, with sales down in 2Q primarily as a result of seasonal holidays at the end of Ramadan.

Lecico's cost of goods sold fell by 32% year-on-year to LE 370.7 million (2Q 2019: LE 542.4 million) with lower economies of scale as a result of reduced activity offset by cost cutting measures and reduced gas prices for the tiles segment. Production volumes were about 30% lower than in the same period last year.

Quarter-on-Quarter the cost of goods sold fell by 16% (1Q 2020: LE 439.4 million) with lower economies of scale as a result of reduced activity. Production volumes were about 27% lower than in the first quarter.

Lecico's gross profit for the second quarter decreased 80% year-on-year to LE 11.4 million (2Q 2019: LE 57.1 million). Lecico's gross profit margin decreased 6.6 percentage points to 3% compared to 9.5% in the same period last year. The drop in gross margins came primarily from sanitary ware as a result of the impact of the coronavirus on exports. Tile profitability improved as restructuring and lower gas costs offset the reduction in sales and diseconomies of scale.

Quarter-on-quarter gross profit decreased by 80% (1Q 2020: LE 57.1 million) and Lecico's gross margin decreased 8.5 percentage points (1Q 2020: 11.5%). Quarter-on-quarter the drop in gross margins came primarily from sanitary ware although lower tile production levels as the Company destocked inventory added in the first quarter also led to a drop in tile profits.

In absolute terms, distribution and administration (D&A) expenses decreased by 27% to LE 59.3 million (2Q 2019: LE 81.0 million), but proportional D&A expenses were up by 2.0 percentage points to 15.5% (2Q 2019: 13.5%).

Quarter-on-quarter distribution and administration (D&A) expenses decreased by 19% (1Q 2020: LE 72.9 million) and proportional D&A expenses were up by 0.8 percentage points (1Q 2020: 14.7%).

Lecico reported LE 17.2 million in net other operating expenses compared to net other operating expenses of LE 8.2 million in the same period last year. Included in this figure is about LE 4 million in fees and duties associated with the sale of land in Lebanon.

Lecico reported an EBIT loss of LE 65.1 million for the quarter compared to an EBIT loss of LE 32.0 million in 2Q 2019.

Quarter-on-quarter Lecico's EBIT loss increased 131% (1Q 2020: LE 28.2 million EBIT loss).

Net financing expenses were down 89% year-on-year to reach LE 5.6 million (2Q 19: LE 51.5 million) primarily as a result of a one-off debt forgiveness in Lecico Lebanon of LE 8.6 million resulting from refund by creditor banks due to repayment of our debt as well as the gain from exchange variance (LE 8.7 million exchange variance gain compared to an exchange variance loss of LE 4.4 million in 2Q 2019). The Company also benefitted from a significant reduction in debt and interest rates.

Net debt was reduced 29% or LE 400 million to LE 918.2 million compared to the same period last year (2Q 2019: LE 1,318 million) with approximately LE 175 million proceeds from the sale of real estate in Lebanon and the rest coming from working capital reduction and operations. The Company has received and expects to book the final LE 50 million of cash related to the land sale in July 2020.

Central Bank interest rates on the Egyptian Pound have fallen 6.50 percentage points year-on-year from 15.75% at the end of 2Q 2019 to 9.25% at the end of this quarter. Lebanese interest rates on the Dollar have fallen 5.19 percentages in the same period from 9.72% at the end of 2Q 2019 to 4.53% at the end of this quarter.

Quarter-on-quarter net financing expenses decreased 86% (1Q 2020: LE 40 million) primarily as a result of both debt forgiveness in Lecico Lebanon of LE 8.6 million resulting from refund by creditor banks due to repayment of our debt as well as the gain from exchange variance (LE 8.7

million exchange variance gain compared to an exchange variance loss of LE 4.4 million in 1Q 2020.

Lecico reported net loss of LE 75 million in the second quarter compared to a net loss of LE 86.9 million in the same period last year. Quarter-on-quarter, Lecico's net loss increased 4% (1Q 2020: LE 72.1 million net loss).

### **1H 2020: Higher losses as reduced sales offsets cost reductions and lower finance expense**

Lecico revenues for the first half decreased by 29% year-on-year to LE 878.5 million (1H 2019: LE 1,236.6 million) due to the sharp drop in export sales in all segments largely as a result of the impact of the coronavirus. The drop in Egypt year-on-year was significantly smaller.

Lecico's cost of goods sold was down 23% year-on-year to LE 810.1 million (1H 2019: LE 1,054.6 million).

Gross profit decreased by 62% to reach LE 68.5 million (1H 2019: LE 182.1 million) and the Company's gross profit margin was down 6.9 percentage points to 7.8% compared to 14.7% in the same period last year. Gross profits fell primarily due to diseconomies of scale as production was cut to match lower demand. Production for the first half of 2020 was about 30% below the same period last year.

In absolute terms, distribution and administration (D&A) expenses decreased by 20% to LE 132.2 million (1H 2019: LE 165.4 million), but proportional D&A expenses were up by 1.7 percentage points to 15% of net sales compared to 13.4% in last year.

Lecico reported LE 29.6 million in net other operating expenses compared to net other operating expenses of LE 14.3 million in the same period last year. The increase is mainly coming from accrued employee profit share.

Lecico reported an EBIT loss of LE 93.3 million for the first half compared to an EBIT profit of LE 2.4 million in the same period last year.

Net financing expenses decreased 56% year-on-year during the first half of 2020 to reach LE 45.5 million compared to LE 102.6 in the same period last year. Approximately 40% of this reduction in net finance expenses is due to a one-off debt forgiveness in Lecico Lebanon of LE 8.6 million resulting from refund by creditor banks due to repayment of our debt as well as the gain from exchange variance (LE 4.4 million exchange variance gain compared to an exchange variance loss of LE 9.6 million in the same period last year). The other 60% of the reduction in Net financing expenses compared to the same period last year comes from the reduction in net debt from real estate sales and improved working capital and the reduction in interest rates in Egypt and Lebanon.

Lecico reported net tax charge of LE 11.9 million versus a tax charge of LE 17.9 million in the same period last year.

Lecico reported net loss of LE 147.1 million compared to net loss of LE 114.9 million in the same period last year.

## Segmental analysis

### Sanitary ware

**2Q:** Sanitary ware sales volumes decreased by 41% (down 516,779 pieces). Local volumes decreased by 34% (down 129,429 pieces), export sales volumes decreased by 43% (down 345,473 pieces) and sales volumes in Lebanon decreased by 76% (down 41,878 pieces). The drop in local sales reflects the continued demand weakness seen over the course of 2019 with 2020 demand being fairly unaffected by economic contraction as a result of the coronavirus. The drop in exports came from a sharp slowdown in volumes as a result of the virtual closure of many markets in response to the coronavirus.

Quarter-on-quarter total sales volumes decreased by 26% (down 257,011 pieces). Sales in Egypt are flat on 2Q 2020 with improved demand offset by days lost to holidays whereas export volumes decreased 33% (down 231,235 pieces) and sales in Lebanon decreased by 67% (down 26,102 pieces).

Average sanitary ware prices decreased by 4% year-on-year at LE 292.4 per piece (2Q 2019: LE 305.6) as a result of a shift in export mix to Egypt and Middle Eastern markets and due to the drop in average prices in export as a result of the stronger Egyptian pound. Quarter-on-quarter average prices were down 6% (1Q 2020: LE 309.8).

Revenues were down 44% year-on-year at LE 213.1 million (2Q 2019: LE 380.6 million). Quarter-on-quarter revenues were down 30% (1Q 2020: LE 305.5 million).

Average cost of sales per piece rose 10% year-on-year at LE 298.8 per piece primarily as a result of the reduction in production. Production was down 42% year-on-year. Quarter-on-quarter, the average cost of sales was up 7% (1Q 2020: LE 280.1 per piece) and production was down 26%.

Sanitary segment reported gross loss of LE 4.7 million 2Q 2020 compared to gross profit of LE 42.2 million in the same period last year. In the first quarter sanitary segment reported gross profit of LE 29.3 million.

Sanitary ware segmental analysis	2Q		%	1H		%
	2020	2019		2020	2019	
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	256	386	66%	512	757	68%
Lebanon (000 pcs)	13	55	24%	52	75	69%
Export (000 pcs)	460	805	57%	1,151	1,584	73%
<b>Total sanitary ware volumes (000 pcs)</b>	<b>729</b>	<b>1,246</b>	<b>59%</b>	<b>1,715</b>	<b>2,416</b>	<b>71%</b>
Exports/total sales volume (%)	63.1%	64.6%	(1.6%)	67.1%	65.6%	1.6%
<b>Sanitary ware revenue (LE m)</b>	<b>213.1</b>	<b>380.6</b>	<b>56%</b>	<b>518.6</b>	<b>751.5</b>	<b>69%</b>
Average selling price (LE/pc)	292.4	305.6	96%	302.4	311.0	97%
Average cost per piece (LE/pc)	298.8	271.7	110%	288.1	258.6	111%
Sanitary ware cost of sales	(217.8)	(338.4)	64%	(494.0)	(624.7)	79%
Sanitary ware gross profit	(4.7)	42.2	-	24.6	126.8	19%
Sanitary ware gross profit margin (%)	-	11.1%	-	4.8%	16.9%	(12.1%)

**1H:** Sanitary ware sales volume decreased by 29% to 1.7 million pieces (down 701,442 pieces). Egyptian volumes fell 32% (down 245,386 pieces), export volumes decreased 27% (down 432,992 pieces) and sales in Lebanon decreased by 31% (down 23,064 pieces).

Average sanitary ware prices were down 3% year-on-year to LE 302.4 per piece (1H 2019: LE 311) as a result of a shift in export mix to Middle Eastern markets and due to the drop in average prices in export as a result of the stronger Egyptian pound.

Revenues were down 31% year-on-year at LE 518.6 million (1H 2019: LE 751.5 million).

Average cost of sales rose 11% at LE 288.1 per piece due to lower production (down 32%). Sanitary ware production was 32% lower than in the first half of 2019.

Gross profit decreased 81% to LE 24.6 million (1H 2019: LE 126.8 million) and the margin fell 12.1 percentage points to 4.8% (1H 2019: 16.9%).

## **Tiles**

**2Q:** Tile sales volumes decreased 21% year-on-year (down 1.1 million square meters) to reach 4 million square meters. Local volumes decreased 15% (down 574,970 square meters), export sales volumes decreased 43% (down 426,710 square meters) and Lebanon sales decreased 34% (down 63,105 square meters). The drop in exports came from a sharp slowdown in volumes as a result of the virtual closure of many markets in response to the coronavirus.

Quarter-on-quarter sales volumes decreased 8% (down 337,647 square meters). Local volumes increased 7% (up 206,792 square meters) and Lebanon volumes increased 149% (up 71,852 square meters), but export volumes decreased 52% (down 616,291 square meters).

Average net prices decreased 2% to LE 38.8 per square meter compared to LE 39.7 in 2Q 2019. Quarter-on-quarter average prices were down 3% (1Q 2020: LE 39.9).

Tiles revenues were down 23% year-on-year at LE 157 million (2Q 2019: LE 202.8 million). Quarter-on-quarter revenues were down 10% (1Q 2020: LE 175.2 million).

Average costs of sales decreased by 7% year-on-year to reach LE 35.5 per square meter (2Q 2019: LE 38.1 per square meter). Cheaper gas for tiles, cost cutting measures in Egypt and the impact of a strengthening currency on fx-based costs helped offset the diseconomies of scale of 27% lower production compared to the same period in 2019.

Quarter-on-quarter average costs increased by 4% (1Q 2020: LE 34.2 per square meter) as production was reduced 26%.

Gross profit for the quarter increased by 60% year-on-year to reach LE 13.2 million (2Q 2019: LE 8.2 million) and the gross margin was up by 4.3 percentage points to 8.4% compared to 4.1% in the same period last year.

Quarter-on-quarter gross profit decreased by 48% (1Q 2020: LE 25.2 million) and the gross margin decreased 6 percentage points (1Q 2020: 14.4%).

**1H:** Tile sales volumes decreased by 24% year-on-year (down 2.7 million square meters) to reach 8.4 million square meters. Sales in Egypt decreased 18% (down 1.5 million square meters), sales in Export decreased by 38% (down 1.1 million square meters) and sales in Lebanon decreased by 43% (down 127,178 square meters).

Average net prices fell 2% to LE 39.4 per square meter compared to LE 40.4 in the same period last year.

Tiles revenues were down 26% year-on-year at LE 332.2 million in the first half of 2020 (1H 2019: LE 449.2 million).

Average costs decrease 5% year-on-year to reach LE 34.8 per square meter. Cheaper gas for tiles, cost cutting measures in Egypt and the impact of a strengthening currency on fx-based costs helped offset the diseconomies of scale of 27% lower production compared to the same period in 2019.

Gross profit decreased 8% to reach LE 38.4 million (1H 2019: LE 41.5 million), but the margin increased by 2.3 percentage points to 11.6% (1H 2019: 9.2%).

Tile segmental analysis	2Q		%	1H		%
	2020	2019	20/19	2020	2019	20/19
Tile volumes (000 sqm)						
Egypt (000 sqm)	3,360	3,935	85%	6,514	7,990	82%
Lebanon (000 sqm)	120	183	66%	168	295	57%
Export (000 sqm)	568	995	57%	1,752	2,838	62%
<b>Total tile volumes (000 sqm)</b>	<b>4,048</b>	<b>5,113</b>	<b>79%</b>	<b>8,434</b>	<b>11,124</b>	<b>76%</b>
Exports/total sales volume (%)	14.0%	19.5%	(5.4%)	20.8%	25.5%	(4.7%)
<b>Tile revenue (LE m)</b>	<b>157.0</b>	<b>202.8</b>	<b>77%</b>	<b>332.2</b>	<b>449.2</b>	<b>74%</b>
Average selling price (LE/sqm)	38.8	39.7	98%	39.4	40.4	98%
Average cost per sqm (LE/sqm)	35.5	38.1	93%	34.8	36.7	95%
Tile cost of sales	(143.8)	(194.6)	74%	(293.8)	(407.7)	72%
Tile gross profit	13.2	8.2	160%	38.4	41.5	92%
Tile gross profit margin (%)	8.4%	4.1%	4.3%	11.6%	9.2%	2.3%

## Brassware

**2Q:** Sales volumes for the second quarter 2020 increased by 8% to reach 17,228 pieces (2Q 2019: 15,978 pieces). Quarter-on-quarter sales volumes decreased by 6% (1Q 2020: 18,288 pieces) with improving demand in Egypt offset by lost days due to Ramadan and Eid holidays.

Average net prices were down 31% to reach LE 690.9 per piece (2Q 2019: LE 1,007.5). Quarter-on-quarter prices decreased by 20% (1Q 2020: LE 868.2).

Revenue for the quarter decreased 26% year-on-year to reach LE 11.9 million (2Q 2019: LE 16.1 million). Brassware accounted for 3.1% of the quarter's revenues, compared to 2.7% in the same period last year. Quarter-on-quarter revenues decreased by 25% (1Q 2020: LE 15.9 million).

Average cost per piece decreased 11% to LE 526.7 per piece (2Q 2019: LE 588.6 per piece) reflecting changing mix. Quarter-on-quarter average cost per piece decreased 27% (1Q 2020: LE 724.9 per piece).

Gross profit for the quarter decreased by 58% year-on-year to reach LE 2.8 million (2Q 2019: LE 6.7 million) and the gross margin decreased 17.8 percentage points to 23.8% (2Q 2019: 41.6%).

Brassware accounted for 24.6% of the quarter's gross profits compared to 11.7% in the same period last year.

Quarter-on-quarter gross profit increased by 8% (1Q 2020: LE 2.6 million) and the gross margin increased 7.3 percentage points (1Q 2020: 16.5%). Brassware accounted for 4.6% of gross profits in 1Q 2020.

Brassware segmental analysis	2Q		%	1H		%
	2020	2019	20/19	2020	2019	20/19
Brassware volumes ( pcs)						
Egypt ( pcs)	17,228	15,973	108%	35,516	39,603	90%
Export ( pcs)	-	5	0%	-	10	0%
<b>Total brassware volumes ( pcs)</b>	<b>17,228</b>	<b>15,978</b>	<b>108%</b>	<b>35,516</b>	<b>39,613</b>	<b>90%</b>
Exports/total sales volume (%)	0.0%	0.0%	(0.0%)	0.0%	0.0%	(0.0%)
<b>Brassware revenue (LE m)</b>	<b>11.9</b>	<b>16.1</b>	<b>74%</b>	<b>27.8</b>	<b>35.9</b>	<b>77%</b>
Average selling price (LE/pc)	690.9	1007.5	69%	782.2	906.6	86%
Average cost per piece (LE/pc)	526.7	588.6	89%	628.8	559.5	112%
Brassware cost of sales	(9.1)	(9.4)	96%	(22.3)	(22.2)	101%
Brassware ware gross profit	2.8	6.7	42%	5.4	13.8	40%
Brassware gross profit margin (%)	23.8%	41.6%	(17.8%)	19.6%	38.3%	(18.7%)

**1H:** Sales volumes for first half of 2020 decreased by 10% year-on-year (down 35,516 pieces)

Average net prices decreased 14% to reach LE 782.2 per piece due to product mix.

Revenues decreased 23% year-on-year to reach LE 27.8 million (1H 2019: LE 35.9 million).

Brassware's percentage of consolidated revenues 3.2%, while the percentage for last year was 2.9% of sales.

Average cost per piece rose 12% to LE 628.8 per piece (1H 2019: LE 559.5 per piece) reflecting changing mix.

Gross profit decreased 60% to LE 5.4 million (1H 2019: LE13.8 million) and the margin decreased 18.7 percentage points to 19.6% (1H 2019: 38.3%).

Brassware's percentage of consolidated gross profits increased to 7.9% of Lecico gross profits (1H 2019: 7.6%).

## **Financial Position**

The value of Lecico's non-current assets decreased by 31% at the end of June 30, 2020 to reach LE 1,635.6 million (2019: LE 2,385.1 million) reflecting both the effect of the sale of lands in Lebanon and the Company's decision to reduce the valuation of Lecico group's remaining land to reflect the risk and impact on valuations of the Lebanese economic crisis and the economic slowdown globally as a result of the coronavirus.

The value of Lecico's current assets increased by 3% at the end of June 30, 2020 to reach LE 1,796.3 million (2019: LE 1,748.9 million) primarily as a result of increase in cash and receivables during the first half of 2020. The increase in receivables reflects the remaining USD 2.9 million still to be collected from the sale of land in Lebanon. The remaining USD 2.9 million was collected in July.

Total liabilities decreased by 3% at LE 1,787.8 million (2019: LE 1,848.7 million) primarily as a result of the decrease in loans during the first half of 2020 due to the cash received from the sale of land in Lebanon and cash generated from operations.

Gross debt decreased 10% or LE 124 million to reach LE 1,137.3 million compared to LE 1,261.2 million at the end of 2019.

Net debt decreased 19% or LE 214.1 million to reach LE 918.2 million compared to LE 1,132.3 million at the end of 2019. Approximately LE 175 million of the LE 214.1 million reduction in net debt was due to the sale of land in Lebanon and the remaining LE 39 million came primarily from improvements in working capital.

Net debt to equity increased by 12.1% to reach 0.57x compared to 0.51x at the end of 2019.

Working capital decreased 8% or LE 85.2 million to reach LE 966.4 million compared to LE 1,051.6 million at the end of 2019 as a result of a reduction in inventories, trade receivables and payables offsetting the increase in non-trade receivables.

## Recent developments and outlook

**Outlook for the rest of 2020:** The global impact of the coronavirus has completely disrupted what was already a challenging year. The impact can be seen in the sharp drop in sales seen in the 2Q 2020 results.

Encouragingly, in June and early July we saw a significant improvement in export sales as markets begin to recover. Although trading and demand remain below the levels seen before the coronavirus.

Preliminary data suggests that in June and July, export revenues are only about 20% below the levels seen in the 2Q 2019. Local sales in Egypt remain fairly unaffected by the virus and volumes seem strong in June and July compared to the first half of this year due to the seasonal peak in Summer.

Accordingly, there is a strong chance to expect an improvement in sales in the third quarter and following the significant destocking done in 2Q 2020, management expects production and gross margins to also improve sequentially in the coming quarter.

As markets and demand recover, Lecico is gradually ramping up production but being careful to keep costs low and limit the roll back of cost cutting measures enacted to deal with the fallout of the coronavirus.

At the same time, safety measures put in place to minimize the risk to our staff which added to our costs of operations remain in place. Lecico has enacted safety measures including training all employees in best practices for health and safety; issuing all employees with individual hand sanitizers and masks; installing temperature screening at all office and factory gates; sick leave for self-isolation for any staff with symptoms of flu or cold; 40% of administration working remotely; social distancing in the offices; meetings done electronically; and minimal workforce on site to maintain best possible social distancing in production.

Accordingly, management is cautiously optimistic about an improvement in results from operations in the third quarter and expects further reductions in net debt due to the collection of the remaining USD 2.9 million from the sale of real estate in Lebanon.

The fourth quarter remains uncertain as a resurgence of the virus and a corresponding reversal of some of the economic opening seen this summer are expected to compound the normal seasonal slowdown we would expect. Any improvement in the operational results in the third quarter are likely to be reversed to some degree in the fourth quarter and the positive cash flow Lecico has shown from operations so far this year and the proceeds from the sale of real estate are likely to be squeezed by a need for some additional financing if markets slow.

**Lecico Lebanon restructuring update:** The political and economic crisis in Lebanon continues to make the market extremely unpredictable and limits overall economic activity. This makes it quite difficult to predict how the market and Lecico's business there will look over the rest of the year.

Until now, Lecico is using its advantage of stocks present in the country and a need to reduce bank debt in Lebanon to gain market share despite falling sales. The company is also remaining cash flow positive from operations.

In 1Q 2020, Lecico Lebanon sold USD 13.5 million worth of real estate and collected most of the proceeds from the sale. As Lecico is paying off its debt with the proceeds, the company is expecting around USD 0.9m in debt forgiveness from its lenders. The Company collected USD 10.0 million in

March and a further USD 0.5 million in June. A final installment of USD 2.9 million from the USD 13.5 million was collected in July and will be reflected in our balance sheet in 3Q 2020 results.

Despite weaker sales year-on-year, the improved cost structure in the business and the drop in finance expense are expected to keep the subsidiary cashflow positive over the second half of 2020 and continue to show significantly lower losses than in 2019.

However, any forecast of Lecico's Lebanese business, in light of the economic and political uncertainty in the country, is subject to extreme variation. As the situation stabilizes Lecico Lebanon may need to change its business restructuring plan to adjust to any new market realities. Lecico Lebanon will do its best to be flexible and adaptive to the current environment to avoid as much as possible the risks these changes raise and to get best benefit out of the opportunities it presents.

Management intends to continue to update investors on the progress of restructuring on a quarterly basis in the Results Newsletter.

## **About Lecico**

Lecico (Stock symbols: LCSW.CA; LECI EY) is a leading producer of export-quality sanitary ware in the Middle East and one of the largest tile producers in Egypt, with over 50 years of experience in the industry and decades of experience as an exporter to developed markets.

Lecico benefits from significant cost advantages in labour, energy and investment costs resulting from its economies of scale and location in Egypt and Lebanon. Lecico's marketing strategy is to use its cost advantages to target the mass market with high quality pieces at competitive prices.

Lecico exports over half its sanitary ware production and has a significant presence in the United Kingdom and other European markets. Most of the Company's exports are done under the Lecico brand, although it also produces for a number of leading European brands.

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## **Forward-looking statements**

This release may contain certain "forward-looking statements", relating to the Company's business, which can be identified by the use of forward-looking terminology such as "will", "planned", "expectations", "forecast" or similar expressions, or by discussions of strategy, plans or intentions. Such statements may include descriptions of investments planned or currently under development by the Company and the anticipated impact of these investments. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results that may be expressed or implied by such forward-looking statements.

## Lecico Egypt consolidated income statement

Income statement (LE m)	2Q		%	1H		%
	2020	2019	20/19	2020	2019	20/19
<b>Sales</b>	<b>382.0</b>	<b>599.5</b>	<b>64%</b>	<b>878.5</b>	<b>1,236.6</b>	<b>71%</b>
Cost of sales	(370.7)	(542.4)	68%	(810.1)	(1,054.6)	77%
<b>Gross profit</b>	<b>11.4</b>	<b>57.1</b>	<b>20%</b>	<b>68.5</b>	<b>182.1</b>	<b>38%</b>
Gross margin (%)	3.0%	9.5%	(6.6%)	7.8%	14.7%	(6.9%)
Distribution expenses	(26.4)	(34.8)	76%	(58.4)	(74.6)	78%
Administrative expenses	(32.9)	(46.2)	71%	(73.8)	(90.8)	81%
Other Operating income	3.3	3.2	102%	6.1	7.3	84%
Other Operating expenses	(20.5)	(11.4)	179%	(35.7)	(21.6)	165%
<b>Operating profit (EBIT)</b>	<b>(65.1)</b>	<b>(32.1)</b>	<b>203%</b>	<b>(93.3)</b>	<b>2.4</b>	<b>-</b>
Operating (EBIT) margin (%)	-	-	-	-	0.2%	-
Investment revenues	0.0	(0.0)	-	0.0	2.5	-
Finance income	6.0	1.4	420%	6.8	2.5	275%
Finance expense	(11.7)	(52.9)	22%	(52.4)	(105.1)	50%
<b>Loss before tax and minority (PBTM)</b>	<b>(70.8)</b>	<b>(83.6)</b>	<b>85%</b>	<b>(139.0)</b>	<b>(97.7)</b>	<b>142%</b>
PBTM margin (%)	-	-	-	-	-	-
Income tax	(7.2)	(3.4)	215%	(12.3)	(16.7)	74%
Deferred tax	0.6	(0.9)	-	0.4	(1.2)	-
<b>Net Loss after tax (NPAT)</b>	<b>(77.4)</b>	<b>(87.8)</b>	<b>88%</b>	<b>(150.9)</b>	<b>(115.7)</b>	<b>130%</b>
NPAT margin (%)	-	-	-	-	-	-
Minority interest	2.4	1.0	253%	3.8	0.7	531%
<b>Net Loss</b>	<b>(75.0)</b>	<b>(86.9)</b>	<b>86%</b>	<b>(147.1)</b>	<b>(114.9)</b>	<b>128%</b>
Net profit margin (%)	-	-	-	-	-	-

## Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	30-Jun-20	31-Dec-19	20/19 (%)
Cash	216.7	129.0	168%
Inventory	894.0	945.0	95%
Receivables	675.0	655.5	103%
Related parties -debit balances	10.6	19.4	55%
<b>Total current assets</b>	<b>1,796.3</b>	<b>1,748.9</b>	<b>103%</b>
Net fixed assets	1,570.7	2,318.3	68%
Intangible assets	23.7	29.5	80%
Projects in progress	15.8	4.0	397%
Available for sale investments	6.0	12.0	50%
Long-term notes receivable	19.3	21.3	90%
<b>Total non-current assets</b>	<b>1,635.6</b>	<b>2,385.1</b>	<b>69%</b>
<b>Total assets</b>	<b>3,431.9</b>	<b>4,134.0</b>	<b>83%</b>
Banks overdraft	1,070.0	1,186.2	90%
Current portion of long-term liabilities	21.8	22.1	98%
Trade and notes payable	188.5	174.9	108%
Other current payable	414.1	374.1	111%
Related parties -credit balances	2.8	2.7	102%
Provisions	10.8	0.6	1854%
<b>Total current liabilities</b>	<b>1,708.0</b>	<b>1,760.5</b>	<b>97%</b>
Long-term loans	45.5	52.9	86%
Other long-term liabilities	3.2	3.8	83%
Provisions	8.5	8.5	100%
Deferred tax	22.6	23.0	99%
<b>Total non-current liabilities</b>	<b>79.8</b>	<b>88.2</b>	<b>91%</b>
<b>Total liabilities</b>	<b>1,787.8</b>	<b>1,848.7</b>	<b>97%</b>
<b>Minority interest</b>	<b>29.9</b>	<b>46.9</b>	<b>64%</b>
Issued capital	400.0	400.0	100%
Reserves	1,448.8	2,117.2	68%
Retained earnings	(87.5)	19.5	-449%
Net Loss for the period/year	(147.1)	(298.3)	49%
<b>Total equity</b>	<b>1,614.2</b>	<b>2,238.4</b>	<b>72%</b>
<b>Total equity, minorities and liabilities</b>	<b>3,431.9</b>	<b>4,134.0</b>	<b>83%</b>

## Lecico Egypt consolidated cash flow

Cash flow statement (LE m)	2Q		%
	2020	2019	20/19
<b>Cash Flow from operating activities</b>			
Net Loss for the period before tax and minority	(139.0)	(97.7)	142%
Fixed assets depreciation	54.9	59.4	92%
Intangible assets amortization	0.4	1.6	23%
Income tax paid	(19.5)	(35.3)	55%
Capital gains	(0.04)	0.8	-
Loss of selling other investment	1.1	-	-
Impairment of intangible assets	4.6	-	-
Provided provisions	21.0	2.4	869%
Impairment of inventory	(0.0)	(0.0)	41%
Employee share in net profit	30.4	29.7	103%
Increase (Decrease) in translation reserve	(5.1)	8.2	-
(Increase) Decrease in Inventory	51.0	(0.2)	-
(Increase) Decrease in Receivables	36.2	21.3	170%
Increase (Decrease) in Payables	32.4	(42.3)	-
Utilized Provisions	(10.7)	(10.5)	102%
Difference result from discounting of long term notes receivables	(2.3)	1.7	-
<b>Net cash from operating activities</b>	<b>55.4</b>	<b>(61.0)</b>	-
<b>Cash flow from investing activities</b>			
Additions to fixed assets and projects	(18.6)	(37.9)	49%
Intangible assets	0.0	(0.5)	-
Net change in available for sale investments	4.8	1.0	503%
Proceeds from sales of fixed assets	166.3	1.5	11000%
Increase (Decrease) in long-term notes receivable	4.4	(4.1)	-
<b>Net cash from investing activities</b>	<b>156.9</b>	<b>(40.0)</b>	-
<b>Cash flow from financing activities</b>			
Increase (Decrease) in long-term loans	(7.3)	74.8	-
Payment for leased assets	(1.1)	(48.5)	2%
<b>Net cash from financing activities</b>	<b>(8.4)</b>	<b>26.3</b>	-
<b>Net change in cash &amp; cash equivalent during the period</b>	<b>203.9</b>	<b>(74.7)</b>	-
Net cash and cash equivalent at beginning of the period	(1,057.2)	(1,145.2)	92%
<b>Net cash and cash equivalent at the end of the period</b>	<b>(853.3)</b>	<b>(1,219.8)</b>	<b>70%</b>