



Third Quarter 2020 Results

Alexandria, 17th November 2020 – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for the Third quarter 2020.

Highlights

3Q 2020

- Lecico revenue down 5% to LE 561.4 million (59.5% from sanitary ware).
- Sanitary ware revenue down 7% to LE 334.3 million, volumes down 7% to 1.1 million pieces (71% exports).
- Tile revenue down 3% to LE 205.1 million, volumes down 7% to 5.2 million square meters (22.3% exports).
- Brassware revenue up 6% to LE 22 million, sales volume up 9% to 23,857 pieces.
- EBIT loss of LE 25.3 million compared to EBIT loss of LE 33.6 million in 3Q 2019.
- Net loss of LE 45.3 million compared to net loss of LE 88.1 million in 3Q 2019.

9M 2020

- Lecico revenue down 21% to LE 1,439.9 million (59.2% from sanitary ware).
- Sanitary ware revenue down 23% to LE 852.9 million, volumes down 22% to 2.8 million pieces (68.6% exports).
- Tile revenue down 19% to LE 537.2 million, volumes down 19% to 13.6 million square meters (21.4% exports).
- Brassware revenues down 12% to LE 49.8 million, sales volume down 3% to 59,373 pieces.
- EBIT loss of LE 118.5 million compared to EBIT loss of LE 31.2 million in 2019.
- Net loss of LE 192.4 million compared to net loss of LE 203 million in 2019.

Lecico Egypt Chairman, Gilbert Gargour commented “The third quarter saw Lecico achieve its highest strong rebound in revenues and lowest losses in over a year. Sales rebounded to pre-COVID levels both in Egypt and in exports, but remain below the average achieved in 2019.

“Our working capital levels continued to improve in both absolute and relative terms through the quarter as the management team continue to destock inventories and push out payment terms to suppliers. With the collection of the final tranches of cash from the real estate sale in Lebanon during the quarter, our net debt has been reduced further to its lowest value in over five years.

“Lecico still has a way to go to return to bottom line profitability, but the progress achieved in terms of opening new sales channels and markets, cost reduction, working capital improvement and the subsequent reduction in debt gives me confidence that we are on the right path.

“Unless we see a greater than expected effect from a resurgent COVID, we should continue showing strong year-on-year improvement for the next several months and volume growth in the next year should see us continue our recovery.”

Taher Gargour, Lecico Egypt CEO, added, “The speed of the market rebound we have seen in the past quarter has surprised most of our industry globally. Lecico has struggled to keep up with demand and we can see the same in our competitors and suppliers. I believe we have gained market share in this rebound because of the strategic decisions made – at the start of the disruption from COVID – to keep our manufacturing and trading operational throughout the year which has created goodwill with our customers and allowed us to be relatively quick in responding to their needs as they restarted business.

“This quick recovery has made me quite optimistic that – despite whatever second wave demand shocks we may see around the year-end – Lecico is in a strong position to generate increased sales in the coming year between current markets and customers and new opportunities.

“This sales recovery is what will continue to drive our return to profitability now that we have made significant progress in cutting our below the operating line expenses through debt reduction and the lower cost of borrowing.

“We still have work to do to reduce our debt further, monetize further assets and restructure our tax rates to keep improving our cost structure, but now lion’s share of our recovery has to come from the top line and economies of scale.

“Post-restructuring, our reduced tile business is now operating at full capacity and generating gross margins of around 20% despite over-capacity and price burning in the industry in Egypt. Future growth needs to come from our sanitary ware and brassware businesses which still have a significant proportion of their capacity unutilized.

“In sanitary ware, I expect the gradual utilization of this capacity over the coming years will drive a significant reduction in cost and a recovery in margins. We have projects under way to grow market share in all our key markets already and we have several new market and OEM customer initiatives lined up to begin over 2021.

“We are also optimistic that in the medium-term Egypt, Lebanon and Libya – all of which are going through multiple years of recession or extremely constrained growth – will have a period of relative stability and economic recovery which will further drive demand and allow us to accelerate sales.

“Lecico’s task ahead is to maximize sales and take advantage of these commercial opportunities while driving continuous improvement in our smart management of costs, working capital and cashflows. 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)	3Q		%	9M		%
	2020	2019	20/19	2020	2019	20/19
Sanitary ware	334.3	357.7	93%	852.9	1,109.2	77%
Tiles	205.1	212.3	97%	537.2	661.5	81%
Brassware	22.0	20.8	106%	49.8	56.7	88%
Sales	561.4	590.8	95%	1,439.9	1,827.5	79%
Sanitary ware/sales (%)	59.5%	60.5%	(1.0%)	59.2%	60.7%	(1.5%)
Cost of sales	(498.1)	(536.1)	93%	(1,308.1)	(1,590.7)	82%
Cost of sales/sales (%)	(88.7%)	(90.7%)	(2.0%)	(90.8%)	(87.0%)	3.8%
Gross profit	63.3	54.7	116%	131.8	236.8	56%
Gross profit margin (%)	11.3%	9.3%	2.0%	9.2%	13.0%	(3.8%)
Distribution and administration (D&A)	(74.8)	(81.0)	92%	(207.0)	(246.4)	84%
D&A/sales (%)	(13.3%)	(13.7%)	(0.4%)	(14.4%)	(13.5%)	0.9%
Net other operating income/ (expense)	(13.8)	(7.2)	190%	(43.4)	(21.5)	201%
Net other operating income/ (expense) sales (%)	(2.5%)	(1.2%)	1.2%	(3.0%)	(1.2%)	1.8%
EBIT	(25.3)	(33.6)	75%	(118.5)	(31.2)	380%
EBIT margin (%)	-	-	-	-	-	-
Net profit (loss)	(45.3)	(88.1)	51%	(192.4)	(203.0)	95%
Net profit margin (%)	-	-	-	-	-	-

3Q 2020: Sales rebound drives significant reduction in losses

Lecico reported a sharp recovery in sales quarter-on-quarter as markets seemed to recover quickly following the re-opening of economies following the first lock down for corona virus. Although sales were slightly lower year-on-year, cost improvements allowed the company to significantly reduce their operating and net losses year-on-year.

Lecico revenues for the third quarter decreased by 5% year-on-year to reach LE 561.4 million (3Q 2019: LE 590.8 million) with lower revenues in sanitary and tile segments. Local revenues fell 4% year-on-year to reach LE 263.5 million (3Q 2019: LE 273.8 million) and export revenues fell 6% year-on-year to reach LE 297.9 million (3Q 2019: LE 317 million).

Quarter-on-Quarter revenues increased by 47% (2Q 2020: LE 382 million) as 2Q revenues were unusually low as a result of the coronavirus. Local revenues increased 29% quarter-on-quarter to reach LE 263.5 million (2Q 2020: LE 205 million) and export increased 68% quarter-on-quarter to reach LE 297.9 million (2Q 2020: LE 177.1 million).

Lecico's cost of goods sold fell by 7% year-on-year to LE 498.1 million (3Q 2019: LE 536.1 million) with lower economies of scale as a result of reduced activity offset by cost cutting measures and reduced gas prices. Production volumes were about 8% lower than in the same period last year.

Quarter-on-Quarter the cost of goods sold rose 34% (2Q 2020: LE 370.7 million) with higher economies of scale as a result of increased activity. Production volumes were about 43% greater than in the second quarter.

Lecico's gross profit for the third quarter increased 16% year-on-year to LE 63.3 million (3Q 2019: LE 54.7 million). Lecico's gross profit margin increased 2 percentage points to 11.3% compared to 9.3% in the same period last year. Tile gross profit improved as restructuring and

lower gas costs offset the reduction in sales and diseconomies of scale, while sanitary gross margins dropped primarily as a result of lower production than in the same period last year.

Quarter-on-quarter gross profit increased by 457% (2Q 2020: LE 11.4 million) and Lecico's gross margin increased 8.3 percentage points (2Q 2020: 3%). Margins in all products improved sharply quarter-on-quarter as production was increased to meet rising demand, unlocking economies of scale over the previous year.

In absolute terms, distribution and administration (D&A) expenses decreased by 8% to LE 74.8 million (3Q 2019: LE 81million), and proportional D&A expenses were down by 0.4 percentage points to 13.3% (3Q 2019: 13.7%).

Quarter-on-quarter distribution and administration (D&A) expenses increased by 26% (2Q 2020: LE 59.3 million), but proportional D&A expenses were down by 2.2 percentage points (2Q 2020: 15.5%).

Lecico reported LE 13.8 million in net other operating expenses compared to net other operating expenses of LE 7.2 million in the same period last year. The increase is mainly coming from accrued employee profit share.

Quarter-on-quarter net other operating expenses decreased by 20% (2Q 2020: LE 17.2 million).

Lecico reported an EBIT loss of LE 25.3 million for the quarter compared to an EBIT loss of LE 33.6 million in 3Q 2019.

Quarter-on-quarter Lecico's EBIT loss decreased 61% (2Q 2020: LE 65.1 million EBIT loss).

Net financing expenses were down 74% year-on-year to reach LE 13.5 million (3Q 19: LE 51.1 million) primarily as a result of a lower finance expense due to the significant reduction in both debt levels and interest rates year-on-year. The finance expense also benefitted from a one-off debt forgiveness in Lecico Lebanon of LE 4.5 million resulting from refund by creditor banks due to repayment of our debt as well as the gain from exchange variance (LE 11.7 million exchange variance gain compared to an exchange variance loss of LE 3.6 million in 3Q 2019).

Net debt was reduced 38% or LE 455 million to LE 730 million compared to the same period last year (3Q 2019: LE 1,185 million) with approximately LE 175 million proceeds from the sale of real estate in Lebanon, and the rest coming from working capital and operational improvements.

Central Bank interest rates on the Egyptian Pound have fallen 6.50 percentage points year-on-year from 15.75% at the end of 3Q 2019 to 9.25% at the end of this quarter.

Quarter-on-quarter net financing expenses increased 136% (2Q 2020: LE 5.7 million) primarily as a result of the reduction in debt forgiveness in Lecico Lebanon from LE 8.6 million in 2Q to LE 4.5 in 3Q resulting from refund by creditor banks due to repayment of our debt.

Lecico reported net tax charge of LE 6 million in the third quarter versus a tax charge of LE 4.7 million in the same period last year.

Lecico reported net loss of LE 45.3 million in the third quarter compared to a net loss of LE 88.1 million in the same period last year. Quarter-on-quarter, Lecico's net loss decreased 40% (2Q 2020: LE 75 million net loss).

9M 2020: Strong improvement in finance costs reduces losses

Lecico revenues for the first nine months decreased by 21% year-on-year to LE 1,439.9 million (9M 2019: LE 1,827.5 million) due to the drop in local and export sales in all segments largely as a result of the impact of the coronavirus.

Lecico's cost of goods sold was down 18% year-on-year to LE 1308.1 million (9M 2019: LE 1,590.7 million).

Gross profit decreased by 44% to reach LE 131.8 million (9M 2019: LE 236.8 million) and the Company's gross profit margin was down 3.8 percentage points to 9.2% compared to 13% 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 nine months of 2020 was about 39% below the same period last year.

In absolute terms, distribution and administration (D&A) expenses decreased by 16% to LE 206.9 million (9M 2019: LE 246.4 million), but proportional D&A expenses were up by 0.9 percentage points to 14.4% of net sales compared to 13.5% in last year.

Lecico reported LE 43.4 million in net other operating expenses compared to net other operating expenses of LE 21.5 million in the same period last year. The increase is mainly coming from accrued employee profit share.

Lecico reported an EBIT loss of LE 118.5 million for the first nine months compared to an EBIT loss of LE 31.2 million in the same period last year.

Net financing expenses decreased 62% year-on-year during the first nine months of 2020 to reach LE 59.2 million compared to LE 153.8 in the same period last year. Approximately 14% of this reduction in net finance expenses is due to a one-off debt forgiveness in Lecico Lebanon of LE 13.1 million resulting from refund by creditor banks due to repayment of our debt as well as the gain from exchange variance (LE 16.8 million exchange variance gain compared to an exchange variance loss of LE 13.2 million in the same period last year). The other 86% 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 17.9 million versus a tax charge of LE 22.6 million in the same period last year.

Lecico reported net loss of LE 192.4 million compared to net loss of LE 203 million in the same period last year.

Segmental analysis

Sanitary ware

3Q: Sanitary ware sales volumes decreased by 7% (down 88,938 pieces). Local volumes decreased by 16% (down 57,845 pieces), export sales volumes decreased by 3% (down 26,102 pieces) and sales volumes in Lebanon decreased by 21% (down 4,991 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 increased by 52% (up 376,124 pieces). Sales in Egypt increased 18% (up 44,851 pieces), export volumes increased 71% (up 325,059 pieces) and sales in Lebanon increased by 48% (up 6,214 pieces).

Average sanitary ware prices increased by 1% year-on-year at LE 302.5 per piece (3Q 2019: LE 299.6). Quarter-on-quarter average prices were up 3% (2Q 2020: LE 292.4).

Revenues were down 7% year-on-year at LE 334.3 million (3Q 2019: LE 357.7 million). Quarter-on-quarter revenues were up 57% (2Q 2020: LE 213.1 million).

Average cost of sales per piece rose 10% year-on-year at LE 288.7 per piece primarily as a result of the reduction in production. Production was down 15% year-on-year. Quarter-on-quarter, the average cost of sales was down 3% (2Q 2020: LE 298.8 per piece) and production was up 45%.

Sanitary segment reported gross profit of LE 15.3 million 3Q 2020 compared to gross profit of LE 44.9 million in the same period last year. In the second quarter sanitary segment reported gross profit of LE 4.7 million.

Sanitary ware segmental analysis	3Q		%	9M		%
	2020	2019	20/19	2020	2019	20/19
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	301	359	84%	813	1,116	73%
Lebanon (000 pcs)	19	24	79%	71	99	72%
Export (000 pcs)	785	811	97%	1,936	2,395	81%
Total sanitary ware volumes (000 pcs)	1,105	1,194	93%	2,820	3,610	78%
Exports/total sales volume (%)	71.0%	67.9%	3.1%	68.6%	66.3%	2.3%
Sanitary ware revenue (LE m)	334.3	357.7	93%	852.9	1109.2	77%
Average selling price (LE/pc)	302.5	299.6	101%	302.5	307.3	98%
Average cost per piece (LE/pc)	288.7	262.0	110%	288.3	259.7	111%
Sanitary ware cost of sales	(319.0)	(312.8)	102%	(812.9)	(937.5)	87%
Sanitary ware gross profit	15.3	44.9	34%	39.9	171.7	23%
Sanitary ware gross profit margin (%)	4.6%	12.5%	(8.0%)	4.7%	15.5%	(10.8%)

9M: Sanitary ware sales volume decreased by 22% to 2.8 million pieces (down 790,381 pieces). Egyptian volumes fell 27% (down 303,231 pieces), export volumes decreased 19% (down 459,095 pieces) and sales in Lebanon decreased by 28% (down 28,055 pieces).

Average sanitary ware prices were down 2% year-on-year to LE 302.5 per piece (9M 2019: LE 307.3) 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 23% year-on-year at LE 852.9 million (9M 2019: LE 1,109.2 million).

Average cost of sales rose 11% at LE 288.3 per piece due to lower production (down 27%). Sanitary ware production was 27% lower than in the first nine months of 2019.

Gross profit decreased 77% to LE 39.9 million (9M 2019: LE 171.7 million) and the margin fell 10.8 percentage points to 4.7% (9M 2019: 15.5%).

Tiles

3Q: Tile sales volumes decreased 7% year-on-year (down 410,664 square meters) to reach 5.2 million square meters. Local volumes decreased 10% (down 442,724 square meters), Lebanon sales decreased 40% (down 76,479 square meters), but export sales volumes increased 10% (up 108,539 square meters).

Quarter-on-quarter sales volumes increased 27% (up 1.1 million square meters). Local volumes increased 16% (up 528,000 square meters) and export volumes increased 103% (up 583,000 square meters), but Lebanon volumes decreased 5% (down 6,000 square meters),

Average net prices increased 4% to LE 39.8 per square meter compared to LE 38.2 in 3Q 2019. Quarter-on-quarter average prices were up 3% (2Q 2020: LE 38.8).

Tiles revenues were down 3% year-on-year at LE 205.1 million (3Q 2019: LE 212.3 million). Quarter-on-quarter revenues were up 31% (2Q 2020: LE 157 million).

Average costs of sales decreased by 17% year-on-year to reach LE 31.9 per square meter (3Q 2019: LE 38.3 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 2 % lower production compared to the same period in 2019.

Quarter-on-quarter average costs decreased by 10% (2Q 2020: LE 35.5 per square meter) as production was up 40%.

Gross profit for the quarter reached LE 40.9 million compared to gross loss LE 0.9 million in the same period last year. Gross margin for the quarter is 19.9%.

Quarter-on-quarter gross profit increased by 210% (2Q 2020: LE 13.2 million) and the gross margin increased 11.5 percentage points (2Q 2020: 8.4%).

9M: Tile sales volumes decreased by 19% year-on-year (down 3.1 million square meters) to reach 13.6 million square meters. Sales in Egypt decreased 16% (down 1.9 million square meters), sales in Export decreased by 25% (down 978,010 square meters) and sales in Lebanon decreased by 42% (down 203,707 square meters).

Average net prices year-on-year are flat at LE 39.5.

Tiles revenues were down 19% year-on-year at LE 537.2 million in the first nine months of 2020 (9M 2019: LE 661.5 million).

Average costs decrease 9% year-on-year to reach LE 33.7 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 19% lower production compared to the same period in 2019.

Gross profit increased 95% to reach LE 79.2 million (9M 2019: LE 40.6 million), the margin increased by 8.6 percentage points to 14.7% (9M 2019: 6.1%).

Tile segmental analysis						
	3Q		%	9M		%
	2020	2019		2020	2019	
Tile volumes (000 sqm)						
Egypt (000 sqm)	3,888	4,331	90%	10,402	12,321	84%
Lebanon (000 sqm)	114	190	60%	282	486	58%
Export (000 sqm)	1,151	1,042	110%	2,903	3,881	75%
Total tile volumes (000 sqm)	5,153	5,564	93%	13,587	16,687	81%
Exports/total sales volume (%)	22.3%	18.7%	3.6%	21.4%	23.3%	(1.9%)
Tile revenue (LE m)	205.1	212.3	97%	537.2	661.5	81%
Average selling price (LE/sqm)	39.8	38.2	104%	39.5	39.6	100%
Average cost per sqm (LE/sqm)	31.9	38.3	83%	33.7	37.2	91%
Tile cost of sales	(164.2)	(213.2)	77%	(458.0)	(620.9)	74%
Tile gross profit	40.9	(0.9)	-	79.2	40.6	195%
Tile gross profit margin (%)	19.9%	-	-	14.7%	6.1%	8.6%

Brassware

3Q: Sales volumes for the third quarter 2020 increased by 9% to reach 23,857 pieces (3Q 2019: 1,996 pieces). Quarter-on-quarter sales volumes increased by 38% (2Q 2020: 6,629 pieces).

Average net prices were down 3% to reach LE 923.3 per piece (3Q 2019: LE 952.7). Quarter-on-quarter prices increased by 34% (2Q 2020: LE 690.9) due to product mix.

Revenue for the quarter increased 6% year-on-year to reach LE 22 million (3Q 2019: LE 20.8 million). Brassware accounted for 3.9% of the quarter's revenues, compared to 3.5% in the same period last year. Quarter-on-quarter revenues increased by 85% (2Q 2020: LE 11.9 million).

Average cost per piece increased 35% to LE 623.1 per piece (3Q 2019: LE 461.7 per piece) reflecting changing mix. Quarter-on-quarter average cost per piece increased 18% (2Q 2020: LE 526.7 per piece).

Gross profit for the quarter decreased by 33% year-on-year to reach LE 7.2 million (3Q 2019: LE 10.7 million) and the gross margin decreased 19 percentage points to 32.5% (3Q 2019: 51.5%).

Brassware accounted for 11.3% of the quarter's gross profits compared to 19.6% in the same period last year.

Quarter-on-quarter gross profit increased by 153% (2Q 2020: LE 2.8 million) and the gross margin increased 8.8 percentage points (2Q 2020: 23.8%). Brassware accounted for 0.7% of gross profits in 2Q 2020.

Brassware segmental analysis	3Q		%	9M		%
	2020	2019		2020	2019	
Brassware volumes (pcs)						
Egypt (pcs)	23,857	21,859	109%	59,373	61,462	97%
Export (pcs)	-	2	0%	-	12	0%
Total brassware volumes (pcs)	23,857	21,861	109%	59,373	61,474	97%
Exports/total sales volume (%)	0.0%	0.0%	(0.0%)	0.0%	0.0%	(0.0%)
Brassware revenue (LE m)	22.0	20.8	106%	49.8	56.7	88%
Average selling price (LE/pc)	923.3	952.7	97%	838.9	923.0	91%
Average cost per piece (LE/pc)	623.1	461.7	135%	626.5	524.7	119%
Brassware cost of sales	(14.9)	(10.1)	147%	(37.2)	(32.3)	115%
Brassware ware gross profit	7.2	10.7	67%	12.6	24.5	51%
Brassware gross profit margin (%)	32.5%	51.5%	(19.0%)	25.3%	43.2%	(17.8%)

9M: Sales volumes for first nine months of 2020 decreased by 3% year-on-year (down 2,101 pieces)

Average net prices decreased 9% to reach LE 838.9 per piece due to product mix.

Revenues decreased 12% year-on-year to reach LE 49.8 million (9M 2019: LE 56.7 million).

Brassware's percentage of consolidated revenues 3.5%, while the percentage for last year was 3.1% of sales.

Average cost per piece rose 19% to LE 626.5 per piece (9M 2019: LE 524.7 per piece) reflecting changing mix.

Gross profit decreased 49% to LE 12.6 million (9M 2019: LE 24.5 million) and the margin decreased 17.8 percentage points to 25.3% (9M 2019: 43.2%).

Brassware's percentage of consolidated gross profits increased to 9.6% of Lecico gross profits (9M 2019: 10.3%).

Financial Position

The value of Lecico's non-current assets decreased by 29% at the end of September 30, 2020 to reach LE 1,683.7 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 decreased by 6% at the end of September 30, 2020 to reach LE 1,643.9 million (2019: LE 1,748.9 million) primarily as a result of the decrease in inventory during the first nine months of 2020.

Total liabilities decreased by 6% to reach LE 1,734.7 million (2019: LE 1,848.7 million) primarily as a result of the drop in debt offset by increased payables.

Gross debt decreased 28% or LE 349.5 million to reach LE 908.8 million compared to LE 1,258.4 million at the end of 2019. Approximately LE 175 million of the reduction in net debt was due to the sale of land in Lebanon and the balance came from operations and improvements working capital.

Net debt decreased 35% or LE 399.8 million to reach LE 729.6 million compared to LE 1,129.4 million at the end of 2019.

Net debt to equity at first nine months was slightly improved at 0.47x compared to 0.51x at the end of 2019.

Working capital decreased 30% or LE 316.6 million to reach LE 735 million compared to LE 1,051.6 million at the end of 2019 as a result of a reduction in inventories and an increase in payables.

Recent developments and outlook

Outlook for 4Q 2020 and 2021: The recovery in demand seen in over the third quarter is expected to continue and –with new business added by Lecico in 2021 – drive sales growth in the coming quarter and the year ahead. The resurgence of the coronavirus and the measures taken to control it may affect sales around the year-end but management does not expect it to stop year-on-year growth over the year ahead in aggregate.

Encouragingly, sales in October and in early November continue the recovery seen over the third quarter. Local sales in Egypt are expected to see the growth in government projects continue to underpin demand growth for the Company, with the sales team predicting strong growth in end user and retail sales in the year ahead when planning restrictions enacted by the government in 2020 are lifted.

Export growth in Europe – which saw a sharp recovery in the third quarter – is expected to continue and see exports recover to above pre-coronavirus levels in 2021.

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.

Accordingly, management is cautiously optimistic – despite the many risks and unknown variables around the coronavirus - that the improvement seen in the third quarter will continue in the year ahead with management expecting the average quarterly result for 2021 to show a significant improvement from the results of the third quarter despite seasonal issues in any individual quarter.

The fourth quarter of 2020 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. However, trading in October and early November do not show any signs of slowdown yet.

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 2021, Lecico Lebanon is anticipating moving to 100% cash payment model as the subsidiary has effectively paid off all its banks debts and now needs to generate hard currency cash to repay suppliers.

Lecico Lebanon management believe the Company has made major gains in market share in 2020 with sales falling 20% in absolute terms due to the economic and political crisis unfolding there.

Lebanon’s macroeconomic and political outlook for 2021 remains extremely uncertain with a strong devaluation and a massive restructuring expected at some point but with most experts unsure about how and when this restructuring will begin.

If the economic environment in 2021 remains largely as it is now, Lecico Lebanon is expected to return to limited profitability in 2021 and begin repaying Lecico Egypt for old balances of goods now that banks have essentially been paid off.

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)	3Q		%	9M		%
	2020	2019	20/19	2020	2019	20/19
Sales	561.4	590.8	95%	1,439.9	1,827.5	79%
Cost of sales	(498.1)	(536.1)	93%	(1,308.1)	(1,590.7)	82%
Gross profit	63.3	54.7	116%	131.8	236.8	56%
Gross margin (%)	11.3%	9.3%	2.0%	9.2%	13.0%	(3.8%)
Distribution expenses	(33.1)	(35.5)	93%	(91.5)	(110.1)	83%
Administrative expenses	(41.7)	(45.5)	92%	(115.5)	(136.3)	85%
Other Operating income	3.4	3.0	112%	9.5	10.3	92%
Other Operating expenses	(17.2)	(10.3)	167%	(52.8)	(31.8)	166%
Operating profit (EBIT)	(25.3)	(33.6)	75%	(118.5)	(31.2)	380%
Operating (EBIT) margin (%)	-	-	-	-	-	-
Investment revenues	0.0	2.4	-	0.0	4.9	-
Finance income	12.3	1.0	1273%	19.0	3.4	557%
Finance expense	(25.9)	(52.1)	50%	(78.3)	(157.2)	50%
Loss before tax and minority (PBTM)	(38.9)	(82.3)	47%	(177.9)	(180.1)	99%
PBTM margin (%)	-	-	-	-	-	-
Income tax	(6.1)	(4.4)	140%	(18.4)	(21.1)	87%
Deferred tax	0.1	(0.3)	-	0.5	(1.5)	-
Net Loss after tax (NPAT)	(44.9)	(87.0)	52%	(195.8)	(202.7)	97%
NPAT margin (%)	-	-	-	-	-	-
Minority interest	(0.4)	(1.0)	37%	3.4	(0.3)	-
Net Loss	(45.3)	(88.1)	51%	(192.4)	(203.0)	95%
Net profit margin (%)	-	-	-	-	-	-

Lecico Egypt consolidated balance sheet

Balance Sheet			
(LE m)	30-Sep-20	31-Dec-19	20/19 (%)
Cash	179.2	129.0	139%
Inventory	798.2	945.0	84%
Receivables	660.4	655.5	101%
Related parties -debit balances	6.1	19.4	32%
Total current assets	1,643.9	1,748.9	94%
Net fixed assets	1,621.3	2,318.3	70%
Intangible assets	21.4	29.5	73%
Projects in progress	20.8	4.0	522%
Available for sale investments	5.9	12.0	49%
Long-term notes receivable	14.3	21.3	67%
Total non-current assets	1,683.7	2,385.1	71%
Total assets	3,327.6	4,134.0	80%
Banks overdraft	850.2	1,186.2	72%
Current portion of long-term liabilities	83.4	22.1	377%
Trade and notes payable	278.2	174.9	159%
Other current payable	445.3	374.1	119%
Related parties -credit balances	0.1	2.7	5%
Provisions	6.1	0.6	1037%
Total current liabilities	1,663.4	1,760.5	94%
Long-term loans	39.7	52.9	75%
Other long-term liabilities	2.3	3.8	62%
Provisions	6.7	8.5	79%
Deferred tax	22.5	23.0	98%
Total non-current liabilities	71.3	88.2	81%
Total liabilities	1,734.7	1,848.7	94%
Minority interest	28.6	46.9	61%
Issued capital	400.0	400.0	100%
Reserves	1,435.4	2,117.2	68%
Retained earnings	(78.7)	19.5	-404%
Net Loss for the period/year	(192.4)	(298.3)	64%
Total equity	1,564.3	2,238.4	70%
Total equity, minorities and liabilities	3,327.6	4,134.0	80%

Lecico Egypt consolidated cash flow

Cash flow statement (LE m)	3Q		%
	2020	2019	20/19
Cash Flow from operating activities			
Net Loss for the period	(177.9)	(203.0)	88%
Depreciation and translation adjustment	87.8	89.7	98%
Intangible assets amortization and translation adjustment	(0.8)	2.4	-
Intangible write off	7.0	-	-
Income tax expense	0.0	21.1	0%
Income tax paid	(21.6)	(36.6)	59%
Deferred income tax	0.0	1.2	0%
Capital gains	(0.1)	0.8	-
Gain of selling other investment	1.1	-	-
Provided provisions and translation adjustment	30.9	5.4	570%
Reversal of expired provision	(0.02)	(0.07)	28%
Employee share in net profit	45.6	45.0	101%
Increase (Decrease) in minority interest	0.0	(6.1)	0%
Increase (Decrease) in translation reserve	(73.3)	5.6	-
(Increase) Decrease in Inventory	147.1	73.9	199%
(Increase) Decrease in Receivables	9.8	70.8	14%
Increase (Decrease) in Payables	155.5	30.1	516%
Utilized Provisions	(28.8)	(16.3)	176%
Difference result from discounting of long term notes receivables	(3.2)	2.7	-
Net cash from operating activities	179.0	86.6	207%
Cash flow from investing activities			
Additions to fixed assets and projects	(43.3)	(48.8)	89%
Intangible assets	(0.0)	(0.7)	-
Net change in available for sale investments	4.9	1.2	404%
Proceeds from sales of fixed assets	213.0	1.5	14311%
Increase (Decrease) in long-term notes receivable	10.3	(11.1)	-
Net cash from investing activities	184.9	(57.9)	-
Cash flow from financing activities			
Increase (Decrease) in long-term loans	0.0	58.6	0%
Increase (Decrease) in current portion of long term liabilities	48.1	6.8	705%
Change in Other Short Term Liabilities	-	(2.3)	0%
Employees Dividends paid	(25.8)	(48.5)	53%
Net cash from financing activities	22.3	14.6	152%
Net change in cash & cash equivalent during the period	386.2	43.3	892%
Net cash and cash equivalent at beginning of the period	(1,057.2)	(1,145.2)	92%
Net cash and cash equivalent at the end of the period	(671.0)	(1,101.9)	61%