

Almarai Company Announces its Condensed Consolidated Interim Financial Results for the Period Ended on 30th September 2018 (9 Months)

Almarai Company (“the Company”) is pleased to announce its Condensed Consolidated Interim Financial Results for the period ended 30th September 2018 as below:

Third Quarter 2018 Highlights

1. The Revenue for the third quarter 2018 amounted to SAR 3,370.8 million, a decrease by - 0.1% as compared to the corresponding quarter of the last year (SAR 3,372.9 million).
2. The Gross Profit for the third quarter 2018 amounted to SAR 1,452.2 million, a decrease of -4.2% as compared to the corresponding quarter of the last year (SAR 1,516.0. million).
3. The Operating Profit for the third quarter 2018 amounted to SAR 755.1 million, a decrease of -2.6% as compared to the corresponding quarter of the last year (SAR 775.5 million).
4. The Consolidated Profit Attributable to Shareholders of the Company for the third quarter 2018 amounted to SAR 634.5 million, a decrease of -4.9% as compared to the corresponding quarter of the last year (SAR 667.0 million) and a decrease of – 4.0% as compared to the previous quarter (SAR 660.6 million).
5. The Comprehensive Income Attributable to Shareholders of the Company for the third quarter 2018 amounted to SAR 592.6 million, a decrease of -13.0% as compared to the corresponding quarter of the last year (SAR 681.1 million) and an increase of 5.3% as compared to the previous quarter (SAR 562.9 million).

Nine Months ended 30th September 2018 (the Period) Highlights

6. The Revenue for the Period ended in 30th September 2018 amounted to SAR 10,334.1 million, a decrease by – 1.7% as compared to the corresponding period of last year (SAR 10,516.8 million).
7. The Gross Profit for the Period ended in 30th September 2018 amounted to SAR 4,210.7 million, a decrease of – 0.9% as compared to the corresponding period of last year (SAR 4,248.4 million).
8. The Operating Profit for the Period ended in 30th September 2018 amounted to SAR 1,995.5 million, an increase of 0.5% as compared to the corresponding period of last year (SAR 1,984.8 million).

9. The Consolidated Profit Attributable to Shareholders of the Company for the Period ended in 30th September 2018 amounted to SAR 1,639.3 million, a decrease of - 1.8% as compared to the corresponding period of last year (SAR 1,669.4 million).
10. The Comprehensive income Attributable to Shareholders of the Company for the Period ended in 30th September 2018 amounted to SAR 1,508.9 million, a decrease of - 13.9% as compared to the corresponding period of last year (SAR 1,752.2 million).
11. The Earnings per Share (EPS) based on the Consolidated Profit Attributable to Shareholders of the Company for Period ended in 30th September 2018 and the corresponding period of last year, reached SAR 1.60 and SAR 1.63, respectively. Diluted EPS for the Period ended in 30th September 2018 and the corresponding period of last year are 1.58 and 1.62, respectively.¹
12. Total Equity Attributable to Shareholders as of 30th September 2018 amounted to SAR 13,387.9 million as compared to the corresponding date of last year (SAR 12,263.9 million), an increase of 9.2%. The book value of one share as of 30th September 2018 reached SAR 13.4.

Reasons of increase (decrease) for third quarter 2018 compared with corresponding quarter of the last year

13. The decrease of -4.9% in the Consolidated Profit Attributable to Shareholders of the Company as compared to the corresponding quarter of the last year is due to:
 - **Revenues:** The decrease in topline growth of - 0.1% is because of the general contraction in the market coupled with an increase in product promotions and changes in the product portfolio and channel mix.
 - **Gross Profit:** The decrease by - 4.2% is due to higher cost of sales which is primarily driven by higher alfalfa cost, increased promotions, and an increase in labor costs. This has been partially offset by better cost management, stable commodity costs and enhanced production efficiencies
 - **Selling and Distribution Expenses (S&D):** decreased by SAR 4.7 million, - 0.8%. This is due to better efficiencies in route to market and trade operations. These strong operational efficiencies have outweighed the increase labor cost in S&D.
 - **General and Administration Expenses (G&A):** decreased by SAR 2.0 million, - 2.5%. This is due to the reduction in cost in various back office functions and efficiency programs.

¹ Diluted EPS is calculated by dividing the Profit for the period attributable to Shareholders of the Company for the period by the number of issued Shares (1,000 million issued Shares as of 30th September 2018. Diluted EPS takes into account the Profit attributable to Perpetual Sukuk holders.

- **Other Expenses:** increased by SAR 5.7 million, 14.1% that is due to fluctuations in the volumes and price for which the bulls and cows sold.
- **Exchange Gain or Loss and Finance Cost:** Funding costs are lower by 3.0 million due to better funding cost management and stability of interest rate especially for overseas entities. Exchange Loss was higher by SAR 3.8 million due to adverse movement in currencies, particularly the Euro.
- **Contribution of various Business Categories towards the decline in the Consolidated Profit Attributable to Shareholders of – 4.9% is as follows:**
 - **Dairy & Juice Category:** The Category Profit decreased by - 14.5% due to adverse market conditions, expat exodus, and higher Alfalfa cost coupled with discounting and promotions specifically in long life milk.
 - **Bakery Category:** The Category Profit decreased by -13.8% as a result of heavy competition and general changes in the product portfolio mix.
 - **Poultry Category:** The Category Profit of SAR 51.5 million compared to a loss of SAR – 6.6 million for the corresponding quarter of 2017. This is due to higher sales, driven by greater operational efficiencies, strong growth within the food service channel, and persistently low mortality.

Reasons of increase (decrease) for third quarter 2018 compared with previous quarter

14. The decrease of -4.0% in the Consolidated Profit Attributable to Shareholders of the Company for the third quarter 2018 (SAR 634.5 million) as compared to the previous quarter (SAR 660.6 million) is because of the full seasonal effect of the Holy Month of Ramadan of the second quarter 2018.²

Reasons of increase (decrease) for the Period compared with corresponding period of last year

15. The decrease of – 1.8% in the Consolidated Profit Attributable to Shareholders of the Company for the Period ended in 30th September 2018 as compared to the corresponding period of the last year is due to:
- **Revenues:** The decrease in topline growth of – 1.7% is due to decline in export sales, changes in demographics, a general contraction in the market and an increase in product promotions.
 - **Gross Profit:** The decrease by – 0.9% is mainly attributed to the decline in revenue despite lower cost of sales, greater cost management, stable commodity costs and enhanced production efficiencies despite the increased alfalfa costs.
 - **Selling and Distribution Expenses (S&D):** increased by SAR 2.6 million, 0.1%. This is due to higher general marketing expenses and trade support offset by better efficiencies logistics and distribution.

² We would like to draw the attention that the seasonality of product mix consumption makes seasonal results not an accurate indicator for the results of the whole year, especially the comparison of a quarter's results to the previous quarter's results.

- **General and Administration Expenses (G&A):** decreased by SAR 29.2 million, – 9.6%. This is due to efficiency programs, consolidation in Head office activities and reduced labor costs as result of lower headcount.
- **Other expenses:** increased by SAR 1.5 million, 1.2% due to fluctuations in selling prices and volumes of both bulls and cows.
- **Exchange Gain or Loss and Finance Cost:** Funding costs are lower by SAR 12.0 million due to better funding cost management and stability of interest rate especially for overseas entities. The Exchange Gain was lower by SAR 8.1 million due to changes in FX hedge rates and the unfavorable currency movements, particularly the Euro.
- **Contribution of various Business Categories towards the decline in Consolidated Profit Attributable to Shareholders of -1.8 % is as follows:**
 - **Dairy & Juice Category:** The Category Profit decreased by –12.8% due to adverse market conditions, slow performance of market driven by VAT implementation beginning of the year, expat exodus, higher Alfalfa cost, and reduction in export sales coupled with discounting and promotions.
 - **Bakery Category:** The Category Profit decreased by –33.9% as a result of heavy competition, the reduction in sales of the discretionary part of the bakery portfolio, and general changes in the product portfolio mix.
 - **Poultry Category:** The Category reported a Profit of 143.6 million compared to a loss of – 42.5 million for the corresponding quarter of 2017. This is due to higher sales, greater operational efficiencies, strong growth within the food service channel and frozen products, and persistent low mortality.

16. **Auditors' Opinion:** The external auditors have reviewed the Consolidated Interim Financial Statements and concluded (Unmodified Opinion).

17. Items, elements and notes of the comparatives Consolidated Interim Financial Statements have been redisplayed, regrouped and reclassified to meet with the applied accounting policies for the current period which have been prepared according to the International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia. For more information, please see the note 2.1 (Statement of Compliance) in the Interim Consolidated Financial Statements for the period ended in 30th September 2018.

18. **Other Notes:**

- **Revenue by Region:** for third Quarter of 2018 as compared to the corresponding quarter of last year, the Revenue decreased in Saudi Arabia, by -2.0%, and increased in other GCC countries and other countries by 4.6% and 2.8% respectively. And for the Current Period ended in 30th September 2018 as compared to the corresponding period of last year, the Revenue increased in Saudi Arabia and other countries by 0.2%, and 15.2% respectively, and decreased in other GCC countries by -12.2%.
- **EBITDA:** for third quarter 2018 Earnings before Interest, Taxes and Zakat, Depreciation and Amortization (EBITDA) reached SAR 1,116.5 million, a decrease of - 0.9% as compared to the corresponding quarter of last year (SAR 1,127.1 million). And for the Period ended in 30th September 2018 SAR 3,071.3 million, an increase of 3.6% as compared to the corresponding period of last year (SAR 2,965.3 million).
- **Profit Margins:** for third quarter 2018, The Gross Profit, Operating Profit and Consolidated Profit Attributable to Shareholders of the Company are representing 43.1%, 22.4%, and 18.8% of Revenue as compared to the corresponding quarter of last year of 44.9%, 23.0%, and 19.8%, respectively. And for the Period ended in 30th September 2018, for the Gross profit, Operating Profit and Profit for the period Attributable to Shareholders of the Company are representing 40.7%, 19.3%, and 15.9% of Revenue, as compared to the corresponding period of last year of 40.4%, 18.9%, and 15.9%, respectively.
- A summary of the Statement of Cash Flows for the Period ended in 30th September 2018 is as follows:
 - The Cash Generated from Operating Activities (OCF) reached SAR 2,173.0 million a decrease of - 30.1%, as compared in the corresponding period of last year (SAR 3,109.3 million) that mainly attributed to the increase in alfalfa stock. The OCF represents 21.0% of Revenue as compared to 29.6% for the corresponding period last year.
 - The Cash used in Investing Activities reached SAR 1,747.5 million as compared in the corresponding period of last year (SAR 2,504.9 million), a decrease of - 30.2%. This is principally due to the reduction in CAPEX Program in line with Almarai 5 years plan. Investing Activities represent 16.9% of revenue as compared to 23.8% for the corresponding period of last year.
 - The free cash flow (FCF) reached SAR 425.5 million as compared to the corresponding period of last year (SAR 604.4 million), a decrease of - 29.6%. The FCF represent 4.1% of revenue as compared to 5.7% for the corresponding period of last year.

General Comments:

19. With a continuous contraction of the consumer market, Almarai remained resilient in the third quarter of 2018, primarily due to notably strong performance of the Poultry segment. The Poultry segment has reached its optimal operating targets as a result of the expansion of the business within the Food service channel and also a more in depth coverage of the market with the newly announced value brand “Al Basahyer”.

The Infant Nutrition segment has continued to gain market share which has led to an EBIT positive result for the third quarter placing the segment on track for reaching the EBIT breakeven target for the full fiscal year. With regard to the Bakery Segment and during the quarter, revenues improved reversing the earlier 2018 declines. There were launches of new products to adapt to consumer preferences which have contributed to the quarter improved performance. The Dairy Foods segment continued to deliver a strong performance, particularly for Cheese and Butter, despite increasing competition from international competitors.

The Dairy and Juice segments, on the other hand, were most impacted by the slowdown in the market. Almarai managed to either gain or maintain its market position despite declining markets, further establishing the resilience of the company’s business. Within the Fresh Dairy segment, Almarai has successfully implemented select price increases, ranging from 3% to 6% for a limited number of Milk and Laban SKU’s. This was the first price increase in 10 years in this category, which were aimed at compensating for the increase in operating costs. Promotions and discount activities lifted Almarai’s volumes and market share in the Long Life Dairy segment. However, the Juice segment, traditionally discretionary by nature, continued to decline. Nonetheless, Almarai has successfully gained market share in the fresh juice and the newly addressed long life juice market.

Both the Poultry and infant nutrition segments continue to contribute positively to the growth of net income while the core categories still at a high level of profitability, have shown a decline in net profit. These trends will persist for the last quarter of 2018.

Geographically, Almarai continued its strong growth in Egypt, confirming its market leadership in Juice while gaining market share in the Dairy segment during this quarter. Finally, the company continued its cost rationalization efforts through the AAA program (cost optimization program) initiated last year. Thus far, Almarai is on track to deliver the expected SAR 200 million savings in operating costs for the year.

The challenging trading conditions in the region which started in late 2016 persisted during the 3rd quarter of 2018 Almarai will continue its efforts to encourage growth through innovation and the development of the Food services channel, while continuing to optimize its input and operating costs. The reduction in capex should contribute to the increase in free cash flows going forward.

Georges SCHORDERET, Almarai Company CEO, commented: “In this changing environment, Almarai will continue to focus on delivering innovative quality products to the consumers in the region, we will aim at achieving our Vision 2025 objectives to become the most favored brand in the eyes of the consumers, delivering value to all our stakeholders.”

20. The Condensed Consolidated Interim Financial statements for the Period ended in 30th September 2018 will be available through the following link on Almarai Website and Almarai IR App.

<https://www.almarai.com/en/investors/financial-information>

21. Conference call for analysts and investors will be on **9th October 2018** at **4:00 p.m.** KSA time.

The presentation accompanying the conference call will be available on Almarai website within the Investors section under Earning presentations at:

<https://www.almarai.com/en/corporate/investors/earning-presentations/>