Almarai Company Announces Its Annual Consolidated Financial Results for The Year Ended in 31st December 2019 (12 Months)

Almarai Company ("the Company") is pleased to announce its annual Consolidated Financial Results for the year ended in 31st December 2019 as below:

Fourth Quarter of 2019 Highlights

1. The Revenue for the Fourth quarter 2019 amounted to SAR 3,703.9 million, an increase of 9.5% as compared to the corresponding quarter of the last year (SAR 3,381.2 million).

2. The Gross Profit for the Fourth quarter 2019 amounted to SAR 1,293.5 million, an increase of 2.4% as compared to the corresponding quarter of the last year (SAR 1,262.9 million).

3. The Operating Profit for the Fourth quarter 2019 amounted to SAR 498.3 million, an increase of 0.1% as compared to the corresponding quarter of the last year (SAR 497.9 million).

4. The Consolidated Profit Attributable to Shareholders of the Company for the Fourth quarter 2019 amounted to SAR 311.9 million, a decrease of 15.9 % as compared to the corresponding quarter of the last year (SAR 370.8 million) and a decrease of 46.3% as compared to the previous quarter (SAR 581.2 million).

5. The Comprehensive Income Attributable to Shareholders of the Company for the Fourth quarter 2019 amounted to SAR 277.4 million, a decrease of 52.4% as compared to the corresponding quarter of the last year (SAR 582.2 million) and a decrease of 48.4% as compared to the previous quarter (SAR 537.7 million).

Twelve Months ended 31st December 2019 (the Period) Highlights

6. The Revenue for the Period ended in 31st December 2019 amounted to SAR 14,351.3 million, an increase by 5.9% as compared to the corresponding period of the last year (SAR 13,557.8 million).

7. The Gross Profit for the Period ended in 31st December 2019 amounted to SAR 5,366.7 million, an increase of 0.7% as compared to the corresponding period of the last year (SAR 5,327.1 million).

8. The Operating Profit for the Period ended in 31st December 2019 amounted to SAR 2,473.2 million, a decrease of 1.9% as compared to the corresponding period of the last year (SAR 2,521.2 million).

9. The Consolidated Profit Attributable to Shareholders of the Company for the Period ended in 31st December 2019 amounted to SAR 1,811.8 million, a decrease of 10.0% as compared to the corresponding period of the last year (SAR 2,012.0 million).

10. The Comprehensive Income Attributable to Shareholders of the Company for the Period ended in 31st December 2019 amounted to SAR 1,836.8 million, a decrease of 12.2% as compared to the corresponding period of the last year (SAR 2,093.1 million).

11. Total Equity Attributable to Shareholders as of 31th December 2019 amounted to SAR 14,653.3 million as compared to the corresponding date of last year (SAR 13,876.6 million), an increase of 5.6%. As of 31th December 2019, the book value per share reached SAR 14.7.

12. The Earnings per Share (EPS) based on the Consolidated Profit Attributable to Shareholders of the Company for the Twelve months period ended in 31st December 2019 and the corresponding Period of last year, reached SAR 1.83 and SAR 1.98, respectively. Diluted EPS for the Twelve months period ended in 31st December 2019 and the corresponding Period of last year were SAR 1.81 and SAR 1.96, respectively.[1]

Reasons of increase / (decrease) for Fourth quarter 2019 compared with corresponding quarter of the last year

13. The decrease of 15.9% 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 revenues growth of 9.5 % was driven mainly by poultry, fresh dairy and food category. Positive revenue growth was evident in all categories except Juice due to general decline in juice market and introduction of sugar tax. In terms of geographical growth, it was primarily led by KSA followed by growth in exports and Egypt.
- **Gross Profit:** Increased by 2.4 %, at a lower rate due to higher input costs in Q3, mainly Alfalfa, feed and labor cost. The shift towards food services and higher export sales in the quarter resulted in an unfavorable margin mix. In addition, gross profit was further negatively impacted by inventory adjustments for Infant Nutrition and horticulture businesses.
- **Selling and Distribution Expenses (S&D):** increased by SAR 101.0 million, 19.0% due to higher labor costs, general marketing expenses and trade support to support the sales development.
- **General and Administration Expenses (G&A):** increased by SAR 25.3 million, 25.1% mainly due to head office restructuring costs due to the on-going support functions optimization program.
- **Other Expenses:** decreased by SAR 151.8 million, mainly due to lower losses from sale of dairy herd and no major impairment of PPE relative to prior year.
- **Impairment of Financial Assets:** decreased by SAR 55.7 million compared to last year after providing for higher debt exposure in food service channel and infant nutrition categories.
- **Finance Cost:** Funding costs are higher by SAR 24.8 million mainly due to higher interest rate driven by higher SIBOR and lower capitalization of funding costs for qualified capital projects.
- **Contribution of various Business Categories towards the decline in the Consolidated Profit Attributable to Shareholders of -15.9% is as follows:**

- **Dairy & Juice Category:** The category Profit decreased by 41.3% due to higher bad debt provision given the entry in the food service channel, higher imported alfalfa cost & higher labor costs, higher losses in Egypt for both underused assets impairment and deferred tax assets adjustments and continued discounting for Long Life Dairy in local and export markets. Further continuing adverse market conditions in the Juice category and implementation by juice sugar tax further impacted the results.

[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 31th December 2019. Diluted EPS takes into account the Profit attributable to Perpetual Sukuk holders.

- **Bakery Category:** The Category Profit Increased by 80.4% primarily due to higher sales and leveraging economies of scale.
- **Poultry Category:** The category Profit increased by 103.0% driven mainly by revenue growth of 23.9%. The top line growth was supported by the Food Service segment and this significant profit growth was aided by consistent lower mortality and improved cost control and operating efficiencies.
- **Other Category:** The Category reported a loss of SAR 74.7 million for the current quarter compared to a loss of SAR 95.7 million for the corresponding quarter. Last year losses resulted from the closure of the arable farms in KSA. Losses continued this year, because of the lower performance of the Infant Nutrition business and provisions to enable the business to re-focus from retail to wholesale. The losses were further increased due to write-off of arable assets in overseas entities, horticulture activities.

Reasons of increase / (decrease) for Fourth quarter 2019 compared with previous quarter

14. The decrease of 46.3 % in the Consolidated Profit Attributable to Shareholders of the Company for the Fourth quarter 2019 (SAR 311.9 million) as compared to the previous quarter (SAR 581.2 million) was due to one off charges booked in Q4 2019.

Reasons of increase / (decrease) for the year of 2019 compared with last year

15. The decrease of 10.0 % in the Consolidated Profit Attributable to Shareholders of the year ended in 31st December 2019 as compared to last year is due to:

- **Revenues:** The revenues growth of 5.9 % was led by Poultry and Fresh Dairy followed by Food. Nearly 70% of the growth was driven by KSA followed by Egypt and then Kuwait where poultry products from KSA were allowed during 2019.
- **Gross Profit:** increased at a lower rate of 0.7 % relative to revenue growth due to higher input costs, mainly Alfalfa, labor costs and adverse product mix and the change in channel mix towards Food Service for the major product categories.
- **Selling and Distribution Expenses (S&D):** increased by SAR 196.1 million, 9.0 % due to higher labor costs, general marketing expenses and higher trade support, mostly linked to expansion in food service and export businesses.
- **General and Administration Expenses (G&A):** increased by SAR 25.1 million, 6.7 %, as the general labor and insurance costs increases were partly offset by administration and cost savings programs.
- **Other Expenses:** decreased by SAR 186.4 million, mainly due to lower losses from sale of dairy herd and no major impairment of PPE relative to prior year.
- **Finance Cost:** Funding costs are higher by SAR 114.0 million due to higher interest rate driven by higher SIBOR, accounting treatment of perpetual sukuk profit payment against equity and lower capitalization of funding cost for qualified capital projects.
- **Contribution of various Business Categories towards the decline in the Consolidated Profit Attributable to Shareholders of -10.0 % is as follows:**

- **Dairy & Juice Category:** The Category Profit decreased by 17.7% mainly due to higher alfalfa imported cost and higher labor costs, continued discounting for Long Life Dairy in local markets, higher operational & tax losses in Egypt and higher bad debt provision in KSA given the entry in the food service channel. Further continuing adverse market conditions in the Juice category further impacted the results.

- **Bakery Category:** The Category Profit increased by 22.5% driven by volume growth aided by new premium product launches such as chocolate muffins and cost control assisting in realizing economies of scales within available capacity.
- **Poultry Category:** The Category Profit increased by 44.5% driven mainly by revenue growth of 18.0%, supported by the re-entry in Kuwait during 2019. The top line growth was supported by the Food Service segment and the significant profit growth was aided by consistent lower mortality and improved cost control and operating efficiencies.
- **Other Category:** The Category Reported loss was higher by SAR 17.3 million due to lower performance of infant nutrition business and related provisions to enable the business to re-focus from retail to wholesale. Losses were further increased due to the write-off of arable assets in overseas entities, horticulture activities and start-up of new businesses. Note that the losses recorded last year mainly corresponded to the closure of arable farms in KSA. The arable operations in Argentina and USA continued their turn around in 2019 and were able to record a breakeven result.

16. **Auditors' Opinion:** (Unmodified Opinion.)

17. Items, elements and notes of the comparatives Consolidated 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 notes 2.1, 2.2 and 5.1/5.2 in the Consolidated Financial Statements for the year ended in 31st December 2019.

18. **Other Notes:**

- **Revenue by Region:** For Fourth quarter of 2019 as compared to the corresponding quarter of last year, the Revenue increased in Saudi Arabia, in other GCC and Other Countries by 9.2%, 3.5% and 27.4% respectively. For the Year ended in 31st December 2019 as compared to the last year, Revenue increased in Saudi Arabia, in other GCC and Other Countries by 6.1%, 2.4% and 12.6% respectively.

- **EBITDA:** For Fourth quarter 2019 Earnings before Interest, Taxes and Zakat, Depreciation and Amortization (EBITDA) reached SAR 917.8 million, an increase of 7.1% as compared to the corresponding quarter of last year (SAR 857.3 million). For the Year ended in 31st December 2019 Earnings before Interest, Taxes and Zakat, Depreciation and Amortization (EBITDA) reached SAR 4,013.9 million, a decrease of 0.2 % as compared to the last year (SAR 4,023.5 million.)

- **Profit Margins:** For Fourth quarter of 2019, The Gross Profit, Operating Profit and Consolidated Profit Attributable to Shareholders of the Company are representing 34.9 %, 13.5 %, and 8.4% of Revenue as compared to the corresponding quarter of last year of 37.4%, 14.7%, and 11.0%, respectively. For the Year ended in 31st December 2019, it represents 37.4%, 17.2%, and 12.6% of Revenue as compared to last year of 39.3%, 18.6%, and 14.8% respectively.

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- A summary of the Statement of Cash Flows for the Twelve Months ended 31st December 2019 is as follows:

  - The Cash Generated from Operating Activities (OCF) reached SAR 4,732.0 million an increase of 29.0%, as compared to last year (SAR 3,668.8 million). This was driven by better working capital management relative to last year when inventory increase due to closure of arable operations in KSA absorbed nearly SAR 1.0 billion in working capital. The OCF represents 33.0% of Revenue as compared to 27.1 % for the last year.

  - The Cash used in Investing Activities reached SAR 2,944.0 million as compared to the same last year (SAR 2,349.7 million), an increase of 25.3 %. Investing Activities represent 20.5% of revenue as compared to 17.3% for the last year. This mainly represent SAR 0.6 billion investment in term deposits, acquisition of an associate and subsidiary amounting to SAR 0.2 billion and capex spend of SAR 1.6 billion, a continued reduction from last year capex spend of SAR 1.9 billion.

  - The free cash flow (FCF) reached SAR 1,788.0 million as compared to the last year (SAR 1,319.1 million), an increase of 35.6%. The FCF represent 12.5% of revenue as compared to 9.7% for the last year. This was driven by expansion in our OCF and commitment to reduced capital expenditure. Adjusting for term deposit, the FCF nearly doubled and we expect this positive trend to continue in the year 2020.

Barring any major unforeseen events, we expect the positive trend of the top line witnessed in late 2019 to continue in the short term. With a focused business strategy on top line growth driven by channel expansion, new product development and pricing rationalization, coupled with managed cost control and higher free cash flow, we expect the firm yet difficult steps taken in 2019 to bring positive impact during 2020 both in terms of sales and profit growth.

19. The Consolidated Financial statements for the Twelve Months ended 31st December 2019 will be available through the following link on Almarai Website, and Almarai IR App:
    https://www.almarai.com/en/corporate/investors/annual-report-financial-statement/

20. Conference call for analysts and investors will be on **21th January 2020** 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/