Second Quarter 2019 Results

Alexandria, 20th August 2019 – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for the second quarter 2019.

Highlights

2Q 2019

- Lecico revenue down 15% to LE 599.5 million (63.5% from sanitary ware).
- Sanitary ware revenue down 7% to LE 380.6 million, volumes down 8% to 1.2 million pieces (64.6% exports).
- Tile revenue down 26% to LE 202.8 million, volumes down 29% to 5.1 million square meters (19.5% exports).
- Brassware revenue down 18% to LE 16.1 million, sales volume down 41% to 15,978 pieces.
- EBIT loss of LE 32.1 million compared to profit LE 81.8 million in 2Q 2018 (2Q 2018 included LE 50.9 million exceptional income).
- Net loss of LE 86.9 million compared to net profit of LE 4.9 million in 2Q 2018.

1H 2019

- Lecico revenue down 9% to LE 1,236.6 million (60.8% from sanitary ware)
- Sanitary ware revenue down 7% to LE 751.5 million, volumes down 7% to 2.4 million pieces (65.6% exports)
- Tile revenue down 13% to LE 449.2 million, volumes down 18% to 11.1 million square meters (25.5% exports)
- Brassware revenues down 4% to LE 35.9 million, sales volume down 20% to 39,613 pieces
- EBIT profit of LE 2.4 million compared to EBIT profit of LE 164.8 million in 2018

  (1H 2018 included LE 76.4 million exceptional income).
- Net loss of LE 114.9 million compared to net profit of LE 29.3 million in 2018

Lecico Egypt Chairman, Gilbert Gargour, commented "Results in the second quarter worsened as regional market weakness and a stronger Egyptian pound squeezed revenues and margins came under further pressure as we had to reduce production accordingly.

"Continued high interest rates in Egypt are the most important cause of our poor results. Besides augmenting our financial costs, they have strangled demand in the local market, which continues to suffer from significant overcapacity in tiles. Austerity – the main cause of interest cost extreme levels – is expected to ease but the timing continues to be delayed.

"Lecico's strength in sanitary ware, and particularly in the export market has also been weakened by high interest rates which, attracting short-term money into Egypt, have caused an increase in the value of the Egyptian pound, reducing our export receipts from Europe, while Middle Eastern exports have shown significant weakness due to the renewed fighting in Libya.

"Your management continues to work hard and effectively to surmount current difficulties. There have been real improvements in the management of our tile business and successful efforts at managing our current asset levels and the cost of finance. While these efforts were successful, they have been negated to a large extent by the continued macro-economic weaknesses discussed above.

"Restructuring efforts in Lebanon – which management have begun satisfactorily and remains a basic part of our turnaround plans – are now almost six months along. Production and staff have been significantly reduced and accelerated destocking has begun. This is evidently costly from a P&L perspective at this stage and approximately half of our losses are due to the exceptional costs we incur as we implement our restructuring plan. However, we are starting to see an improvement in monthly cash flows and we think this will continue as we destock and unlock cash from our working capital. Our efforts and costs will continue there over the next several years. There remains very significant value in the land bank of Lecico Lebanon but unlocking this cash is extremely unlikely currently given the severe economic issues Lebanon is currently facing.

"We continue to be optimistic. The austerity and related macro-economic factors will ease and Egypt will be an excellent market and production base for exports again as it has been for most of our history. We are confident we can improve our internal cash flow generation through the restructuring and efficiency measures we are undertaking. Eventually, economic conditions in Lebanon will also improve and we will realize considerable cash flows from the sale of now-vacated land. However, we must also be patient for these exogenous improvements while working relentlessly to improve ourselves as an organization."

Taher Gargour, Lecico Egypt CEO, added, "We saw much tougher operating conditions in the second quarter due to continued pressure on demand in regional markets compounded by Ramadan and Eid holidays and a worsening security situation in Libya. At the same time prices have come under pressure quarter-on-quarter as market slowness in Egypt has forced us to increase promotions while a strengthening of the Egyptian Pound and a weakening Euro and Sterling have reduced our average export prices in Egyptian Pound terms. These pressures resulted in our lowest quarterly revenue value in two years despite the increase in prices done over this period to try and offset inflation.

"We are doing what we can to find new export opportunities and I am sure we will make progress on this – but this will take time to organize and won't make an impact on sales until 2020. In Lebanon and Egypt, we are making more aggressive deals/incentives targeted at key markets and customers. We are seeing some improvement in sales in the early months of the third quarter at least partially as a result of these efforts but the markets remain precarious.

"Lower sales have also forced us to reduce production accordingly to control stocks. Sanitary ware production was reduced 10% and tile production was reduced 24% year-on-year with a subsequent increase in unit production costs eating into our margins.

"We have also seen – as results have come under pressure – a further increase in net debt, which rose LE 129 million in the quarter. We will have to double our push on inventory and receivables control to help offset this. We are targeting a 25% reduction in stocks by the year end to unlock cash. We are reducing our net cash position to minimize interest expense and gross debt, which can already be seen in this quarter's balance sheet. We are also expecting a circa LE 60m cash injection from our agreement to move to advance payment terms with some customers which should help improve our cash position in July. However, it remains a concern for what can be done to further offset this increase in debt seen so far this year.

"So, in conclusion, we saw a deterioration in the quarter primarily due to a continued and accelerating slowdown in sales in Egypt and the region which put pressure on all margins and cash flows accordingly.

"We are to a large extent forced to weather the cyclical negatives of Egypt's economic reforms. In the meantime, we are taking action on many fronts to offset this which is a continuation and expanding of our efforts over the past years and quarters: defend and rebuild margins by recovering sales volumes; unlock efficiency gains and cut costs; and unlock working capital and reducing our asset footprint. We will continue to adjust debt mix to minimize interest while remaining conscious of exchange rate risk. Through these efforts, we will continue to work towards the best possible result despite our challenges."

Lecico Revenue and Profitability

Profit and loss statement highlights						
	2Q		%	1H		%
(LE m)	2019	2018	19/18	2019	2018	19/18
Sanitary ware	380.6	411.1	93%	751.5	804.4	93%
Tiles	202.8	274.2	74%	449.2	516.3	87%
Brassware	16.1	19.7	82%	35.9	37.3	96%
Sales	**599.5**	**705.0**	**85%**	**1,236.6**	**1,358.0**	**91%**
Sanitary ware/sales (%)	63.5%	58.3%	5.2%	60.8%	59.2%	1.5%
Cost of sales	(542.4)	(580.6)	93%	(1,054.6)	(1,090.0)	97%
Cost of sales/sales (%)	(90.5%)	(82.4%)	8.1%	(85.3%)	(80.3%)	5.0%
Gross profit	**57.1**	**124.4**	**46%**	**182.1**	**268.0**	**68%**
Gross profit margin (%)	9.5%	17.6%	(8.1%)	14.7%	19.7%	(5.0%)
Distribution and administration (D&A)	(81.0)	(86.9)	93%	(165.4)	(168.5)	98%
D&A/sales (%)	(13.5%)	(12.3%)	1.2%	(13.4%)	(12.4%)	1.0%
Net other operating income/ (expense)	(8.2)	44.4	-	(14.3)	65.3	-
Net other operating income/ (expense) sales (%)	(1.4%)	6.3%	-	(1.2%)	4.8%	-
EBIT	**(32.1)**	**81.8**	**-**	**2.4**	**164.8**	**1%**
EBIT margin (%)	-	11.6%	-	0.2%	12.1%	(11.9%)
Net profit (loss)	**(86.9)**	**4.9**	**-**	**(114.9)**	**29.3**	**-**
Net profit margin (%)	-	0.7%	-	-	2.2%	-

2Q 2019: Slow sales in the region and diseconomies of scale drive increased losses

Gross margins in the quarter were lower in both sanitary ware and tiles as the relative weakness of foreign currencies against the Egyptian Pound drove down average prices and sales in Egypt and regional Middle Eastern markets slowed as Ramadan holidays compounded economic pressure in these markets. The Egyptian pound has strengthened almost 10% against the Euro and the Sterling year-on-year and 4% against the dollar, directly reducing the value of all export sales in Egyptian Pounds. Production was reduced to balance stocks given the drop in sales adding diseconomies of scale. Special promotional sales of stagnant stock in Lebanon further reduced gross profits. The Company reported an operating loss for the quarter as the drop in gross profit outpaced the absolute reduction in overheads.

Lecico revenues for the second quarter decreased by 15% year-on-year to reach LE 599.5 million (2Q 2018: LE 705 million) with lower revenues in all segments. Local revenues fell 21% year-on-year to reach LE 270.8 million (2Q 2018: LE 344 million) and export revenues fell 9% year-on-year to reach LE 328.8 million (2Q 2018: LE 361 million). The market in Egypt saw a sharp slowdown in the last month and a half of the quarter as Ramadan and holidays combined with the continued pressure of inflation on consumer spending this more than offset record sales in Lebanon as the promotions on stagnant stock and new offers on tiles pushed up sales of both.

Quarter-on-Quarter revenues decreased by 6% (1Q 2019: LE 637.1 million) with local growth partially offsetting falling export sales. Local revenues rose 2% quarter-on-quarter to reach LE 270.8 million (1Q 2019: LE 265.2 million) while export revenues down 12% quarter-on-quarter to reach LE 328.8 million (1Q 2019: LE 371.9 million). Export sales were down quarter-on-quarter as Middle East exports slowed as political instability in Libya combined with a seasonal slowdown around Ramadan.

Average selling prices were up year-on-year as price increases offset weaker export currencies and increased discounts and promotions. Prices dropped quarter-on-quarter as a result of added promotional discounts in Egypt and discounted sales in Lebanon combined with the strengthening of the Egyptian pound against all export currencies, particularly the Sterling and Euro rates during the quarter.

Lecico's cost of goods sold fell by 7% year-on-year to LE 542.4 million (2Q 2018: LE 580.6 million) as a result of reduced production and despite an increase in unit costs due to high inflation and diseconomies of scale on reduced production. Quarter-on-quarter cost of goods sold increased by 6% (1Q 2019: LE 512.2 million).

Lecico's gross profit for the second quarter decreased 54% year-on-year to LE 57.1 million (2Q 2018: LE 124.4 million). Lecico's gross profit margin decreased 8.1 percentage points to 9.5% compared to 17.6% in the same period last year. Quarter-on-quarter gross profit decreased by 54% (1Q 2019: LE 124.9 million) and Lecico's gross margin decreased 10.1 percentage points (1Q 2019: 19.6%).

In absolute terms, distribution and administration (D&A) expenses decreased by 7% to LE 81 million (2Q 2018: LE 86.9 million), but proportional D&A expenses were up by 1.2 percentage points to 13.5% (2Q 2018: 12.3%). Quarter-on-quarter distribution and administration (D&A) expenses decreased 4% (1Q 2019: LE 84.4 million) but proportional D&A expenses were up by 0.3 percentage points (1Q 2019: 13.2%).

Lecico reported LE 8.2 million in net other operating expenses compared to net other operating income of LE 44.4 million in the second quarter of 2018 which included LE 50.9 million exceptional income from the sale of a piece of land. Excluding this exceptional gain, Lecico would have reported a net other operating expense of LE 6.5 million in 2Q 2018.

Lecico reported an EBIT loss of LE 32.1 million for the quarter compared to an EBIT profit of LE 81.8 million in 2Q 2018. Excluding the LE 50.9 million exceptional gains in 2Q 2018, Lecico's would have reported EBIT profit of LE 30.9 million in 2Q 2018.

Net financing expenses were down 24% year-on-year during the second quarter of 2019 to reach LE 51.5 million compared to LE 68.2 million in the same period in 2018, due to the reduction in effective rates and interest expenses as well as the reduction in exchange variance loss (LE 4.4 million exchange variance loss compared to an exchange variance loss of LE 10 million in the same period last year). Quarter-on-quarter net financing expenses increased 1% (1Q 2019: LE 51.1 million).

Lecico reported net tax charge of LE 4.2 million versus a tax charge of LE 8.9 million in the second quarter of 2018.

Lecico reported net loss LE 86.9 million in the second quarter compared to net profit LE 4.9 million in the same period last year. Excluding the LE 50.9 million exceptional income from the sale of a piece of land in the second quarter of 2018, Lecico would have reported a net loss of LE 46 million in the same period last year.

1H 2019: Drop in sales in Egypt and loss of profitability in exports drive net loss

Lecico revenues for the first half decreased by 9% year-on-year to LE 1,236.6 million (1H 2018: LE 1,358 million) due to the sharp drop in Egyptian demand in all segments and inflationary pressure continues to squeeze consumer demand.

Lecico's cost of goods sold was down 3% year-on-year to LE 1,054.6 million (1H 2018: LE 1,090 million).

Gross profit decreased by 32% to reach LE 182.1 million (1H 2018: LE 268 million) and the Company's gross profit margin was down 5 percentage points to 14.7% compared to 19.7% in the same period last year. Gross profits fell due to lower profitability of exports as high inflation in Egypt combined with a stronger Egyptian pound to squeeze export margins while the company had to reduce production to balance with lower sales in Egypt, driving up unit production costs.

In absolute terms, distribution and administration (D&A) expenses decreased by 2% to LE 165.4 million (1H 2018: LE 168.5 million), but proportional D&A expenses were up by 1 percentage points to 13.4% of net sales compared to 12.4% in last year.

Lecico reported LE 14.3 million in net other operating expenses compared to net other operating income of LE 65.3 million in the last year primarily as result of one-off gains of LE 76.4 million in the first half of 2018. Excluding these gains, Lecico would have reported net other operating expenses of LE 11.1 million in the first half of 2018.

Operating profit (EBIT) dropped 99% to reach LE 2.4 million (1H 2018: LE 164.8 million) and the Company's EBIT margin decreased 11.9 percentage points to 0.2% (1H 2018: 12.1%) as a result of an operating loss in the first half of 2019. Excluding the one-off gains of LE 76.4 million in the first half of 2018, Lecico would have reported an operating profit of LE 88.4 million with a margin of 6.5% in the first half of 2018.

Net financing expenses decreased 15% year-on-year during the first half of 2019 to reach LE 102.6 million compared to LE 120.1 in the same period last year due to, the reduction in effective rates and interest expenses.

Lecico reported net tax charge of LE 17.9 million versus a tax charge of LE 15.8 million in last year due to the last of its Egyptian subsidiaries becoming taxable at the beginning of 2019.

Lecico reported net loss of LE 114.9 million compared to net profit of LE 29.3 million in the last year. Excluding the one-off gains LE 76.4 million in the first half of 2018, Lecico would have reported a net loss of LE 47.1 million in the first half of 2018.

Segmental analysis

Sanitary ware

2Q: Sanitary ware sales volumes decreased by 8% (down 107,104 pieces). Local volumes decreased by 20% (down 99,113 pieces), export sales volumes decreased by 4% (down 35,774 pieces). Sales volumes in Lebanon increased by 103% (up 27,783 pieces) due to special promotions on stagnant stocks.

Quarter-on-quarter total sales volumes increased by 6% (up 75,105 pieces). Sales in Egypt increased 4% (up 13,797 pieces), export volumes increased 3% (up 26,719 pieces) and sales in Lebanon increased by 172% (up 34,590 pieces).

Average sanitary ware prices increased by 1% year-on-year at LE 305.6 per piece (2Q 2018: LE 303.9) as price increases done over the past year offset the drop in average prices in export as a result of the stronger Egyptian pound. The Egyptian pound has strengthened almost 10% against the Euro and the Sterling year-on-year and 4% against the dollar, directly reducing the value of all export sales in Egyptian Pounds.

Quarter-on-quarter average prices were down 4% (1Q 2019: LE 316.8) in large part due to the continued strength of the Egyptian pound reducing exports and compounded by increased promotions in Egypt and Lebanon.

Revenues were down 7% year-on-year at LE 380.6 million (2Q 2018: LE 411.1 million). Quarter-on-quarter revenues were up 3% (1Q 2019: LE 370.9 million).

Average cost of sales per piece rose 18% year-on-year at LE 271.7 per piece due to lower production (down 9%) and double-digit inflation in Egypt. Quarter-on-quarter, the average cost of sales was up 11% (1Q 2019: LE 244.6 per piece).

Gross profit fell 57% to LE 42.2 million (2Q 2018: LE 98.4 million) and the margin decreased by 12.9 percentage points to 11.1% (2Q 2018: 23.9%). Quarter-on-quarter gross profit decreased 50% (1Q 2019: LE 84.6 million) and the margin fell 11.7 percentage point (1Q 2019: 22.8%).

Sanitary ware segmental analysis	2Q		%	1H		%
	2019	2018	19/18	2019	2018	19/18
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	386	485	80%	757	923	82%
Lebanon (000 pcs)	55	27	203%	75	47	158%
Export (000 pcs)	805	841	96%	1,584	1,635	97%
Total sanitary ware volumes (000 pcs)	**1,246**	**1,353**	**92%**	**2,416**	**2,606**	**93%**
Exports/total sales volume (%)	64.6%	62.2%	2.5%	65.6%	62.8%	2.8%
Sanitary ware revenue (LE m)	**380.6**	**411.1**	**93%**	**751.5**	**804.4**	**93%**
Average selling price (LE/pc)	305.6	303.9	101%	311.0	308.7	101%
Average cost per piece (LE/pc)	271.7	231.1	118%	258.6	224.8	115%
Sanitary ware cost of sales	(338.4)	(312.7)	108%	(624.7)	(585.9)	107%
Sanitary ware gross profit	42.2	98.4	43%	126.8	218.6	58%
Sanitary ware gross profit margin (%)	11.1%	23.9%	(12.9%)	16.9%	27.2%	(10.3%)

1H: Sanitary ware sales volume decreased by 7% to 2.4 million pieces (down 189,580 pieces). Egyptian volumes fell 18% (down 165,557 pieces) and Export volumes decreased 3% (down 51,544 pieces), while sales in Lebanon increased by 58% (up 27,521 pieces).

Average sanitary ware prices were up 1% year-on-year to LE 311 per piece (1H 2018: LE 308.7) reflecting the cumulative effect of price increases over the last twelve months offsetting extra promotions in Lebanon and Egypt and a loss of value in Exports due to a strengthening Pound.

Revenues were down 7% year-on-year at LE 751.5 million (1H 2018: LE 804.4 million).

Average cost of sales rose 15% at LE 258.6 per piece due to lower production (down 3%) and double-digit inflation in Egypt.

Gross profit decreased 42% to LE 126.8 million (1H 2018: LE 218.6 million) and the margin fell 10.3 percentage points to 16.9% (1H 2018: 27.2%).

Tiles

2Q: Tile sales volumes decreased 29% year-on-year (down 2.1 million square meters) to reach 5.1 million square meters in the second quarter of 2019. Local volumes decreased 34% (down 2 million square meters) as Ramadan holidays compounded the continued pressure on demand seen over the past two years. Export sales volumes decreased 10% (down 111,309 square meters) while Lebanon sales increased 46% (up 57,635 square meters).

Quarter-on-quarter sales volumes decreased 15% (down 897,908 square meters). Local volumes decreased by 3% (down 120,178 square meters). Export volumes decreased 46% (down 848,660 square meters) as increased political instability in Libya compounded the seasonal slowdown of Ramadan. Lebanon sales increased 63% (up 70,903 square meters).

Average net prices rose 5% year-on-year to LE 39.7 per square meter reflecting the cumulative effect of price increases done in Egypt over the last twelve months and the increase in proportion of sales in export and Lebanon. Quarter-on-quarter average prices were down 3% (1Q 2019: LE 41) due to the decreased proportion of export sales.

Tiles revenues were down 26% year-on-year at LE 202.8 million (2Q 2018: LE 274.2 million). Quarter-on-quarter revenues were down 18% (1Q 2019: LE 246.4 million).

Despite significant improvements in the cost of tiles through production improvements, average costs rose 8% year-on-year to reach LE 38.1 per square meter (2Q 2018: LE 35.2) due to a 25% reduction in production volumes and the effect of high inflation over the last year. Quarter-on-quarter average costs increased by 7% (1Q 2019: LE 35.5 per square meter) as production was reduced 27% increasing cost per unit.

Gross profit decreased by 59% to LE 8.2 million (2Q 2018: LE 20.1 million) and the margin decreased by 3.3 percentage points to 4% (2Q 2018: 7.3%). Quarter-on-quarter gross profit decreased 75% (1Q 2019: LE 33.3 million) and the margin decreased 9.5 percentage points (1Q 2019: 13.5%).

Tile segmental analysis	2Q		%	1H		%
	2019	2018	19/18	2019	2018	19/18
Tile volumes (000 sqm)						
Egypt (000 sqm)	3,935	5,995	66%	7,990	11,034	72%
Lebanon (000 sqm)	183	125	146%	295	196	150%
Export (000 sqm)	995	1,106	90%	2,838	2,291	124%
Total tile volumes (000 sqm)	**5,113**	**7,227**	**71%**	**11,124**	**13,522**	**82%**
Exports/total sales volume (%)	19.5%	15.3%	4.2%	25.5%	16.9%	8.6%
Tile revenue (LE m)	**202.8**	**274.2**	**74%**	**449.2**	**516.3**	**87%**
Average selling price (LE/sqm)	39.7	37.9	105%	40.4	38.2	106%
Average cost per sqm (LE/sqm)	38.1	35.2	108%	36.7	35.3	104%
Tile cost of sales	(194.6)	(254.1)	77%	(407.7)	(477.9)	85%
Tile gross profit	8.2	20.1	41%	41.5	38.4	108%
Tile gross profit margin (%)	4.0%	7.3%	(3.3%)	9.2%	7.4%	1.8%

1H: Tile sales volumes decreased by 18% year-on-year (down 2.4 million square meters) to reach 11.1 million square meters. Sales in Egypt decreased 28% (down 3 million square meters). Sales in Export increased by 24% (up 546,879 square meters) due to a strong first quarter in Libya. Sales in Lebanon increased by 50% (up 98,750 square meters).

Average net prices rose 6% at LE 40.4 per square meter reflecting the cumulative effect of price increases over twelve months and the increased proportion of export sales.

Tiles revenues were down 13% year-on-year at LE 449.2 million in the first half of 2019 (1H 2018: LE 516.3 million).

Average costs rose 4% year-on-year to reach LE 36.7 per square meter as efficiency gains and cost saving projects were offset by the high inflation in Egypt and the impact of an 8% reduction in production volumes.

Gross profit increased 8% to reach LE 41.5 million (1H 2018: LE 38.4 million) and the margin increased by 1.8 percentage points to 9.2% (1H 2018: 7.4%).

Brassware

2Q: Sales volumes for the second quarter 2019 decreased by 41% to reach 15,978 pieces (2Q 2018: 27,045 pieces). Quarter-on-quarter sales volumes decreased by 32% (1Q 2019: 23,635 pieces).

Average net prices rose 38% to reach LE 1,007.5 per piece (2Q 2018: LE 728.6). Quarter-on-quarter prices increased by 20% (1Q 2019: LE 838.3).

Revenue for the quarter decreased 18% year-on-year to reach LE 16.1 million (2Q 2018: LE 19.7 million). Quarter-on-quarter revenues decreased by 19% (1Q 2019: LE 19.8 million). Brassware accounted for 2.7% of the quarter's revenues, compared to 2.8% in the same period last year.

Average cost per piece rose 15% to LE 588.6 per piece (2Q 2018: LE 513.1 per piece) reflecting changing mix. Quarter-on-quarter average cost per piece rose 9% (1Q 2019: LE 539.8 per piece).

Gross profit for the quarter increased by 15% year-on-year to reach LE 6.7 million (2Q 2018: LE 5.8 million) and the gross margin increased 12 percentage points to 41.6% (2Q 2018: 29.6%).

Quarter-on-quarter gross profit decreased by 5% (1Q 2019: LE 7.1 million), but the gross margin increased 6 percentage points (1Q 2019: 35.6%).

Brassware's percentage of consolidated gross profits increased to 11.7% of Lecico gross profits (2Q 2018: 4.7%). Quarter-on-quarter brassware's percentage of consolidated gross profits increased by 6.1 percentage point (1Q 2019: 5.6%).

Brassware segmental analysis	2Q		%	1H		%
	2019	2018	19/18	2019	2018	19/18
Brassware volumes (pcs)						
Egypt (pcs)	15,973	25,445	63%	39,603	47,414	84%
Export (pcs)	5	1,600	0%	10	1,921	1%
Total brassware volumes (pcs)	**15,978**	**27,045**	**59%**	**39,613**	**49,335**	**80%**
Exports/total sales volume (%)	0.0%	5.9%	(5.9%)	0.0%	3.9%	(3.9%)
Brassware revenue (LE m)	**16.1**	**19.7**	**82%**	**35.9**	**37.3**	**96%**
Average selling price (LE/pc)	1007.5	728.6	138%	906.6	756.2	120%
Average cost per piece (LE/pc)	588.6	513.1	115%	559.5	533.1	105%
Brassware cost of sales	(9.4)	(13.9)	68%	(22.2)	(26.3)	84%
Brassware ware gross profit	6.7	5.8	115%	13.8	11.0	125%
Brassware gross profit margin (%)	41.6%	29.6%	12.0%	38.3%	29.5%	8.8%

1H: Sales volumes for first half of 2019 decreased by 20% year-on-year (down 9,721 pieces)

Average net prices rose 20% to reach LE 906.6 per piece due to product mix and price increases done over the last twelve months

Revenues decreased 4% year-on-year to reach LE 35.9 million (1H 2018: LE 37.3 million).

Brassware's percentage of consolidated revenues 2.9%, while the percentage for last year was 2.7% of sales.

Average cost per piece rose 5% to LE 559.5 per piece (1H 2018: LE 533.1 per piece) reflecting changing mix.

Gross profit increased 25% to LE 13.8 million (1H 2018: LE11 million) and the margin increased 8.8 percentage points to 38.3% (1H 2018: 29.5%).

Brassware's percentage of consolidated gross profits increased to 7.6% of Lecico gross profits (1H 2018: 4.1%).

Financial Position

The value of Lecico's assets decreased by 2% at the end of June 30, 2019 to reach LE 2,737.8 million (2018: LE 2,806.5 million) primarily as a result of decrease in cash, receivables and fixed assets during the first half of 2019.

Total liabilities increased by 2% at LE 1,948.5 million (2018: LE 1,903.4 million) primarily as a result of the increase in loans during the first half of 2019.

Gross debt increased 8% or LE 112.8 million to reach LE 1,464.9 million compared to LE 1,352.1 million at the end of 2018.

Net debt increased 13% or LE 151.2 million to reach LE 1,316.4 million compared to LE 1,165.2 million at the end of 2018.

Net debt to equity increased by 28.5% to reach 1.7x compared to 1.32x at the end of 2018.

Working capital increased 4% or LE 52.7 million to reach LE 1,388.6 million compared to LE 1,336 million at the end of 2018 as a result of a drop in payables.

Recent developments and outlook

Outlook for 2019: Lecico's revenue is coming under pressure in 2019 with lower volumes in Egypt and export compounded by a significant strengthening of the Egyptian Pound which is reducing our average prices in Export at the same time that double-digit inflation in Egypt is driving up costs.

Egyptian sales volumes continue to decline with trade sales particularly weak and projects offsetting some of the drop. Lecico is trying to offset this by adding new distributors, offering new lower price offerings in sanitary ware and tile and increasing the team effort to target more projects. At the same time, management is insisting on a strict control of payment terms and on increasing prices which is compounding the pressure on the business.

At the time of this writing we are seeing this weakness continue, we are expecting some improvement from the low sales of the second quarter but even this recovery remains precarious.

In Exports, tiles sales were particularly strong at the start of the year while sanitary ware sales were lower. Tile exports are likely to drop significantly in the coming months due to renewed conflict in Libya. Year-to-date, sanitary ware sales volumes are lower in the UK and with a couple of key OEM customers.

Lecico is trying to offset this with a push for new customers and is developing several key series that will open new customers and market segments for the company but these will likely not come on stream until late 2019 or early 2020. Management is looking for opportunistic sales growth to offset this in the meantime.

All export sales will also face pressure from a stronger Egyptian Pound and weakness in both the Sterling and the Euro against the Dollar. If rates remain at current levels this will reduce Egyptian Pound price in Dollar exports by around 4% and our Euro and Sterling exports by around 10%. The Company is increasing prices in export and the local market by around 5% over the first four months of 2019, but this will only offset part of the loss in pricing.

In July the government announced a further round of subsidy cuts, which – in the case of Lecico – will result in an increase of electricity prices of 10% and an increase in diesel fuel prices of 23%. These increases are expected to drive a spike in inflation in Egypt in the coming quarter which will drive up most input costs for the Company and put more pressure on consumers. The stronger Pound may soften some of this cost inflation, but Lecico will still see a significant increase in costs.

Lecico may benefit from a reduction in interest rates but the speed and magnitude of this are hard to predict. The Company aims to offset inflation with cost saving initiatives but margins are likely to remain under pressure particularly as lower sales will translate into diseconomies of scale.

Lecico is looking to continue to reduce inventories and customer payment terms to try and continue to stabilize or reduce debt as it did in 2018. The drop in sales and production in 2Q 2019 has led to a debt increase but the Company is hoping to offset this in the second half through more aggressive inventory reductions.

Consequently, while the Company hopes to reduce its losses in the second half of the year, it will remain under pressure until market recovery, lower interest rates and a weaker Egyptian pound allow for an improvement in the core dynamics squeezing operational returns.

Lecico Lebanon restructuring update: Over the last several years Lecico's Lebanese business – faced with expensive production costs, a shrinking market and increased competition – has found itself with negative results and cash flows over the past years and it has built up significant stocks of inventories and debt.

As a result, your board has decided to restructure the business. The goal of this restructuring was to unlock the cash tied up in Lebanon's inventory and land to reduce debt and create a profitable and cash positive business.

In early 2019, Lecico began implementing this restructuring plan for Lecico Lebanon by: (1) cutting cost and reducing capacity of production; (2) destocking inventories to unlock cash/reduce debt; (3) disposing of real estate assets to unlock cash/reduce debt and (4) move the vast majority of production to Egypt to continue operations after destocking inventories.

Upon completion of the restructuring plan, it is expected Lecico Lebanon will become cashflow positive by 2020 and profitable from 2021

So far, the restructuring plan is on target with headcount and production reduced. Promotions have been done to accelerate sales of slow moving/stagnant stocks resulting in revenues growing 15% despite difficult market conditions. Production is being moved to Egypt and will be ready to supply any gaps in inventory from late 2019 onwards with significantly lower costs to the group.

Already and despite costs of restructuring, these actions have significantly cut cash costs saving around USD 1.5 million as a direct result of the restructuring plan.

However, the restructuring has negatively impacted the P&L with lower production raising unit costs, losses on stock promotions and employment settlement adding additional P&L costs. This is expected to continue throughout 2020 when the vast majority of destocking is done. In 2021, with most of sales in Lebanon coming from Egypt at lower production costs we are forecasting an improvement in profitability. In the first six months of 2019, management identifies additional losses of around USD 1.7 million in respect of these restructuring actions. It is important to note that almost all of these additional losses are not cash costs.

The key to a complete restructuring of the Company and a significant cash injection for Lecico as a group is the sale of surplus real estate in Lebanon. We have offered surplus lands for sale valued at USD 30.0 million in 2016. Management continues to work on this but current economic and market conditions mean a sale in the foreseeable future is unlikely and values today would certainly be at a discount to the valuation done.

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	2Q		%	1H		%
(LE m)	2019	2018	19/18	2019	2018	19/18
Sales	**599.5**	**705.0**	**85%**	**1,236.6**	**1,358.0**	**91%**
Cost of sales	(542.4)	(580.6)	93%	(1,054.6)	(1,090.0)	97%
Gross profit	**57.1**	**124.4**	**46%**	**182.1**	**268.0**	**68%**
Gross margin (%)	9.5%	17.6%	(8.1%)	14.7%	19.7%	(5.0%)
Distribution expenses	(34.8)	(40.5)	86%	(74.6)	(79.5)	94%
Administrative expenses	(46.2)	(46.5)	100%	(90.8)	(89.1)	102%
Other Operating income	3.2	55.5	6%	7.3	86.5	8%
Other Operating expenses	(11.4)	(11.2)	102%	(21.6)	(21.2)	102%
Operating profit (EBIT)	**(32.1)**	**81.8**	**-**	**2.4**	**164.8**	**1%**
Operating (EBIT) margin (%)	-	11.6%	-	0.2%	12.1%	(11.9%)
Investment revenues	(0.0)	0.0	-	2.5	0.0	-
Finance income	1.4	(3.3)	-	2.5	3.0	83%
Finance expense	(52.9)	(64.9)	82%	(105.1)	(123.0)	85%
(Loss) Profit before tax and minority (PBTM)	**(83.6)**	**13.7**	**-**	**(97.7)**	**44.7**	**-**
PBTM margin (%)	-	1.9%	-	-	3.3%	-
Income tax	(3.4)	(9.4)	36%	(16.7)	(20.7)	81%
Deferred tax	(0.9)	0.5	-	(1.2)	4.9	-
Net (Loss) Profit after tax (NPAT)	**(87.8)**	**4.7**	**-**	**(115.7)**	**28.9**	**-**
NPAT margin (%)	-	0.7%	-	-	2.1%	-
Minority interest	1.0	0.2	486%	0.7	0.4	165%
Net (Loss) Profit	**(86.9)**	**4.9**	**-**	**(114.9)**	**29.3**	**-**
Net profit margin (%)	-	0.7%	-	-	2.2%	-

Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	30-Jun-19	31-Dec-18	19/18 (%)
Cash and short-term investments	148.5	186.9	79%
Inventory	1088.4	1087.2	100%
Receivables	742.0	765.1	97%
Related parties -debit balances	31.5	23.1	136%
Total current assets	**2,010.3**	**2,062.2**	**97%**
Net fixed assets	630.8	676.8	93%
Intangible assets	28.6	31.8	90%
Projects in progress	37.3	6.2	602%
Available for sale investments	12.4	13.4	93%
Long-term notes receivable	18.5	16.2	114%
Total non-current assets	**727.5**	**744.4**	**98%**
Total assets	**2,737.8**	**2,806.5**	**98%**
Banks overdraft	1368.3	1332.0	103%
Current portion of long-term liabilities	31.7	20.0	158%
Trade and notes payable	175.9	191.4	92%
Other current payable	265.8	324.9	82%
Related parties -credit balances	2.8	1.6	171%
Provisions	0.8	0.8	106%
Total current liabilities	**1,845.4**	**1,870.8**	**99%**
Long-term loans	64.9	0.0	-
Other long-term liabilities	4.9	0.0	-
Provisions	8.7	9.3	94%
Deferred tax	24.6	23.4	105%
Total non-current liabilities	**103.2**	**32.7**	**316%**
Total liabilities	**1,948.5**	**1,903.4**	**102%**
Minority interest	**15.7**	**22.8**	**69%**
Issued capital	400.0	400.0	100%
Reserves	469.8	573.4	82%
Retained earnings	18.8	21.3	88%
Net (Loss) Profit for the period/year	(114.9)	(114.3)	101%
Total equity	**773.6**	**880.4**	**88%**
Total equity, minorities and liabilities	**2,737.8**	**2,806.5**	**98%**

Lecico Egypt consolidated cash flow

Cash flow statement	1H		%
(LE m)	2019	2018	19/18
Cash Flow from operating activities			
Net (Loss) profit for the period	(114.9)	29.3	-
Depreciation and translation adjustment	59.4	53.4	111%
Intangible assets amortization and translation adjustment	1.6	0.3	486%
Income tax expense	16.7	20.7	81%
Income tax paid	(35.3)	(10.3)	342%
Deferred income tax	1.3	(4.8)	-
Capital gains	0.8	(50.9)	-
Provided provisions and translation adjustment	2.4	17.5	14%
Reversal of expired provision	(0.0)	(0.0)	91%
Employee share in net profit	29.7	22.7	131%
Increase (Decrease) in minority interest	(7.1)	1.3	-
Increase (Decrease) in translation reserve	8.2	10.2	80%
(Increase) Decrease in Inventory	(0.2)	(4.8)	5%
(Increase) Decrease in Receivables	21.3	(134.4)	-
Increase (Decrease) in Payables	(36.0)	37.5	-
Utilized Provisions	(10.5)	(24.9)	42%
Difference result from discounting of long term notes receivables	1.7	(2.0)	-
Net cash from operating activities	**(61.0)**	**(39.4)**	**155%**
Cash flow from investing activities			
Additions to fixed assets and projects	(37.9)	(47.1)	80%
Intangible assets	(0.5)	(0.0)	-
Net change in available for sale investments	1.0	(0.1)	-
Proceeds from sales of fixed assets	1.5	61.0	2%
Increase (Decrease) in long-term notes receivable	(4.1)	6.9	-
Net cash from investing activities	**(40.0)**	**20.7**	**-**
Cash flow from financing activities			
Increase (Decrease) in long-term loans	64.9	(10.0)	-
Increase (Decrease) in current portion of long term liabilities	11.7	(13.2)	-
Employees Dividends paid	(48.5)	(35.7)	136%
Net cash from financing activities	**28.1**	**(58.9)**	**-**
Net change in cash & cash equivalent during the period	**(72.9)**	**(77.7)**	**94%**
Net cash and cash equivalent at beginning of the period	(1,145.2)	(1,129.2)	101%
Net cash and cash equivalent at the end of the period	**(1,218.1)**	**(1,206.8)**	**101%**