Full Year 2019 Results

Alexandria, 27th February 2020 – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for 2019.

Highlights

4Q 2019

- Lecico revenue down 20% to LE 522.4 million (58.8% from sanitary ware).
- Sanitary ware revenue down 19% to LE 307 million, volumes down 16% to 1 million pieces (74.1% exports).
- Tile revenue down 22% to LE 194.9 million, volumes down 24% to 4.9 million square meters (35.8% exports).
- Brassware revenue down 28% to LE 20.5 million, sales volume down 39% to 21,302 pieces.
- EBIT loss of LE 57 million compared to loss LE 19.4 million in 4Q 2018.
- Net loss of LE 95.3 million compared to net loss of LE 92.9 million in 4Q 2018.

FY 2019

- Lecico revenue down 13% to LE 2,349.8 million (60.3% from sanitary ware)
- Sanitary ware revenue down 12% to LE 1,416.2 million, volumes down 12% to 4.7 million pieces (68.1% exports)
- Tile revenue down 15% to LE 856.4 million, volumes down 16% to 21.6 million square meters (26.1% exports)
- Brassware revenues down 10% to LE 77.2 million, sales volume down 23% to 82,945 pieces
- EBIT loss of LE 88.2 million compared to EBIT profit of LE 150.7 million in 2018 (included LE 76.4 million exceptional income).
- Net loss of LE 298.3 million compared to net loss of LE 114.3 million in 2018

Lecico Egypt Chairman, Gilbert Gargour, commented "2019 was an extremely difficult year with weakness in demand in Egypt worsening over the year. Our results were also affected by the economic crisis in Lebanon and the restructuring we have started there. The stronger Egyptian pound also squeezed revenues and margins on our very important exports.

"In our operations we have seen it necessary to ensure that our debt levels do not increase and have therefore made a special effort to control inventory, receivables and cash flow. This comes at a cost in operating expenses and manufacturing costs, but is necessary. As a result, over the course of 2019, we were able to marginally reduce debt levels.

“We believe there are reasons to keep optimistic. Egyptian demand should recover in the coming years as the pressures of austerity and high interest rates are reduced.

“The Egyptian government seems increasingly responsive to the difficulties faced by us and other industries as evidenced by the beginning of gas price reductions and direct support to various industries.

“Management expects to start several new export customers in 2020 in both OEM and retailer segments. In the UK and Egypt new efforts are being made to increase penetration in project markets.

“The restructuring of our Lebanese operation has already begun to deliver improved results with radically reduced production, aggressive cost cutting and destocking turning the business cash flow positive in the second half of the year.

“It is of course sad to see Lebanon go through a deep and serious economic crisis but we hope that it will survive stronger as the reforms take place. In Egypt we have of course been through a very tough economic adjustment process over the past 4 years after the upheavals caused by the first revolution and we believe and hope that we have reached the end of these difficult times.”

Taher Gargour, Lecico Egypt CEO, added, “We recorded our largest losses of the year in the fourth quarter as seasonal slowdown compounded the weak demand in Egypt and brought us to our lowest sales and production levels all year.

“Gross margins fell quarter-on-quarter as sanitary ware saw a sharp drop in margins as exchange rates squeezed average prices and average unit costs shot up on the back of diseconomies of scale. Our tile margins improved quarter-on-quarter thanks to higher average prices and the benefit of the government’s reduction in gas prices in October. However, weak sales figures and subsequent low production ate into what would have been a sharper improvement.

“In 2020, we will continue to focus on tight cash control and working capital management but I hope we can also see the beginnings of margin recovery and reduced losses. The key drivers for this are sales volumes, production volumes and prices and this is all tied to demand.

“I am optimistic that exports will grow in volume terms in 2020 but I remain concerned about pricing and profitability in light of the continued strengthening of the Egyptian Pound.

“In Egypt and Lebanon, the risks of continued pressure on demand remain with consumer spending in Egypt limited and with the economic crisis in Lebanon turning political.

“However, I believe there is a strong possibility that we see demand in Egypt improve from the low levels seen at the end of 2019 as inflation and interest rates continue to fall.

“I am optimistic that, having started the year with tighter inventories and following our decision to cut our tile capacity a further 20% to 20 million square meters annually, we will run at better capacity utilization rates in 2020 allowing for better economies of scale and improving our average unit costs. I am concerned that these economies of scale may be at risk if we see demand continue to drop in Egypt over the year.

"Our gross margins should also get a boost from the continuing restructuring of Lecico Lebanon. We estimate around USD 1.5 million less losses from Lebanon year-on-year. Still this is in the environment of extreme uncertainty and economic distress we currently face.

"Lower interest rates and inflation in 2020 should help our performance as well. We saw rates in Egypt come down a further 1.00% in November and in Lebanon borrowing rates have come down sharply in early 2020. The market expects further rate cuts in Egypt as 2020 progresses.

"As a final point for your attention, we took a decision in the fourth quarter to revalue at the group level our fixed assets to market value as per International Accounting Standards. As a result, you will see in the consolidated results a jump in our fixed assets and a matching jump in our reserves account in equity of about LE 1.68 billion. This revaluation has no cash impact of course, but we think it gives a more accurate picture of our true asset and equity valuations."

Lecico Revenue and Profitability

Profit and loss statement highlights	4Q		%	FY		%
(LE m)	2019	2018	19/18	2019	2018	19/18
Sanitary ware	307.0	377.7	81%	1,416.2	1,617.2	88%
Tiles	194.9	250.3	78%	856.4	1002.4	85%
Brassware	20.5	28.3	72%	77.2	86.0	90%
Sales	**522.4**	**656.3**	**80%**	**2,349.8**	**2,705.5**	**87%**
Sanitary ware/sales (%)	58.8%	57.5%	1.2%	60.3%	59.8%	0.5%
Cost of sales	(507.4)	(559.1)	91%	(2,098.1)	(2,235.1)	94%
Cost of sales/sales (%)	(97.1%)	(85.2%)	11.9%	(89.3%)	(82.6%)	6.7%
Gross profit	**15.0**	**97.2**	**15%**	**251.8**	**470.4**	**54%**
Gross profit margin (%)	2.9%	14.8%	(11.9%)	10.7%	17.4%	(6.7%)
Distribution and administration (D&A)	(79.5)	(92.6)	86%	(325.9)	(349.9)	93%
D&A/sales (%)	(15.2%)	(14.1%)	1.1%	(13.9%)	(12.9%)	0.9%
Net other operating income/ (expense)	7.5	(24.0)	-	(14.0)	30.2	-
Net other operating income/ (expense) sales (%)	1.4%	(3.7%)	-	(0.6%)	1.1%	-
EBIT	**(57.0)**	**(19.4)**	**294%**	**(88.2)**	**150.7**	**-**
EBIT margin (%)	-	-	-	-	5.6%	-
Net profit (loss)	**(95.3)**	**(92.9)**	**103%**	**(298.3)**	**(114.3)**	**261%**
Net profit margin (%)	-	-	-	-	-	-

4Q 2019: Drop in Egypt sales and production squeeze margins and drives operating loss

Lecico reported a drop in revenue and profitability in both tiles and sanitary ware in the quarter driving an operating and net loss despite lower overheads and finance expenses. In both segments demand in the local market fell sharply and the Company was obliged to cut production accordingly to manage cash and working capital.

Export revenues and margins continued to be squeezed by the strengthening of the Egypt Pound. The Egyptian pound has strengthened almost 10% against the Euro and the Sterling and 4% against the dollar year-on-year. This strengthening continued over the quarter.

Lecico revenues for the fourth quarter decreased by 20% year-on-year to reach LE 522.4 million (4Q 2018: LE 656.3 million) with lower revenues in all segments. Local revenues fell 33% year-on-year to reach LE 212 million (4Q 2018: LE 318.5 million) and export revenues fell 8% year-on-year to reach LE 310.3 million (4Q 2018: LE 337.8 million). The market in Egypt continues to suffer from the pressure of inflation on consumer spending with additional subsidy removals at the mid-year. In export, Lecico's sales decreased in volume terms and average prices suffered from the strengthening Pound and a shift in mix to lower priced Middle Eastern exports compared to the same quarter last year.

Quarter-on-Quarter revenues decreased by 12% (3Q 2019: LE 590.8 million) with lower revenues in all segments in the local market. Local revenues down 23% quarter-on-quarter to reach LE 212 million (3Q 2019: LE 273.8 million) and export revenues fell 2% quarter-on-quarter to reach LE 310.3 million (3Q 2019: LE 317 million).

Lecico's cost of goods sold fell by 9% year-on-year to LE 507.4 million (4Q 2018: LE 559.1 million) as a result of reduced gas prices for the tiles segment and reduced production.

Lecico's gross profit for the fourth quarter decreased 85% year-on-year to LE 15 million (4Q 2018: LE 97.2 million). Lecico's gross profit margin decreased 11.9 percentage points to 2.9% compared to 14.8% in the same period last year. The drop in gross margins came primarily from sanitary ware as a result of the reduction in production and the squeeze on export values.

Quarter-on-quarter gross profit decreased by 73% (3Q 2019: LE 54.7 million) and Lecico's gross margin decreased 6.4 percentage points (3Q 2019: 9.3%). Quarter-on-quarter the drop in gross margins came from sanitary ware as tile margins improved as a result of better average pricing and the reduction in gas prices.

In absolute terms, distribution and administration (D&A) expenses decreased by 14% to LE 79.5 million (4Q 2018: LE 92.6 million), but proportional D&A expenses were up by 1.1 percentage points to 15.2% (4Q 2018: 14.1%).

Quarter-on-quarter distribution and administration (D&A) expenses decreased by 2% to LE 79.5 million (3Q 2019: LE 81 million), but proportional D&A expenses were up by 1.5 percentage points (3Q 2019: 13.7%).

Lecico reported LE 7.5 million in net other operating income compared to net other operating expense of LE 24 million in the fourth quarter of 2018.

Lecico reported an EBIT loss of LE 57 million for the quarter compared to an EBIT loss of LE 19.4 million in 4Q 2018.

Net financing expenses were down 20% year-on-year to reach LE 41.2 million (4Q 18: LE 51.7 million), due to the reduction in interest rates and reduction in net debt value.

Central Bank interest rates on the Egyptian Pound have fallen 4 percentage points year-on-year from 16.75% to 12.25% at the end of the quarter.

Quarter-on-quarter net financing expenses decreased 19% (3Q 2019: LE 51.1 million) as both interest rates and debt value improved quarter-on-quarter.

Lecico reported effectively no tax charge for the quarter versus a tax charge of LE 15.3 million in the fourth quarter of 2018.

Lecico reported net loss LE 95.3 million in the fourth quarter compared to net loss LE 92.9 million in the same period last year. In the third quarter of 2019, Lecico reported a net loss of LE 88.1 million.

FY 2019: Drop in sales in Egypt and exports and drop in export profitability drive net loss

Lecico revenues for 2019 decreased by 13% year-on-year to LE 2,349.8 million (FY 2018: LE 2,705.5 million) due to the drop in Egyptian demand in all segments and a weakness in volumes and currency-led price pressures in sanitary ware exports. Local revenues fell 19% year-on-year to reach LE 1,021.8 million (FY 2018: LE 1,254.3 million) and export revenues fell 8% year-on-year to reach LE 1,328 million (FY 2018: LE 1,451.3 million).

Lecico's cost of goods sold was down 6% year-on-year to LE 2,098.1 million (FY 2018: LE 2,235.1 million) with lower production and the positive impact of a strengthening Egyptian Pound on costs helping to offset inflation.

Gross profit decreased by 46% to reach LE 251.8 million (FY 2018: LE 470.4 million) and the Company's gross profit margin was down 6.7 percentage points to 10.7% compared to 17.4% in 2018. Gross profits fell due to lower profitability of sanitary ware exports, increased pressure on domestic tile prices and the impact of reduced production driving up unit production costs.

Sanitary ware production was reduced 8.5% year-on-year to 4.3 million pieces and tiles production was reduced 16% to 21.1 million square meters.

In absolute terms, distribution and administration (D&A) expenses decreased by 7% to LE 325.9 million (FY 2018: LE 349.9 million), but proportional D&A expenses were up by 0.9 percentage points to 13.9% of net sales compared to 12.9% in last year.

Lecico reported LE 14 million in net other operating expenses compared to net other operating income of LE 30.2 million in the last year primarily as result of one-off gains of LE 50.9 million in 2018. Excluding these gains, Lecico would have reported net other operating expenses of LE 20.7 million in 2018.

Lecico reported an EBIT loss of LE 88.2 million compared to an EBIT profit of LE 150.7 million in 2018. Excluding the one-off gains of LE 76.4 million in 2018, Lecico would have reported an operating profit of LE 74.3 million with a margin of 3% in 2018.

Net financing expenses decreased 15% year-on-year during 2019 to reach LE 195 million compared to LE 228.1 million in 2018 due to the reduction in interest rates in Egypt as well as 3% reduction in net debt.

Lecico reported net tax charge of LE 22.6 million versus a tax charge of LE 39.3 million in 2018.

Lecico reported net loss of LE 298.3 million compared to net loss of LE 114.3 million in 2018. Excluding the one-off gains LE 76.4 million in 2018, Lecico would have reported a net loss of LE 190.7 million in 2018.

Segmental analysis

Sanitary ware

4Q: Sanitary ware sales volumes decreased by 16% (down 214,422 pieces). Local volumes decreased by 31% (down 123,670 pieces), export sales volumes decreased by 9% (down 75,937 pieces) and sales volumes in Lebanon decreased by 61% (down 14,815 pieces). The drop in exports came from a slow down in European sales which affected our OEM customers most as production was adjusted to maximize their own production.

Quarter-on-quarter total sales volumes decreased by 9% (down 104,859 pieces). Sales in Egypt decreased 24% (down 86,601 pieces), sales in Lebanon decreased by 61% (down 14,633 pieces), and export volumes decreased 0.4% (down 3,625 pieces).

Average sanitary ware prices decreased by 3% year-on-year at LE 281.9 per piece (4Q 2018: LE 289.7) 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. Quarter-on-quarter average prices were down 6% (3Q 2019: LE 299.6).

Revenues were down 19% year-on-year at LE 307 million (4Q 2018: LE 377.7 million).

Quarter-on-quarter revenues were down 14% (3Q 2019: LE 357.7 million) primarily as a result of the drop in average export prices as sales mix shifted to lower cost Middle Eastern markets while all export values were squeezed by the continuing strength of the Egyptian Pound.

Average cost of sales per piece rose 20% year-on-year at LE 277.5 per piece primarily as a result of a sharp reduction in production causing diseconomies of scale. Production was down 28.5% year-on-year in the quarter. Quarter-on-quarter, the average cost of sales was up 6% (3Q 2019: LE 262 per piece).

Gross profit fell 94% to LE 4.8 million (4Q 2018: LE 76.7 million) and the margin decreased by 18.7 percentage points to 1.6% (4Q 2018: 20.3%). Quarter-on-quarter gross profit decreased 89% (3Q 2019: LE 44.9 million) and the margin down 11 percentage point (3Q 2019: 12.6%).

Sanitary ware segmental analysis	4Q		%	FY		%
	2019	2018	19/18	2019	2018	19/18
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	272	396	69%	1,389	1,728	80%
Lebanon (000 pcs)	9	24	39%	108	106	102%
Export (000 pcs)	807	883	91%	3,202	3,486	92%
Total sanitary ware volumes (000 pcs)	**1,089**	**1,303**	**84%**	**4,699**	**5,321**	**88%**
Exports/total sales volume (%)	74.1%	67.8%	6.4%	68.1%	65.5%	2.6%
Sanitary ware revenue (LE m)	**307.0**	**377.7**	**81%**	**1416.2**	**1617.2**	**88%**
Average selling price (LE/pc)	281.9	289.7	97%	301.4	303.9	99%
Average cost per piece (LE/pc)	277.5	230.9	120%	263.8	232.5	113%
Sanitary ware cost of sales	(302.2)	(301.0)	100%	(1239.7)	(1236.9)	100%
Sanitary ware gross profit	4.8	76.7	6%	176.4	380.3	46%
Sanitary ware gross profit margin (%)	1.6%	20.3%	(18.7%)	12.5%	23.5%	(11.1%)

FY: Sanitary ware sales volume decreased by 12% to 4.7 million pieces (down 621,699 pieces). Egyptian volumes fell 20% (down 339,653 pieces), export volumes decreased 8% (down 283,981 pieces), while sales in Lebanon increased by 2% (up 1,935 pieces).

Average sanitary ware prices decreased by 1% year-on-year to LE 301.4 per piece (FY 2018: LE 303.9) with price increases in Egypt offsetting most of the pressure of currency strength on export prices.

Revenues were down 12% year-on-year at LE 1,416.2 million (FY 2018: LE 1,617.2 million).

Average cost of sales rose 13% at LE 263.8 per piece due to lower production and low double digit inflation in Egypt. Sanitary ware production was reduced 8.5% year-on-year to 4.3 million pieces.

Gross profit decreased 54% to LE 176.4 million (FY 2018: LE 380.3 million) and the margin fell 11.1 percentage points to 12.5% (FY 2018: 23.5%).

Tiles

4Q: Tile sales volumes decreased 24% year-on-year (down 1.5 million square meters) to reach 4.9 million square meters in the fourth quarter of 2019. Local volumes decreased 43% (down 2.2 million square meters), but export sales volumes increased 59% (up 651,159 square meters) and Lebanon sales increased 32% (up 42,147 square meters). Local volumes continued to drop with weaker demand and purchasing power in Egypt.

Quarter-on-quarter sales volumes decreased 12% (down 640,000 square meters). Local volumes decreased by 31% (down 1.3 million square meters) and Lebanon sales decreased 8% (down 16,000 square meters), but export volumes increased 69% (up 719,000 square meters).

Average net prices rose 2% year-on-year to LE 39.6 per square meter with an increased mix of export sales and price increases in Egypt were offset by added promotions in Egypt and combined with the strengthening of the Egyptian pound against all export currencies.

Quarter-on-quarter average prices were up 4% (3Q 2019: LE 38.2).

Tiles revenues were down 22% year-on-year at LE 194.9 million (4Q 2018: LE 250.3 million).

Quarter-on-quarter revenues were down 8% (3Q 2019: LE 212.3 million) as sales in Egypt reached their lowest level for the year.

Average costs of sales increased by 3% year-on-year to reach LE 38.1 per square meter (4Q 2018: LE 37.1). 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 28% lower production compared to the same period in 2018.

Quarter-on-quarter average costs decreased by 0.5% (3Q 2019: LE 38.3 per square meter) as lower gas prices offset the diseconomies of scale of 19% lower production.

The tile segment reported a gross profit of LE 7.1 million in the fourth quarter compared to a gross profit of LE 10.1 million in the same period last year. The Company had reported a gross loss of LE 0.9 million in the third quarter of 2019.

Tile segmental analysis	4Q		%	FY		%
	2019	2018	19/18	2019	2018	19/18
Tile volumes (000 sqm)						
Egypt (000 sqm)	2,988	5,225	57%	15,309	20,666	74%
Lebanon (000 sqm)	174	132	132%	660	478	138%
Export (000 sqm)	1,761	1,110	159%	5,642	4,611	122%
Total tile volumes (000 sqm)	**4,923**	**6,467**	**76%**	**21,611**	**25,755**	**84%**
Exports/total sales volume (%)	35.8%	17.2%	18.6%	26.1%	17.9%	8.2%
Tile revenue (LE m)	**194.9**	**250.3**	**78%**	**856.4**	**1002.4**	**85%**
Average selling price (LE/sqm)	39.6	38.7	102%	39.6	38.9	102%
Average cost per sqm (LE/sqm)	38.1	37.1	103%	37.4	36.6	102%
Tile cost of sales	(187.8)	(240.2)	78%	(808.7)	(941.4)	86%
Tile gross profit	7.1	10.1	70%	47.7	61.0	78%
Tile gross profit margin (%)	3.6%	4.0%	(0.4%)	5.6%	6.1%	(0.5%)

FY: Tile sales volumes decreased by 16% year-on-year (down 4.1 million square meters) to reach 21.6 million square meters. Sales in Egypt decreased 26% (down 5.4 million square meters). Sales in export increased by 22% (up 1 million square meters) and sales in Lebanon increased by 38% (up 181,769 square meters).

Average net prices rose 2% at LE 39.6 per square meter reflecting the cumulative effect of price increases over the previous twelve months and increased exports offset by increased discounts and promotions in Egypt and the effect of a strengthening currency on the value of exports in Egyptian Pounds.

Tiles revenues were down 15% year-on-year at LE 856.4 million in 2019 (FY 2018: LE 1,002.4 million).

Average costs rose 2% year-on-year to reach LE 37.4 per square meter as efficiency gains, cheaper gas in the fourth quarter and various cost saving projects were offset by the high inflation in Egypt and the impact of an 16% reduction in production volumes.

Gross profit decreased 22% to reach LE 47.7 million (FY 2018: LE 61 million) and the margin decreased by 0.5 percentage points to 5.6% (FY 2018: 6.1%).

Brassware

4Q: Sales volumes for the fourth quarter 2019 decreased by 39% to reach 21,302 pieces (4Q 2018: 35,100 pieces).

Quarter-on-quarter sales volumes decreased by 3% (3Q 2019: 22,030 pieces).

Average net prices rose 19% to reach LE 962.8 per piece (4Q 2018: LE 807).

Quarter-on-quarter prices increased by 2% (3Q 2019: LE 945.4).

Revenue for the quarter decreased 28% year-on-year to reach LE 20.5 million (4Q 2018: LE 28.3 million). Brassware accounted for 3.9% of the quarter's revenues, compared to 4.3% in last year.

Quarter-on-quarter revenues decreased by 2% (3Q 2019: LE 20.8 million).

Average cost per piece increased 42% to LE 727.3 per piece (4Q 2018: LE 511.1 per piece) reflecting changing mix.

Quarter-on-quarter average cost per piece up 59% (3Q 2019: LE 458.1 per piece).

Gross profit for the quarter decreased by 52% year-on-year to reach LE 5 million (4Q 2018: LE 10.4 million) and the gross margin decreased 12.2 percentage points to 24.5% (4Q 2018: 36.7%).

Quarter-on-quarter gross profit decreased by 53% (3Q 2019: LE 10.7 million) and the gross margin decreased 27.1 percentage points (3Q 2019: 51.5%).

Brassware's percentage of consolidated gross profits increased to 33.4% of Lecico gross profits (4Q 2018: 10.7%). Quarter-on-quarter brassware's percentage of consolidated gross profits increased by 13.8 percentage point (3Q 2019: 19.6%).

Brassware segmental analysis	4Q		%	FY		%
	2019	2018	19/18	2019	2018	19/18
Brassware volumes (pcs)						
Egypt (pcs)	21,302	35,084	61%	82,933	106,371	78%
Export (pcs)	0	16	0%	12	1,940	1%
Total brassware volumes (pcs)	**21,302**	**35,100**	**61%**	**82,945**	**108,311**	**77%**
Exports/total sales volume (%)	0.0%	0.0%	(0.0%)	0.0%	1.8%	(1.8%)
Brassware revenue (LE m)	**20.5**	**28.3**	**72%**	**77.2**	**86.0**	**90%**
Average selling price (LE/pc)	962.8	807.0	119%	931.3	793.6	117%
Average cost per piece (LE/pc)	727.3	511.1	142%	575.7	524.9	110%
Brassware cost of sales	(15.5)	(17.9)	86%	(47.7)	(56.9)	84%
Brassware ware gross profit	5.0	10.4	48%	29.5	29.1	101%
Brassware gross profit margin (%)	24.5%	36.7%	(12.2%)	38.2%	33.9%	4.3%

FY: Sales volumes for 2019 decreased by 23% year-on-year (down 25,366 pieces).

Average net prices rose 17% to reach LE 931.3 per piece due to product mix and price increases done over the last twelve months.

Revenues decreased 10% year-on-year to reach LE 77.2 million (2018: LE 86 million).

Brassware accounted for 3.3% of the consolidated revenues for 2019, compared to 3.2% in last year.

The average cost per piece up 10% to LE 575.7 per piece (2018: LE 524.9 per piece) reflecting changing mix and the benefit of a stronger currency on reducing the price of imported components.

Gross profit increased 1% to LE 29.5 million (2018: LE29.1 million) and the margin increased 4.3 percentage points to 38.2% (2018: 33.9%).

Brassware's percentage of consolidated gross profits increased to 11.7% of Lecico gross profits for 2019 (FY 2018: 6.2%).

Financial Position

The value of Lecico's non-current assets increased by 220% at the end of December 31, 2019 to reach LE 2,385.1 million (2018: LE 744.4 million) primarily as a result of the revaluation of Lecico Egypt group's land.

The value of Lecico's current assets decreased by 15% at the end of December 31, 2019 to reach LE 1,748.9 million (2018: LE 2,062.2 million) primarily as a result of decrease in cash, receivables and inventories during 2019.

Total liabilities decreased by 3% at LE 1,848.7 million (2018: LE 1,903.4 million) primarily as a result of the decrease in loans during 2019.

Gross debt decreased 7% or LE 90.8 million to reach LE 1,261.2 million compared to LE 1,352.1 million at the end of 2018.

Net debt decreased 3% or LE 35.8 million to reach LE 1,129.4 million compared to LE 1,165.2 million at the end of 2018.

Net debt to equity decreased by 62.1% to reach 0.5x compared to 1.32x at the end of 2018 as a result of the revaluation of Lecico Egypt group's land.

Working capital decreased 21% or LE 284.4 million to reach LE 1,051.6 million compared to LE 1,336 million at the end of 2018 as a result of a reduction in receivables and inventories.

Recent developments and outlook

Asset revaluation in 4Q 2019: The company's management decided to adopt the revaluation model as per International Accounting Standard No. 16 "Property, Plant & Equipment" in respect to the land owned by the company and its subsidiaries, which states that:

"After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

"The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued…Frequent revaluations are unnecessary for items of property…with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

"If an asset's carrying amount is increased as a result of a revaluation, the increase shall be…accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

"The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognized. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss."

The result of the revaluation was an increase in the book value of consolidated net fixed assets by LE 1.68 billion as of December 2019 and a matching increase in the equity under "Reserves" note.

Accordingly, the revaluation has no impact on the Profit and Loss statement and is only a balance sheet adjustment.

Outlook for 2020: The outlook for 2020 remains challenging with worries about soft demand globally raising concerns about our European markets, Egyptian demand still under pressure but with some room for optimism about later in 2020 and the regional markets remaining uncertain with Lebanon in particular expected to see its economic crisis continue and intensify as political pressure mounts for a major change in government and policy.

Lecico is expecting some revenue growth despite these challenges coming primarily from higher sanitary ware export volumes and the beginning of a recovery in Egypt. Export volumes will come from expanding our product range with existing OEM customers and entering new markets with new OEM and white label customers.

Between pricing pressures in Egypt and the strengthening of the Pound over the year, we do not expect better average prices in 2020 despite above inflation increases in our major export markets.

The strengthening of the Egyptian Pound will continue to put pressure on gross margins. Lecico is targeting some improvement in operating profits with increased sales allowing for higher production and subsequent economies of scale. Economies of scale will be supported by the full year benefits of cost cutting initiatives launched in 2019 and the benefit of lower gas prices in tiles. Tile costs and margins will also benefit from better efficiency and capacity utilization in tiles following Lecico's reduction of capacity from 24 million square meters per annum to 20 million square meters per annum in the fourth quarter of 2019.

The Company is also expecting a more benign inflationary environment in 2020 with imported products cheaper in Egyptian Pound terms and the strengthening Pound allowing the government to talk about reducing prices on key items.

Lecico also believes that Egyptian interest rates will be cut significantly over the course of 2020, reducing the Company's finance expense for the year. The recent decision in Lebanon to cut interest rates sharply will also help reduce interest expenses for the Company in 2020.

Egyptian demand – which has been under pressure for several years as a result of the austerity measures enacted in 2017 following the floatation of the Pound – may see some recovery as lower inflation and lower interest rates return some purchasing power and appetite for direct investment over the course of the year. There is no sign of this recovery as of late 2019, but most economists seem to think this next cycle of demand growth is due at some point.

Lecico while expecting an improvement in results in the year ahead, still believes the operating environment and results will remain extremely challenging and the Company still expects a significant loss for the year ahead.

Furthermore, even this expectation of a reduction in losses is not without risk. Significant further strengthening of the Egyptian Pound will pressure results. European and UK currencies and demand could be negatively impacted as Brexit plays out. The situation in Lebanon, Libya and much of the Middle East remains in flux. This will still be an uncertain as well as difficult year.

In this environment, Lecico is continuing to open business with new customers, markets and to expand existing commercial relationships. The Company remains committed to managing for cash flow to try and continue to stabilize or reduce debt. This will leave Lecico in the strongest possible position to benefit from the easing policies and recovery of demand expected in Egypt and the subsequent adjustment of the Egyptian Pound over time which will see competitiveness in exports improve again.

Lecico Lebanon restructuring update: The recent political and economic crisis in Lebanon make it quite difficult to predict how the market and Lecico's business there will look in the coming year. After several years of economic stagnation and a shrinking market for our productions, Lebanon could be at an inflection point were drastic political and economic change are possible with profound implications for the currency, trade conditions and the banking system. Much of our analysis and statements about outlook below are therefore subject to extreme variation in the months and year.

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 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.

In 2020, in light of the ongoing economic crisis in Lebanon, Lecico is planning to further reduce staff and switch a large number of staff to part time work to limit cash expenses. The Company is also adjusting prices and payment terms with the market to offset the weakness of the Lebanese Lira and the lack of liquidity in the market.

Already and despite costs of restructuring, these actions have significantly cut cash costs saving around USD 2.4 million as a direct result of savings in salaries, manufacturing costs and overheads. As a result, the restructuring has delivered significant results with net cash consumed by the business reduced from USD 1.4 million (2018) to USD 0.3 million in 2019 and with the subsidiary cash flow positive in the second half of the year.

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.

In 2019, management identifies additional losses of over USD 3.0 million in respect of these restructuring actions. It is important to note that almost all of these additional losses are not cash costs.

This was expected to continue throughout 2020 although at less aggressive pace with a considerable reduction in P&L losses in the year ahead.

In 2021, with most of sales in Lebanon coming from Egypt at lower production costs we were forecasting an improvement in profitability.

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.

Recent political upheavals will affect short-term restructuring plans as Lecico Lebanon adapts its business to best respond to economic and political crisis unfolding in the market. 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.

AGM Announcement

Lecico will hold its AGM on Tuesday, March 31st 2020 at 8:30 am at the Hilton Alexandria Corniche (544 El Geish Street, Sidi Bishr, Alexandria).

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	4Q		%	FY		%
(LE m)	2019	2018	19/18	2019	2018	19/18
Sales	**522.3**	**656.3**	**80%**	**2,349.8**	**2,705.5**	**87%**
Cost of sales	(507.4)	(559.1)	91%	(2,098.1)	(2,235.1)	94%
Gross profit	**15.0**	**97.2**	**15%**	**251.7**	**470.4**	**54%**
Gross margin (%)	2.9%	14.8%	(11.9%)	10.7%	17.4%	(6.7%)
Distribution expenses	(31.6)	(36.7)	86%	(141.7)	(157.3)	90%
Administrative expenses	(47.9)	(55.9)	86%	(184.2)	(192.7)	96%
Other Operating income	12.9	(19.7)	-	23.2	71.7	32%
Other Operating expenses	(5.4)	(4.3)	124%	(37.2)	(41.5)	90%
Operating profit (EBIT)	**(57.0)**	**(19.4)**	**294%**	**(88.2)**	**150.7**	**-**
Operating (EBIT) margin (%)	-	-	-	-	5.6%	-
Investment revenues	(0.1)	0.0	-	4.8	5.1	95%
Finance income	0.6	1.2	53%	4.0	5.5	73%
Finance expense	(41.9)	(52.9)	79%	(199.0)	(233.6)	85%
Loss before tax and minority (PBTM)	**(98.3)**	**(71.1)**	**138%**	**(278.4)**	**(72.4)**	**385%**
PBTM margin (%)	-	-	-	-	-	-
Income tax	(1.7)	(9.5)	18%	(22.8)	(38.7)	59%
Deferred tax	1.7	(5.7)	-	0.2	(0.5)	-
Net Loss after tax (NPAT)	**(98.3)**	**(86.3)**	**114%**	**(301.0)**	**(111.7)**	**270%**
NPAT margin (%)	-	-	-	-	-	-
Minority interest	3.0	(6.5)	-	2.7	(2.7)	-
Net Loss	**(95.3)**	**(92.9)**	**103%**	**(298.3)**	**(114.3)**	**261%**
Net profit margin (%)	-	-	-	-	-	-

Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	31-Dec-19	31-Dec-18	19/18 (%)
Cash	129.0	186.9	69%
Inventory	945.0	1087.2	87%
Receivables	655.5	765.1	86%
Related parties -debit balances	19.4	23.1	84%
Total current assets	**1,748.9**	**2,062.2**	**85%**
Net fixed assets	2318.3	676.8	343%
Intangible assets	29.5	31.8	93%
Projects in progress	4.0	6.2	64%
Available for sale investments	12.0	13.4	90%
Long-term notes receivable	21.3	16.2	132%
Total non-current assets	**2385.1**	**744.4**	**320%**
Total assets	**4,134.0**	**2,806.5**	**147%**
Banks overdraft	1186.2	1332.0	89%
Current portion of long-term liabilities	22.1	20.0	111%
Trade and notes payable	174.9	191.4	91%
Other current payable	374.1	324.9	115%
Related parties -credit balances	2.7	1.6	168%
Provisions	0.6	0.8	75%
Total current liabilities	**1,760.5**	**1,870.8**	**94%**
Long-term loans	52.9	0.0	-
Other long-term liabilities	3.8	0.0	-
Provisions	8.5	9.3	91%
Deferred tax	23.0	23.4	98%
Total non-current liabilities	**88.2**	**32.7**	**270%**
Total liabilities	**1,848.7**	**1,903.4**	**97%**
Minority interest	**46.9**	**22.8**	**206%**
Issued capital	400.0	400.0	100%
Reserves	2117.2	573.4	369%
Retained earnings	19.5	21.3	91%
Net Loss for the period/year	(298.3)	(114.3)	261%
Total equity	**2238.4**	**880.4**	**254%**
Total equity, minorities and liabilities	**4,134.0**	**2,806.5**	**147%**

Lecico Egypt consolidated cash flow

Cash flow statement	FY		%
(LE m)	2019	2018	19/18
Cash Flow from operating activities			
Net Loss for the year	(298.3)	(114.3)	261%
Depreciation and translation adjustment	115.5	109.0	106%
Intangible assets amortization and translation adjustment	1.9	(2.5)	-
Intangible write off	-	0.5	0%
Income tax expense	22.8	38.7	59%
Income tax paid	(38.9)	(19.2)	203%
Deferred income tax	(0.4)	0.6	-
Capital gains	0.1	(51.2)	-
Provided provisions and translation adjustment	9.6	33.2	29%
Reversal of expired provision	(0.1)	(0.1)	140%
Employee share in net profit	60.3	50.4	120%
Increase (Decrease) in minority interest	24.2	4.1	592%
Increase (Decrease) in translation reserve	(29.7)	8.6	-
(Increase) Decrease in Inventory	143.7	46.5	309%
(Increase) Decrease in Receivables	140.5	(6.1)	-
Increase (Decrease) in Payables	35.8	26.2	137%
Utilized Provisions	(39.3)	(40.1)	98%
Difference result from discounting of long term notes receivables	1.5	(3.8)	-
Net cash from operating activities	**149.2**	**80.7**	**185%**
Cash flow from investing activities			
Additions to fixed assets and projects	(61.1)	(90.1)	68%
Intangible assets	(1.7)	(0.7)	-
Net change in available for sale investments	1.4	(0.1)	-
Proceeds from sales of fixed assets	3.2	61.8	5%
Increase (Decrease) in long-term notes receivable	(6.6)	14.8	-
Net cash from investing activities	**(64.9)**	**(14.3)**	**452%**
Cash flow from financing activities			
Increase (Decrease) in long-term loans	52.9	(20.0)	-
Increase (Decrease) in current portion of long term liabilities	2.1	(26.6)	-
Change in Other Short Term Liabilities	(2.9)	-	-
Employees Dividends paid	(48.5)	(35.7)	136%
Net cash from financing activities	**3.7**	**(82.3)**	**-**
Net change in cash & cash equivalent during the year	**88.0**	**(16.0)**	**-**
Net cash and cash equivalent at beginning of the year	(1,145.2)	(1,129.2)	101%
Net cash and cash equivalent at the end of the year	**(1,057.2)**	**(1,145.2)**	**92%**