Third Quarter 2019 Results

Alexandria, 14th November 2019 – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for the third quarter 2019.

Highlights

3Q 2019

- Lecico revenue down 15% to LE 590.8 million (60.5% from sanitary ware).
- Sanitary ware revenue down 18% to LE 357.7 million, volumes down 15% to 1.2 million pieces (67.9% exports).
- Tile revenue down 10% to LE 212.3 million, volumes down 4% to 5.6 million square meters (18.7% exports).
- Brassware revenue up 2% to LE 20.8 million, sales volume down 8% to 22,030 pieces.
- EBIT loss of LE 33.6 million compared to profit LE 5.3 million in 3Q 2018.
- Net loss of LE 88.1 million compared to net loss of LE 50.8 million in 3Q 2018.

9M 2019

- Lecico revenue down 11% to LE 1,827.5 million (60.7% from sanitary ware)
- Sanitary ware revenue down 11% to LE 1,109.2 million, volumes down 10% to 3.6 million pieces (66.3% exports)
- Tile revenue down 12% to LE 661.5 million, volumes down 13% to 16.7 million square meters (23.3% exports)
- Brassware revenues down 2% to LE 56.7 million, sales volume down 16% to 61,643 pieces
- EBIT loss of LE 31.2 million compared to EBIT profit of LE 170 million in 2018
- Net loss of LE 203.0 million compared to net loss of LE 21.5 million in 2018

Lecico Egypt Chairman, Gilbert Gargour, commented "Results in the third quarter remain challenging as continued regional market weakness and a stronger Egyptian pound squeezed revenues and margins as they had in the second quarter.

"Competitive pressures on pricing and poor demand in Egypt coupled with the losses due to restructuring in Lebanon brought us to an operating loss for the quarter. Interest expense still accounts for more than half our losses in the quarter. Besides augmenting our financial costs, the high cost of money has strangled demand in the local market, which continues to suffer from significant overcapacity in tiles.

"Lecico's strength in sanitary ware, and particularly in the export market has also continued to suffer as the Egyptian pound strengthens at least in part as short-term money has been attracted into Egypt by relatively high interest rates.

"It is a good sign that austerity has started to ease. Over the quarter the Central Bank cut its rate from 15.75% to 13.25% and we are now borrowing in Egyptian Pounds at just under 15%. This is an important step in the right direction for restarting demand growth in Egypt but rates remain relatively high and significant further cuts are needed. As this easing continues, we can hope for an improvement in the market over the year ahead.

"Your management continues to work hard 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 in Lebanon is continuing. Production and staff have been significantly reduced and accelerated destocking has begun. With promotions out of stock we are succeeding to sell more volume than the previous year and maintain revenue levels despite market conditions.

"This restructuring is costly from a P&L perspective and approximately 20% of our losses so far this year 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. So far this year, the total financing required by Lecico Lebanon is USD 0.45 million compared to USD 1.14 million for the full year of 2018. This quarter is the first quarter that Lebanon has generated cash, although the amount is not significant. Our efforts and costs will continue next year. There remains a significant value in the land bank of Lebanon but unlocking this cash is extremely unlikely currently given the severe issues Lebanon is currently facing.

"The recent economic and political crisis have created – at least at time of writing – a great deal of uncertainty. Capital controls, inflation and a lack of liquidity mean all aspects of our business there will be affected in potentially unpredictable and dramatic ways in the coming months. We hope this will be good for Lebanon and our business there in the future as the economy and market in Lebanon has been under pressure for many years prior to these events.

"We continue to be optimistic. The austerity and related macro-economic factors should ease further and – if this is done well – Egypt should enter a period of strong growth from current levels. We are confident we can improve 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 continued to face tough conditions in the quarter with the local market remaining weak and export revenues down quarter-on-quarter despite some growth in volumes. Gross margins fell slightly quarter-on-quarter as tiles suffered from lower prices due to promotions in Egypt and the stronger currency reduced average prices of all export. As a result, we booked an operating and net loss similar to the second quarter despite slightly lower overheads and finance costs.

"Despite weak operating results in the quarter, we were able to generate LE 130 million in cash flows over the quarter by reducing inventories and receivables from June 2019 levels and increasing trade and other payables coming from some of our exports moving to advanced payments. As a result, our net debt is now only LE 20 million above year-end 2018.

“Hopefully we will be able to generate cash and reduce our net debt further in the last quarter. The fourth quarter will remain challenging on the sales front, with continued weakness in the local market likely to be exacerbated by a seasonal slowdown. Political unrest in Lebanon and conflict in Libya are also likely to depress sales. Shrinking volumes make it hard to reduce stocks, but we are still striving towards our goal of reducing stocks 25%. Lecico will be forced to reduce production significantly to try and hit these targets, which will raise costs and impact the P&L quarter-on-quarter but will maximize our cash flows.

“There are a few pieces of good news for the quarter ahead. Lecico raised tile prices in October to offset the increase in promotions and targeted incentives we are using to push sales in particular markets. The government also reduced natural gas prices to tile manufacturers, which we calculate will reduce the cost of our tiles by about 5% from October. This reduction in energy costs might be passed on to the market due to competition but we have held onto it so far in October. We have used these benefits to finance free tile delivery across Egypt, which we hope will allow us to penetrate more markets with still some improvement in margins in the segment.

“Below the operating line, we should also see lower finance costs quarter-on-quarter thanks to the debt reduction done in the third quarter and the cut in interest rates falling another percentage point at the end of September.

“These positives aside, we continue to face an extremely challenging environment in the fourth quarter and likewise into 2020.

“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.

“There is a possibility – particularly in Egypt – that we see demand improve in 2020 as inflation and interest rates continue to fall. In both Egypt and Lebanon, we continue trying to make more aggressive deals and incentives targeted at key markets and customers, but how successful this will be will depend to a large extent on the overall market.

“Lower interest rates and inflation in 2020 should help our performance as well, but for the P&L sales volumes, production volumes and prices remain the key driver and this is all tied to demand. The continuing restructuring of our Lebanese business will also help improve our operating results as we begin supplying significantly lower cost product from Egypt. 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.

“We are to a large extent forced to weather the cyclical negatives of Egypt’s economic reforms and the problems of the region as a whole, not to mention the weaker currency we face in the UK and our European markets as Brexit continues to loom. We continue to take action on many fronts to offset this, expanding of our efforts over the past years and quarters: try to defend and rebuild margins by recovering sales volumes; unlock efficiency gains and cut costs; and unlock working capital and reducing our asset footprint. Our primary concern is to manage cash flows and try to ensure our debt doesn’t grow so that we will be well positioned as interest rates continue to fall, we will continue to work towards the best possible result despite our challenges.”

Lecico Revenue and Profitability

Profit and loss statement highlights						
	3Q		%	9M		%
(LE m)	2019	2018	19/18	2019	2018	19/18
Sanitary ware	357.7	435.1	82%	1,109.2	1,239.5	89%
Tiles	212.3	235.8	90%	661.5	752.1	88%
Brassware	20.8	20.3	102%	56.7	57.6	98%
Sales	**590.8**	**691.2**	**85%**	**1,827.5**	**2,049.2**	**89%**
Sanitary ware/sales (%)	60.5%	62.9%	(2.4%)	60.7%	60.5%	0.2%
Cost of sales	(536.1)	(586.0)	91%	(1,590.7)	(1,676.0)	95%
Cost of sales/sales (%)	(90.7%)	(84.8%)	6.0%	(87.0%)	(81.8%)	5.3%
Gross profit	**54.7**	**105.2**	**52%**	**236.8**	**373.2**	**63%**
Gross profit margin (%)	9.3%	15.2%	(6.0%)	13.0%	18.2%	(5.3%)
Distribution and administration (D&A)	(81.0)	(88.8)	91%	(246.4)	(257.3)	96%
D&A/sales (%)	(13.7%)	(12.8%)	0.9%	(13.5%)	(12.6%)	0.9%
Net other operating income/ (expense)	(7.2)	(11.2)	65%	(21.5)	54.1	-
Net other operating income/ (expense) sales (%)	(1.2%)	(1.6%)	(0.4%)	(1.2%)	2.6%	-
EBIT	**(33.6)**	**5.3**	**-**	**(31.2)**	**170.0**	**-**
EBIT margin (%)	-	0.8%	-	-	8.3%	-
Net profit (loss)	**(88.1)**	**(50.8)**	**173%**	**(203.0)**	**(21.5)**	**946%**
Net profit margin (%)	-	-	-	-	-	-

3Q 2019: A squeeze on sanware exports and pressure on tile prices drive 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 volumes in export and the local market fell and average prices were lower year-on-year as a strengthening pound reduced average export prices and local prices felt pressure from competition resulted in increased promotions and targeted incentives.

The Egyptian pound has strengthened almost 10% against the Euro and the Sterling and 4% against the dollar year-on-year, directly reducing the value of all export sales in Egyptian Pounds. This strengthening continued over the quarter.

Lecico revenues for the third quarter decreased by 15% year-on-year to reach LE 590.8 million (3Q 2018: LE 691.2 million) with lower revenues in sanitary and tile. Local revenues fell 14% year-on-year to reach LE 273.8 million (3Q 2018: LE 318.5 million) and export revenues fell 6% year-on-year to reach LE 317 million (3Q 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 own brand sales to Europe and OEM business saw weaker sales volumes as demand eased slightly in key markets.

Quarter-on-Quarter revenues decreased by 1% (2Q 2019: LE 599.5 million) with local growth partially offsetting slight decrease in export sales. Local revenues rose 1% quarter-on-quarter to reach LE 273.8 million (2Q 2019: LE 270.8 million) while export revenues down 4% quarter-on-quarter to reach LE 317 million (2Q 2019: LE 328.8 million). Tiles drove quarter-on-quarter local sales growth thanks to increased promotions and more trading days in the month without the effects of Ramadan impacting sales.

Average selling prices were down year-on-year and quarter-on-quarter as weaker export currencies and increased discounts and promotions offset price increases.

Lecico's cost of goods sold fell by 9% year-on-year to LE 536.1 million (3Q 2018: LE 586 million) as a result of cost savings in tiles and reduced production. Tile unit production costs were down year-on-year despite lower production volumes as cost cutting initiatives in production were supported by the reduction in fx-based costs in production. In sanitary ware average unit production costs increased but overall cost of sales fell as production was reduced.

Lecico's gross profit for the third quarter decreased 48% year-on-year to LE 54.7 million (3Q 2018: LE 105.2 million). Lecico's gross profit margin decreased 6 percentage points to 9.3% compared to 15.2% in the same period last year. Quarter-on-quarter gross profit decreased by 4% (2Q 2019: LE 57.1 million) and Lecico's gross margin decreased 0.3 percentage points (2Q 2019: 9.5%).

In absolute terms, distribution and administration (D&A) expenses decreased by 9% to LE 81.0 million (3Q 2018: LE 88.8 million), but proportional D&A expenses were up by 0.9 percentage points to 13.7% (3Q 2018: 12.8%). Quarter-on-quarter distribution and administration (D&A) expenses are flat at LE 81 million and proportional D&A expenses were up by 0.2 percentage points (2Q 2019: 13.5%).

Lecico reported LE 7.2 million in net other operating expenses compared to net other operating expense of LE 11.2 million in the third quarter of 2018.

Lecico reported an EBIT loss of LE 33.6 million for the quarter compared to an EBIT profit of LE 5.3 million in 3Q 2018.

Net financing expenses were down 9% year-on-year during the third quarter of 2019 to reach LE 51.1 million compared to LE 56.4 million in the same period in 2018, due to the reduction in interest rates. Central Bank interest rates on the Egyptian Pound have fallen 3.5 percentage points year-on-year from 16.75% to 13.25% at the end of the quarter. Quarter-on-quarter net financing expenses decreased 1% (2Q 2019: LE 51.5 million).

Lecico reported net tax charge of LE 4.7 million versus a tax charge of LE 8.2 million in the third quarter of 2018.

Lecico reported net loss LE 88.1 million in the third quarter compared to net loss LE 50.8 million in the same period last year.

9M 2019: Drop in sales in Egypt and exports and drop in export profitability drive net loss

Lecico revenues for the first nine months decreased by 11% year-on-year to LE 1,827.5 million (9M 2018: LE 2,049.2 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 13% year-on-year to reach LE 809.9 million (9M 2018: LE 935.8 million) and export revenues fell 9% year-on-year to reach LE 1,017.6 million (9M 2018: LE 1113.4 million).

Lecico's cost of goods sold was down 5% year-on-year to LE 1,590.7 million (9M 2018: LE 1,676 million) with lower production and the positive impact of a strengthening Egyptian Pound on costs helping to offset inflation.

Gross profit decreased by 37% to reach LE 236.8 million (9M 2018: LE 373.2 million) and the Company's gross profit margin was down 5.3 percentage points to 13.0% compared to 18.2% in the same period last year. 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.

In absolute terms, distribution and administration (D&A) expenses decreased by 4% to LE 246.4 million (9M 2018: LE 257.3 million), but proportional D&A expenses were up by 0.9 percentage points to 13.5% of net sales compared to 12.6% in last year.

Lecico reported LE 21.5 million in net other operating expenses compared to net other operating income of LE 54.1 million in the last year primarily as result of one-off gains of LE 76.4 million in the first nine months of 2018. Excluding these gains, Lecico would have reported net other operating expenses of LE 22.3 million in the first nine months of 2018.

Lecico reported an EBIT loss of LE 31.2 million compared to an EBIT profit of LE 170 million in first nine months of 2018. Excluding the one-off gains of LE 76.4 million in the first nine months of 2018, Lecico would have reported an operating profit of LE 93.6 million with a margin of 8.3% in the first nine months of 2018.

Net financing expenses decreased 13% year-on-year during the first nine months of 2019 to reach LE 153.8 million compared to LE 176.5 in the same period last year due to the reduction in interest rates in Egypt.

Lecico reported net tax charge of LE 22.6 million versus a tax charge of LE 24.0 million in the same period last year.

Lecico reported net loss of LE 203 million compared to net loss of LE 21.5 million in the last year. Excluding the one-off gains LE 76.4 million in the first nine months of 2018, Lecico would have reported a net loss of LE 79.9 million in the first nine months of 2018.

Segmental analysis

Sanitary ware

3Q: Sanitary ware sales volumes decreased by 15% (down 217,697 pieces). Local volumes decreased by 12% (down 50,426 pieces), export sales volumes decreased by 16% (down 156,501 pieces) and sales volumes in Lebanon decreased by 31% (down 10,771 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 4% (down 51,717 pieces). Sales in Egypt decreased 7% (down 26,733 pieces) and sales in Lebanon decreased by 56% (down 30,672 pieces), while export volumes increased 1% (up 5,688 pieces).

Average sanitary ware prices decreased by 3% year-on-year at LE 299.6 per piece (3Q 2018: LE 308.2) due to 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 2% (2Q 2019: LE 305.6).

Revenues were down 18% year-on-year at LE 357.7 million (3Q 2018: LE 435.1 million). Quarter-on-quarter revenues were down 6% (2Q 2019: LE 380.6 million).

Average cost of sales per piece rose 6% year-on-year at LE 262 per piece due to double-digit inflation in Egypt and the changing mix of production. Quarter-on-quarter, the average cost of sales was down 4% (2Q 2019: LE 271.7 per piece) as production was increased compared to seasonally lower levels in Ramadan.

Gross profit fell 47% to LE 44.9 million (3Q 2018: LE 85.1 million) and the margin decreased by 7 percentage points to 12.6% (3Q 2018: 19.6%). Quarter-on-quarter gross profit increased 6% (2Q 2019: LE 42.2 million) and the margin up 1.5 percentage point (2Q 2019: 11.1%).

Sanitary ware segmental analysis	3Q		%	9M		%
	2019	2018	19/18	2019	2018	19/18
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	359	409	88%	1,116	1,332	84%
Lebanon (000 pcs)	24	35	69%	99	82	120%
Export (000 pcs)	811	967	84%	2,395	2,603	92%
Total sanitary ware volumes (000 pcs)	**1,194**	**1,412**	**85%**	**3,610**	**4,017**	**90%**
Exports/total sales volume (%)	67.9%	68.5%	(0.6%)	66.3%	64.8%	1.5%
Sanitary ware revenue (LE m)	**357.7**	**435.1**	**82%**	**1109.2**	**1239.5**	**89%**
Average selling price (LE/pc)	299.6	308.2	97%	307.3	308.5	100%
Average cost per piece (LE/pc)	262.0	248.0	106%	259.7	233.0	111%
Sanitary ware cost of sales	(312.8)	(350.0)	89%	(937.5)	(935.9)	100%
Sanitary ware gross profit	44.9	85.1	53%	171.7	303.6	57%
Sanitary ware gross profit margin (%)	12.6%	19.6%	(7.0%)	15.5%	24.5%	(9.0%)

9M: Sanitary ware sales volume decreased by 10% to 3.6 million pieces (down 407,278 pieces). Egyptian volumes fell 16% (down 215,983 pieces) and export volumes decreased 8% (down 208,045 pieces), while sales in Lebanon increased by 20% (up 16,750 pieces).

Average sanitary ware prices slightly decrease by 0.4% year-on-year to LE 307.3 per piece (9M 2018: LE 308.5) with price increases in Egypt offsetting most of the pressure of currency strength on export prices.

Revenues were down 11% year-on-year at LE 1,109.2 million (9M 2018: LE 1,239.5 million).

Average cost of sales rose 11% at LE 259.7 per piece due to lower production and double-digit inflation in Egypt.

Gross profit decreased 43% to LE 171.7 million (9M 2018: LE 303.6 million) and the margin fell 9 percentage points to 15.5% (9M 2018: 24.5%).

Tiles

3Q: Tile sales volumes decreased 4% year-on-year (down 203,326 square meters) to reach 5.6 million square meters in the third quarter of 2019. Local volumes decreased 2% (down 75,370 square meters) and export sales volumes decreased 14% (down 167,921 square meters) while Lebanon sales increased 27% (up 39,965 square meters). Local volumes continued to drop with weaker demand and purchasing power in Egypt. Exports suffered from increased conflict in Libya.

Quarter-on-quarter sales volumes increased 9% (up 450,000 square meters). Local volumes increased by 10% (up 396,000 square meters), export volumes increased 5% (up 47,000 square meters) and Lebanon sales increased 4% (up 7,000 square meters).

Average net prices down 7% year-on-year to LE 38.2 per square meter as a result of added promotional in Egypt and combined with the strengthening of the Egyptian pound against all export currencies, particularly the Sterling and Euro rates during the quarter.

Quarter-on-quarter average prices were down 4% (2Q 2019: LE 39.7) due to the decreased proportion of export sales.

Tiles revenues were down 10% year-on-year at LE 212.3 million (3Q 2018: LE 235.8 million). Quarter-on-quarter revenues were up 5% (2Q 2019: LE 202.8 million).

Average costs of sales decreased by 1% year-on-year to reach LE 38.3 per square meter (3Q 2018: LE 38.7). Cost cutting measures in Egypt and the impact of a strengthening currency on fx-based costs helped offset the diseconomies of scale of 15% lower production compared to the same period in 2018.

Quarter-on-quarter average costs increased by 1% (2Q 2019: LE 38.1 per square meter) primarily as a result of subsidy removals at the mid-year.

The tile segment reported a gross loss of LE 0.9 million in the third quarter compared to a gross profit of LE 12.5 million in the same period last year. The Company had reported a gross profit of LE 8.2 million in the second quarter of 2019.

Tile segmental analysis	3Q		%	9M		%
	2019	2018	19/18	2019	2018	19/18
Tile volumes (000 sqm)						
Egypt (000 sqm)	4,331	4,406	98%	12,321	15,441	80%
Lebanon (000 sqm)	190	150	127%	486	346	140%
Export (000 sqm)	1,042	1,210	86%	3,881	3,501	111%
Total tile volumes (000 sqm)	**5,563**	**5,766**	**96%**	**16,687**	**19,288**	**87%**
Exports/total sales volume (%)	18.7%	21.0%	(2.3%)	23.3%	18.2%	5.1%
Tile revenue (LE m)	**212.3**	**235.8**	**90%**	**661.5**	**752.1**	**88%**
Average selling price (LE/sqm)	38.2	40.9	93%	39.6	39.0	102%
Average cost per sqm (LE/sqm)	38.3	38.7	99%	37.2	36.4	102%
Tile cost of sales	(213.2)	(223.3)	95%	(620.9)	(701.2)	89%
Tile gross profit	(0.9)	12.5	-	40.6	50.9	80%
Tile gross profit margin (%)	-	5.3%	-	6.1%	6.8%	(0.6%)

9M: Tile sales volumes decreased by 13% year-on-year (down 2.6 million square meters) to reach 16.7 million square meters. Sales in Egypt decreased 20% (down 3.1 million square meters). Sales in export increased by 11% (up 379,419 square meters) and sales in Lebanon increased by 40% (up 139,194 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 despite increased discounts and promotions in Egypt and Lebanon and the effect of a strengthening currency on the value of exports in Egyptian Pounds.

Tiles revenues were down 12% year-on-year at LE 661.5 million in the first nine of 2019 (9M 2018: LE 752.1 million).

Average costs rose 2% year-on-year to reach LE 37.2 per square meter as efficiency gains and cost saving projects were offset by the high inflation in Egypt and the impact of an 11% reduction in production volumes.

Gross profit decreased 20% to reach LE 40.6 million (9M 2018: LE 50.9 million) and the margin decreased by 0.6 percentage points to 6.1% (9M 2018: 6.8%).

Brassware

3Q: Sales volumes for the third quarter 2019 decreased by 8% to reach 22,030 pieces (3Q 2018: 23,876 pieces). Quarter-on-quarter sales volumes increased by 38% (2Q 2019: 15,978 pieces).

Average net prices rose 11% to reach LE 945.4 per piece (3Q 2018: LE 851.3). Quarter-on-quarter prices decreased by 6% (2Q 2019: LE 1,007.5).

Revenue for the quarter increased 2% year-on-year to reach LE 20.8 million (3Q 2018: LE 20.3 million). Quarter-on-quarter revenues increased by 29% (2Q 2019: LE 16.1 million). Brassware accounted for 3.5% of the quarter's revenues, compared to 2.9% in the same period last year.

Average cost per piece fell 13% to LE 458.1 per piece (3Q 2018: LE 528.4 per piece) reflecting changing mix. Quarter-on-quarter average cost per piece down 22% (2Q 2019: LE 588.6 per piece).

Gross profit for the quarter increased by 39% year-on-year to reach LE 10.7 million (3Q 2018: LE 7.7 million) and the gross margin increased 13.6 percentage points to 51.5% (3Q 2018: 37.9%).

Quarter-on-quarter gross profit increased by 60% (2Q 2019: LE 6.7 million) and the gross margin increased 10 percentage points (2Q 2019: 41.6%).

Brassware's percentage of consolidated gross profits increased to 19.6% of Lecico gross profits (3Q 2018: 7.3%). Quarter-on-quarter brassware's percentage of consolidated gross profits increased by 7.9 percentage point (2Q 2019: 11.7%).

Brassware segmental analysis	3Q		%	9M		%
	2019	2018	19/18	2019	2018	19/18
Brassware volumes (pcs)						
Egypt (pcs)	22,028	23,873	92%	61,631	71,287	86%
Export (pcs)	2	3	67%	12	1,924	1%
Total brassware volumes (pcs)	**22,030**	**23,876**	**92%**	**61,643**	**73,211**	**84%**
Exports/total sales volume (%)	0.0%	0.0%	(0.0%)	0.0%	2.6%	(2.6%)
Brassware revenue (LE m)	**20.8**	**20.3**	**102%**	**56.7**	**57.6**	**98%**
Average selling price (LE/pc)	945.4	851.3	111%	920.5	787.2	117%
Average cost per piece (LE/pc)	458.1	528.4	87%	523.2	531.6	98%
Brassware cost of sales	(10.1)	(12.6)	80%	(32.3)	(38.9)	83%
Brassware ware gross profit	10.7	7.7	139%	24.5	18.7	131%
Brassware gross profit margin (%)	51.5%	37.9%	13.6%	43.2%	32.5%	10.7%

9M: Sales volumes for first nine months of 2019 decreased by 16% year-on-year (down 11,568 pieces).

Average net prices rose 17% to reach LE 920.5 per piece due to product mix and price increases done over the last twelve months.

Revenues decreased 2% year-on-year to reach LE 56.7 million (9M 2018: LE 57.6 million).

Brassware accounted for 3.5% of the consolidated revenues for the first nine months of 2019, compared to 2.9% in the same period last year.

The average cost per piece fell 2% to LE 523.2 per piece (9M 2018: LE 531.6 per piece) reflecting changing mix and the benefit of a stronger currency on reducing the price of imported components.

Gross profit increased 31% to LE 24.5 million (9M 2018: LE18.7 million) and the margin increased 10.7 percentage points to 43.2% (9M 2018: 32.5%).

Brassware's percentage of consolidated gross profits increased to 10.3% of Lecico gross profits for the first nine months of 2019 (9M 2018: 5%).

Financial Position

The value of Lecico's assets decreased by 8% at the end of September 30, 2019 to reach LE 2,588.1 million (2018: LE 2,806.5 million) primarily as a result of decrease in cash, receivables, inventories and fixed assets during the first nine months of 2019.

Total liabilities decreased by 1% at LE 1,890.3 million (2018: LE 1,903.4 million) primarily as a result of the decrease in loans during the first nine months of 2019.

Gross debt decreased 2% or LE 31.8 million to reach LE 1,320.3 million compared to LE 1,352.1 million at the end of 2018.

Net debt increased 2% or LE 22.1 million to reach LE 1,187.3 million compared to LE 1,165.2 million at the end of 2018.

Net debt to equity increased by 31.7% to reach 1.74x compared to 1.32x at the end of 2018 as a result of the impact of losses year-to-date on the value of Equity.

Working capital decreased 11% or LE 151.3 million to reach LE 1,184.6 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

Outlook for year-end 2019 and 2020: Lecico is expecting operational results in the last quarter of the year to face the same pressures seen in the second and third quarters. We are expecting a continued slowdown in demand in Egypt and the Pound's impact on export prices to mean revenues will remain relatively weaker quarter-on-quarter.

The Company is planning to reduce production accordingly in the quarter to maximize cash flows which will lead to diseconomies of scale and put upward pressure on Lecico's average unit production costs compared to those seen in the previous two quarters.

In sanitary ware, the Company expects a drop in profitability as a result of a significant cut in production for the quarter.

In tiles, these negative pressures on the P&L will be offset by a net price increase in quarter and the benefit of the reduction in natural gas prices for tile manufacturers. Lecico expects these factors will lead to a better profitability quarter-on-quarter from the tile segment in the fourth quarter despite the effect of lower sales volumes and a significant reduction in production.

Although the pressure on results is being increased by the Company's decision to reduce production to manage inventory levels, management hopes that this will allow the company to continue generating cash as it did in the third quarter and further reduce debt to try and return net debt to year-end 2018 levels. This strategy has been successful so far in the first month of the quarter with positive cash flow as a result of improving working capital.

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 some improvement in tile volumes 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. The Company is hoping tile volumes in Egypt will improve as a result of a better penetration of projects and as a result of our free delivery service increasing our products competitiveness in more remote markets in Egypt.

Between pricing pressures in Egypt and the strengthening of the Egyptian pound over the year, we do not expect significantly better average prices in 2020 despite a push for above inflation increases in price in our major export markets.

Accordingly, 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. The Company is also expecting a much 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. This will be offset partially by the expectation of further increases in interest rates in Lebanon, but the Company still expects to see an improvement in this cost line in the year ahead.

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.

Barring a major recovery in demand in Egypt in 2020 – which the Company does not expect – 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 for Lecico.

In this environment, Lecico is continuing to push for new customers, markets and to expand existing commercial relationships to strengthen future sales prospects. The Company remains committed to managing for cash flows. In 2020, Lecico will continue to reduce inventories and customer payment terms 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 products, Lebanon could be at an inflection point where 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 with a return to profitability in future years.

In the third quarter, the restructuring plan remained largely on target although the worsening economic situation in the country reduced sales below our targets. Due to the weak market, Lecico Lebanon also limited promotional sales in the quarter.

The cost cutting element of the restructuring plan is on target with headcount and production reduced.

Management is now looking at a further reduction in staff over the next 9 months and accelerating the move of supply to Egypt and introducing some new lower priced product to target the large market of cheaper imports that have taken market share from Lecico Lebanon over the past decade.

Already and despite costs of restructuring, these actions have significantly cut cash costs saving around USD 1.7 million as a direct result of the restructuring plan. As a result of this and despite the challenges of the operating environment in Lebanon in 2019, Lecico Lebanon's negative cash flow has been reduced by over 60% year-on-year.

Significantly, the third quarter of 2019 was the first quarter where Lecico Lebanon generated cash – although the amount was minimal, The Company was also cash flow positive in October. This trend is not expected to continue through the year-end.

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 the first nine months of 2019, management identifies additional losses of around USD 2.4 million in respect of these restructuring actions. It is important to note that almost all of these additional losses are not cash costs.

This is 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 are 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 developments 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.

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.

For additional information, please contact:

Taher G. Gargour
Telephone: +203 518 0011
Fax: +203 518 0029
E-mail: tgargour@lecico.com

Visit our website at: www.lecico.com

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	3Q		%	9M		%
(LE m)	2019	2018	19/18	2019	2018	19/18
Sales	**590.8**	**691.2**	**85%**	**1,827.5**	**2,049.2**	**89%**
Cost of sales	(536.1)	(586.0)	91%	(1,590.7)	(1,676.0)	95%
Gross profit	**54.7**	**105.2**	**52%**	**236.8**	**373.2**	**63%**
Gross margin (%)	9.3%	15.2%	(6.0%)	13.0%	18.2%	(5.3%)
Distribution expenses	(35.5)	(41.2)	86%	(110.1)	(120.6)	91%
Administrative expenses	(45.5)	(47.6)	96%	(136.3)	(136.7)	100%
Other Operating income	3.0	4.8	63%	10.3	91.3	11%
Other Operating expenses	(10.3)	(16.0)	64%	(31.8)	(37.2)	86%
Operating profit (EBIT)	**(33.6)**	**5.3**	**-**	**(31.2)**	**170.0**	**-**
Operating (EBIT) margin (%)	-	0.8%	-	-	8.3%	-
Investment revenues	2.4	5.1	47%	4.9	5.1	96%
Finance income	1.0	1.4	71%	3.4	4.3	79%
Finance expense	(52.1)	(57.7)	90%	(157.2)	(180.8)	87%
Loss before tax and minority (PBTM)	**(82.3)**	**(46.0)**	**179%**	**(180.1)**	**(1.3)**	**-**
PBTM margin (%)	-	-	-	-	-	-
Income tax	(4.4)	(8.5)	51%	(21.1)	(29.2)	72%
Deferred tax	(0.3)	0.3	-	(1.5)	5.2	-
Net Loss after tax (NPAT)	**(87.0)**	**(54.2)**	**161%**	**(202.7)**	**(25.3)**	**800%**
NPAT margin (%)	-	-	-	-	-	-
Minority interest	(1.0)	3.4	-	(0.3)	3.9	-
Net Loss	**(88.1)**	**(50.8)**	**173%**	**(203.0)**	**(21.5)**	**946%**
Net profit margin (%)	-	-	-	-	-	-

Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	30-Sep-19	31-Dec-18	19/18 (%)
Cash	133.0	186.9	71%
Inventory	1014.6	1087.2	93%
Receivables	697.3	765.1	91%
Related parties -debit balances	29.5	23.1	128%
Total current assets	**1,874.4**	**2,062.2**	**91%**
Net fixed assets	604.6	676.8	89%
Intangible assets	28.0	31.8	88%
Projects in progress	44.5	6.2	718%
Available for sale investments	12.1	13.4	91%
Long-term notes receivable	24.5	16.2	152%
Total non-current assets	**713.6**	**744.4**	**96%**
Total assets	**2,588.1**	**2,806.5**	**92%**
Banks overdraft	1234.9	1332.0	93%
Current portion of long-term liabilities	26.8	20.0	134%
Trade and notes payable	184.2	191.4	96%
Other current payable	343.2	324.9	106%
Related parties -credit balances	3.2	1.6	195%
Provisions	1.3	0.8	173%
Total current liabilities	**1,793.6**	**1,870.8**	**96%**
Long-term loans	58.6	0.0	-
Other long-term liabilities	5.0	0.0	-
Provisions	8.6	9.3	92%
Deferred tax	24.6	23.4	105%
Total non-current liabilities	**96.7**	**32.7**	**296%**
Total liabilities	**1,890.3**	**1,903.4**	**99%**
Minority interest	**16.6**	**22.8**	**73%**
Issued capital	400.0	400.0	100%
Reserves	467.2	573.4	81%
Retained earnings	17.0	21.3	80%
Net Loss for the period/year	(203.0)	(114.3)	178%
Total equity	**681.2**	**880.4**	**77%**
Total equity, minorities and liabilities	**2,588.1**	**2,806.5**	**92%**

Lecico Egypt consolidated cash flow

Cash flow statement	9M		%
(LE m)	2019	2018	19/18
Cash Flow from operating activities			
Net Loss for the period	(203.0)	(21.5)	946%
Depreciation and translation adjustment	89.7	79.2	113%
Intangible assets amortization and translation adjustment	2.4	0.4	636%
Income tax expense	21.1	29.2	72%
Income tax paid	(36.6)	(11.2)	328%
Deferred income tax	1.2	(5.2)	-
Capital gains	0.8	(50.9)	-
Provided provisions and translation adjustment	5.4	25.6	21%
Reversal of expired provision	(0.1)	(0.1)	134%
Employee share in net profit	45.0	36.5	123%
Increase (Decrease) in minority interest	(6.1)	0.2	-
Increase (Decrease) in translation reserve	5.6	7.9	72%
(Increase) Decrease in Inventory	73.9	(31.4)	-
(Increase) Decrease in Receivables	70.8	(155.6)	-
Increase (Decrease) in Payables	30.1	66.4	45%
Utilized Provisions	(16.3)	(32.9)	50%
Difference result from discounting of long term notes receivables	2.7	(2.6)	-
Net cash from operating activities	**86.6**	**(65.9)**	**-**
Cash flow from investing activities			
Additions to fixed assets and projects	(48.8)	(68.5)	71%
Intangible assets	(0.7)	0.0	-
Net change in available for sale investments	1.2	(0.1)	-
Proceeds from sales of fixed assets	1.5	61.0	2%
Increase (Decrease) in long-term notes receivable	(11.1)	7.4	-
Net cash from investing activities	**(57.9)**	**(0.2)**	**-**
Cash flow from financing activities		0.0	
Increase (Decrease) in long-term loans	58.6	(15.0)	-
Increase (Decrease) in current portion of long term liabilities	6.8	(13.2)	-
Change in Other Short Term Liabilities	(2.3)	-	-
Employees Dividends paid	(48.5)	(35.7)	136%
Net cash from financing activities	**14.6**	**(63.9)**	**-**
Net change in cash & cash equivalent during the period	**43.3**	**(130.0)**	**-**
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	**(1,101.9)**	**(1,259.2)**	**88%**