



## Second Quarter 2023 Results

**Alexandria, 14<sup>th</sup> August 2023** – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for the second quarter 2023.

### Highlights

#### 2Q 2023

- Lecico revenue up 64% to LE 1,184.5 million (68.1% from sanitary ware).
- Sanitary ware revenue up 64% to LE 806.8 million, volumes down 21% to 1.03 million (77% exports).
- Tile revenue up 53% to LE 298.5 million, volumes up 1% to 4.2 million square meters (14.6% exports).
- Brassware revenue up 115% to LE 79.2 million, sales volume up 121% to 65,237 pieces.
- EBIT profit of LE 274.6 million compared to EBIT loss of LE 37.1 million in 2Q 2022.
- Net profit of LE 167.9 million compared to net loss of LE 60.6 million in 2Q 2022.

#### 1H 2023

- Lecico revenue up 63% to LE 2,401.2 million (66.4% from sanitary ware).
- Sanitary ware revenue up 73% to LE 1,594.8 million, volumes down 18% to 2.1 million pieces (74.2% exports).
- Tile revenue up 44% to LE 656.7 million, volumes down 3% to 9.8 million square meters (12.3% exports).
- Brassware revenues up 67% to LE 149.7 million, sales volume up 25% to 116,633 pieces.
- EBIT profit of LE 580.9 million compared to EBIT loss of LE 6.5 million in 2022.
- Net profit of LE 256.9 million compared to net loss of LE 31.3 million in 2022.

Lecico Egypt Chairman, Gilbert Gargour commented, “I am pleased to report a strong second quarter for 2023 where the devaluation of the Egyptian Pound and local and export price increases led to a significant increase in our profitability and margins.

“This quarter continues to show the same trend of price-led year-on-year improvement in revenues and margins seen in the first quarter of this year

“Lecico has worked hard to deliver this improvement in performance in the face of continued inflationary pressure and softening of demand in most markets. I am pleased to report a very strong improvement and bottom line for the first half of this year, but we will face an increased challenge in the second half of this year as we see demand cooling further and

expect to cut production levels accordingly. I thank you for your continued interest and support of Lecico.”

Taher Gargour, Lecico Egypt CEO, added, “The second quarter is continuation of the first quarter in that the main drivers of the strong improvement in results this quarter came from the devaluation coupled with price increases. However, the results for the quarter show some increased pressure from cooling demand squeezing revenues and core profitability compared to the first quarter of this year.

“Revenue for the quarter was up 64% year-on-year but down 3% on last quarter with continued price appreciation helping offset lower sales volumes and a reduction of production quarter-on-quarter further increasing unit costs.

“Demand in the quarter continued to be below the average seen for all of last year in volume terms with inflation affecting consumption in Egypt and our export business feeling some pressure from slowing markets in Europe and the Middle East. This softening of demand increased quarter-on-quarter and was compounded by pressures of Ramadan and Eid this quarter.

“Gross profit for the quarter was up 224% year-on-year but down 12% on last quarter. The gross profit margin has almost doubled year-on-year to read 37% but is down 4 percentage points on last quarter as average production and sales volumes fell by around 12% compared to the first quarter.

“Operating and net profit both continue to be strong with EBIT margin of 23% and a net profit margin of 14% compared to losses in the same period last year. Net profit shows a strong improvement over the first quarter of 2023 due to the operating expenses and large exchange variance losses incurred in Lebanon last quarter. In the first quarter, Lecico switched reporting in Lebanon to match IAS standards for hyperinflation using the official Sayrafa rate, which led to these additional expenses in that quarter. So far, this is only a management accounting exercise. Later this year, we expect to finalize audited hyperinflation accounts and we may have some further adjustments for 2023 and expect to restate 2022 results to finalize accounts at that time.

I am pleased to report a strong improvement in operating profits and a healthy bottom line for the quarter. As expected, the significant devaluation of the Egyptian Pound in the fourth quarter of 2022 and the first quarter of 2023 put us in a good position to build on the strong improvement seen in 2022.

“As we look ahead to the rest of 2023, we are seeing a significant weakening of demand in most of our markets. While we are working to offset this with new products, new customers and better penetration, I do expect sales to continue to fall in the quarters ahead.

“Our margins should reduce further in the second half as we will significantly cut production volumes to balance our stocks, which will put additional inflationary pressure on our unit product costs. Nonetheless, we aim to maintain a significant improvement in average margins over last year.

“In the second half of 2023, we are also focusing on inventory control and cash management to offset the growth in debt seen in the last few quarters as both finished goods and raw materials grew significantly and our balance sheet began to inflate on the back of the devaluation of the Pound.

“Lecico is in the middle of a very volatile trading period, but we are working hard to preserve this strong improvement in our financial results in the face of these uncertainties as the year progresses.”

## Lecico Revenue and Profitability

Profit and loss statement highlights						
(LE m)	2Q		%	1H		%
	2023	2022	23/22	2023	2022	23/22
Sanitary ware	806.8	490.9	164%	1,594.8	921.5	173%
Tiles	298.5	195.6	153%	656.7	457.6	144%
Brassware	79.2	36.8	215%	149.7	89.7	167%
<b>Sales</b>	<b>1,184.5</b>	<b>723.3</b>	<b>164%</b>	<b>2,401.2</b>	<b>1,468.8</b>	<b>163%</b>
Sanitary ware/sales (%)	68.1%	67.9%	0.2%	66.4%	62.7%	3.7%
Cost of sales	(744.9)	(587.5)	127%	(1,461.1)	(1,180.7)	124%
Cost of sales/sales (%)	(62.9%)	(81.2%)	(18.3%)	(60.9%)	(80.4%)	(19.5%)
<b>Gross profit</b>	<b>439.6</b>	<b>135.7</b>	<b>324%</b>	<b>940.1</b>	<b>288.1</b>	<b>326%</b>
Gross profit margin (%)	37.1%	18.8%	18.3%	39.1%	19.6%	19.5%
Distribution and administration (D&A)	(150.9)	(116.5)	129%	(300.7)	(213.8)	141%
D&A/sales (%)	(12.7%)	(16.1%)	(3.4%)	(12.5%)	(14.6%)	(2.0%)
Net other operating income/ (expense)	(14.1)	(56.3)	25%	(58.5)	(80.8)	72%
Net other operating income/ (expense) sales (%)	(1.2%)	(7.8%)	(6.6%)	(2.4%)	(5.5%)	(3.1%)
<b>EBIT</b>	<b>274.6</b>	<b>(37.1)</b>	-	<b>580.9</b>	<b>(6.5)</b>	-
EBIT margin (%)	23.2%	-	-	24.2%	-	-
<b>Net profit (loss)</b>	<b>167.9</b>	<b>(60.6)</b>	-	<b>256.9</b>	<b>(31.3)</b>	-
Net profit margin (%)	14.2%	-	-	10.7%	-	-

### 2Q 2023: Devaluation-driven recovery continues with LE167.9m net profit

Lecico reported a net profit of LE 167.9 million for the quarter as sanitary ware exports benefitted from a strong devaluation and all segments saw local margins improve with price increases more than covering the initial impact of inflation. All key profit lines showed a strong improvement on core operations.

Since the start of 2023, the switch to reporting Lebanon on the “Sayrafa” exchange rate and using hyper-inflation accounting treatment in line with IAS 21 and 29 also improved operating profit as COGs and overheads are now much closer to the real black market exchange rate on which the country and our subsidiary operate.

Lecico revenues for the second quarter increased by 64% year-on-year to reach LE 1,184.5 million (2Q 2022: LE 723.3 million) with higher prices driving up revenues in all segments. Local revenues were up 53% year-on-year to reach LE 454.3 million (2Q 2022: LE 296.3 million) and export revenues were up 71% year-on-year to reach LE 730.2 million (2Q 2022: LE 427 million).

Quarter-on-Quarter revenues decreased by 3% (1Q 2023: LE 1,216.7 million) as weakening demand and volume sales was partially offset by continued growth in prices. Local revenues decreased 14% quarter-on-quarter to reach LE 454.3 million (1Q 2023: LE 528.1 million) and exports increased 6% quarter-on-quarter to reach LE 730.2 million (1Q 2023: LE 688.7 million).

Lecico’s cost of goods sold increased by 27% year-on-year to LE 744.9 million (2Q 2022: LE 587.5 million).

Quarter-on-Quarter Lecico’s cost of goods sold increased by 4% (1Q 2023: LE 716.3 million) with lower sales and production volumes.

Lecico’s gross profit for the second quarter increased 224% year-on-year to LE 439.6 million (2Q 2022: LE 135.7 million) primarily on the back of price increases and devaluation driving a strong improvement in all segments. Lecico’s gross profit margin increased 18.3 percentage points to 37.1% compared to 18.8% in the same period last year.

Quarter-on-quarter gross profit decreased by 8% (1Q 2023: LE 350.7 million) and Lecico's gross margin decreased 4.5 percentage points (1Q 2023: 44.5%).

In absolute terms, distribution and administration (D&A) expenses increased by 29% to LE 150.9 million (2Q 2022: LE 116.5 million), but proportional D&A expenses were down by 3.4 percentage points to 12.7% (2Q 2022: 16.1%).

Quarter-on-quarter distribution and administration (D&A) expenses increased by 1% (1Q 2023: LE 149.8 million) and proportional D&A expenses were down by 0.4 percentage points (1Q 2023: 12.3%).

Lecico reported LE 14.1 million in net other operating expenses compared to net other operating expenses of LE 56.3 million in the same period last year. The higher other operating expense in the second quarter of 2022 is primarily due to exceptional one-off charges in the quarter.

Quarter-on-quarter Lecico reported LE 14.1 million in net other operating expenses compared to net other operating income of LE 44.3 million in 1Q 2022. The increase of net other operating expenses in the first quarter of 2023 was due to LE 44 million provisions taken against inventory in Lebanon.

Lecico EBIT profit of LE 274.6 million compared to EBIT loss of LE 37.1 million in 2Q 2022.

Quarter-on-quarter Lecico's EBIT profit dropped by LE 31.8 million (1Q 2023: LE 306.4 million) and the EBIT margin decreased 2 percentage points (1Q 2023: 25.2%).

Lecico reported LE 39.9 million in net financing expenses compared to net financing expenses of LE 2.6 million in the same period last year. This increase in financing expense is due to the increase in debt levels, interest rates and finance tools year-on-year.

Quarter-on-quarter Lecico reported LE 39.9 million in net financing expense compared to net financing expense of LE 129.3 million in 1Q 2023. This increase in financing expense in 1Q 2023 came from an LE 104 million exchange variance loss in Lebanon from applying hyperinflation (IAS 21 and 29) due the widening gap between official and functional exchange rates in Lebanon affecting the relative value of the outstanding balance which Lecico Lebanon owes Lecico Egypt.

Lecico reported net tax charge of LE 60.1 million in the second quarter versus tax charge LE 18.1 million in the same period last year.

Lecico reported net profit of LE 167.9 million in the second quarter compared to a net loss of LE 60.6 million in the same period last year.

Quarter-on-Quarter, Lecico's net profit grew 89% (1Q 2023: LE 89 million) with the margin improving 6.9 percentage (1Q 2023: 7.3%) primarily as a result of one-off charges in 1Q 2023 resulting from the switch to hyper-inflation accounting in Lebanon.

**1H 2023: A strong first half on the back of devaluation-led price increases**

Lecico revenues for the first half increased by 63% year-on-year to LE 2,401.2 million (1H 2022: LE 1,468.8 million) due to the increase in sales in all segments.

Lecico's cost of goods sold was up 24% year-on-year to LE 1,461.1 million (1H 2022: LE 1,180.7 million).

Gross profit increased by 226% to reach LE 940.1 million (1H 2022: LE 288.1 million) and the Company's gross profit margin was up 19.5 percentage points to 39.1% compared to 19.6% in the same period last year.

In absolute terms, distribution and administration (D&A) expenses increased by 41% to LE 300.7 million (1H 2022: LE 213.8 million), but proportional D&A expenses were down by 2 percentage points to 12.5% (1H 2022: 14.6%).

Lecico reported LE 58.5 million in net other operating expenses compared to net other operating expenses of LE 80.8 million in the same period last year. The higher other operating expense in the first half of 2022 is primarily due to exceptional losses incurred in the same period last year.

Lecico reported an EBIT profit of LE 580.9 million for the first half compared to an EBIT loss of LE 6.5 million in the same period last year.

Lecico reported LE 169.1 million in net financing expense compared to net financing income of LE 19.3 million in the same period last year. This increase in financing expense in 1H 2023 is partly due to the significant increase in interest rates and the growth in debt levels over last year. However, most of the increase in financing expenses came from the significant exchange variance loss in Lebanon from applying hyperinflation (IAS 21 and 29) in the first quarter of 2023.

Lecico reported net tax charge of LE 146.6 million versus a tax charge of LE 37.3 million in the same period last year.

Lecico reported net profit of LE 256.9 million compared to net loss of LE 31.3 million in the same period last year.

## Segmental analysis

### Sanitary ware

**2Q:** Sanitary ware sales volumes decreased by 21% (down 277,695 pieces). Local sales volumes decreased by 18% (down 50,944 pieces) and export sales volumes decreased by 22% (down 228,476 pieces), but Lebanon sales volumes increased by 21% (up 1,725 pieces).

Quarter-on-quarter total sales volumes decreased by 7% (down 77,641 pieces). Local volumes decreased 26% (down 81,053 pieces), export sales were flat at 791,000 pieces but sales in Lebanon increased 43% (up 3,020 pieces).

Average sanitary ware prices increased by 109% year-on-year at LE 785.8 per piece (2Q 2022: LE 376.4) following a series of price increases over the course of the year plus the impact of the significant devaluation on export prices. Quarter-on-quarter average prices increased by 10% (1Q 2023: LE 713.5).

Revenues were up 64% year-on-year at LE 806.8 million (2Q 2022: LE 490.9 million). Quarter-on-quarter revenues were up 2% (1Q 2023: LE 788 million).

Average cost of sales per piece increased by 46% year-on-year at LE 471.8 per piece due to significant inflation globally and locally particularly following the devaluation in the Egyptian Pound.

Quarter-on-quarter, the average cost of sales increased by 19% (1Q 2023: LE 396 per piece) with production volumes down 15% as a result of Ramadan and Eid holidays.

Gross profit increased 358% to LE 322.4 million (2Q 2022: LE 70.4 million) and the margin was up 25.6 percentage points to 40% (2Q 2022: 14.3%).

Quarter-on-quarter gross profit decreased by 8% (1Q 2023: LE 350.7 million) and the gross margin decreased by 4.5 percentage points (1Q 2023: 44.5%).

Sanitary ware segmental analysis	2Q		%	1H		%
	2023	2022		2023	2022	
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	226	277	82%	532	652	82%
Lebanon (000 pcs)	10	8	121%	17	19	90%
Export (000 pcs)	791	1,019	78%	1,581	1,930	82%
<b>Total sanitary ware volumes (000 pcs)</b>	<b>1,027</b>	<b>1,304</b>	<b>79%</b>	<b>2,131</b>	<b>2,601</b>	<b>82%</b>
Exports/total sales volume (%)	77.0%	78.1%	(1.1%)	74.2%	74.2%	0.0%
<b>Sanitary ware revenue (LE m)</b>	<b>806.8</b>	<b>490.9</b>	<b>164%</b>	<b>1,594.8</b>	<b>921.5</b>	<b>173%</b>
Average selling price (LE/pc)	785.8	376.4	209%	748.3	354.4	211%
Average cost per piece (LE/pc)	471.8	322.4	146%	432.5	303.6	142%
Sanitary ware cost of sales	(484.4)	(420.5)	115%	(921.7)	(789.6)	117%
<b>Sanitary ware gross profit</b>	<b>322.4</b>	<b>70.4</b>	<b>458%</b>	<b>673.1</b>	<b>131.9</b>	<b>510%</b>
Sanitary ware gross profit margin (%)	40.0%	14.3%	25.6%	42.2%	14.3%	27.9%

**1H:** Sanitary ware sales volume decreased by 18% to 2.1 million pieces (down 469,436 pieces). Egyptian volumes decreased 18% (down 119,140 pieces), export volumes decreased 18% (down 348,337 pieces) and sales in Lebanon decreased by 10% (down 1,960 pieces).

Average sanitary ware prices were up 111% year-on-year to LE 748.3 per piece (1H 2022: LE 354.4) because of price increases and the devaluation of the Egyptian Pound.

Revenues were up 73% year-on-year at LE 1,594.8 million (1H 2022: LE 921.5 million).

Average cost of sales increased 42% at LE 432.5 per piece. Sanitary ware production was 14% greater than in the first half of 2022.

Gross profit increased 410% to LE 673.1 million (1H 2022: LE 131.9 million) and the margin up 27.9 percentage points to 42.2% (1H 2022: 14.3%).

## **Tiles**

**2Q:** Tile sales volumes increased 1% year-on-year (up 23,211 square meters) to reach 4.2 million square meters. Export sales volumes increased 55% (up 219,646 square meters) and Lebanon sales increased 35% (up 22,656 square meters), but local sales volumes decreased 6% (down 219,091 square meters).

Quarter-on-quarter sales volumes decreased 25% (down 1.4 million square meters). Export volumes increased 4% (up 26,328 square meters), Lebanon volumes increased 1% (up 753 square meters), but local volumes decreased 29% (down 1.4 million square meters).

Average net prices per square meter increased by 52% year-on-year at LE 70.8 per meter (2Q 2022: LE 46.7) because of price increases and the impact of the devaluation on export prices. Quarter-on-quarter average prices increased by 11% (1Q 2023: LE 63.6).

Tiles revenues were up 53% year-on-year at LE 298.5 million (2Q 2022: LE 195.6 million). Quarter-on-quarter revenues were down 17% (1Q 2023: LE 358.3 million).

Average costs of sales increased by 43% year-on-year to reach LE 50.1 per square meter (2Q 2022: LE 35.1 per square meter). Tile production slightly increased by 0.4% compared to the same period last year

Quarter-on-quarter average costs increased by 14% (1Q 2023: LE 44). Tile production decreased by 8% quarter-on-quarter.

Gross profit for the quarter increased 81% to reach LE 87.5 million (2Q 2022: LE 48.4 million). Gross margin increased by 4.6 percentage points to 29.3% (2Q 2022: 24.7%).

Quarter-on-quarter gross profit decreased by 21% (1Q 2023: LE 110.4 million) and the gross margin decreased 1.5 percentage point (1Q 2023: 30.8%).

Tile segmental analysis	2Q		%	1H		%
	2023	2022		2023	2022	
			23/22			23/22
Tile volumes (000 sqm)						
Egypt (000 sqm)	3,509	3,728	94%	8,461	8,640	98%
Lebanon (000 sqm)	87	64	135%	173	124	139%
Export (000 sqm)	617	397	155%	1,208	1,358	89%
<b>Total tile volumes (000 sqm)</b>	<b>4,213</b>	<b>4,190</b>	<b>101%</b>	<b>9,842</b>	<b>10,123</b>	<b>97%</b>
Exports/total sales volume (%)	14.6%	9.5%	5.2%	12.3%	13.4%	(1.1%)
<b>Tile revenue (LE m)</b>	<b>298.5</b>	<b>195.6</b>	<b>153%</b>	<b>656.7</b>	<b>457.6</b>	<b>144%</b>
Average selling price (LE/sqm)	70.8	46.7	152%	66.7	45.2	148%
Average cost per sqm (LE/sqm)	50.1	35.1	143%	46.6	33.4	139%
Tile cost of sales	(211.0)	(147.2)	143%	(458.9)	(338.4)	136%
<b>Tile gross profit</b>	<b>87.5</b>	<b>48.4</b>	<b>181%</b>	<b>197.9</b>	<b>119.2</b>	<b>166%</b>
Tile gross profit margin (%)	29.3%	24.7%	4.6%	30.1%	26.0%	4.1%

**1H:** Tile sales volumes decreased by 3% year-on-year (down 281,196 square meters) to reach 9.8 million square meters. Sales in Egypt decreased 2% (down 179,786 square meters) and export sales decreased by 11% (down 150,370 square meters), but Lebanon sales increased by 39% (up 48,960 square meters).

Tiles revenues increased 44% year-on-year at LE 656.7 million in the first half of 2022 (1H 2022: LE 457.6 million).

Average net prices rose 48% to LE 66.7 per square meter compared to LE 45.2 in the same period last year.

Average costs increased 39% year-on-year to reach LE 46.6 per square meter due to cost cutting measures in Egypt offsetting the impact of inflation and devaluation. Production volume was 2% lower than the same period in 2022.

Gross profit increased 66% to reach LE 197.9 million (1H 2022: LE 119.2 million) and the margin increased by 4.1 percentage points to 30.1% (1H 2022: 26%).

## Brassware

**2Q:** Sales volumes for the second quarter of 2023 increased by 121% to reach 65,237 pieces (2Q 2022: 29,580 pieces). Quarter-on-quarter sales volumes increased by 27% (1Q 2023: 51,396 pieces).

Average net prices decreased 2% to LE 1,214.6 compared to LE 1,243.9 in the same period last year. Quarter-on-quarter average prices were down by 11% (1Q 2023: LE 1,370.9).

Revenue for the quarter increased 115% year-on-year to reach LE 79.2 million (2Q 2022: LE 36.8 million). Brassware accounted for 6.7% of the quarter's revenues, compared to 5.1% in the same period last year. Quarter-on-quarter revenues increased by 12% (1Q 2023: LE 70.5 million).

Average cost per piece increased 13% to LE 758.6 per piece (2Q 2022: LE 671.7 per piece) reflecting changing mix and inflation from local costs and the devaluation. Quarter-on-quarter average cost per piece decreased 26% (1Q 2023: LE 604.3 per piece).

Gross profit for the quarter increased by 76% year-on-year to reach LE 29.7 million (2Q 2022: LE 16.9 million), but the gross margin decreased 8.5 percentage points to 37.5% (2Q 2022: 46%). Brassware accounted for 6.8% of the quarter's gross profits compared to 12.5% in the same period last year.



Quarter-on-quarter gross profit decreased by 25% (1Q 2023: LE 39.4 million) and the gross margin decreased 18.4 percentage points (1Q 2023: 55.9%). Brassware accounted for 7.9% of gross profits in 1Q 2023.

Brassware segmental analysis	2Q		%	1H		%
	2023	2022		23/22	2023	
Brassware volumes ( pcs)						
Egypt ( pcs)	65,237	29,580	221%	116,633	93,502	125%
Export ( pcs)	-	0	0%	-	0	-
<b>Total brassware volumes ( pcs)</b>	<b>65,237</b>	<b>29,580</b>	<b>221%</b>	<b>116,633</b>	<b>93,502</b>	<b>125%</b>
Exports/total sales volume (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Brassware revenue (LE m)</b>	<b>79.2</b>	<b>36.8</b>	<b>215%</b>	<b>149.7</b>	<b>89.7</b>	<b>167%</b>
Average selling price (LE/pc)	1214.6	1243.9	98%	1283.5	959.1	134%
Average cost per piece (LE/pc)	758.6	671.7	113%	690.6	564.0	122%
Brassware cost of sales	(49.5)	(19.9)	249%	(80.5)	(52.7)	153%
<b>Brassware ware gross profit</b>	<b>29.7</b>	<b>16.9</b>	<b>176%</b>	<b>69.2</b>	<b>36.9</b>	<b>187%</b>
Brassware gross profit margin (%)	37.5%	46.0%	(8.5%)	46.2%	41.2%	5.0%

**1H:** Sales volumes for first half of 2023 increased by 25% year-on-year (up 23,131 pieces)

Average net prices increased 34% to reach LE 1,283.5 per piece and revenues increased 67% year-on-year to reach LE 149.7 million (1H 2022: LE 89.7 million).

Brassware's percentage of total consolidated revenues was 6.2% (1H 2022: 6.1% of sales).

Average cost per piece increased 22% to LE 690.6 per piece (1H 2022: LE 564 per piece) reflecting changing mix.

Gross profit increased 87% to LE 69.2 million (1H 2022: LE 36.9 million) and the margin increased 5 percentage points to 46.2% (1H 2022: 41.2%).

Brassware's percentage of total consolidated gross profits decreased to 7.4% (1H 2022: 12.8%) as improving profitability in other segments surpassed the growth in gross profits seen in brassware.

## **Financial Position**

The value of Lecico's non-current assets increased by 3% at the end of June 30, 2023, to reach LE 2,062 million (2022: LE 2,009 million)

Total Equity increased 9% at the end of June 30, 2023, to reach LE 2,005.9 million (2022: LE 1,843.1 million).

The value of Lecico's current assets increased by 23% at the end of June 30, 2023, to reach LE 3,308.4 million (2022: LE 2,686.2 million) as receivables and inventories of finished goods and materials increased and their prices also rose because of the devaluation of the Pound and continued inflation.

Total liabilities increased by 18% to reach LE 3,302.5 million (2022: LE 2,795 million) as debt grew and payables rose.

Gross debt increased 21% or LE 274.7 million to reach LE 1,560.6 million compared to LE 1,285.9 million at the end of 2022.

Net debt increased 59% or LE 461.6 million to reach LE 1,249.5 million compared to LE 787.9 million at the end of 2022.

Net debt to equity at the end of June 2023 reached 0.62x compared to 0.43x at the end of 2022.

Working capital increased 55% or LE 669 million to reach LE 1,882.7 million compared to LE 1,213.6 million at the end of 2022.

## Recent developments and outlook

**Outlook for 3Q and the rest of 2023:** Lecico Egypt's margin has increased significantly as the Company saw the devaluation and annual price increases in export drive up sanitary ware profitability and local price increases continue to protect the margin from the corresponding high inflation.

Overall, the Egyptian Pound has weakened 55% against the dollar since October 2022 and the market is expecting further devaluation towards the end of the year or in 2024. Lecico has passed on all currency related costs in Egypt and is benefitting from the devaluation in Exports.

This improvement in profitability is now facing pressure from cooling demand across most markets which is expected to squeeze Lecico's revenue and drive up costs as the Company cuts production to manage working capital. At the same time, high inflation in Egypt and increased interest rates will also put pressure on the Company's profitability.

Demand in Egypt and Europe continues to weaken and Lecico estimates a continued reduction in sanitary ware sales volumes in the quarters ahead in both Egypt and Europe as markets struggle with inflation and higher interest rates squeezing spending power. Already in the first half, volumes are down almost 20% year-on-year and we expect this to continue or accelerate over the rest of the year.

The Company is also seeing increased competition in European markets as China tries to recapture the market share it lost during its Covid lock down and shipping rates have come back to early 2021 levels, reducing the competitive advantage Lecico had over peers from more distant markets.

Although this combination of a squeeze on sales volumes and a reduction of production volumes will drive down margins from current levels in the coming quarters, Lecico expects to maintain a significant improvement in margins over 2022 in the quarters ahead and for the year as a whole.

**Lecico Lebanon restructuring update:** The crisis in Lebanon continues to make the market extremely unpredictable and limits activity. Trading in Lebanon is improved over last year in volume terms and prices reflect the devaluation in Egypt, so revenues are significantly improved. Nonetheless, Lebanon's macroeconomic and political outlook remains extremely uncertain, and sales volumes are a fraction of the levels seen before the current economic crisis.

Lecico Lebanon is continuing to survive these challenges with limited sales being enough to keep the company cash flow positive and operational as we wait for the economic situation to improve.

**Management Accounts switched to hyper-inflation accounting:** In 1Q 2023, Lecico Lebanon management has switched to hyper-inflation accounting using IAS 21 and 29 and the "Sayrafa" exchange rate. This means all assets have been restated in Lebanese Pounds based on the impact of hyper-inflation and the P&L and balance sheet are translated at the "Sayrafa" rate as opposed to the official exchange rate. At time of publishing the "Sayrafa" rate was LBP 90,000 to the dollar instead of the official exchange rate which was LBP 1,500 to the dollar in 2022.

This has meant that despite several years of triple-digit inflation in Lebanon, there is a significant change in asset values and those assets and liabilities held in foreign currency have proportionately increased significantly. It also means that on the P&L, Lebanese costs and overheads are now much lower in EGP reflecting something close to current trading reality. In 2022, this mismatch was balanced by very high exchange gains in Lebanon as these accounting mismatches had to square with the real earnings. This will not continue in 2023.

In 2023, management expect to formalize this new treatment with the auditors which may lead to adjustments or restatements when these management accounts are audited. Management

understands that this will also lead to some restatement of past years as IAS rules calls for adjustment back to the beginning of hyperinflation in the economy. In due course, this should also lead to the removal of all the qualifications to Lecico Egypt's consolidated accounts that stem from not using hyper-inflation accounting and following IAS 21 and 29.

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 manufacturing base in Egypt. 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 (LE m)	2Q		%	1H		%
	2023	2022		2023	2022	
<b>Sales</b>	<b>1184.5</b>	<b>723.3</b>	<b>164%</b>	<b>2,401.2</b>	<b>1,468.8</b>	<b>163%</b>
Cost of sales	(744.9)	(587.5)	127%	(1,461.1)	(1,180.7)	124%
<b>Gross profit</b>	<b>439.6</b>	<b>135.7</b>	<b>324%</b>	<b>940.1</b>	<b>288.1</b>	<b>326%</b>
Gross margin (%)	37.1%	18.8%	18.3%	39.1%	19.6%	19.5%
Distribution expenses	(72.9)	(55.7)	131%	(151.0)	(104.8)	144%
Administrative expenses	(78.0)	(60.9)	128%	(149.7)	(109.0)	137%
Other Operating income	32.3	11.2	289%	65.7	31.0	212%
Other Operating expenses	(46.5)	(67.5)	69%	(124.1)	(111.9)	111%
<b>Operating profit (EBIT)</b>	<b>274.6</b>	<b>(37.1)</b>	<b>-</b>	<b>580.9</b>	<b>(6.5)</b>	<b>-</b>
Operating (EBIT) margin (%)	23.2%	-	-	24.2%	-	-
Finance income	0.0	28.2	-	0.0	66.8	-
Finance expense	(39.9)	(30.8)	130%	(169.1)	(47.4)	357%
<b>Profit before tax and minority (PBTM)</b>	<b>234.7</b>	<b>(39.7)</b>	<b>-</b>	<b>411.8</b>	<b>12.8</b>	<b>3218%</b>
PBTM margin (%)	19.8%	-	-	17.1%	0.9%	16.3%
Income tax	(60.0)	(19.9)	301%	(146.3)	(39.6)	369%
Deferred tax	(0.1)	1.9	-	(0.4)	2.4	-
<b>Net profit (loss) after tax (NPAT)</b>	<b>174.6</b>	<b>(57.8)</b>	<b>-</b>	<b>265.2</b>	<b>(24.5)</b>	<b>-</b>
NPAT margin (%)	14.7%	-	-	11.0%	-	-
Employee profit participation	0.0	0.0	-	0.0	0.0	-
<b>Net (Loss) profit before minority interest</b>	<b>174.6</b>	<b>(57.8)</b>	<b>-</b>	<b>265.2</b>	<b>(24.5)</b>	<b>-</b>
Minority interest	(6.7)	(2.8)	245%	(8.3)	(6.8)	122%
<b>Net profit</b>	<b>167.9</b>	<b>(60.6)</b>	<b>-</b>	<b>256.9</b>	<b>(31.3)</b>	<b>-</b>
Net profit margin (%)	14.2%	-	-	10.7%	-	-

## Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	30-Jun-23	31-Dec-22	23/22 (%)
Cash	311.1	498.0	62%
Inventory	1,796.9	1238.2	145%
Receivables	1199.0	949.8	126%
Related parties -debit balances	1.5	0.3	440%
<b>Total current assets</b>	<b>3,308.4</b>	<b>2,686.2</b>	<b>123%</b>
Net fixed assets	1,980.7	1,985.5	100%
Intangible assets	13.1	10.9	120%
Projects in progress	68.1	12.1	564%
Available for sale investments	0.0	0.0	95%
Long-term notes receivable	0.2	0.5	40%
<b>Total non-current assets</b>	<b>2,062.1</b>	<b>2,009.1</b>	<b>103%</b>
<b>Total assets</b>	<b>5,370.5</b>	<b>4,695.3</b>	<b>114%</b>
Banks overdraft	1,531.3	1,247.3	123%
Current portion of long-term liabilities	49.6	46.8	106%
Trade and notes payable	548.2	505.7	108%
Other current payable	565.0	468.6	121%
Related parties -credit balances	0.7	0.0	2564%
Provisions	59.2	48.92	121%
<b>Total current liabilities</b>	<b>2,754.0</b>	<b>2,317.3</b>	<b>119%</b>
Long-term loans	0.6	8.2	8%
Other long-term liabilities	86.9	71.5	121%
Provisions	12.2	21.3	57%
Deferred tax	111.7	110.9	101%
Long Term Notes Payables	337.1	265.6	127%
<b>Total non-current liabilities</b>	<b>548.5</b>	<b>477.6</b>	<b>115%</b>
<b>Total liabilities</b>	<b>3,302.5</b>	<b>2,795.0</b>	<b>118%</b>
<b>Minority interest</b>	<b>62.1</b>	<b>57.3</b>	<b>108%</b>
Issued capital	400.0	400.0	100%
Reserves	1,745.2	1,813.9	96%
Retained earnings	(370.8)	(367.6)	101%
Net profit (Loss) for the period / year	256.9	(3.2)	-
<b>Total equity</b>	<b>2,005.9</b>	<b>1,843.1</b>	<b>109%</b>
<b>Total equity, minorities and liabilities</b>	<b>5,370.5</b>	<b>4,695.3</b>	<b>114%</b>

## Lecico Egypt consolidated cash flow

Cash flow statement (LE m)	1H		%
	2023	2022	23/22
<b>Cash Flow from operating activities</b>			
Net Profit for the period before tax	411.8	12.8	3218%
Fixed assets depreciation	56.0	54.7	103%
Intangible assets amortization	1.1	0.2	674%
Finance Expenses	105.4	46.9	225%
Capital gains (loss)	(2.4)	26.4	-
Finance interser of Leases	2.0	0.5	383%
Increase (Decrease) in translation reserve	(259.2)	32.2	-
<b>Gain from operating</b>	<b>314.7</b>	<b>173.6</b>	<b>181%</b>
(Increase) Decrease in Inventory	(499.2)	(117.0)	427%
(Increase) Decrease in Receivables	(133.5)	(148.4)	90%
Increase (Decrease) in Payables	98.8	93.6	106%
Change in Provisions	15.0	1.4	1062%
	<b>(204.2)</b>	<b>3.2</b>	<b>-</b>
Intersets Paid	(107.4)	(47.4)	227%
Income tax paid	(33.9)	(47.0)	72%
<b>Net cash (used in) operating activities</b>	<b>(345.5)</b>	<b>(91.2)</b>	<b>379%</b>
<b>Cash flow from investing activities</b>			
Additions to fixed assets and projects	(74.9)	(45.7)	164%
Proceeds from sales of fixed assets	2.4	18.3	13%
<b>Net cash (used in) investing activities</b>	<b>(72.5)</b>	<b>(27.5)</b>	<b>264%</b>
<b>Cash flow from financing activities</b>			
Payments for loans & borrowing	(18.8)	(5.7)	328%
Payment for leased assets	(8.8)	(2.5)	353%
Payments for purchasing treasury shares	(25.4)	-	-
Bank credit facilities	284.1	234.7	121%
<b>Net cash provided from financing activities</b>	<b>231.1</b>	<b>226.5</b>	<b>102%</b>
<b>Net change in cash &amp; cash equivalent during the period</b>	<b>(186.9)</b>	<b>107.9</b>	<b>-</b>
Cash and cash equivalent at beginning of the period	468.0	132.1	354%
Restricted time deposit	30.0	(30.0)	-
<b>Cash and cash equivalent at the end of the period</b>	<b>311.1</b>	<b>210.0</b>	<b>148%</b>