

Agthia Group PJSC



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Agenda

| Subsidy Rationalization

| 2016 and 17 Outlook

Flour and Animal Feed Subsidy

WHAT WAS IT?

- Introduced in July 2007 by Abu Dhabi Government to protect public against increasing grain prices
- Some Flour and Animal Feed product prices frozen in the Emirates of Abu Dhabi
- Subsidy paid retroactively based on the difference between free market price (Northern Emirates) and frozen prices (Abu Dhabi)
- In Flour Agthia was the only enterprise eligible for subsidy (only Flour mill in Abu Dhabi)
- In Animal Feed, there was one more enterprise with eligibility
- Exports, trading, and sales outside Abu Dhabi were exempt from subsidy



Subsidy Rationalization Flour

- No impact on exports, trading and Northern Emirates business, which were out of subsidy mechanism – approx. 25% of volume
- No impact on sales through Municipality and SKF outlets, where subsidy continues (indefinitely) – approx. 8% of volume
- No impact on sales thru Bakeries until Sep 2017 when subsidy will be reduced by half. In Sep 2018 subsidy will be withdrawn fully. Approx. 35% of volume
- Subsidy is removed in full, effective September 2016 on sales thru retail, traders, and catering channels – approx. 32% of volume
 - **Retail** channel represents approx. 25% of this segment
 - We increased our net prices (around 50%)
 - We expect up to 50% volume loss – approx. 1 thousand tons per month
 - **Traders and catering** represent approx. 75% of this segment
 - We kept our prices close to subsidized levels thanks to mitigating actions (see relevant slide)
 - We don't expect major volume loss.
- Impact on gross margin is expected to be approx. negative 600-700 basis points in 2017 vs. 2016.



Subsidy Rationalization

Animal Feed

- No impact on exports, trading, Northern Emirates, and concentrated pellet (tender) sales to government, which were out of subsidy mechanism – approx. 20% of volume
- No impact on sales through Commercial Farms, where subsidy continues (indefinitely) – approx. 20% of volume
- Subsidy is removed in full, effective July 2016 on sales thru Distributors and Municipality – approx. 60% of volume
 - We increased our net prices 15% on average
 - We expect up to 30% volume loss here – approx. 9 thousand tons per month
- We expect approx. 150-200 basis points lower gross margin in 2017 vs. 2016.



Subsidy Rationalization

- Always expected but not this soon
- Had our action plans ready for immediate deployment
- Thanks to the effectiveness of these plans, impact of subsidy change on combined agri business (flour and animal feed) gross margin is estimated to be negative 350-400 basis points in 2017 versus 2016
- With consumer businesses taking more share in group revenue mix with much higher margins, impact reduces to negative 100 basis points on group gross margin



Mitigating actions

- Price increases
- Cost optimization – manufacturing and administrative
- Launch of value range products
 - Reformulated products matching competitor products' specs
 - Low cost, low price
- B2B Loyalty programs
- Product diversification– new specialty flour like Tanoor, pasta, biscuit flour
- Geographic diversification – new flour markets like Bahrain, Oman, Qatar, KSA; East Africa exports



Agthia is not only Flour and Animal Feed

- 45% of our business comes from water, juice, dairy and emerging businesses
- 78% of the growth is attributable to non-agri segments
 - 12% out of 15% revenue growth in 1H16
 - Driver of 2020 \$1 billion target
- Investment goes on:
 - New products, ATL/BTL support
 - M&A, Infrastructure expansion



2016 Outlook and 2017 Guidelines

Top and bottom line growth ahead of peers

2016 Outlook

- Revenue growth 7-8%
- Net income growth 8-9%
- CAPEX AED 150-190m
- Working capital 25-26% of NR

2017 Guidelines

- Revenue growth 6-7% (Consumer: 12-15%)
- Net income growth 7-8% (Consumer: 35-40%)
- CAPEX AED 110-140m
- Working capital 26-27% of NR

Excludes potential M&A. We are aiming to secure one acquisition in 2016.



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Thank you.



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