



Domty Reports 22% Y-o-Y Growth in Revenues to EGP 1702.4mn during 2016; Bottom-line weighed down by Forex Losses and success in market share expansion

Highlights of 4Q16

Revenues

EGP 462.7mn, up 30.5% y-o-y

Gross Profit

EGP 61.5mn, down36.1% y-o-y

Gross Profit Margin

13.29%

Operating Profit

EGP -20.13mn, down139.2% y-o-y

Net Income

EGP -29.31mn, down193.6% y-o-y

Net Profit Margin

-6.3 %

Highlights of FY2016

Revenues

EGP 1,702.4mn, up 22% y-o-y

Gross Profit

EGP 335.5mn, down8% y-o-y

Gross Profit Margin

19.7%

Operating Profit

EGP 80.3mn, down 61% y-o-y

Net Income

EGP 25.6mn, down 80% y-o-y

Net Profit Margin

1.5%

Cairo, 3 April 2017

Arabian Food Industries Company DomtyS.A.E. (DOMT.CA on the Egyptian Exchange), Egypt's largest cheese manufacturer by market share, announced today its consolidated results for the year 2016, reporting a strong revenue growth of 30.5% year-on-year to 462.7 million in 4Q16. Gross profit came in at EGP 61.5 million, down 36.1 % year-on-year compared to 4Q15, with a net loss of 29.31 million in 4Q16 compared with a profit of 31.3 million in the same period of 2016.

This comes as a result of the sudden and sharp increase in the cost of the imported materials resulting from the devaluation of the Egyptian pound against the dollar after the CBE decision to liberalize the exchange rate and with the company's decision to gradually raise its selling prices.



Commenting on the quarter's performance, Domty Vice Chairman Mr. Mohamed Omar El Damaty said: "the results of the company in the fourth quarter of 2016 were influenced by the decision of the Central Bank of Egypt (CBE) to liberalize the exchange rate on November 3, 2016. The official exchange rate of the dollar rose 65% on that day compared to the previous day to reach 14.65 pounds according to the data of the CBE and on the next working day the official exchange rate of the dollar continued to rise to reach 16.22 pounds with 84% increase compared to the last working day before liberalizing the exchange rate, and continued to rise to reach 19.56 pounds on December 20, 2016, an increase of 122%. And then the year closed at 18.41 pounds."

The results were also affected by the decision to raise interest rates by 300 basis points, preceded by several interest rate increases on lending by another 300 basis points, bringing the increase to 600 basis points in less than twelve months period. The interest rates (Daily Interbank) were 8.883% On November 3, 2015 climbed to 14.962% On November 3, 2016 with an increase of 68.5% according to CBE data, this came after a period when the banking authorities were keen to provide the needs of the food and medicine sectors of the dollar at a price of around 8.88 pounds, which lasted until May 2016, then stopped abruptly.

The company has increased its frequency in adjusting its price increases to comply with the sharp increase in the foreign exchange rate taking into account its commitment to keep its market share growing which put pressure on the profitability in the short run.

The following table shows the increase in the average prices of the company's products during the year 2016:

Products	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Average Pricing: EGP per kilo					
Cheese /Carton Pack	10.93	10.84	11.02	12.47	15.87
Price index	Base	0.99	1.01	1.14	1.45
Cheese /Plastic Tub	16.47	16	16.86	18.27	23.78
Price index	Base	0.97	1.02	1.11	1.44
Mozzarella Cheese	38.85	38.13	38.89	39.65	51.21
Price index	Base	0.98	1	1.02	1.32
Juice	5.43	5.38	4.96	5.77	6.07
Price index	Base	0.99	0.91	1.06	1.12

Revenues from all of Domty's cheese products totaled EGP 402.2 million in 4Q16, up 32.5% y-o-y compared to the EGP 303.6 million recorded in 4Q15. Meanwhile, juice segment revenues came in at EGP 60.5 million during the fourth quarter of 2016, up 19% y-o-y compared to the same period last year. On a twelve-month basis, cheese revenues posted EGP 1,467 million in 2016, up 25.4% y-o-y. Revenues from the juice segment came in at EGP 235.4 million in 2016, up 2.4% y-o-y.

At the cost of goods sold level, Domty faced inflationary pressures owing to the prevailing macroeconomic environment particularly with regards to the weakening of the Egyptian pound. Overall, COGS recorded EGP 401.2 million in 4Q16, up 55% y-o-y and with a COGS/Sales ratio of 86.7% versus 72.8% in the same period last year.



On a yearly basis, COGS posted EGP 1.37 billion in 2016 with a COGS/Sales ratio of 80.3% versus 73.82% in 2015. Netting out the effect of Domty's savings on direct materials purchases from the incurred costs related to Egyptian pound's weakening, saw the company's COGS inflated by EGP 170 million during in 2016.

Gross profit for the three month period declined by 36% y-o-y in 4Q16 to EGP 61.5 million, with a gross profit margin of 13.3%. Meanwhile, gross profit in 2016 recorded EGP 335.5 million, with a gross profit margin of 19.7% versus 26.2% in 2015.

SG&A expenses reached EGP 83.9 million in 4Q16, up 77% y-o-y representing 18.1% of total revenues compared to 13.3% during the same period of last year on account of increased marketing and advertising spending (up by EGP 9 million) as well as increase in depreciation (up by EGP 4.6 million mainly distribution vehicles) and by higher wages and salaries (up by EGP 11.8 million) mainly due to adding new direct distribution networks. On a yearly basis, the company incurred SG&A expenses of EGP 275.7 million in 2016, up 59.8% y-o-y owing to several factors, namely higher marketing and advertising spend by EGP 29.6 million; salaries and wages increase of EGP 48 million, increase in stores rent of EGP 3 million; increased in SG&A depreciation of EGP 8.5 million and; increased distribution costs by EGP 5 million owing to the company's strategy of reducing its dependence on third-party selling agents. Overall, SG&A as a percentage of sales recorded 16.2% in 2016 compared to 12.3% in 2015.

EBITDA for 2016 was EGP 127 million, equivalent to an EBITDA margin of 7.5%, compared to EGP 239.4 million in last year with a 17.1% margin.

Domty recorded interest income of EGP 5.9 million in 4Q16 (EGP 17.8 million during 2016) compared to EGP zero million in 4Q15 (0.26 million during 2015). The sharp increase comes on the back of interest gained on cash balances related to the company's recent capital increase.

Domty posted a bottom-line of EGP 25.6 million in 2016, down 80% y-o-y and with a net profit margin of 1.5% versus 9.2% in 2015.

It should be noted that the financial statements of the Company were prepared by applying the amendments to the Egyptian accounting standard number 13 (Appendix A) "Effects of changes in foreign exchange rates" which partially absorbed the negative impact of the revaluation of the account balances denominated in foreign currencies at the new exchange after the CBE decision.

In conclusion, El Damaty said: "We view the recent float of the Egyptian pound as a step in the right direction that will reflect positively on our business in the medium and long term. We remain confident in the fundamentals of our market, with consumer demand strong enough to absorb over time the anticipated inflationary pressure and with room for increased production capacity and new product initiatives. We have already increased our prices by some 30% starting 4Q16 to better reflect the reality of a flexible exchange rate, aiming to gradually restore the company's profit margin back to its normal rate during the coming period.

In order to focus on this objective, the company decided to postpone the introduction of new products in the local market until the foreign exchange rates become stable and the Company is studying now opportunities



forexpansion in Ethiopia, as the Chairman visited Ethiopia recently and he met a number of senior officials there and is in the process of preparing the feasibility study to be introduced to the board.

Segment breakdowns along with summary financial statements and market share analysis follow. Complete financial statements can be downloaded at ir.domty.org

I. Capacity Additions

Segment (tons/annum)	2015	2016	% change
<i>Cheese</i>			
Carton Pack	147,169	187,969	27.72%
Plastic Tub	20,400	20,400	-
Mozzarella	6,000	6,000	-
Spreadable	1,800	1,800	-
Total Cheese	175,369	216,169	23.27%
<i>Juice</i>			
1 Liter	17,000	17,000	-
250 ml	48,000	84,000	75.00%
Total Juice	65,000	101,000	55.38%
Total Capacity	240,369	317,169	31.95%



II. Segment Analysis

Revenues by Segment	4Q15	4Q16	% change	2015	2016	%change
Carton Pack						
Total Volumes Sold (k tons)	22.1	20.4	-7.69%	84.5	95.3	12.78%
Revenues (EGP mn)	242.3	324.3	33.84%	919.3	1181.2	28.49%
% of Total Revenues	68.35%	70.09%		65.66%	69.38%	
Gross Profit (EGP mn)	65.1	30.2	-53.61%	235.3	215	-8.63%
Gross Profit Margin	26.87%	9.31%		25.60%	18.20%	
Plastic Tub						
Total Volumes Sold (k tons)	2.2	1.9	-13.64%	8.96	9.2	2.68%
Revenues (EGP mn)	35.5	45.4	27.89%	147.7	169.4	14.69%
% of Total Revenues	10.01%	9.81%		10.55%	9.95%	
Gross Profit (EGP mn)	10.5	11.9	13.33%	46	47.1	2.39%
Gross Profit Margin	29.58%	26.21%		31.14%	27.80%	
Mozzarella						
Total Volumes Sold (k tons)	0.56	0.54	-3.57%	2.2	2.5	13.64%
Revenues (EGP mn)	21.6	27.8	28.70%	84.5	102.2	20.95%
% of Total Revenues	6.09%	6.01%		6.04%	6.00%	
Gross Profit (EGP mn)	8.3	9.2	10.84%	31.2	38.8	24.36%
Gross Profit Margin	38.43%	33.09%		36.92%	37.96%	
Spreadable						
Total Volumes Sold (k tons)	0.1	0.1	0.00%	0.45	0.34	-24.44%
Revenues (EGP mn)	3.1	3.94	27.10%	12.6	11	-12.70%
% of Total Revenues	0.87%	0.85%		0.90%	0.65%	
Gross Profit (EGP mn)	1	0.81	-19.00%	3.7	2.4	-35.14%
Gross Profit Margin	32.26%	20.56%		29.37%	21.82%	
By-Product						
Total Volumes Sold (k tons)	0.3	0.18	-40.00%	1.05	0.84	-20.00%
Revenues (EGP mn)	1.1	0.78	-29.09%	6.2	3.2	-48.39%
% of Total Revenues	0.31%	0.17%		0.44%	0.19%	
Gross Profit (EGP mn)	-0.13	0.04	-130.77%	0.63	0.2	-68.25%
Gross Profit Margin	-11.82%	5.13%		10.16%	6.25%	
Total Cheese Segment						
Total Volumes Sold (k tons)	25.26	23.12	-8.47%	97.16	108.18	11.34%
Revenues (EGP mn)	303.6	402.22	32.48%	1170.3	1467	25.35%
% of Total Revenues	85.64%	86.93%		83.59%	86.17%	
Gross Profit (EGP mn)	84.8	52.2	-38.44%	316.7	303.5	-4.17%
Gross Profit Margin	27.93%	12.98%		27.06%	20.69%	
Juice Segment						
Total Volumes Sold (k tons)	9.5	10	5.26%	44.2	43	-2.71%
Revenues (EGP mn)	50.9	60.5	18.86%	229.8	235.4	2.44%
% of Total Revenues	14.36%	13.07%		16.41%	13.83%	
Gross Profit (EGP mn)	11.5	9.3	-19.13%	49.7	32	-35.61%
Gross Profit Margin	22.59%	15.37%		21.63%	13.59%	



III. Consolidated Income Statement

(EGP mn)	2015	2016	Change %
Net Sales	1,400.10	1,702.40	22%
Cost of Sales	-1,033.70	-1366.9	32%
Gross Profit	366.40	335.50	-8%
<i>Gross Profit Margin</i>	<i>26.2%</i>	<i>19.71%</i>	<i>-6.49 point</i>
Sales & Marketing Expenses	-151.7	-238	57%
General & Administrative Expenses	-20.8	-37.7	81%
Total SG&A	-172.5	-275.7	60%
Other Income (Expenses)	15.5	20.7	34%
Provisions (including reversals)	-1.9	-0.17	-91%
Operating Profits	207.50	80.33	-61%
<i>Operating Profit Margin</i>	<i>14.8%</i>	<i>4.72%</i>	<i>-10.08 point</i>
Net Interest Expense	-35	-44.1	26%
FX Gains (Losses)	-7.2	-19.3	169%
Finance income	0.2	17.7	8750%
Net Profit Before Tax	165.4	34.69	-79%
Income Tax	-36.7	-9.11	-75%
Net Profit	128.80	25.58	80%
<i>Net Profit Margin</i>	<i>9.20%</i>	<i>1.50%</i>	<i>-7.7point</i>
EBITDA	239.4	127	-47%
<i>EBITDA Margin</i>	<i>17.10%</i>	<i>7.50%</i>	<i>-9.6 point</i>



IV. Consolidated Balance Sheet

(EGP mn)	2015	2016
Cash & Equivalents	28.1	288.3
Inventory	164.9	274
Receivables	243.3	371.2
Prepayments & Other Receivables	90	171.5
Total Current Assets	526.3	1105
PP&E (Net)	188.5	353.5
Projects Under Construction	20.2	175
Total Non-Current Assets	208.7	528.5
Total Assests	735	1633.5
Short-Term Debt	316.1	798.6
CPLTD	11.5	12
Machine Installments – CP	22.6	50
Payables	78.8	97.3
Provisions	12	12.6
Accruals & Other Payables	29.3	40.8
Income Tax Payable	38	6.1
Total Current Liabilities	508.3	1017.4
LT Debt	26.8	14.9
Machine Installments – LT	17.6	76.8
Sales Tax on Machines & Equipment	5.5	4.5
LT Notes Payable	0.4	0.3
Deferred tax liabilities	18	21
Total Non-Current Liabilities	68.3	117.5
Total Equity	158.4	498.6
Total Equity & Liabilities	735	1633.5



V. Market share analysis

According to Nielsen:

The market share by **volume** for the total cheese market including unbranded which carton pack is the major element representing 80%

	Last 6 months 2016	Dec 2016	Jan 2017
Total Domty	33%	33.30%	33.30%
Domty	28.10%	29.40%	30.00%
Gebnety	4.40%	3.50%	2.90%
Damo	0.50%	0.40%	0.40%
Obour land	29.40%	29.30%	29.40%
Arab dairy	5.30%	5.10%	5.10%

The market share by **value** for the total cheese market including unbranded.

	Last 6 months 2016	Dec 2016	Jan 2017
Total Domty	31%	31.70%	32.10%
Domty	27.20%	28.60%	29.50%
Gebnety	3.40%	2.80%	2.20%
Damo	0.30%	0.30%	0.30%
Obour land	29.00%	29.40%	29.20%
Arab dairy	4.90%	4.70%	4.70%

**According to RetailZoom :**

RetailZoom is a new retail audit company founded in 2011 with operations in Egypt started Q4 2016 working on a similar panel size as Nielsen.

They launched last December and had been appreciated by many players including EDITA, TETRAPACK, LACTALIS (PRESIDENT), Arab Dairy and DANONE and more to come.

Total volume/value share:

	Dec.2016 Volume/Value	Jan.2017 Volume /Value
Total Domty	39.8% / 39.5%	39.6% / 39.2%
Domty	37.1% / 37.3%	36.9% / 37.1%
Gebnety	2.1% / 1.7%	2.1% / 1.6%
Damo	0.6% / 0.5%	0.6% / 0.5%
Obour land	32.6% / 33.6%	32.3% / 33.2%
Arab dairy	5.6% / 4.6%	5.6% / 4.6%

About Arabian Food Industries Company Domty S.A.E.

Domty, founded in 1988 and headquartered in Egypt, is a leader in the growing Egyptian cheese and juice market. The Company manufactures, markets and distributes a range of branded white and processed cheeses and juice products, with a family of nearly 200 SKUs under a brand portfolio including Domty, Damo, Gebnety and Bravo. Domty is a household name and the number-one cheese producer in the nation by market share. The Company sells to tens of thousands of retail and business customers as well as to more than 35 export destinations. Learn more about Domty by visiting ir.domty.org.

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