

# Chairman's statement



**Sultan bin Mohammed bin Saud Al Kabeer**  
Chairman

On behalf of the Board of Directors, it is my pleasure to introduce Almarai's 2019 Annual Report. Over the past year the Company has built on its dynamism, strengthening its ability to overcome challenges and seize the opportunities available to it. We are in an exciting phase of the 2025 journey, and the pages that follow will provide a clear picture of the achievements we have delivered in the last twelve months.

## Our operating environment

The global economy remains a challenging environment to do business, with headwinds for trade putting pressure on growth around the world. The MENA and GCC regions are not immune to these difficulties, making it incumbent on a business of Almarai's size and sophistication to remain strategically agile. Cost pressures in our home market of Saudi Arabia – and in the wider region – continue to weigh on growth in the Food & Beverage sector, while shifting consumer behaviours require innovation to maintain a competitive advantage.

Short term GDP forecasts for MENA are mostly modest, as oil-importing economies seek to manage down the pressure of high public debt while stimulating private sector growth. Oil-exporting countries continue to pursue diversification, which will attract foreign direct investment and generate better productivity. After a record national budget in 2019, Saudi Arabia continues to forge ahead with the ambitious Vision 2030 programme and this year will host the G20 summit for the first time – an exciting milestone for the Kingdom's increasingly prominent place on the world stage.

### A sustainable business

In our mission to build a genuinely sustainable business, we have reformulated our sustainability framework, which now focuses on three key pillars, having previously comprised six. The pillars address the issues that matter most to us: caring for people, protecting the planet, and producing responsible products. With this framework in mind, we are confident that the impact of our business on the world around it will be positive – and supportive of our long term viability.

Highlights in 2019 included our ongoing commitment to supporting the national labor force, which saw another cohort of talented graduates join Almarai as part of the Future Leaders and Graduate Professional Trainee programmes, with more graduating from the Company's Dairy & Food Polytechnic. We are proud to say that we now employ more than 8,500 Saudi nationals. Meanwhile, we are securing the future of the business by sending a growing number of senior executives to international business schools, preparing them for succession to some of the Company's most senior roles.

Another major achievement for the year was the completion of the Al Kharj Solar Project – the largest renewable energy installation of its type within the private sector in Saudi Arabia. The facility will reduce the fuel and energy consumption of our manufacturing plants, mitigating our environmental impact by offsetting 8,100 tons of CO<sub>2</sub> per year, which is equivalent to planting 8,000 trees. Having already secured 100% of our alfalfa supplies through our overseas

farming operations - this is another important step in our efforts to meaningfully reduce our impact on the natural environment.

In keeping with our commitment to 'Quality you can trust', and the delivery of first-class products, the integrity of our quality assurance systems is independently evaluated by globally recognized certification bodies. With our facilities already certified for ISO 22000 Food Safety Management and ISO 9001 Quality Management, in 2019 our Infant Nutrition and Poultry processing plants were honoured with the FSSC 22000 award, the Global Food Safety Initiative (GFSI) recognized scheme, with other sites under review for certification.

### Governance

In 2019, the Board continued to diligently perform its fiduciary responsibilities. In May, it approved the Company's five year business plan for 2020-2024, completing the second milestone review of the 2025 strategy; and in August, following the Company's Extraordinary General Meeting, shareholders approved the appointment of myself as Chairman, Mr. Suliman bin Abdulgader Al Muhaideb as Vice Chairman, and the formation of a new Board and its committees for the next three-year term.

### Value for our shareholders

Almarai's total market capitalization as at 31 December 2019 was SAR 49.5 billion, with 1 billion shares in issue. At the forthcoming Annual General Meeting on 5 April 2020 the Board of Directors will propose a cash distribution of SAR 850 million, equivalent to SAR 0.85 per share or 46.9% of audited Net Income.

### Our gratitude to stakeholders

My gratitude is due to members of the Board of Directors, for the guidance and support that they provide to management, as well as their commitment to representing the interests of our shareholders. I would also like to record my heartfelt thanks to the Company's management and employees, whose unwavering dedication to our strategy continues to yield fruit for shareholders and consumers alike. On behalf of Almarai, I would like to thank our consumers, shareholders and quality makers who work diligently each and every day to ensure the Company's success. The continued trust in our business and products demonstrates the quality we have become accustomed to delivering. Expectations are high, and we remain wholeheartedly committed to meeting them and build on that good work through the rest of 2020 and beyond.

# CEO's review



## Majed Nofal Chief Executive Officer

On 1<sup>st</sup> January 2020, it was my privilege to be appointed to the role of CEO at Almarai, where we are building a dynamic future. After a challenging period for the sector and the business, we can be confident in our claim to put the Company back on its path for growth, and we have every reason to look forward to realizing more optimistic outcomes in the year ahead.

### Highlights of 2019

The Group's Net Income for 2019 was SAR 1,812 million, decreasing by 10% from SAR 2,012 million in 2018. Net Revenues improved by 5.9% to reach SAR 14,351 million. Our core GCC markets benefitted from stabilization

after a period of volatility, with Saudi Arabia returning to growth and other markets improving gradually. Total fresh milk production in Saudi Arabia has been balanced by higher market growth, which is resulting in generally lower discounting for Dairy products – a positive development for Almarai.

While operating margins remain under pressure due to higher input costs, in part driven by overseas sourcing of animal feed requirements, increased labor expenses and higher cost of funding, Almarai continued to focus on controlling input expenses, reducing both OPEX and CAPEX, and improving Free Cash Flow. Meanwhile, the diversification of

the business has been critical for supporting its return to top-line growth. Poultry continued to perform strongly, as did the burgeoning Foodservice channel, while revenue growth has been resurgent across geographies – improving by 6.1% in Saudi Arabia, 2.4% in the GCC and by 12.6% in other MENA markets.

The product innovation pipeline remained healthy, with over 24 new SKUs (Stock Keeping Unit) introduced to the market in 2019. What is most promising about the pipeline is that it is proving effective across categories, from new or updated Dairy flavors through to a growing range of premium Juice options, innovative and market-savvy Bakery products, and value-added Poultry options – including oven-ready whole chickens.

In February, we were pleased to announce the 100% acquisition of Premier Foods, a manufacturer of meat and poultry products for the hospitality and catering sector. This important growth initiative adds tangible value to our Foodservice business and is a demonstration of our commitment to developing channels that will broaden and strengthen our value proposition. Later in the year we announced another strategic acquisition, increasing our stake in the Pure Breed Company to 93.5%. The acquisition bolsters Almarai's supply of poultry parent stock, deepening the vertical integration of our Poultry operation.

### A dynamic business, a dynamic future

As the momentum and dynamism of the Saudi economy gathers pace,

so does that of Almarai. In the course of the year, we proved adept at navigating headwinds and creating our own opportunities. While we have continued to work on enhancing our efficiencies, we have focused on working smarter and making our business more agile. Sustainability also plays a key role in building for our future and long term growth prospects. We have refined our sustainability framework down from six core pillars to three to refocus our efforts on the issues that matter most to us. In essence, we have created a platform that will enable greater dynamism and, ultimately, the delivery of the ambitions of Almarai 2025.

The impact of the process is apparent across the business – including in our non-core markets of Egypt and Jordan, where we are now achieving profitable performance. At the same time, we are listening carefully to the market, so we know exactly where we need to scale-up our efforts. This approach is most apparent for Foodservice and the diversification of our retail product range into both value and premium categories. While sectoral challenges continue to impact all industry players – especially in relation to sugar taxation – it is our responsibility to maneuver our business to adapt to societal change. We are already known for the quality of our products – so the next phase in our mission to achieve dynamism will be to make ourselves attractive to younger demographics, while growing our foothold in the health and wellness space.

### Committed to our people

We have a reputation for developing talent and harnessing the power of an engaged workforce. Our

commitment to people is aligned with our own strategic vision and that of the Kingdom itself – from the creation of career opportunities to building a dynamic working environment. With over 42,000 full-time staff across MENA we are an immensely diverse organization employing 65 different nationalities. We are proud to say that we now employ more than 8,500 Saudi nationals. Of this cohort, 1,709 were hired as recent graduates in 2019 comprising of 1,582 Saudi men and 127 Saudi women. We remain wholeheartedly committed to the Saudization goals outlined in the 2030 Vision for Saudi Arabia, and we will continue to pursue this through 2020 and beyond.

Hiring is one thing, but engagement and development is another. An area of significant investment has been in succession planning and associated training, to build a leadership team that truly represents the next generation for the Company. Future leaders are engaged in a rigorous development and evaluation programme – including both internal and external training modules. At the same time we are enhancing our engagement methods to better enfranchise colleagues and respond to their requirements on a real-time basis, through the ‘We at Almarai’ initiative. More details can be found later in this report.

### Almarai 2025

With the Board having approved the latest phase of our five year strategic plan, our strategy is focused on achieving full potential in core markets, while boosting the performance of non-core or underperforming business units and developing high-potential new

segments. To this end, we can be very satisfied with our progress to-date as borne out in particular by the continued success of our Poultry business, profitability in Egypt and Jordan, and the rapid growth of our Foodservice offering.

Looking to 2020 and the years that follow, we will sustain our focus on cost reduction and the optimization of our assets, more impactful innovation and marketing, improvements in our operating model, talent acquisition and retention, organic and inorganic growth projects, and the roll-out of new technologies – with a focus on digitization.

### With thanks

On behalf of the entire Company, I would like to place on record our heartfelt thanks to my predecessor as CEO, Georges Schorderet, who retired after a career filled with achievements and generosity. Georges’ stewardship of the Company has been an inspiration to us all.

I would like to express gratitude to my colleagues for their loyalty and considerable efforts, and on behalf of the Company to thank both the Board of Directors and our shareholders for their support. We continue to welcome their guidance and feedback. Perhaps most importantly, the thanks of all at Almarai are owed to our consumers, to whom our promise is the continued production of products that enrich their lives.



# CFO's review



**Paul-Louis Gay**  
Chief Financial Officer

Although Almarai faced sustained top-line pressure, a key theme in 2019 was the return to growth of our core categories and geographies without compromising on a strategy for margin defence, with healthy margins restored in non-core categories and acceleration of the emergence of the Foodservice channel bearing fruit. As the Company came to the end of its latest investment cycle, we have placed a strong emphasis on reviewing and optimizing our balance sheet and cash flow generation.

### Performance highlights

With top-line growth positive during the year, ongoing cost challenges meant that operating performance was fairly flat with EBITDA of SAR 4,013 million as compared to SAR 4,012 million a drop in EBITDA margin of -1.7%pp at 28.0%. The Dairy, Poultry and Bakery segments were the main drivers for top-line growth of 5.9%, while Juice performance was poor as a consequence of a contracting market. Growth in the Foodservice channel has been important for supporting growth across segments.

Gross profit for the Group increased by 0.7% to SAR 5,367 million, with revenue growth offset by higher operating costs resulting from increased alfalfa imports and expenses associated with labor reform in Saudi Arabia. Selling and distribution expenses rose by 9.0% on the back of expansion in the Foodservice channel and higher marketing and trade support expenses across segments. Notwithstanding of our ongoing cost efficiency programme, general and administration expenses increased by 6.7% to SAR 400 million.

### Focus on deleveraging

With net debt levels stable, financing costs increased by SAR 114 million, due to higher interest rates earlier in the year, the accounting treatment of the perpetual Sukuk profit payment against equity and the lower capitalization of funding costs for qualified projects. As Almarai has come to the end of its investment cycle and achieved improved top-line performance, free cash flow generation more than double to record and increased of 113.8% to reach SAR 2,602 million

at year-end, as compared with SAR 1,217 million in 2018.

The Net Debt/EBITDA ratio stands at 3.2 at year-end, within the strategic limit set by the Board, and the net debt to equity ratio reached 83%, below the 100% target. The strategic direction remains to de-lever the company towards a net debt to EBITDA ratio of between 2.75 to 2.50 times, and the current trends of lower capital investment requirements, stable working capital and growing operating cash flow are likely to help us achieve this target within 18 months.

### Managing risk

During 2019, the maturity profile of existing debt facilities reduced from 4.2 years to 4.1 years, and we will continue to review and consolidate the debt profile to ensure alignment of maturities with free cash flow expectations. With an established interest rate hedging programme and a high percentage of debt on fixed interest rate terms, Almarai was well-insulated from unfavourable interest rate conditions early in 2019, while volatile currency risk was managed by minimal Foreign Exchange rates exposure in Egypt and Argentina. During the year, Almarai consolidated its commodities hedging for inputs including corn, soybean and sugar, with a robust framework in place for protecting the business against price volatility. The commodity hedging programme has also been expanded to provide cover for plastics used in packaging.

At governance level, an important priority in 2019 was the work of the Risk Committee, with an

Enterprise Risk Management (ERM) function established, along with a series of initiatives aimed at better structuring the Company's approach to risk. These included new and improved versions of Almarai's risk registers, risk maps, associated compliance and response measures, and policies for employees Code of Conduct recognition, conflict of interests declaration and whistleblowing system and processes – to aligning the Company with international best practice standards.

### Efficiency and optimization

With significant cost increases endured during the last three years, we have so far been successful in partially offsetting the effect by strict margin and cost management measures. Increased operating costs are now 'here to stay', in response to which Almarai is attempting to redefine its operating model both for support and go-to-market functions, which consume significant resource – especially human capital expenditures. Meanwhile, we are making extensive efforts to optimize sales activities in order to make Almarai more relevant to market developments – for example, the rise of the Foodservice segment, digitalization of channels, and opportunities in new geographies. These developments have created a need for a more proactive and agile business that exploits new technologies and addresses new consumer trends – both of which factors remain a high priority for management.

### The year ahead

Almarai has maintained a healthy credit profile with local lenders

– as well as with international fixed income investors – as a consequence of predictable and positive operating cash flows and a clearly defined path for sustainable top-line growth. At year-end, unutilized bank facilities and available government funding totalled SAR 8,780.2 million, and with a constant need to finance operations and potential future investments, Almarai will continue to diligently review opportunities for cost efficient borrowing facilities and solutions.

As in 2019, the achievement of efficiencies and optimization in 2020 will remain a top priority, as we seek to tap the growth opportunities identified by our strategy and to deliver on an improved operating model. To achieve these objectives, we are strengthening the quality of our team, developing capabilities and careers at all levels, and putting an ever-stronger focus on succession planning and management skills improvement.