Edita Food Industries Reports 3Q2016 Earnings

Revenues up a solid 14.5% y-o-y to EGP 613.0 million driven by both volume and price increases. Margins remain healthy despite an inflationary operating environment and increasing cost pressure.

Cairo, 10 November 2016

Edita Food Industries S.A.E. (EFID.CA on the Egyptian Exchange & EFIDq.L on the London Stock Exchange), a leader in the Egyptian packaged snack food market, announced today its results for the third quarter of 2016, reporting revenues of EGP 613.0 million, up a solid 14.5% y-o-y compared to EGP 535.4 million in the same period last year. Contributors to revenues continued to be weighed towards the cake and croissant segments at 49.6% and 37.2%, respectively, compared to 54.3% and 35.4% in 3Q2015.

On a nine month basis, Edita posted revenues of EGP 1,681.3 million in 9M2016, up 6.5% y-o-y compared to 9M2015 figure of EGP 1,579.1 million.

Revenue growth in the third quarter was strongest in the croissant (up 20.4% y-o-y), rusks (up 89.3% y-o-y) and wafer (up 38.3% y-o-y) segments. The croissant and rusks segments were buoyed by new capacities added in 2015 and the launch of the strudel line in March of this year. Notably, cake segment revenues reversed the trend of the past three quarters, closing 3Q2016 some 4.4% higher y-o-y as consumers gradually adapt to new pricing. Meanwhile, candy segment revenues were up 13.2% y-o-y in 3Q2016.

Commenting on the quarter's performance, **Edita Chairman and Managing Director Eng. Hani Berzi** said: "Our top-line growth is reflective of the strong demand for Edita's products across all segments and our ability to continue to outpace market growth. This has allowed us to make use of our capacity expansions and has supported the continued rollout of new premium offerings. We are also particularly pleased that our well timed price-point migration strategy has contributed to support our results for the quarter. The decision to rollout the strategy almost a year ago is allowing us today to support profitability margins in the face of inflationary pressures on our cost base. These include the weakening of the Egyptian pound, price increases of key local commodities and the implementation of the new value-added tax regime.

"We were able to pass on some price increases to our consumers and, at the same time, our product portfolio posted important market share gains throughout the first eight months of the year, a testament to the strength of our organization and to the value-for-money we offer consumers with the continued introduction of new premium offerings," Berzi added.

At the cost of goods sold (COGS) level, Edita incurred an increase of 21.8% y-o-y in 3Q2016 to EGP 411.2 million, leading to a COGS:Sales ratio of 67.1%, compared to 63.1% in 3Q2015. The uptick in costs is owed primarily to the impact that the weakening Egyptian pound has had on Edita's direct materials bill as well as rising prices of major local commodities. Edita's direct materials bill was also impacted by the implementation of the VAT system, under which all of its input costs are no longer tax deductible except for the candy segment inputs, contrary to the previous sales tax system.

The company's ability to pass on some price increases to its consumers, facilitated by the overall inflationary environment, saw Edita grow its Gross Profit to EGP 201.7 million in 3Q2016, up 2.0% y-o-y. Edita's price point migration strategy, in addition to several cost cutting initiatives, helped limit the effect of cost increases on the company's Gross Profit Margin (GPM), which stood at 36.3% in 9M2016 versus 37.6% in 9M2015.

Edita continues to actively assess its pricing strategy across its product portfolio with the aim of supporting margins and defending market share. In October 2016, Edita raised prices for most of its Molto brand SKUs by c. 25-50% per pack, the first direct price increase since the company began implementing its new pricing strategy in 2015. For the past year, Edita's pricing strategy has mainly focused on indirect price increases including the selective upsizing or downsizing of products as well as the launch of new products at higher price points. Management is committed to supporting margins through indirect and, when necessary, direct price increases.

Edita maintained solid operating margins during the quarter with EBITDA increasing 19.7% y-o-y to EGP 130.8 million and EBITDA margin rising to 21.3% compared to 20.4% in 3Q2015. The improved EBITDA is owed partly to lower advertising expenses, standing at EGP 5.2 million versus EGP 24.7 million in 3Q2015, as the company incurred the bulk of its 2016 budget for marketing expenses during 1H2016. Overall, operating profit recorded a marked improvement to stand at EGP 103.8 million in 3Q2016, up 18.4% y-o-y.

Net Profit after Tax and Minority Interest (NPAT) came in at EGP 45.2 million in 3Q2016, down 47.2% y-o-y and with a net margin of 7.4% compared to 16.0% in 3Q2015. The company's bottom line was weighed down by higher FX losses, increased provisions and higher interest expenses. On a nine-month basis, Edita posted NPAT of EGP 119.5 million in 9M2016, down 43.6% y-o-y.

"Our outlook for the future remains fundamentally positive especially as the snack food market continues to grow. We will remain diligent in assessing a rapidly changing external environment and adapting our pricing across SKUs to optimise our portfolio so as to support profitability while defending market share. We are also leveraging on our diversified cost structure and flexible business model to implement cost-cutting initiatives especially as the new reality of a flexible exchange rate regime sets in. Edita will press forward with its investment plans to ensure future capacities needed to capture market growth are installed by the time economic recovery gains traction, while at the same build on grounds gained in regional expansion to diversify revenue streams and increase foreign currency inflows. Our goal is simple: To remain substantially ahead of the market," concluded Berzi.

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About Edita Food Industries S.A.E.

Edita, founded in 1996 and headquartered in Egypt, is a leader in the growing Egyptian packaged snack food market. The Company manufactures, markets and distributes a range of branded baked snack products including packaged cakes, croissants, rusks (baked wheat), and wafers as well as selected confectionary/candy products. The Company's local brand portfolio includes household names such as *Todo, Molto, Bake Rolz, Bake Stix*, *Freska* and *MiMix*. The Company also has the exclusive ownership of the international HTT brands *Twinkies*, *Hoho's* and *Tiger Tail* in Egypt, Libya, Jordan, Palestine, Morocco, Algeria, Tunisia, Syria, Lebanon, Iraq, Bahrain, Oman, the UAE, Kuwait, Qatar and Saudi Arabia; and is party to a technical assistance and know-how agreement to manufacture 11 additional HTT brands across its territories. The Company holds strong number-one market positions in its core cake and croissant segments, a number-two market position in rusks, and growing market positions in the wafers and candy segments. In 2Q2016, the Company derived c.94% of its revenue from Egypt and c.6% from over 14 regional export markets. Learn more at ir.edita.com.eg.

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