

Ittihad announces Full Year 2023 Financial Results

Transformational year – well positioned for future growth

Abu Dhabi – 17 May 2024: Ittihad International Investment LLC (Ittihad), the leading industrial conglomerate in the UAE, today announces its Full Year 2023 Financial Results.

Financial Highlights

- Group Revenue of \$2.8 billion (AED10.4 billion)
- Group Adjusted EBITDA* of \$138.7 million (AED509.6 million)
- Successfully launched a 5NC2 debut Sukuk, raising \$350 million
- Continued focus on deleveraging the business, with gross debt leverage of 5.3x at year end (down from 6.0x as of December 31, 2022), and adjusted net leverage* stood at 3.4x in 2023, down from 3.5x in 2022
 - Debt repayments for the year amounted to \$119 million (AED436.6 million)
- Strong balance sheet continues to provide capital allocation optionality
 - Net cash and cash equivalents of \$153 million, with readily marketable inventories (RMI) of \$107 million as at year end
 - \$50 million of restricted cash was released in December 2023, with proceeds used to pay down working capital facilities
 - Ittihad is well-placed to continue to capitalise on a pipeline of strategic M&A opportunities to compound growth
- Arranged \$88 million of term loan and Export Credit Agency (ECA) backed term financing for the tissue mill expansion project in Saudi Arabia. The facility is unsecured with a maturity of 12 years door-to-door

Operational Highlights

- **Infrastructure and Building Materials Manufacturing (IBMM):** strong margin growth as a result of positive pricing performance and a significant shift in demand driven by the energy transition and long-term investments in infrastructure and real estate development across the region.
- **Consumer Goods Manufacturing (CGM):** margin compression in the segment in the second and third quarter of the year due to destocking and a rapid correction in both raw material and finished goods prices.
- Construction commenced on the new tissue mill in Saudi Arabia, a project that will ensure a more competitive logistics costs and improved price margins in the country.
- Metropolic Paper Industries (MPI) became the main tissue supplier for Carrefour, a leading retail brand in the UAE.
- **Business Services:** Double digit growth in EBITDA achieved across the waste collection, city cleaning, and sewage network services. Ittihad successfully penetrated a niche market in this segment by introducing robotic camera technology solution for sewage network inspection and repair, seeing strong levels of demand in the local market. Ittihad is well-placed to take advantage of potential opportunities for regional expansion with this technology.
- The acquisition and expansion of a waste collection and city cleaning company in Saudi Arabia, effectively scaling up operations with new long-term projects valued at \$40 million.

Outlook

- Organic growth and sustainability will remain the primary focus over the next five years.
- Plans to further expand into Saudi Arabia in consumer goods and business services segments.
- The Company has a medium-term leverage target of 2.5x – 3.0x (net of bank balances and cash and RMI) and is focused on meeting this leverage target in the short to medium term.
- Ittihad is well-placed to capitalise on strategic M&A opportunities and is strategically positioned to expedite its investment plans while exploring additional avenues for capital raise.

** Note on adjustments:*

"Adjusted EBITDA" is defined as net profit (loss) for the year / period from continuing operations plus finance costs, tax, depreciation, amortisation, impairment of goodwill, and changes in the fair value of derivative financial instruments

"Adjusted net leverage" is defined as gross debt minus cash balances and readily marketable inventories (RMI) to adjusted EBITDA

Amer Kakish, Chief Executive Officer of Ittihad, said:

"The sustained and resilient EBITDA performance witnessed in 2023 highlights Ittihad's ability to maintain the strong earnings achieved in the record-breaking year of 2022. This consistent long-term growth demonstrates a significant milestone in our expansion journey, emphasizing the resilience of our diversified portfolio amidst challenging economic and geopolitical conditions, both regionally and globally."

"We take pride in Ittihad's current contribution, accounting for over 4% of the UAE's non-oil manufacturing sector exports, and our rapid progress aligns with the UAE's 'Operation 300bn' strategy. Looking ahead, our focus remains on driving organic growth throughout our portfolio while maintaining our commitment to ongoing investment plans."

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Overview

The headline figures of AED 10.4 billion in revenues and AED 509.6 million adjusted EBITDA for the 12-month period remained relatively consistent with the prior year. However, it's important to recognize that 2022 marked a record year for the CGM segment, driven by customers replenishing inventories post-pandemic. Subsequently, as supply chain disruptions eased, customers scaled back on excess stock. Moreover, challenges such as higher interest rates, inflation, and geopolitical conflicts further complicated market conditions. Despite these obstacles, our ability to maintain the strong gains achieved in 2022 amid such challenges is commendable.

Our robust performance underscores the diversified nature of our investment portfolio spanning four key verticals: Consumer Goods Manufacturing, Infrastructure and Building Materials Manufacturing, Business Services, and Healthcare and Other. Throughout 2023, this diversification strategy has proven effective, showcasing resilience across various sectors and geographic markets. While certain segments faced macroeconomic challenges like destocking in consumer goods, others enjoyed robust demand and predictable earnings streams, mitigating any negative impacts at the Company level.

Revenue decreased by AED 538.4 million, or by 4.9 per cent., to AED 10,427.9 million in the twelve months ended 31 December 2023 from AED 10,966.3 million in the twelve months ended 31 December 2022, primarily due to a cyclical correction in commodity prices including paper, copper, and chemicals.

Adjusted EBITDA decreased by AED 12.7 million, or by 2.4 per cent., to AED 509.6 million in the twelve months ended 31 December 2023 from AED 522.3 million in the twelve months ended 31 December 2022, primarily due to softening of EBITDA in the chemicals and paper businesses as a result of lower prices of raw materials and finished goods, largely offset by higher margins and volume in IBMM and Business Services divisions. As a percentage of revenue, Adjusted EBITDA margin decreased from 13.3 per cent. to 12.6 per cent.

Segmental Performance

Consumer Goods Manufacturing

CGM comprises three product lines: Printing and writing paper, tissue, and chemicals used in detergents and personal care products. The nature of the products the Company manufactures are fast moving essential goods which enables its Consumer Goods margins to remain relatively resilient during economic downturns. In the 12 months ended 31 December 2023, the Company's three consumer goods products accounted for 18 per cent of the Company's revenue and 41 per cent of its adjusted EBITDA.

Revenue decreased by AED 220.8 million, or by 10.4 per cent., to AED 1,906.7 million in the twelve months ended 31 December 2023 from AED 2,127.5 million in the twelve months ended 31 December 2022, primarily due to a post COVID drop in demand and prices of chemicals from June 2022 onwards as a result of destocking and normalization in supply chain, and a cyclical correction in the prices of tissue and paper during the second and third quarter of 2023.

Adjusted EBITDA decreased by AED 125.1 million, or by 37.6 per cent., to AED 207.7 million in the twelve months ended 31 December 2023 from AED 332.9 million in the twelve months ended 31 December 2022, primarily due to softening of margins as a result of lower prices of tissue, paper and chemical driven by a significant correction in raw material prices on the back of easing of supply chain crunch. Some of the excess demand growth of 2022 caused paper inventories to swell, contributing to de stocking and thereby softening of demand during second and third quarter in 2023. The impact was more significant in the chemical business due to much lower post-pandemic demand for cleaning and disinfecting chemicals.

Infrastructure and Building Materials Manufacturing

IBMM division comprises three product lines: Refined copper rods, steel bars, and cement. The copper business enjoys a positive outlook due to strong demand propelled by the increasing adoption of alternative energy sources and electric vehicles, aligned with global trends favoring energy transition initiatives. Similarly, the overall building materials segment has experienced a surge in sales and improved margins, fuelled by substantial infrastructure investments and heightened construction activity in key markets such as the UAE and Saudi Arabia. In the 12 months ended 31 December 2023, IBMM accounted for 73 per cent of the Company's revenue and 32 per cent of its adjusted EBITDA.

Revenue decreased by AED 444.3 million, or by 5.5 per cent., to AED 7,643.9 million in the twelve months ended 31 December 2023 from AED 8,088.2 million in the twelve months ended 31 December 2022, primarily due to a lower average price of copper during the period. Cement and steel business experienced healthy demand from the regional market on account of strong push for real estate and infrastructure projects, partly offset the decrease in copper.

Adjusted EBITDA increased by AED 90.7 million, or by 125.1 per cent., to AED 163.2 million in the twelve months ended 31 December 2023 from AED 72.5 million in the twelve months ended 31 December 2022, primarily due to higher margins and sales volume in the copper, steel and cement businesses.

Business Services

The Company's business services division provides: Long-term procurement, maintenance, and operation of radiology departments in Government-owned hospitals; Operation and maintenance services for infrastructure networks, wastewater treatment plants, sewage network and sewage treatment plants; and city cleaning and municipal waste collection. In the 12 months ended 31 December 2023, Business Services accounted for 6 per cent of the Company's revenue and 28 per cent of its adjusted EBITDA.

Revenue increased AED 66.3 million, or by 12.8 per cent., to AED 585.4 million in the twelve months ended 31 December 2023 from AED 519.0 million in the twelve months ended 31 December 2022, primarily due to an increase in work orders in the sewage and infrastructure business.

Adjusted EBITDA increased by AED 20.4 million, or by 16.5 per cent., to AED 144.2 million in the twelve months ended 31 December 2023 from AED 123.8 million in the twelve months ended 31 December 2022, primarily due to improved margins in city cleaning and waste collection and an increase in work orders in the operation and maintenance of sewage networks.

Healthcare and other

The division comprises of healthcare, fund management, logistics and transportation, and interior design services for government and the private sector. These businesses, in alignment with our Business Services division, have minimal asset requirements and operate in sectors with promising growth prospects. In the 12 months ended 31 December 2023, Healthcare and other accounted for 3 per cent of the Company's revenue and 5 per cent of its adjusted EBITDA.

Revenue increased by AED 131.5 million, or by 83.6 per cent., to AED 288.7 million in the twelve months ended 31 December 2023 from AED 157.3 million in the twelve months ended 31 December 2022, primarily due to an increase in sales of medical lab equipment, operating theatres, hospital beds, office furniture and a revenue ramp up of the newly expanded operation in Egypt and Saudi Arabia.

Adjusted EBITDA improved to AED 27.4 million in the twelve months ended 31 December 2023 from AED 6.1 million in the twelve months ended 31 December 2022, primarily due to increased margin on account of increase in sales of medical lab equipment, operating theatres, hospital beds, office furniture and a revenue ramp up of the newly expanded operation in Egypt and KSA.

Outlook

Ittihad expects further growth at the EBITDA level, with revenues across verticals expected to organically expand. Moreover, improvements in margins are anticipated within the Consumer Goods vertical as the segment supply and demand dynamics normalize.

From an operational standpoint, Ittihad is strategically positioned to drive growth within its portfolio. In Q2 2024, the commissioning of our copper recycling plant is scheduled, along with additional expansion plans for the recently acquired waste collection operation in Saudi Arabia.

Looking ahead, the Company's primary focus over the next five years will be on organic growth and sustainability. Expansion into Saudi Arabia will remain a key priority, alongside ongoing investments in human capital development and the advancement of our ESG program.

ENDS

About Ittihad

Ittihad is a privately owned business founded in 2008 and headquartered in the United Arab Emirates (UAE), with investments in the UAE, Saudi Arabia, and Egypt. The Company exports products and services to over 50 countries worldwide. It has a talented team of more than 8,000 members from over 57 nationalities with sector-wide expertise and a commitment to operational excellence.

Since 2015, Ittihad has pursued a strategy of investing in businesses with leading domestic positions in the UAE and the Gulf Cooperation Council (GCC), as well as strong international export potential. The Company focuses on long-term investments, all structured for business-

to-business (B2B) export and designed to capture the unique value proposition offered by the UAE and the region.

Ittihad is committed to powering wealth creation through assets that balance profitability with sustainability and generate positive outcomes for stakeholders, society, and the planet.

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