

3Q 2022 Earnings Release

Cairo 14th November 2022



Oriental Weavers Carpet Releases 3Q 2022 Earnings Results

Oriental Weavers Carpet Company [ORWE EY; ORWE.CA], continued to record solid year-on-year growth in sales with revenues up 7.0%, with GP margins reaching 8.6% and EBITDA Margin of 9.6%. On 9M basis, revenues up 13% y-o-y and GP margins of 10.5% and EBITDA Margin of 11.2%.

Key Highlights of 3Q 2022

EGP 2,977 mn in Revenues ▲ 7% y-o-y ▲ 28% local Revenues ▼ 3% Export Revenues	EGP 255 mn in Gross Profit ▼ 40% y-o-y 8.6% GP margin EGP 286 mn EBITDA ▼ 41% y-o-y 9.6% margin	EGP 124 mn Rebates Collected ▲ 115% EGP 79 mn in Attributable Net Income ▼ 69% y-o-y
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Key Highlights of 9M 2022

EGP 9,488 mn in Revenues ▲ 13% y-o-y ▲ 25% local Revenues ▲ 7% Export Revenues	EGP 993 mn in Gross Profit ▼ 29% y-o-y 10.5% GP margin EGP 1,062 mn EBITDA ▼ 30% y-o-y 11.2% margin	EGP 363 mn Rebates Collected ▲ 332% EGP 527 mn in Attributable Net Income ▼ 39% y-o-y
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3Q 2022 Financial Highlights

- **Revenues** increased by 7% y-o-y (-8.3% q-o-q) in 3Q 2022 reaching EGP 2,977 million. Export revenue, 62% of sales, declined by 3% y-o-y (-14% q-o-q), reflecting a slowdown in global demand for carpets. While local sales increased by 28% y-o-y (+2.1% q-o-q). Management expects more noticeable revenue growth in 2023, reflecting the full impact of the local currency devaluation.
- **Gross Profit** recorded EGP 255 million, a decline of 40% y-o-y (-33% q-o-q) with an associated margin of 8.6% versus 15.3% in 3Q 2021. Contraction in Gross Profit margin was due to an increase in oil-based raw materials by 13% y-o-y in 3Q 2022. The contraction is also attributable to, lower volumes by 20%, resulted in higher unabsorbed cost. Given the prevalent market dynamics, OW management will continue to focus on growing its global market positioning.
- **EBITDA** (1) recorded EGP 286 million in 3Q 2022, representing 41% y-o-y decrease, with EBITDA margin of 9.6% compared to EBITDA margin of 17.5% in 3Q 2021. The year-on-year contraction comes on the back of lower gross profitability coupled with higher

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SG&A outlays for the period. While adjusted EBITDA, which includes export rebates, reached EGP 411 million, a decline of 24%, with associated margins of 13.8% compared to 19.5% in 3Q 2021. Management is focusing on optimizing efficiency that should mute volatility going forward.

- **Net Attributable Profit** declined by 69% y-o-y (-62% q-o-q) to EGP 79 million compared to EGP 260 million in 3Q 2021, as a trickling down effect from the GP level, coupled with higher net interest expense.

Operational Highlights:

- **Export revenues** declined by 3% y-o-y in 3Q 2022, reaching EGP 1,846 million, with a corresponding decline in volumes by 28% y-o-y driven by softened demand mainly in the tufted segment. Meanwhile, 9M 2022, export revenues recorded an increase of 7% y-o-y, with a 15% y-o-y decline in volume.
- **Local revenues** reported an impressive 28% increase in 3Q 2022 to EGP 1,130 million, compared to EGP 886 million in 3Q 2021, while volumes inched by 0.3% on a y-o-y basis in 3Q 2022. On a 9M basis, local sales increased 25%, and volumes increased 3% y-o-y.
- **Export Rebates** collected for the quarter were EGP 124 million, compared to EGP 56 million in 3Q 2021.
- OW opened one **new local showroom** in 3Q 2022, bringing the total number of local showrooms to 258.

Revenue Contribution by Market 3Q 2022 Vs 3Q 2021

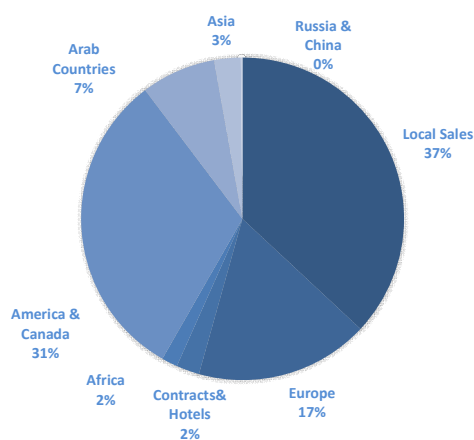


Figure 1: Revenue contribution 3Q 2022

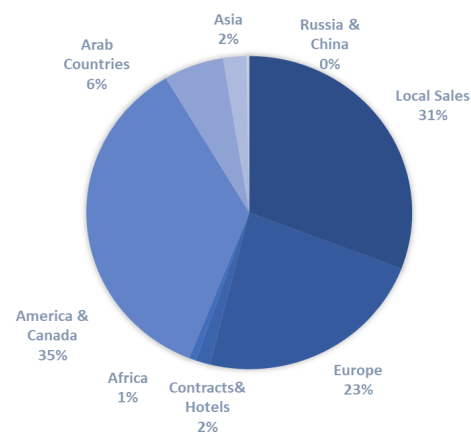


Figure 2: Revenue contribution 3Q 2021

(1) EBITDA is calculated as operating profit plus depreciation and amortization

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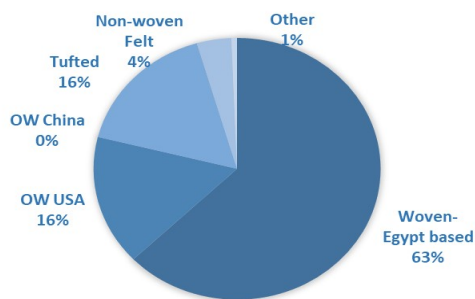
Table 1: Net Sales (Volume and Value) in 3Q 2022 vs. 3Q 2021

	Value (EGP million)			Volume (mn sqm)		
	3Q 2022	3Q 2021	% Change	3Q 2022	3Q 2021	% Change
Woven- Egypt based	1,871.0	1,667.9	12.2%	13.19	14.65	-10.0%
OW USA	478.4	407.5	17.4%	2.38	3.02	-21.2%
OW China	0.0	5.5	-99.8%	0.00	0.06	-100.0%
Tufted	493.0	548.3	-10.1%	7.38	10.37	-28.8%
Non-woven Felt	116.0	130.9	-11.4%	3.32	4.79	-30.7%
Other	18.5	21.9	-15.3%			
Total	2,977	2,782	7.01%	26.3	32.9	-20.2%

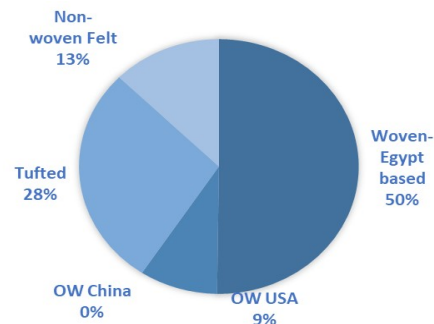
Table 2: Net Sales (Volume and Value) in 9M 2022 vs. 9M 2021

	Value (EGP million)			Volume (mn sqm)		
	9M 2022	9M 2021	% Change	9M 2022	9M 2021	% Change
Woven- Egypt based	5,904.4	4,857.9	21.5%	45.93	45.70	0.5%
OW USA	1,562.4	1,490.8	4.8%	10.00	11.68	-14.4%
OW China	1.2	19.4	-93.9%	0.01	0.21	-96.0%
Tufted	1,544.7	1,607.3	-3.9%	25.32	31.92	-20.7%
Non-woven Felt	402.4	369.9	8.8%	12.47	14.21	-12.2%
Other	73.2	51.9	41.1%			
Total	9,488.4	8,397.3	13.0%	93.7	103.7	-9.6%

Revenue Breakdown 3Q 2022



Sales Volume Breakdown (sqm) 3Q 2022



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Segment Reporting

Local Sales (38% of Revenues Including local hospitality)

OW local revenues reported an impressive 28% increase in 3Q 2022 to EGP 1,130 million, compared to EGP 886 million in 3Q 2021, (+2.1% q-o-q), driven primarily by price adjustments and changes in product mix. Meanwhile, local volumes inched by 0.3% on y-o-y basis (-10% q-o-q).

In 3Q, **woven products** recorded an incredible 28% y-o-y (+7% q-o-q) increase in value on 5% y-o-y higher volumes, as resilient local demand continues for the 3rd consecutive quarter. This was mainly driven by significant demand for Grade B products. The **tufted products** witnessed an impressive sales recovery due to diversifying the distribution channels, including prominent local retailers. Tufted revenue increased by 50% y-o-y (-7% q-o-q), with solid figures from the “pieces” segments in specific. Additionally, volumes in the tufted segment increased 27% y-o-y in 3Q 2022.

Showroom sales (56% of local sales) increased by an impressive 31% y-o-y (+12% q-o-q) in 3Q 2022, and **wholesale** revenues reported a 25% y-o-y increase (-7% q-o-q).

OW opened one **new showroom** in 3Q 2022, bringing the total number of showrooms to 258. Management strategy is to increase the number of showrooms across Egypt for the coming three years to maintain OW's leading market share. In addition to expanding OW's online platform through “[Oriental Weavers Online](#)” and growing its social media presence.

Export & Overseas Operations (62% of revenues)

Across OW's export markets, inflation and decline in disposable income is causing changes in consumers' discretionary spending. Export revenues declined by 3% y-o-y (-14% q-o-q) in 3Q 2022 reaching EGP 1,846 million, with volumes declining by 28%. The decline in the consolidated export revenues was a result of a 21% decline in the tufted segment sales, while the woven segment increased by 5% y-o-y.

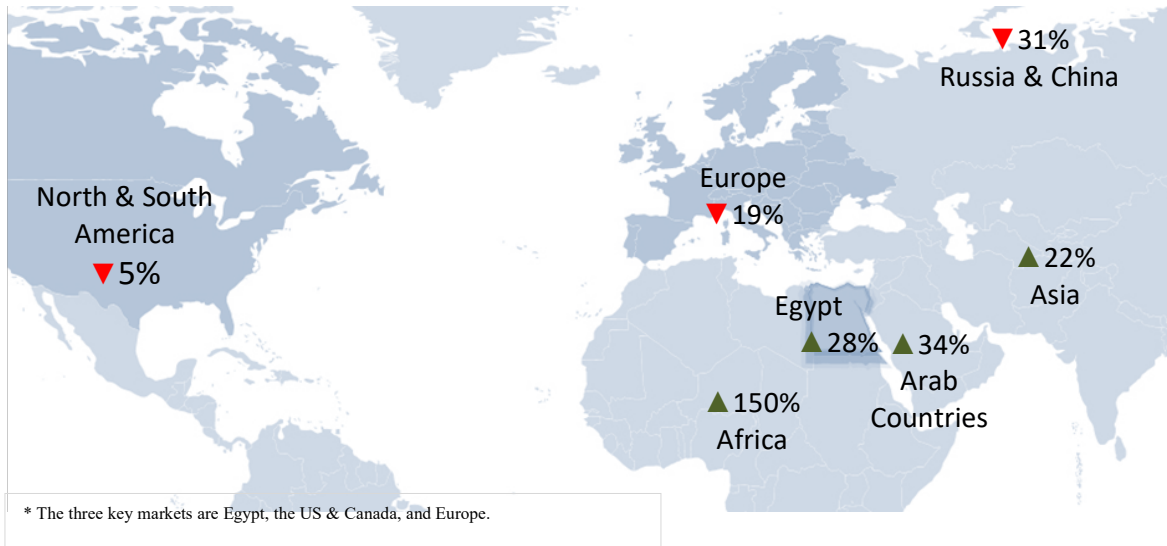
OW export team managed to open business with 12 new clients in 3Q 2022, mainly from Germany, Middle East, Australia, Japan and Brazil. Management is focusing on increasing market share and cementing long term customer relations.

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3Q 2022 Revenue Performance by Region



European Sales decreased by 19% y-o-y in 3Q 2022; due to the unprecedented energy crisis and high inflation that has slowed the region's economy. The high cost of energy has forced European consumers to concentrate on necessities and defer discretionary purchases. Our sales and margins in the market will remain under pressure until the region overcomes these challenges. These postponed purchases will increase demand when the economy rebounds and enhance our results.

The **US region** recorded a drop in sales by 5% y-o-y in 3Q 2022, as consumer discretionary spending is being eroded by energy and other inflationary pressure. Remodeling has slowed down, and our product mix has been impacted as consumers trade down to options that fit their budgets. The drop in sales is also attributed to high level of inventory in retail shops as a result of 2021 overstocking.

The **GCC region** continues to be one of the strongest performing markets, primarily from OW's increasing presence in Saudi Arabia, with sales increasing 28% y-o-y in 3Q 2022. Arab markets contribution to total revenues continues to increase reaching 7% in 3Q 2022 compared to 6% in 2021 and 3% in 2020. OW export team are also witnessing significant demand from **Africa**, namely Libya and East Africa, with sales increasing 150% y-o-y in 3Q 2022.

Export revenues in the **Tufted Segments** dropped by 21% y-o-y in 3Q 2022 and 37% y-o-y in volume; this drop was owing to the fact that the US region constitutes around 50% of the

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tufted export segment revenues. Management is progressing in diversifying the client base for the tufted segment in order to decrease volatility going forward.

OW USA

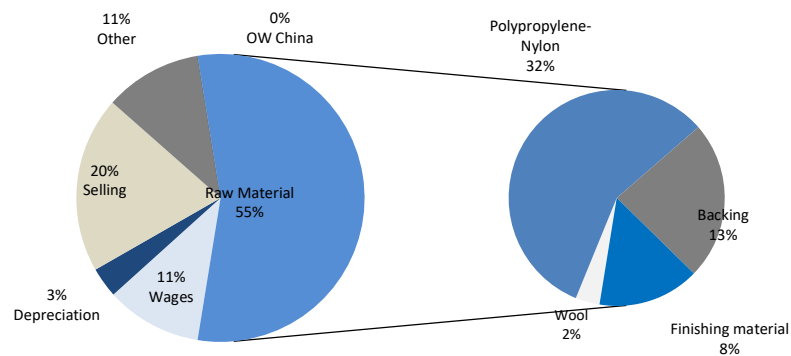
OW **U.S. based subsidiary** recorded sales increase by 17% y-o-y in 3Q 2022 in local currency (-15% q-o-q) and volumes decline by 21% y-o-y (-36% q-o-q). OW USA sales declined by 8% in dollar terms as a result of demand slowing down, coupled with retailers overstocking trend that was witnessed in late 2021.

OW Hospitality (2% of Revenues)

Oriental Weavers hospitality segment caters to several prominent global names, in addition to its local presence. In the local segment, sales are up around 4% y-o-y in 3Q 2022, as OW installed several projects, including Hotels, Mosques, Universities and New Administrative Capital related projects. In the export segment, sales increased 180% y-o-y in 3Q 2022, as a result of an impressive recovery in the global hospitality segment.

Cost of Goods Sold

OW's COGS increased 15% y-o-y to EGP 2,722 million in 3Q 2022 (-5% q-o-q), representing 91% of revenues in 3Q 2022 compared to 85% in 3Q 2021. COGS figure increased at a higher pace than the group's top line figure, which weighed down on the group's gross profit that recorded EGP 255 million in 3Q 2022, down 40% y-o-y. With associated margins of 8.6% versus 15.3% in 3Q 2021. Margin contraction was primarily due to 1) lower utilization rates compared to 2021 levels, where the facility was operating at full capacity. Lower manufacturing volumes, led to unfavorable cost absorption. 2) increase in raw material cost and inflationary impact. OW management is actively implementing restructuring plans and operational re-engineering to lower both fixed and variable costs, in addition to implementing a pricing strategy with different product offering.



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Raw material costs, which include wool, Polypropylene, backing and finishing materials, reached EGP 1.5 million in 3Q 2022, compared to EGP 1.4 million 3Q 2021, which is an 8% y-o-y increase. Its evident that this trend is slowing down compared to 2Q 2022 figures.

EBITDA ⁽¹⁾

OW EBITDA came in at EGP 286 million in 3Q 2022, down 41% y-o-y. EBITDA margin on consolidated revenue recorded 9.6% in 3Q 2022 versus 17.5% in 3Q 2021. The decline in EBITDA level profitability comes on the back of lower gross profitability for the period coupled with higher SG&A. While adjusted EBITDA, which includes export rebates, reached EGP 411 million, a decline of 24%, with associated margins of 13.8% compared to 19.5% in 3Q 2021.

Interest Income / Expense

Net interest expense grew to EGP 42 million in 3Q 2022, compared to net interest expense of EGP 10 million in 3Q 2021. This was mainly due to translation effect of FCY dominated borrowings and hikes witnessed on the USD Libor rate.

Interest expense recorded EGP 82 million in 3Q 2022, up 69% versus 3Q 2021. The increase is attributable to:

- Higher interest on lease expense related to IFRS 16 reaching EGP 16 million compared to EGP 8 million in 3Q 2021
- Increase in USD Libor rate
- Local Currency depreciation by more than 20%, impacting the cost of foreign currency borrowing
- Increase in working capital to account for increase in commodity pricing and supply chain disruption.

Other Revenues

OW recorded other revenues of EGP 124 million compared to EGP 58 million, an increase of 115% y-o-y, this figure represents export rebates collected during the quarter as part of the government commitment and support to exporters.

Foreign Exchange Differences

OW recorded a foreign exchange loss of EGP 1.6 million in 3Q 2022. Mainly due to the further depreciation of the EGP during the quarter.

Taxation

Income tax recorded in 3Q 2022 was EGP 33 million compared to EGP 35 million in the same quarter of last year. The effective tax rate stood at 25% in the quarter versus 10.7% in 3Q 2021. 3Q tax rate is exceptionally high as it is a function of earnings contributions from taxable subsidiaries verses non-taxable free zone subsidiaries. This figure will normalize by 4Q results.

(1) EBITDA is calculated as operating profit plus depreciation and amortization

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Net Profit

OW's attributable net Profit recorded EGP 79 million in 3Q 2022, a decline of 69% y-o-y. This drop is attributed to lower gross Profit. Net profit margin stood at 3% in 3Q 2022, compared to 10.4% in 3Q 2021.

Debt

Debt recorded EGP 5.2 billion in 3Q 2022 compared to EGP 3.5 billion on December 31st 2021, primarily due to the local currency devaluation and the increase in working capital needs. On September 30th 2022, OW debt breakdown was 56% USD, 12% Euro and 31% EGP.

Cash

Cash and Treasury bills recorded EGP 2.5 billion in 3Q 2022 compared to EGP 2.5 billion on December 31st 2021. Cash breakdown is as follows 14% Euro, 67% EGP and 19% in dollars.

INVESTOR RELATIONS CONTACTS

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Income Statement (EGP million)

	3Q 2022	3Q 2021	Change	9M 2022	9M 2021	Change
Net Sales	2,977	2,782	7%	9,488	7,397	13%
Less:						
COGS	2,822	2,357	15%	8,495	6,989	22%
Gross Profit	255	425	-40%	993	1,407	-29%
<i>Gross Profit Margin*</i>	8.6%	15.3%	-675bps	10.5%	17%	-629bps
Less:						
Selling & Distribution Expenses	43	41	4%	123	114	8%
General & Administrative Expenses	106	90	18%	324	266	22%
Sum	149	131	14%	447	380	18%
Net Income from Operation Activities	105	295	64%	546	1,028	47%
Operation Activities Margin	3.5%	10.6%	-705bps	5.8%	12.2%	-649bps
Add / Less:						
Provisions & Impairment	-32	-8.5		-32	-15	
Investment Income	0.7	0		26	8	
Interest Income	12	4	200%	32	12	163%
Treasury Income	29	34	-17%	94	132	-29%
Other Revenues	125	58	116%	363	84	332%
Capital Gain	0.7	0.2	250%	2.2	11	NA
Financing Expenses	-82	-49	69%	-208	-146	43%
Foreign Exchange Differences	-1.5	-8		-86	12	43
Provision ECL	-24			31		
Sum	27	31	-14%	160	75	113%
Net Profit for the Period before Income Tax	132	326	-59%	707	1,103	-36%
EBT Margin	4.4%	11.7%	-727bps	7.4%	13.4%	-569bps
Add / Less:						
Current Income Tax	-33	-30	8%	-127	-141	-10%
Deferred Tax	-0.2	-0.4	NA	3.7	2.1	NA
Income Tax for the Period	-33	-35	-5%	-123	-143	-14%
Net Profit for the Period	99	291	-66%	583	960	-39%
Net Profit Margin	3%	10.4%	-712bps	6.1%	11.4%	-528bps
Equity Holders of the Parent	79	260	-69%	527	858	-39%
Minority Interest	20	31	-36%	57	101	-44%

* Reported figures include depreciation expenses

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Balance Sheet (EGP million)

	Sep-2022	FY 2021
<u>Long Term Assets</u>		
Fixed Assets (Net)	4,303	4,123
Projects in Progress	707	252
Investments - Available for Sale	414	337
Beneficial interest in assets	370	331
Total Long-Term Assets	5,795	5,043
<u>Current Assets</u>		
Inventory	6,090	4,215
Trades & Notes Receivable	2,252	1,965
Debtors & Other Debit Accounts	564	421
Treasury Bills	1,276	1,539
Cash on Hand & at Banks	1,210	984
Available for Sale Asset	46	
Total Current Assets	11,438	9,123
<u>Current Liabilities</u>		
Provisions	86	101
Banks - Credit Accounts	4,689	3,029
Long Term Liabilities - Current Portion	212	122
Due within one year of rental contract obligations	103	87
Suppliers & Notes Payable	1,247	1,105
Dividends Payable	49	16
Creditors & Other Credit Accounts	717	585
Deferred Tax Liability	105	125
Liabilities related to available for sale assets	24	
Total Current Liabilities	7,233	5,171
Working Capital	4,205	3,953
Total Investment	10,001	8,996
Financed as Follows		
<u>Shareholder's Equity</u>		
Issued & Paid Capital	665	665
Reserves	1,715	1,627
Retained Earnings	547	398
Net Profit for the Period	526	1,085
Exchange Differences Arising on Translation of Foreign Currency	4,730	3,541
Total Equity Attributable to Equity Holders of the Parent	8,183	7,316
Non-controlling Interest	1,005	941
Total Equity	9,189	8,257
<u>Long - Term Liabilities</u>		
Long Term Loans	349	305
Deferred Taxes Liabilities	159	165
Lease contract obligations	304	269
Total Long-Term Liabilities	812	739
Total Shareholder's Equity & Long-Term Liabilities	10,001	8,996

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Statement of Cash Flows (EGP million)

	9M 2022	9M 2021
Cash flows from Operating Activities:		
Net Profit for the Period before Income Tax	707	1,104
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities		
Fixed Assets Depreciation	446	399
Depreciation of usufruct assets	69	86
Provisions other than Deprecation	32	15
Provision for Expected Credit Loss (IFRS 9)	31	-
Interest Income	(32)	(12)
Financing Expenses	208	146
Investment Income	(26)	(8)
Capital Gain	(2)	(11)
Operating Profits before Changes in Working Capital	1,433	1,717
Change in Working Capital		
(Increase) in Inventory	(1,199)	(871)
Decrease (Increase) in Trades & Notes Receivable and other Debit Accounts	29	(323)
Decrease (Increase) in Suppliers & Notes Payable and other Credit Accounts	(168)	22
Cash Flows Provided by Operating Activities	95	445
Interest Income	32	12
Paid Financing Expenses	(208)	(145)
Income Tax Expense	(94)	(117)
Cash Flows Provided by Operating Activities	(176)	295
Cash Flows from Investing Activities		
Payments for Purchase of Fixed Assets and Projects in Progress	(488)	(429)
Buying investments available for Sale	-	(123)
Proceeds from Sale of fixed assets	7	19
Proceeds from Investments available for sale	26	9
Proceeds from Sale of Treasury Bills	545	544
Net Cash Flows (used in) Investing Activities	90	19
Cash Flows from Financing Activities		
Proceeds (Payment) from Banks - Credit Accounts	1,307	562
Dividends Paid	(940)	(964)
Translation Differences of Financial Statements	(1)	3
Paid for Lease obligations	(107)	(66)
(Payment) Proceeds in Long Term Liabilities	119	74
Net Cash Flows (used in) Provided by Financing Activities	376	(391)
Net Change in Cash & Cash Equivalents During the Period	291	(76)
Cash & cash equivalents at beginning of the period	1,369	1,470
Translation Differences Related to Cash & Cash Equivalents	160	(0.8)
Cash & Cash Equivalents at End of the Period	1,819	1,392

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ABOUT ORIENTAL WEAVERS CARPET COMPANY

Oriental Weavers is a global player in machine-woven rugs and carpets; the company is renowned for superior product design and quality, as well as technological innovation. Today, the company is one of the largest producers of machine-made woven rugs in the world. It is management's vision to build a state-of-the-art, internationally competitive carpet and home textile company, characterized by a sharp focus on its customers and driven by marketing- and export-oriented strategies. (www.orientalweavers.com)

FORWARD-LOOKING STATEMENTS

Certain information contained in this document consists of forward-looking statements reflecting the current view of the Company with respect to future events, and is therefore subject to certain risks, uncertainties, and assumptions. Many factors could cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including worldwide economic trends, the economic and political climate of Egypt and the Middle East, and changes in business strategy as well as various other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in such forward-looking statements. Recipients of this document are cautioned not to place any reliance on these forward-looking statements. The Company undertakes no obligation to republish revised forward-looking statements to reflect changed events or circumstances.

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