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Edita Food Industries Reports 2Q2017 Earnings

Edita continues to deliver double-digit top-line growth at 11.2% in 2Q2017 despite the challenging economic environment and the seasonality in demand; bottom-line weighed down by cost inflation and higher finance cost

Highlights of 2Q2017

Summary Income Statement (EGP mn)

EGP mn	2Q2016	2Q2017	Change	1H2016	1H2017	Change
Revenue	550.2	611.6	11.2%	1,068.3	1,254.1	17.4%
Gross Profit	202.1	186.6	-7.7%	407.8	406.4	-0.3%
% Margin	36.7%	30.5%		38.2%	32.4%	
EBITDA	96.3	43.0	-55.4%	211.1	137.4	-34.9%
% Margin	17.5%	7.0%		19.8%	11.0%	
Net Profit	41.6	-1.7	NA	74.3	38.7	-47.9%
% Margin	7.6%	-0.3%		7.0%	3.1%	

The discussion and analysis in this report are based on the IFRS statements. For comparison of the results to

Results in a Nutshell

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 quarter ending 30 June 2017, reporting revenues of EGP 611.6 million, up 11.2% y-o-y despite the impact of seasonality as the month of Ramadan coincided with the quarter. Meanwhile, inflationary pressures on the company's cost base along with higher interest expenses weighed down on Edita's bottom-line profitability for the quarter, closing 2Q2017 at a loss of EGP 1.7 million. On a year-to-date basis, Edita posted a net profit of EGP 38.7 million in 1H2017 on revenues of EGP 1,254.1 million, with top-line growing a solid 17.4% y-o-y.

Edita's continued ability to deliver double-digit revenue growth, despite operating in an exceptionally challenging environment and during the trough of industry seasonality, is a direct consequence of management's early roll-out of its repricing and portfolio optimization strategy starting late 2015. Edita's average price per pack was up 80.9% y-o-y across its portfolio in 2Q2017, while average price per pack increase since the company first rolled-out the strategy in September 2015 stood at 123.5%. The strategy allowed Edita to maintain a degree of correlation between its pricing structure and the unprecedented inflationary pressures driven by the Egyptian government's structural reforms, including the introduction of a value-added tax, the float of the Egyptian pound in November 2016 and the partial lifting of energy subsidies.

Total sales grew in value during 2Q2017 even as volumes declined in line with management's expectation. Edita sold a total of 15.4 ktons in 2Q2017 (down 40.1% y-o-y); this was effectively on par with the 15.6 ktons sold in 1Q2017 despite the seasonal impact of Ramadan. This underscores continued strong demand for Edita's products following the introduction of the repricing strategy, which allowed management to better position the company for long-term growth and to support margins.

Restoring volumes and maintaining Edita's market leadership are key strategic priorities for the company. In that regard, Edita continues to roll-out innovative product offerings on freed-up capacities to extract higher value from the relatively premium market segment. At the same time, management will stimulate demand for products across the price spectrum with new launches designed to cater to a wider consumer base.

Edita has accordingly continued to capture market share across its segments as per the latest data for April 2017, with cakes inching up to 57.2% (April 2016: 56.9%), rusks at 47.8% (April 2016: 37.0%), wafers capturing 9.2% (April 2016: 7.8%) and candy maintaining its lead at 17.6% (April 2016: 11.2%). The croissant segment's market share stood at 60.4% as of April 2017, down from 71.6% in the same period last year, but stable compared to February 2017.

On a segment basis, cakes sales growth clocked in at 20.0% y-o-y to EGP 330.6 million. Sales growth for the quarter was driven by an 86.8% y-o-y increase in average price per pack, offsetting a 34.1% y-o-y decline in volumes. On a quarter-on-quarter basis, total cake volumes were relatively stable, inching down only 4.1% q-o-q despite the second quarter of the year coinciding with Ramadan. For the six-month period, cake sales grew 26.9% y-o-y in 1H2017 to EGP 681.7 million.

In the croissant segment, second-quarter sales declined 15.6% y-o-y to EGP 157.1 million on the back of a 53.1% y-o-y drop in volumes during the quarter. Lower volumes came after two rounds of aggressive price increases, with back-to-back hikes in both October and December 2016 after an almost decade-long period of price stability. It is worth noting that croissant volumes started recovering q-o-q, with total volumes rising 9.0% over 1Q2017. In 1H2017, the croissant segment posted revenues of EGP 303.5 million, down 15.0% y-o-y.

Wafer segment revenues closed the quarter at EGP 42.9 million, up 119.1% y-o-y and contributing 7.0% to total revenues for the quarter (2Q2016: 3.6%). Revenue growth was driven by higher prices and supported by the segment's rebranding campaign rolled out in 1Q2017, as well as a 4.0% uptick in volumes during the quarter. Wafer revenues stood at EGP 81.5 million in 1H2017, up 80.0% y-o-y.

Rusks reported a 6.9% y-o-y decrease in revenues to EGP 41.2 million in 2Q2017, during which better pricing partially offset a 45.5% y-o-y decline in volumes. Rusk sales during the quarter were affected by the impact of seasonality on demand. Overall, rusks recorded revenue growth of 39.4% y-o-y to EGP 107.3 million in 1H2017. Meanwhile, the candy segment turned a strong performance during the quarter, reporting revenues of EGP 37.5 million in 2Q2017, up 68.1% y-o-y, while on a year-to-date basis the segment posted a 64.4% y-o-y increase in revenues to EGP 77.7 million in 1H2017.

Edita reported a 22.1% y-o-y increase in cost of goods sold (COGS) during 2Q2017 to EGP 425.0 million, driven primarily by inflation, which remained at a record-high throughout much of the quarter. With the Egyptian pound significantly weakened following the November 2016 float, Edita booked higher costs for both imported materials and from domestic inputs with a foreign currency component. This drove Edita's cost of direct materials up 25.9% y-o-y to EGP 328.0 million, a figure equivalent to 53.6% of total sales compared to 47.3% in 2Q2016. Meanwhile, Edita's manufacturing overheads - the second-largest contributor to COGS - were stable at 13.0% of total sales in 2Q2017. Edita's total COGS outlay rose 28.3% y-o-y in 1H2017 to EGP 847.6 million. (Please refer to the Costs of Goods Sold section of this report for a more detailed overview).

Gross profit accordingly came in 7.7% lower y-o-y in 2Q2017 at EGP 186.6 million, with gross profit margin (GPM) standing at 30.5% versus 36.7% in the same period last year. On a year-to-date basis, gross profit remained stable at EGP 406.4 million in 1H2017 (1H2016: EGP 407.8 million), yielding a GPM of 32.4%.

Edita's selling, general and administrative (SG&A) expenses rose 32.2% y-o-y in 2Q2017 to EGP 162.9 million, in line with the company's strategy of supporting its new product launches. Total advertising and marketing (A&M) spend during the quarter stood at EGP 55.7 million, up 51.6% y-o-y compared to 2Q2016 level of EGP 36.8 million. It is worth noting that the majority of Edita's budget allocation for A&M spend for the full year of 2017 was earmarked for the first half of the year, with advertising as a percentage of sales poised to normalize during the second half of 2017. Total SG&A in 1H2017 stood at EGP 308.6 million, up 33.9% y-o-y, of which A&M accounted for EGP 105.0 million versus EGP 64.5 million in the same period last year.

EBITDA came in at EGP 43.0 million in 2Q2017, down 55.4% y-o-y, affected by higher cost of sales and SG&A. On a six-month basis, EBITDA stood at EGP 137.4 million in 1H2017, down 34.9% y-o-y, and with an EBITDA margin of 11.0% compared to 19.8% in the same period last year.

Total interest expense during the period climbed 92.6% y-o-y to EGP 27.7 million in 2Q2017. The increase in finance costs was driven by the Central Bank of Egypt's (CBE) decision to raise interest rates by 300 basis points (bps) in November 2016 following the float of the Egyptian

pound. Year-to-date, total interest expense increased more than two-fold to EGP 50.5 million in 1H2017. Edita thus delivered a bottom-line loss of EGP 1.7 million in 2Q2017, while on a six-month basis the company posted a net profit of EGP 38.7 million in 1H2017.

On the operational front, Edita's push toward capacity expansions and the addition of new SKUs remain on track, with the company inaugurating its E08 factory and commissioning its new wafer line in July 2017. The new 3.3 ktons per annum wafer line is the first to be installed at phase one of the facility - set to house five new lines on a built-up area of 22,000 sqm - with commercial production already underway. Edita launched Freska Fingers on the new line, an uncoated wafer offering available in three flavours and priced at EGP 3 per pack. Meanwhile, Edita's new cake line is currently being installed at E08 and is set to start production during the second half of 2017. The added capacities will allow Edita to deliver on its strategy of rolling out new innovative products that cannot be produced on its existing lines. Moreover, as part of Edita's push to stimulate new demand across the income spectrum, the company has recently launched the new Molto Chocolate Hazelnut and two uncoated HoHos cake variations, all of which are priced at EGP 1 per pack. The new launches are in response to the changing competitive landscape, and will help defend the company's market share particularly in rural areas with relatively lower purchasing power.

Strategy Insight

Edita's strategic focus over the past two years has been to restructure and optimise its portfolio to better suit the unprecedented macroeconomic challenges and prevailing inflationary pressure. In that regard, Edita has been particularly successful in migrating its product portfolio to higher average price points to support margins, while at the same time leveraging innovation, product differentiation and strong brand equity to stay ahead of the competition and protect its market share. The company's ability to continue delivering unique value propositions to its consumers is underpinned by its R&D capabilities, a key foundation on which Edita's long-term growth strategy rests.

Following the successful implementation of a complete portfolio rationalization and repricing, Edita's current focus is to restore volumes and utilization rates through two primary avenues: 1) the continued roll-out of new innovative, higher-priced products to stimulate demand and extract higher value from these key segments and 2) continuing to cater to the mass market and defend market share by offering products across the price spectrum to achieve optimum price-point segmentation. Management also continues to work on cost control and efficiency initiatives as it seeks to maximize profitability.

In tandem, the company is actively working on strengthening its distribution network and expanding its presence to the far reaches of the nation and into less urbanized areas, all while increasingly shifting toward more retail channels. Edita's distribution strategy serves the dual purpose of increasing its market coverage, and in-turn market shares, while simultaneously gaining direct access to consumers with quicker acceptance of new price points as opposed to wholesalers.

Meanwhile, Edita continues to push forward with its regional expansion strategy to help position the company as a multi-country player with a strong, diversified revenue base. In that regard, management is working to streamline its operation in existing markets to unlock their growth potential, while also exploring further organic and inorganic opportunities to penetrate new markets.

Overview of Segment Performance

Revenue growth during 2Q2017 was largely driven by the cake segment, with sales climbing 20.0% y-o-y and constituting 54.1% of Edita's total revenue for the quarter and c.60% of revenue growth in absolute terms. Meanwhile, Edita's wafer and candy segments also helped

drive revenues up in 2Q2017, with sales increasing 119.1% and 68.1% y-o-y, respectively. In absolute terms, the wafer segment contributed c.25% to revenue growth in 2Q2017 while the candy segment's contribution stood at c.16%. On the other hand, lower volumes at the croissant segment outpaced the increase in prices leaving segment sales down by 15.6% y-o-y in 2Q2017 to EGP 157.1 million. Revenues from Edita's rusks segment declined 6.9% y-o-y in 2Q2017 to EGP 41.2 million, partly due to seasonality in demand, however on a year-to-date basis the segment recorded a 39.4% y-o-y increase in sales to EGP 107.3 million in 1H2017. Overall, during 1H2017 Edita recorded revenue growth of 17.4% y-o-y to EGP 1,254.1 million, driven primarily by the cake segment and supported by the rusks, wafers and candy segments.

Edita's average price per pack across its portfolio increased 80.9% y-o-y in 2Q2017, which offset the anticipated decline in volumes to 15.4 thousand tons during the quarter, down 40.1% y-o-y. The decline in volume was somewhat equally driven by Edita's segments save for the wafers which recorded a 4.0% y-o-y increase to 0.7 thousand tons in 2Q2017. It is worth noting, however, that on a q-o-q basis volume decline is easing, despite the seasonal effect of Ramadan, and in the case of croissant began to recover with the segment recording a 9.0% q-o-q increase to 4.4 thousand tons. For the six-month period, total volumes stood at 31.0 thousand tons in 1H2017, down 38.7% y-o-y.

Average Factory Prices

EGP mn	2Q2016	2Q2017	Change	1H2016	1H2017	Change
Cakes	0.70	1.31	86.8%	0.69	1.33	92.4%
Croissant	0.93	1.57	69.5%	0.92	1.61	76.1%
Rusks	0.83	1.72	107.5%	0.83	1.71	106.8%
Wafers	0.75	1.56	108.3%	0.75	1.57	107.6%
Candy	1.68	2.08	23.6%	1.51	2.08	38.1%
Average Edita	0.80	1.45	80.9%	0.79	1.47	85.9%

Segment Revenues and Volumes Sold

	2Q2016			2Q2017		
	Net Sales (EGP mn)	Packs (millions)	Tons (000s)	Net Sales (EGP mn)	Packs (millions)	Tons (000s)
Cakes	276	394	12.7	331	253	8.4
Croissant	186	201	9.4	157	100	4.4
Rusks	44	53	1.9	41	24	1.0
Wafers	20	26	0.7	43	27	0.7
Candy	22	13	1.0	38	18	0.9
Imports	2	-	-	2	0	-
Total	550	688	25.7	612	423	15.4

	1H2016			1H2017		
	Net Sales (EGP mn)	Packs (millions)	Tons (000s)	Net Sales (EGP mn)	Packs (millions)	Tons (000s)
Cakes	537	778	25.4	682	513	17.1
Croissant	357	390	18.2	304	188	8.5
Rusks	77	93	3.2	107	63	2.3
Wafers	45	60	1.6	81	52	1.4
Candy	47	31	2.1	78	37	1.7
Imports	5	-	-	2	0	-
Total	1,068	1,352	50.6	1,254	854	31.0

At the gross profit level, Edita reported EGP 186.6 million in 2Q2017, down 7.7% y-o-y on the back of lower volumes and inflationary pressures on Edita's cost base. However, gross profit remained somewhat stable on a year-to-date basis at EGP 406.4 million in 1H2017 compared to EGP 407.8 million in the same period last year. GPM was nevertheless maintained at healthy levels above 30% in both the three and six-month periods, recording 30.5% and 32.4%, respectively.

Cakes

Recording solid growth during the quarter, revenues from the cake segment climbed 20.0% y-o-y to EGP 330.6 million in 2Q2017 and contributed 54.1% to total revenues (2Q2016: 50.1%). Segment growth was price-driven where an 86.8% y-o-y increase in average prices to EGP 1.31 per pack offset a 34.1% y-o-y decline in volumes to 8.4 thousand tons in 2Q2017. However, volumes are stabilizing with the q-o-q decline beginning to ease in 2Q2017 at 4.1% compared to 48.7% in 1Q2017, which followed Edita's wave of direct price increases passed in December 2016. The cake segment recorded revenues of EGP 681.7 million in 1H2017, up 26.9% y-o-y, with average prices increasing 92.4% y-o-y against a 32.7% y-o-y decline in volumes.

Edita is actively working to restore volumes through several initiatives including the continued roll-out of new innovative products on freed-up capacities, focusing primarily on higher-value propositions, while also launching new variations of existing products across the whole price point spectrum. Edita's aim is to continue serving a wide consumer base across its distribution channels and achieve better price-point segmentation as it seeks to protect and grow its market share. Recent launches included the uncoated HoHos in chocolate and strawberry flavours, sold at EGP 1 per pack. Edita continues to dominate the cake market with its market share increasing from 56.9% as of April 2016 to 57.2% in April 2017.

The cake segment's gross profit inched up 2.0% y-o-y in 2Q2017 to EGP 116.5 million, with GPM standing at 35.2% compared to 41.4% in 2Q2016. Margin contraction is primarily attributed to the effect of the Egyptian pound's float on imported direct materials and local inputs with a foreign currency component. On six-month basis, the segment reported a gross profit of EGP 244.6 million in 1H2017, up 7.4% y-o-y, with GPM at 35.9% versus 42.4% in 1H2016.

Croissant

The croissant segment recorded revenues of EGP 157.1 million in 2Q2017, down 15.6% y-o-y as segment volumes were the most impacted by two rounds of back-to-back price increase in October and December 2016 following a prolonged period of price stability. Total volumes sold during the quarter declined 53.1% y-o-y to 4.4 thousand tons in 2Q2017, while average price per pack increased 69.5% y-o-y to EGP 1.57. Segment performance, however, recorded an improvement q-o-q with total sales increasing 7.2% compared to 1Q2017, while volumes recorded a 9.0% q-o-q increase in 2Q2017 following a 55.5% q-o-q decline in 1Q2017. Segment revenues recorded a 15.0% y-o-y decline in 1H2017 to EGP 303.5 million, contributing 24.2% to total revenues versus 33.4% in 1H2016.

As with the cake segment, Edita is pushing for volume restoration through the launch of new higher value propositions as well as new variations at different price points to continue serving all consumer segments. Following a string of high-value launches beginning with the Molto Pate in March 2016 to the Molto Mini Mix in 1Q2017, both priced at EGP 3 per pack, Edita recently launched the Molto Chocolate Hazelnut priced at EGP 1 per pack, covering a wide price-point spectrum as it seeks to grow its market share (April 2017: 60.4%) particularly in less urbanized areas.

At the gross profit level, the croissant segment recorded a 43.1% y-o-y decrease to EGP 34.0 million in 2Q2017, with GPM standing at 21.6% compared to 32.1% in 2Q2016. Gross profitability was affected by a combination of lower volumes and the consequent effect on economies of scale, in addition to the float of the Egyptian pound and its effect on the high FX component in the croissants' raw material blend. For the full six months, the segment turned a gross profit of EGP 74.0 million in 1H2017, down 39.2% y-o-y and with a GPM of 24.4% compared to 34.1% in 1H2016.

Rusk

Revenues from the rusks segment came in at EGP 41.2 million in 2Q2017, down 6.9% y-o-y, and contributing 6.7% to total revenues compared 8.0% in 2Q2016. Slower performance at the segment comes as the quarter coincided with low seasonal demand. Average price per pack recorded a 107.5% y-o-y increase to EGP 1.72, however, total volumes recorded a 45.5% y-o-y decline to 1.0 thousand tons. Segment performance, however, recorded an improvement in 1H2017 with revenues climbing 39.4% y-o-y to EGP 107.3 million, contributing 8.6% to total revenues versus 7.2% in 1H2016. Edita's position in the segment continues to strengthen, with the company capturing 47.8% of the market as of April 2017 up from 37.0% in the same period last year.

The rusk segment reported a gross profit of EGP 6.9 million in 2Q2017, down 50.7% y-o-y on the back of lower volumes and, with GPM standing at 16.7% compared to 31.6% in 2Q2016. Gross profitability was, however, maintained for the six-month period closing 1H2017 up 14.2% y-o-y to EGP 27.3 million, with GPM recording 25.4% versus 31.0% in 1H2016.

Wafers

The wafers segment delivered an impressive performance in 2Q2017, with revenues rising more than two-fold to EGP 42.9 million and contributing 7.0% to total revenues versus 3.6% in 2Q2016. The improved performance came as prices increased 108.3% y-o-y to EGP 1.56 while volumes climbed 4.0% y-o-y to 0.7 thousand tons in 2Q2017. Segment performance was also buoyed by Freska's rebranding campaign kicked-off toward the close of 1Q2017. Meanwhile, Edita's new wafer line installed at the E08 factory began commercial production in July 2017 with the launch of Freska Fingers, an uncoated wafer available in three flavours and priced at EGP 3 per pack. Wafer segment revenues in 1H2017 recorded an 80.0% y-o-y increase to EGP 81.5 million, contributing 6.5% to total revenues versus 4.2% in 1H2016. Edita's share of the

wafer market grew to 9.2% as of April 2017 compared to 7.8% in the same period last year.

Gross profit performance mirrored the segment's top-line and recorded a 103.2% y-o-y increase to EGP 16.2 million in 2Q2017, with GPM standing at 37.8% compared to 40.7% in 2Q2016. Gross profit for the six-month period posted a 66.0% y-o-y increase to EGP 31.9 million, while GPM stood at 39.1% versus 42.4% in 1H2016.

Candy

Edita's candy segment continued to record a strong performance in 2Q2017, with revenues recording a 68.1% y-o-y growth to EGP 37.5 million and contribution to top-line continuing to expand at 6.1% up from 4.1% in 2Q2016. Total revenues for 1H2017 recorded a 64.4% y-o-y increase to EGP 77.7 million. Improved performance comes on the back of higher prices which climbed 23.6% and 38.1% y-o-y in 2Q2017 and 1H2017, respectively. Edita's market share expanded over six points as of April 2017, commanding 17.6% of the market and maintaining a leadership position.

The candy segment's gross profit also recorded solid gains, closing 2Q2017 127.4% higher y-o-y at EGP 12.2 million, with GPM expanding to 32.5% from 24.0% in 2Q2016. In 1H2017, gross profit for the segment came in at EGP 27.9 million, up 104.8% y-o-y with a seven point expansion in GPM 36.0%.

Costs of Goods Sold*

Edita's cost of goods sold (COGS) recorded a 22.1% y-o-y increase in 2Q2017 to EGP 425.0 million, constituting 69.5% of sales (2Q2016: 63.3%) as the company's cost base continues to be affected by the inflationary macro environment - particularly following the float of the Egyptian pound in November 2016. On a year-to-date basis, total COGS recorded EGP 847.6 million in 1H2017, up 28.3% y-o-y, with a COGS/sales ratio of 67.6% (2Q2016: 61.8%).

Constituting the largest share of COGS at 77.2% in 2Q2017, direct materials were also the fastest growing component of Edita's costs recording a 25.9% y-o-y increase to EGP 328.0 million. With the Egyptian pound weakening significantly post the float, cost of imported materials climbed almost two-fold along with a significant jump in local inputs with a foreign currency component. Additionally, the implementation of a value-added tax regime in September 2016 also drove up overall direct materials cost. In 1H2017, direct materials recorded EGP 654.9 million compared to EGP 494.3 million in the same period last year, up 32.5% y-o-y.

Meanwhile, manufacturing overheads (MOH) recorded EGP 79.5 million in 2Q2017, up 10.7% y-o-y, and constituting the second largest share of COGS at 18.7% (2Q2016: 20.6%). As a percentage of sales, however, MOH were maintained at 13.0% in 2Q2017 versus 13.1% in the comparable period last year. On a year-to-date basis, MOH posted EGP 157.3 million in 1H2017, up 16.3% y-o-y, however inching down to 12.5% of sales as compared to 12.7% in 1H2016. Edita's ability to maintain MOH as a percentage of sales is thanks to its flexibility in keeping overheads in line with utilization rates.

* Breakdowns within this section are derived from the company's management report.

Other Operating Expenses

Based on management accounts, operating expenses are divided into selling and distribution expenses (S&D), advertising and marketing expenses (A&M), and general and administrative expenses (G&A). During 2Q2017, total operating expenses reached EGP 162.9 million, up 32.2% y-o-y, and constituting 26.6% of revenues. Operating expenses totalled EGP 308.6 million in 1H2017 compared to EGP 230.5 million in the same period last year.

A&M expenses recorded a 51.6% y-o-y increase in 2Q2017 to EGP 55.7 million, constituting 9.1% of revenues compared to 6.7% in 2Q2016. The sharp increase is due to having the majority of FY2017 marketing budget allocated for the first half of the year to support the launch of its new products. A&M expenses as a percentage of sales are expected to ease heading into the second half of the year. Total A&M expenses for the six-month period recorded EGP 105.0 million in 1H2017, up 62.9% y-o-y.

Meanwhile, S&D expenses recorded EGP 55.9 million in 2Q2017, a 24.9% y-o-y increase compared to 2Q2016 figure of EGP 44.8 million and constituting 9.1% of revenues (2Q2016: 8.1%). The increase in S&D expenses was primarily driven by higher wages and salaries as well as employee allowances to compensate for the prevailing inflationary environment. On a year-to-date basis, S&D expenses came in at EGP 107.7 million in 1H2017, recording a 24.8% y-o-y increase.

G&A expenses recorded EGP 51.2 million in 2Q2017, constituting 8.4% of revenues (2Q2016: 7.6%) and up 22.8% y-o-y. In 1H2017, G&A recorded EGP 95.9 million, up 20.3% y-o-y and constituting 7.6% of revenues versus 7.5% in 1H2016. Edita's profit from operations for the quarter declined 79.5% y-o-y in 2Q2017 to EGP 14.2 million, while on a six-month basis operating profit was EGP 79.0 million in 1H2017, a 49.7% y-o-y decrease.

*SG&A breakdown is derived from the company's management accounts to ensure an accurate depiction of each of Edita's expenses and how they reflect on the business.

EBITDA

In 2Q2017, EBITDA came in 55.4% lower at EGP 43.0 million and recorded an EBITDA margin of 7.0%. EBITDA during the quarter was weighed down by the wave of higher marketing spend as the company aimed to support its new product launches, and was also affected by the overall inflationary pressures exerted on Edita's cost base.

Meanwhile, EBITDA for the first half of 2017 recorded EGP 137.4 million, down 34.9% y-o-y, and with a margin 11.0%.

Net Earnings

Edita recorded a net loss of EGP 1.7 million in 2Q2017 as higher materials cost, SG&A spend and significantly higher finance cost trickled down the income statement. Edita incurred a total interest expenses of EGP 27.7 million in 2Q2017, up 92.6% y-o-y, driven by the CBE's 300 bps increase in interest rates and its effect on the company's EGP-denominated debt. Additionally, Edita booked EGP 8.9 million in FX losses during 2Q2017 compared to EGP 3.0 million in the same period last year.

On a year-to-date basis, Edita posted a net profit of EGP 38.7 million in 1H2017, down 47.9% y-o-y, with a net profit margin of 3.1%.

Balance Sheet

As of the end of June 2017, Edita's total assets stood at EGP 2.6 billion, out of which property, plant and equipment (PP&E) recorded EGP 1.8 billion including projects under construction of EGP 466.8 million.

Total CAPEX during the six-month period reached EGP 317.4 million, including outlays for the construction of the new E08 plant of EGP 139.3 million, a payment of EGP 3.3 million toward the new hall in E15, EGP 103.5 million for the company's new wafer and cake lines, and finally EGP 1.7 million for the lollipop line.

Cash & cash equivalents including treasury bills recorded EGP 303.2 million, maintained at healthy levels of 11.5% of company's total assets. Meanwhile, trade and other receivables booked EGP 16.3 million, reflecting the company's continued cash sales policy (97% of sales continue to be conducted on a cash basis). Trade and other payables closed the six-month period at EGP 265.1 million.

Current portion of long-term liabilities were EGP 240.1 million, compared to EGP 146.2 million as at year-end 2016, while Edita's long-term loans increased to EGP 625.8 million from the EGP 527.8 million recorded in FY2016. Total shareholders' equity stood at EGP 1.04 billion as at 30 June 2017. The company's net debt position stood at EGP 880.7 million as at 30 June 2017 compared to EGP 631.9 million at year-end 2016.

Egyptian Accounting Standards Reconciliation to IFRS

Edita's EAS and IFRS financial statements differ in the treatment of employees' profit share, which is expensed under the IFRS, while the EAS accounts for them as a distribution and are thus not included on the income statement. Also, EAS and IFRS differ in the calculation of EBITDA. In 1H2017, EGP 13.1 million in FX losses were added to the EBITDA while EGP 737.2 thousand related to gains on the sale of fixed assets were deducted. Moreover, a profit share deduction of EGP 16.2 million was made, bringing total EAS to IFRS adjustments on EBITDA to EGP 3.8 million. A reconciliation between Edita's financial statements in EAS with the IFRS-based financial statements for 1H2017 is provided in the table below.

in EGP mn	1H2017 EAS	Adjustment	1H2017 IFRS
Net Sales	1,254.1	-	1,254.1
COGS (excluding M.O.H)*	690.3		690.3
M.O.H	150.8		157.3
Total COGS	841.1	6.5	847.6
Gross Profit	413.0	(6.5)	406.4
<i>Gross Profit Margin</i>	<i>32.9%</i>		<i>32.4%</i>
Selling & Distribution Exp.*	103.5	4.2	107.7
Advertising & Marketing Exp.*	105.0	-	105.0
General & Admin. Exp.*	90.4	5.5	95.9
Other Operational Exp.	18.8	-	18.8
Profit from Operations	95.2	(16.2)	79.0
<i>Profit from Operations Margin</i>	<i>7.6%</i>		<i>6.3%</i>
Profit Before Income Tax	57.7	(16.2)	41.5
Income Tax Expense	2.8	-	2.8
Net Profit After Tax	54.9	(16.2)	38.7

<i>Net Profit After Tax Margin</i>	4.4%		3.1%
EBITDA	141.3	(3.8)	137.4
<i>EBITDA Margin</i>	11.3%		11.0%

Market Developments

As of April 2017, the snack food market stood at EGP 5.1 billion year-to-date, recording an 8.4% y-o-y growth despite the challenging economic environment and the adverse effect on consumers' purchasing power.

Growth at Edita's core cake segment recorded 31.1% y-o-y to close the four-month period ending April 2017 at EGP 863.5 million. Edita continues to roll-out new innovative cake products allowing the company to recapture market share which stood at 57.2% at the end of the period, up from 56.9% in April 2016.

At the croissant segment, the market grew by 10.7% y-o-y to EGP 416.5 million, with Edita's market share standing at 60.4% as of April 2017 down from 71.6% in the same period last year, however, market share remaining stable as compared to February 2017. Being the dominant player in the market, Edita is leading the change in the segment's pricing structure having passed through two consecutive price increases in late 2016.

Recording the fastest y-o-y growth at 66.0%, the rusks market size reached EGP 213.8 and constituted 7.1% of the salty snack foods market compared to 4.6% as of April 2016. An underserved segment, the rusks market has been quick to absorb Edita's added capacity in late 2015, with the company's position continuing to strengthen and capturing a 47.8% market share as of April 2017 - up from 37.0% last year - despite of the recent increase in prices.

Remaining somewhat flat y-o-y the wafer market stood at EGP 667.5 as of April 2017, up only 0.7% y-o-y. Meanwhile, Edita's market share grew to 9.2% as the end of the four-month period compared to 7.8% last year, making it the third largest player in the market, up from fourth place in the previous period. Likewise, Edita grew its share in the candy market to 17.6% as of April 2017, up from 11.2% in the same period last year, and currently holds the position of market leader.

Selected Segments of the Snack Food Market in Egypt

<u>Segment</u>	<u>4M2016 (EGP mn)</u>	<u>4M2017 (EGP mn)</u>	<u>% Change</u>
Cake	659	864	31.1%
Croissant	376	417	10.7%
Salty Snacks	2,811	3,002	6.8%
<i>Rusks*</i>	129	214	66.0%
Wafer	663	668	0.7%
Candy	232	188	-19.1%
Total Market**	4,740	5,137	8.4%

* Rusk market is c.7.1% of total salty snacks

**Total market includes the biscuits, chocolates and gum segments.

Source: AC Nielsen Retail Audits

Marketing

Edita's marketing strategy during the first half of 2017 has seen it run intensive advertising campaigns to help support the company's new product launches and stimulate demand. Increased marketing spend during the quarter focused on increasing product visibility, running sampling campaigns and raising awareness among consumers about Edita's new products.

The primary effort during the first half of 2017 was the kick-off of Freska's rebranding campaign which completely overhauled the wafer's packaging to help capture a larger market share. The segment also launched two new flavours under the brand: Freska Halawa and Freska Halawa Coated. Meanwhile, following the commissioning of the new wafer line in July 2017, Edita launched the Freska Fingers, an uncoated wafer offering available in hazelnut, halawa and chocolate flavours.

Other launches during the period included the new Molto Chocolate Hazelnut, two new cake SKUs - uncoated HoHos Chocolate and HoHos Strawberry - the TODO Bar Chocolate and TODO Bar Vanilla as well as two new Twinkies Extra flavours (chocolate and strawberry). Additionally, the croissant segment witnessed the roll-out of Mini Mix Strawberry & Cream and Mini Mix Chocolate & Cream, while the rusks segment saw a new flavour launch with Bake Rolz Mix Cheese.

Edita's newly launched products are being positively received by consumers and have surpassed the company's internal forecasts thanks largely to its R&D capabilities which continue to form the cornerstone of Edita's marketing strategy. In that regard, Edita will continue to roll-out new products going forward and open up new market areas previously unserved and characterized by having a high growth potential.

Development of Average Consumer Price by Product Segment

	1H2016	1H2017	Change (%)
Cake	0.91	1.68	84.6%
Croissant	1.18	2.00	69.5%
Rusks	1.05	2.13	102.9%
Wafer	1.00	2.00	100.0%
Candy	3.02	3.97	31.5%
Total	1.04	1.90	82.7%

Sales & Distribution*

Edita continues to adopt a distribution strategy that aims to increase revenue contribution from retail and traditional points of sale compared to wholesale distribution. The strategy works to enhance Edita's direct access to retail channels and affords it a more accurate pulse of the market, thus increasing its flexibility in reacting to changing market dynamics. In parallel, Edita aims to leverage its distribution network by adopting a dual-pronged approach that sees it capitalize on retail channels' quicker acceptance to higher-priced products, while at the same time pushing through better price-point segmentation in less urbanized areas. As of 30 June 2017, Edita operated a total of 603 distribution vans compared to 577 in the same period last year, with 21 distribution centres serving customers across the country and improving Edita's penetration rate. The number of customers catered to in 2Q2017 reached 65,147, underpinning the company's continued success in bolstering its proprietary distribution network throughout Egypt.

Edita's strategy is already yielding results, with its sales and distribution mix during the second quarter of 2017 seeing retail channels constitute 37.4% of total revenue compared to 34.0% in 2Q2016, recording a 16.4% y-o-y growth to EGP 228.1 million. Meanwhile, sales from wholesale channels recorded a 2.2% y-o-y decline in 2Q2017, constituting 52.4% of total revenue compared to 56.7% in the same period last year. On a year-to-date basis, gross sales from wholesale channels reached EGP 627.3 million, up 2.0% y-o-y and constituting 50.1% of revenues compared to 56.0% in 1H2016, whereas sales from retail channels recorded EGP 485.2 million, a 29.9% y-o-y increase and constituting 38.8% of total sales in 1H2017. Meanwhile, revenues from supply and key accounts (modern trade) together contributed 4.4%

of total revenue in 2Q2017, up 48.1% y-o-y to EGP 26.7 million.

A core pillar of Edita's forward-looking strategy remains to establish a leading regional position, with management actively seeking opportunities to expand Edita's footprint to new export markets across the region in an effort to become a multi-country player. Overall, export sales grew 13.1% y-o-y to EGP 82.8 million in 1H2017, constituting 6.6% of total sales. On a quarterly basis, exports remained relatively stable y-o-y in 2Q2017 at EGP 35.8 million, representing 5.9% of total revenues.

*Revenue by distribution channel refers to gross sales

Supply Chain

Edita's supply chain strategy during this challenging environment continues to be anchored by the dual goal of maximizing operational efficiency and minimizing costs. With severe inflationary pressures driving prices up across the board, Edita's supply chain department has leveraged its solid relations with its supplier base and the size of its business to contract for raw materials at favourable prices relative to the market. Additionally, the department was able to extend its contracts till year-end at old prices for some materials. Meanwhile, following the success of Edita's R&D department in localizing its needs of imported flour, the company is currently experimenting / exploring with other raw materials to help cut foreign currency requirements.

Edita's cost of imported direct materials constituted 22% of total direct materials costs in 2Q2017 compared to 26% in 2Q2016. On a year-to-date basis, cost of imported material was 21% in 1H2017 versus 26% in the same period last year. Raw materials remain the largest constituent of the direct materials bill, accounting for 70.3% in 2Q2017 (1H2017: 71.8%) of the total direct materials cost, followed by packaging materials at 29.7% (1H2017: 28.2%).

Industrial Operations

Edita continues to roll-out new products using freed-up capacities to act as a catalyst for restoring volumes and is facilitated by line enhancements. In that regard, the company launched during the quarter new SKUs and flavours under several of its segments to continue capturing a larger market share through offering more premium, differentiated products.

Phase one of the company's new E08 factory was inaugurated in July 2017 with the start of commercial production of the company's new 3.3 thousand ton per annum wafer line. The new phase is poised to house five new production lines while the entire facility including phase two will house a total of around 11 new lines. Work is progressing on installing the new cake line and commissioning is earmarked for 2H2017. The E08 facility will allow the company to expand its current product offering through launching new variants of existing products and provide space to begin manufacturing new products developed through our in-house R&D department.

Human Resources

Edita's total headcount as of the six-months ended 30 June 2017 grew to 5,520 employees, with a turnover rate for both blue and white collar professions standing at only 1.15%. The relatively low turnover rate is reflective of Edita's dedication and steadfast commitment to the well-being and safety of all its employees, with the company regularly taking into consideration the prevailing inflationary pressures and their effect on cost of living. As such, Edita rolled-out generous merit-based and cost of living allowances in 1H2017 for both blue and white collar

employees.

As part of Edita's efforts to promote sustainable development in the communities where it does business, the company became a signatory to the United Nations Global Compact Initiatives (UNGC) as of July 2017. The UNGC is the world's largest voluntary corporate social responsibility initiative with over 12,000 business and non-business participants from 145 countries. The UNGC serves as a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption -pillars that Edita views as part and parcel of its growth strategy.

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About Edita Food Industries

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 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 2Q2017, the Company derived c. 94% of its revenue from Egypt and c. 6% from regional export markets. Learn more at ir.edita.com.eg

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Forward-looking statements reflect the current views of the Company's management ("Management") on future events, which are based on the assumptions of the Management and involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause the Company's actual financial condition and results of operations to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements.

The Company's business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to differ materially from those expressed or implied by the forward-looking statements contained in this prospectus. The information, opinions and forward-looking statements contained in this communication speak only as at its date and are subject to change without notice. The Company does not undertake any obligation to review, update, confirm or to release publicly any revisions to any forward-looking statements to reflect events that occur or circumstances that arise in relation to the content of this communication.

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