



# MANAGEMENT REVIEW



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# Chairman's statement

On behalf of the Board of Directors, it is my pleasure to introduce Almarai's 2020 Annual Report. This was a year that tested our fortitude as a cornerstone of the food and beverage sector in the Kingdom of Saudi Arabia. It has been a year full of challenges, market headwinds and economic volatility, but every employee played their part to ensure the safe delivery of our products to our loyal consumers.

**Naif Bin Sultan Bin Mohammed Bin Saud Al Kabeer**  
Chairman

## Our operating environment

At the beginning of the year, the global economy was in an improving position and many GCC markets were poised to realize growth. Markets in the Middle East rapidly deteriorated once Covid-19 began to spread, curtailing the growth potential that many companies remain in recovery from today. Ambitions to achieve growth quickly shifted to defending market share and ensuring an adequate supply of products were made available to the public, in tandem with significant pressures in the form of tripled VAT and rapidly changing consumer behaviour.

Short to medium term forecasts for the region remain depressed, with most markets expecting contractions in the coming year. The severity of these pressures will depend on meaningful progress in combating the spread of Covid-19. Non-oil sector growth suffered from significant capital spending reductions and socially restrictive measures inhibiting private sector growth. Oil production levels will remain in line with the OPEC+ commitments, further prompting the need to secure diversification through foreign direct investment, which increased by 12% from the previous year<sup>1</sup>. The Kingdom remains wholeheartedly committed to achieving Vision 2030, not allowing the pandemic to distract from the Government's strategic aims in realizing this transformation. Presiding over the G20 summit, the Government committed to building greater resilience into the Kingdom's financial systems and reserves.

## Protecting our people

A business of Almarai's size has to prioritize the safety and wellbeing of its employees, a key pillar of our sustainability framework implemented in the previous year, "Caring for our People". I am personally proud of the rapid response of Almarai's management teams, effectively transitioning the Company to remote working and implementing lockdown procedures at our manufacturing facilities to protect these sites from exposure to the pandemic. Acting with agility we were able to take much of our work online, establishing effective communications systems to unite disparate workers.

A highlight of 2020 included our continued commitment to food security in the region. As a market leader in the segments in which we operate, we feel a duty of responsibility to meet consumer demand, ensuring availability of our products on retail shelves. Almarai benefitted from its highly integrated business model, exploiting end-to-end control of our supply chain to meet consumer demand. I am pleased to note that Almarai did not experience a single instance of supply chain

shortages, enabling uninterrupted access to our much loved products that reflect our commitment to quality.

Another milestone for the Company came in the form of recognition from AIB International as the first company in the world to receive the "Pandemic Prepared Certification". The multifaceted assessment rigorously examined our management systems including crisis protocols, supply chain, operations, and health crisis mitigation. Throughout the year, our ability to adapt to new stringent regulations while ensuring the quality of our products remained uncompromised and supportive of the wider health implications surrounding the pandemic was inspiring. Despite difficult macroeconomic circumstances, Almarai reaffirmed its commitment to 'Quality you can trust'. We went above and beyond the call of duty to maintain inventory levels for retailers.

## Governance

In 2020, the Board continued to diligently perform its fiduciary responsibilities. In March, it appointed HH Prince Saud bin Sultan bin Mohammed as a non-executive member. In April, following the Company's Annual General Meeting, we approved a dividend totalling SAR 850 million to be paid to shareholders, along with ambitious expansion plans for the Poultry segment through SAR 275 million in capital investment.

## Value for our shareholders

Almarai's total market capitalization as at 31 December 2020 was SAR 54.9 billion, with one billion shares in issue. At the forthcoming Annual General Meeting on 13 April 2021 the Board of Directors will propose a dividend distribution of SAR 1,000 million, equivalent to SAR 1.0 per share or 50% of audited Net Income.

## Gratitude to stakeholders

Finally, I would like to express my gratitude to my fellow members of the Board of Directors, for the support and trust they continue to place in our management team. I would also like to place on the record my sincere thanks to the senior management team who, in the face of unprecedented market conditions upheld the values of Almarai in delivering quality to customers and driving value for shareholders. Lastly, on behalf of the Company, I would like to thank our consumers, employees and quality makers who all play a vital role in Almarai's corporate journey and in no small part contribute to our ongoing success. 2020 proved to be a challenging but rewarding year that tested the strength and resilience of our business model. I am proud of the continued commitment demonstrated by our employees to secure Almarai's future.

<sup>1</sup> World Bank: Saudi Arabia Economic Update (October 2020)

# Managing Director's message

**This was a year that tested the strength of Almarai as a contributor to food security in the Middle East. Our prior investments in infrastructure, processes and a strong supply chain truly paid off. It has been a privilege to lead the Company through this difficult period and I have relied heavily on the support of the management team and colleagues at all levels to deliver on our promises and commitments to customers. I am proud of the work we have done and wholeheartedly believe we have embodied the values that our stakeholders have come to expect from us.**



**Bader Al Issa**  
Managing Director

## Performance highlights

Net Income for 2020 stood at SAR 1,984 million, increasing by 9.5% from 2019. Revenues improved by 7% to reach SAR 15,357 million. Markets across the GCC saw sustained macroeconomic pressure throughout the year, owing largely to the Covid-19 pandemic, which continues to cause disruption to supply chains and the wider food and beverage industry globally. Almarai's highly integrated business model mitigated the impact of much of this volatility, with strong processes and controls proving vital in ensuring sufficient volumes were available to meet consumer demand.

Sales volumes experienced a steep uptick in activity in the early stages of the pandemic, primarily due to lockdown measures quickly imposed by the Saudi Government to ensure the safety and wellbeing of citizens. Retail shopping saw a major spike in activity as customers rushed to stock up in anticipation of prolonged lockdown measures and wider market uncertainty. Control of our supply chain and the strategic allocation of products proved essential to managing costs and ensuring adequate supply of products.

In such a challenging market environment, we modified our approach to ensure the safety of all employees. Initially, 2,400 of our colleagues were trapped abroad and unable to return due to travel restrictions, and unable to work prior to the rapid integration of home working protocols. We quickly took the necessary steps to facilitate remote working for non-factory and non-farming staff and implement a full lockdown at all farming and production sites, minimizing exposure to the outside world. This allowed our onsite teams to continue their valuable work.

## How we delivered

2020 has been an extraordinary year, requiring a response of equal measure, where Almarai's commitment to the customers and consumers who choose our products has become synonymous with our commitment to quality. As markets began to contract when the pandemic swept the region, we felt a duty to act as an anchor in the region to ensure food shortages were mitigated as far as possible. Our robust internal processes and end-to-end distribution capabilities were fully utilized to fulfil demand in all of our key markets.

The impact of our commitment to ensuring availability of key products was felt across the business. Initially, we experienced some operational and supply chain disruption as the economy transitioned to a 'new normal'. Although we are in a 'defensive' sector, we were not immune to this, and had to import higher volumes of livestock feed and other raw materials, which increased costs considerably, but was comfortably met by strong

free cash flow of SAR 2,830 million. As we transitioned back to a new version of 'business-as-usual', it became clear that the built-in measures to improve our resilience over the years have played a vital role in our ability to maintain productivity in times of uncertainty, reinforcing our promise of "Quality you can trust".

## Almarai's investment case

Almarai operates in a dynamic and resilient market segment, and fully understands the requirement to maintain customer loyalty while producing high quality products manufactured from world-class raw materials.

### Market leadership

- Almarai occupies the top spot in almost all market segments in which it operates
- For fiscal year 2019, Almarai ranked as the number one issuer on the Saudi Stock Exchange for ESG performance<sup>1</sup>

### Stable top- and bottom-line growth

- Revenue growth for 2020 was 7.0%, with revenues growing in all markets except Oman
- Net Income increased by 9.5% in 2020 to reach SAR 1,984 million, compared to SAR 1,812 million in the previous year
- Significant optimization of Capex resulted in a lower spend of SAR 969 million, to account for a decrease of more than 40% against last year spend of SAR 1,650 million

### Track record for delivering value to shareholders

- Dividend payment amounting to SAR 1.0 per share, totalling SAR 1,000 million to be paid to shareholders for full year 2020
- 305% increase in share price since listing

### Agile response to Covid-19, resilient to external shocks

- Product portfolio returned to pre-crisis levels through supply chain resilience
- Crisis management teams mobilized for possible 'second wave' infections
- Procurement teams avoided interrupted access to essential materials
- Cash flows and leverage position remained strong

<sup>1</sup> World Bank: Saudi Arabia Economic Update (October 2020)

### Putting safety first

Almarai employs more than 41,000 people worldwide, with over 27,000 residing in Company accommodation either onsite or nearby. We immediately recognized that, to continue production and maintain our commitment to producing the highest quality products, full social distancing measures would prove incredibly difficult while maintaining contact with the outside world. As such, Almarai made the decision to lock down production sites, which allowed our employees to continue as normal alongside rolling out a series of sanitization initiatives that complied with Government regulation, on top of our already comprehensive food safety protocols to protect consumers. Safety for all stakeholders has, and will continue to be, our top priority.

In line with the Government's vision to protect the public from the pandemic, hygiene materials and disposable products were made available across our manufacturing and distribution facilities. Along with designated quarantine rooms, such initiatives proved challenging from a cost perspective but ultimately ensured solid top-line results.

### Almarai 2025

We remain fully committed to realizing the aims of the Almarai 2025 strategy, while prioritizing working capital optimization and business process transformation in response to the pandemic. In the coming year we will redouble our efforts to strengthen the core business due to reduced disposable income and a likely decrease in tourism to the Kingdom. We are, however, satisfied with the progress made towards achieving our five-year strategic aims, and are eager to resume regular business activity once the economy recalibrates in full.

### With thanks

I am grateful to the senior management team for their support, guidance, and wisdom in profoundly difficult conditions. I would also like to express my appreciation to the Board of Directors and our shareholders for their support during an especially volatile year, and to my colleagues at all levels who are the backbone of Almarai. Lastly, I would like to express my thanks to our loyal customers and consumers, who placed their faith in our business to deliver quality and nutritious products. I am pleased to say that we did not fail them, and that, God willing, we will continue to deliver.



# We Deliver

In a year of profoundly challenging conditions that have not been experienced in living memory, Almarai prioritized one area: **Delivery**. After years of careful planning and investment in the business and quality of our products, we realized returns on the strength that we have built over our 40-year history.



This was, in some ways, an **evolutionary year** for Almarai, with historical investments and achievements paying off for the Company, shareholders and consumers. Prior strategic planning was essential for the on-ground logistics and productivity that safeguarded our supply chain, production and distribution.

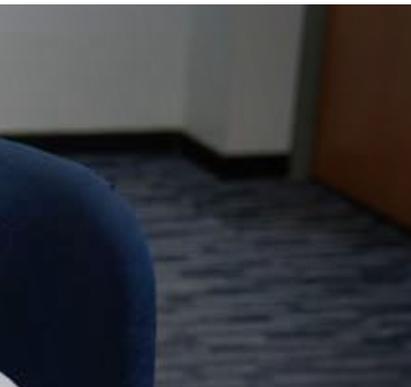
From this evolution we aim to build in the coming years. We are **adapting for future growth**, both financial and non-financial, by increasing our agility, improving our cash flows, and continuing to find innovative ways to optimize our supply chain in order to manage our costs.



**Zero product shortages** occurred even at the peak of the pandemic as the Company focused efforts on ensuring availability for consumers. At an operational level, we have always committed to exceeding demand, and this proved vital.



By prioritizing delivery, we did not compromise on our **commitment to quality**. Quality is a concept that drives our operations, from sourcing the highest calibre ingredients across the globe to produce our well-loved products and deliver them to our loyal consumers and customers.



**Resilience** is a foundation of Almarai's values, embedded in our belief system, that promotes our enduring and unwavering commitment to consumers. 2020 was a formidable test of self-sufficiency for the Company. We consider it a test that we passed.



**Responsibility** to maintain market leadership across important food and beverage categories. Our ability to satisfy demand through readiness and preparedness was evidenced by our recognition as the first company in the world to receive AIB International's "Pandemic Prepared Certification". Meanwhile, our people are critical to our operations, and we delivered on our responsibility of care to ensure their health and safety.

# Strategic priorities in 2020

As a vertically integrated food and beverage company with an established regional footprint and leadership positions in multiple segments Almarai is well positioned for continued long term growth. While this is driven with a clear focus on developing our existing business, we regularly review opportunities for expansion into adjacent segments that are complementary to our core.

## Growth

### Strategic priorities

- Focus on profitable growth in our core businesses
- Maintain close control over operating costs
- Minimise CAPEX investment

### Key risks

- Reduced demand due to depressed economic conditions and the impact of Covid-19. This is particularly acute in Foodservice.
- Price rises driven by the increase in VAT further dampening consumer demand
- Potential impact of Covid-19 to create:
  - Interruptions in supply of raw materials
  - Interruptions to production and supply of finished product

## Delivering for consumers

### Strategic priorities

- Maintain uninterrupted supply of core products to consumers in all our markets
- Maintain the highest standards to deliver on our promise of “Quality you can trust”
- Be a significant contributor towards food security in the region

### Key risks

- Potential second wave of Covid-19 during the winter months

### KPIs

- Maintaining on-time deliveries to customers



# CFO's review

Throughout what was an extraordinary year for Almarai, we have realized returns from historical investments in the Company that prepared us to step up and deliver on our promise to consumers. Through diligent planning, we put ourselves in a position where there was no need to compromise on our commitment to quality, while achieving healthy top- and bottom-line growth.



**Danko Maras**  
Chief Financial Officer

## Performance highlights

Revenues for the year totalled SAR 15,357 million, increasing by 7.0% from 2019. Top-line growth was led by Long Life Dairy, Foods and Poultry where all three business segments recorded double digit increases for the year. Our Retail sales channels performed well, however Foodservices was subdued due to the pandemic taking hold of the Kingdom earlier in the year. The situation has since remained fluid, and we are beginning to see green shoots of recovery as the HORECA sector begins to open up.

Gross profit increased by 3.1% for the year, to reach SAR 5,536 million for 2020. Margins were impacted by higher input costs for raw material and feed, driven primarily by alfalfa imports, labour costs, and health and safety initiatives to better manage the pandemic. Through careful cost management, we were able to offset increased selling and distribution expenses, which increased by 4.8% to SAR 2,490 million, by a focus on de-leveraging the Company and exploiting a low interest environment. Pandemic-related costs added pressure to the bottom-line, but strict cost control measures for both CAPEX and operating expenses alleviated this impact, with CAPEX reduced by more than 40% to SAR 969 million for the year, focused on essential maintenance activities. Consequently, year-on-year net income growth was strong, at 9.5% to reach SAR 1,984 million at a margin of 12.9% (12.6% in 2019).

## Healthy cash flows, active balance sheet management

Free cash flow was very healthy, increasing by 19.3% to reach SAR 2,830 million at year-end, compared to SAR 2,373 million in 2019 ex M&A activities. This played a critical role in our ability to deliver products to consumers. We made one significant drawdown on an existing facility at the beginning of the year, amounting to SAR 600 million, as a precaution to position us to operate as the pandemic began to spread through the Kingdom, but with a positive cash flow position we did not need to access new debt or drawdown further on facilities for the remainder of the year. We anticipate continued strong cash flow generation as we move into 2021, with liquidity and funding plans in place to support our operating position in the prevailing economic climate.

Net Debt to EBITDA was reduced from 3.2x in 2019 to 2.7x for 2020, and we remain committed to de-leveraging the Company towards an optimal ratio between 2.5x and 2.7x, having made excellent progress in the last 12 months. Almarai maintained its investment grade credit ratings of BBB- from Standard & Poor's and Baa3 from Moody's, both with a stable outlook throughout 2020 and heading into the next financial year. While the business did not

require any additional funding for 2020, we maintained back-up facilities in both committed and uncommitted lines amounting to SAR 5,500 million to account for potential volatility in the market.

With respect to credit risk, Retail performed considerably well, despite the ongoing pandemic, however, Foodservice performance remained subdued which resulted in a delay to recovery, acutely experienced during the lockdown period. The situation has since started to improve, as businesses once again begin opening up in the Kingdom. The existing controls in place supported the safeguarding of our receivables within Foodservice, with credit terms of 65% to 70% of the business standing at 30 days, and we managed to collect payments without extended delays and managed to successfully avoid significant bad debts. Throughout the year, our proactive approach to carefully monitoring receivables has resulted in no major credit issues.

## Institutional resilience

Almarai is built on the founding principle of "Quality you can trust". Resilience has been embedded in our organizational structure over many years of strategic investments to expand our capacity and develop world-class production facilities. The business was well-equipped to ramp up production to account for increased consumer demand as behaviour shifted towards a defensive stance, and customers began to panic during the initial uncertainty. Almarai management reacted rapidly to begin scenario planning for potential economical outcomes, which has given the Company impetus to begin rationalizing its operating model to further mitigate anticipated headwinds.

## Supply chain and inventory management

As a vertically integrated manufacturer and distributor, Almarai has substantial control and ownership over all inventories, which significantly reduced supply chain risk in the wake of the Covid-19 pandemic. Unlike other players in the food and beverage industry, raw material procurement was not a cause for concern. We identified several issues with suppliers who were forced into utilizing lines of credit to secure raw materials, demonstrating some problematic issues with liquidity in the market. In European markets, such as Spain, liquidity quickly became a major concern, and we overcame this by diverting to Argentina, which streamlined processes by mitigating the need for dual-suppliers, therefore reducing costs overall.

## Preparing for the future

We are well-positioned for stable performance in the years ahead, with the journey towards Almarai 2025 having made meaningful strides. In the Kingdom of Saudi Arabia we have continued to improve both market share and revenues across segments, with solid growth in Kuwait and Egypt. Oman saw a decline in volumes this year, prompted by the introduction of a new entrant in the dairy market, however we remain optimistic that we can create white space for mutually beneficial and healthy competition in the Sultanate. As Saudi Arabia returns to more normal economic activity in 2021, we anticipate an uptick in Foodservices as restaurants reopen and consumers spend more time outside their homes.

On 31 March 2020, we settled our local Sukuk of SAR 787 million, reducing our overall debt, and following AGM approval paid an SAR 850 million dividend to shareholders, maintaining our commitment to delivering competitive returns. Our healthy cash position at year-end has put the Company in a strong position to pursue future investment activities and expansion opportunities as they emerge. We look forward to the year ahead.

## Five Year Financial Highlights

SAR million	2020	2019	2018	2017**	2016**
<b>Operational Performance</b>					
Revenue	15,357	14,351	13,558	13,936	14,339
Gross Profit	5,536	5,367	5,327	5,584	5,522
Operating Profit	2,522	2,473	2,521	2,583	2,518
Profit Attributable to Shareholders	1,984	1,812	2,012	2,182	2,148
<b>Balance Sheet</b>					
Net Working Capital	3,623	3,048	2,988	1,429	1,318
Property Plant and Equipment	21,113	21,951	21,978	22,402	21,145
Net Debt	10,749	11,955	12,743	10,910	10,883
Total Equity	16,234	15,259	14,463	14,881	13,478
Total Assets	32,344	33,148	32,783	31,896	29,194
Total Liabilities	16,111	17,889	18,320	17,015	15,716
<b>Cash Flow</b>					
Cash Flow Generated from Operating Activities	4,203	4,732	3,669	4,614	4,473
Addition to Property Plant and Equipment	(824)	(1,517)	(1,919)	(2,797)	(4,515)
Free Cash Flows*	2,830	2,602	1,332	1,304	(509)
<b>Key Indicators</b>					
EBIT to Sales	16.4%	17.2%	18.6%	18.5%	17.6%
Return on Net Operating Assets	9.1%	8.9%	9.4%	10.5%	11.1%
Net Debt to Equity Ratio	66.2%	78.3%	88.1%	73.3%	80.7%
EPS - Basic	2.02	1.83	1.98	2.13	2.10
Dividend Per Share	1.0	0.85	0.85	0.75	0.72

\* Net of Investments

\*\* The amounts presented for the year 2016 and 2017 are from the audited Consolidated Financial Statements of respective years.



# COVID-19 impact and response

## Scenario mapping

In response to the Covid-19 pandemic, Almarai took a proactive approach to a range of possible scenarios. The allocation of resources evolved as the crisis progressed, with economic volatility creating difficulties in predicting how markets behaved. A healthy cash flow position has created headroom for Almarai to make predictions for the year ahead, including possible reductions to both top-

and bottom-line growth. Active management of working capital along with a solid business model have given the Company scope to react according to the situation.

After careful evaluation, Almarai prepared responses to four possibilities, to account for the different scenarios we believe may be encountered.



## Crisis management

### Creating holistic communications channels

Managing the rapidly evolving pandemic crisis throughout 2020 was essential not only for securing delivery to consumers but ensuring the safety of colleagues and creating value for shareholders. Almarai reacted quickly to roll-out a comprehensive communications system at all levels across business segments, including senior management.

At the peak of uncertainty, Almarai incorporated a daily communications channel, feeding information to all colleagues directly from the CEO to manage expectations while promoting inclusion for those trapped overseas, and transparency of new policies and initiatives.

**2,400** colleagues trapped abroad due to movement restrictions imposed by governments

SKUs rolled back to **200** from **500** to focus on the core and protect food security in the region; gradually ramped back up

**27,000** people in Almarai accommodation and working on-site during lockdown period

### Managing exposure risks

Manufacturing and Farming sites went into full lockdown almost immediately to maintain our commitment to delivery and safety. Our manufacturing and farming sites are not equipped to handle social distancing measures while operating at the level required to maintain consistent consumer supply. A full lockdown was the only option to achieve the output required to keep consumers and our people safe. This did, however, create a scenario where we were unable to rotate employees, leading to longer periods of working to keep production moving.

and on-the-job training to revamping core competencies for new employees and integrating new technology to improve connectivity for a physically disconnected work force. Almarai is fortunate to operate in a sector that has held up well and is in an exciting position to help materially improve the lives of consumers.

SKUs were rolled back significantly from over 500 to approximately 200 to prioritize the core categories throughout the period. Through the efforts of management and commitment of employees complying with strict health and safety protocols, Almarai managed to deliver products at an increased rate throughout the peak of the pandemic while incurring zero cases of Covid-19 on site.

### Business impact

Covid-19 has given Almarai the impetus to look at our internal structures and identify areas where we can upgrade efficiencies and reduce unnecessary waste. Many of the Company's internal processes have been modified significantly throughout this tumultuous period, from booking employee leave to managing administrative responsibilities. Digitization will revolutionize the way business is conducted in the future, with face-to-face meetings no longer a necessity, and limitations to air travel creating additional entry barriers to new markets.

The pandemic has had a material impact across all segments of the business, from succession planning

