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OMAN REFRESHMENT COMPANY SAOG

Management Discussion and Analysis Report - 2021

Business activities of the Company

Oman Refreshment Company SAOG (“ORC/the Company”) is engaged in the business of filling and distribution of soft drinks, water, juices, and trading in consumer-packaged goods. It holds the franchise rights to produce, fill and distribute PepsiCo range of soft drinks and Aquafina water as well as trading in new edge beverages, Frito Lays range of snacks, Quaker range of Oat products, Eurocake bakery products, Froneri ice cream range (Nestle, Mondelez, Dell monte..) of products and Frozen Vegetables (Della Terra and Maestro) of products throughout the Sultanate of Oman. Further, it also produces and distributes juices under its own brand name “Topfruit”.

The company has launched Tropicana PET juice, Balade range of long-life milk and flavoured milk into different flavours during year 2021.

The Company was established in 1975 as a joint stock company initially with small production and bottling facilities which were expanded from time to time as part of the business growth strategies to meet the growing market demand.

The company has purpose fit production & bottling plant as well as central warehousing facilities in Al Ghubrah, Muscat and 10 depots situated at Al Wafi, Ibri, Nizwa, Sohar, Salalah, Bukha, Buraimi, Hima, Musannah and Mudheibi that cater to the customers spread across the Sultanate of Oman.

During the year, ORC maintained highest Global standard of food safety for consumer through preventive and treat assessment tool certification including FSSC 22000 V4.1 and ISO 22000:2005 of Food Safety Management Systems (FSMS).

The Company has eight hundred thirty (830) employees as at the current year end who are totally aligned with the Company’s business objective of delighting all stakeholders of the Company.

The company has acquired Atlas Bottling Corporation (ABC), bottling operation of Pepsico in Algeria, the largest population country of Africa along with exclusive bottling and distribution right for the market effective September 01, 2021.

The company has one manufacturing facility in Algiers along with four manufacturing lines and there are two distribution centres There are total seven hundred forty eight (748) employees as at current year end aligned with company objectives and long-term goals.

At present, the company manufactures and distribute Pepsi cola, Mirinda flavors and Sevenup in thirteen stock keeping units (SKU) and co-pack CANS from third

party and distribute in the market. The ABC company maintains highest level of quality and have Global standard of food safety for consumer through preventive and treat assessment tool certification including ISO 22000:2018 & ISO 9001:2018, AIB certification and FSMS.

Overall Review

The ORC Parent Company achieved a net profit after tax of RO 9,609,771 on a turnover of RO 69,290,408 during the year 2021 against a net profit after tax of RO 8,680,917 on a turnover of RO 63,441,144 in 2020, registering an increase in the net profit after tax and turnover by 10.7% and 9.2% respectively.

At the ORC Group consolidated (four months of ABC), the group achieved a net profit after tax of RO 7,069,611 on a turnover of RO 73,686,228 during the year 2021 against a net profit after tax of RO 8,585,198 on a turnover of RO 63,962,261 in 2020, registering decrease in the net profit after tax by 17.6% and increase in turnover by 15.2%. The decrease in net profit at Group level is related to the operational losses of ABC – Algeria for the period of 4 months in 2021.

Forward-looking Statements

This report contains opinions and forward-looking statements, which may be identified by their use of words like “plans”, “expects”, “will”, “anticipates”, “believes”, “intends”, “projects”, “estimates” or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the company’s strategy for growth, product development, market position, expenditures, and financial results, are forward-looking statements.

Shareholders and readers are cautioned on the data and information external to the Company, that though they are based on sources believed to be reliable; no representation is made on their accuracy or comprehensiveness. Further, though utmost care has been taken to ensure that the opinions expressed by the management herein contain their perceptions on most of the important trends having a material impact on the Company's operations, no representation is made that the following presents an exhaustive coverage on and of all issues related to the same.

Further, the following discussion reflects the perceptions on major issues as on date and the opinions expressed herein are subject to change. The Company undertakes no obligation to publicly update or revise any of the opinions or forward-looking statements expressed in this report, consequent to new information, future events, or otherwise.

Operating Environment

The global economy, including our Omani economy, has been significantly impacted in 2021 by the continued disruption of COVID-19 global pandemic situation compared to the previous year, which in the current year was coupled by the volatile international oil prices and other regional & global economic challenges. Fiscal and external deficits will improve due to increased oil and gas prices and minimize public and external debt as expected in year 2022. The economy has shown recovery in 2021, with non-hydrocarbon GDP growth of 1.5 percent as vaccine rollout gradually restores domestic activity along with the recovery of external demand. Oil production is projected to increase after the current OPEC+ agreement expires in April 2022. Inflation has been subdued.

Key risks to the outlook are prolonged low oil prices, which will induce high external borrowing needs, and lack of impetus for private sector job creation that does not depend on government spending. During pandemic period, there was contraction of overall consumers due to economy slow down and adverse growth. The consumer-packaged goods market in Oman remains subdued mainly due to adaptation of new excise tax decree on all sugary products related drinks coupled

with operational environment posed several challenges such as affordability of all type of drinks along with the increasing stiff competition Snacks product segment in a highly price sensitive local market. The recent adoption of Value Added Tax (VAT) during April 2021, has increased the consumer spending on consumer packaged goods. On the other hand, stagnant consumer prices at multiple customer channels have added to the existing challenges of the business environment. Also, the operating margins were severely tested by the growing pressures of flat gross margins, revised fees, and charges, labour market and wages bill. The latter part of the year, the prices of key commodity items like aluminum, sugar, pet resin etc has increased significantly along with the global supply chain blockade resulting increased cost of transportation. It has further impacted the margins negatively. The Government of Sultanate of Oman's supported the industries through various economic support program through the financial institution including deferment of tax payments which helped industries to keep momentum and sustain during the rough phase of global slowdown of the economy.

The changing dynamics of employment environment in the Sultanate of Oman that include, inter alia, restricted employment of expatriates, shortage of skilled Omani workforce, the absence of a hire & fire ease policy and swift movement of the skilled Omani manpower from private sector to Government jobs are creating additional pressures on finding replacement of suitably qualified workforce besides the soaring recruitment & wage costs. The recent adoption of new excise tax on selected products including carbonated soft drink and energy drinks which are the key revenue driver of the company, have impacted the growth and resulted contracting revenue. The subsidy cancellation on fuel, electricity and water along with the raise in public charges and direct/indirect taxes are adding pressure on the manufacturing and distribution operation.

Since its inception, the Company has been playing a key role in the soft drinks & beverages business segment in Oman and has continued to be a leading player in this market. Besides the PepsiCo range of soft drinks, the Company's country wide distribution network had launched many other products in the "Beverages & Juices" sector over the years. The company's products, backed by its well-established customer relationships, enjoy loyal consumer patronage. The beverages market in Oman continues to grow with the growth of local population as well as the influx of expatriate manpower into the country to meet the requirements of growing economy and the diversity of market demand. On the food market, the rising demand for products with high quality and diversity of packaged goods combined with growing health conscious consumers offers a promising proposition for the food categories in which ORC operates particularly in the salty & sweet snacks segments. The management, in partnership with the principal (Pepsi co) has introduced new line of products such as Sport Drink (Gatorade) and Lipton Ice Tea (PET), in addition to No Added Sugar juice product range, as well as cereals and frozen vegetables. The company continued its efforts aiming at reducing the price impact on the consumers and has been continuously improving efficiencies out of various cost control & costs optimization measures, despite the challenges of increased prices of certain key input materials compared to previous year, due to the prevailing job market conditions.

The company continues to tread carefully in its "business expansion and product diversification" journey to cater to different consumer segments to meet the occasion-based consumption needs and diverse consumer tastes.

Opportunities and threats

The company is a significant player in the Omani beverages market and a prominent player in the snacks business segment. Besides the growing threat of competition within the Carbonated Soft Drinks (CSD) market for the company's products, the CSD market as a whole appears to be facing tough competition from dairy products, juices and other beverages. The recent adoption of new excise tax followed by value added tax on full range of sugary products including Juices, other beverages and snacks etc has strengthen the threat on overall portfolio range of beverage product which are the key revenue driver of the company. With such in regulation and tax regime, the company have introduced new no added sugar juice range to enhance Company's position in Juice beverage market. The change in consumer preference and rise of health conscious, the company has swiftly expanded its range of "Good for you" and "Better for you" propositions. While the company enjoys leadership position in the CSD market, it faces stiff competition from many players in the water, juice, snacks and ice cream segments. The company expects to widen its consumer base and strengthen its revenue base with the planned expansion of the food & beverages product portfolio.

The company operating environment foster performance based management culture in the Organisation, the Company is continuing to attract, develop & retain the best available local talent and with reasonable staff turnover mainly amongst local employees. On the other hand, the wages bill continued to raise on account

of the changing job market dynamics that include reduced work week, minimum salary increments for local workforce, increased overtime pay and impact of extended leave of absence along the authorised public holidays amongst local workforce that is resulting in deployment of temporary local workforce at higher daily wages.

Volatile international prices of commodities, which are key input raw materials to the Company's products, may impact the current and future profitability. The Company keeps a close watch and attempts to mitigate this cost impact by entering into forward contracts on certain key raw and packing materials. Further, the Company is also watchful of the ongoing changes in the regional economic, specific to GCC through introduction of Selective Tax and Value Added Tax which may also severely impact its business performance and consequently its investment strategies.

On the other hand, stagnant consumer prices at multiple customer channels, raising trade margins pressure are severely affecting the "market driven offset mechanism" to absorb the impact of rising input & labour costs. The Company works closely with the respective authorities and other market players to address this issue for the overall benefit of the Omani consumers and economy.

The Company has well-defined marketing strategy, working in coordination with "PepsiCo" and its other partners, aimed at diversifying its revenue base by re-inventing its core products and expanding its product portfolio to cater to the diverse consumer preferences and tastes in careful co-ordination with other key principals.

As regards new investments into the business, the Company has implemented Sales Force Automation (SFA) and Warehouse Management System (WMS) and continued expansion of its manufacturing, warehousing and logistics capacities at various business locations to improve operational & marketing efficiencies, as part of the objective to have purpose fit own premises for its distribution centres outside Muscat. Further, the Company has also invested in strengthening its production capabilities during the current year to meet the performance & efficiency objectives. The Company invests significantly & regularly on the upkeep of current production lines, warehousing compliant to the Oman regulations, company's distribution capabilities and marketing equipment, with the focus on improving operational efficiencies as well as increased customer reach. Through its subsidiary "Al Rawdah Integrated Trade & Investment Enterprises LLC", the Company is constantly exploring suitable new business growth opportunities.

Further, ORC has been following its established "green initiatives" to efficiently manage both liquid and solid 'waste' generated during its production/bottling processes. Staff has been regularly trained in various Health, Safety and Environment (HSE) aspects with the focussed objective of strengthening HSE measures in the plant operations and various business locations that have shown tremendous benefits in safeguarding Company assets against unforeseen events and accidents. These measures have also proven to be effective with the tangible results demonstrated by improved scores in the unannounced audits conducted by independent international and local organisations.

The Company has been an active corporate citizen and regularly supports various initiatives focusing on environment preservation, education, social and suitability development. During the year 2021, The company CSR strategy was focused on support Oman in the global pandemic of COVID-19, company has contributed OMR 82.3 K towards all corporate social responsibility activities including the COVID 19 contribution during the year 2021. The company is committed to pursue its CSR strategy in 2022 with the aim of positively impacting the communities across the Sultanate.

Furthermore, it has carried out numerous "learning and developmental" activities for its staff during 2021 with setting up a focussed "learning and development" team within its Human Capital Department and continues to invest in its human resources – both Omani and expatriate - by assessing & improving their professional & job skills in general and specifically to enhance the skills of individuals to ensure that they deliver the given responsibilities with efficiency and targeted productivity.

The Company is pro-actively carrying out the development of its Omani workforce to enable them move up higher in the organizational structure by sponsoring high potential employees to pursue their higher education. The Company had consistently maintained its staff Omanisation percentage above the legal requirement and continues to encourage & employ local workforce at every available opportunity. The Company is reaping the benefits of these measures in staff development & welfare, streamlining the human capital policies and practices in the declining staff turnover.

The Oman Refreshment Company group will focus on the Algerian Investment strategy as a key growth pillar for medium to long term perspective. While in short term perspective, the management has focus to turnaround the new business through better strategy, improved action and investment in productivity.

Financial and operational performance

Despite the economic challenges emerged from the prolonged COVID-19 global pandemic, excise tax on Sugary products implementation in October 2020, implementation of value added tax in April 2021; ORC continued its successful performance journey in 2021 with the help of innovative and intensified marketing strategies, diversification into new geography and focus on export business against the stiff market conditions such as the highly price-sensitive consumers, changing consumption habits, highly competitive Juice, Water and Snacks product segments, the group Overall sales volume has a growth at 22.0% and ORC parent volume growth at 5.4%

On the other hand, the rising operating costs especially the unpredictability in the volatile costs of input materials and employment continued to impact the operating margins, which to some extent withstood the pressure on the back of marginal sales volume growth and improving operational efficiencies. Further, the Company's selective and focussed investment strategy to improve operational efficiencies across the organisation, together with the successes achieved in sourcing certain key input materials at competitive prices compared to the previous year helped in achieving growth in net profit during 2021 vs 2020 at ORC Parent level.

Performance of various products

The company operates in the Beverages & Juices segment as well as importing & distributing food products. Following is the contribution of various products to the company's turnover, in terms of number of cases in thousands:

Product category	2021	2020	Variance (%)
Carbonated Soft Drinks	16,087	15,041	7.0%
Water	2,936	3,020	(2.8%)
Juices	1,708	1,724	(1.0%)
Other Beverages	201	233	(13.7%)
Food	1,778	1,709	4.0%

Chilled and Frozen	201	129	55.8%
ORC domestic	22,911	21,856	4.8%
Export	4,788	4,418	8.4%
ORC	27,699	26,274	5.4%

N.B.: The above is excluding Arabian Vending LLC & Atlas Bottling Corporation sales

ORC Financial highlights

	2021	2020	2019	2018	2017
	RO	RO	RO	RO	RO
Revenue	69,290,408	63,441,144	63,169,098	75,895,580	77,851,117
Gross profit	26,276,327	26,796,019	25,361,421	31,451,701	30,028,434
Profit before taxation	11,324,724	10,246,070	9,927,787	13,874,869	12,683,033
Taxation	(1,714,953)	(1,565,153)	(1,465,220)	(2,081,268)	(1,866,049)
Net profit after taxation	9,609,771	8,680,917	8,462,567	11,793,601	10,816,984
Cash Dividend *	3,000,000	2,500,000	2,500,000	3,750,000	3,750,000
Net Equity	76,346,660	69,236,889	63,055,972	58,343,405	50,299,804

*Proposed dividend for 2021 is subject to shareholders' approval at the ensuing AGM.

ORC Group Consolidated Financial highlights

	2021	2020	2019	2018	2017
	RO	RO	RO	RO	RO
Revenue	73,686,228	63,962,261	63,765,515	76,024,055	77,851,117
Gross profit	26,505,347	26,975,935	25,582,660	31,530,131	33,696,542
Profit before taxation	8,865,291	10,152,901	9,935,665	13,895,500	12,682,631
Taxation	(1,795,680)	(1,567,703)	(1,479,619)	(2,086,312)	(1,866,049)
Net profit after taxation	7,069,611	8,585,198	8,456,046	11,809,188	10,816,582
Cash Dividend *	3,000,000	2,500,000	2,500,000	3,750,000	3,750,000
Net Equity	73,471,743	69,139,795	63,054,597	58,348,551	50,289,363

Conclusion

The Company shall continue to expand & diversify its products to appeal to the varying consumer needs through innovative products and strategies for wider consumer reach. The new outreach to Algeria will further enhance the diversification into new geography and improve the opportunity to grow. The Company's growth plans will be driven by the success of its efforts in capitalising on the growth and diversity of the market demand with quality delivery of its product portfolio while simultaneously focussing on efficiency improvement, costs optimisation and suitable development of human capital to meet the growing business needs.

Having stated about the internal preparedness of the Company, it is also imperative not to underestimate impact, on its business performance, of the regional and local economic conditions and the various measures initiated by the Government authorities, such as fees & tax rate revision, proposed new taxes and pruning of subsidies, to mitigate the widening budget deficits on account of low oil prices. Though the near future presents an element of uncertainty in the general economic conditions of the region due to COVID-19 global pandemic and volatile oil prices, the company believes that it is well positioned in its business sector due to its cautious approach to selectively expand and introduce new products, while continuously driving internal efficiencies and improving market response time, on the back of its strong brand equity and established business relationships.
