

AIR Global

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Pallav Mittal: I'm Pallav Mittal, Head of Global Tobacco at Barclays. I'm thrilled to have the management team from AIR Global here with me, Stuart Brazier, the CEO; Bassem Lotfy, the CFO; and Gaurav Jain, the Head of Corporate Strategy and IR. Thank you so much for giving us the opportunity to host you.

Just for some context, AIR Global listed on the NASDAQ Exchange via SPAC deal earlier this year in May, and it currently has an EV of \$1.4 billion and trades at 9x P/E -- sorry, 12x P/E, 8x EV/EBITDA and a 9% free cash flow yield. We have an overweight rating and a \$10 price target on AIR Global. I think Stuart and Bassem, you have some opening comments before we get into Q&A, so over to you.

Stuart Brazier: Opening comments.

Pallav Mittal: We will start with a brief history on AIR Global and your journey towards the IPO.

Stuart Brazier: Okay, sure. So I've been with the business now for 8 years, 5 years as the CFO and nearly 3 years now as the CEO. Prior to that, I was with British American Tobacco for nearly 23 years in the UK, but also spent 15 years overseas, Eastern Europe, Asia, Africa. And the last role I did with BAT, I was the head of finance for the European and North African division.

A little history on the company. The company began back in 1999 in a place called Ajman in the United Arab Emirates, and it was a Syrian couple, actually, who started making Al Fakher shisha. Over a number of years, they gained quite a following, and they gained a following because of the unique flavors and the quality of the product. If you roll forward to 2006, there was a listed Jordanian conglomerate called EICO, and a major shareholder in EICO was a Jordanian family called the Fakhouris, who had previously had the license to manufacture Marlboro in Jordan. And that license had recently been taken back by PMI.

One of the sons, Samer Fakhouri, was a very, very keen shisha consumer, and his favorite brand was Al Fakher. And for many years, he'd thought about going into the shisha business, and for many years, he'd been trying to replicate this particular product, and he wasn't successful, so he decided to buy the company. They bought the company through EICO, and then it became part of this larger group. Over the next 13, 14 years, the popularity of this brand, the popularity of this product really grew around the world.

Then there was -- today we have Kingsway Capital are a significant investor in our business, and they initially invested in the company, I think, back in 2015, so you then began to have an internationalization of the shareholder unit. Once Kingsway had control of the business, they then began to internationalize the management, which is when they began to bring in people from multinationals, as they had aspirations to grow this into a multinational business.

In 2020, by that time, Al Fakher was, I think, about 98% of the revenue of EICO, and we were able to take the company private. Since that time, bringing capability into the business, putting the right systems, the right processes, building our organization in key markets such as the U.S., such as Saudi, such as Europe. And as you say, we were then able to go public again in the middle of this year, and here we are today. And that's a brief history of AIR. Bas?

Bassem Lotfy: So, I myself joined AIR almost seven years ago. Like Stuart, I had 23 years of BAT experience in various finance roles, including the Middle East region and the last role being in Northern Europe. I came into the company through these five, six years of transformation as Corporate Finance Director, and then I took over from Stuart two and a half years ago as CFO when he became CEO.

Pallav Mittal: Sure. And at your first results since listing, which were for the first half of 2026, you laid out guidance for 2026 and also gave some medium-term guidance. Can you please summarize the key elements of this fiscal year and the medium-term guidance?

Stuart Brazier: Sure. Well, it's been quite a busy first six months of the year. People might not be aware, but our head office is based in Dubai, and we have a couple of large factories in Dubai as well. Given the Middle East conflict, obviously we had some supply chain challenges at the back end of February and through the rest of Q1, and that meant that we had to establish new supply chains, both into the UAE but also getting finished product out of the UAE. And the employees, the team, did a wonderful job to very, very quickly establish those. I think that showed the great resilience and capability of the business. And like many of these things, you sort of come out of it a lot stronger than you actually went in. So March and the first half of April were challenging in terms of shipments, but we were able to really accelerate those from the second half of April and through the rest of Q2.

For the half year versus the same period last year, we managed to actually grow revenues 3.7%. Volumes were down because of supply constraints, and we couldn't quite catch up to the demand that remained robust throughout the period. However, we managed to increase revenues through a 14% price mix variance. So the great thing about our category is it's social, it's occasional, and it's pretty price inelastic. And we were able to pass on the cost inflation that we were experiencing because of the supply chain to our distributors, to our customers who were very keen to have the product and ensure that they were able to supply their customers. So again, great indications for the business that in those circumstances, we were able to still grow revenues.

If we look out to the end of the year, we're guiding towards top-line growth of 4% to 6% in U.S. dollar terms. Now, obviously we've had to absorb higher costs relating to supply chain and some of the raw materials. Also given that we are recently listed as well, this is the first year where we've actually gained the capabilities to allow us to be a listed company, and there's some costs that we have to absorb related to that. And finally, relating to the supply chain, we also announced a few months ago that we're opening a

new factory in Romania. So we have some ramp-up costs associated with that, associated with the diversification of our factory footprint.

So once you take all of those into consideration, we're guiding towards low-single digit adjusted EBITDA growth for the year. But if you adjust those impacts out, we would be high-single digit adjusted EBITDA, which has been the track record of the business over the last few years. In the medium term, we are in a growing category. So unusually, there aren't many tobacco businesses that can say that their category is growing, but ours is. And we guide to low-single digit organic volume growth for the category. We also guide to pricing of 3% to 4%, which leads us to a mid-single digit top-line growth for our core business, which is our flavored shisha molasses business. And through operating leverage, that drives us to guide towards an adjusted EBITDA of high-single digit.

Pallav Mittal: Right. Can you comment on how Q3 is shaping so far? So we have already had two months of trading done. So are you on track to deliver your 2026 guidance, because you do need some acceleration.

Stuart Brazier: Yes, so we're maintaining our guidance. We believe that we are still on path to deliver that. We've been able to accelerate the shipments, normalize those more. We have the benefit of higher pricing as well. So the mid-single digit top-line growth we're sticking with and obviously, the low-single digit adjusted EBITDA.

Pallav Mittal: Right. Just in terms of your guidance, you did say it's in dollar terms, but you do operate in a number of countries internationally and countries where you cannot easily hedge the FX risk. So how does that work?

Stuart Brazier: So we invoice our customers in dollars, in euros or in currencies that are pegged to the dollar. So whether that's the dirham or whether that's the SAR. But 98% of our revenues are in hard currency or currencies pegged to hard currencies.

Pallav Mittal: Right. Now just going into some more details on the business and talking a bit more about your core flavored shisha molasses business. Can you just help investors understand the structural growth drivers on the flavored shisha molasses business?

Stuart Brazier: So shisha, flavored shisha molasses, the category's been around for 600 years. It's an occasional and social indulgence for people. And because of that, what people actually spend on the category year on year is actually quite limited. And also the purchase patterns at retail or in lounges are relatively infrequent, which means that our consumers are a lot less sensitive to pricing or pricing changes. We take the approach of year on year taking pricing, small incremental pricing, and we found that by doing that, that doesn't impact the consumer base. It's noticed much less.

We also have the benefit of demographic tailwinds in the Middle East, in Africa, in Asia. And in our Western markets, it's becoming, or has become, a bit of a lifestyle phenomenon. It is a social thing to do. It is a fun thing to do. People do it with friends. People do it with family. People love to Instagram their shisha moments and share. And that drives the popularity of the category. So we have great pricing opportunity, but we also have the tailwind of volume as well. Within the category itself, there are opportunities for us to premiumize as well. Very recently we did a collaboration with Snoop Dogg in the U.S., and that product we actually sell at 25% to 30% higher index than our core offering.

Beyond that, there is also white space. We are a global business. Our largest market is the U.S. by revenue, by gross profit, by EBITDA, but there are some parts of the world that still remain great growth opportunities for us. Latin America being one, India being another. Ironically, shisha began in India all that time ago, and it's still popular there.

And the last lever that I suppose I should talk about is the opportunity to move more consumers to online rather than offline. In some markets, in a couple of our very important markets, the U.S. and Germany, we have invested in our digital capability. We own the largest online platforms in this space, and we continue to grow those revenues. And of course, everything that we're selling online delivers a higher gross profit to the business because, of course, we're cutting out a number of middlemen along the way. So we see a number of levers for us to deliver that medium-term guidance that we talk about.

Pallav Mittal: Right. Just to follow up on your comment, I think you were talking about some stickiness of the consumer. And when we look at a lot of these consumer companies, they're talking of a stressed consumer due to inflation. Are you seeing any pressure from higher inflation on the volumes or any changes in demographics which is impacting the business?

Stuart Brazier: Again, because it's social and because it's occasional and I suppose because the category moves pretty slowly as well, we're not seeing these impacts coming through to our shisha volumes. The demand is still there. And funnily enough, in our category, when people are sometimes under stress, a bit of downtime, a bit of social time with friends becomes even more important. And given the affordability of the product that we offer, in some cases, people look to enjoy it more.

Pallav Mittal: Right. Just in terms of the medium-term guidance that you said, you are talking of a volume growth story with shisha molasses. You are talking of a high-single digit dollar EBITDA growth, which I think if I look at the traditional tobacco categories is probably the highest. So don't you think it is a bit aggressive that high-single digit EBITDA growth year over year in the medium term?

Stuart Brazier: Well, there is some operating leverage, obviously, that we benefit from. There are economies of scale. And the fact that we have both volume growth and we have price growth, it's basically maths that that is what is delivered because you're not increasing your cost base at the same rate.

Pallav Mittal: Right. And in terms of the competitive landscape, can you just highlight who are the key peers in your most important markets?

Stuart Brazier: Yes. We're the only global player in this category. We estimate that we have between a 36% to 44% share of this category. We don't have a global competitor. We have regional competitors or local competitors. So depending on which market we're in, we're up against somebody different, maybe a different flavor profile. In the Middle East, you have companies such as Mazaya or Nakhla. If you go to Europe, you're looking more at Adalya, who are based out of Turkey. And over in the U.S., they tend to be local U.S. brands such as Starbuzz.

Our product is a premium product that sells in a premium price position across most of the world. The fact that we are so big in the U.S. market means that we're more of a mainstream product here. And there is a segment that sits above us, which is why we were able to launch the Snoop- Al Fakher collaboration at that higher price point. But the

capabilities that we have, the capabilities that we have built in our business over many, many years really put us in a strong position to react to our competitors where we need to, but we really focus on executing the plans that we have.

Pallav Mittal: Just taking a step back, from a product risk perspective, how does shisha compare with combustible cigarettes? In the tobacco world, we have seen it is dominated by regulation. So are you seeing any significant change in the regulatory landscape in your key markets?

Stuart Brazier: Yes, so regulators look mainly for three things. They look at the potential health impact of a product, they look at the relative addictiveness of the product, and they also look at youth experimentation. These are three main things that they focus on.

On the first of those, the product that we make is made up of four main ingredients. Tobacco, glycerin, fructose and flavors. The tobacco content is around 14% by weight, so it's a low percentage of the total product. It is a very specific leaf that comes from Northern Europe mainly. It's low in nicotine, it's high in sugar, it's very absorbent of the flavors of the fructose and of the glycerin. It's called flavored shisha molasses because it looks like a jam. It's quite wet. And you actually load this product into the shisha head. It's covered by foil or it's covered by a heat management device. You then put the charcoal above it, heated charcoal, and you inhale on that product. When you do that, you are drawing heat over the molasses and it vaporizes.

So this happens at about 200 degrees, and so it's not combusting. If you compare that with a cigarette, which combusts at over 800 degrees, and when it does that, it can produce smoke that has relatively high concentrations of harmful or potentially harmful compounds. Now if you're not combusting something, as we know from the introduction of heat-not-burn cigarettes, you can dramatically reduce the concentration of those harmful or potentially harmful products in the cloud. So a heat-not-burn cigarette or stick will ordinarily heat at 300 degrees or 330 degrees, something like that. And Shisha, as I said, is heated at 200 degrees. So the science is very simple. The lower that you heat the product, the lower the concentration of these harmful or potentially harmful compounds in the cloud. So on that, you get a tick versus other inhalation or tobacco inhalation products.

In terms of relative addictiveness, I mentioned that it's only 14% tobacco. I mentioned that the tobacco is low in nicotine. And the actual consumption patterns also show that it has relatively low addictiveness. The fact that a regular shisha consumer will only have three or four shishas a month demonstrate that.

And finally, on youth experimentation, here in the U.S. year on year, the CDC will run a survey on what under 18s or high school kids are experimenting with. And year on year, shisha, or hookah, as it's called here, actually comes out at the bottom of that survey. And it's kind of common sense because it's not an easy thing to do to put a shisha together. If you want to have a nicotine experience, there are other easier things to do. So because of that, we find that we do get treated differently by regulators, also because the category is relatively small. We saw that back in 2019, 2020 when California introduced a statewide ban on all flavored tobacco products, and there was one exemption, which was hookah or shisha. And since that time, no state has actually banned shisha. So by engaging, by explaining the category to the regulators, we found that we do get treated differently.

Pallav Mittal: Right. So just looking at the broader industry, when I look at manufacturer revenue, it is a \$1 billion market. But when I look at the total opportunity, it seems it's more like \$15 billion to \$18 billion. So can you just talk about the pricing markup along the value chain of the shisha molasses industry?

Stuart Brazier: This is the structure of the category. About two-thirds of the volume that we sell globally is consumed at home, so people making their own shisha, putting it together. But one-third of the volume actually goes to the lounges. And it goes to them because it's actually a wonderful business model for them. So if I take my home market or where I live, the UAE, and buy a kilo of flavored shisha molasses for \$50, and what a lounge owner does is they take that kilo and they divide it into 40 separate servings. And they will sell those servings individually for between \$15 or \$100. So they're buying a product for \$50 and selling it for between \$1,000, \$2,000, \$3,000, \$4,000, depending on the clientele that they have.

So it's actually the most profitable thing that they do. It's more profitable than selling food or selling alcohol. And that's why you see maybe a proliferation of outlets that are serving shisha because it's good business for them. Because if they're already, they've got the foothold -- people are buying food or they're buying alcohol, they might as well upsell them on a shisha as well. And that actually also becomes quite powerful when dealing with regulators because the product that we make supports a lot of businesses. And if that gets threatened, then there's a lot of people who are very, very happy to voice their concern around that.

Pallav Mittal: So moving to new growth categories, or NGPs, Next Generation Products, as we call it in the tobacco world, can you just highlight the key products that you have in your new growth categories?

Stuart Brazier: Sure. Our brand, actually the Al Fakher brand is, by consumer penetration, the sixth largest tobacco brand in the world. But our consumers are occasional and social. A few years ago, we licensed the Al Fakher name, it's called Al Fakher Crown Bar, to a third party for disposable vapes. Last year, the royalty that we received from that business actually amounted to 4% of our total revenue, and that's pure royalty. So what we've seen is that our brand actually has great relevance in the vaping space.

Disposable vapes are under a lot of pressure in terms of regulators around the world, and we see that trend continuing. However, we see a much greater opportunity for pod-based vape systems as technology advances, as the consumer experience begins to get better and better. And we have a product called Crown Switch, which utilizes a new piece of tech out of a business in Canada called Greentank. It's a new type of chip. And the early indications on that, the early science independent analysis on it, is that the actual aerosol that comes from that is far cleaner than other products that are already available, for example, in this market.

So we already know that our brand can move over into vapes. We believe that we have a piece of technology that is very, very relevant for the consumer in terms of improving their experience. And in fact, we believe it's also relevant for the category and for the industry in time because we think it's a real step forward. We see Crown Switch in the U.S. market as probably the largest opportunity we have in the NGC space today.

What we're doing is putting our PMTA together at the moment. The plan will be for us to submit this before the end of the year. And under the new guidance from the FDA, we

would hope that within two to six months, that PMTA will be accepted as good enough to go to scientific review. Once that's done, in the new world, we are able to market and sell that product. So we'll be looking to do that in the U.S. as soon as we get that acceptance.

And that for us is the number one opportunity. We believe the product, as I say, is great. We believe it's a real step forward in tech. We know that our brand can cross over into that adjacent category. So we'll be really focused on getting that up and running.

Pallav Mittal: Right. So just a couple of follow-ups on the comments that you have just made. On Crown Switch, the PMTA, clearly the e-cigarette market in the U.S. is dominated by the illicit vapes. Do you think you could have a profitable business on the vaping side, especially given that you will be a late entrant into the market?

Stuart Brazier: So I think that what's happened over the last five, six, seven, eight years in the U.S. vape market is you've had this rapid growth of the illicit market. The actual legal market today is much, much smaller than the illicit. That's really a function of the fact that historically, PMTAs have taken five, six years to get approved. And that's meant that then the products that are in the legal market are actually quite old technology versus the illicit part of the market where it's new tech and also any flavor that's available, whereas the legal market is aging tech and only a couple of flavors.

So I think it's very sensible what the FDA have said that they're now focused on, which is clamping down harder on the illicit market and then making it slightly smoother for you to bring new tech into the legal market in a much more efficient way. So in time -- and also we've begun to see that they're allowing flavors to come into the legal market as well. And of course, I think if this happens, in time, the legal market will begin to expand and the illicit market will begin to decline. So we see a great opportunity in this space over the next few years with this product.

Pallav Mittal: the

Stuart Brazier: So look, a couple of things on that. First I'd say, we've been doing this for a few years. And when you look on a consolidated level, we've obviously been growing our top line, and we've also been growing the adjusted EBITDA at a high-single digit rate as well. So our core business is strong enough to absorb the fact that we are investing in NGCs at the moment.

The other thing I want to say is obviously we talked about 4% of our revenues actually being royalties from NGCs. We include it in the core business because we're not actually selling it ourselves. But I think if you put the two together, it's a very different picture in terms of what net-net we're investing. So we're not afraid to invest in it. We have been building the foundations for us to be in the position we are today.

Going forward, we will be more focused specifically on the largest opportunity that we see, which is, as I say, Crown Switch in the U.S. We will be responsible in how we approach this. We're not going to go in nationally. We'll go in state by state. We'll do A/B testing. We'll learn about what we're getting right, what the consumer thinks of the product, what actually works. And then from there, we will begin to invest more where we see the opportunity to drive and accelerate long-term value growth for our shareholders.

Pallav Mittal: And in terms of nicotine pouches, I think recently you collaborated in the U.S. and you

have launched something in the market. So any initial feedback, and any other potential markets where you could launch nicotine pouches?

Stuart Brazier: So we've launched very recently in Spain, again, a very targeted launch with our Crown Gems product. The way we look at all of these opportunities is, do we have a right to win? What differentiation can we bring? We see Spain as a market where pouches really haven't developed as quickly or as much in many of the other markets. We have the distribution in Spain. We have a field force in Spain as well. And we believe that really to learn about the potential of our Crown Gems, Spain's a good place to start. So it's early days, and again, we'll learn lessons from it.

Pallav Mittal: I think a product that we haven't discussed yet is the OOKA product. So is it a few priority markets that you have for that product? And how does the unit economics compare versus the traditional shisha business?

Stuart Brazier: So OOKA plays a role in the core business. OOKA, for those who don't know, is the world's first electronic shisha. Normally, when you put a shisha together, it takes you 25 minutes. It can be a messy process. There's hot charcoals involved. OOKA makes it very, very easy. There's no charcoal. It's an oven. It's a pod-based system. You load the pod, you close it, you press a button, and in five minutes, you can have your shisha experience.

It is very much part of our premiumization strategy. It operates like the razor blade model, so the value is in the pods. It operates like an espresso model. It allows us to stretch further into that broader term of \$15 million to \$18 million that you talked about a little earlier. On a per kg basis, actually for us it delivers 20x in terms of revenue per kg versus the core business. On a gross profit per kg level, it delivers us a 15x.

But as I say, this category has been around for 600 years. Because of the consumption patterns, it moves early. And OOKA is an evolutionary product, but we see great potential for it over time. We will come to market with a OOKA 2.0 towards the end of next year, which will actually make the device more affordable for the consumer as well. But we do in the medium term see great opportunity for it.

Pallav Mittal: Right. In terms of capital allocation priorities, on our estimates, you will be approaching sub 2x leverage by the end of 2026. So how should we think about share repurchases or dividends as we get to that 2x leverage?

Bassem Lotfy: We recently had an EGM that has given us approval to do share repurchases. I think in terms of capital allocation, we will look at a very balanced policy that we will be agreeing with our board. We will look at reinvesting behind growth, behind our NGCs, where we see that that's bringing long-term value creation. We will look at other possible smallish bolt-on M&As, be it brands or tech-based. But we will also want to return capital to shareholders via share repurchases and/or dividends. We'll be looking at all of it.

Pallav Mittal: And in terms of M&A, just if you could highlight any particular market that you're more interested in. And given that, I think Stuart made this comment earlier that you are larger than the next four competitors combined. So how do you look at M&A? Any particular markets, or just like some bolt-on you're in there?

Bassem Lotfy: It's more bolt-on, not necessarily in a particular market, but where a brand makes sense or there's a good fit in our portfolio and we feel that it will add value to be plugged into our supply chain and that we can get it at a cheap multiple. But there isn't a particular

market that we're focusing on. It's more tactical if and when these opportunities arise.

Pallav Mittal: And just one last question. So in terms of your EBITDA margins, from where we are, what are the levers to expand it over the next few years? And where do you think you can get the EBITDA margin levels in the next, say, five years?

Bassem Lotfy: We typically expect -- as Stuart mentioned earlier, we typically expect 1% to 1.5% volume growth, but we expect to take price mix year on year. And a lot of the investment in our capabilities to become a listed company have already been done, so we don't expect our cost base to grow at the same rate going forward. So we expect more -- therefore, we expect some operating leverage going forward.

Pallav Mittal: I think we are running out of time. Thank you so much, Stuart, Bassem, and Gaurav, for giving us the opportunity to host you.

Stuart Brazier: Thanks, Pallav.

Bassem Lotfy: Thank you.

Forward-Looking Statements

This interview transcript contains “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and other U.S. federal securities laws. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms “anticipate,” “believe,” “contemplate,” “estimate,” “expect,” “guide,” “medium term,” “intend,” “may,” “plan,” “predict,” “potential,” “seek,” “should,” “target,” “will,” or, in each case, their negative or other variations or comparable terminology.

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