ALHOKAIR Fashion Retail الحكير أزياء التجزئة

# Earnings Release

Q1-FY23

Riyadh | 16 August 2022

## Fawaz Abdulaziz Alhokair Co. achieves improvement in profitability in Q1-FY23, driven by cost optimization

- Stable performance supports 26% growth in profitability in Q1-FY23, with a bottom line of SAR 58 million
- Ramadan trading delivers revenues of c. SAR 800mn, at an annual growth of 5.2%
- Cost rationalization and optimization initiatives to enable further savings
- Strategic delivery progressing well, including development of unique omnichannel customer experience

**(Riyadh, 16 August 2022)** Fawaz Abdulaziz Alhokair Co. ("Alhokair" or the "Company", 4240 on the Saudi Exchange), the leading lifestyle retailer in Saudi Arabia, today announced its results for the first quarter ended 30 June 2022 (Q1-FY23), reporting steady revenues of SAR 1,706 million, unchanged year-on-year (YoY), and a net profit of SAR 58 million, a 26% YoY increase from Q1-FY22. The first quarter of this year, as well as that of last year, coincided with the Holy month of Ramadan which started on the 2nd of April, and which represents an important trading period for Alhokair.

The operating environment remains buoyant, with international retail and F&B reporting 22% and 8% YoY topline growth, respectively. Saudi retail recorded a stable topline performance on an adjusted basis, which excludes from the base year the impact of increased sales activity during the Ramadan ramp-up period, that was fully captured in Q1 of last year as opposed to it falling in March this year. Consequently, and with an adjusted base year, consolidated revenue would show a 3.4% YoY growth.

Overall, the improvement in net profit in Q1-FY23 was supported by a decline in SG&A expenses on the back of the Company's ongoing rationalization of operational costs.

**Mohamad Mourad, Interim Chief Executive Officer** at **Alhokair** said:

"The business has delivered a stable performance during this quarter, reflecting the positive impact of the progress made on our operational upgrade strategy coming through, in addition to the increased trading activity during the Holy month of Ramadan, which is one of the busiest periods for Alhokair.

Our international retail portfolio reported a particularly strong performance, propelled by the positive momentum from CIS countries and Jordan. The F&B segment also delivered pleasing growth, as it continued to benefit from our investments, to take advantage of the favorable dynamics in the Saudi market.

Alhokair's commitment to digital as a key pillar of its strategy continued to produce good results, with online revenue surpassing the levels achieved during the pandemic.

For the coming quarter, we remain cautiously optimistic as we tread a soft operating environment in KSA. We have continued to collaborate with our brand partners to expand our offering both domestically and overseas, whilst ensuring that we deliver a unique and innovative omnichannel experience that complements our strengthened footprint and drives long term growth."

## Summary Financial Highlights

| SAR Million | Q1-FY23 | Q1-FY22 | Change YoY |
|---|---|---|---|
| **Revenue** | 1,706 | 1,701 | 0.3% |
| **Gross Profit (Loss)** | 278 | 333 | (16.4%) |
| **EBITDA** (pre-IFRS 16)* | 146 | 151 | (3.3%) |
| **Net Profit (Loss)** | 58 | 46 | 26.0% |

* After deducting depreciation on right-of-use (ROU) assets and finance cost on lease liability

**Ahmed Belbesy, Chief Financial Officer** at **Alhokair** commented:

"Alhokair reported a good set of results with all operating segments showing stability and resilience despite ongoing inflationary pressures, supply chain hiccups and higher interest rates. Our profitability during the quarter was further supported by ongoing measures to streamline our operations, rationalize our costs and actively manage our inventories."

# Q1-FY23 Highlights – continued optimization initiatives driving sustainable profitability

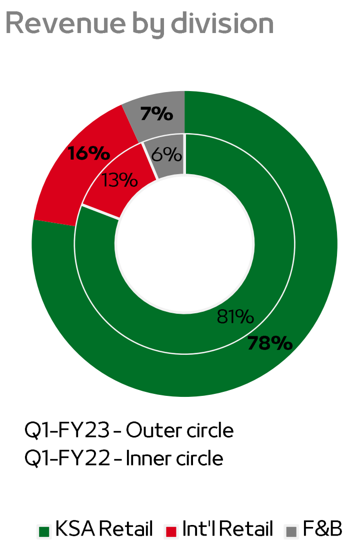
## Revenue analysis

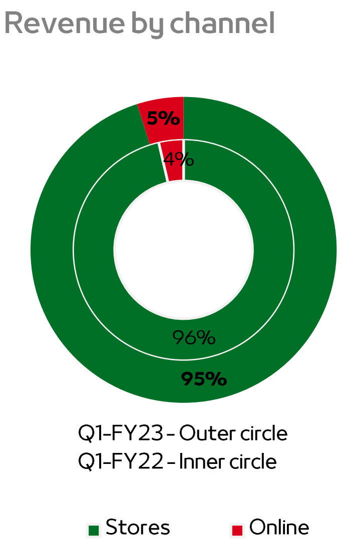
Alhokair recorded steady revenues of SAR 1,706 million in Q1-FY23 compared to SAR 1,701 million in Q1-FY22. The muted revenue performance was predominantly due to the absence of the key pre-Ramadan ramp up period this quarter (as it was fully reflected during Q4-FY22) versus it falling in Q1 of last year. Adjusting for the impact of increased sales activity during the Ramadan ramp up in the base year, would lead to a 3.4% YoY growth in consolidated revenues. Both international retail revenue (+22% YoY) and F&B revenue (+8% YoY) showed solid improvements during the quarter.

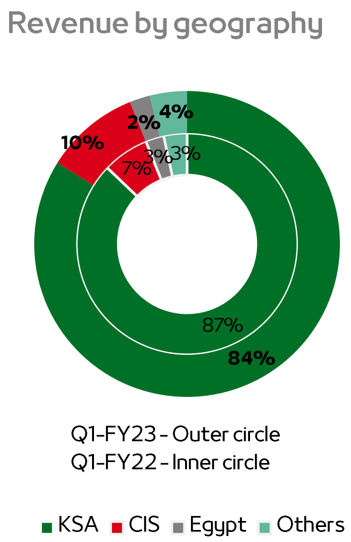
- **Ramadan trading activity:** Alhokair started the new fiscal year on a strong footing with the Holy month of Ramadan, which is considered one of the best sales seasons, starting on 2nd of April. Overall, revenues increased by 5.2% YoY to SAR 790mn for the Ramadan trading period, defined as the 30 days of Ramadan plus the 7 days around Eid Al-Fitr. Saudi retail sales remained buoyant during the period, showing healthy growth of 4.2% compared to the 2021 Ramadan season. Meanwhile, the impact of the Ramadan season was especially pronounced for the F&B segment, whereby revenue growth exceeded 25.3% YoY, driven by lower pandemic-related restrictions, and a large pickup in activity resulting from enhanced consumer sentiment.

| SARmn | 2021 | 2022 | Growth |
|---|---|---|---|
| **Retail** | 717.5 | 747.8 | +4.2% |
| **F&B** | 33.5 | 41.9 | +25.3% |
| **Total KSA Revenue** | **750.9** | **789.7** | **+5.2%** |

- **Saudi retail** revenues reached SAR 1.3 billion in Q1-FY23, decreasing 4% YoY. Adjusting the comparable base period to normalize the effect of the Ramadan ramp-up period, which was absent in Q1- FY23 as it fell in March, would result in revenues remaining unchanged during this quarter. Despite relatively strong trading during Ramadan, the Saudi operations witnessed some softness in May, which later picked up in June in anticipation of Eid Al Adha.
- **International retail operations** generated revenues of SAR 267 million in Q1-FY23, up 22% YoY, which was essentially driven by a sustained positive momentum from CIS countries and Jordan. This was despite sales from Egypt showing some weakness (-39% YoY) on the back of the Central Bank restrictions introduced in February and March 2022, including the documentary credit import system, which curtailed retailers from importing the necessary inventories. The Company has continued to explore collaboration opportunities with leading global brands in select growth markets.
- **F&B segment** reported solid results, with revenues increasing 8% YoY to SAR 116 million in Q1-FY23 from SAR 107 million in Q1-FY22, with the net closure of 4 stores during the period. Sequentially, F&B revenues declined by 11% which is a normal seasonality drop, as demand for fast food typically decreases during the Holy month of Ramadan. During the quarter, we saw the first streams of income coming from the Subway brand in the form of sub-franchise royalty fees, whilst the Company is advancing on its plan to acquire 45 stores of the existing sub franchises. The acquisition of 30 of these 45 stores is expected to be finalized by Q3-FY23. Overall, Alhokair remains focused on enhancing the F&B segment by expanding its presence across the Kingdom, whilst also migrating existing brands in the portfolio to select markets such as Egypt, Morocco and the CIS, to further drive the segment's performance in FY23 and beyond.
- **Online sales** came in at SAR 84 million in Q1-FY23, increasing by 36% YoY, in line with Alhokair's drive to reinforce its digital offering and deliver a genuine omnichannel experience to customers across a range of monobrand and multi-brand platforms. Online revenue contribution to total retail revenue (excluding F&B) has expanded to 5.3% in Q1-FY23, from 3.9% in Q1-FY22. We are on track to achieve our FY23 target for our ecommerce arm to contribute 5.5% of total retail revenue.
- **Eid Al Adha trading activity:** As the Company approached the latter part of the quarter, sales activity started picking up in anticipation of Eid Al Adha , which started on the 8th of July. Consolidated revenues increased by 18.8% YoY for the Eid Al Adha trading period, defined as the 14 days prior to the start of Eid. In LFL terms, consolidated revenues reported a 12% YoY increase.
- **Consolidated like-for-like (LFL) revenue** declined 2.7% in Q1-FY23, as a result of a softer market in Saudi Arabia.
  - **Saudi retail** revenues decreased by 6.6% YoY in LFL terms for Q1-FY23 due to the change in the timing of the Ramadan period and school examinations.
  - **International retail** sales increased 20.6% in LFL terms for Q1-FY23, primarily due to the sustained improvement in performance of the CIS counties and Jordan. We expect international operations to continue showing an improvement in operations despite the ongoing weakness from Egypt.
  - **F&B** sales on a LFL basis dropped 4.5% YoY in Q1-FY23, on weaker demand for fast food during Ramadan.



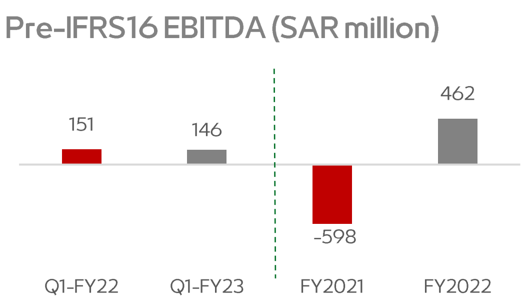

## Bottom line analysis

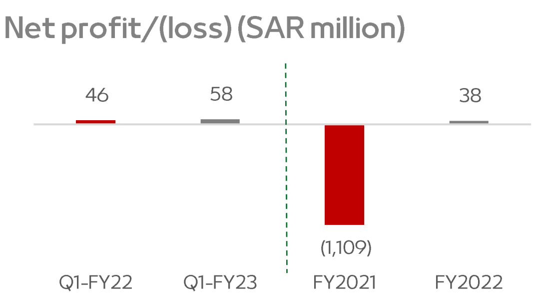
**Gross profit** amounted to SAR 278 million in Q1-FY23, compared to SAR 333 million in Q1-FY22, representing a decline of 16% YoY. This was essentially due to the muted top line performance, as a result of the absence of the ramp up period to Ramadan, coupled with a drop in trading margins on changes in the discount period adopted by the Company. In Q1-FY23, the start of the discount period was brought forward 10 days compared to same quarter of last year, which has resulted in a trading margin of 40.1% for the quarter (vs. 42.1% in Q1-FY22). This translated to a Gross Profit Margin of 16%, compared to 20% in Q1-FY22.

**Selling, general and administrative expenses (SG&A)** were SAR 130 million in Q1-FY23, a 9% YoY decline, as a result of Alhokair's focus on cost rationalization and operational efficiencies. The sequential increase in SG&A is on the back of a lower base as the Company had reported some credits such as the support from the Saudi HRDF.

**EBITDA** (pre-IFRS16, i.e. after deducting depreciation on right-of-use assets and finance cost on lease liability) was SAR 146 million in Q1-FY23, compared to SAR 151 million in Q1-FY22. EBITDA margin declined from 8.9% to 8.6%. This was essentially the result of the flat revenue performance and decline in trading margins, which has mostly outweighed the reduction of SG&A expenses during the period. Going forward, Alhokair expects EBITDA margins to expand by a range of 1-2% on the back of ongoing cost rationalization measures across the Group.

Alhokair reported a **net profit** of SAR 58 million in Q1-FY23, increasing 26% YoY, when compared to SAR 46 million during the similar quarter of last year. This was supported by a decline in SG&A expenses, on the back of the Company's sustained measures to optimize operational costs, and a significant rise in Net Other Operating Income, as a result of larger realized forex gains during the period.



## Balance sheet analysis

**Inventory** balances reverted back to SAR 1,411 million as of 30 June 2022, after having spiked last quarter, in preparation for the Ramadan season, Eid Al Fitr and Eid Al Adha. This translated to inventory on hand of 18 weeks. For FY23 and beyond, Alhokair will further enhance its retail merchandise planning process, with the goal being to improve supply chain efficiencies and reduce terminal stock.

The regulatory procedures on the recommended capital alteration are progressing, having secured the CMA and EGM approvals on the capital reduction. We are in advanced stages on the capital increase and are currently waiting for the CMA approval. Further updates will be shared in due course.

## In Focus: Operational Upgrade Strategy

Alhokair rolled out its **Operational Upgrade Strategy** to achieve sustainable and profitable growth. The transformation strategy focuses on four pillars: portfolio optimization, operational excellence, building a lifestyle brand, and commitment to digital. The following outcomes were achieved during FY22:

| Portfolio optimization | Operational excellence |
|---|---|
| ▪ During the quarter, we saw the exit of two retail brands: Uterque and F&F and the addition of Subway. Our total brand count stood at 82* as of June-end.<br>▪ Our consolidated store network showed a net increase of 8 stores sequentially.<br>▪ For retail, a total of 16 retail stores were closed, with 28 opened, resulting in a net increase for the retail portfolio of 12 stores<br>▪ For F&B, 11 outlets were opened and 15 were closed, resulting in a net decrease of 4 outlets.<br>**Count includes brands added to the store network and financial statements* | ▪ Saudization levels at 71% for Q1-FY23, equivalent to Platinum Nitaqat status, with reaffirmed commitment to continual professional development and career opportunities |
| **Building a lifestyle brand** | **Commitment to digital** |
| ▪ Locations for Fnac Darty have been identified, with the opening of the first store scheduled during the current year<br>▪ With the onboarding of the Subway brand, we will see the acquisition of 30 stores by Q3-FY23. | ▪ Launched 4 new monobrand sites in KSA: Charles & Keith, La Vie en Rose, FG4 Kids & Women, and Jacadi. The Company currently operates a total of 18 monosites.<br>▪ Launched 2 new monobrand sites in Georgia and Armenia for Bershka, with the total number of monobrand sites in international markets reaching 7.<br>▪ Ongoing integration of Alhokair brands on Vogacloset with 48 brands now live, supported by optimized marketing |

## Contact

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## Analyst Call and Earnings Presentation

Alhokair will be hosting an analyst call for the Company's financial results on August 18, 2022, at 16:00 Saudi time. For conference call details, please email investors.relations@fahretail.com.

## Income Statement

| SAR Million | Q1-FY23 | Q1-FY22 | Change YoY |
|---|---|---|---|
| **Revenue** | 1,706 | 1,701 | 0.3% |
| Cost of Revenue | (1,428) | (1,368) | 4.4% |
| **Gross Profit** | **278** | **333** | **-16.4%** |
| Gross Profit Margin | 16.3% | 19.6% | (3.3) |
| Selling and Distribution Expenses | (44) | (44) | -0.4% |
| General and Administrative Expenses | (85) | (99) | -13.3% |
| Other operating expense | (8) | (15) | -45.6% |
| Depreciation and Amortization | (41) | (65) | -37.2% |
| Other Operating Income | 44 | 18 | 139.7% |
| **Operating Income** | **144** | **128** | **12.2%** |
| Operating Income Margin | 8.4% | 7.5% | 0.9 |
| Financial Charges | (68) | (72) | -5.7% |
| **Profit before Zakat and Tax** | **76** | **56** | **35.1%** |
| Zakat and Income Tax | (18) | (10) | 75.1% |
| **Net Profit for the Period** | **58** | **46** | **26.1%** |
| Net Profit Margin | 3.4% | 2.7% | 0.7 |
| Attributable to: | | | |
| Shareholders of the Company | 58 | 47 | 23% |
| Non-Controlling Interest | 0.1 | (1) | NM |
| | | | |
| **Earnings per Share Basic and Diluted** | **0.50** | **0.41** | **22.8%** |
| | | | |
| **Pre-IFRS 16 EBITDA** | **146** | **151** | **-3.3%** |
| EBITDA Margin | 8.6% | 8.9% | -0.3 |

## Balance Sheet

| SAR Million | 30 June 2022 | 31 March 2022 | Change |
|---|---|---|---|
| **Assets** | | | |
| Property, Plant and Equipment | 1,420 | 1,358 | 5% |
| Right-of-Use Assets | 3,306 | 3,276 | 1% |
| Goodwill and Intangible Assets | 1,094 | 1,083 | 1% |
| Investment Property | 2 | 2 | 0% |
| Equity-accounted investees | 63 | 62 | 2% |
| Other investments | 297 | 300 | -1% |
| Derivative asset | 30 | 30 | 0% |
| **Total Fixed Assets** | **6,212** | **6,110** | **2%** |
| Inventories | 1,411 | 1,700 | -17.0% |
| Advances, Deposits and Other Receivables | 548 | 475 | 16% |
| Prepayments, Rentals and Insurance | 59 | 64 | -7% |
| Cash & Cash Equivalents | 197 | 198 | 0% |
| **Total Current Assets** | **2,216** | **2,437** | **-9%** |
| **Total Assets** | **8,428** | **8,547** | **-1%** |
| **Equity & Liabilities** | | | |
| Share Capital | 1,148 | 2,100 | -45% |
| Reserves (Statutory, Foreign Currency and Fair Value) | (512) | (520) | -1% |
| Fair Value Reserve | 13 | 13 | 0% |
| Accumulated Profits (Losses) | 28 | (982) | NM |
| Equity Attributable to the Shareholders of the Company | 676 | 611 | 11% |
| Non-Controlling Interest | (107) | (107) | 0% |
| **Total Equity** | **570** | **504** | **13%** |
| Lease Liabilities | 2,876 | 2,846 | 1% |
| Post-Employment Benefits | 107 | 103 | 4% |
| **Total Non-Current Liabilities** | **2,984** | **2,949** | **1%** |
| Trade and other payables | 1,261 | 1,496 | -16% |
| Bank Overdraft | 50 | 50 | 0% |
| Zakat & Tax Liabilities | 50 | 37 | 34% |
| Lease Liability – current portion | 641 | 632 | 1% |
| ST Loans and Borrowings | 2,873 | 2,878 | 0% |
| **Total Current Liabilities** | **4,875** | **5,094** | **-4%** |
| **Total Liabilities** | **7,858** | **8,043** | **-2%** |
| **Total Equity & Liabilities** | **8,428** | **8,547** | **-1%** |

## About Fawaz A. Alhokair & Co

Fawaz A. Alhokair & Co (known as "Alhokair") was formed in 1990 by Fawaz, Salman and Abdulmajeed Alhokair. The company has since become the leading franchise retailer in the KSA and the only listed business of its type in the Middle East. Since the opening of its first store in 1991, Alhokair has grown considerably and now trades in circa 1,676 stores across 11 countries, with a retail platform operating on a total GLA of over 484,000m$^2$. All of this is managed by a workforce numbering more than 10,500. Alhokair currently represents around 82 brands, spanning from womenswear, menswear, kids and baby, department stores, shoes and accessories, cosmetics in addition to operating a series of restaurants and coffee shops. For more information, please visit www.fahretail.com

## Forward-Looking Statements

This communication contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as "according to estimates", "anticipates", "assumes", "believes", "could", "estimates", "expects", "intends", "is of the opinion", "may", "plans", "potential", "predicts", "projects", "should", "to the knowledge of", "will", "would" or, in each case their negatives or other similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans, or expectations regarding our business and management, our future growth or profitability and general economic and regulatory conditions and other matters affecting us.

Forward-looking statements reflect our management's ("Management") current views of future events, are based on Management's assumptions and involve known and unknown risks, uncertainties and other factors that may cause our 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 our actual financial condition and results of operations to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements. Our business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become inaccurate. These risks include fluctuations prices, costs, ability to retain the services of certain key employees, ability to compete successfully, changes in political, social, legal or economic conditions in Saudi Arabia, worldwide economic trends, the impact of war and terrorist activity, inflation, interest rate and exchange rate fluctuations and Management's ability to timely and accurately identify future risks to our business and manage the risks mentioned above.