ALHOKAIR Fashion Retail الحكير أزيـاء التجـزئة

Fawaz A. Alhokair & Co Releases Results for the Second Quarter Ended 30 September 2020

(Riyadh, 5 November 2020) Fawaz Abdulaziz Alhokair Co. ("Alhokair" or the "Company", 4240 on the Tadawul), the largest franchise retailer in Saudi Arabia, the Middle East and North Africa, Central Asia and the Caucasus, announced today its results for the second quarter ended 30 September 2020, reporting revenues of SAR 1,185.6 million.

Summary Income Statement

SAR Million	Q2-FY20	Q2-FY21	*Change*	H1-FY20	H1-FY21	*Change*
Net Revenue	**1,234.6**	**1,185.6**	***-4.0%***	**2,967.0**	**1,750.6**	***-41.0%***
Cost of Revenue	(1,051.3)	(1,133.7)	*7.8%*	(2,276.2)	(1,941.4)	*-14.7%*
Gross Profit	**183.3**	**51.9**	***-71.7%***	**690.8**	**(190.9)**	**-**
Gross Profit Margin	*14.8%*	*4.4%*	*(10.5)*	*23.3%*	*-10.9%*	-
Selling & Distribution Expenses	(28.1)	(44.9)	*60.1%*	(67.1)	(80.8)	*20.5%*
General & Administrative Expenses	(40.7)	(63.3)	*55.6%*	(88.5)	(118.9)	*34.4%*
Impairment Loss on Receivables	-	-	-	-	(28.5)	-
Other Operating Expense	(1.4)	(5.0)	-	(8.8)	(41.4)	-
EBITDA	**113.1**	**(61.4)**	**-**	**526.4**	**(460.4)**	**-**
EBITDA Margin	*9.2%*	*-5.2%*	-	*17.7%*	*-26.3%*	-
Other Income (loss), net	62.9	133.4	*112.1%*	63.0	198.1	*214.3%*
Depreciation & Amortization	(70.7)	(76.2)	*7.9%*	(134.4)	(154.0)	*14.6%*
Finance Costs	(121.5)	(84.6)	*-30.4%*	(234.1)	(191.9)	*-18.0%*
Profit before Zakat and Tax	**(16.1)**	**(88.8)**	**-**	**221.0**	**(608.3)**	-
Zakat and Income Tax	(10.6)	(9.4)	*-11.2%*	(22.8)	(25.5)	*12.1%*
Net Profit	**(26.7)**	**(98.2)**	**-**	**198.2**	**(633.8)**	**-**
Net Profit Margin	*-2.2%*	*-8.3%*		*6.7%*	*-36.2%*	-
Cash Balances	**408.8**	**665.0**	***62.7%***	**408.8**	**665.0**	***62.7%***

Financial & Operational Highlights

- ***Total revenues*** booked SAR 1,185.6 million in Q2-FY2021, down 4.0% y-o-y as Alhokair ramps up operations following the prolonged closure of most of the Company's stores during Q1-FY2021 in compliance with COVID-19 containment measures. Revenues were up more than twofold from the SAR 564.9 booked in Q1-FY2021 as Alhokair retail units in the Kingdom of Saudi Arabia returned to regular, pre-COVID working hours.
- Alhokair ***returned to positive like-for-like (LFL) revenue growth during the month of September***, when sales registered SAR 416.1 million, up by 3.2% y-o-y from the SAR 403.2 million booked one year previously. September saw Alhokair register LFL growth of 8.0% y-o-y in the Company's core Saudi Arabian market. The Company sustained a top-line recovery despite an increase in Saudi Arabia's VAT rate from 5% to 15% at the start of Q2-FY2021 (01 July 2020).
- ***Online sales*** booked SAR 35.1 million in Q2-FY2021, representing 3% of total sales against 0.5% for the same period of the previous year.
- Alhokair registered a ***gross profit*** of SAR 51.9 million in Q2-FY2021, returning to the green after booking a loss of SAR 242.7 million for the first quarter. Gross profit was down by 71.7% y-o-y from the level recorded for Q2-FY2020, following on relatively subdued top-line growth for the period and the effects of an increase in Saudi Arabia's VAT rate, where Alhokair absorbed some of the impact into its cost of revenue for certain brands during

July and August. It is worth noting that, when accounting for one-time rent discounts received during Q2-FY2021, Alhokair's GPM registers 11.5% for the quarter.

- ***Inventories*** recorded SAR 1,262.6 million in Q2-FY2021, down against the SAR 1,377.0 million value booked for the previous quarter and the SAR 1,656.0 million booked at year-end FY2020. Management is committed to continuously updating Alhokair's inventory management processes and shrinkage policies to minimize excess stock and ensure optimum levels that reflect fair market value, as demonstrated by a write-off of ageing inventories completed during the previous quarter. Alhokair has made substantial progress in rationalizing its inventory levels over recent quarters. Inventories have declined by 38.1% since Q2-FY2020, indicating Alhokair's proactive approach to inventory management and optimization.
- ***Selling, general and administrative expenses (SG&A)*** registered SAR 108.2 million in Q2-FY2021, an increase of 18.3% from the SAR 91.5 million booked for Q1-FY2021, reflecting the ramp-up of operations after the closures of the previous quarter. SG&A expenses were up by 57.3% y-o-y from the level recorded in Q2-FY2020. This increase was driven by a rise in staff costs compared to Q2-FY2020, when the Company booked a relatively low figure due to a one-time staff cost credit arising from an HR fund. SG&A expenses for Q2-FY2021 also included one-time restructuring costs, which the Company preferred to book during the quarter rather than amortizing over an extended period.
- Alhokair recorded an ***EBITDA loss*** amounting to SAR 61.4 million in Q2-FY2021, narrowing significantly from the SAR 399.1 million loss booked for Q1-FY2021. Year-on-year, Alhokair's EBITDA was down from an EBITDA-level profit of SAR 113.1 million registered for Q2-FY2020, with the decline driven primarily by reduced gross profitability and heightened SG&A expenses.
- ***Other income*** rose by 112.1% y-o-y to register SAR 133.4 million during Q2-FY2021. This increase was driven by Alhokair's ***successful negotiation of improved COVID-related rent relief terms*** with all of its landlords. Alhokair has accounted for all COVID-related rental discounts, with the majority of these accounted for in Q2-FY2021. On average, rental discounts have produced savings amounting to 3.5 months of base rent where granted.
- ***Depreciation and amortization*** came in at SAR 76.2 million for Q2-FY2021, up by 7.9% y-o-y from the SAR 70.7 booked in Q2-FY2020.
- Alhokair booked a ***net loss*** of SAR 98.2 million in Q2-FY2021 against a net loss of SAR 26.7 million recorded one year previously. On a quarterly basis, Alhokair's net loss narrowed significantly from the SAR 535.6 million loss booked during Q1-FY2021.
- ***Total cash and cash equivalents*** stood at SAR 665.0 million as at 30 September 2020, up by 62.7% y-o-y and reflecting the company's strong liquidity position.

CEO's Note

Since the onset of the COVID-19 pandemic, Alhokair has steadfastly sought to maintain its competitiveness and to safeguard its ability to provide customers with the finest retail experience. We have successfully weathered the headwinds of the last few months and the Company is now in recovery mode. Following the closure of most of our stores for much of Q1-FY2021, we are seeing signs of a strong comeback. Revenues climbed by more than 100% quarter-on-quarter to reach near-historical levels, and the Company returned to positive like-for-like growth in the month of September after a COVID-induced interruption. We take further encouragement from the fact that this recovery has occurred even as Saudi Arabia's VAT rate was elevated from 5% to 15% at the start of the period. Consumer confidence held its ground, and Alhokair has responded efficiently.

Meanwhile, management has successfully negotiated rent relief with all of Alhokair's, and we have taken the opportunity to implement a host of measures designed to yield long-term, sustainable value for Alhokair's shareholders. Foremost among these are efforts to continuously refresh our policies for managing inventories to prevent the accumulation of excess stock and to ensure optimum levels that reflect fair market value. These initiatives have already yielded a drop of 38.1% in inventories compared to Q2-FY2020. We have also made progress in enhancing supply chain practices, consolidating at one warehouse the operations previously executed at three separate facilities, dedicated respectively to returns and internal stock, fixed assets, and archives. This has further improved our ability to manage returned and terminal stock. Despite global supply chain worries, Alhokair has faced no issues in supplying the newest products from brand partners such as Inditex, launching the latest season's fashions and building a platform for a sustained top-line recovery.

Elsewhere, we have accelerated implementation of our digitization strategy. Our digital operations have benefitted from our focus on enhancing logistics and supply chain operations, enabling us to improve lead times and to enhance the online shopping experience. Our new and enhanced multibrand e-commerce platform is scheduled for launch by December, while two further mono-brand platforms are in the pipeline for November. On the F&B front, we see a gradual recovery led by coffee and bakery franchises. Management expects this recovery to accelerate pending full normalization of commercial activity over the coming months and has moved to secure a solid foundation for growth in the F&B space. Several new brands are in development, and our F&B unit is constructing central kitchens throughout the Kingdom to improve logistical efficiency and enhance supplies while reducing costs. We have also moved to strengthen our relationship with delivery aggregators, mitigating the impact from any potential downturn in mall footfall.

Looking forward, we remain confident in the sustainability of Alhokair's recovery and continue to study a range of strategies for generating ever greater stakeholder value, including the installment of a CRM and loyalty point infrastructure that bring us further into line with global best practice in franchise retailing.

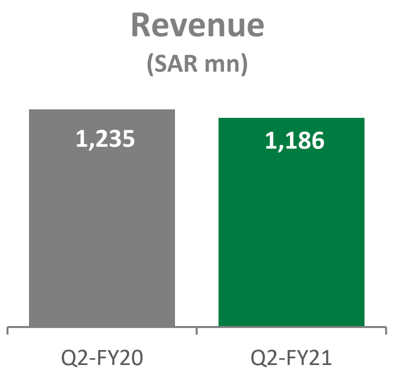
Marwan Moukarzel
Chief Executive Officer

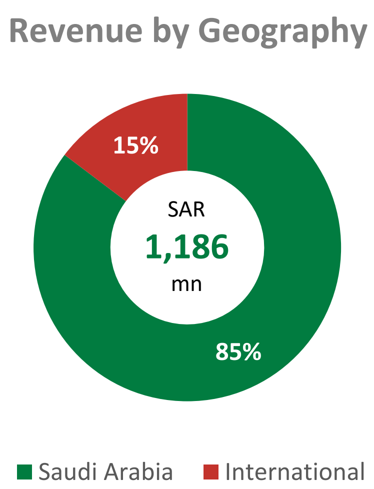
Financial & Operational Performance

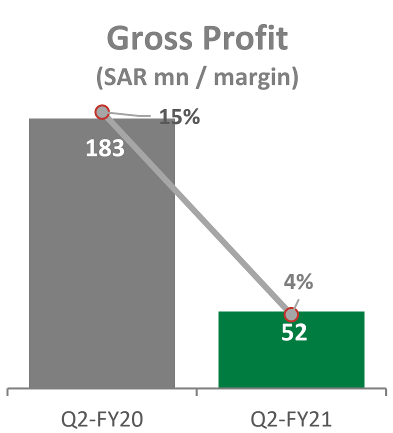
Alhokair's ***total revenues*** fell by 4.0% y-o-y to SAR 1,185.6 million in Q2-FY21. The year-on-year decrease reflects the ongoing recovery of Alhokair operations from COVID-related closures for prolonged periods during Q1-FY21. Revenues were up by 109.9% quarter-on-quarter, reflecting the ramp-up in operations as commercial activity began to normalize during the period. Alhokair sustained the quarterly recovery despite an increase in the VAT rate applied in Alhokair's core Saudi market from 5% to 15% at the start of Q2-FY21 (01 July, 2020). The quarter ***coincided with a seasonal peak in retail activity occurring around the Eid Al-Adha holidays***. Alhokair registered LFL sales of SAR 364.6 million during the 2020 Eid Al-Adha season, down by 4.6% from the SAR 382.1 million booked for the comparable period of the previous year.[1]

Online sales booked SAR 35.1 million for Q2-FY21. E-commerce revenues accounted for 3% of Alhokair's consolidated top line in Q2-FY21, up from 0.5% one year previously. The Company continues to make headway on its digitization strategy and has registered a domain name for its multibrand e-commerce platform, scheduled for launch by December 2020. Meanwhile, two further mono-brand platforms are scheduled for rollout in November 2020 for Bershka and Okaidi, respectively.

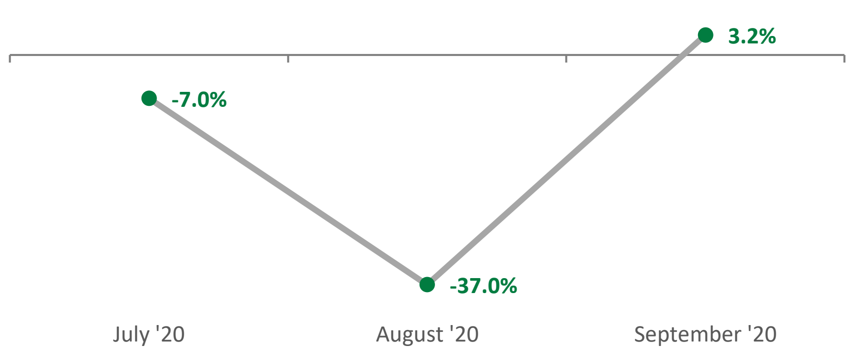
The Company returned to ***positive like-for-like (LFL) revenue growth*** during the month of September. September saw Alhokair register LFL growth of 8.0% in its core Saudi Arabian market. Prior to the onset of the COVID-19 pandemic and related mobility restrictions, Alhokair had recorded ***LFL growth of 17% between 1 January and 15 March 2020***, the Company's most rapid rate of organic growth since the Company began implementing a comprehensive portfolio optimization strategy in FY2019, involving intensive disposal of nonperforming stores and brands. On a YTD basis, Alhokair's LFL revenues were down by 50% y-o-y, reflecting the impact of COVID-19 on performance for Q1-FY2021.



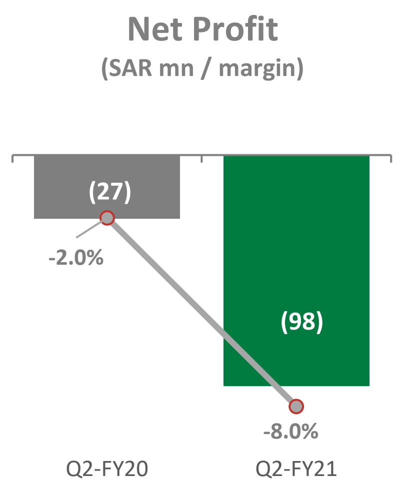


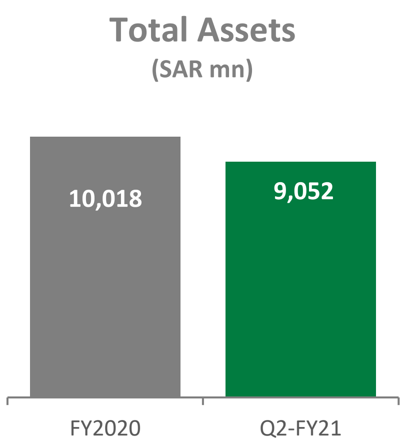


Like-for-Like Revenue Growth, Q2-FY2021



[1] *2020 Eid Al-Adha season defined as 24 July to 14 August 2020 based on Hijri calendar. 2019 Eid Al-Adha season defined as 4 August to 25 August 2019.*





Alhokair's ***global network included 1,835 stores*** as at 30 September 2020, up from 1,580 at the close of FY2020 following the Company's acquisition of an F&B store portfolio during the period. However, the figure was down from 1,849 stores at the close of Q2-FY20. Alhokair closed 103 stores in the six-month period ended 30 September 2020. Approximately 86.2% of Alhokair's revenues in Q2-F21 originated from the Company's core Saudi Arabian market. Meanwhile, ***units per transaction*** (UPT) recorded 1.78 in Q2-FY21, up by 1.3% from 1.76 in Q1-FY21.

Alhokair booked a ***gross profit*** of SAR 51.9 million in Q2-FY21, down by 71.7% y-o-y, with the decline driven primarily by Alhokair's subdued revenue growth relative to the comparable period of the previous year. Gross profit was further affected by an increase in the cost of goods amounting to 7.8% y-o-y as Alhokair moved in July and August to absorb a portion of the increase in VAT charges implemented during Q2-FY2021. However, the Company's gross profit for the quarter reverses a gross loss of SAR 242.7 million booked in the previous quarter, reflecting the recovery in net revenues begun during Q2-FY21. When including one-time rent discounts received during the quarter, Alhokair's gross profit margin registers 11.5% for Q2-FY21.

Selling, general and administrative expenses (SG&A) booked SAR 108.2 million in Q2-FY21, an increase of 57.3% y-o-y. This increase was driven by a rise in staff costs compared to Q2-FY2020, when the Company booked a relatively low figure due to a one-time staff cost credit arising from an HR fund. The y-o-y increase was further driven by the recognition of one-time restructuring costs, which the Company has opted to recognize fully in Q2-FY21 rather than amortizing over an extended period.

Alhokair recorded an ***EBITDA*** loss of SAR 61.4 million in Q2-FY21, narrowing significantly from the SAR 399.1 million loss booked in Q1-FY21. Alhokair's EBITDA for Q2-FY21 was down from an EBITDA-level profit of SAR 113.1 million booked for Q2-FY20, reflecting reduced gross profitability and the increase in SG&A costs for the period.

Depreciation and amortization stood at SAR 76.2 million in Q2-FY21, up by 7.9% y-o-y from the SAR 70.7 million booked one year previously.

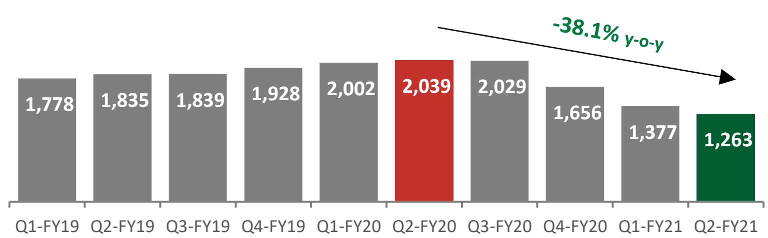
Other income reached SAR 133.4 million in Q2-FY21, up by 112.1% y-o-y as the Company successfully secured rent discounts from all of its landlords. Discounts obtained during the six-month period ending 30 September 2020 have yielded cost savings averaging 3.5 months of base rent. All COVID-related discounts have been consolidated and accounted for as at the end of Q2-FY21.

Alhokair recorded a ***net loss after minority interest*** of SAR 98.8 million in Q2-FY21 versus a net loss of SAR 26.7 million in Q2-FY20. On a quarterly basis, Alhokair's bottom line loss narrowed significantly from the SAR 535.6 million loss booked for Q1-FY21.

The Company booked ***total assets*** of SAR 9,052 million as at 30 September 2020, down from SAR 10,018 million as at 31 March 2020, reflecting the continued rationalization of inventory stocks and the permanent closure of 103 stores during H1-FY21.

Total inventory registered SAR 1,262.6 million as at 30 September 2020, down from SAR 1,377.0 million as at 30 June 2020 and SAR 2,039.2 million as at 30 September 2019. The ongoing optimization of inventory levels reflects the continuous development of Alhokair's policies for managing stocks, including the revision of the Company's shrinkage policy with an eye to boosting the efficiency with which it handles potential losses. Such policies include the one-time write-off of aged inventories completed during Q1-FY21. It is worth noting that, since 2Q-FY20, Alhokair has seen inventories decline at a rate of 38.1%, indicating the success of management's proactive approach to managing inventory and optimizing the levels held.

Quarterly Inventory Progression



Cash and cash equivalents recorded SAR 665.0 million as at 30 September 2020, down from 686.5 million at year-end FY2020, but up by 62.7% against the SAR 408.8 million held at 30 September 2019.

Total interest-bearing debt was SAR 3,117.0 million as at 30 September 2020, up from SAR 3,183.5 million as at 31 March 2020, and up from SAR 2,719.3 million at 30 September 2019. ***Net debt*** was SAR 2,452.0 million at the close of Q2-FY2021 versus SAR 2,497.0 million at year-end FY2020 and SAR 2,310.5 million one year previously.

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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 largest franchise retailer in the KSA, MENA, Central Asia and Caucasus regions, and the only listed business of its type in the Middle East. Quality, innovation, service and trust are the guiding principles for all Alhokair operations. These values are coupled with an ability to move quickly, to seize new opportunities and to enter emerging markets. Since the opening of its first store in 1991, Alhokair has grown considerably and now trades in circa 1,600 stores across 100 shopping malls in 13 countries, with a retail platform operating on a total GLA of over 500,000m2. All of this is managed by a workforce numbering more than 12,000. Alhokair currently represents over 80 brands, spanning from womenswear, menswear, kids and baby, department stores, shoes and accessories, cosmetics and coffee shops. For more information, please visit www.fawazalhokairfashion.com

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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.