ALHOKAIR Fashion Retail الحكير أزياء التجزئة

Fawaz A. Alhokair & Co Releases Results for the First Quarter Ended 30 June 2020

(Riyadh, 25 August 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 first quarter ended 30 June 2020, reporting revenues of SAR 564.9 million.

Summary Income Statement

SAR Million	1Q-FY20	1Q-FY21	*Change*
Net Revenue	**1,732.4**	**564.9**	***-67.4%***
Cost of Revenue	(1,076.5)	(807.7)	*-25.0%*
Gross Profit	**655.9**	**(242.7)**	***-137.0%***
Gross Profit Margin	*37.9%*	*-43.0%*	-
Selling & Distribution Expenses	(39.0)	(35.9)	*-7.9%*
General & Administrative Expenses	(53.7)	(55.6)	*3.4%*
One-off impairments	-	(63.2)	
EBITDA	**563.1**	**(397.4)**	**-**
EBITDA Margin	*32.5%*	*-70.3%*	-
Other Income (loss), net	(1.4)	63.0	-
Depreciation & amortization	(212.1)	(77.8)	*-63.3%*
Interest Expense	(112.6)	(107.4)	*-4.6%*
Profit before Zakat and Tax	**237.1**	**(519.5)**	**-**
Zakat and Income Tax	(12.2)	(16.1)	*32.5%*
Net Profit	**224.9**	**(535.6)**	**-**
Net Profit Margin	*13.0%*	*-94.8%*	-
One-off Adjustments			
Inventory Write-offs	-	106.0	-
Asset Impairments	-	63.2	
Adjusted EBITDA	**224.9**	**(228.2)**	**-**
Adjusted EBITDA Margin	*13.0%*	*-40.4%*	-
Cash Balances	**459.7**	**621.2**	***20.3%***

Financial & Operational Highlights

- ***Total revenues*** recorded SAR 564.9 million in 1Q-FY21, down 67.4% y-o-y on account of COVID-19 and the ***shuttering of the company's stores for prolonged periods during the quarter***. Between 16 March and 26 April 2020, Alhokair temporarily closed most of its retail units in the Kingdom of Saudi Arabia, in compliance with a government directive. Al Hokair's retail units were gradually reopened starting 26 April through 21 June 2020, in line with the lifting of containment measures. COVID-related closures during the period accounted for approximately SAR 1.2 billion in lost revenue in 1Q-FY21 against the first quarter of the previous year. Additionally, the decline in revenue reflects the final stages of the company's portfolio optimization strategy, where Al Hokair had permanently closed a net of 86 stores between 1Q-FY20 and 1Q-FY21 to stand at a ***total number of 1,561 stores as at 30 June 2020***. ***On a like-for-like (LFL) basis***, net revenue was down 53.8% y-o-y in 1Q-FY21 due to COVID-19.

- ***Online sales*** recorded SAR 83 million in 1Q-FY21, constituting 15% of total sales versus 0.5% in the same period last year as the company accelerates the rollout of its e-commerce platform and having secured exclusive rights to over 90% of its brand portfolio.
- *Al Hokair recorded a **gross loss** of* SAR 242.7 million in 1Q-FY21 compared to a gross profit of SAR 655.9 million in the same period last year. The decline in gross profitability reflects lower revenue and operating leverage on the back of COVID-related closures during the period, with the SAR 1.2 billion top-line impact translating to a SAR 525 million reduction in gross profitability compared to 1Q-FY20. Secondary effects on gross profit were exerted by SAR 152.4 million in depreciation expenses related to IFRS-16 and SAR 106 million in one-time provisions related to the write-off of ageing inventory. Normalizing for IFRS-16 and factoring out the one-time costs, gross profit would record SAR 15.7 million in 1Q-FY21.
- ***Selling, general and administrative expenses (SG&A)*** recorded SAR 91.5 million in 1Q-FY21, down 1.3% y-o-y thanks to increased operational efficiencies.
- ***One-off impairments*** *of SAR 63.2 million* in 1Q-FY21 related to certain investments in foreign markets and fixed assets.
- ***EBITDA*** recorded a loss of SAR 397.4 million in 1Q-FY21 versus an EBITDA-level profit of SAR 563.1 million for the same period last year. EBITDA profitability was impacted by lower revenue along with ***one-off costs SAR 169.2 million*** in 1Q-FY21 (inventory write-offs and asset impairments). Excluding the one-off costs, EBITDA losses would narrow to SAR 228.2 million in 1Q-FY21.
- ***Depreciation and amortization*** declined 63.3% y-o-y to SAR 77.8 million in 1Q-FY21 as last year's figure included SAR 148.8 million in depreciation of right-of-use assets related to the adoption of IFRS-16.
- ***Alhokair recorded a net loss*** of SAR 535.6 million in 1Q-FY21 compared to a net profit of SAR 224.9 million in the same quarter last year.
- ***Total cash and cash equivalents*** stood at SAR 621.2 million as at 30 June 2020, up by 35.1% y-o-y and reflecting the company's strong liquidity position.
- ***Alhokair's sale and purchase agreement for F&B operator Innovative Union Company (IUC)*** was formally concluded in 1Q-FY21***.*** IUC generated an EBITDA of SAR 71 million in FY2020, entitling Alhokair to SAR 16 million to be claimed in 2Q-FY21 in compensation from the seller as per a stipulation in the agreement, whereby it is recognized that should IUC's EBITDA have fallen below SAR 75 million for FY2020, the seller would compensate Alhokair with an amount equal to four times the difference between SAR 75 million and the EBITDA achieved for the year.
- ***Alhokair finalized its representation agreement with Decathlon,*** a leading international sports brands which falls in line with the company's strategy of expanding its portfolio to new categories. The agreement serves a s a vote of confidence in Al Hokair's strong position despite the challenging market conditions.

Commenting of the quarter's results and the Company's outlook, Chief Executive Officer Marwan Moukarzel said: "Our results for the quarter clearly reflect the operational impact of the COVID-19 pandemic. With most of our stores having shutdown for prolonged periods during the quarter, and as consumers remained cautious even during operational windows, Al Hokair saw its top-line decline by some 67% y-o-y. Nevertheless, thanks to a resilient financial position and efficient operational frameworks, we managed to hold our ground and deliver on our responsibilities toward our people and consumers, as well as our obligations to our brand partners at a time when many players in the retail industry are facing an existential threat.

Our resilience was born out of a turnaround strategy that has seen us build a leaner organization capable of withstanding short-term headwinds and generating long-term sustainable value. We have successfully completed our portfolio optimization drive, which up until the onset of the outbreak had delivered an upward trend in in average units per transaction, yield per square meter and revenue per store hour. We expect this trend to continue post COVID-19 and our store closures going forward to represent only normal operating needs. Additionally, following the difficult but necessary write-offs booked in the current and previous quarters, we have completed the cleanup of our balance sheet from ageing inventory and impaired investments. Management has now adopted a new inventory management policy that will mitigate these risks, and we thus do not anticipate any more significant write-offs going forward.

Management was also quick to leverage external support to prop up the company's position and strengthen its resolve. We had successfully negotiated an average of three to three and a half months in rent relief from our landlords, with SAR 64 million in savings booked during 1Q-FY21 and additional discounts to be reflected in the coming quarters. Al Hokair has also received payroll support from the government of Saudi Arabia under the SANED program. Most importantly, we have seen an incredible amount of support from our brand partners who have shown a great degree of flexibility in order and inventory management.

We have also taken the closure periods as an opportunity to dive further efficiencies internally, including adopting best-in-class ERP solutions and implementing a transition to Oracle across all functions of the organization. Freed up bandwidth during the closure has also allowed us to focus on accelerating the rollout of our e-commerce platform and finalizing agreements, with online sales witnessing an impressive spike of 900% during the period. Our business development teams have successfully secured exclusive rights to over 90% of our brands in Saudi Arabia, in addition to major global brands across our regional footprint. Our strategy will see us launch these brands over the coming months across both standalone brand websites as well as our inhouse proprietary e-commerce platform.

Management is cautiously optimistic as regards to a sustained recovery in the market and business over the remainder of the financial year. Since the full reopening of our stores in late June, we have witnessed increasing foot. As our top-line recovers, we are also expecting enhanced returns following our investments in operational efficiency – including the eminent launch of our shared services center – the growing contribution from online sales, and our intact financial and liquidity position. We look forward to a resumption of the strong like-for-like growth Al Hokair had witnessed in the early months of 2020 and the continued generation of long-term value to our stakeholders once the COVID-19 current crisis resolves."

Covid-19 Developments

On 16 March 2020, Alhokair temporarily closed most of its retail units in the Kingdom of Saudi Arabia, where the Group does the majority of its business, in compliance with a government directive. A nationwide curfew during the peak of the pandemic in Saudi Arabia, with significant restrictions on movement and commercial activity. Some of the Company's food and beverage outlets remained physically operational to provide takeout, pickup and delivery services, while several fashion brands remained available online.

Alhokair's retail units outside of the Makkah Region began to reopen on a partial basis beginning 26 April, as per the government's easing of the nationwide curfew measures for the holy month of Ramadan and permitting the resumption of certain commercial activities from 09:00 to 17:00. The Eid al Fitr holiday immediately following Ramadan saw the government reimpose a nationwide 24-hour curfew from 23 to 27 May. The Company partially reopened most of its retail units on 28 May 2020, with premises operating from 06:00 to 15:00 to 30 May. From 31 May to 20 June, operating hours were extended to 06:00 to 20:00 and food and beverage outlets were permitted to receive dine-in orders while following precautionary guidelines. Makkah continued to face stricter controls during the period, while Jeddah saw a reinstatement of containment measures and the suspension of dine-in orders from 6 to 20 June following an uptick of cases in the region.

From 06:00 on 21 June 2020, all curfew measures and restrictions on mobility were fully lifted by the government across all cities and regions of the Kingdom. All commercial activity has been allowed to resume on a normalized basis. From this date, all Alhokair retail units began to operate regularly and observe normal, pre-Covid working hours while maintaining comprehensive health and safety measures at all premises.

Health and Safety Measures

Reopened stores operated in accordance with Ministry of Health guidelines regarding practice in the areas of public health and safety, with the priority of safeguarding the company's employees and customers. Key measures included

- ***establishment of spatial limits on the number of customers*** allowed into a store during a given time;
- ***mandatory use of personal protective equipment*** (PPE) by store personnel around the clock;
- the provision of ***hand sanitizing stations*** across all stores;
- ***increased frequency of disinfection and sanitization*** as well as the ***closure of changing rooms***;
- ***encouragement of contactless payment*** by credit or debit card at cashiers;
- ***adopting lenient sick-leave and work from home policies*** (where possible) to support and protect our people and limit the risk of infection.

Business Continuity and Resilience

With the onset of Covid-19, Alhokair faced the global crisis as an increasingly efficient and resilient retailer thanks to:

- ***An optimized and resilient store portfolio*** following a period of ***shuttering nonperforming stores***;
- ***Growing e-commerce presence*** which has been solid results with ***year-to-date LFL growth of 304%***, enabling the Company to leverage increased online demand;
- Proactive efforts to ***optimize the company's supply chain processes***, resulting in the reduction of unnecessary handling and storage costs and improved anticipation of customer demand;
- ***Strengthened supplier relationships*** to help mitigate supply chain risks and promote collaboration;
- ***Strong liquidity position*** following the conclusion of ***a debt refinancing transaction*** at the start of the fourth quarter, ***yielding USD 800 million*** in an Islamic term Murabaha and a revolving credit facility with a one-year grace period. Said facilities have significantly enhanced the Company's liquidity position, providing a wider margin for financial flexibility and the ***resources necessary to see the Company through the current challenges***;
- ***Rapid and efficient adoption of cost rationalization measures.*** Given its preeminent role in Saudi and international retail markets, Alhokair has secured accommodative ***rent relief*** agreements with its primary landlords, securing waivers on contractual base rent and service charges for an average of three to three and a half months. The Company has also received ***support from the government of Saudi Arabia under the SANED program,*** an unemployment insurance program mandatorily applied to all Saudi workers in the private sector. The program covers up to 60% of salaries for 70% of the Company's staff, affording Alhokair a margin of flexibility as it seeks to initiate a rapid operational recovery. Meanwhile, Alhokair has temporarily implemented ***additional companywide salary reductions***. ***Additional measures*** are being considered that may have an impact on the Company's existing store network and headcount should COVID-related challenges continue.

1Q-FY21

EARNINGS RELEASE

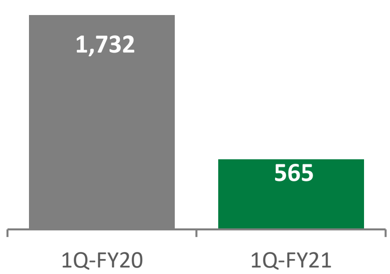
Riyadh | 25 August 2020

Financial & Operational Performance

Alhokair's ***total revenues*** declined by 67.4% y-o-y to SAR 564.9 million in 1Q-FY21. Lower revenues reflect the impact of COVID-19 and consequent temporary closure of almost all the Company's stores for prolonged periods during the quarter. COVID-related closures during the period accounted for approximately SAR 1.2 billion of year-on-year revenue losses for the first quarter of FY2021. Alhokair's stores have resumed normal operations starting 21 June 2020 in line with the gradual easing of containment measures and adhering to the Company's enhanced health and safety protocols. Lower revenue also reflects the permanent shuttering of a net of 86 stores during the period as part of the Company's portfolio optimization strategy. Management expects store closures and openings to normalize going forward with the completion of its optimization efforts.

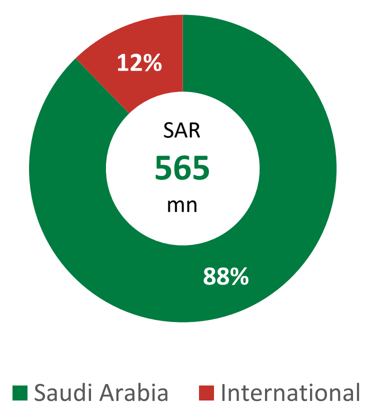
Revenue

(SAR mn)

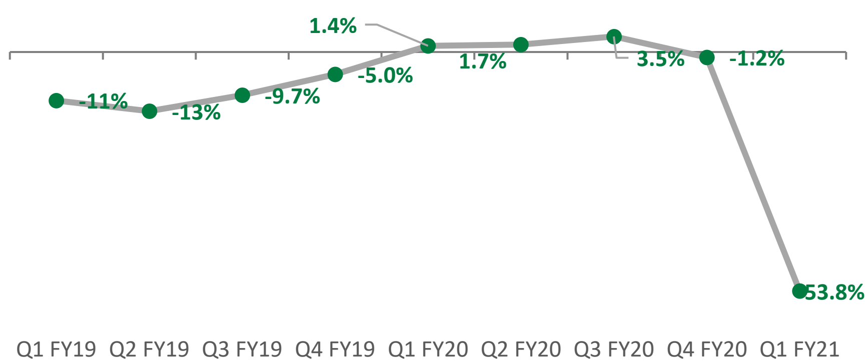


On a like-for-like (LFL) basis, net revenue similarly decreased by 53.8% y-o-y during 1Q-FY21, reflecting the impact of COVID-19. This follows consecutive quarters of higher quarterly rates of organic revenue growth up to the final weeks of March 2020 and COVID-19 related disruptions. ***LFL growth for the period between 1 January to 15 March 2020 reached 17% y-o-y***, representing the most rapid rate achieved since the Company began implementing its comprehensive portfolio optimization strategy.

Revenue by Geography



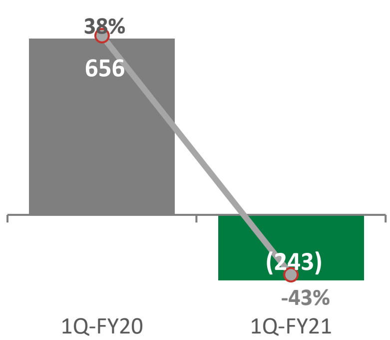
Like-for-Like Net Revenue Growth



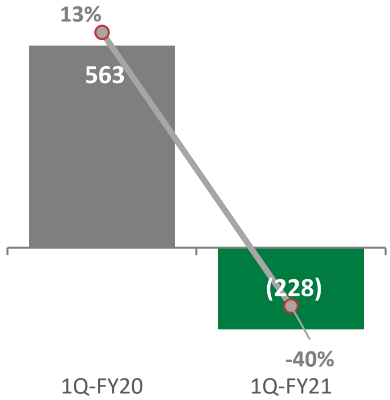
Alhokair's ***global network encompassed 1,561 stores*** as at 30 June 2020 against 1,647 stores at the close of the same quarter last year. In the three-month period ended 30 June 2020, Alhokair closed 19 stores from its FY2020 year-end portfolio of 1,580 stores. The Company generated approximately 88% of its revenues in 1Q-F21 from its core Saudi operations. ***Units per transaction*** (UPT) inched up 1% to 1.76 in 1Q-FY21, up from 1.75 one year previously, reflecting Alhokair's focus on achieving in-store retail excellence.

Gross Profit

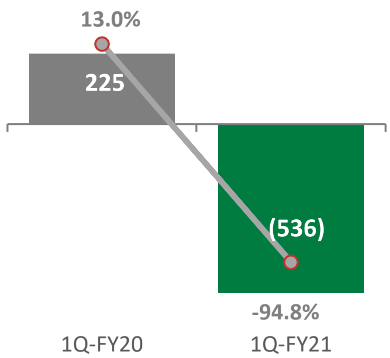
(SAR mn / margin)



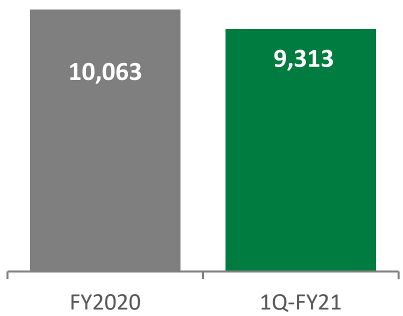
Adjusted EBITDA
(SAR mn / margin)



Net Profit
(SAR mn / margin)



Total Assets
(SAR mn)



Al Hokair recorded a ***gross loss*** of SAR 242.7 million in 1Q-FY21 compared to a gross profit of SAR 655.9 million in the same quarter last year. This decrease was driven primarily by the top-line contraction following COVID-related store closures during the period, directly accounting for SAR 525 million of the year-on-year reduction in gross profit for 1Q-FY21. The decline in gross profitability secondarily reflects the addition of depreciation expenses on right-of-use assets of SAR 152.4 million to the company's costs of goods sold, whereas in the 1Q-FY20 the comparable figure of SAR 148.8 million was included in the depreciation and amortization expense below the gross profit line. Additionally, 1Q-FY21 figures also include ***one-time provisions for ageing inventory*** totaling SAR 106 million in line with management's restructuring efforts and its strategy for reappraising inventory value in the face of an expected reduction in customer demand.

Adjusted gross profit, which excludes the one-off inventory provisions and is normalized for implementation of IFRS 16 recorded SAR 15.7 million in 1Q-FY21, down 97.6% y-o-y on account of lower revenue and operating leverage.

Selling, general and administrative expenses (SG&A) recorded SAR 91.5 million in 1Q-FY21, down 1.3% y-o-y thanks to increased operational efficiencies and the Company's cost-rationalization measures.

Al Hokair booked ***one-off impairments*** of SAR 63.2 million in 1Q-FY21, part of the Company's efforts to shed nonperforming investments and fairly appraise its asset base.

Alhokair booked an ***EBITDA*** loss of SAR 397.4 million in 1Q-FY21 against a positive EBITDA of SAR 563.1 million in the same quarter last year. This includes the one-off inventory provisions and asset impairments totaling SAR 169.2 million booked during the period. Factoring out the one-off costs, EBITDA loss would narrow to SAR 228.2 million, primarily due to the impact of COVID-19 and consequent decline in revenue.

Depreciation and amortization recorded SAR 77.8 million in 1Q-FY21, down 63.3% y-o-y as the comparable period's figures included SAR 148.8 million in depreciation of right-of-use assets related to IFRS 16.

Other income recorded SAR 63.0 million in 1Q-FY21, primarily related to rent relief secured by the company from its landlords. Management had successfully negotiated an average of three to three and a half months of rent relief due to COVID-19, with additional amounts to be realized in the coming quarters.

The Company booked a ***net loss after minority interest*** of SAR 535.6 million in 1Q-FY21 versus a net profit of SAR 224.9 million in 1Q-FY20. Bottom-line profitability was pressured by lower revenue as well as the one-off charges totaling SAR 169.2 million booked during the period.

On the balance sheet***, Alhokair's total assets booked*** SAR 9,313 million as at 30 June 2020, down from SAR 10,063 million as at 31 March 2020.The decline reflects the permanent closure of 19 stores during the quarter.

Total inventory stood at SAR 1,377 million as at 30 June 2020, down from SAR 1,656 million as at 31 March 2020 and SAR 2,029 million as at 31 December 2019, reflecting the write-off of SAR 596.7 million in ageing stocks during 4Q-FY20 and SAR 106 million in 1Q-FY21. Management notes that its cleanup efforts are now complete with no more significant write-offs expected going forward.

Cash and cash equivalents recorded SAR 621.2 million as at 30 June 2020, down from SAR 686.5 million at year-end FY2020, however up 35.1% versus the SAR 459.7 million held at 30 June 2019.

Total interest-bearing debt was SAR 3,133.6 million as at 30 June 2020, down from SAR 3,183.5 million as at 31 March 2020, and up from SAR 2,653.5 million at 30 June 2019. Net debt was SAR 2,512.3 million at the close of the quarter versus SAR 2,497.0 million at year-end FY2020.

–Ends–

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

IR Contact

Haroon Al Motairi
Email: haroon@alhokair.com.sa
Tel: +966-11-435-0000

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.