

# Cenomi Retail

## Earnings Presentation

For the quarter ended 30 June 2023 ("Q2 23")

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## Cenomi Retail at a glance



Net profit of **SAR 169.2 mn** benefited from optimization of retail footprint +173.6% YoY



Overall top line **declines 5.4% YoY** to **SAR 1.61 bn**



EBITDA contribution of **SAR 316.6 mn** up **79.2% YoY**



International portfolio continues on upward trajectory with **10.1% growth**



Online sales delivered solid **growth of 8.1% YoY**



Reduced inventory from **SAR 1,411 million** in Q2-22 to **SAR 954 million** in Q2-23



01



# Cenomi Retail Strategic Review



## Strategic pillars underpinning long-term growth



### Geography



### 'Saudi First' Strategy

- Exit non-strategic markets of US, and the Balkans
- Double down on Saudi market and wider MENA region



### Category



### Evolve from apparel champion to multi category lifestyle retailer

- Defend & maintain Fashion & Accessories market leadership
- Replicate Fashion & Accessories leadership in F&B
- Expand lifestyle categories to become a true multicategory retailer



### Brands



### Lead with winning brands

- Rationalize portfolio by exiting non-strategic brands
- Scale top existing brands to their full potential
- Spearhead growth with Brand Champions (BC) and Tier 1 (T1)



### Channel



### Rise to meet the online opportunity

- Double down on mono-brand sites to achieve record market online penetration rates
- Access third-party aggregators and leverage Cenomi.com as a platform partner

## Charting the course to maximized potential and profitability

Focus	Phase 1: Fix The House (2023-2024)	Phase 2: Embark on Growth (2024-2026)	Phase 3: Achieving Optimal Potential (2027+)
Turnaround	● ● ○	● ○ ○	○ ○ ○
Growth	● ○ ○	● ● ○	● ● ●
	<ul style="list-style-type: none"> <li>Rationalize brand and store portfolio</li> <li>Exit/stabilize non-strategic markets</li> <li>Revamp processes and systems to ensure efficiency</li> <li>Onboard new Brand Champions in core markets</li> <li>Deleverage company and secure cash for growth</li> </ul>	<ul style="list-style-type: none"> <li>Invest to scale existing brands across markets</li> <li>Identify white space opportunities and secure new franchise in key markets</li> </ul>	<ul style="list-style-type: none"> <li>Scale existing brands to maximum potential ensuring comprehensive coverage of key cities in target markets</li> <li>Invest in scaling new brands</li> </ul>



## Fortifying core market presence through a 'Saudi First' strategy



### KSA

#### Doubling down on local market

##### Store optimization program which includes

- Net 167 stores closed in H1 2023
- Circa 33 stores remaining for closure by end of 2023 to reach the end of the reset phase.

##### Enhancing portfolio by

- Supporting Champion Brands such as Zara and Cinnabon yielding results with LFL growth



### International Markets

#### Exit non-strategic international markets

##### Reassessing international presence

- Exit USA & Balkans
- Reduce operational complexity

##### In MENA markets, focus on delivering profitability

- A total of 16 and 39 stores identified for closure in Morocco and Egypt respectively.

**Brand Rationalization Strategy:**  
7 non-strategic brands added to the 22 earmarked for divestment





## Enhancing organizational capabilities to deliver on our strategy

### Organization

- Enhancing operating model through a 360 degree overhaul of organizational structure, policies, processes, and overall governance
- Raising talent calibre through senior appointments (e.g. COO, CTIO, CHRO, Head of Supply Chain)

### Profitability & Cashflow

- Maximizing profitability through divestment of non-strategic brands both locally and internationally and exiting international markets of US and the Balkans
- A focus on enabling brand champions and profitable stores (Zara, Inditex) and in parallel divesting non-strategic assets
- Engaged in constructive negotiations with landlords and brand partners to support enhanced collaboration and partnership

### Information Technology

- Streamlining operational processes through enhanced IT systems including the creation of an analytics dashboard and implementation of POS data collection

### Sales Acceleration

- Evaluated in-store staff targets and established HQ and store staff incentive schemes to foster motivation and operational excellence
- Invested in impactful marketing campaigns aimed at driving substantial sales growth and elevating brand prominence
- Exploring the introduction of innovative payment solutions, aimed at enhancing customer convenience while maximizing share of wallet

### Supply Chain

- Implementation of standardized protocols for shrinkage optimization, to ensure a consistent and efficient approach to minimizing losses across the organization
- Introduction of robust inventory control processes and policies to strategically enhance our capacity to manage stock levels, and optimize resource allocation

### Brand Portfolio Strategy

- Continued focus on building Champion Brands through a comprehensive 5-year strategy, together with expansion into growth categories that support a stronger multi-category approach
- An additional 7 brands have been identified to be added to the list of 22 brands earmarked for divestment as part of our brand optimization strategy

## Elevating organizational excellence through strategic senior appointments



**Sunil Nair**

Chief Technology & Innovation Officer

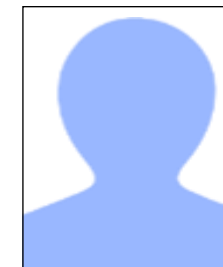
Sunil brings three decades of experience as a global digital and technology transformation strategist across retail, consumer, healthcare, manufacturing and omnichannel/e-commerce. He joins Cenomi Retail from his position as Group Chief Information Office with GMG.



**Xavier Saez**

Head of Supply Chain Management

Xavier has over 20 years of international supply chain experience, having held global roles at firms such as Danone, Revlon and LVMH. His experience spans across most supply chain areas, including manufacturing, sourcing, procurement, demand planning, and logistics. Xavier has worked in Europe, UK and Argentina and holds an Executive MBA from ESCP business school in France.



***New Hire***

Chief Human Resources Officer

Cenomi Retail has hired a Chief Human Resources Officer expected to join mid-August. The hire brings over 20 years of experience working supporting the development of teams across Saudi megaprojects and retail giants.

## Moving towards best-in-class governance to foster greater transparency and management control

### Audit Committee

- Closer collaboration with Audit Committee and the Board of Directors to revamp policies and processes to support addressing previously recognized gaps

### Related Party Balances

- Commitments from major shareholders to settle SAR 272 million in outstanding related party balances by Q3 '23 – a move that further supports ongoing deleveraging efforts

### Right of Use Asset & Lease Liabilities

- On the back of external independent party assessment of Right of Use of Asset and Lease Liabilities under IFRS16 Standard, adjustment to opening balances as of January 1st 2022 leading to SAR 56.5 million gain in retained earnings as of June 30th 2023

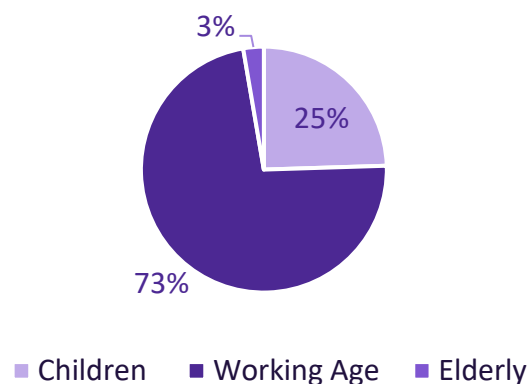
### Operational Enhancement

- Introducing a full-fledged inventory management policy to better control inventory and enhance operational efficiency
  - On-hand inventory reduced from 21 weeks to 18 weeks, q-o-q

# Leveraging strong KSA market fundamentals to support our growth ambitions

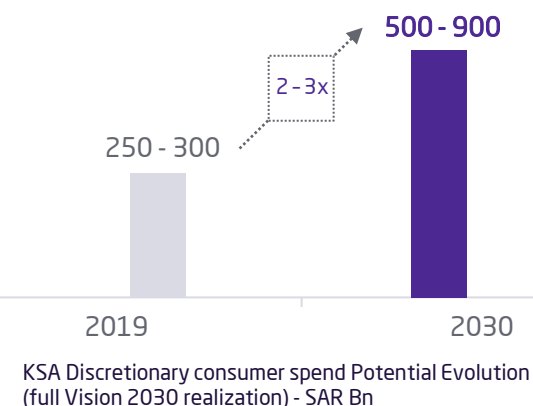
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Youthful demographics with 63% of population under 30



02

A booming consumer outlook



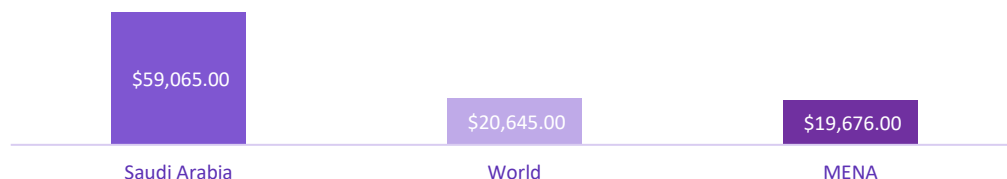
KSA population:  
+4 million (+12%)

Tourism:  
100 MN annual visits

Consumer spend:  
3X

03

Strong GDP Per Capita PPP in comparison to world and MENA average



04

Unprecedented Vision 2030 growth tailwinds



FDI in KSA on strong upward trajectory  
(11X in 2022 vs 2017)

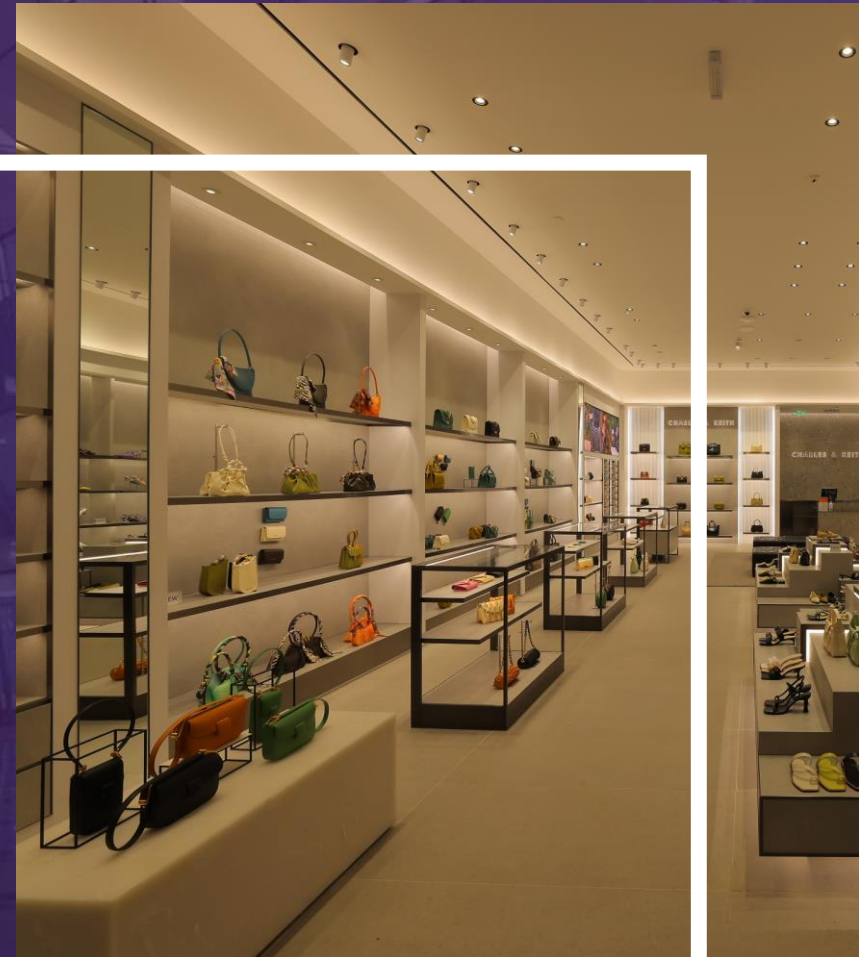


PIF commitment to invest SAR 150+ BN  
p.a. by 2025 in the KSA economy

02



## Operational Overview





## Driving profitability through continued brand & store footprint optimization



Retail

Q2'23 Retail

- 6 stores opened
- 85 stores closed
- 79 net closures

Q1'23 Retail

- 8 stores opened
- 107 stores closed
- 99 net closures



F & B

Q2'23 Retail

- 8 stores opened
- 5 stores closed
- 3 net openings

Q1'23 Retail

- 10 stores opened
- 6 stores closed
- 4 net openings

### Rationalization of brand portfolio to support overall profitability

Divestment of non-strategic brands to establish solid foundation for future growth, with a focus on Champion Brands



Rationalization of brand portfolio sees an addition of 7 brands to the 22 earmarked for divestment

Rationale for portfolio rationalization is two-folds:



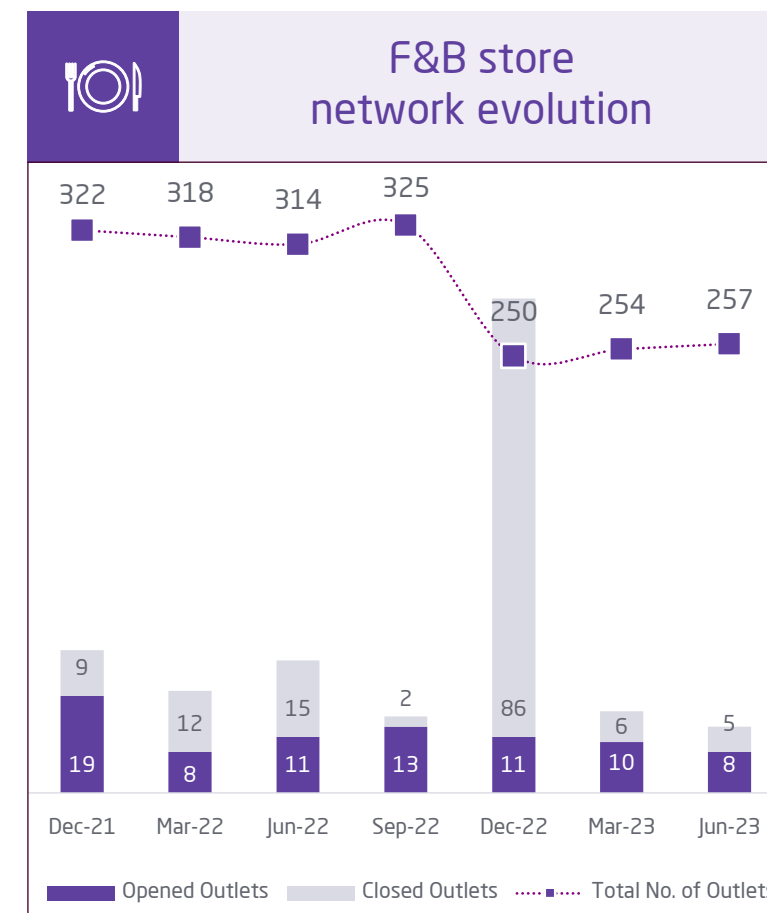
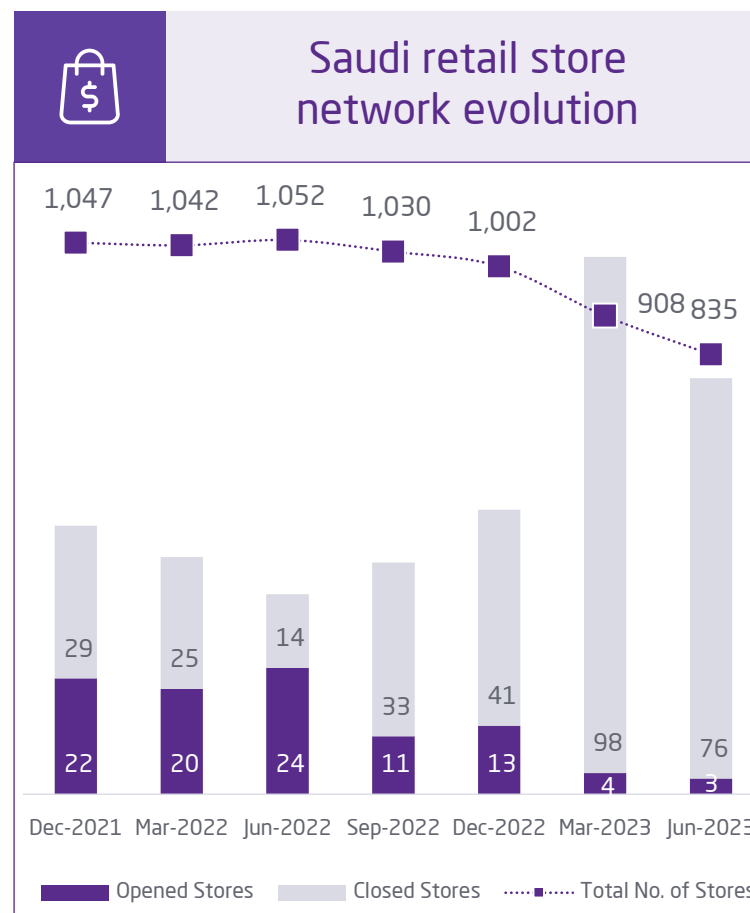
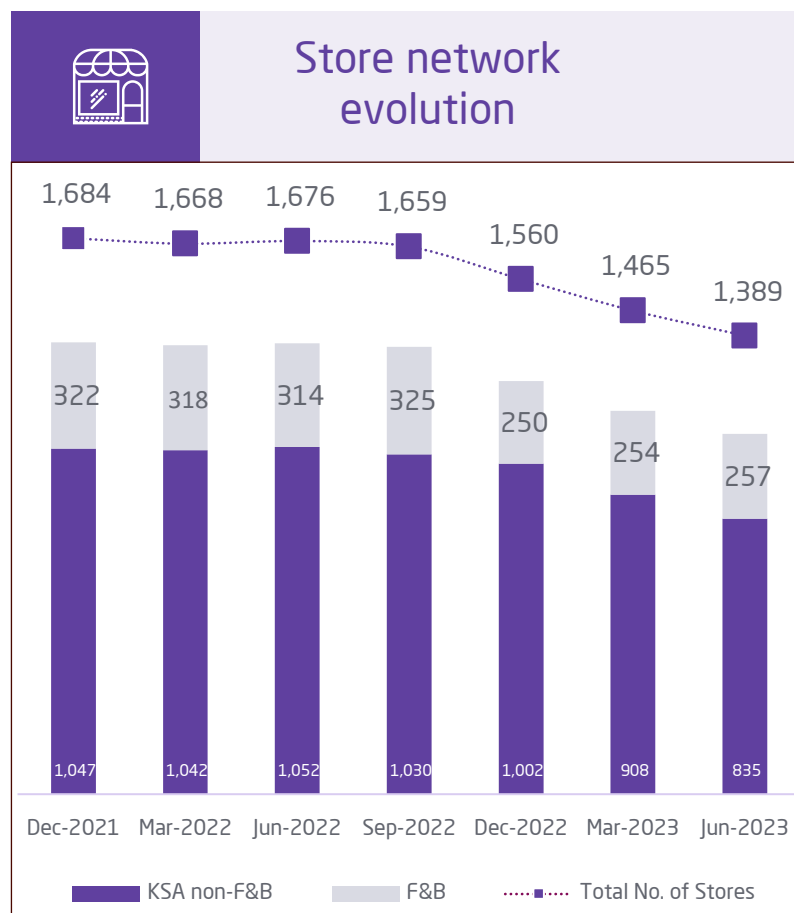
- Increase exposure to Brand Champions and Tier 1
- Onboard new Brand Champion brands in core markets (e.g. Jamba to launch in Q4 2023)

Transformation has yielded positive results:



- Zara: +5% LFL
- Other Inditex (including Massimo Dutti and Zara Home): +2% LFL

# Tangible progress towards retail footprint optimization



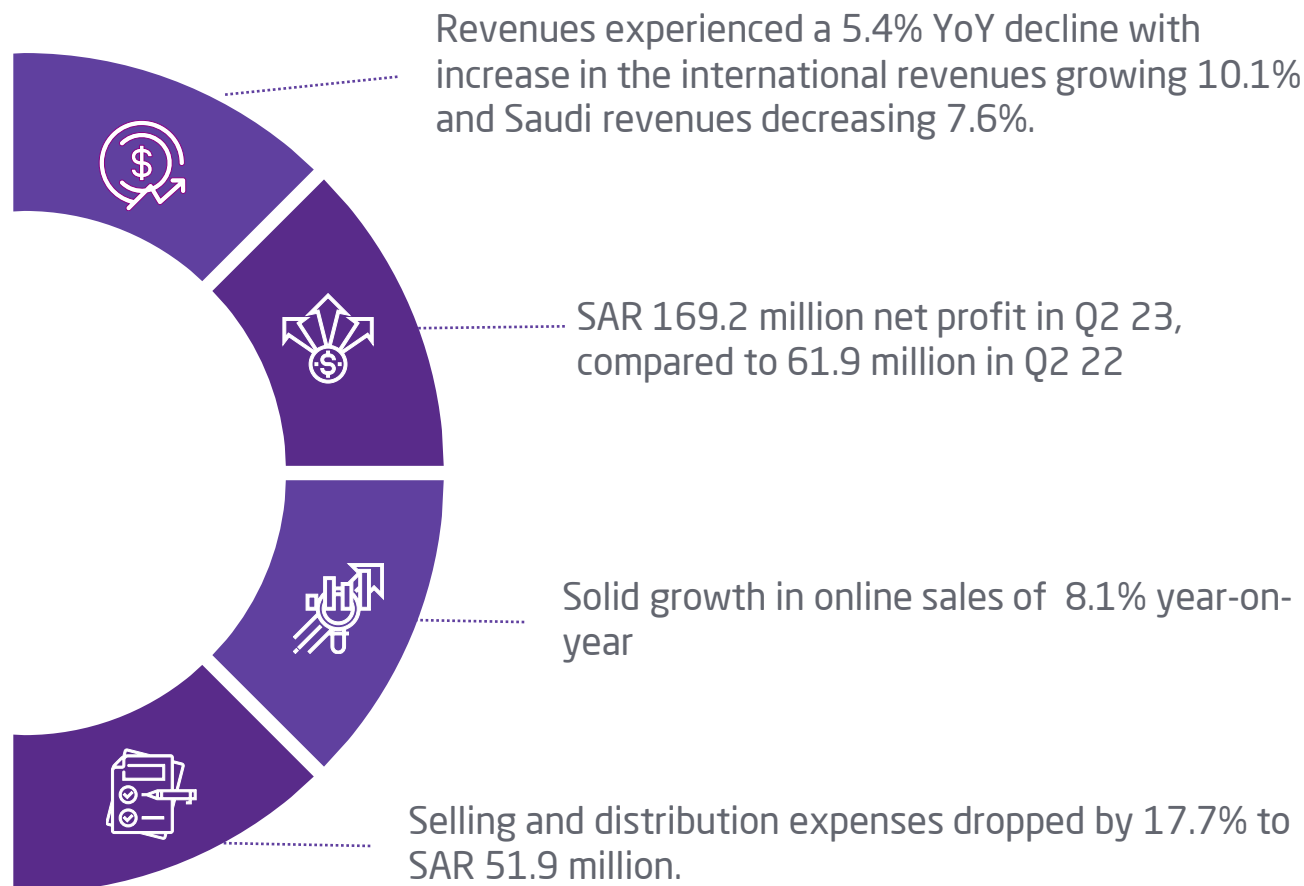
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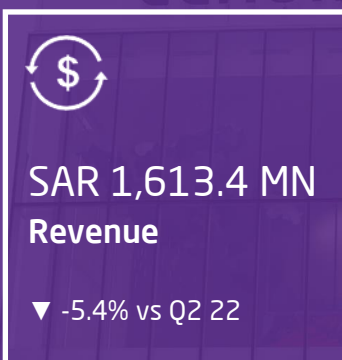
## Financial Overview



## Q2'23 financial performance overview



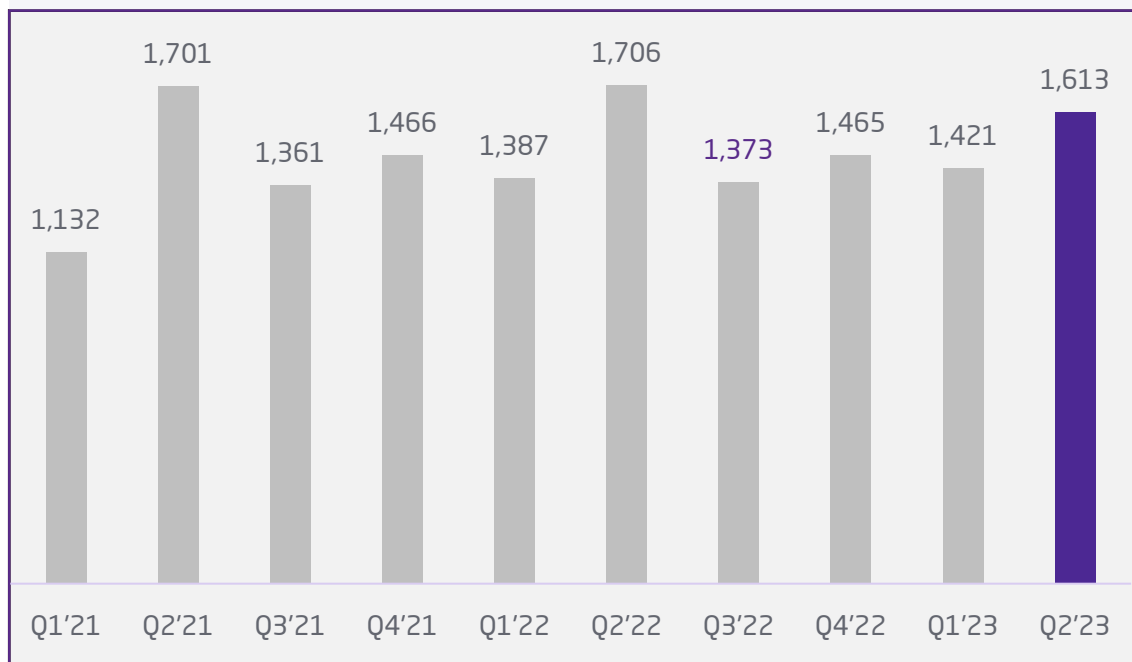
## Q2 2023 Financial highlights



## Top line softens on the back of store rationalization efforts

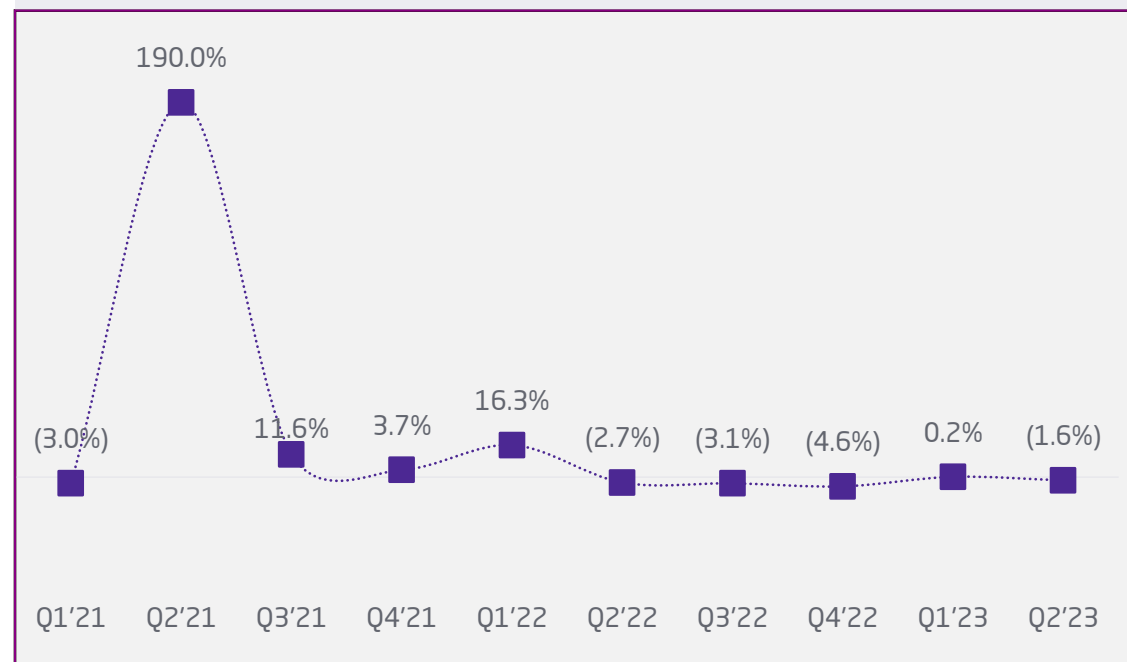
### Revenue, SAR million

- Retail sales continues to dominate the revenue pool contributing almost 94% of the total sales mix
- Online sales remained robust with 8.1% YoY growth



### LFL consolidated sales growth, %

- Recorded a drop in LFL consolidated sales as a result of weakened performance in tail brands.
- Zara and Inditex continue to be the exception with 5% growth and 2% growth, respectively



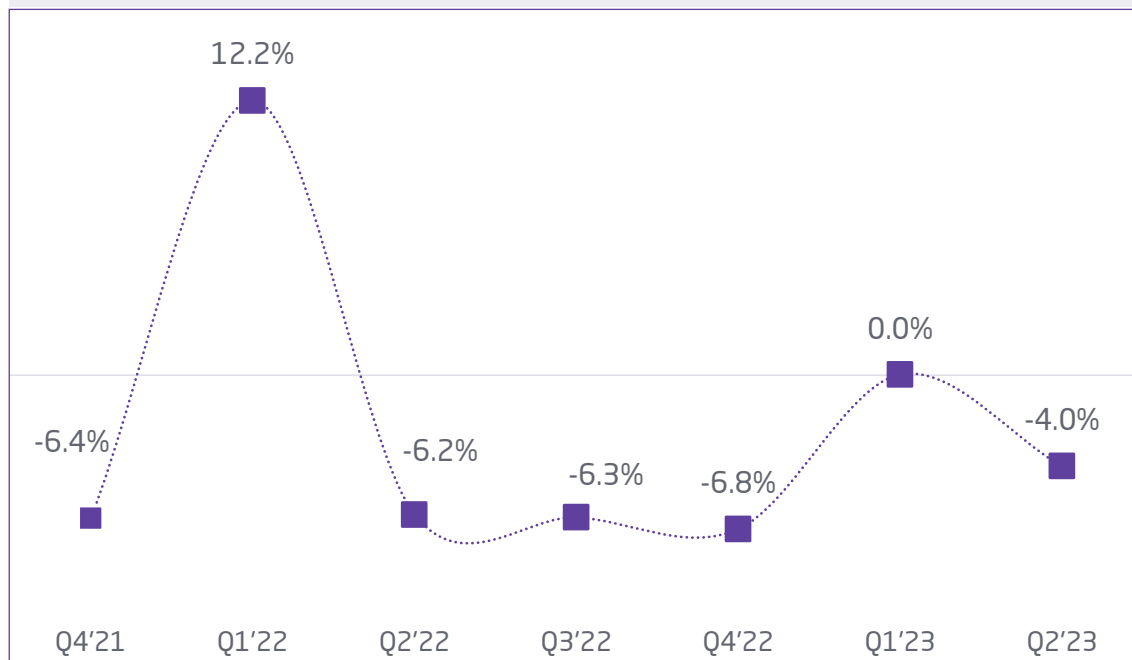
\* FY21 and FY22 represent Short Annual Years (i.e., nine-month periods) ending 31 Dec 2021 and 31 Dec 2022, respectively



## Saudi LFL weakens due to tail brands while Zara, Inditex and international remain strong

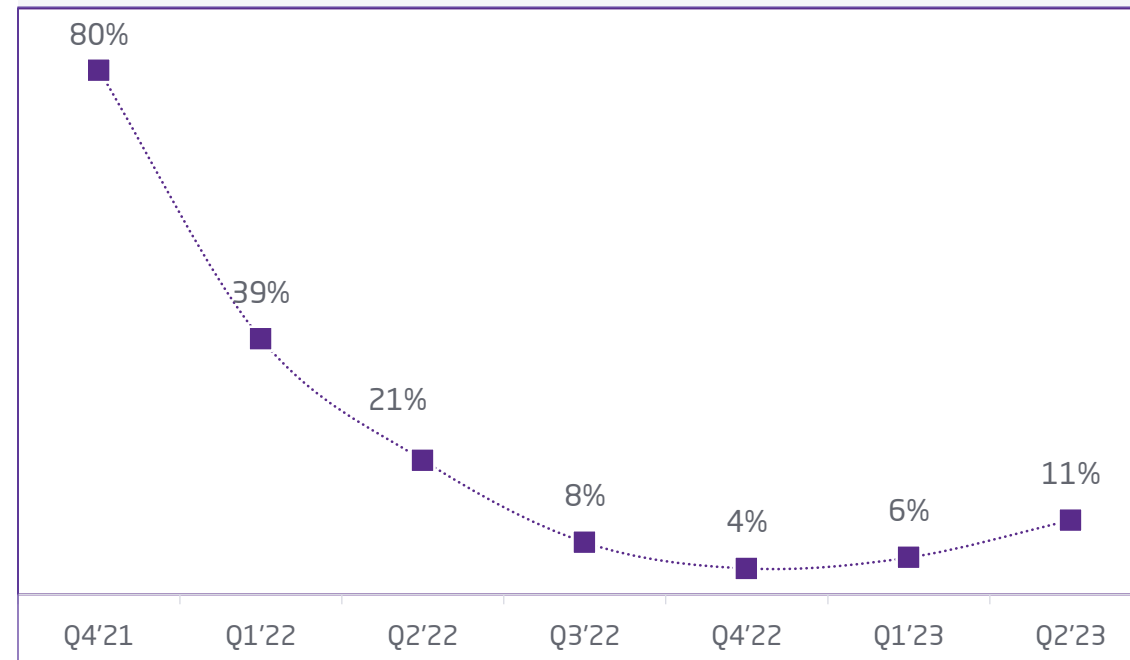
### LFL Saudi retail sales growth %

- LFL has weakened in Q2 2023 as a result of a drop in top-line, however Brand Champions continue to perform well with Zara up 5.3% and Inditex up 2% in H1 2023

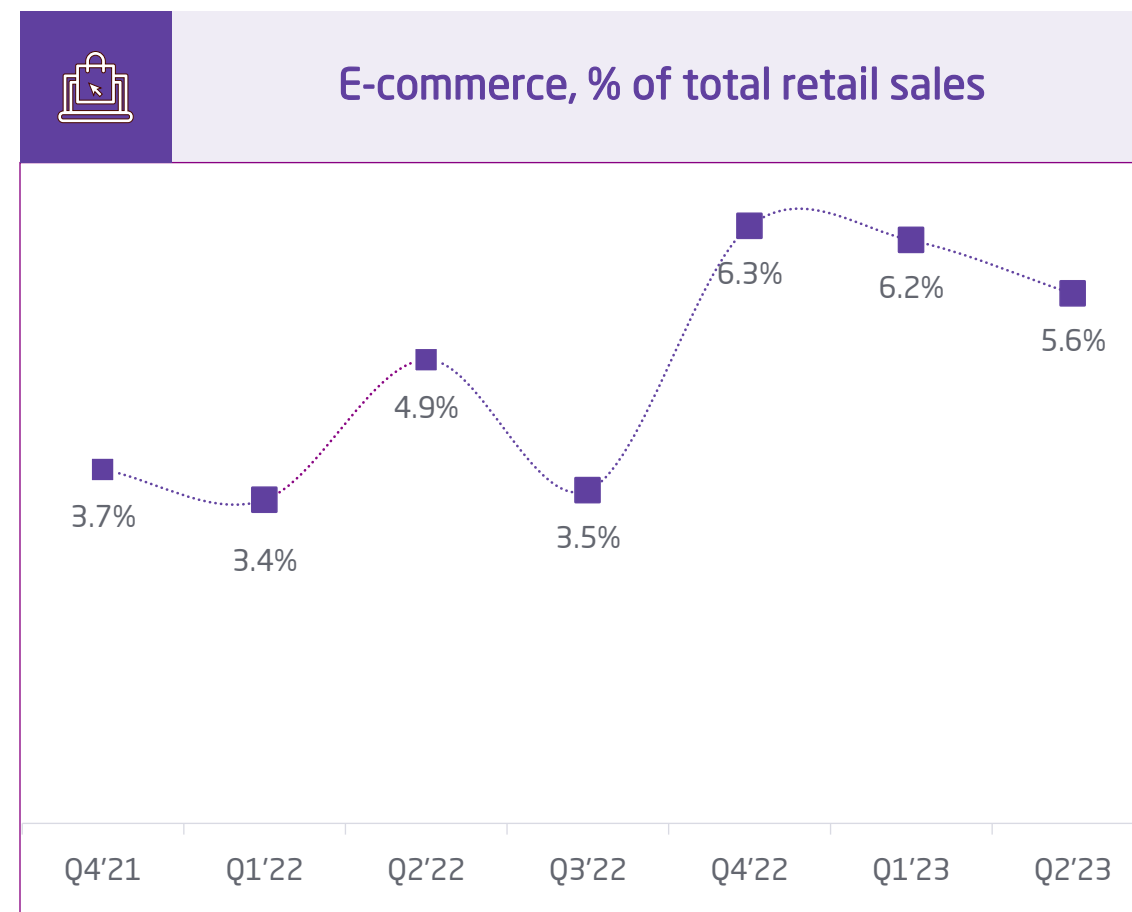
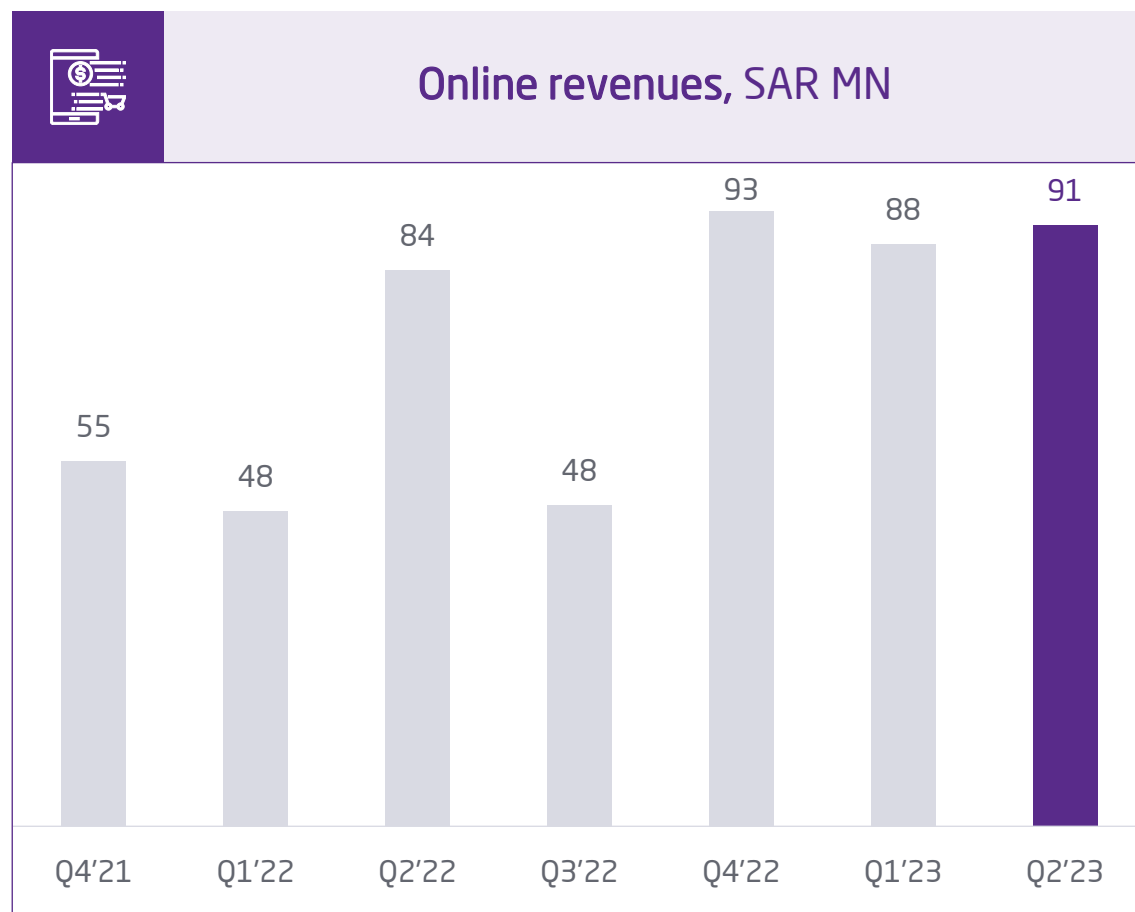


### LFL International Retail growth %

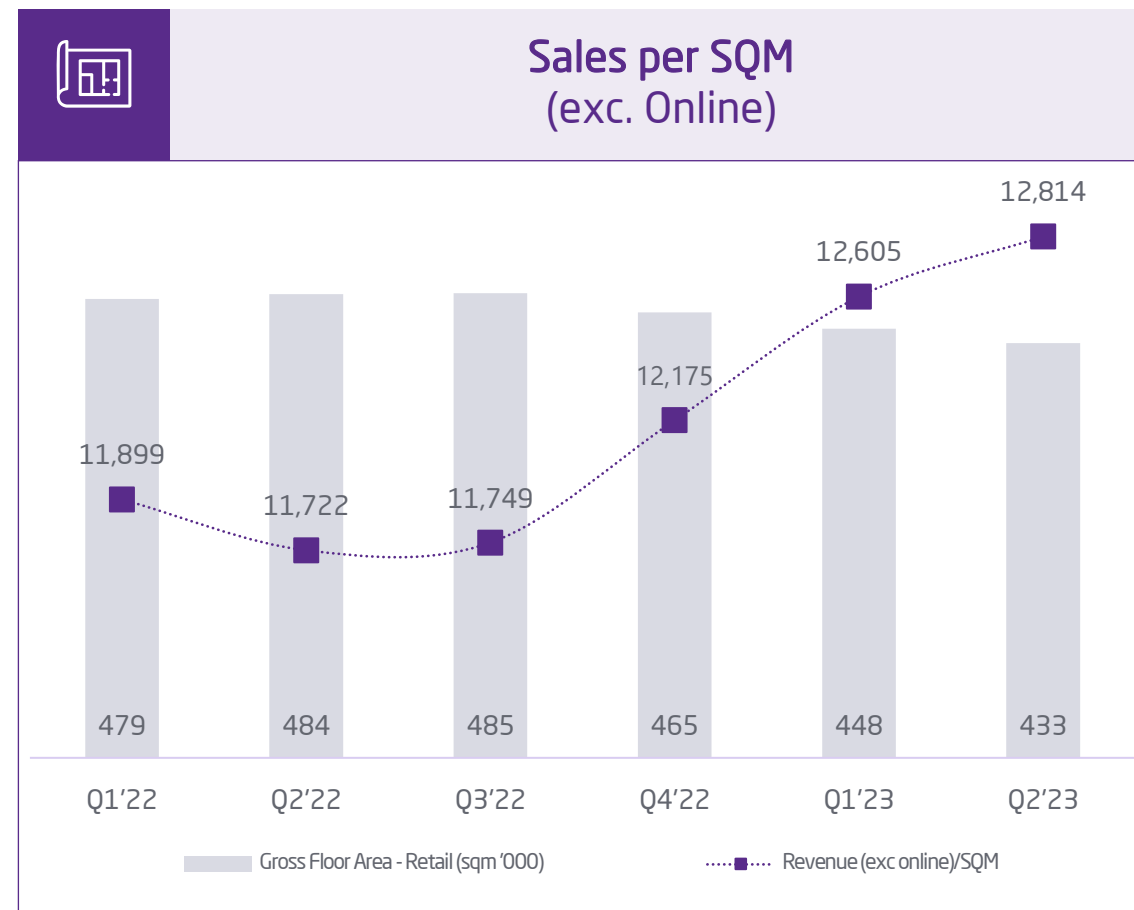
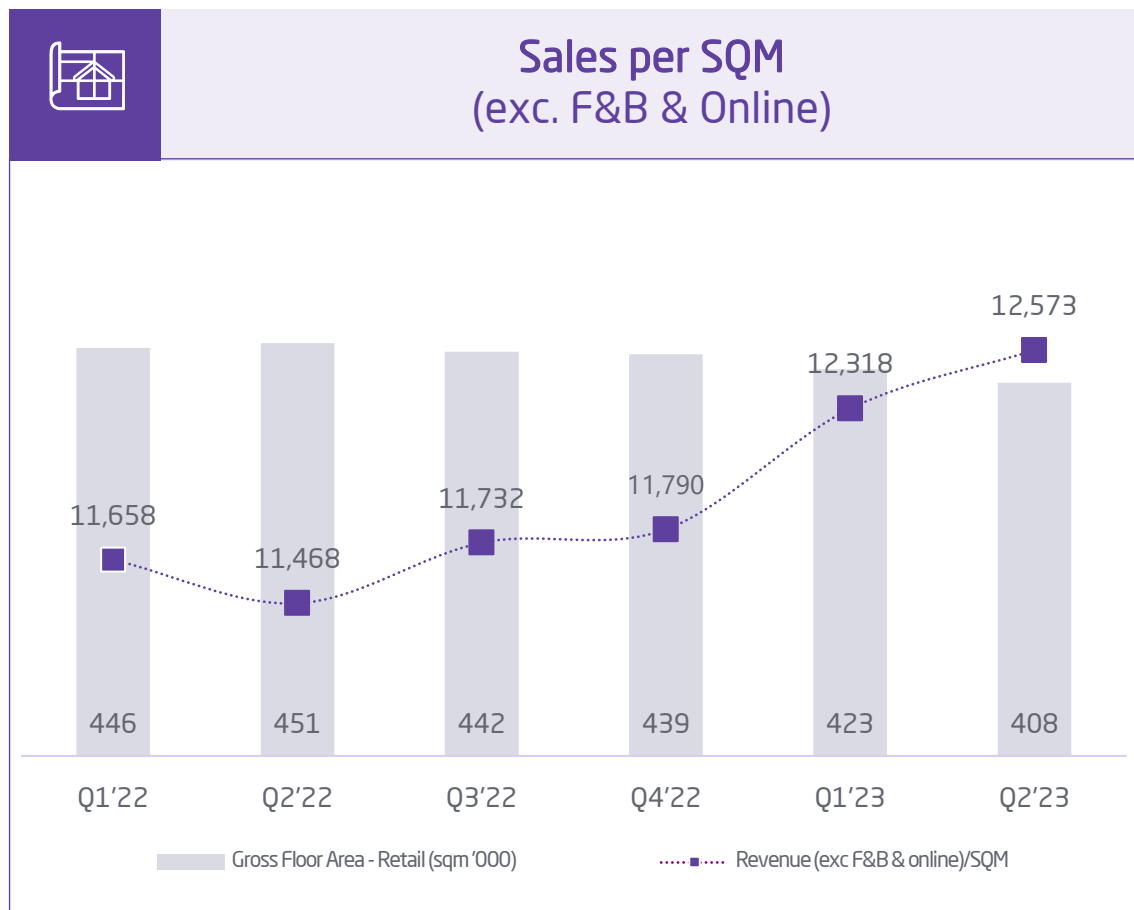
- International LFL growth maintained positive momentum, and accelerated during the quarter, with CIS countries exhibiting continued growth momentum



## Consistent growth in online revenues with almost 36% increase in H1 2023



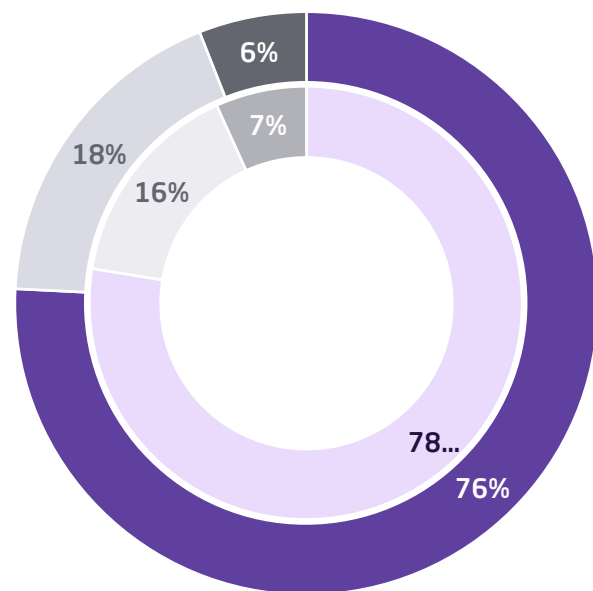
# Store rationalization driving efficiency with sales per sqm 10% higher



# Online and international experience growth as a part of revenue mix



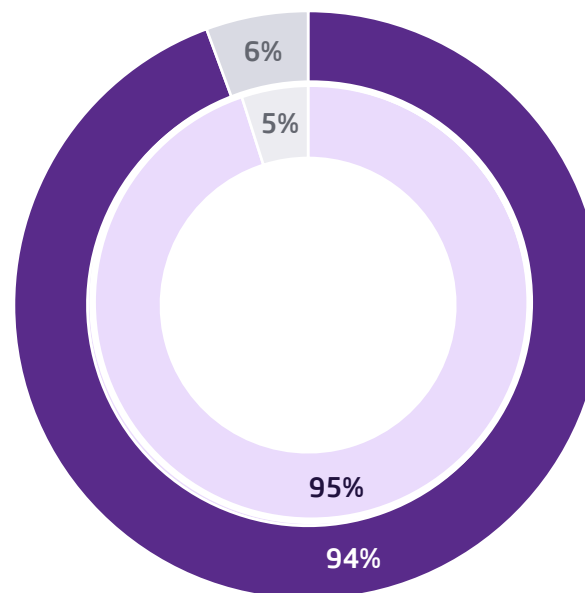
Revenue by division



■ KSA Retail ■ Int'l Retail ■ F&B



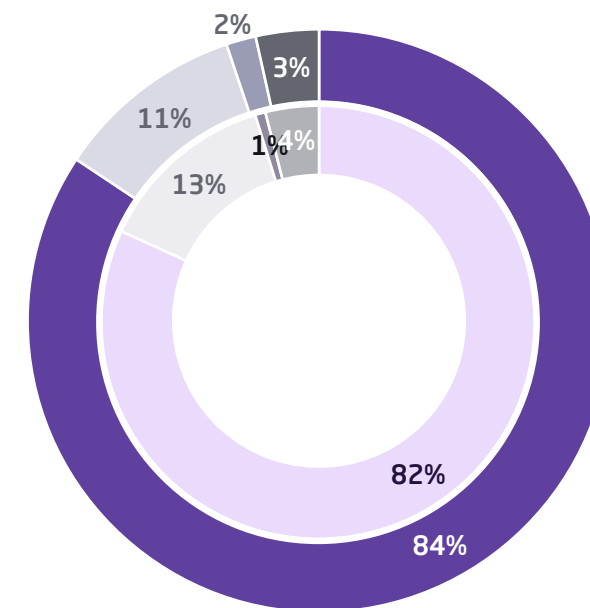
Revenue by channel



■ Stores ■ Online



Revenue by geography



■ KSA ■ CIS ■ Egypt ■ Others

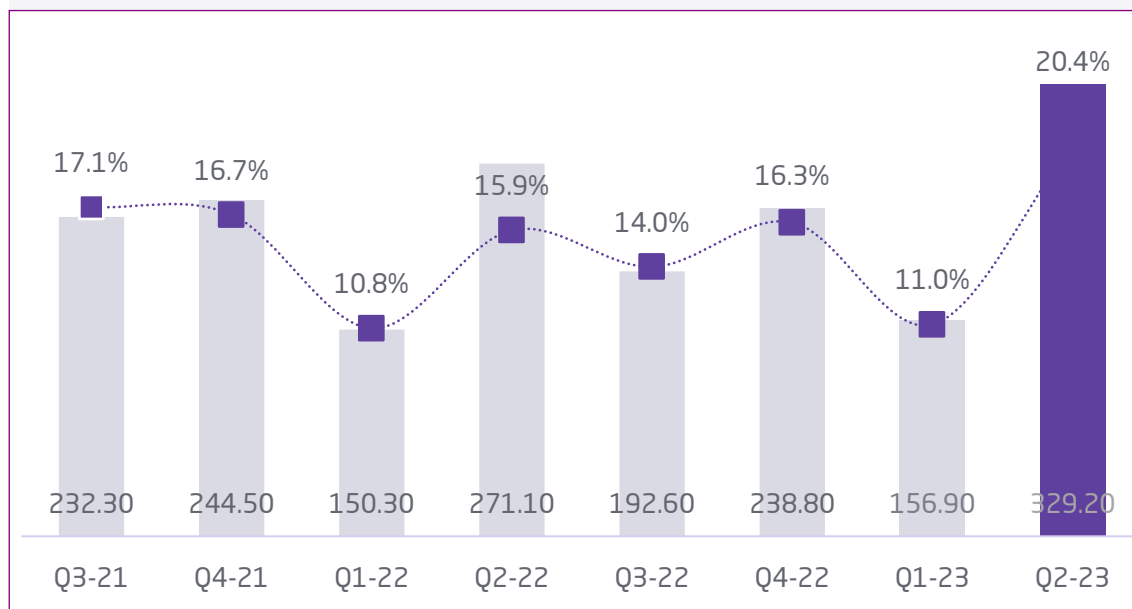
Q2-23 - Outer circle

Q2-22 - Inner circle

## Elevated margins driven by improved cost of revenue and positive operating environment

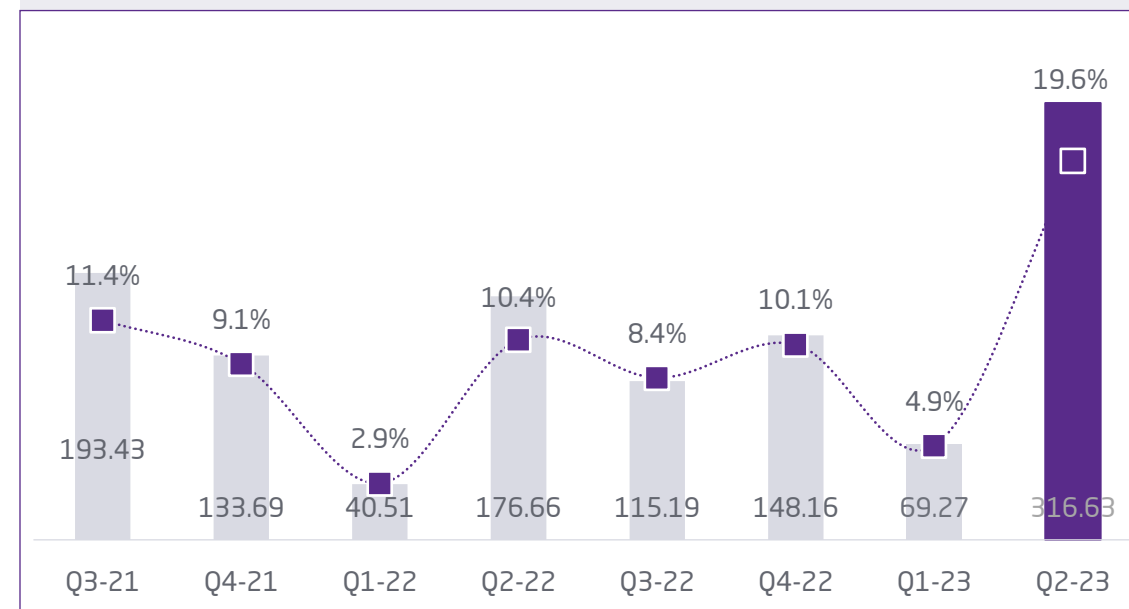
### Gross Profit, SAR MN - GPM, %

- An increase in gross profit, which grew by 21.4% y-o-y from SAR 271.1 million in Q2 22 to SAR 329.2 million in Q2 23.
- This increase can be attributed to a 10.1% decrease in the cost of revenue, primarily driven by an 8.5% y-o-y decrease in the cost of goods sold.



### EBITDA, SAR MN - EBITDA Margin, %

- EBITDA soared 79.2% to SAR 316.6 million. This was driven in part by an 21.4% improvement in gross profit and lower general and administrative expenses.

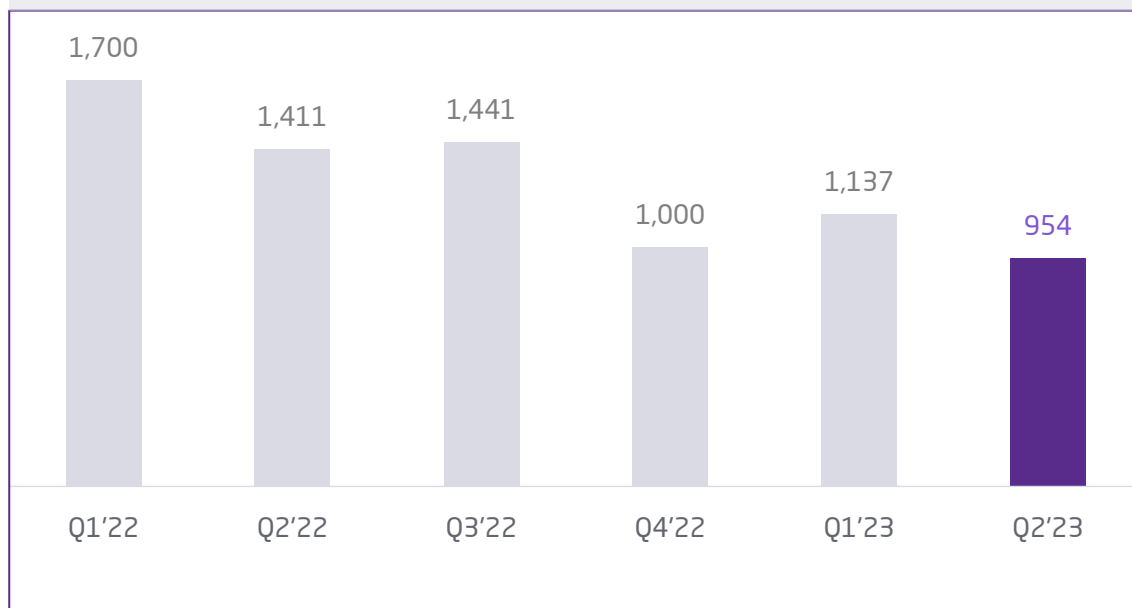




## Focus on inventory optimization yielding robust results

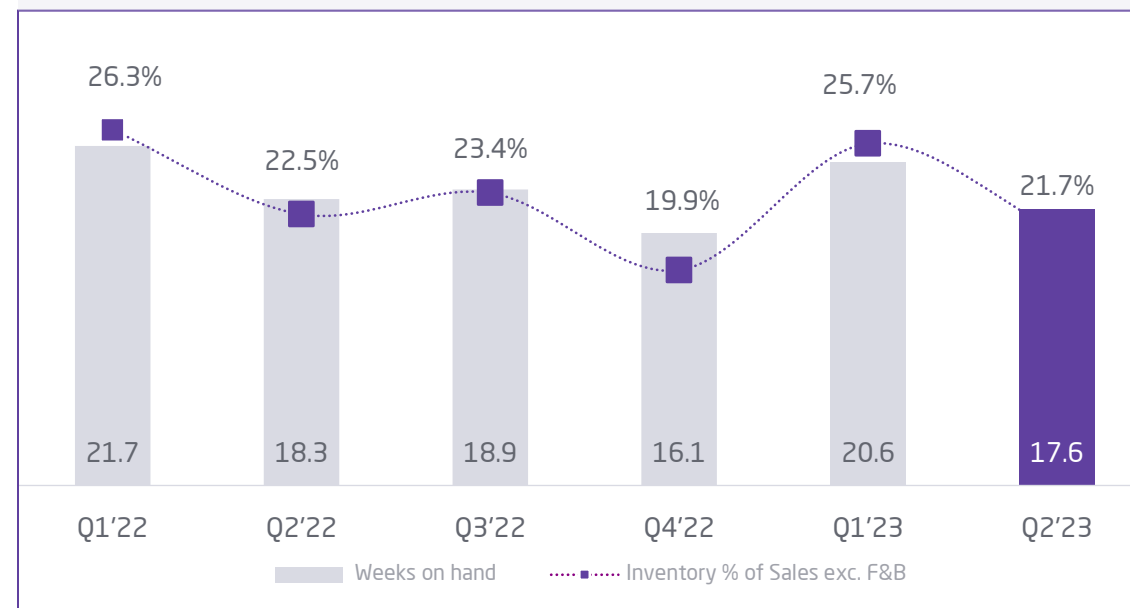
### Inventory balance (SAR MN)

- Inventory shrunk significantly as a part of optimization efforts to enhance liquidity and efficiency



### Inventory efficiency ratios

- This quarter, inventory was reduced on hand to 18 weeks, down from 21 weeks in the previous quarter.



04



## Appendix



## Income Statement

SAR Million	Q2 2023	Q2 2022	% Change
<b>Revenue</b>	<b>1,613.4</b>	<b>1,705.6</b>	<b>-5.4%</b>
Cost of Revenue	(1,284.3)	(1,434.6)	10.5%
<b>Gross Profit (Loss)</b>	<b>329.2</b>	<b>271.1</b>	<b>21.4%</b>
Gross Profit Margin	20%	16%	4.5pp
Selling & Distribution Expenses	(51.9)	(44.1)	-17.7%
General & Administrative Expenses	(78.8)	(85.4)	7.6%
Other Operating Expense	(0.0)	(8.1)	99.9%
Depreciation and Amortization	(42.9)	(41.0)	-4.7%
Other Operating Income	118.2	43.1	174.3%
<b>Operating Income (Loss)</b>	<b>273.7</b>	<b>135.7</b>	<b>101.7%</b>
Operating Income Margin	17%	8%	9.0pp
Financial Charges	(87.7)	(56.8)	-54.4%
Impairment loss on goodwill	-	-	-
Share of loss of associates	(4.4)	1.0	-540.5%
<b>Profit (Loss) before Zakat &amp; Tax</b>	<b>181.6</b>	<b>79.9</b>	<b>127.3%</b>
Zakat and Income Tax	(12.4)	(18.0)	31.3%
<b>Net Profit (Loss) for the Period</b>	<b>169.2</b>	<b>61.9</b>	<b>173.6%</b>
Net Profit Margin	10%	4%	6.9pp
Attributable to:			
<b>Shareholders of the Company</b>	<b>167.2</b>	<b>61.8</b>	<b>170.62%</b>
Non-Controlling Interest	2.1	0.1	2373.0%
Earnings per Share Basic and Diluted	1.46	0.54	170.6%
<b>EBITDA</b>	<b>316.6</b>	<b>176.7</b>	<b>79.2%</b>
EBITDA Margin	19.6%	10.4%	89.5%

## Balance sheet

SAR Million	June '23	Dec '22	% Change
<b>Assets</b>			
Property, Plant and Equipment	1,420	1,324	7%
Right-of-Use Assets	2,194	2,347	-7%
Goodwill and Intangible Assets	1,128	1,121	1%
Investment Property	1	1	-4%
Equity-accounted investees	69	62	11%
Other investments	291	314	-7%
Derivative asset	39	35	12%
<b>Total Non-Current Assets</b>	<b>5,143</b>	<b>5,205</b>	<b>-1%</b>
Inventories	954	1,000	-4.6%
Advances, Deposits and Other Receivables	608	718	-15%
Prepayments, Rentals and Insurance	64.3	35.4	81.3%
Cash & Cash Equivalents	260.4	193.8	34.4%
<b>Total Current Assets</b>	<b>1,887</b>	<b>1,948</b>	<b>-3%</b>
<b>Total Assets</b>	<b>7,030</b>	<b>7,153</b>	<b>-2%</b>

SAR Million	June '23	Dec '22	% Change
<b>Equity &amp; Liabilities</b>			
Share Capital	1,148	1,148	0%
Reserves ( Statutory, Foreign Currency and Fair Value)	(554)	(524)	-6%
Fair value reserve	42	42	0%
Accumulated Losses	(115)	(228)	49%
Equity Attributable to the Shareholders of the Company	520	438	19%
Non-Controlling Interest	(91)	(92)	1%
<b>Total Equity</b>	<b>429</b>	<b>346</b>	<b>24%</b>
LT Loans and Borrowing	129	115	12%
Lease Liabilities	1,680	1,761	-5%
Post-Employment Benefits	108	96	13%
<b>Total Non-Current Liabilities</b>	<b>1,917</b>	<b>1,972</b>	<b>-3%</b>
Trade and other payables	1,182	1,257	-6%
Bank Overdraft	48	50	-3%
Zakat & Tax Liabilities	72	70	2%
Lease Liability - current portion	605	641	-6%
ST Loans and Borrowings	2,777	2,817	-1%
<b>Total Current Liabilities</b>	<b>4,684</b>	<b>4,835</b>	<b>-3%</b>
<b>Total Liabilities</b>	<b>6,602</b>	<b>6,807</b>	<b>-3%</b>
<b>Total Equity &amp; Liabilities</b>	<b>7,030</b>	<b>7,153</b>	<b>-2%</b>

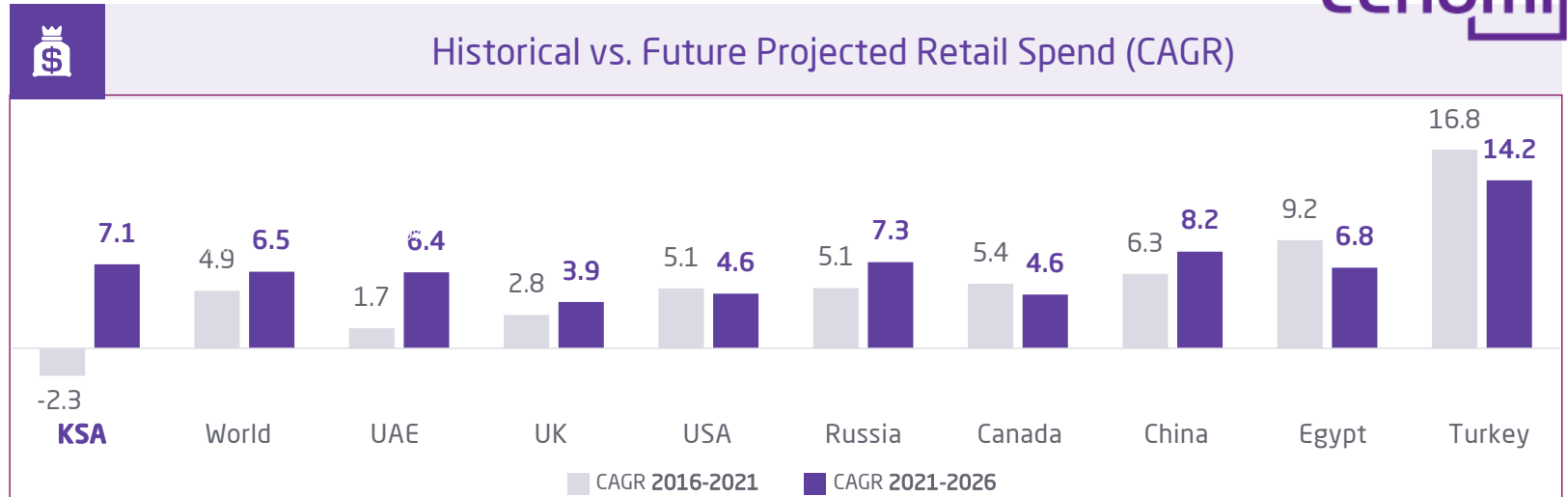
## Cenomi Retail Brand Portfolio

Sports	F&B	Fashion
 	 	    
Multimedia		
 	  	    
Lifestyle	Inditex & Zara	
	  	   
Beauty		
  	  	   
  	 	  
		   
		   



## Market Context

The Saudi Retail sector has faced key headwinds over the past five years, but is on track to strong growth as these start to dissipate.



MACRO Headwinds		2016-2022	Outlook - 2023 Onwards
Key Consumer Factors	COVID-19	Lockdowns due to COVID-19 spread	Government eased all COVID-19 restrictions Gradual return of pre-COVID-19 consumer spending and habits
	Oil & Consumer Confidence	Crash of the oil market and curtailed consumer sentiment	Stabilized around US\$80-\$100 per barrel over the past year Consistent maintenance of high government spending
	VAT	Introduction of VAT at 5% + subsequent raise to 15%	Gradual absorption of shock into goods prices or onto consumers
	Subsidies	Removal of utility subsidies	Gradual absorption into household spending patterns, with retail spending ultimately recovering
	Benefits	Cutting of public sector benefits	Annual allowances for public sector workers to be reinstated
	Expat Levy	Expat levy imposed	Special relief granted
Key Tenant Factors	Saudization	100% I/s Saudization, raising cost structures and impacting in-store sales productivity	Increased support from HRDF is adjusting the cost impact. Tenants adjusting their cost structures to become more efficient and upskilling workforce to meet productivity targets Cycle of increasing local household income to ultimately offset pressures (more disposable HH income => more retail spend)

# Unparalleled Opportunity

## Birth of the New Saudi Consumer



Shift to lifestyle categories:  
More demand for F&B,  
Leisure and Entertainment



Need for ultra **convenience** and **localization**



**Sophisticated Consumer:**  
Desire for personalized experiences



Increasing **e-commerce** adoption  
and **digital savviness**



Increasing **customer awareness**

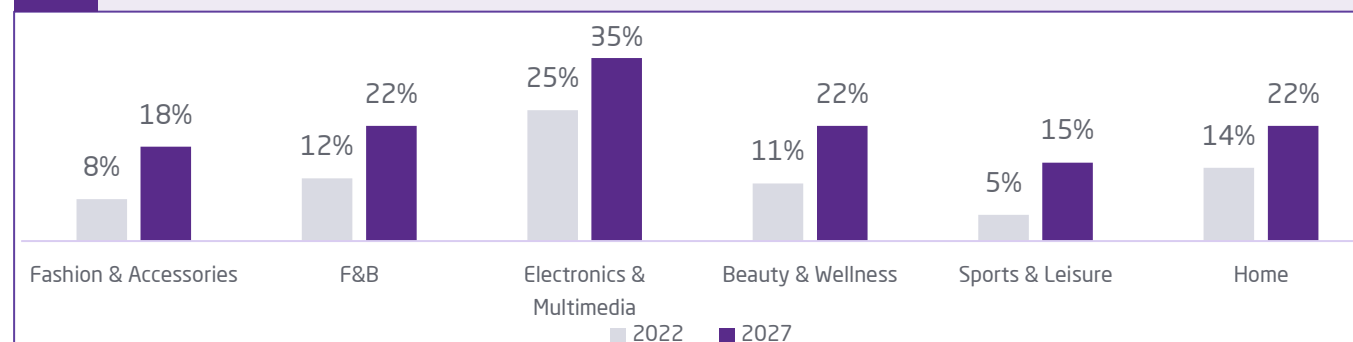
## The birth of The New Saudi Consumer presents unique growth prospects

KSA Retail Spend Overview (2022-2027, in SAR MN)

Category	Market Size 2022	Market Size 2027	CAGR 2022-2027
Groceries	179,216	226,429	4.8%
<b>F&amp;B</b>	<b>99,769</b>	<b>137,861</b>	<b>6.7%</b>
Fashion & Accessories	74,460	106,324	4.7%
Electronics & Multimedia	38,179	46,223	3.9%
<b>Entertainment</b>	<b>30,810</b>	<b>37,543</b>	<b>5.3%</b>
Beauty & Wellness	20,273	28,050	5.1%
Home	15,169	20,246	4.9%
<b>Sports &amp; Leisure</b>	<b>6,000</b>	<b>7,600</b>	<b>5.3%</b>

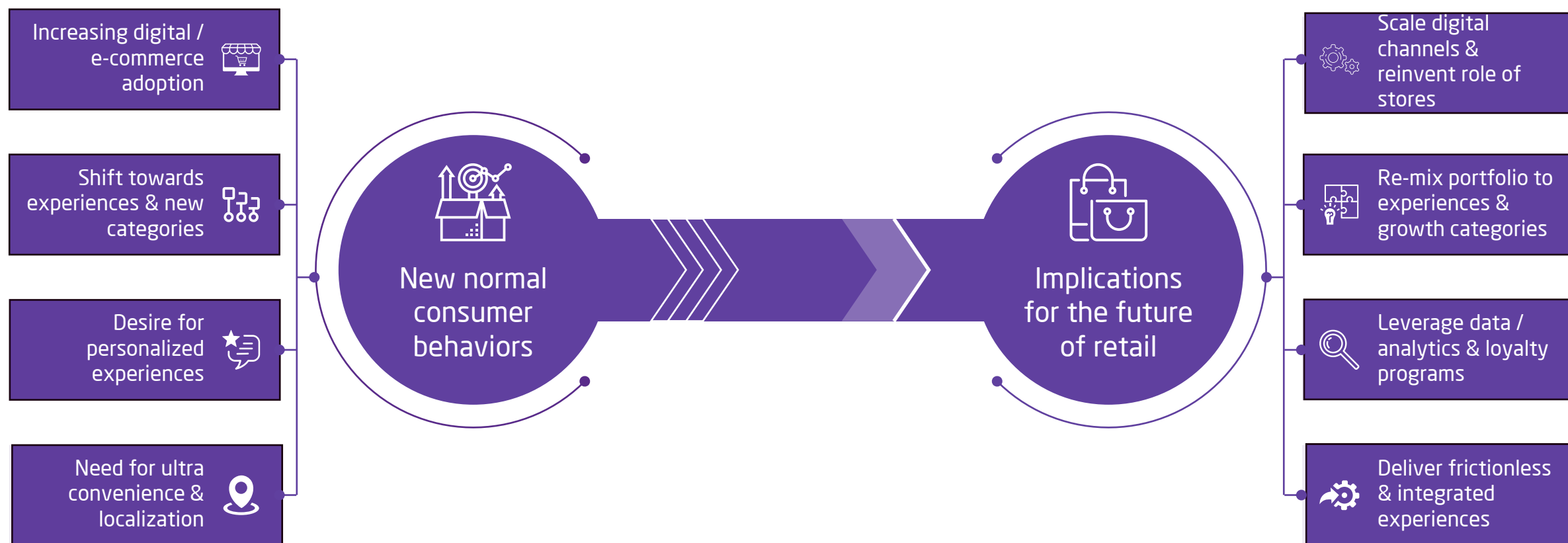


## KSA Online Market Share by category (2022-2027, in %)



## Consumer Trends:

Moving forward, Cenomi Retail will need to cater to new consumer trends with significant implications for the future of the industry.



Cenomi Retail



# THANK YOU

## Contacts

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