Fawaz A. Alhokair & Co Releases Results for the Third Quarter Ended 31 December 2020

- *Top line climbs by 13.8% q-o-q to SAR 1.35 billion, KSA retail returns to y-o-y growth as recovery gains steam;*
- *Adjusted gross margin expands to 18.4% as costs normalize, store yields rise;*
- *Inventory at 31 December down by 33% in YTD, with cash balances at SAR 585.4 million.*

Summary Financial Highlights

SAR Million	Q3-FY21	Q2-FY21	Q3-FY20	*Change q-o-q*	*Change y-o-y*	9M-FY21	9M-FY20	*Change y-o-y*
Revenue	**1,349.7**	**1,185.6**	**1,289.8**	***14%***	***5%***	**3,100.3**	**4,256.8**	***-27%***
Gross Profit (Loss)	157.4	51.9	258.2	*204%*	*-39%*	(33.4)	949.0	-
EBITDA	55.7	72.1	223.3	*-23%*	*-75%*	(206.6)	812.7	-
Net Profit (Loss)	(128.1)	(98.2)	36.1	*30%*	-	(761.9)	234.3	-
Adjusted Gross Profit*	**248.9**	**175.4**	**230.1**	*42%*	*8%*	**360.6**	**869.8**	*-70%*
Adjusted EBITDA*	**165.2**	**195.6**	**159.1**	*-16%*	*3%*	**187.4**	**618.8**	-
Adjusted Net Profit*	**(1.1)**	**25.3**	**(28.1)**	-	*-96%*	**(332.4)**	**40.4**	-

** Adjusted for one-off inventory provisions & write-offs, one-off credits, VAT & Zakat provisions*

(Riyadh, 9 February 2021) Fawaz Abdulaziz Alhokair Co. ("Alhokair" or the "Company", 4240 on the Tadawul), the leading franchise retailer in Saudi Arabia announced today its results for the third quarter ended 31 December 2020, reporting revenues of SAR 1,349.7 million. On a year-to-date basis, Alhokair recorded revenues of SAR 3,100.3 million in 9M- FY21.

Q3-FY2021 Highlights – Significant Improvement in Operations

- **Total revenues** recorded SAR 1,349.7 million in Q3-FY21, up by 13.8% from the SAR 1,185.6 million booked in the previous quarter. Rapid quarter-on-quarter (q-o-q) growth comes as customer footfall steadily recovers, powered by the Company's core Saudi market with further support from Alhokair's F&B segment. Meanwhile, the quarterly top line marks a return to year-on-year (y-o-y) growth (+4.6%), reflecting the consolidation of Alhokair's F&B business starting Q4-FY20 (Innovative Union Company) and growth in online sales over the period.
  - **KSA retail** revenues recorded SAR 1,066.5 million in Q3-FY21 (+16.5% q-o-q; +5.7% y-o-y). Growth came despite the Company's net closure of 31 fashion stores in Saudi Arabia during Q3-FY21, in line with management's strategy of generating greater yields from a higher-quality store network.
  - **F&B segment** booked revenues of SAR 119.4 million in Q3-FY21, up by 12.7% q-o-q.
  - **International operations** generated revenues of SAR 163.9 million in Q3-FY21, stable q-o-q. International revenues were down by 41.7% y-o-y on account of lockdowns during the second wave of COVID-19.
  - **Online sales** in Q3-FY21 came in at SAR 63.3 million, up by 84% q-o-q and 438% y-o-y.
- Consolidated **like-for-like (LFL) growth** was -8.4% y-o-y for Q3-FY21, narrowing substantially from the -17.0% rate recorded for the previous quarter, further indicating a sustained quarterly recovery in Alhokair's operations.
  - **KSA retail** revenues for Q3-FY21 were flat in LFL terms, adversely impacted by negative LFL change of 27.4% in Madinah and Makkah owing to COVID-19 related restrictions on religious tourism. Management continues to target a return to LFL growth in the low single digits over the near term.
  - **International sales** declined by 33.7% y-o-y in LFL terms, reflecting the temporary store closures related to COVID-19. The Company's major international contributors were closed for an average of 28 days during Q3-FY21, while Armenian operations were negatively affected by political tensions.
  - **Online sales** LFL growth booked 256.0% y-o-y for Q3-FY21.

- **Gross profit** was SAR 157.4 million for Q3-FY21 versus SAR 51.9 million in Q2-FY21. The gross profit margin (GPM) expanded from 4.4% to 11.7% during the same period. Alhokair's improved gross profit comes despite the recognition of nonrecurring expenses under the cost of revenue, including SAR 91.5 million from accumulated inventory shrinkage. Alhokair's **adjusted gross profit**, which excludes the net value of provisions booked under the cost of revenue for both comparable periods, recorded SAR 248.9 million for Q3-FY21, up by 8.2% y-o-y. Adjusted GPM recorded 18.4% for Q3-FY21, up from 17.8% in Q3-FY20.
- **Selling, general and administrative expenses (SG&A)** recorded SAR 116.1 million in Q3-FY21, up by 7.3% q-o-q and representing 8.6% of sales (Q2-FY21: 9.1%). SG&A expenses rose by 36.5% y-o-y, reflecting a low base effect in Q3-FY20. On an adjusted basis, SG&A expenses for Q3-FY21 recorded a year-on-year decrease of 4.1%.
- **EBITDA** recorded a profit of SAR 55.7 million, a drop of 22.6% q-o-q and 75.0% y-o-y. Alhokair's EBITDA margin narrowed to 4.1% in Q3-FY21 from 6.1% recorded one quarter previously. **Adjusted EBITDA**, which factors out one-time inventory shrinkage provisions booked under the cost of revenue and SG&A expense credits and VAT provisions, recorded SAR 165.2 million for Q3-FY21, up by 3.8% y-o-y. Alhokair's adjusted EBITDA margin was 12.2% for Q3-FY21, unchanged versus the same quarter of the previous year.
- Alhokair booked a **net loss** of SAR 128.1 million for Q3-FY21 against a net loss of SAR 98.2 million for Q2-FY21. However, based on Alhokair's adjusted EBITDA and after excluding the one-off Zakat provision, Alhokair's **adjusted net loss narrowed to SAR 1.0 million** in Q3-FY21.
- **Inventory** balances booked SAR 1,108.4 million for Q3-FY21, marking a reduction of 33.1% year to date. This decrease follows a physical count of actual inventory that had covered c.75% of stores at the close of Q3-FY21 and the consequent recognition of accumulated shrinkage in line with Alhokair's restructuring efforts and active supply chain management. Management's progress toward reaching optimal inventory levels is nearing completion.
- The Company recorded an **operating cash flow** of SAR 473.3 million for the first nine months of FY-2021, down by 40.1% y-o-y from the SAR 789.5 million inflow recorded for 9M-FY20. **Total cash and cash equivalents** stood at SAR 585.4 million as of 31 December 2020, up by 31.1% year-on-year.

Operational Highlights

- Alhokair operated **1,806 stores** at the close of Q3-FY21, up from 1,609 stores as of Q3-FY20 following the consolidation of its newly acquired F&B business. In Q3-FY21, Alhokair closed a net of 38 locations (54 stores closed versus 16 opened) in its retail segment, in line with normal business operations. Meanwhile, the Company strengthened its F&B segment with a net of 10 newly opened stores (5 closures versus 15 openings).
- The quarter saw Alhokair implement Phase II of its transition to **Oracle Inventory Management** software, which will allow the Company to consolidate its three separate inventory tracking and control systems into a single, global inventory management solution across all operating countries, enabling efficient and timely inventory management.
- Despite a reduced number of stores, Alhokair maintained a stable **gross floor area** of 496 thousand square meters as of 31 December 2020, down only 1.8% in the year to date. Alhokair held 90 portfolio **brands** at the close of Q3-FY21, up from 85 as of Q3-FY20.
- Alhokair rolled out **five new monobrand online platforms** for Tier 1 brands in Q3-FY21 – Stradivarius, Bershka, Pull & Bear, Oxxo and Okaidi. This brings the Company's total monobrand platforms launched to date to 12 e-stores. The Company also **launched a new multibrand platform**, 'Antum', during the quarter. Management is exploring the potential acquisition of a pure online retailer.

CEO's Note

Management is pleased with Alhokair's quarter-on-quarter performance and the promising signs of recovery in operations and financial performance. Top line growth is a testament to the effectiveness of our strategic focus on core Saudi market operations, which is witnessing a gradual recovery in footfall as consumer confidence continues to strengthen. Our results were further supported by growth in our online sales and the consolidation of our F&B business.

We remain committed to transforming our Company from a pure fashion retailer into a lifestyle destination. This is made possible through further investments in the F&B space, the addition of sports concept stores such as Decathlon, and ventures into new growth avenues in the beauty and electronics segments. We are also pursuing increased digitization, whereby we continue to strengthen our e-commerce capabilities by bringing more brands online. To this end, we are exploring the potential acquisition of a pure online retailer to bolster our offering in the digital space.

Management will keep on optimizing Alhokair's store portfolio on an ongoing basis, in line with international best practice in retail, with the objective of developing a sustainable retail platform. This entails constant reevaluation and scrutiny of our stores' and brands' profitability with the aim of extracting higher returns per square meter. Investments are being redirected towards opening new stores for our top-performing brands, modernizing existing stores and adding new concepts. Meanwhile, we are expediting the restructuring of the Company's balance sheet and are further streamlining our supply chain and inventory management systems. While we recognize that the process has had a temporary impact on our results, we are confident that a healthier asset base along with an integrated stock management approach puts us on the right track towards efficient business operations.

Alhokair is investing today more than ever in initiatives to build a more agile and financially robust operation. And while we are cognizant that our initiatives are subject to disruptions due to prevailing market conditions, we are confident that the growth avenues Alhokair is pursuing are in line with market trends and global best practice, and that they will ensure our ability to return to profitability and deliver long-term sustainable value creation.

Marwan Moukarzel
Chief Executive Officer

Income Statement

SAR Million	Q3-FY20	Q3-FY21	*Change y-o-y*	9M-FY20	9M-FY21	*Change*
Revenue	1,290	1,350	*4.6%*	4,257	3,100	*-27.2%*
Cost of Revenue	(1,032)	(1,192)	*15.6%*	(3,308)	(3,134)	*-5.3%*
Gross Profit	**258**	**157**	***-39.0%***	**949**	**(33)**	**-**
Gross Profit Margin	*20.0%*	*11.7%*	*(8.4)*	*22.3%*	*-1.1%*	-
Selling and Distribution Expenses	(51)	(28)	*-44.6%*	(118)	(109)	*-7.7%*
General and Administrative Expenses	(34)	(88)	*159%*	(118)	(207)	*74.9%*
Impairments	(32)	10	*-131%*	(32)	(19)	*-42.2%*
Other operating expense	(6)	(19)	*251.9%*	(51)	(71)	*38.0%*
Depreciation and Amortization	(71)	(74)	*3.7%*	(205)	(228)	*10.8%*
Other Income (loss), net	88	24	*-73%*	184	232	*26.5%*
Operating Income	**152**	**(18)**	**-**	**607**	**(434)**	**-**
Operating Income Margin	*11.8%*	*-1.3%*	*(13.1)*	*14.3%*	*-14.0%*	-
Financial Charges	(104)	(83)	*-20.2%*	(338)	(275)	*-18.7%*
Share of loss of associates	-	(1)	-	-	(1)	-
Profit before Zakat and Tax	**48**	**(102)**	**-**	**269**	**(710)**	**-**
Zakat and Income Tax	(12)	(26)	*114%*	(35)	(52)	*48%*
Net Profit for the Period	**36**	**(128)**	**-**	**234**	**(762)**	**-**
Net Profit Margin	*2.8%*	*-9.5%*	-	*5.5%*	*-24.6%*	-
Attributable to:						
Shareholders of the Company	**34**	**(129)**	**-**	**231**	**(753)**	**-**
Non-Controlling Interest	2	0	-	3	(9)	-
Earnings per Share Basic and Diluted	**0.16**	**(0.6)**		**1.10**	**(3.59)**	**-**
EBITDA	**223**	**56**	***-75%***	**813**	**(207)**	**-**
EBITDA Margin	*17.3%*	*4.1%*	*(13.2)*	*19.1%*	*-6.7%*	-

Balance Sheet

SAR Million	31 March 2020	31 December 2020	*Change*
Assets			
Property, Plant and Equipment	1,514	1,380	-9%
Right-of-Use Assets	4,058	3,618	100%
Goodwill and Intangible Assets	1,080	1,065	-1%
Investment Property	4	4	0%
Investment in Associates & Others	232	218	-6%
Receivables from Disposal of Subsidiaries / Brands	75	-	-100%
Total Fixed Assets	**6,962**	**6,285**	**-10%**
Inventories	1,656	1,108	-33%
Advances, Deposits and Other Receivables	570	579	2%
Prepayments, Rentals and Insurance	68	26	-63%
Receivables from Disposal of Subsidiaries / Brands	75	75	0%
Cash & Cash Equivalents	686	585	0%
Assets held for sale	-	-	0%
Total Current Assets	**3,056**	**2,374**	**-22%**
Total Assets	**10,018**	**8,659**	**-14%**
Equity & Liabilities			
Share Capital	2,100	2,100	0%
Reserves (Statutory, Foreign Currency and Fair Value)	(373)	(360)	-4%
Accumulated Losses	(112)	(865)	671%
Equity Attributable to the Shareholders of the Company	1,615	875	-46%
Non-Controlling Interest	(85)	(95)	11%
Total Equity	**1,530**	**781**	**-49%**
LT Loans and Borrowing	2,424	2,365	-2%
Lease Liabilities	3,611	2,959	100%
Post-Employment Benefits	102	97	-5%
Total Non-Current Liabilities	**6,137**	**5,420**	**-12%**
Trade Payables	473	318	-33%
Accruals and Other Liabilities	462	433	-6%
Zakat & Tax Liabilities	11	46	327%
Lease Liability – current portion	647	905	100%
ST Loans and Borrowings	760	755	-1%
Total Current Liabilities	**2,352**	**2,457**	**4%**
Total Liabilities	**8,488**	**7,878**	**-7%**
Total Equity & Liabilities	**10,018**	**8,659**	**-14%**

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. 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 1,800 stores across 100 shopping malls in 13 countries, with a retail platform operating on a total GLA of circa 500,000m^2. All of this is managed by a workforce numbering more than 12,000. Alhokair currently represents over 90 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

Contact

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Analyst Call and Earnings Presentation

Alhokair will be hosting an analyst call on the Company's third quarter results on 10 February 2021 at 16:00 KSA time. For conference call details, please email investors.relations@fahretail.com. Alhokair's full Earnings Presentation is available for download at 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.