

Fawaz Abdulaziz Alhokair Co. returns to profitability in first quarter; Operational upgrade strategy to support sustained recovery

- Q1-FY22 top line grows 201% y-o-y to SAR 1.7 billion
- Return to profitability post Covid-19 and operational challenges with Q1-FY22 net profit of SAR 45.7 million
- Operating margins restored with Q1-FY22 EBITDA margin at 11.4%
- Inventory reduced by 25.8% y-o-y with ongoing initiatives to strengthen financial position

(Riyadh, 19 August 2021) Fawaz Abdulaziz Alhokair Co. ("Alhokair" or the "Company", 4240 on the Saudi Exchange), the leading franchise retailer in Saudi Arabia, today announced its results for the first quarter ended 30 June 2021, reporting a healthy rebound in revenues of SAR 1,700.7 million and a net profit of SAR 45.7 million (Q1-FY21: net loss of SAR 535.6 million), marking a return to profitability after having successfully responded to the Covid-19 challenges whilst delivering on its operational upgrade strategy to support long term sustainable growth.

Marwan Moukarzel, Chief Executive Officer at Alhokair said:

New brands in FY22*

"We are pleased with the results achieved in the first quarter, as we returned to profitability following five consecutive quarters of net losses. Top-line recovery was significant, with sales figures returning to pre-pandemic levels as Covid-19 related restrictions lifted across markets and supported by Ramadan seasonal sales.



Good progress has been made on our Operational Upgrade Strategy to drive business excellence and optimize our portfolio, while maintaining profitability as we become the leading lifestyle retail destination across the markets where we operate. The onboarding of new brands including Fnac Darty in electronics, Alo Yoga in athleisure, and Flying Tiger in the variety space is also a top priority to drive our diversification journey.

FNAC DARTY

flying tiger
copenhagen

With legacy inventory issues now behind us, this year will see us focus on accelerating top-line growth and improving our margins. As announced at year end, we are also taking actions to further strengthen the company's financial position to enable long term sustainable growth.

*Signed agreement, not yet reflected in our brand count or financial statements

Our commitment to digitalization is stronger than ever and we made significant progress in migrating brands to Vogacloset, with 29 additions during the first quarter, while the plan is to continue diversifying the brand offering on the platform. In addition, we continue to expand our online presence in Saudi Arabia and in our international markets where we launched 2 new monobrand platforms during the quarter, which will support growth in online sales across markets."

Summary Financial Highlights

SAR Million	Q1-FY22	Q1-FY21	Change y-o-y
Revenue	1,700.7	564.9	201.0%
Gross Profit (Loss)	332.6	(242.7)	
EBITDA	193.4	(334.4)	
Net Profit (Loss)	45.7	(535.6)	

Q1 FY22 Highlights – top-line returns to pre-pandemic levels

Revenue Analysis

Alhokair recorded revenues of SAR 1,701 million in Q1-FY22, up by 201% from SAR 565 million booked in Q1-FY21. While the y-o-y increase was significant, it is worth mentioning that the Company's forgone revenue in Q1-FY21 reached around SAR 1.2 billion due to movement restrictions across markets in response to the Covid-19 pandemic. However, the performance during this quarter remained strong when compared to pre-pandemic period of Q1-FY20 which recorded 1,732 million.

Q1-FY22 positive topline performance stemmed from a recovery in the Saudi retail segment, as the quarter coincided with the holy month of Ramadan, one of our strongest seasons in the year, in addition to the gradual reopening of international markets such as Georgia. This came despite ongoing closures during the quarter in some international operations such as Azerbaijan which only opened up mid-June 2021.

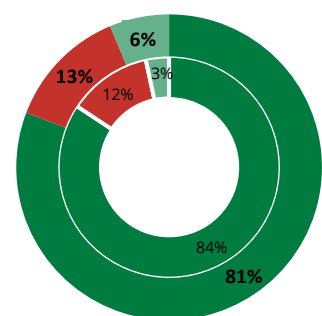
- **Saudi retail** revenues reached SAR 1,375 million in Q1-FY22, up 189% y-o-y from SAR 476 million. This positive performance stemmed from continuing gradual normalization of operations on the back of improved consumer sentiment and the occurrence of the Ramadan season. Compared to pre-pandemic levels, revenues were 8.9% lower than Q1-FY20, despite ongoing capacity limitations in shopping malls, which suggests that the post pandemic recovery is in underway.
- **F&B segment** booked revenues of SAR 107 million in Q1-FY22 versus SAR 19 million in Q1-FY21. During the quarter, total transactions increased by 4.6% q-o-q despite the Ramadan season generally being weaker for our F&B outlets as consumer demand for quick service restaurants (QSRs) reduces. FY-22 will witness further expansion in the F&B segment with new store openings, sub-franchise agreements, and new brands acquisitions. It is worth mentioning that during the quarter, our outlets continued to operate at seating capacity of 60% as social distancing restrictions are still in place.
- **International operations** generated revenues of SAR 219 million in Q1-FY22, up 215.4% y-o-y as stores reopened in key markets. Compared to pre-pandemic Q1-FY20, revenues were down 2.3% due on ongoing closures in some markets during the quarter. Management is keen on expanding offline operations and online capacity in growth markets including CIS, Egypt and Jordan.
- **Online sales** in Q1-FY22 came in at SAR 61.5 million, down 25.3% y-o-y from SAR 82.4 million as a continued recovery in the Saudi retail segment led to an increase of in-store traffic post lockdowns. This compares to SAR 6.8 million in online sales in Q1-FY20, illustrating that Alhokair's ecommerce activity is gaining momentum.

Consolidated like-for-like (LFL) revenue growth continued to improve for the third consecutive quarter with growth of 190%. Based on pre-pandemic Q1-FY20, consolidated LFL revenues were down 13% on the back of ongoing capacity limitations in shopping malls and F&B outlets, social distancing, and vaccination rules.

- **Saudi retail** revenues for Q1-FY22 increased 178% in LFL terms. Based on pre-pandemic Q1-FY20, Saudi LFL revenues were down 15%. Management continues to target a return to LFL growth in the low single digits over the near term.
- **International** sales for Q1-FY22 increased by 213% in LFL terms due to the removal of Covid-19 related restrictions across operations. Based on pre-pandemic Q1-FY20, International LFL revenues were down 11%.

- **Online sales** dropped 33% on LFL basis in Q1-FY22 as a continued recovery in the Saudi retail segment led to an increase of in-store traffic post lockdowns.

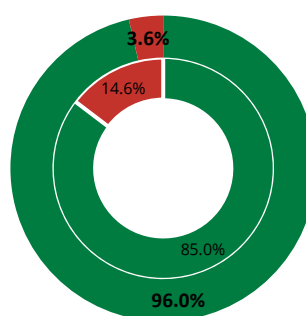
Revenue by division



Q1 FY22- Outer circle
Q1 FY21- Inner circle

■ KSA Retail ■ Int'l Retail ■ F&B

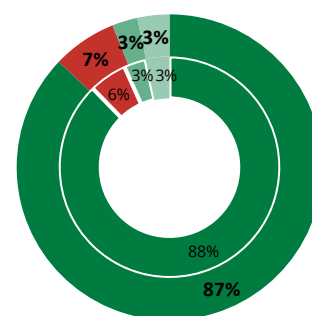
Revenue by channel



Q1 FY22- Outer circle
Q1 FY21- Inner circle

■ Stores ■ Online

Revenue by geography



Q1 FY22- Outer circle
Q1 FY21- Inner circle

■ KSA ■ CIS ■ Egypt ■ Others

Bottom Line Analysis

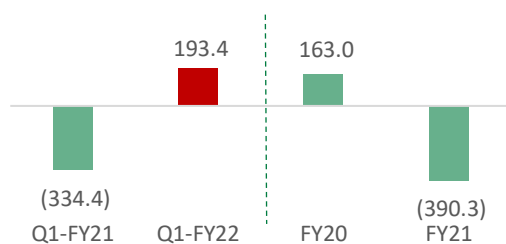
Gross Profit was SAR 332.6 million for Q1-FY22 versus a gross loss of SAR 242.7 million in Q1-FY21. In comparison, Q1-FY20 gross profit was SAR 507.5 million. The trend back to profitability in a post-pandemic environment is visible as re-openings and consumer behaviors normalize. The gross profit margin of 19.6% improved from -43% in the previous year, a result of improved top-line performance in the first quarter.

Selling, general and administrative expenses (SG&A) recorded SAR 142.8million in Q1-FY22. compared to a low base of SAR 92 million in Q1-FY21 which included the SANED support and the rent reliefs. Adjusting for these two one-offs, SG&A expenses for the quarter would record a 16.6% drop y-o-y.

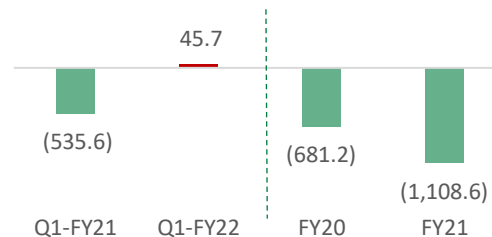
EBITDA was SAR 193.4 million for Q1-FY22, versus a negative EBITDA of SAR 334.4 million in Q1-FY21. Alhokair achieved an EBITDA margin of 11.4% during the quarter and is on track to meet management's guidance of an EBITDA margin of 8.0% for the full year.

Alhokair booked a **net profit** of SAR 45.7 million in Q1-FY22 versus a net loss of SAR 535.6 million in Q1-FY21, achieving the first profitable quarter in five quarters. Net profit margin came in at 2.7%.

EBITDA (SAR million)



Net profit/(loss) (SAR million)



Balance Sheet Analysis

Inventory balances booked SAR 1,020.8 million for Q1-FY22, marking a reduction of 25.8% year-on-year. In Q1-FY22, the Company completed the physical count of actual inventory booking SAR 20 million of accumulated shrinkage provisions (1.2% of sales). Going forward, terminal and shrinkage related provisions will be in line with management guidance of 1-2% of sales.

The Company recorded an **operating cash flow** of SAR 239.6 million for the quarter, up 48.7% y-o-y. **Total cash and cash equivalents** stood at SAR 374.2 million as of 30 June 2021.

In Focus: Transformation Strategy

Alhokair rolled out its new strategic roadmap 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 Q1-FY22:

Portfolio optimization	Operational excellence
<ul style="list-style-type: none"> In the first quarter, Alhokair added four brands* (Bizou, Decathlon, Marie France and Public Desire) with the first stores of the brands opening across the Kingdom. In the same period 3 brands were closed (Migato, Six and Max ABC), resulting in a net difference of 1 brand During the period total of 60 retail stores were closed, with 30 opened, resulting in a net decrease for the retail portfolio of 30 stores In F&B, 10 outlets were opened and 5 were closed, resulting in a net increase of 5 outlets. A number of Cinnabon sub-franchise contracts were concluded which will result in the opening of more than 30 new stores in the next 2 years For the US operations, the Company has received various offers but is still in negotiations with buyers as management aims to achieve a fair exit valuation for the business The Company exited from Macedonia during Q1-FY22. It is currently in the process of exiting from Serbia and Montenegro, thereby terminating exposure to non-core, non-performing international assets 	<ul style="list-style-type: none"> Testing of Oracle V16 inventory management system took place, staged rollout to continue Ongoing enhancement of our inventory management and shrinkage policies while working on updating policies for management of ageing and terminal inventory Engaged with a global professional services consultant to deliver a transformation program addressing price sensitivity, inventory, zero based cost optimization and organizational structure Finalized the selection of partners for the Shared Service Centre and the project is expected to launch by Q3 FY22. Engaged external consultant to introduce Long Term Incentive Plan (LTIP) for executives, aligning performance with shareholder value creation Continuous reinforcement of management team with two new recruits: Head of marketing & Head of IT Saudization levels at 66% for Q1-FY22, equivalent to Platinum Nitaqat status, with reaffirmed commitment to continual professional development and career opportunities Entering partnerships with governmental and semi-governmental entities to support the SME sector in Saudi Arabia within the F&B segment.
*Brands added to brand count and financial statements	

Building a lifestyle brand	Commitment to digital
<ul style="list-style-type: none"> Strong progress on increasing the breadth and depth of the brand portfolio, with 90 brands on board Key brand acquisitions including Fnac Darty, Alo Yoga, and Flying Tiger In final stages of securing the franchise rights of 2 new F&B brands anticipated to open later this year Alhokair is in the process of developing a new and differentiated brand identity 	<ul style="list-style-type: none"> Launched 29 brands on Vogacloset. Alhokair will continue to prioritize enhancements to the offering on the platform and to widen the brand portfolio 2 new monobrand online platforms for Uterque Saudi Arabia and Massimo Dutti Georgia were launched. This brings the Company's total number of monobrand platforms launched to date to 17 online stores. Alhokair continued to develop its digital CRM and customer loyalty program, to be launched by Q3-FY22, bringing the retail offer in line with international best practice Launched customer service center pilot project to centralize Group brands. 5 brands migrated to service to date Other initiatives in the pipeline include a consumer finance offering, which will further enhance customer acquisition and retention

Contact

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Analyst Call and Earnings Presentation

Alhokair will be hosting an analyst call on the Company's full results on August 23, 2021, at 16:00 Saudi time. For conference call details, please email investors.relations@fahretail.com. Q1-FY22 full earnings presentation will be available for download ahead of the call at ir.fahretail.com

Income Statement

SAR Million	Q1-FY22	Q1-FY21	Change y-o-y
Revenue	1,700.7	564.9	201.0%
Cost of Revenue	(1,368)	(808)	69.3%
Gross Profit	332.6	(242.7)	
<i>Gross Profit Margin</i>	19.6%	-43.0%	
Selling and Distribution Expenses	(44)	(36)	23.3%
General and Administrative Expenses	(99)	(56)	77.3%
Impairments	-	(29)	-100.0%
Other operating expense	(15)	(36)	-59.3%
Depreciation and Amortization	(65.3)	(77.8)	-16.1%
Other Income (loss), net	18.4	64.7	-71.6%
Operating Income	128	(412)	
<i>Operating Income Margin</i>	7.5%	-73.0%	
Financial Charges	(72.1)	(107.4)	-32.8%
Profit before Zakat and Tax	56	(520)	
Zakat and Income Tax	(10.3)	(16.1)	-36.1%
Net Profit for the Period	45.7	(535.6)	
<i>Net Profit Margin</i>	2.7%	-94.8%	
Attributable to:			
Shareholders of the Company	46.9	(525.4)	
Non-Controlling Interest	(1)	(10)	-88.7%
Earnings per Share Basic and Diluted	0.22	(2.50)	
EBITDA	193	(334)	
<i>EBITDA Margin</i>	11.4%	-59.2%	

Balance Sheet

SAR Million	30 June 2021	31 March 2021	Change
Assets			
Property, Plant and Equipment	1,304	1,327	-2%
Right-of-Use Assets	3,459	3,402	2%
Goodwill and Intangible Assets	1,118	1,111	1%
Investment Property	2	2	0%
Investment in Associates & Others	304	303	0%
Receivables from Disposal of Subsidiaries / Brands	-	-	-
Total Fixed Assets	6,186	6,145	1%
Inventories	1,021	1,152	-11%
Advances, Deposits and Other Receivables	625	471	33%
Prepayments, Rentals and Insurance	40	48	-16%
Receivables from Disposal of Subsidiaries / Brands	-	75	-100%
Cash & Cash Equivalents	374	468	-20%
Total Current Assets	2,060	2,214	-7%
Total Assets	8,246	8,359	-1%
Equity & Liabilities			
Share Capital	2,100	2,100	0%
Reserves (Statutory, Foreign Currency and Fair Value)	(500)	(510)	-2%
Accumulated Losses	(991)	(1,038)	-5%
Equity Attributable to the Shareholders of the Company	609	552	10%
Non-Controlling Interest	(101)	(100)	1%
Total Equity	508	452	13%
LT Loans and Borrowing	2,290	2,304	-1%
Lease Liabilities	2,933	2,838	3%
Post-Employment Benefits	112	110	2%
Total Non-Current Liabilities	5,336	5,252	2%
Trade Payables	876	1,016	-14%
Zakat & Tax Liabilities	25	16	56%
Lease Liability – current portion	791	803	-1%
ST Loans and Borrowings	709	820	-14%
Total Current Liabilities	2,401	2,655	-10%
Total Liabilities	7,737	7,907	-2%
Total Equity & Liabilities	8,246	8,359	-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. 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 1,700 stores across 100 shopping malls in 12 countries, with a retail platform operating on a total GLA of more than 450,000m². All of this is managed by a workforce numbering more than 11,000. Alhokair currently represents over 90 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.fawazalhokairfashion.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.