

Fawaz Abdulaziz Alhokair Co. delivers strong first half underpinned by solid operational and ongoing strategic delivery to drive profits and sustainable growth

- H1-FY22 top line grows 74.9% y-o-y to SAR 3.1 billion and exceeds pre-pandemic H1-FY20
- Second sustainably profitable quarter in a row with Q2-FY22 net profit of SAR 20.9 million
- Margins restored to pre-pandemic level with Q2-FY22 gross margin at 17.1% and EBITDA margin of 11.4%
- Strengthening of financial position through proposed SAR 1.0 billion rights issue

(Riyadh, 11 November 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 second quarter and first half of the year to 30 September 2021, reporting a positive Q2-FY22 top and bottom line rebound with revenue of SAR 1,361.3 million, surpassing pre-pandemic Q2-FY20 level, and a net profit of SAR 20.9 million marking two sequential quarters of profitability underpinned by the delivery on its operational upgrade strategy to support long term sustainable growth.

Marwan Moukarzel, Chief Executive Officer at Alhokair said:

“The delivery on our operational upgrade strategy is materializing, and we are pleased to have delivered a profitable first half supported by a significant recovery in our top-line, with sales figures and margins returning to pre-pandemic levels as further Covid-19 related restrictions lifted. From this base, we are confident that we will deliver a profitable full year performance.

Overall, we are pleased with the progress we are making on all strategic pillars. We are on track to launch Alo Yoga and Flying Tiger during the second half of the year followed by Fnac Darty in FY23 while we continue to calibrate our portfolio by exiting 7 brands during the quarter. Pursuing new lifestyle brands acquisitions that better fit our diversification strategy is key and we are pleased to announce the acquisition of two new franchise deals in F&B with an additional QSR master franchise agreement in KSA with over 200 stores currently being in advanced stages

On the digital front, the momentum is picking up with 36 brands successfully migrated to Vogacloset and the launch of a new category, fragrance, further diversifying our brand offering on the platform. Our online presence across all geographies is also expanding with 19 monobrands platforms now live across Saudi Arabia and internationally.

Our goal to become the leading lifestyle retail destination in the Kingdom and in key strategic growth markets is clearly in sight, particularly in light of the proposed rights issue which represents a key milestone in our transformation journey. We are confident that we are on the right path to generate sustainable long-term value for our customers, investors, brand partners, and other stakeholders.”

New brands in FY22*

alo
yoga

FNAC DARTY

flying tiger
copenhagen

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

Summary Financial Highlights

SAR Million	Q2-FY22	Q2-FY21	Change y-o-y	H1-FY22	H1-FY21	Change y-o-y
Revenue	1,361	1,186	14.8%	3,062	1,751	74.9%
Gross Profit (Loss)	232	52	348.0%	565	(191)	-
EBITDA	155	72	114.5%	348	(262)	-
Net Profit (Loss)	21	(98)	-	67	(634)	-

Ahmed Belbesy, Chief Financial Officer at Alhokair commented:

“As indicated at year end, the Board mandated the executives to explore the various options available to strengthen Alhokair’s financial position taking into consideration the operating environment, our debt profile and growth ambition. Following a comprehensive review, the Board announced its decision to recommend a SAR 1.0 billion capital increase by way of a rights issue offering. We will use the proceeds to reinforce the company’s overall financial and operational position by repaying a portion of its outstanding debt to improve the Net Debt to EBITDA ratio, fund strategic growth plans, explore new value accretive initiatives and improve cash flows to balance operational requirements with long term returns.

We remain adamant on streamlining operational processes and rationalizing costs as we continue to make significant progress on our operational excellence initiatives. The first phase of the Shared Service Centre out of Egypt is set to go live in the coming weeks with other phases to follow. Concurrently, further IT, finance and other optimization initiatives are also underway to enable material cost savings.”

H1-FY22 Highlights – Top-line exceeds pre-pandemic level and profitability sustainably restored

Revenue Analysis

Alhokair’s revenues for Q2-FY22 increased by 14.8% to SAR 1,361 million driven by the sustained consumption recovery both domestically and internationally as a result of gradual easing of COVID-related restrictions. When compared to pre-pandemic Q2-FY20 revenues of SAR 1,235 million, revenues came in 10% higher, marking a gradual return to growth as consumer behaviors normalize. While the growth was solid, the Company was still operating against a backdrop of ongoing capacity limitations in shopping malls and F&B outlets during the quarter.

Revenue for H1-FY22 increased by 74.9% to SAR 3,062 million as the severe impact of containment measures in response to the Covid-19 pandemic witnessed in H1-FY21 were gradually eased and trade rebounded in the Kingdom and more specifically, in the CIS.

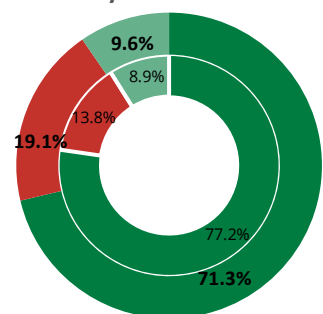
- **Saudi retail** revenues increased by 6.1% to SAR 971 million y-o-y for Q2-FY22 which is on par with pre-pandemic levels of Q2-FY20. For H1-FY22, revenues reached SAR 2,346 million, up 68.5% y-o-y from SAR 1,392 million, as the normalization of operations, Ramadan season and improved consumer sentiment supported the positive performance. Compared to pre-pandemic levels H1-FY20 levels, revenues were only 5.4% lower, further indicating that gradual recovery is underway.

- F&B** segment for Q2-FY22 recorded revenues of SAR 130 million, up 23.0% compared to SAR 106 million achieved in Q2-FY21, as social activity resumed following the extensive vaccine rollout. The F&B segment is showing a very healthy recovery with the total number of transactions during the quarter increasing by 16.6% q-o-q and 5.5% y-o-y supported by new stores and despite seating capacity being also limited to 60% during Q1-FY22. The expansion of the F&B segment is on track with new store openings and sub-franchise agreements continuing. New brands acquisitions including a Arabic food casual dining concept and a cake shop concept will soon be announced with another major QSR franchise agreement in advanced stages.
- International retail operations** generated revenue of SAR 260 million for Q2-FY22, up 58.4% on Q2-FY21, and in-line with pre-pandemic Q2-FY20, with the CIS markets and Egypt driving the positive momentum. For H1-FY22, revenue of SAR 479 million was up 105.0% compared to H1-FY21 as stores reopened in key markets. Compared to pre-pandemic H1-FY20, revenues were only down 1.6% even though some limitations on trading remained in certain CIS countries during Q1-FY22. Alhokair continues to collaborate with its brand partners across chosen growth markets such as CIS, Egypt and Jordan to drive traditional and online capacity alongside them.
- Online sales** for Q2-FY22 were SAR 55 million compared to SAR 34 million in Q2-FY21 as e-commerce continues to gain momentum. Online revenue contribution to total revenue (excluding F&B) reached 4.4% in Q2-FY22 compared to 3.2% in Q2-FY21 and 3.9% in Q1-FY22. H1-FY22 sales came in at SAR 116 million, on par with H1-FY21 which had benefitted from a lockdown fueled increase in online retail, illustrating that Alhokair's ecommerce activity is gathering further momentum.

Consolidated like-for-like (LFL) revenues for Q2-FY22 continued to improve, recording growth of 11.6% y-o-y. For H1-FY22, LFL growth was 70% y-o-y. Based on pre-pandemic H1-FY20, consolidated LFL growth was -12%.

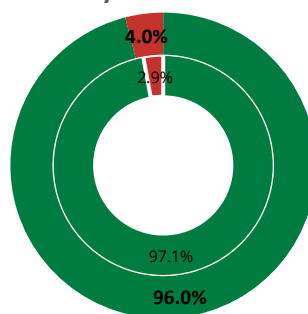
- Saudi retail** revenues for Q2-FY22 increased 4.6% y-o-y in LFL terms. Based on pre-pandemic Q2-FY20, Saudi LFL revenues were down 9.8%. Management continues to target a return to LFL growth in the low single digits over the near term with early October data pointing to further positive recovery as the Government continues to ease restrictions.
- International** sales for Q2-FY22 increased by 55.1% y-o-y in LFL terms due to the removal of Covid-19 related restrictions across operations. Based on pre-pandemic Q2-FY20, International LFL revenues were down 8.5%.
- Online sales** increased %5.0% y-o-y on LFL basis in Q2-FY22 despite the continued recovery in the Saudi retail segment leading to an increase of in-store traffic post lockdowns.

Revenue by division



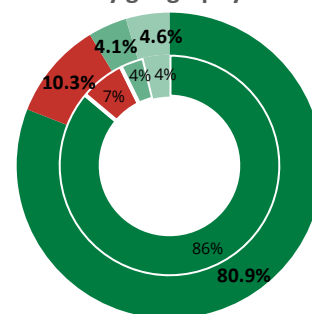
Q2-FY22 - Outer circle
Q2-FY21 - Inner circle
■ KSA Retail ■ Int'l Retail ■ F&B

Revenue by channel



Q2-FY22 - Outer circle
Q2-FY21 - Inner circle
■ Stores ■ Online

Revenue by geography



Q2-FY22 - Outer circle
Q2-FY21 - Inner circle
■ KSA ■ CIS ■ Egypt ■ Others

Bottom Line Analysis

Gross Profit was SAR 232 million for Q2-FY22 versus a gross profit of SAR 52 million in Q2-FY21. In comparison, pre-pandemic Q2-FY20 gross profit was SAR 183 million. The gross profit margin of 17.1% in Q2-FY22 improved from 4.4% in the previous year and 14.8% in pre-pandemic Q2-FY20, a result of improved top-line performance. Alhokair's trading margin (revenue less COGS less royalties less normalized inventory provisions) stood at 43.8% in Q2-FY22 versus 38.4% for Q2-FY21.

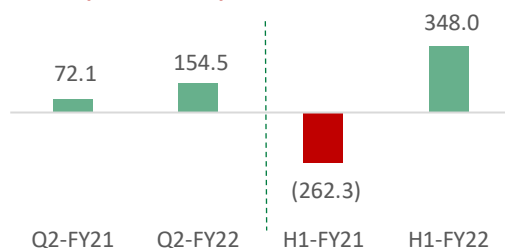
H1-FY22 gross profit was SAR 565 million compared to a gross loss of SAR 191 million in H1-FY21 and a gross profit of SAR 691 million in H1-FY20. The trend back to profitability and improvement vs. pre-pandemic levels highlights recovery is underway as re-openings and consumer behaviors gradually return to normal.

Selling, general and administrative expenses (SG&A) recorded SAR 116.9 million in Q2-FY22 compared to SAR 108.2 million in Q2-FY21 which included the SANED support and the rent reliefs. The Company continues to keep SG&A expenses under tight control.

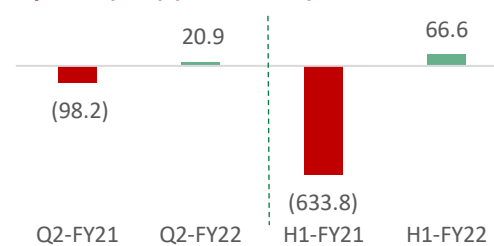
EBITDA was SAR 154.5 million for Q2-FY22, versus SAR 72.1 million in Q2-FY21. Alhokair achieved an EBITDA margin of 11.4% during the quarter and is on track to meet management's guidance of an EBITDA margin of 8.0% for the full year.

Alhokair booked a **net profit** of SAR 20.9 million in Q2-FY22 versus a net loss of SAR 98.2 million in Q2-FY21, achieving the second profitable quarter in a row and confirming the recovery in the overall socio-economic environment across the markets in which it operates. Despite higher operating margins, the net profit margin marginally dropped to 1.5% on higher taxes. For H1-FY22, Alhokair delivered net profit of SAR 66.6 million, compared to a net loss of SAR 633.8 million a year earlier, demonstrating the solid operational and strategic delivery year-to-date.

EBITDA (SAR million)



Net profit/(loss) (SAR million)



Balance Sheet and Cash Flow Analysis

Inventory balances recorded SAR 1,099.4 million for Q2-FY22, marking a reduction of 12.9% year-on-year. Going forward, terminal and operational shrinkage related provisions will be in line with management guidance of 1-2% of sales.

The Company recorded an **operating cash flow** of SAR 196.9 million for the quarter, up 26.2% y-o-y. For H1-FY22, Alhokair delivered solid operating cash flow of SAR 436.5 million, 25.1% ahead of H1-FY21 level of SAR 349.0 million, and just 13.9% lower than pre-pandemic H1-FY20 operating cash flow of SAR 507.1 million, enabling the company to reduce its **interest-bearing debt** by SAR 188 million since 31 March 2021, reaching SAR 2,936 million as of 30 September 2021.

Following a comprehensive review, the Board announced 10 November 2021 its decision to recommend a capital decrease and a subsequent capital increase through a **rights issue** to further strengthen Alhokair's financial position. The recommendation proposes a capital decrease of 46.2% down to SAR 1,130.8 million, to fully offset accumulated losses of SAR 969.2 million as at 30 September 2021, followed by a capital increase of 88.4%, by way of a rights issue.

The rights issue is expected to raise **SAR 1.0 billion** and Alhokair intends to use the proceeds to deleverage its balance sheet, improve liquidity, and enhance the Company's overall financial agility. The reclassification of non-current loans and borrowings to current liabilities as at 30 September 2021 was effected to comply with accounting standards due to non-compliance of certain financial covenants on the outstanding facility. Our funders, who continue to be supportive, have not indicated their intention of demanding repayment. The successful capital alteration will allow Alhokair to renegotiate the financial covenants and ultimately regain full compliance with covenants by FY 2023.

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 Q2-FY22:

Portfolio optimization	Operational excellence
<ul style="list-style-type: none"> In the first half, Alhokair added five brands* (Bizou, Decathlon, Marie France and Public Desire, Cabana) with the first stores opening across the Kingdom. 7 brands were closed. Net store closure trend is beginning to stabilize During Q2, 54 retail stores were closed, with 18 opened, resulting in a net decrease for the retail portfolio of 36 stores In F&B, 13 outlets were opened and 4 were closed, resulting in a net increase of 9 outlets. Cinnabon sub-franchise contracts concluded in Q1-FY22 will result in over 30 new stores in the next 2 years In the USA, Alhokair announced the potential sale of a 66.67% interest in Billy Beez, an indoor kids' entertainment center. This is in line with the strategy to exit non-core markets After exiting Macedonia during Q1-FY22, the exit from Serbia and Montenegro is underway thereby terminating exposure to non-core, non-performing international assets 	<ul style="list-style-type: none"> Extensive gap assessment of the IT department to support other key initiatives: Oracle v16 Implementation, Managed Services Provider, and Customer Service and Loyalty Program. Outsourced inventory count to achieve maximum accuracy and costs savings Global professional services consultant delivering a transformation program addressing price sensitivity, inventory, zero based cost optimization and organizational structure Assessing further cost optimization through detailed analysis of staff cost, rental, utilities and other cost lines. Shared Service Centre first phase launched in Egypt with other centers set to go live in H2 resulting in material costs savings from FY23 onwards Saudization levels at 66% for Q2-FY22, equivalent to Platinum Nitaqat status, with reaffirmed commitment to continual professional development and career opportunities. With 68% of our team being female, we continue to promote inclusion and diversity
<p><i>*Brands added to brand count and financial statements</i></p>	

	<ul style="list-style-type: none"> Entering partnerships with governmental and semi-governmental entities to support the SME sector in Saudi Arabia within the F&B segment.
Building a lifestyle brand	Commitment to digital
<ul style="list-style-type: none"> Continuing to build breadth and depth of the brand portfolio, with 87 brands on board following further rationalization Launch of first Alo yoga store set for December 2021 Ontrack for openings of Flying Tiger in January 2022 and additional Alo Yoga stores in 2022 while sourcing locations for Fnac Darty, Acquisition of Arabic food casual dining concept and a Cake shop concept with stores expected to open later this year Acquisition of a QSR master franchise agreement in KSA with over 200 stores is in advanced stages. Signing a contract to cross sell Seattle’s Best Coffee at one of the leading QSR’s in the Kingdom is also in final stages. Working with our brand partners to launch new brands and expand in growth markets Alhokair is in the process of developing a new and differentiated brand identity 	<ul style="list-style-type: none"> 36 brands on Vogacloset with ongoing prioritization of enhancements to the offering and brand portfolio on the platform Launched 10 fragrance brands thereby introducing a new category Introduced “Buy now Pay later” option 2 new monobrand online platforms launched for Public Desire Saudi Arabia and Massimo Dutti Armenia, bringing the total to 19 monobrand platforms (14 KSA and 5 International). 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 “FAS Labs” is the newly established limited liability company for the purpose of leading joint digital initiatives for Alhokair and Arabian Centres 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 11 November 2021, at 16:00 Saudi time. For conference call details, please email investors.relations@fahretail.com. Q2-FY22 full earnings presentation will be available for download ahead of the call at ir.fahretail.com

Income Statement

SAR Million	Q2-FY21	Q2-FY22	Change y-o-y	H1-FY21	H1-FY22	Change y-o-y
Revenue	1,186	1,361	14.8%	1,751	3,062	74.9%
Cost of Revenue	(1,134)	(1,129)	-0.4%	(1,941)	(2,497)	28.6%
Gross Profit	52	232	348.0%	(191)	565	-
<i>Gross Profit Margin</i>	4.4%	17.1%	12.7	-10.9%	18.5%	29.4
Selling and Distribution Expenses	(45)	(46)	2.3%	(81)	(90)	11.6%
General and Administrative Expenses	(63)	(71)	12.1%	(119)	(170)	42.6%
Impairments	-	-	-	(29)	-	-
Other operating expense	(5)	(6)	20%	(41)	(21)	-50.4%
Depreciation and Amortization	(76)	(38)	-49.8%	(154)	(104)	-32.8%
Other Income (loss), net	133	45	-66.4%	198	63	-68.1%
Operating Income	(4)	116	-	(416)	244	-
<i>Operating Income Margin</i>	-0.4%	8.5%	8.9	-23.8%	8.0%	31.8
Financial Charges	(85)	(71)	-16.5%	(192)	(143)	-25.6%
Share of loss of associates	-	-	-	-	-	-
Profit before Zakat and Tax	(89)	46	-	(608)	102	-
Zakat and Income Tax	(9)	(25)	178%	(26)	(35)	37.3%
Net Profit for the Period	(98)	21	-	(634)	67	-
<i>Net Profit Margin</i>	-8.3%	1.5%	9.8	-36.2%	2.2%	38.4
Attributable to:						
Shareholders of the Company	(99)	22	-	(624)	69	-
Non-Controlling Interest	0.6	(0.8)	-	(10)	(2)	-79.2%
Earnings per Share Basic and Diluted	(0.47)	0.10	-	(2.97)	0.33	-
EBITDA	72	155	114.5%	(262)	348	-
<i>EBITDA Margin</i>	6.1%	11.4%	5.3	-15.0%	11.4%	26.3

Balance Sheet

SAR Million	30 September 2021	31 March 2021	Change
Assets			
Property, Plant and Equipment	1,300	1,327	-2%
Right-of-Use Assets	3,139	3,402	-8%
Goodwill and Intangible Assets	1,131	1,111	2%
Investment Property	2	2	0%
Other investments	304	303	0%
Receivables from Disposal of Subsidiaries / Brands	-	-	
Total Fixed Assets	5,876	6,145	-4%
Inventories	1,099	1,152	-5%
Advances, Deposits and Other Receivables	651	471	38%
Prepayments, Rentals and Insurance	38	48	-21%
Receivables from Disposal of Subsidiaries / Brands	-	75	-
Cash & Cash Equivalents	265	468	-43%
Total Current Assets	2,053	2,214	-7%
Total Assets	7,929	8,359	-5%
Equity & Liabilities			
Share Capital	2,100	2,100	0%
Reserves (Statutory, Foreign Currency and Fair Value)	(497)	(511)	-3%
Accumulated Losses	(969)	(1,038)	-7%
Equity Attributable to the Shareholders of the Company	634	552	15%
Non-Controlling Interest	(102)	(100)	2%
Total Equity	532	452	18%
LT Loans and Borrowing	-	2,304	-
Lease Liabilities	2,773	2,838	-2%
Post-Employment Benefits	114	110	4%
Total Non-Current Liabilities	2,887	5,253	-45%
Trade Payables	938	1,016	-8%
Zakat & Tax Liabilities	17	16	6%
Lease Liability – current portion	619	803	-23%
ST Loans and Borrowings	2,936	820	258%
Total Current Liabilities	4,510	2,655	70%
Total Liabilities	7,397	7,907	-6%
Total Equity & Liabilities	7,929	8,359	-5%

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. 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 11 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 10,500. Alhokair currently represents around 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.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.