

CENOMI RETAIL TURNAROUND STRATEGY DEMONSTRATES POSITIVE MOMENTUM

- *In the second quarter of 2023, EBITDA increases 79.2% to SAR 316.6 million, with net profit increase of 173.6% to SAR 169.2 million underscoring Cenomi Retail's effective turnaround efforts.*
- *Cenomi Retail to adopt 'Saudi First' strategy; leveraging the exciting growth prospects in its home market.*
- *Company considering divestments of non-strategic geographies and brands with decision to exit the USA and Balkan markets, while additional seven brands added to the original 22 that were earmarked for divestment as the company continues its portfolio transformation and alignment with Champion brands.*
- *Right-sizing the operations in Egypt and Morocco will lead to the closure of 39 and 16 stores, respectively.*

Riyadh, Saudi Arabia, 8 August 2023: Cenomi Retail, Saudi Arabia's pioneering retail brand partner, today announced its financial results for the three months and half-year ended 30 June 2023. The company reported revenue of SAR 1.613 billion in the second quarter of 2023 and SAR 3.034 billion for the first half of 2023, marking a reduction of 5.4% and 1.9% respectively year on year. EBITDA for the second quarter of 2023 was SAR 316.6 million, an increase of 79.2% and for the first half of 2023, reached SAR 385.9 million, an increase of 77.7% year on year. These figures are demonstrative of the progress the company is making in its turnaround strategy.

Following a strategic review by newly appointed CEO, Dr. Günther Helm, who assumed the position on 1 April 2023, the company adopts a 'Saudi First' strategy. By focusing resources on the growth opportunities in its domestic market and the wider MENA region, the company will be considering strategic options to exit non-strategic geographies namely, USA and the Balkans. The focus on rationalizing its portfolio of brands continues to support the company's transformation as a true multi-category retailer. A further seven non-strategic brands have been added to the original list of 22 to divest with an expected positive impact on profitability.

Furthermore, with a continued focus on profitability, the company has launched an initiative to right-size its store footprint in the markets of Morocco and Egypt. A total of 16 and 39 stores were identified for closure, respectively.

The company finalized a comprehensive assessment of Right of Use of Assets and Lease Liabilities under IFRS16 Standard completed by an external independent party resulting in an adjustment to opening balances as of January 1st 2022 which led to a gain in Retained Earnings of SAR 56.5 million as of June 30th 2023.

In addition, the company received commitments from its major shareholders to settle their outstanding amount of SAR 272 million against related party balances in the third quarter of 2023. This settlement will support the company's deleveraging efforts as it expects to reach an imminent positive outcome in its ongoing negotiations to refinance its outstanding debt with its lenders.

Dr. Günther Helm, Chief Executive Officer at Cenomi Retail commented:

"The Saudi retail market holds immense growth potential, driven by a dynamic and youthful consumer base known for its discerning preferences that are constantly evolving. This presents an opportunity that I believe is crucial for Cenomi Retail to capitalize on. On joining the company in April, my team and I have undertaken a strategic assessment which led to the decision to double down on our Saudi and MENA focus. The strategy is already yielding favorable results.

"A return to profitability is underway, and our net profit of SAR 169.2 million, a notable increase of 173.6% in Q2 2023, is testament to that. We have taken significant steps to optimize our inventory and enhance operational efficiency. Inventory management is a key focus for us. This quarter, we reduced inventory on hand to 18 weeks, down from 21 weeks in the previous quarter. In addition, the optimization of our retail footprint contributed to this quarter's solid EBITDA of SAR 316.6 million.

"A robust corporate governance framework is critical for a leading organization like ours. As such, working closely with the audit committee and the board of directors, we have embarked on an overhaul of policies, systems and processes to help us address all previously identified areas of improvement and to help us achieve our ambitions to be a best-in-class corporate citizen.

"Our commitment to the growth of both our business, but also our people, is at the forefront of our strategy. This is why we have made strategic senior hires into our IT and supply chain functions, with other c-suite hires expected to join in the near term. We recognize that by investing in strengthening our team and our assets, we will also increase the overall experience in stores and online to satisfy our discerning customers. I am confident that this strategy sets strong foundations for future growth opportunities."

Operating highlights

The transformation journey, initiated last year, is demonstrating good results with the company's profitability improving significantly in the second quarter of 2023. The appointment of Dr. Helm brings vast experience to the organization, to set a strong strategic agenda and build further operating momentum. Key senior hires have been made in positions such as supply chain and IT to further enhance operational efficiency and guide overall transformation strategy of the company.

The first half of 2023 saw a continued emphasis on enhancing operational efficiencies throughout the company. Improved inventory management has been a key focus and new systems and processes designed to optimize inventory are yielding results. The company's inventory has been reduced from SAR 1,411 million in Q2 of 2022 to SAR 954 million in Q2 2023, which supports the optimization of the company's working capital.

A continued focus on building Champion Brands, together with expansion into growth categories that support a stronger multi-category approach, are yielding results. Like for like revenues of Zara in KSA increased by 5%. and other Inditex group brands, including Massimo Dutti and Zara Home, collectively delivered growth of 2%.

Optimization of the retail footprint also continued in Saudi Arabia, with Cenomi Retail opening three stores and closing 76, ending H1 2023 with 835 outlets. In its international markets, Cenomi Retail opened three stores and closed nine, with a total of 297 outlets now operational. In the F&B segment, Cenomi Retail opened eight outlets and closed five, to deliver a total of 257 stores. For the second consecutive quarter, F&B is showing growth with three net openings in Q2 2023. With 167 net store closures in Saudi in the first half of 2023 the company is reaching the end of its reset phase for the market, with only circa 33 stores expected to close in the remainder of 2023.

Financial highlights

H1 2023 revenues softened by 1.9% to SAR 3.034 billion. Q2 2023 revenues declined 5.4% on a reported basis to SAR 1.613 billion. Q2 2023 revenues in the core domestic market declined 7.6% to SAR 1,222.9 million as a result of the closure of net 73 stores. The store optimization program in H1 2023 saw 171 stores closed, equivalent to 11% of Cenomi Retail's footprint, while revenue only dropped by 2%. This demonstrates the impact of the focus on profitability, with sales per sqm growing by 9.6% from SAR 11,468 to SAR 12,573.

Q2 2023 EBITDA soared 79.2% to SAR 316.6 million. This was driven in part by a 21.4% improvement in gross profit and lower general and administrative expenses.

Q2 2023 net profit improved significantly from SAR 61.9 million to SAR 169.2 million, an increase of 173.6% year on year. This was driven by an increase in EBITDA which was offset by rising interest rates, leading to higher net financial costs. For the first half of 2023, net profit increased to SAR 113.8 million, compared to a net loss of SAR 1.7 million in the first half of 2022.

The company finalized a comprehensive assessment of Right of Use of Asset and Lease Liabilities under IFRS16 Standard completed by an external independent party resulting in an adjustment to opening balances as of January 1st 2022 which led to a gain in Retained Earnings of SAR 64 million as of June 30th 2023.

Net debt at quarter-end was SAR 2,645 million compared to SAR 2,739 million at 2022 year-end as the company continues in its efforts to deleverage.

Income Statement

SAR Million	Q2 2023	Q2 2022	% Change
Revenue	1,613.4	1,705.6	-5.4%
Cost of Revenue	-1,284.3	-1,434.6	-10.5%
Gross Profit (Loss)	329.2	271.1	21.4%
<i>Gross Profit Margin</i>	20.4%	15.9%	28.4%
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%
Operating Income (Loss)	273.7	135.7	101.7%
<i>Operating Income Margin</i>	17.0%	8.0%	113.3%
Financial Charges	-87.7	-56.8	54.4%
Impairment loss on goodwill	-	-	-
Share of loss of associates	-4.4	1.0	-540.5%
Profit (Loss) before Zakat & Tax	181.6	79.9	127.3%
Zakat and Income Tax	-12.4	-18.0	-31.3%
Net Profit (Loss) for the Period	169.2	61.9	173.6%
<i>Net Profit Margin</i>	10.5%	3.6%	189.2%
Attributable to:			
Shareholders of the Company	167.2	61.8	170.6%
Non-Controlling Interest	2.1	0.8	-
Earnings per Share Basic and Diluted	1.46	0.54	-
EBITDA	316.6	176.7	79.2%
<i>EBITDA Margin</i>	19.6%	10.4%	89.5%

Balance Sheet

SAR Million	Q2 2023	31 Dec 2022	% Change
Property, Plant and Equipment	1,420.5	1,324.3	7.3%
Right-of-Use Assets	2,194.3	2,347.1	-6.5%
Goodwill and Intangible Assets	1,127.6	1,120.8	0.6%
Investment Property	1.3	1.4	-4.4%
Equity-accounted investees	69.0	62.1	11.0%
Other investments	291.3	314.2	-7.3%
Derivative asset	39.3	35.1	12.0%
Total Non-Current Assets	5,143.3	5,205.2	-1.2%
Inventories	954.3	1,000.3	-4.6%
Advances, Deposits and Other Receivables	608.2	718.2	-15.3%
Prepayments, Rentals and Insurance	64.3	35.4	81.3%
Cash & Cash Equivalents	260.4	193.8	34.4%
Total Current Assets	1,887.2	1,947.7	-3.1%
Total Assets	7,030.5	7,153.0	-1.7%
Share Capital	1,147.7	1,147.7	0.0%
Reserves (Statutory, Foreign Currency and Fair Value)	-554.5	-524.1	5.8%
Fair value reserve	42.1	42.1	0.0%
Accumulated Losses	-115.3	-227.6	-49.4%
Equity Attributable to the Shareholders of the Company	520.0	438.1	18.7%
Non-Controlling Interest	-91.1	-92.1	-1.1%
Total Equity	428.9	345.9	24.0%
LT Loans and Borrowing	128.7	115.0	11.9%
Lease Liabilities	1,680.0	1,761.1	-4.6%
Post-Employment Benefits	108.4	95.9	13.0%
Total Non-Current Liabilities	1,917.2	1,972.0	-2.8%
Trade and other payables	1,182.2	1,256.5	-5.9%
Bank Overdraft	48.2	49.8	-3.2%
Zakat & Tax Liabilities	71.6	70.5	1.6%
Lease Liability – current portion	605.5	640.9	-5.5%
ST Loans and Borrowings	2,777.1	2,817.4	-1.4%
Total Current Liabilities	4,684.4	4,835.0	-3.1%
Total Liabilities	6,601.6	6,807.0	-3.0%
Total Equity & Liabilities	7,030.5	7,153.0	-1.7%

Recent updates concerning FAS Labs.

Cenomi Retail made an announcement that FAS Labs has received the final approval from the Saudi Central Bank to license FAS Finance Company. The approval allows FAS Finance to offer consumer microfinance solutions through financial technology. Cenomi Retail ownership interest in FAS Finance is through its 50% stake in FAS Labs. It's important to note that "FAS Labs," a Limited Liability Company, is jointly owned by both Cenomi Retail and Cenomi Centers. The approval was granted on 25-07-2023.

Al-Mubarak Real Estate fund 2

On 18-07-2023, Cenomi Retail announced the termination and liquidation of Al-Mubarak Real Estate Fund 2, in which the company owns 33.33% of the total units. The fund's assets were sold for SAR 1,525,000,000, and a first tranche of SAR 360,000,000, equivalent to 60% of the investment units' nominal value, will be distributed. Cenomi Retail will receive SAR 120,000,000, 33.33% of the first tranche distribution, while the company's share in the fund's book value as of December 31, 2022, was SAR 217 million.

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About Cenomi Retail:

Cenomi Retail, formed as Fawaz A. Alhokair & Co 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, Cenomi Retail has grown considerably and now trades in over 1,300 stores across 100 shopping malls in 11 countries, with a retail platform operating on a total GLA of more than 400 thousand square meters. All of this is managed by a workforce numbering more than 10,000. Cenomi Retail currently represents over 65 brands, spanning 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.cenomiretail.com

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