

CENOMI RETAIL DEMONSTRATES TANGIBLE PROGRESS ON TURNAROUND STRATEGY DESPITE SEASONAL HEADWINDS

- *Consumer spending slowdown in the third quarter contributes a 5.5% y-o-y drop in YTD revenue to SAR 4,220.8 million*
- *Operating improvements as well as higher other operating income contributed to a sterling EBITDA growth of 7.7% YTD*
- *Related parties settled SAR 272 million in outstanding balances to support deleveraging which helped the company pay down SAR 300 million of debt in October*
- *Progress on divestment program: LOI signed with Abdullah Al Othaim Fashion Company to divest 22 brands in KSA, exit from the Balkans complete and LOI in place for disposal of US operations*
- *International operations and Online continue strong momentum delivering 8% and 35% growth YTD respectively*

Riyadh, Saudi Arabia, 9 November 2023: Cenomi Retail, Saudi Arabia's pioneering retail brand partner, today announced its financial results for the quarter ended 30 September 2023.

Year to date (YTD), the company reported revenues of SAR 4,220.8 million, a year-on-year (y-o-y) decrease of 5.5%, EBITDA of SAR 346.7 million, which is an increase of 7.7%, and a net loss of SAR 89.1 million. During the quarter, the company reported revenues of SAR 1,186.8 million, a reduction of 13.6% y-o-y, an EBITDA loss of SAR 39.2 million and a net loss of SAR 202.9 million.

The quarter's results reflect a challenging Saudi market as the typical summer seasonality was compounded by lunar calendar effects. The Eid al Fitr and Eid al Adha holidays and an early July pay day occurred in the second quarter of this year, as opposed to the third quarter in 2022, making for a tough comparison. As reported by SAMA, these issues contributed to a 7.4% drop in retail spending across the Kingdom on fashion categories in the third quarter. More broadly the results were severely impacted by the increase in the interest rates year over year with SAR 139.7 million incremental finance charges in the period offsetting improvements in underlying operating profit that grew 5.7% to SAR 217.3 million. As the company accelerates its deleveraging efforts in the coming quarters, it is expected the improving operating fundamentals will translate into enhanced profitability.

The company's turnaround strategy continues to deliver solid progress. The company closed 319 stores in the last 12 months, representing 19.2% of the global footprint and leading to a mere 5.5% (9m y-o-y) drop in revenue, a testament to the benefits of the targeted store rationalization program. Moreover, the focus on Champion Brands is yielding strong results with Zara and Inditex delivering 6% and 4% like-for-like (LFL) growth respectively despite the macro issues affecting the wider market.

Furthermore, Cenomi Retail made good on previous commitments and achieved key milestones in its transformation during the quarter. As part of its brand rationalization strategy, a Letter of Intent (LOI) to divest 22 brands was signed with Abdullah Al Othaim Fashion Company, with due diligence completion and Sales and Purchase Agreement (SPA) signature expected in the fourth quarter. The deal is targeted to close in the first quarter

of 2024. The company also successfully exited the Balkans through the closure of its eight stores. For its US operations, an LOI to sell the business has been signed. The company expects to close the US transaction in the fourth quarter of this year. Efforts to right-size the Egyptian and Moroccan markets are progressing to plan with 18 and 3 stores closed in the third quarter respectively.

Importantly, Cenomi Retail received from its related parties the final settlement of an outstanding amount of SAR 272 million of which SAR 217 million were settled during the quarter and the remaining balance will be paid after the closing period. These funds will support the company's deleveraging efforts. Net debt, at the end of the quarter, stood at SAR 2,475 million, a decrease of 10% from December 2022.

In line with efforts to introduce innovative payment solutions and maximize overall share of wallet, Cenomi Retail secured a strategic partnership with Tabby, MENA's leading Buy-Now-Pay Later (BNPL) shopping and financial services app, during the quarter. Early results for the 10 participating brands through their online channels are encouraging with over 40% penetration and an increase of over 20% in basket size.

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

"It is clear the market and interest rate dynamics are offsetting our operating and financial improvements. The Saudi fashion market had a tough comparison versus last year with the Eid holidays falling in the second quarter and the seasonal discounts extending for longer. Perhaps more important is the increase of SAR 139.7 million year to date in finance charges, to SAR 268.2 million, on the back of the steepest rise in interest rates in a generation. This highlights the weakness in our current capital structure and validates our commitment to reducing our levels of debt. To that effect we have settled SAR 300 million of our outstanding debt in early October, which will have a positive impact going forward. Operationally, our year-to-date EBITDA is up 7.7%, demonstrating the improvements we delivered across the business be it staff costs that are lower by SAR 77 million (-10.8% y-o-y) and rental costs declining by SAR 40 million (-8.1% y-o-y) to name a few.

This tough environment only sharpens our focus on delivering the turnaround strategy we put forth, and I'm proud of the progress we achieved in the quarter. During the quarter we continued with our store rationalization program. We closed 68 retail stores and F&B outlets and are now at the tail end of the major reset in our store footprint. We signed an LOI with Abdullah Al Othaim Fashion Company to divest 22 non-core brands. We exited the Balkans and signed an LOI to exit the US. Lastly, our related parties have largely settled the outstanding balance of SAR 272 million.

We also continue to expand our offering with the introduction of the first Fnac store in the region at Nakheel Mall Dammam, as well as our partnership with Tabby, which we expect will have a tangible impact on customer conversion and total spend. Our Champion Brands continue to deliver despite the macro environment and in fact Zara is outperforming the Saudi Fashion market gaining share and growing 5.2% in the Kingdom versus a market up 2.8%. International and Online remain bright spots both growing at 8.2% and 34.8% respectively.

We have also made progress with our corporate governance. Beyond the related party settlement, Cenomi Retail has been diligently working to address all governance and internal audit concerns within the company. We are working with a Big Four partner and remain committed to ensuring we implement international best practices to provide reasonable assurance and transparency to all stakeholders. This has included defining clear roles and responsibilities across more than 10 functions within Core operations and Head office, designing 140 business processes to harmonize ways of working across business units and countries, defining areas requiring buildup of critical controls in line with best practices for Corporate Governance and development of more than 40 policies within a Corporate Governance Framework.

While this was a challenging quarter, I am enthusiastic about Cenomi Retail's future and am confident that as we continue to deliver on our transformation strategy, we will return to consistently achieving enhanced profitability."

Business highlights

As a part of its brand rationalization strategy, an LOI was signed with Abdullah Al Othaim Fashion Company to divest 22 non-core brands. The due diligence and signature of the binding SPA is expected to complete in Q4-23 and the deal is expected to close in Q1-24.

During the quarter, the company exited its non-core market of the Balkans with the outright closure of 8 stores. Also, the company signed an LOI to sell its operations in the US market. The transaction is expected to close in Q4-23.

In line with efforts to introduce innovative payment solutions and maximizing overall share of wallet, Cenomi Retail announced a long-term strategic partnership with Tabby. Tabby can be used online with 10 brands and available at all 17 Aleph stores and Fnac. The partnership is a first of its kind collaboration between a BNPL player and an omnichannel retailer in Saudi Arabia. To date Cenomi Retail notes penetration levels above 40% and growth in the average basket size of approximately 20% when customers use "buy now pay later" tools.

Operating highlights

During the quarter, in alignment with its rationalization strategy, Cenomi Retail opened nine stores in the Kingdom and closed 21, leading to a store footprint of 823, which is a 20.1% decrease y-o-y.

In its international markets, Cenomi Retail opened four stores and closed 35, for a total of 266 stores during the quarter, which is a 12.5% decrease y-o-y in the number of stores. The changes include rightsizing its presence in Egypt, where it closed 18 stores this quarter, and Morocco, where it closed three stores this quarter.

YTD Cenomi Retail has reduced the number of brands by 18% and currently holds 67.

Cenomi Retail's Champion Brands strategy continues to deliver and outperformed the overall Fashion category. YTD, Zara revenues grew 9.1% y-o-y (6% on a LFL basis) and revenues from other Inditex brands grew 5.9% y-o-y (4% on a LFL basis). In Q3, revenues from both Zara and Inditex shrunk, 4.6% y-o-y and 3.6% y-o-y respectively, a reflection of the macro issues challenging the entire retail sector. Cenomi Retail continues to evolve into a multi-category retailer with its multimedia offering growing 14.8% YTD.

In the F&B category, Cenomi Retail opened six outlets and closed 12 outlets, resulting in 251 F&B outlets. The y-o-y comparison remains distorted by the major divestment of four brands in Q4-22, however sequentially the F&B category is growing at 3% versus Q2-23.

In Q3 2023, Cenomi Retail's online channels saw a 32.0% increase y-o-y. Online represents 5.4% of Cenomi Retail's revenue. YTD Online is up 34.8%.

During the quarter, Cenomi Retail put considerable resources into increasing operational efficiencies, notably towards improving inventory management. New systems and processes designed to optimize inventory have stabilized the company's inventory at SAR 933 million in the quarter, a reduction of 6.8% versus closing balances at December 31 2022 year end.

Financial highlights

YTD, the company reported revenues of SAR 4,220.8 million, a y-o-y decrease of 5.5%, EBITDA of SAR 346.7 million, an increase of 7.7%, and a net loss of SAR 89.1 million. During the quarter, the company reported revenues of SAR 1.19 billion, a reduction of 13.6% y-o-y, an EBITDA loss of SAR 39.2 million and a net loss of SAR 202.9 million.

The decrease is attributed to softer top line due store closures and market conditions while the company's net finance costs had a major impact and increased 216.6% from SAR 33.1 million to SAR 104.8 million y-o-y in Q3. YTD its net finance costs increased 108.7% from 128.5 million to SAR 268.2 million. The increase is due to the higher interest rate environment. This was partially offset by a reduction in costs, such as rent, which decreased SAR 40.5 million YTD; staff costs, which decreased SAR 77.1 million YTD; and cost of sales, which decreased SAR 36.3 million YTD.

Net debt at quarter-end was SAR 2.47 billion compared to SAR 2.7 billion at the end of 2022, a decrease of 10% as the company works to deleverage.

Cenomi Retail's related parties have settled SAR 217 million in related party dues. The remaining balance of SAR 55 million will be settled in Q4-23. These funds will be used to pay down the company's debt as Cenomi Retail remains committed to deleveraging its balance sheet.

Income Statement

SAR Million	Q3 2023	Q3 2022	% Change	9m 2023	9m 2022	% Change
Revenue	1,186.8	1,372.9	-13.6%	4,220.8	4,465.2	-5.5%
Cost of Revenue	(1,116.0)	(1,190.6)	-6.3%	(3,663.8)	(3,861.6)	-5.1%
Gross Profit (Loss)	70.9	182.2	-61.1%	557	603.6	-7.7%
<i>Gross Profit Margin</i>	6.0%	13.3%	(7.3pp)	13.2%	13.5%	(0.3pp)
Selling & Distribution Expenses	(42.4)	(46.5)	-8.8%	(146.8)	(117.9)	24.6%
General & Administrative Expenses	(78.2)	(67.3)	16.2%	(245.2)	(209.5)	17.1%
Impairment Loss on Goodwill	-	-	-	-	(70.5)	N/M
Other Operating Expense	(3.2)	7.0	N/M	(10.4)	(6.6)	57.5%
Depreciation and Amortization	(43.7)	(37.4)	16.7%	(129.4)	(116.4)	11.2%
Other Operating Income	13.8	29.4	-53.0%	192.2	122.8	56.5%
Operating Income (Loss)	(82.9)	67.4	N/M	217.3	205.6	5.7%
<i>Operating Income Margin</i>	-7%	4.9%	(11.9pp)	5.1%	4.6%	0.5pp
Financial Charges	(104.8)	(33.1)	216.6%	(268.2)	(128.5)	108.7%
Change in fair value of other investment	-	3.7	N/M	-	1.3	N/M
Share of loss of associates	(1.0)	-	-	(-7)	(10.7)	-34.2%
Profit (Loss) before Zakat & Tax	(188.6)	38.0	N/M	(57.9)	67.6	N/M
Zakat and Income Tax	(14.3)	(16.9)	-15.3%	(31.2)	(48.3)	-34.2%
Net Profit (Loss) for the Period	(202.9)	21.1	N/M	(89.1)	19.3	N/M
<i>Net Profit Margin</i>	-17%	1.5%	(18.6pp)	-2.1%	0.4%	(2.5pp)
Attributable to:						
Shareholders of the Company	(204.1)	19.8	N/M	(91.8)	21.9	N/M
Non-Controlling Interest	1.2	1.2	-4.4%	2.7	(2.5)	N/M
Earnings per Share Basic and Diluted	(1.78)	0.17	N/M	(0.8)	0.19	N/M
EBITDA	(39.2)	104.8	N/M	346.7	322	7.7%
<i>EBITDA Margin</i>	-3.3%	7.6%	(10.9pp)	8.2%	7.2%	1.0pp

Balance Sheet

SAR Million	Q3 2023	31 Dec 2022
Property, Plant and Equipment	1,410	1,324
Right-of-Use Assets	2,229	2,347
Goodwill and Intangible Assets	1,195	1,121
Investment Property	1	1
Equity-accounted investees	68	62
Other investments	74	314
Derivative asset	-	35
Total Non-Current Assets	4,978	5,205
Inventories	933	1,000
Advances, Deposits and Other Receivables	496	718
Prepayments, Rentals and Insurance	33	35
Assets held for sale	57	-
Cash & Cash Equivalents	368	194
Total Current Assets	1,887	1,948
Total Assets	6,864	7,153
Share Capital	1,148	1,148
Reserves (Statutory, Foreign Currency and Fair Value)	(559)	(524)
Fair value reserve	42	42
Accumulated Losses	(319)	(228)
Equity Attributable to the Shareholders of the Company	311	438
Non-Controlling Interest	(90)	(92)
Total Equity	221	346
LT Loans and Borrowing	196	115
Lease Liabilities	1,877	1,903
Derivative Liability	51	-
Post-Employment Benefits	111	96
Total Non-Current Liabilities	2,234	2,114
Trade and other payables	1,151	1,257
Bank Overdraft	50	50
Zakat & Tax Liabilities	77	70
Lease Liability – current portion	485	499
ST Loans and Borrowings	2,647	2,817
Total Current Liabilities	4,409	4,693
Total Liabilities	6,643	6,807
Total Equity & Liabilities	6,864	7,153

Other Announcements

During an Ordinary General Assembly Meeting held on the 10th of August, Cenomi Retail's shareholders re-elected members of the Board of Directors for a new three-year term which started on 12/08/2023 and ends on 11/08/2026. Mr. Fawaz Bin Abdulaziz Alhokair was appointed as Chairman and Dr. Abdulmajeed Bin Abdulaziz Alhokair as Vice Chairman to the Board of Directors. The Ordinary General Assembly Meeting also saw the formation of an Audit Committee, a Nomination and Remuneration Committee, as well as the appointment of the Board of Directors Secretary and Representatives of the Company.

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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 10 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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Disclaimer

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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.