

L'AZURDE

Presentation Results 2019

Riyadh – March 23, 2020

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Agenda

- **Executive Summary**
- **Results**
- **Business Model**
- **Strategic Initiatives**

Executive Summary

- **Challenging year 2019 in KSA and in particular for L'azurde**
 - Gold price sharp increase and fluctuation causing customers to delay both buying and settlement
 - Highest gold price since 2013 caused consumers to buy less quantity for the same budget
 - Cancellation of free trade agreement between KSA and Egypt impacted the flow and cost of gold jewelry manufacturing
 - Shutdown of export to Iraq and UAE to reduce credit risk and enhance working capital
 - Successful TOUS integration but at a higher costs due to sales force changes, training, marketing investment, some out of stock issues and one off matters
- **L'azurde navigated well through the turbulent year**
 - Despite challenging market's dynamics L'azurde managed to maintain its gross margins while reducing Opex
 - Changed its products offering in the KSA wholesale market by replacing heavy weight products at the trade with new light weight products and appealing designs free of charge to our retailers
 - Accepted the return of gold jewelry from customers with excess inventory and slow payment to reduce AR and credit risk
 - Laid stronger foundations for TOUS business and readying it for significant growth in the coming 3 years by investing in a well trained and incentivized female workforce, strong marketing campaign, new IT system and effective replenishment system
 - Protected and grew our successful and profitable wholesale and retail businesses in Egypt
 - Took the long waited decision to wind down the Retail Business in KSA which was suffering losses for years. We kept only 4 profitable shops, reduced Opex and inventory and made sufficient provisions for any expected future losses
 - Introduced a high potential game changer in a Blue Ocean: Miss L', a fast growing high margin and low working capital category
 - Positive cash flow from operations, and better than 2018, despite the challenges

Executive Summary – Key 2019 Highlights

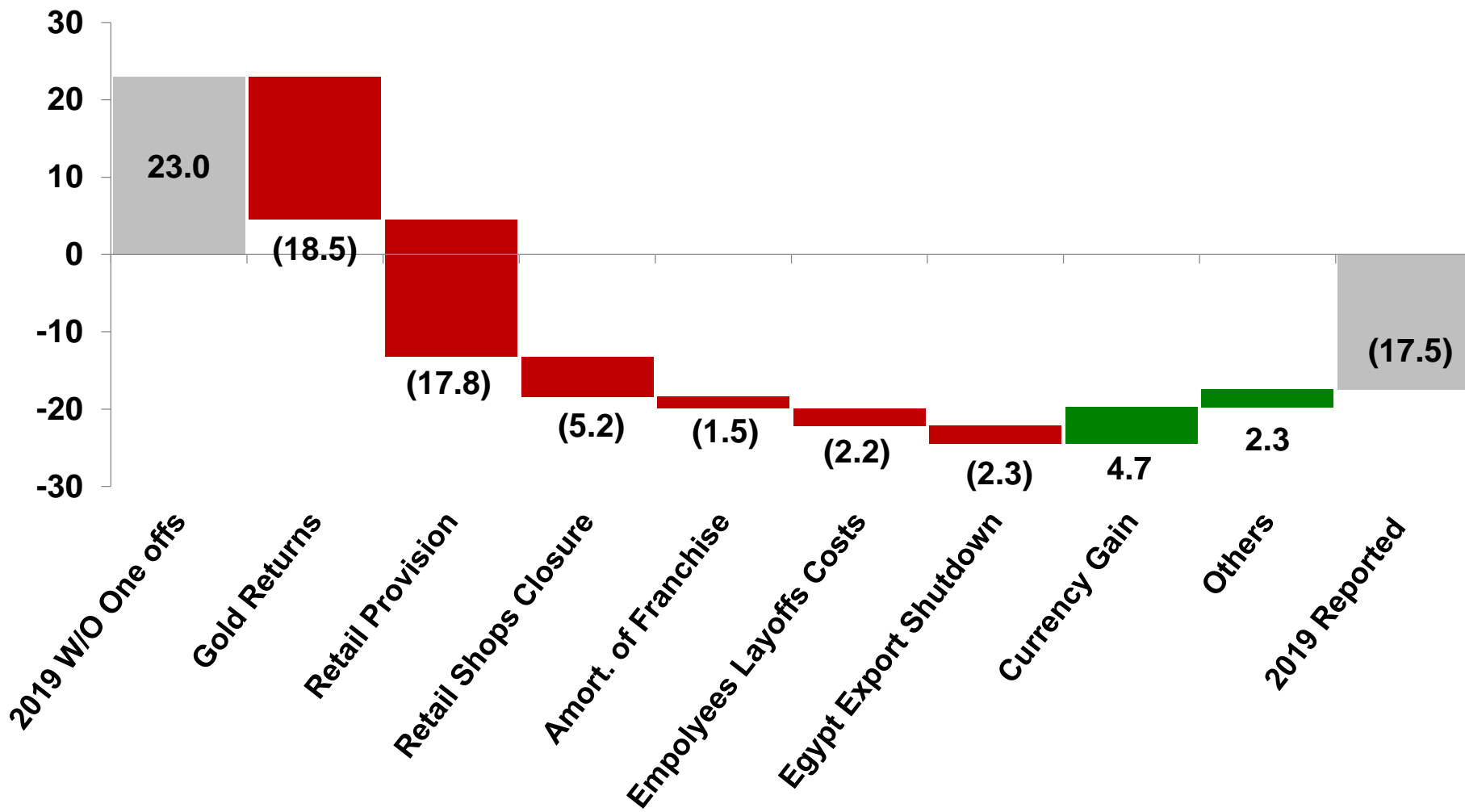
- **Revenues and gross profit were 18% higher than last year**
 - Egypt's revenues continued to perform strongly with a growth of 19% in the wholesale and +47% in retail through same stores sales growth and the opening of four new outlets reaching a total of 13 outlets
 - In KSA, wholesale revenues were negatively impacted by the sharp increase and fluctuation in Gold price. In response to that the Company reduced products weights and changed the designs to ensure that new products meet the changing consumer taste and budget. The Company also accepted returns of heavy Gold jewelry items from its customers, on a one-off basis, to ensure that our customers and retailers have the right products
 - Excluding the impact of these one-off sales returns, KSA wholesale operating revenues were 28% higher than last year
 - KSA Retail revenues increased by 59% mainly due to the consolidation of revenues of the TOUS franchisee operation which was acquired in the fourth quarter of 2018
 - New Miss L' line performed ahead of expectations and proves to have a very strong potential
- **Total Exceptional Items amounted to SAR 22.0 Million**
 - Provision for Retail KSA inventory at SAR 17.8m
 - Retail shops closure loss of SAR 5.2m
 - Excess EOS of SAR 2.2m for layoffs for cost reduction
 - Amortization of TOUS Franchise agreement at SAR1.5m
 - Others income SAR 4.6m
- **2019 Net income before exceptional items and sales returns came at SAR 23.0 Million**
 - Exceptional items amounted to SAR 22.0m
 - Cost of returns of SAR 18.5m
 - Total net loss for the year at SAR 17.5m
- **Bold proactive measures taken to handle Covid-19 crisis**

Group Consolidated Income Statements (Million SAR)

	Full Year				
	2018A		2019A		Delta
Gross Revenues	406.4		522.3		28.5%
Gold Returns	-		(41.1)		
Net Revenues	406.4	100.0%	481.2	100.0%	18.4%
Cost of revenues	(162.4)	-39.9%	(193.4)	-40.2%	19.1%
Gross Profit	244.1	60.1%	287.8	59.8%	17.9%
Selling and marketing	(131.8)	-32.4%	(178.4)	-37.1%	34.7%
General and admin	(42.3)	-10.4%	(43.4)	-9.0%	2.9%
Operating Income	69.9	17.2%	66.0	13.7%	-4.6%
Finance Charges – net	(35.6)	-8.8%	(50.9)	-10.6%	42.9%
Exceptional Items			(22.0)	-4.8%	
Other income – net	(4.4)	-1.1%	4.8	1.0%	-276.5%
Net Profit before Zakat	30.0	7.4%	(3.1)	-0.6%	-110.4%
Zakat	(10.7)	-2.6%	(11.3)	-2.3%	5.5%
Income Tax	(1.6)	-0.4%	(3.1)	-0.6%	95.9%
Net Income	17.7	4.3%	(17.5)	-3.3%	<100%
Net Income Before Returns and Exceptional Items	17.7	4.3%	23.0	-3.3%	30.0%

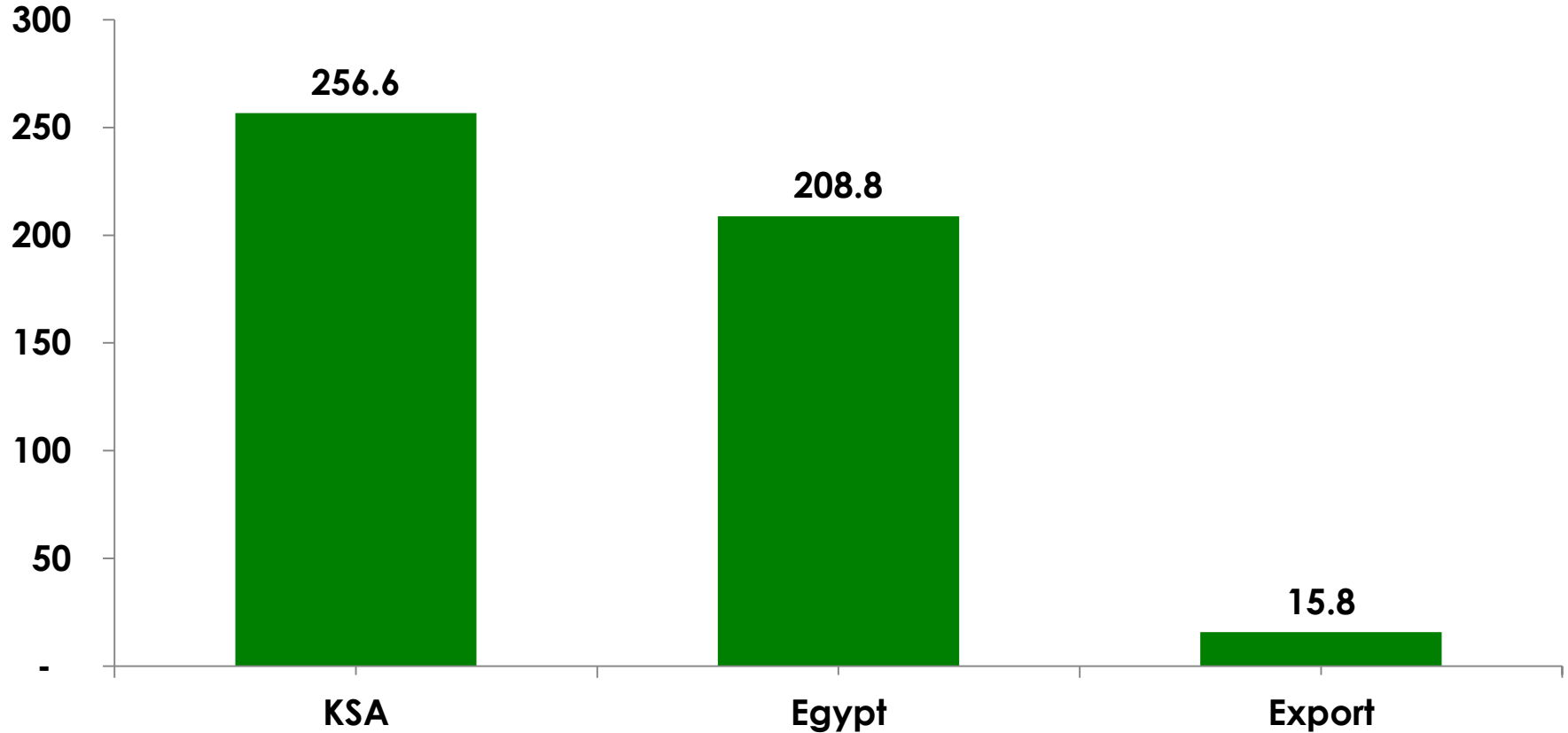
Group Consolidated Income Statements Bridge

Million SAR



Operating Revenues by Country – 2019

Million SAR



% of Total

53%

43%

3%

Vs. 2018

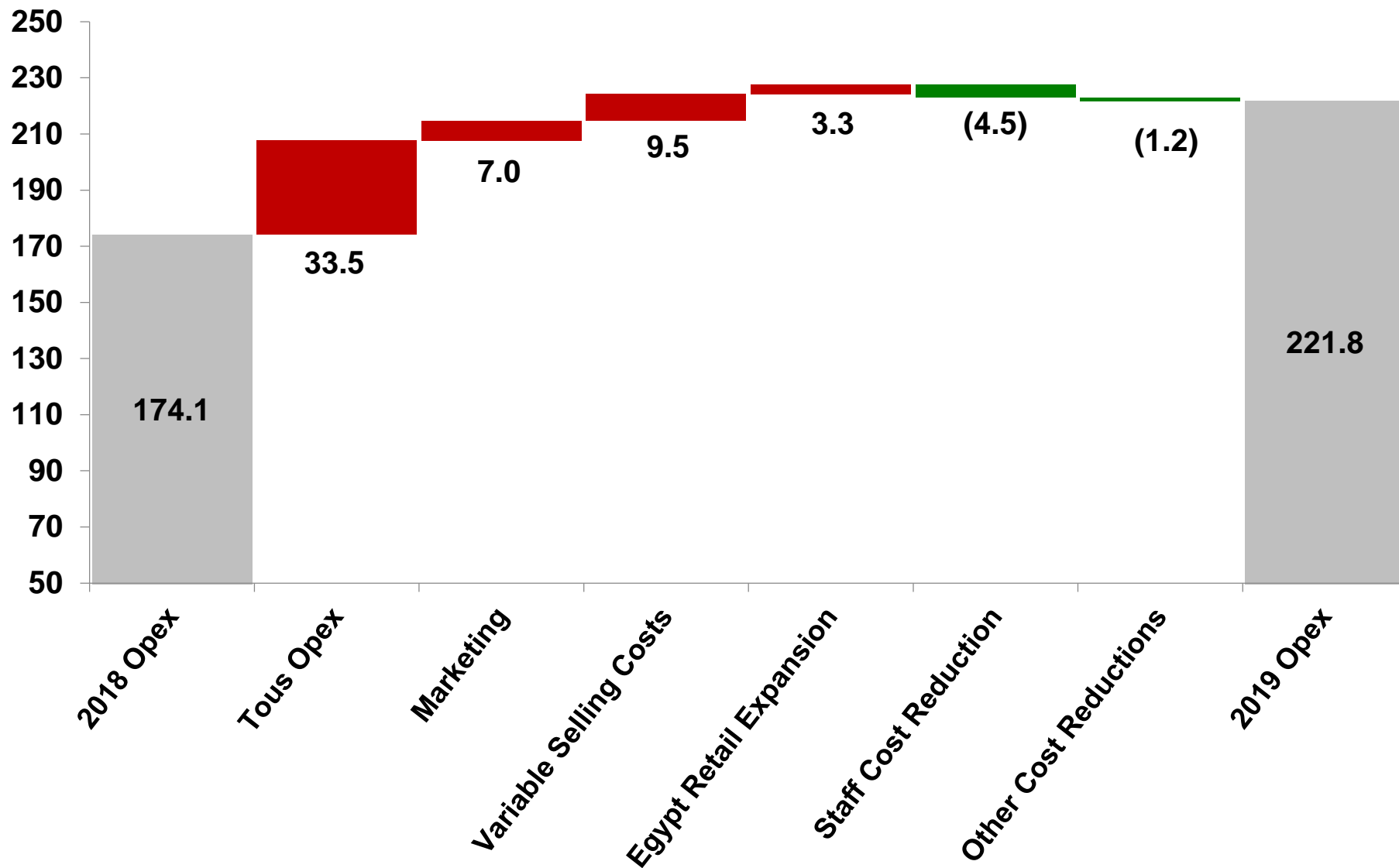
16% ▲

26% ▲

15% ▼

Group Operating Expenses Bridge 2018-2019

Million SAR



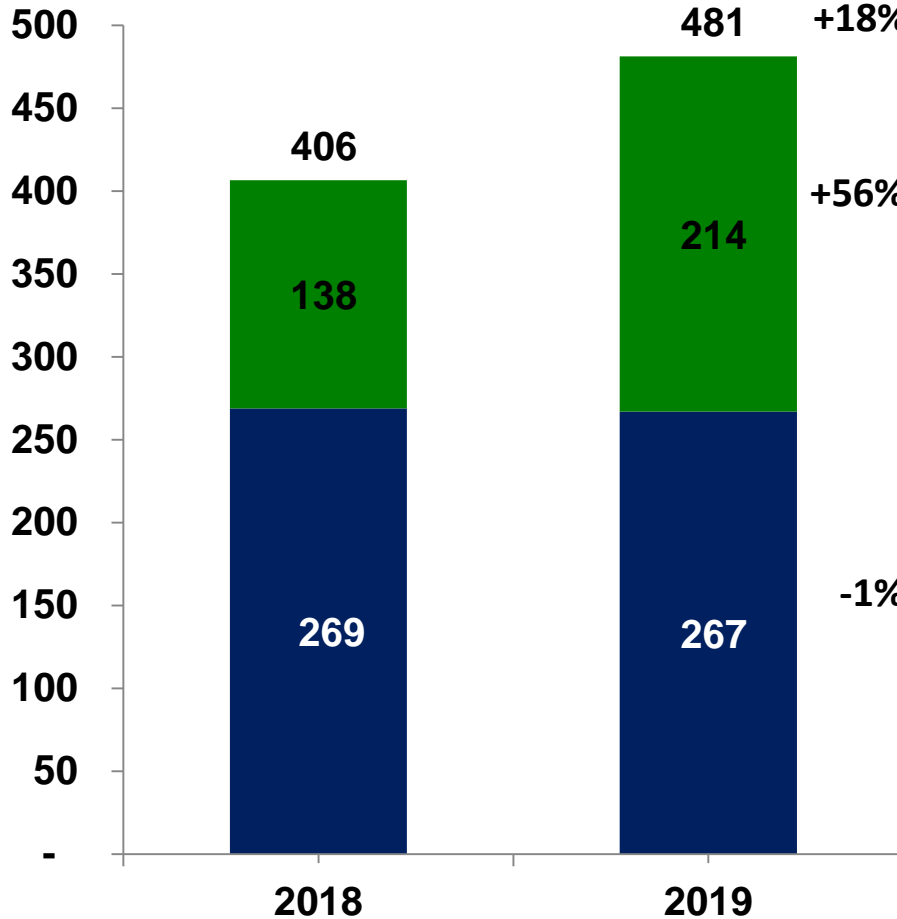
Group Revenues and Gross Profit by Distribution Channel

Retail Revenues at +56% in 2019 vs. LY

Retail 2019 GM at 33.7% from total GM vs. 18% LY

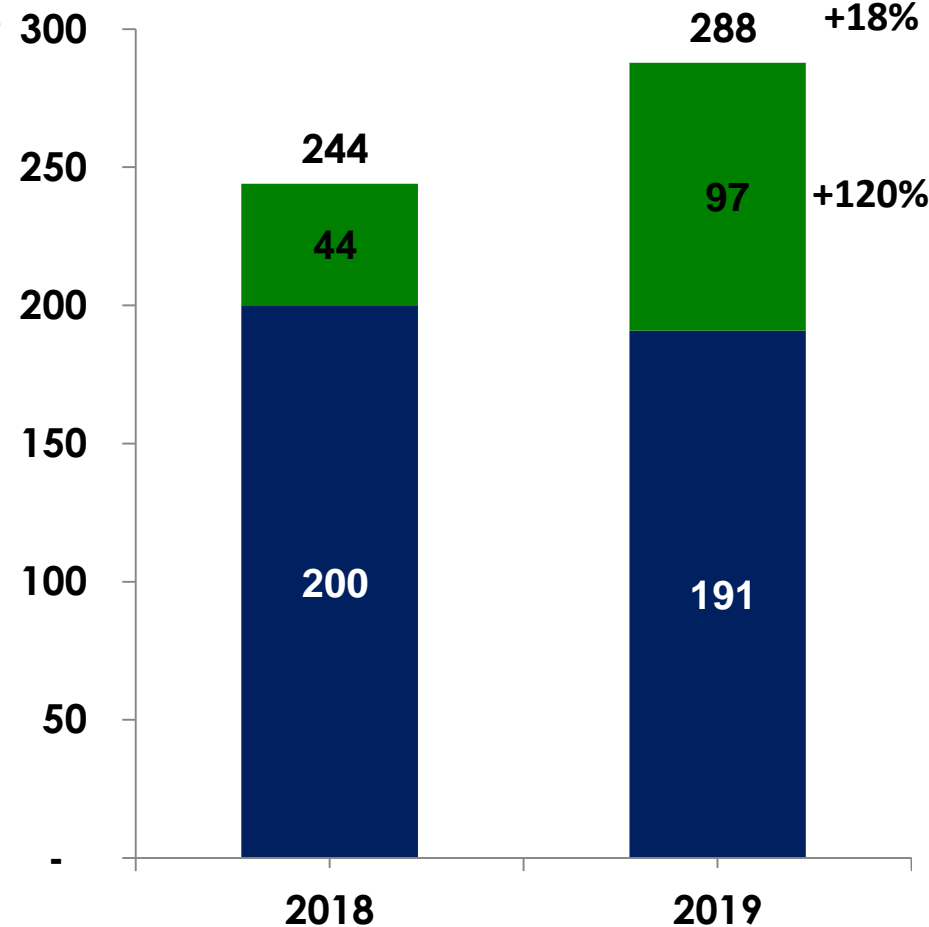
Million SAR

Revenues



■ Wholesale ■ Retail

Gross Profit



■ Wholesale ■ Retail

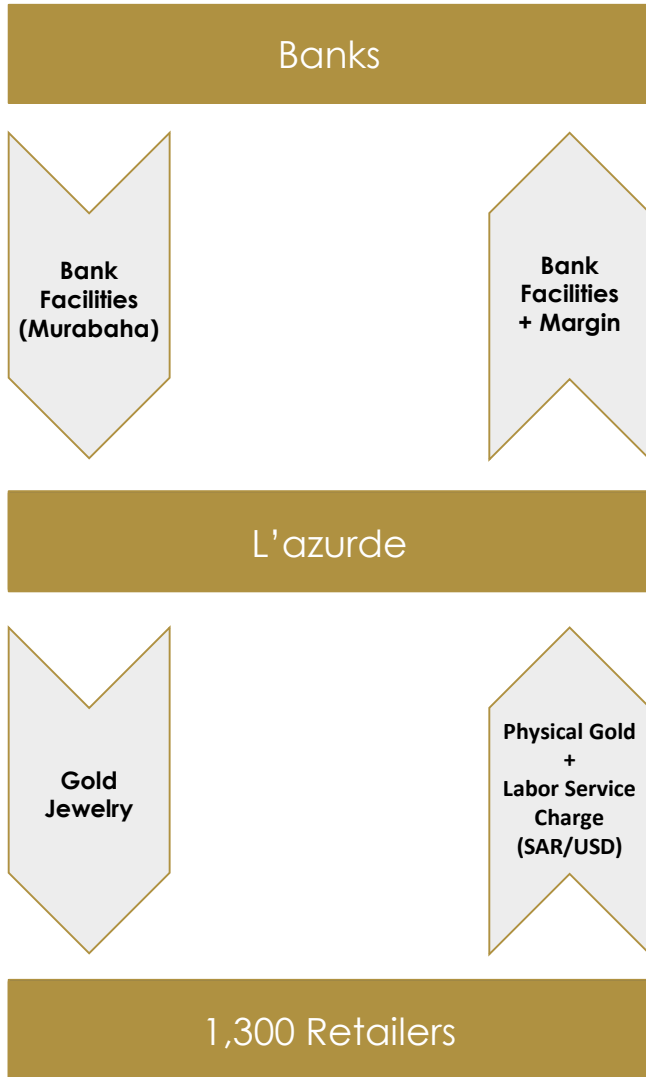
Cash Flow 2018 – 2019

Strong cash position and Significant improvement in 2019 vs. 2018 (Million SAR)

	2018	2019
Net Income (Loss)	17.7	(17.5)
Net Income after Adj. of non-cash	56.5	49.4
Accounts receivable	(34.1)	(0.7)
Inventories – Retail Liquidation	4.4	14.8
Inventories - Others	(12.7)	(9.2)
Other Changes in working capital	(15.9)	(31.2)
Cash from operations	(1.8)	23.0
Zakat and Tax paid	(13.2)	(15.6)
Employees terminal benefits paid	(5.7)	(6.2)
Net cash from operating activities	(20.8)	1.2
Capex	(11.0)	(11.1)
Acquisition of Subsidiary, net of cash	(131.6)	
Net Cash from investing activities	(142.6)	(11.1)
Long-term cash loans	108.0	(14.0)
Other Changes in financing activities	45.8	26.5
Net Cash from financing activities	153.8	12.5
(Decrease)/Increase in Cash	(9.6)	2.6
Cash opening balance	57.3	50.9
Cash Closing Balance	47.7	53.5

(*) The cash flow above excludes the gold component from all lines.

Wholesale Business Model



Value Creation at L'azurde:

- Creating great Gold jewelry products (Design, technology, value offering, innovation,....)
- Brand marketing
- Revenues = LSC (Labor Service Charge) + Stones Profits

Retailers pay L'azurde:

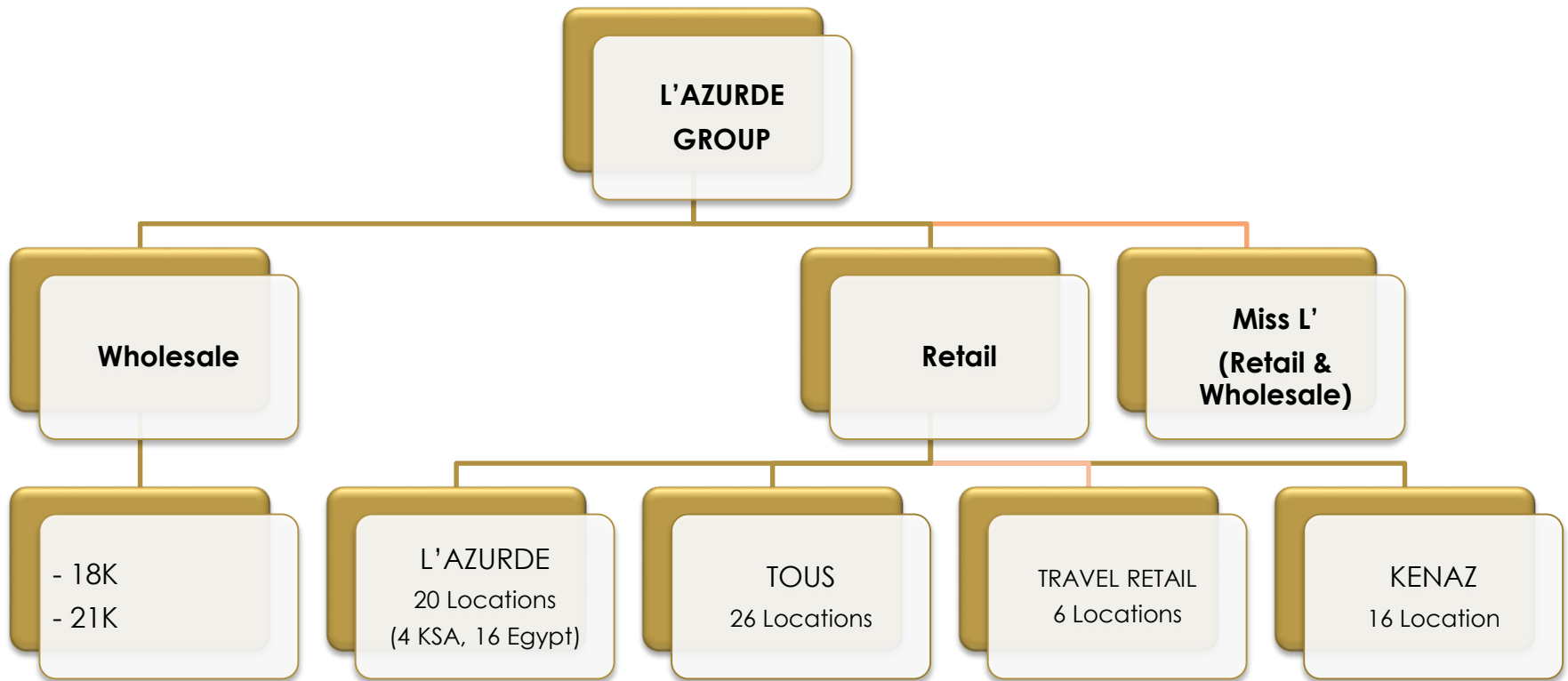
- Physical Gold + Labor Service Charge

L'azurde takes no position on Gold

L'azurde Business Model Evolution



L'azurde Group Business Units



New Miss L' High Potential Line

- Build on the latest consumer and fashion jewelry trends: gifting, lighter jewelry (Bain Commercial DD)
- Top designs: Essentials and Fashion lines
- Gold 18K product sold by Piece (SAR500 to 5,000). Key differentiation and Blue Ocean Segment
- High GM at 60%
- Low working capital, high ROI
- Regional and Global Distribution



L'azurde Business Model Expansion

L'AZURDE TRADITIONAL BUSINESS

Gold Souks

Jewelry sold by weight

High Working Capital

Limited E-commerce



MISS L' FASHION JEWELRY BUSINESS

Malls

Sold by piece

Low Working Capital

E-Commerce



L'azurde Brand Segmentation

L'AZURDE

Miss L'
L'AZURDE

General features

Elegant / Sophisticated
Mature, Symbol Status
Conventional

Youth, Effortless chic
Accessible, Trendy
Easy to wear/mix; Personalization
Gold 18K

Occasion

For **special** occasions
To **adorn** my/oneself

For **daily** use
To **indulge** yourself

Purchase

Thoughtful

Impulsive yet thoughtful

Pricing (SAR)

4,000-100,000

500-5,000



Miss L' Distribution for Impulse Driven Purchase

Indulge yourself, Judicious crush

DIRECT DISTRIBUTION

3rd PARTY RETAILERS

E-COMMERCE



Miss L' E-Commerce Platform

Fashion Market Places



H2 2020: New Branding

Shariaa Update

- **9 banks classify L'azurde as Sharia compliant:**
 - Al Bilad Bank
 - Alinma Bank
 - AlJazeera Bank
 - Saudi Fransi Bank
 - NCB Capital
 - Riyad bank
 - Arab Bank
 - SAMBA
 - Saudi Investment Bank
 - Al-Rajhi bank still to do
- **International agencies ratings:**
 - Intelligent Rating classified L'azurde as Shariaa compliant
 - Standard & Poor Global Ratings to be finalized

L'azurde Covid-19 Emergency Action Plan

Business Unit	Key Strategies
Employees Health and Safety	<ul style="list-style-type: none">• Major hygiene and safety education campaign and execution at all factories, shops and offices• Rigorous implementation of all government regulations• No case for employees or their families• Split managers working in shifts between different offices and home office
Retail Shops	<ul style="list-style-type: none">• Closed KSA retail shops for all brands in-line with government regulation• KSA wholesale customers closed shops in-line with government regulation
E-Commerce	<ul style="list-style-type: none">• Launched Miss L' E-Commerce platform with promising performance• Launching by end March E-commerce platforms for other brands
Financials	<ul style="list-style-type: none">• Freeze since March 1, 2020 all hiring, discretionary spending and Capital Expenditures• Tight cash management focus• Working on P&L stress tests, scenarios and more costs reduction measures
Communication	<ul style="list-style-type: none">• Regular communication to employees, customers and all key stakeholders
Emergency Response Team	<ul style="list-style-type: none">• Established senior management 'Emergency Response Team'• Daily call to review latest developments and initiatives• Goals: 1) Effective crisis management; 2) Financial planning and 3) Communication