

# Dear Stakeholders,

2023 turned out to be a watershed year for our Company. Not only did it mark a clear exit from three extremely challenging years related to the pandemic, but it was also characterised by very discernible signs of change within Saudi Arabia itself.

Our landscape is moving rapidly on two fronts: both as a business enterprise, in terms of the daily decisions we make for our own sake and over which we have complete control and those on a macro socio-economic level over which we exert little or no control.



I set out below my thoughts not only on how we performed as a business during 2023, but also my interpretation of the factors which are now impacting our society more broadly. In short, the 'fundamentals' which underpin our commercial environment are in a state of flux. We recognise the need not just to keep up with these changing fundamentals, but to leverage the opportunities which disruption on this scale presents.

Firstly, let me talk about the 12 months ending in December 2023, both in terms of our performance operationally and financially, and also in terms of the strategic direction of the Company.

Looking back three years to the period before the pandemic, we can now more clearly understand the impact Covid had on our business. 2020 was a good year for us commercially, but the longer-term effects of the pandemic during the two years which followed forced us to operate differently and to revise our plans for the future.

Like many businesses, we were compelled during that period to make a number of critical strategic decisions, which perhaps took us out of our comfort zone; by nature, some of these carried a degree of risk or uncertainty but by 2023 we started to see not just a return to normality, but in fact real evidence of the genuine benefits that flowed from the execution of our earlier 'enforced' strategy.

The key decisions which we took in 2021 and 2022 related to significant matters such as pricing, the geographic footprint of our stores and the levels of capital expenditure. We continued to invest in the business during those difficult times. Whilst some of our decisions impacted short-term profitability, we were confident that in the medium to long-term the business would return to former levels. What came through in 2023 was precisely this, underscoring the inherent resilience of our business.

One example of the strategic decisions we took for the long-term was the significant investment we made post-pandemic in our customer loyalty programme. The technology which drives this is managed through the subsidiary we acquired in 2022, International Applications Company. The programme reaches more than 4.7 million people, representing more than 70% of our customer base and has given us access to data that provides invaluable insight into the spending habits and consumption patterns of our customers. This in turn has dramatically changed our ability to provide each customer with the products they want at the places, times and prices which they favour and to target our marketing campaigns to the right customer cohort. Purchasing, shelving and pricing decisions, which hitherto were intuitive, are now based on a scientific analysis of data.



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During the year we pressed ahead with the rollout of our new format convenience store concept. We are now opening more supermarket-size stores, as opposed to hypermarkets, with dark stores available in key strategic locations to support the growth of our online sales. Our new convenience stores carry branded goods as well as other items which are not normally available in stores of that size, for example ready meals, sandwiches, 'grab and go' food and so forth. Our strategy with this format is to focus on cities rather than rural areas. Our stores are located in main urban streets with high visibility and consistent passing trade. The rollout of these convenience stores allows us to capitalise on lower delivery costs and other logistical benefits. Three of the stores we created during the year are in train stations in Makkah, Madinah and Jeddah, with others in Jeddah Airport and Jeddah City.

The two acquisitions we made 18 months ago continue to progress well. Ykone, in which we have an 85% stake, is performing strongly, having won several prestigious contracts in the region. The demographics in our target territories and the pervasive impact of social media provide a fertile ground for the growth of Ykone in the GCC region. International Applications Company ('IAC'), where we hold 62% of the equity, is also playing a significant part in the group's success. IAC, whose staff are now based in Jeddah, provides the platform for growing the online sales business and to leverage the data produced via online sales. Both of these companies are profitable and are showing strong growth.

We broke through the SAR 5.2 billion sales mark for the first time as a business, with a 14.4% rise in revenues. It was particularly gratifying that this increase was accompanied by an improvement in gross margin to pre-pandemic levels. We achieved an industry-leading 32.3% gross margin which, together with an increase in sales, resulted in a 25.9% year on year increase at the gross profit level. A more detailed analysis of our financial performance is set out in the Financial Review later in this document.

Now, I wish to talk briefly about the changing landscape in which we are currently operating. It is clear that we are witnessing a fundamental shift in our operating environment. There are many components to this shift, but I will focus on a few that are relevant to our business.

# 18/19

## Strategic Report

### CEO's Operating Review

Business in Saudi Arabia, like so many other countries, experienced a turbulent period between 2020 and 2022. First there was the pandemic and then there were the inevitable supply chain reverberations. However, now we see Saudi Arabia, unlike many countries, emerging from the post-Covid era with strong growth and bright prospects. This is reflected in the increased levels of both business and tourist traffic.

We can see that the number of people earning higher incomes is increasing. We also notice a distinct trend of urbanisation, assisted no doubt by the slew of infrastructure projects that are being undertaken in the major cities.

Connecting up our own customer data with broader socio-economic and demographic trends, and overlaying these on top of our strategic plan, translates for us into a greater focus on locating more stores in key locations within the country's major cities. From a retail perspective, Riyadh, Jeddah, Makkah and Madinah will become of even greater importance in the future than they have been in the past. We see distinct patterns indicating the movement of people from the Eastern region into Riyadh and other large cities. Many major corporations in this country have moved their headquarters to Riyadh in the last few years. We expect this trend to continue.

Saudi society is also undergoing fundamental change in so many ways. Shopping was, until quite recently, very much an activity for the whole family. Two or perhaps even three generations would visit shopping malls together, not just to purchase consumer items including food, but in fact as a leisure and entertainment destination in its own right. With the opening up of more restaurants and other entertainment venues in the Kingdom, all households now have a broader choice as to where to spend their time and their money. The shopping malls, and the supermarkets within them, are no longer the only option.



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We recognise the need to remain agile in presenting ourselves as a worthy venue in which families should spend time together. Increasingly, we see individual parents, or perhaps couples, taking care of the family shopping rather than entire families. Inevitably, this has an impact on the behaviour of these shoppers in our stores. Reading these changing social patterns is fundamentally important; our ability to pair enhanced technology with data from our loyalty programme, and to adapt our strategy intelligently to fit with predicted consumer behaviour, is growing fast. Smaller family groups visiting our supermarkets gives us the opportunity to take proactive steps to shape their purchasing habits in order to defend against potentially shrinking basket sizes.

An evolving retail landscape such as ours brings both threats and opportunities. A combination of emerging technology, changing national demographics, altering consumer trends and shifting socio-economic fundamentals, when analysed carefully using accurate real-time data, presents the chance for us to read and influence consumer behaviour. Our strategy as a business is increasingly driven by these factors.

As testament to our confidence and trust in the Kingdom's leadership and our belief that Saudi Arabia will continue to evolve as a benign commercial environment, we feel with increasing conviction that the focus of our business should lie more and more within the Kingdom as opposed to further afield. Whilst we have always kept a close eye on M&A opportunities in neighbouring countries, what has emerged in 2023 is the realisation that Saudi Arabia itself presents the biggest single opportunity of all and, within this, the main cities are increasingly going to be the centre of the action.

We have an exciting, busy and bright future ahead and, whilst there will be some business challenges to overcome in a rapidly evolving commercial environment, I am optimistic that we have the strategy, technology and human capital to achieve sustainable growth. I look forward to reporting to you in due course on further progress in 2024.

**Ahmad A. R. BinDawood**  
Chief Executive Officer



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