Navigating Change – Prepared for Tomorrow

In a year of continued disruption within the retail sector as a result of the pandemic, the Company's anticipated return to growth did not materialize. Realizing that sales growth would be a challenge, largely due to factors outside our control, we focused on areas that were directly under our control to drive efficiency and, by doing so, not only maintain, but also marginally improve our gross margin in a tough trading environment.

We also paused to reflect on the profound changes that were taking place in our industry and took concrete steps to recalibrate our strategy and to prepare the Company for keeping in step with the new business environment.

The year that was

2021 was a challenging year by all accounts. The restrictions imposed on travel as well as social distancing protocols had a significant adverse impact on our sales. Sales for FY 21 were 15% lower than those for FY 20. Disappointing as the reduction is, it needs to be put in perspective.

Sales for 2020 were exceptionally high in the first half of the year because of pantry-buying, first because of the pandemic scare and then in anticipation of the increase in VAT. Thus, 13.8% of the total reduction in sales took place in the first half of the year. The reduction in the second half of the year was only 1.2%.

Given the challenging sales environment, we chose to focus on maintaining our gross margin by controlling costs, shrinkage and wastage and improving procurement efficiency. The operating expenses were contained at the same level as the previous year despite the opening of 4 new stores, the full year cost impact of stores opened in the previous year and absence of subsidies of SAR 15.5m received in the previous year in the wake of the pandemic.

This enabled the Company to achieve a marginal improvement in gross margin even in very tough trading conditions. The gross margin of 32.8% achieved by us was more than 10.5% higher than the second-best gross margin reported in the grocery retail sector in the Kingdom.

Net profit to sales ratio slipped from 8.7% of sales to 5.5% of sales because of the impact of fixed costs on lower sales. The impact of fixed costs was somewhat mitigated by negotiating rental reliefs of SAR 73.8M in 2021 as compared with SAR 34.5M in 2020.

The financial position of the Company continued to be strong. As at the year-end, the Company had no debt and a cash balance of SAR 484.1M, which was SAR 232.2M higher than at the end of 2020. Despite a reduction in profits, cash generated from operations was SAR 89.5M higher than in 2020, mainly because of improved working capital management. The reduction of SAR 175.7M in dividends paid was another contributory factor.

Consolidation

We have taken several steps to consolidate the business. The company's organic growth strategy saw 4 new stores added this year, taking the total store tally to 78, 51 Danube and 27 BinDawood, across 15 Saudi Arabian cities. This expansion reflects the Company's intention to continue to increase market share and is part of an ongoing commitment to add 4-5 new stores per year to our portfolio until 2024. Our first international Danube store will debut in Bahrain in 2022. Additionally, we will take the BinDawood retail brand to Riyadh in 2022, with plans to open 10 stores across the province between 2022 to 2027.

We have strengthened our Commercial and Supply chain departments to encourage greater co-ordination and communication as well as a more timely and robust review of contractual arrangements with suppliers. At the same time we ensured that the right product-mix is delivered to our customers with minimal supply chain disruption.

We have appointed a Chief Operations Officer to oversee and enhance operational efficiency and a Chief Transformation Officer to bring new and innovative ideas for doing business and to steer us through the digitization journey that we are already committed to embark upon.

Our future

As the CEO of BinDawood Holding, it is clear to me that whilst continuing to evolve and innovate, customer centricity is paramount in creating sustainable value. In furtherance of this core principle we have taken two important steps in recent times.

Online grocery shopping has become an essential and, in terms of growth potential, probably the most exciting part of the grocery retail shopping industry since in absolute terms it still constitutes only a small percentage of the total spend. The pandemic has accelerated a trend that was already manifesting itself very strongly.

In recognition of this paradigm shift in grocery retailing we have acquired 62% of the shares of IATC, a company that was involved in developing, running and managing the mobile applications and the online platform of the Company. The acquisition envisages an additional investment of up to SAR 160M over a two-year period, for improving the online platform and for developing a network of dark stores and fulfilment centres to further enhance our online customer journey. This acquisition will also improve the omnichannel experience for our customers and will allow us to tap into this growth segment.

The acquisition will be made through a newly incorporated wholly owned subsidiary of the Company, Future Technology Retail, whose objective is to undertake investment in technologies that can leverage and/or complement the existing retail operations of BinDawood Holding. The transaction is subject to customary closing conditions and completion of regulatory approval and is expected to close in the second half 2022.

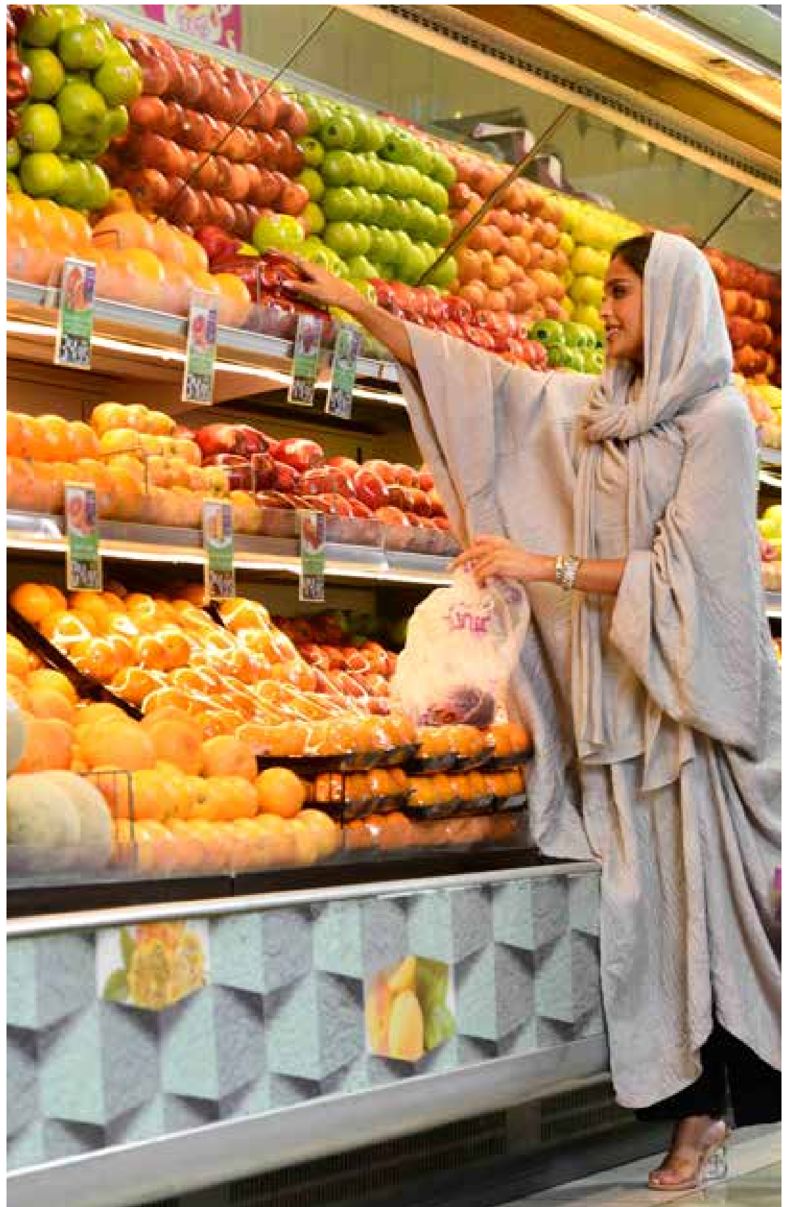
In January 2022 we undertook a soft launch of the omnichannel customer loyalty programme across both the Danube and BinDawood brands. This should help us reinforce our existing customer base and improve the customer experience.

Our strong cash balance puts us in a good position to undertake meaningful acquisitions in the Kingdom and in other GCC states to achieve geographical diversity. We are, and will continue, to assess potential acquisition opportunities with prudence and caution to ensure they are value accretive for our shareholders.

The business continues to face some headwinds in the new year as a result of inflationary pressures and supply chain disruptions, but I believe the worst is behind us. The anticipated return of pilgrims following the easing of travel restrictions, the steps we have taken to strengthen management and the pivot towards online shopping should help us to participate in the growth trajectory of the Kingdom from the profound changes that the Government is making to the commercial and economic landscape.

We remain focused on our vision to be the best grocery retail brand in Saudi Arabia and beyond and a leader in this growing market sector for our customers, our team, the communities where we operate and our shareholders.

Chief Executive Officer
Ahmad AR. BinDawood



In 2021, our teams continued to deliver on our mission of providing our customers with an exceptional grocery shopping experience, with unmatched standards of quality and convenience. The result is a year of strategic action, consistent margin growth, and an enhanced balance sheet.