

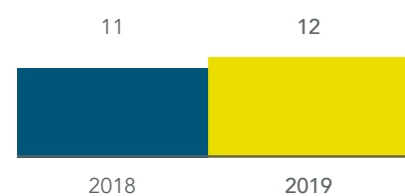
Retail Investments

A Turnaround Story

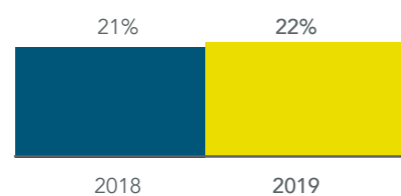


Panda Retail is the Middle East's largest grocery retailer, with over 106+ million sales transactions through a chain of hypermarkets and supermarkets across the Kingdom. With 205 stores in more than 42 cities throughout Saudi Arabia, as well as a presence in Egypt, Panda continues to be one of the leading players in the Kingdom's grocery retail sector.

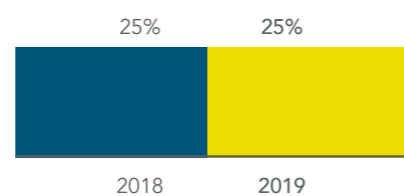
Panda revenues (SAR billion)



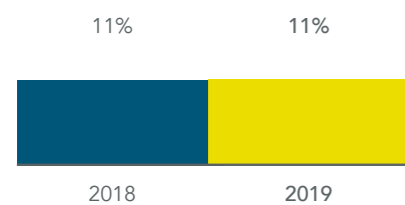
Panda gross margin (%)



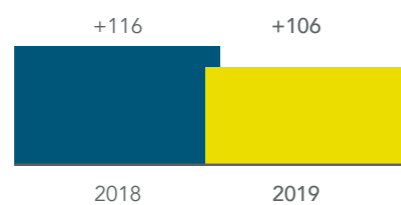
Market share modern trade (%)



Market share of total grocery retail (%)



Customer count 2019 (millions)



Strategic Overview

2019 saw Panda Retail continue a turnaround process first started in 2017, when the company began feeling the impact of a reduction in Saudi Arabia's expatriate population coupled with consumer price sensitivity brought on by the implementation of VAT. The transformation commenced with a new 2019 strategy resting on four key pillars:

- Fresh products as a driver of footfall, coupled with quality and availability
- Optimised store workforce structure
- Footprint optimisation
- Improving shelf availability for key products

The strategy began demonstrating rapid results, with an encouraging boost to financials by year closing. Gross profit improved by 10 percent compared to the year before, while EBITDA also turned positive (pre-IFRS 16 adjustment), up from a loss in 2018. The positive financial results were driven primarily by like-for-like growth in basket size, and increased customer count. They were a reflection of internal efficiencies and performance improvements, but also of a changing consumer market where buyer confidence is returning. The market liberalisation and diversification mandated by the Saudi Vision 2030 has rejuvenated longer-term confidence, resulting in freer spend on groceries and consumables.



Retail Investments

Tactical Implementation

In 2019, Panda Retail translated its strategy into a number of tactical initiatives to boost customer satisfaction, drive down costs and free up capital for long-term investment.

Towards Freshness

Panda Retail focused on delivering freshness straight to consumer baskets, emphasising the quality of its produce and ensuring availability. A strategy of serving local markets with local produce served to cut transition times and increase shelf freshness. Product quality took centre stage, with clear product specifications driving better control. Strategic partnerships with suppliers enabled Panda to ensure a consistent supply of quality products for its customers.

Improving Availability

Panda emphasised higher product availability, coupled with optimising distribution and supply chains. The aim was to list new items in grocery non-food products, roll all items out to a larger number of stores, and ensure that products were made available on shelves for consumers to access. In 2019, product availability rose to 91 percent, from 79 percent the year before. Corresponding increases in footfall and basket sizes provided evidence of this strategy making a positive difference.

Customer-centricity

The company put customers at the heart of its operations, focusing on understanding customer needs and satisfying them. Panda employees were a core focus on transformation given their direct impact on sales growth and customer satisfaction. Continuous improvement in Panda's staffing, training and personnel target-setting was initiated to transform the way the company's 18,000 plus employees serve customers.

Footprint Optimisation

2019 saw Panda Retail complete its pivot away from smaller Pandati corner shops to focus on optimising its supermarkets and hypermarkets. All existing properties were analysed for performance, with some closed and others relocated. The remaining Pandati corner shops were divested from, while capital was freed up by closing some 9 supermarket and 6 hypermarket units. The resulting footprint optimisation drove like-for-like sales 9 percent higher than in 2018, while also improving footfall and basket size.



Towards the Future

Creating Cost Efficiencies

Panda Retail focused on lowering overheads to free up capital. Manpower was optimised through a new workforce structure at store level, backed by calibrated deployment lists. Overheads were optimised despite labour costs increasing, with this optimisation driving Panda Retail's financial turnaround.

Sound Capital Deployment

Panda Retail focused on creating cost efficiencies, and freeing up capital for longer-term optimisation. In 2019, Panda Retail invested considerably in store refit and maintenance to create a better consumer journey. The company also invested in supply chain optimisation to support product availability and freshness. Information Technology was another focus of investment, with capital expenditure on datacentres and ERP implementation in support of procurement and retail. IT investment will continue through 2020, driving efficiencies, and further streamlining the business's procurement and supply chain.

Panda continues to face a challenging market in Saudi Arabia. Under its new leadership and executive team, Panda has started work on key areas for improvement. In 2020 and beyond, Panda will continue a customer-centric turnaround strategy where footprint, product availability, freshness and people are the core focus. Panda's aim is to improve productivity while maintaining its current footprint in terms of size. Meanwhile, footprint optimisation will see stores change based on geographic location and consumer preferences. The coming years will build on Panda's recent emphasis on customer satisfaction, retention and loyalty.

Panda will address gaps in its product range, creating a compelling offering that caters to evolving customer preferences. Well-designed displays will create an exciting shopping experience. Strategic supplier partnerships will boost planning and improve availability. Product availability and freshness will remain centre stage as the brand looks forward to breaking even in 2021.

Panda's outlook for its home market in Saudi Arabia is expected to improve further, with recovering consumer confidence coupled with the successful implementation of turnaround initiatives. The company is laying the foundation for sustainable growth in the years to come.

60
Hypermarkets

145
Supermarkets