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SINCE

# Shaker Group

## Investor Presentation Q2 2020

as at 30 June 2020

# Attractive industry experiencing growth



Saudi air conditioner market  
forecast to reach **\$1.3bn**  
by 2024 <sup>1</sup>



Household appliances  
revenue in KSA shows  
annual growth of **10%**



Government commitment of approx.  
**SAR 2bn for retrofit**



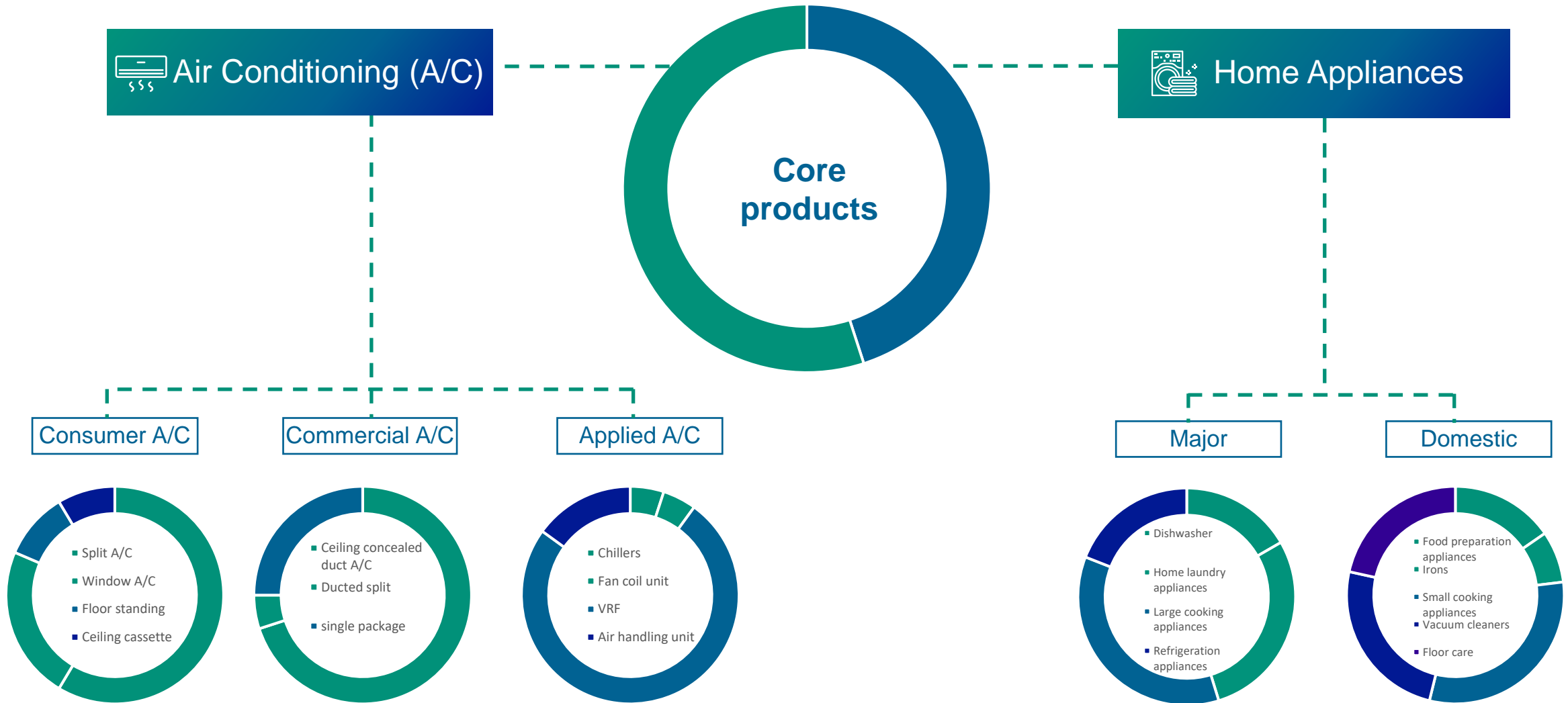
Alignment with socioeconomic objectives  
of **Vision 2030** in two key areas:

Superior technology for the  
Saudi market

Nationwide energy efficiency  
consultancy and retrofitting  
services



# Core products

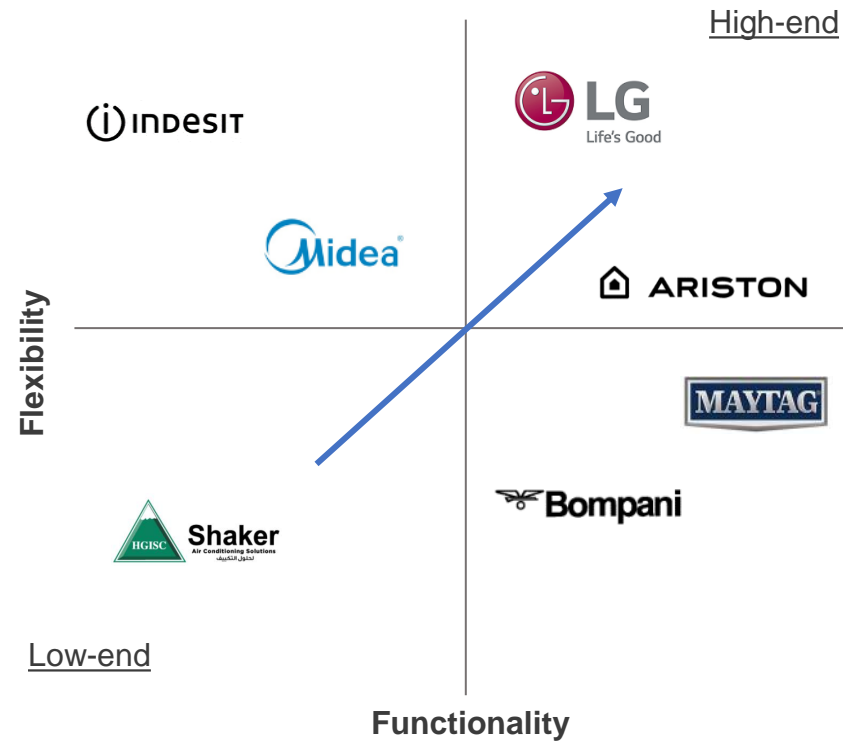


# Brand portfolio

Air Conditioners

Home Appliances

Competitive positioning



Brand portfolio  
targets most  
consumer  
segments

# Highlights: H1 2020



**Senior appointments**  
program complete



**13%**  
reduction in H1 Saudi  
employee costs



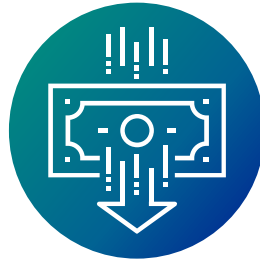
**SAR 1.79 million**  
net profit



**8.4% growth**  
in 1H revenue



Continued roll-out of  
**Breakthrough Program**



**Working capital**  
substantially optimized



**24.8%**  
H1 gross profit increase  
Y-o-Y



First profitable quarter  
since **Q3 2016**



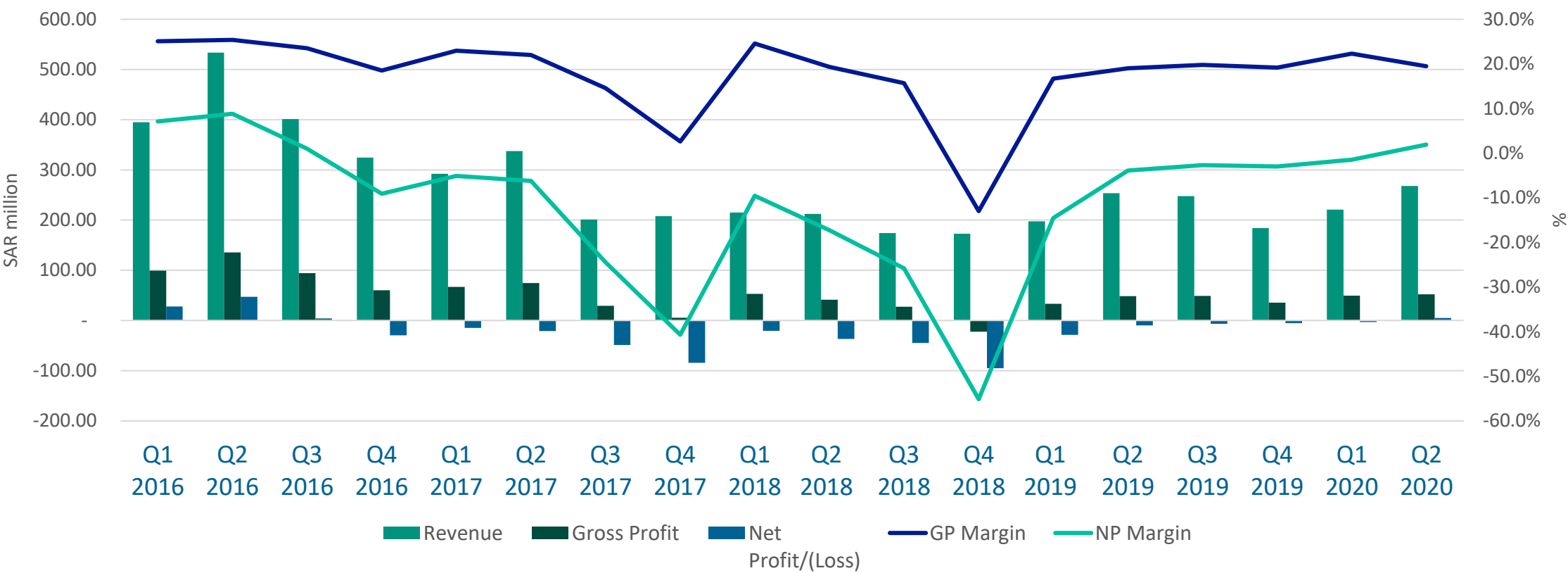
# Key messages



- The Breakthrough Program is having a **tangible impact** on the Group's long-term and **sustainable performance**
- The Group is well-positioned with a **strong local manufacturing base**, and a healthy level of **Saudi localization**
- Shaker Group has already achieved a **leading share of the government's SEEC project**, and will continue to grow its participation in the scheme
- The Group's management have **responded effectively to the challenges created by Covid-19**, and the business is showing resilience and agility in light of market conditions
- The **cost reduction process is ongoing and effective**, with **variable costs carefully managed** to mitigate the negative impact of the pandemic
- **Profitable H1**, despite substantial **ECL provisioning** (SAR 12 million+)

# Performance highlights

Revenue and Income vs. Margins Q1 2016 – Q2 2020





# **BUSINESS PROFILE**



# Strategy update



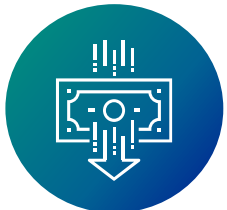
**Business  
transformation**

- Breakthrough Program completion
- Ongoing focus on increasing sales and reducing costs



**Grow**

- Organic growth enhanced by efficient distribution channels, solid partnerships and dynamic sales strategy
- Roll out of new products compliant with regulations



**Enable**

- Enabling measures for accelerated growth:
  - Enhanced network of distributors
  - Robust salesforce
  - Performance-driven organisation

## 2021 targets

High single digit percentage  
**profit increase**

Adjusted **EBITDA increase**

Average annual **FCF  
increase**

Sustainable **growth**

# Four pillars

## Core Business Turnaround (CBT)

- Profitable and responsible sales
- Deliver excellence in cost management

## Talent Upgrade Plan (TUP)

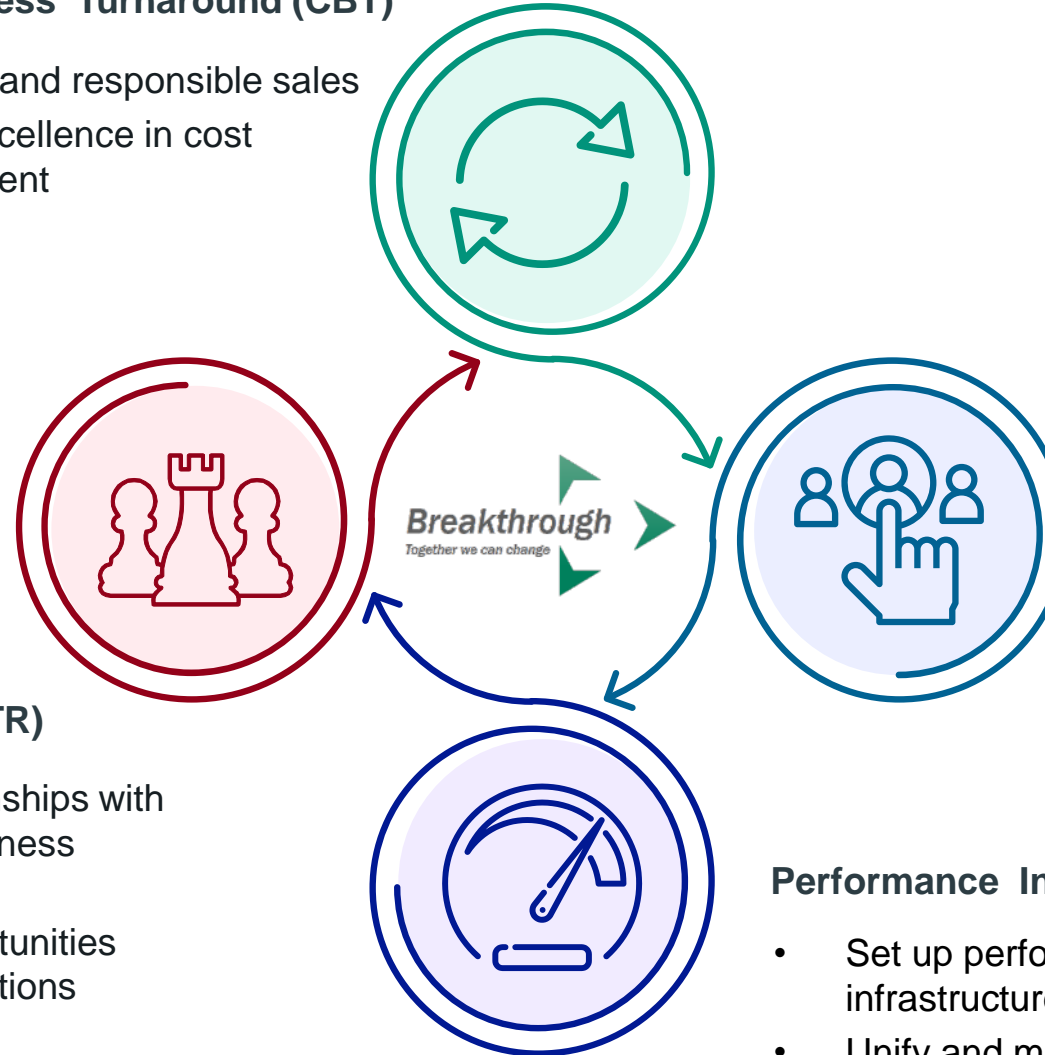
- Attract and develop talent
- Organization restructuring

## Strategic Moves (STR)

- Strengthen relationships with principals and business partners
- Explore new opportunities beyond core operations

## Performance Infrastructure (PI)

- Set up performance infrastructure
- Unify and manage reporting standards and KPIs



As at 30 June 2020

# Progress highlights



## Core Business Turnaround

- **Q2 sales in Saudi Arabia increased 7.9%** compared to Q2 2019 with momentum achieved across business segments, **H1 2020 sales grew by 10.5%** compared to H1 2019.
- **First half gross profit was SAR 101.48 million, improving by 25% year-on-year.**
- **Achieved net profit of SAR 1.79 million** compared to a net loss of SAR 38.67 million in H1 2019
- **Employee costs** in Saudi Arabia **decreased by 25%** in Q2 2019, and by **13%** from H1 2020 compared to 2019



## Talent Upgrade Plan

- **Completed roll-out of talent upgrade plan** at senior level and restructuring of the sales organization model



## Performance Infrastructure

- **Performance Management Systems** are rolled-out
- **Execution and tracking of key initiatives** is conducted on a weekly basis



## Strategic Choices

- **Engagement with key principals** is ongoing, to identify additional avenues for growth
- **Joint collaboration** is delivered with principals on strategic initiatives

# Growth avenue highlights

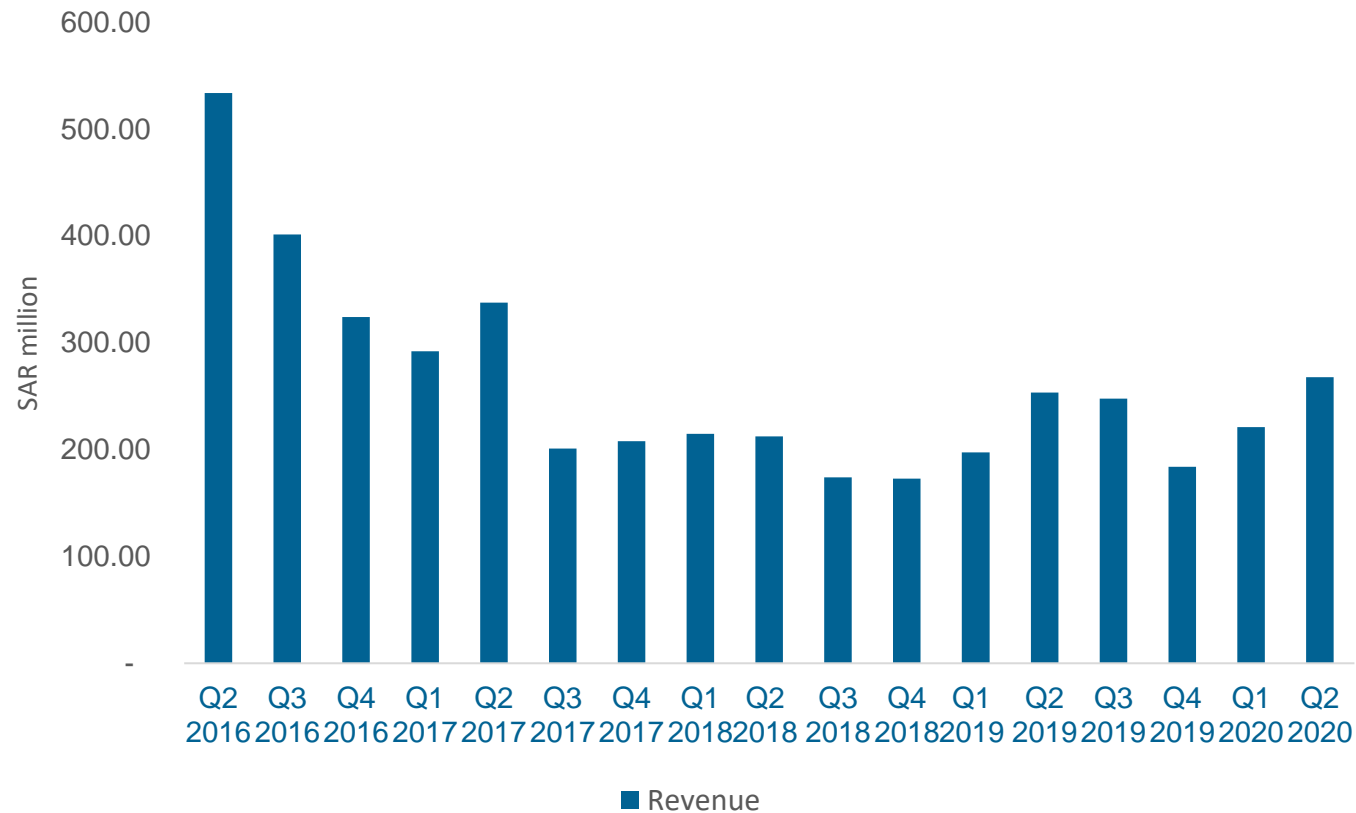
AC Sales			HA Sales	Services & Support	
Housing	SEEC	Multi V	Home Appliances	ESCO & Retrofit	Aftersales
<p>670,000 planned houses requiring 4-5m ACs</p> <p>Potential value share: SAR 2bn</p>	<p>Multifold rise in KSA energy tariff from 2018</p> <p>Stimulus of SAR 400m for energy efficient ACs = SAR 1.5-2bn market size</p> <p>Potential value share: SAR 300m</p>	<p>Shaker Group product already has healthy market share, increasing demand</p> <p>Potential total value: SAR 175m</p>	<p>Growing the size and diversity of the home appliances portfolio</p> <p>New brand acquisitions</p> <p>Improved sales infrastructure, including e-commerce platform</p>	<p>250,000 government buildings 25-30 yrs old = retrofit opportunity</p> <p>Government commitment of approx. SAR 2bn for retrofit</p> <p>Potential market value: SAR 2bn annually across value chain</p>	<p>Growing replacement market with shift to energy efficiency</p> <p>Continuing maintenance contract initiatives with large entities</p>

# FINANCIAL PERFORMANCE



# Sales recovery

## Revenue growth driven by transformation initiatives



Revenue growth in 2019 and 2020 driven by impact of the **Breakthrough Program**

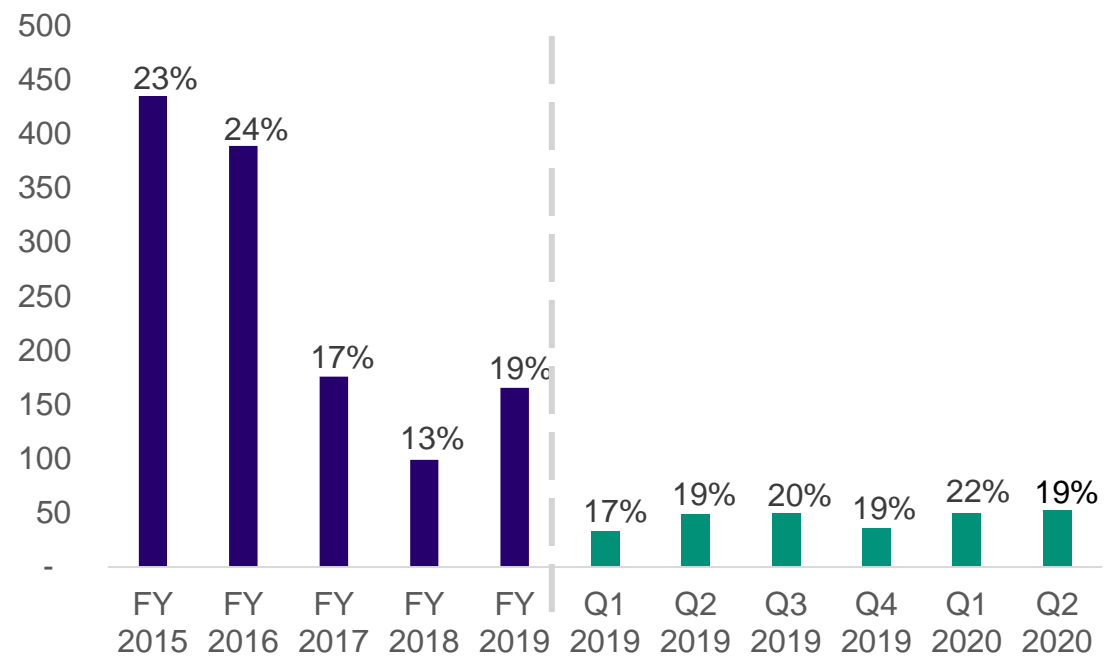
- Enhanced **distribution** network, **sales** processes and training
- Investment in technology to **manage inventory**
- **Strategic** seasonal sales
- Growth of **services offer**, e.g. SEEC program and ESCO
- Growth in **higher margin** Home Appliances sales
- **Agile response** to **Covid-19** and **VAT** increase in Saudi Arabia (H1 2020)



# Profitability

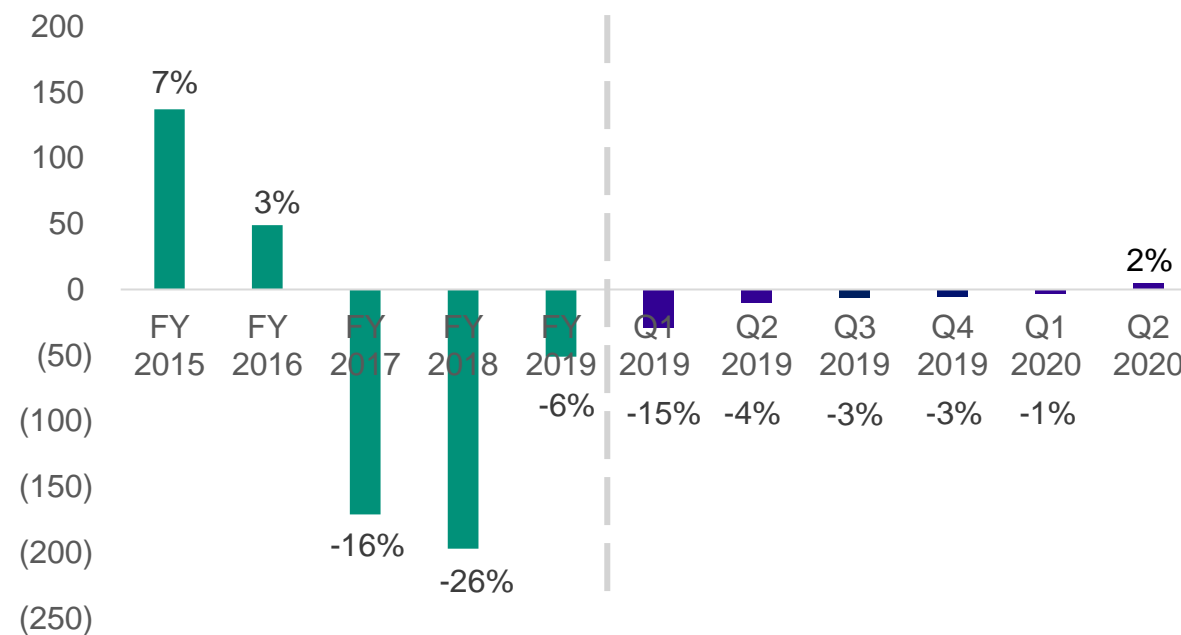
## Gross Profit (SAR million)

% = GP margin



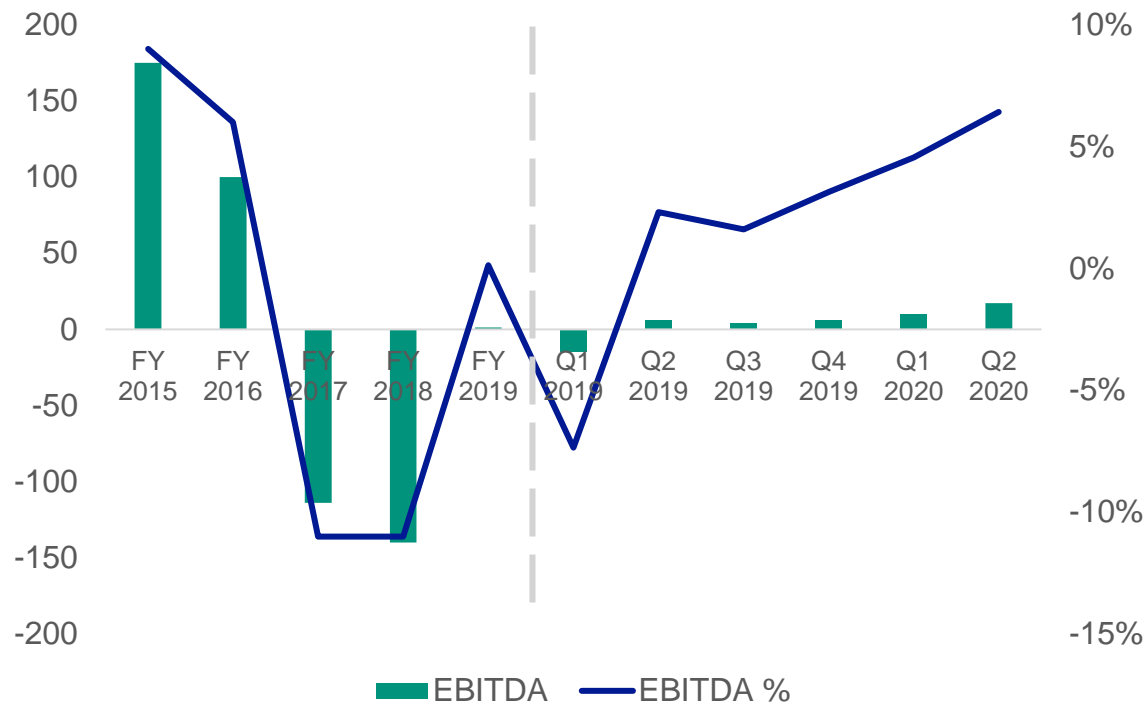
## Net profit/(loss) (SAR million)

% = NP margin

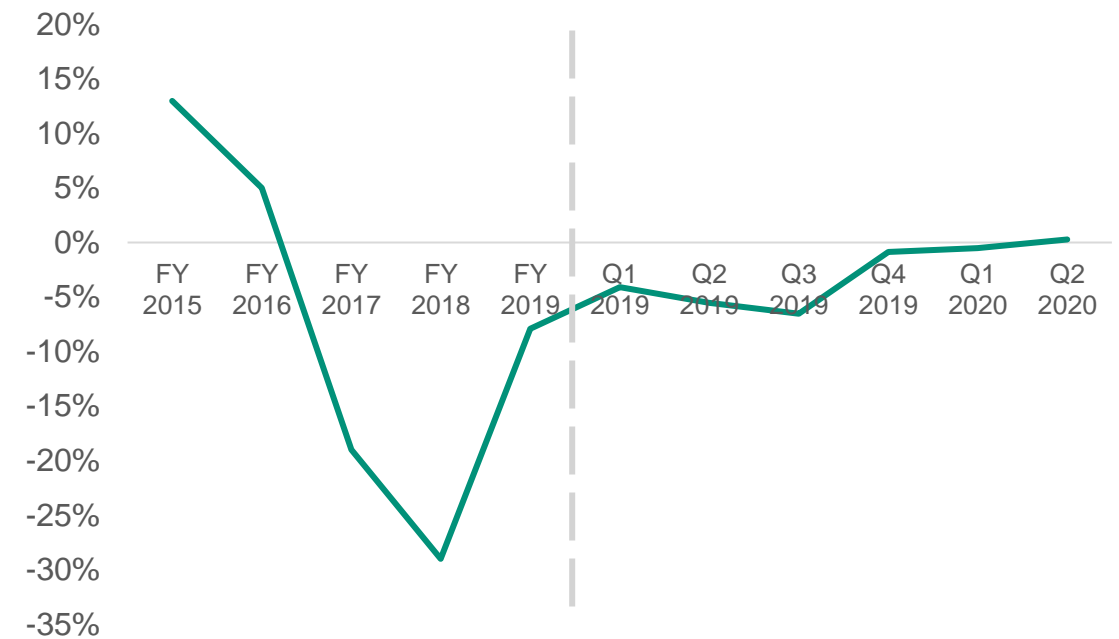


# EBITDA & RoE

EBITDA (SAR million)

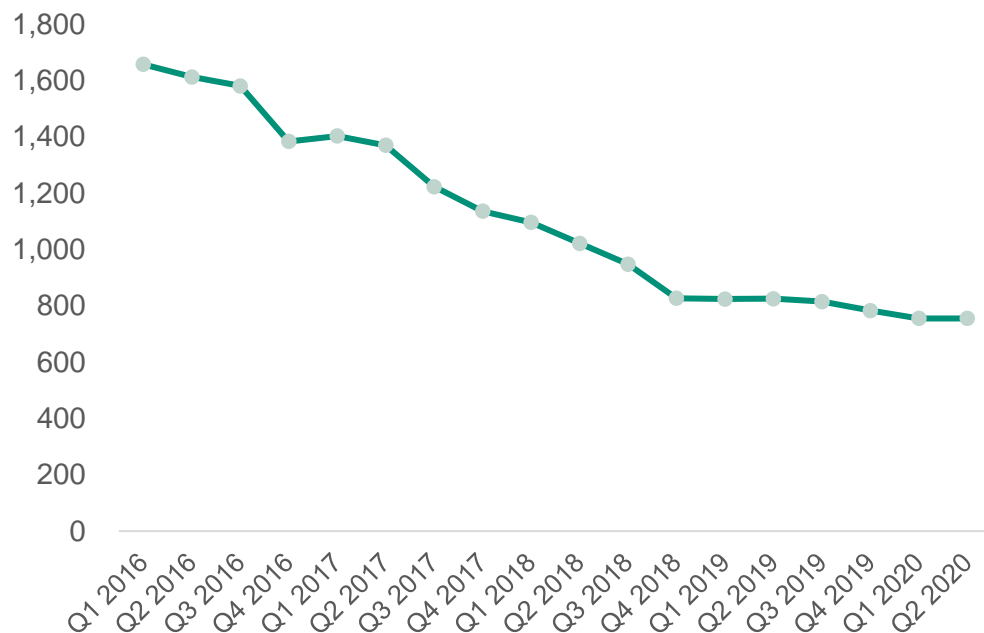


Return on Equity (%)



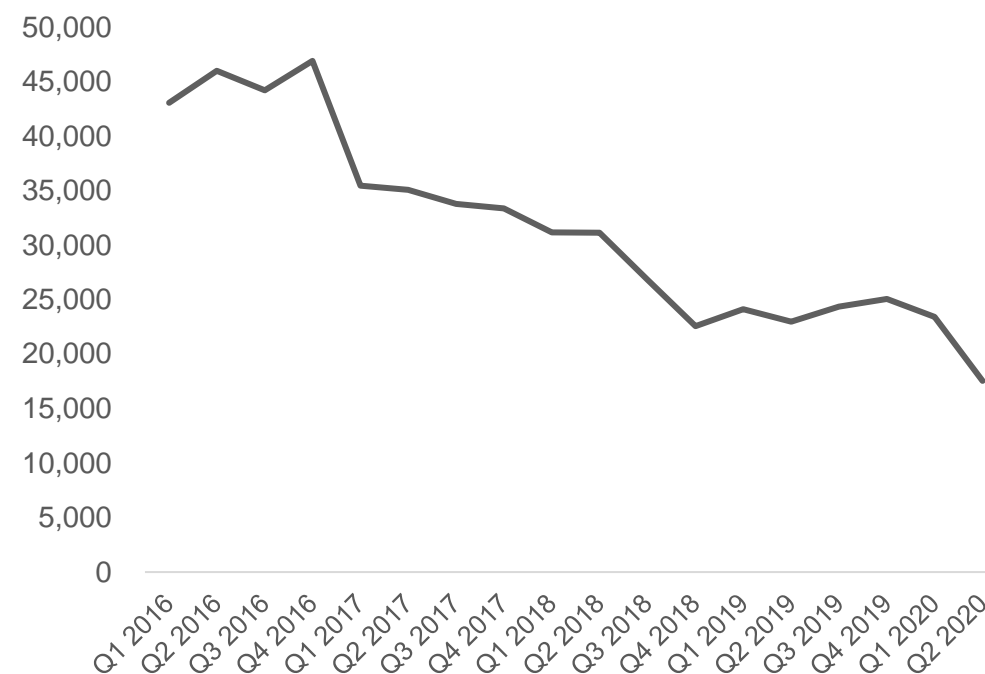
# Rationalizing the workforce

## Rationalizing employee headcount



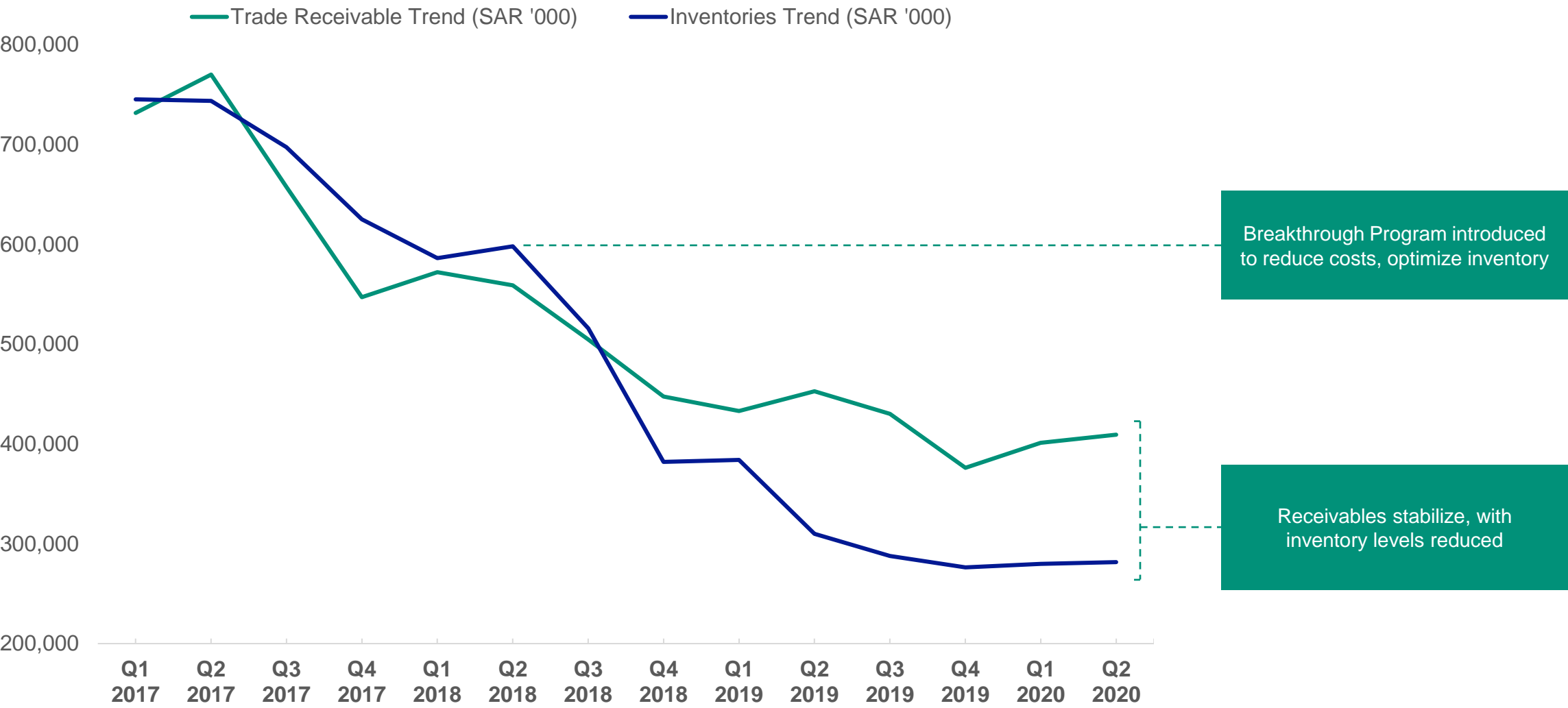
Employee headcount rationalization ongoing,  
productivity of workforce improving

## Rationalizing employee costs (SAR 000)



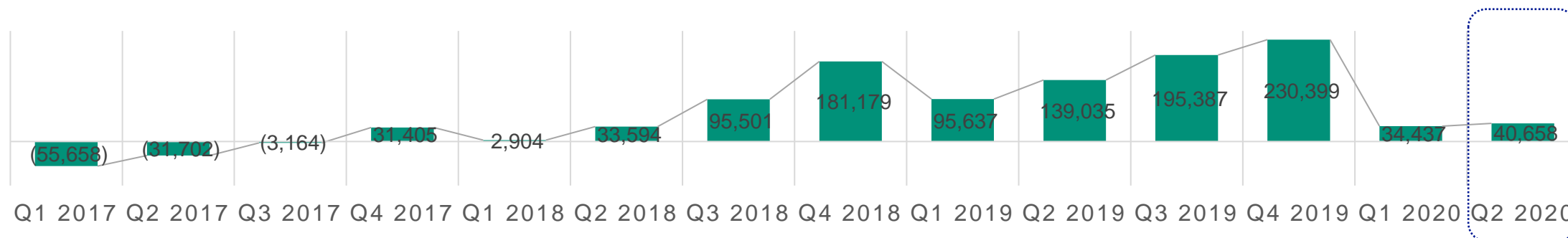
Employee costs in Saudi Arabia decreased by 25% for  
Q2 2020

# Trade receivables vs. inventory trend

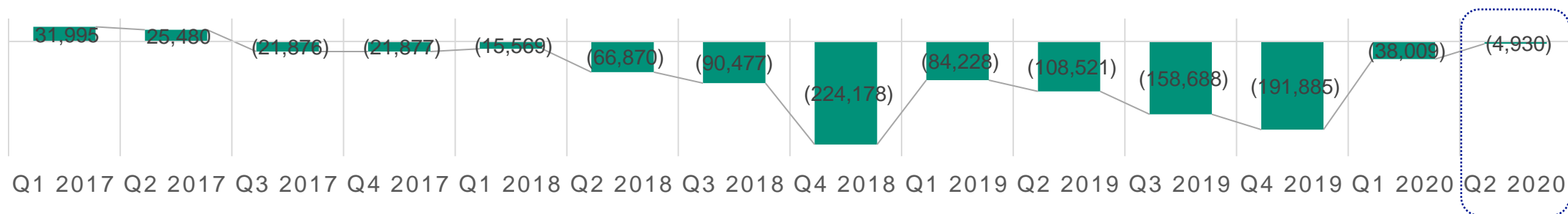


# Cash flow: operational and financing

## Cash Flow From Operations Trend (SAR '000)

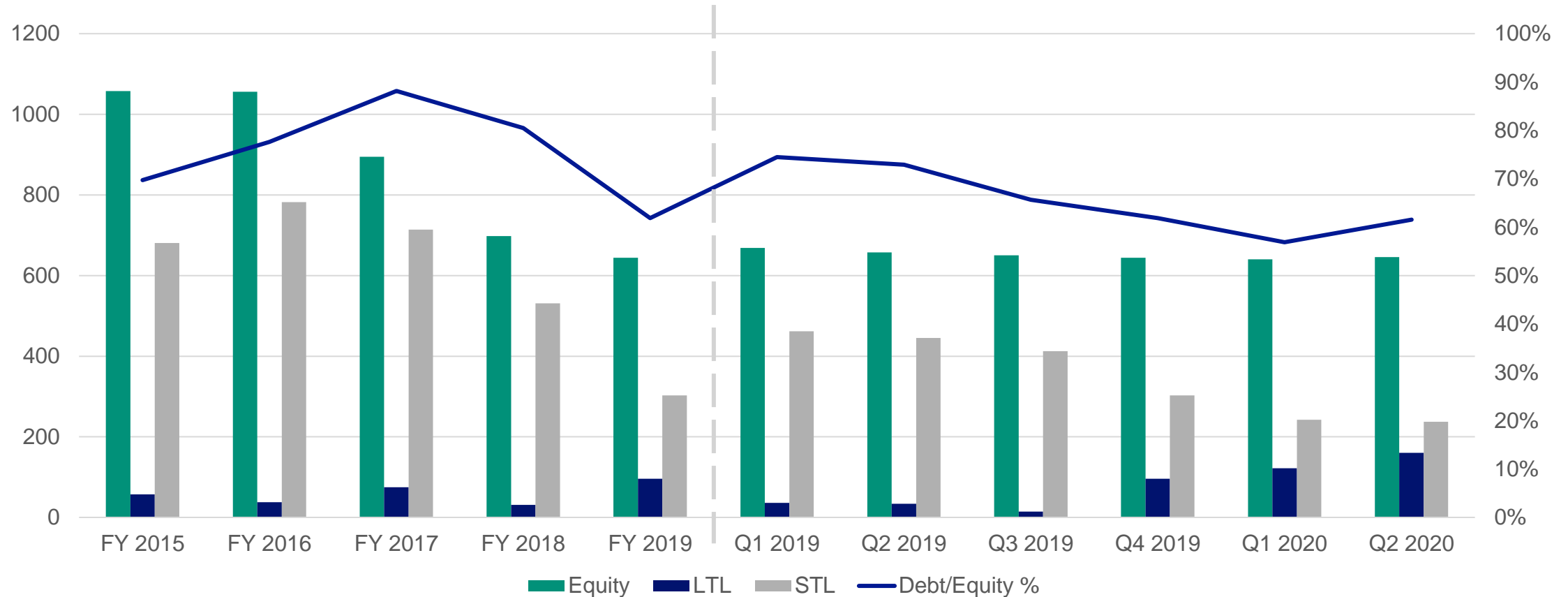


## Cash Flow From Financing Trend (SAR '000)



# Capital structure

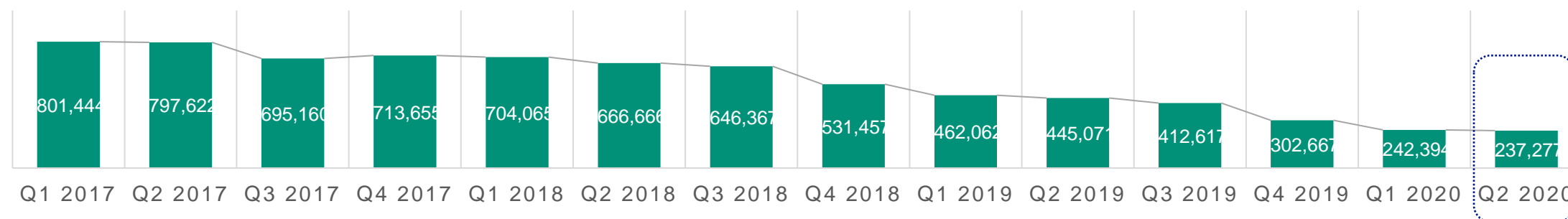
Capital Structure (SAR million / %)



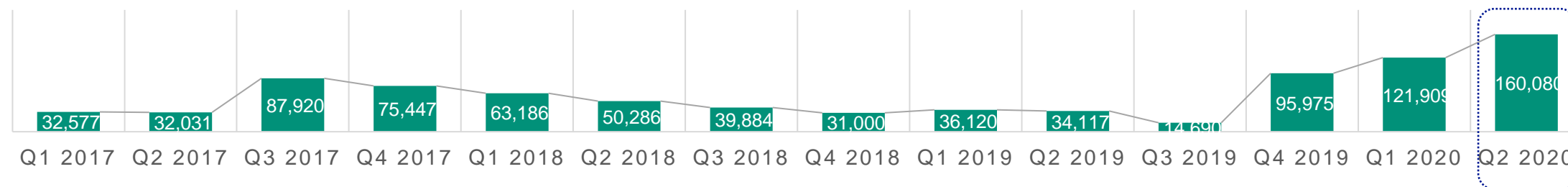


# STLs & MTLs trend

## Short Term Loans Trend (SAR '000)



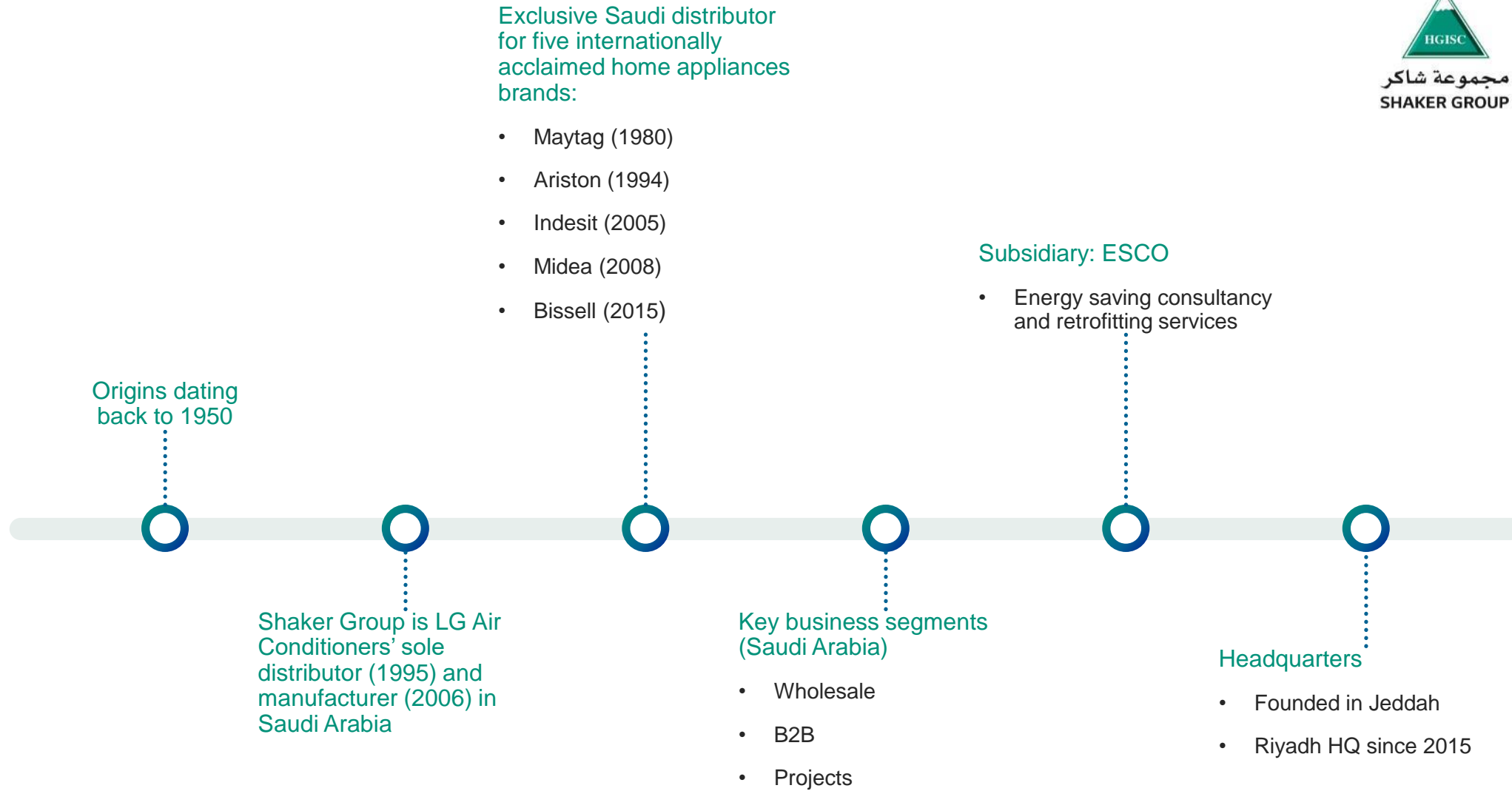
## Medium Term Loans Trend (SAR '000)





# APPENDIX I: ABOUT THE COMPANY

# What is Shaker Group?





### Chief Executive Officer

Azzam Almudaiheem

Azzam was previously Purchasing Manager, Acting GM and GM at Masdar, having been Regional Sales Manager at Al Muhaidib Food. He has extensive sector experience, having begun his career as Manufacturing Engineer at Advanced Electronics Company.

Azzam also holds a position as Board member of Arabian Pipes Co., where he has had a central role in the company's turnaround strategy.

Azzam holds a Bachelor's degree in Mechanical Engineering with honors from King Saud University.



### VP Finance

Hossam Al Akkad

Hossam has over 30 years of experience in finance. Prior to joining Shaker Group, he was CFO at Asla Holding co. leading financial and business development strategies at the company. He was also CFO at Automotive Casting Company in Egypt, Group Financial Director at Magrabi Hospitals and Centers, and Financial Director and Lundbeck.

Hossam is a fellow at the Egyptian Society of Taxation and gained his accounting certification in 1993.

Hossam completed an MBA in Corporate Finance, holds a CMA and BSc degree in Commerce (Accounting).



### Chief Strategy & Transformation Officer

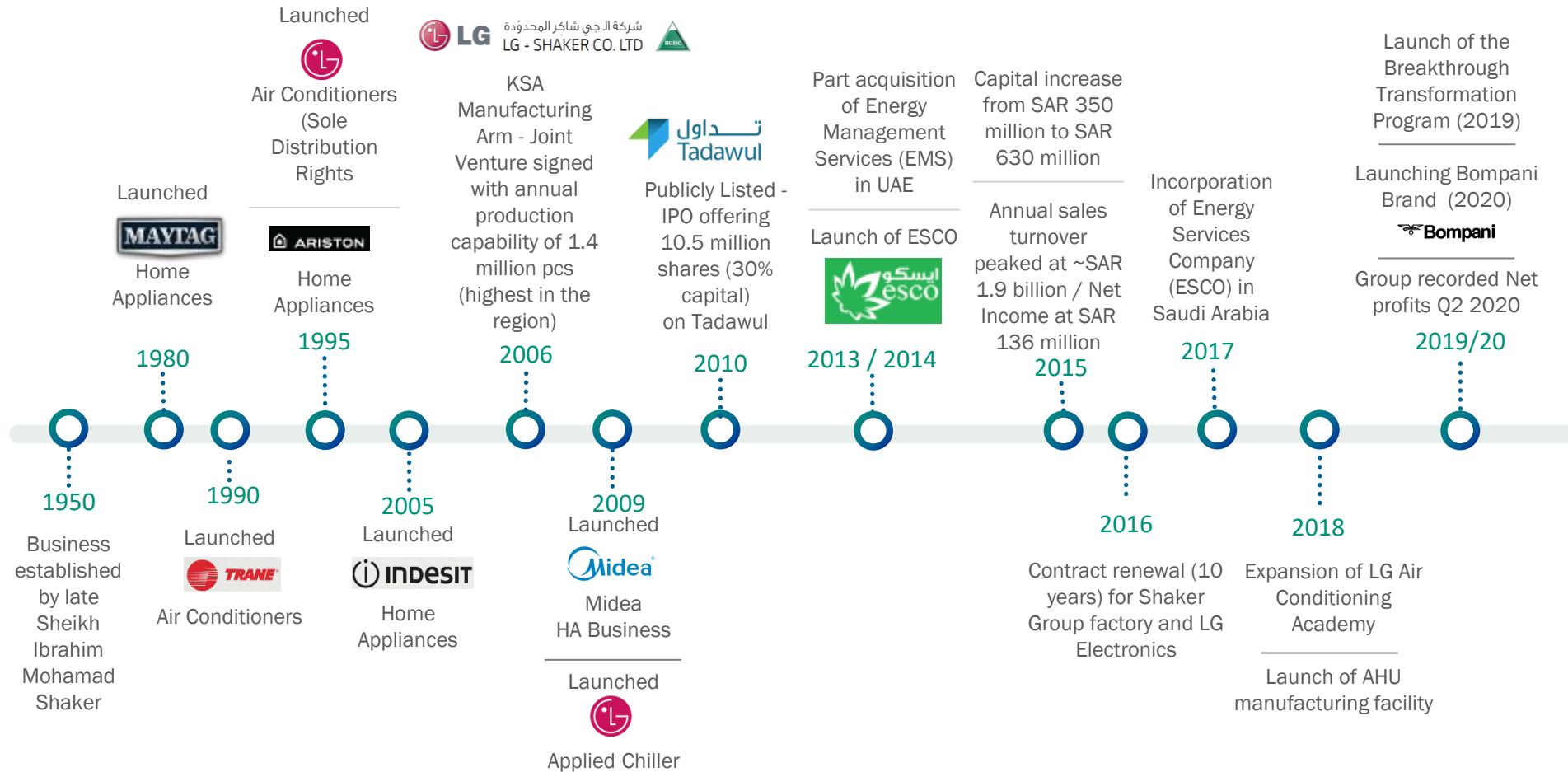
Mohammed Abunayyan

Prior to his current role, Mohammed has held the roles of Director of Quality Management, Director of Strategic Planning, General Manager for both retail and wholesale markets and Director of Project Management.

Mohammed holds a Bachelor's degree from Al Yamamah University, in addition to which he has completed professional courses including Strategic Planning at London Business School and Management Evaluation at Kaplan University.

## Senior management

# Corporate milestones

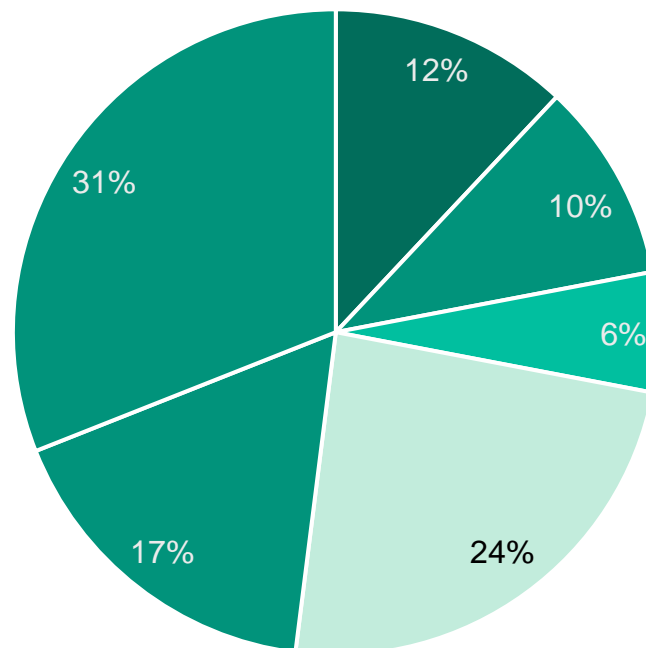




# Shareholding structure & information

## Shareholding structure

- Lafana Holding
- Tawazon Arabia Co
- Lama Holding
- Other Corporates / Investment Firms
- Individuals & Families >1%
- Other Individuals / Public <1%



## Share information

Market	Tadawul, Saudi Arabia
Currency	SAR
Listing date	May 2010
Financial year-end	31 December
Authorized capital (SAR)	630,000,000
Issued shares	63,000,000
Paid capital (SAR)	630,000,000
Par value/share (SAR)	10
Paid up value/share (SAR)	10

As at 30<sup>th</sup> June 2020



# APPENDIX II: FINANCIALS



# Income statement

SAR '000	2016	2017	2018	2019	H1 2019	H1 2020
Sales	1,654,405	1,038,563	774,025	882,822	450,864	488,748
Cost of sales	(1,265,479)	(862,615)	(675,307)	(717,176)	(369,559)	(387,268)
<b>Gross profit</b>	<b>388,926</b>	<b>175,948</b>	<b>98,718</b>	<b>165,646</b>	<b>81,305</b>	<b>101,480</b>
S&D expenses	(181,536)	(162,530)	(140,336)	(104,454)	(50,387)	(38,339)
G&A expenses	(156,317)	(167,853)	(116,504)	(105,607)	(57,767)	(60,305)
<b>Operating income</b>	<b>51,073</b>	<b>(154,435)</b>	<b>(158,122)</b>	<b>(44,415)</b>	<b>(26,849)</b>	<b>2,836</b>
Other income, net	7,644	963	2,901	5,968	1,417	526
Financial charges	(30,298)	(34,044)	(32,862)	(29,302)	(15,665)	(11,385)
Re-measurement of equity accounted investees	-	-	-	(1,002)	-	-
Share in net income of equity accounted investees	22,099	18,449	(7,225)	18,071	5,539	13,437
<b>Income before Zakat and non-controlling interests</b>	<b>50,517</b>	<b>(169,067)</b>	<b>(195,308)</b>	<b>(50,680)</b>	<b>(35,558)</b>	<b>5,414</b>
Zakat	(5,210)	(7,678)	(6,873)	(180)	(3,120)	(3,620)
<b>Net income before non-controlling interests</b>	<b>45,308</b>	<b>(176,745)</b>	<b>(202,181)</b>	<b>(50,860)</b>	<b>(38,678)</b>	<b>1,794</b>
Non-controlling interests in net loss of consolidates subsidiaries	3,509	5,706	5,639	1,075	2,329	1,865
<b>Net income</b>	<b>48,817</b>	<b>(171,039)</b>	<b>(196,542)</b>	<b>(49,785)</b>	<b>(36,349)</b>	<b>3,659</b>

# Cash flow statement

SAR '000	2016	2017	2018	2019	H1 2019	H1 2020
<u>Cash flows from operating activities</u>						
Profit/(loss) for the year	45,308	(176,745)	(202,181)	(50,860)	(38,678)	1,794
Adjustments:	<b>83,296</b>	<b>(69,357)</b>	<b>(103,841)</b>	<b>(5,480)</b>	<b>(3,952)</b>	36,169
<u>Changes in operating assets &amp; liabilities</u>	(18,128)	67,967	220,484	264,534	162,383	17,288
Employees' end of service benefits paid	-	-	-	(7,428)	(2,535)	(1,322)
Financial charges paid	(25,527)	(28,587)	(33,738)	(32,719)	(15,445)	(11,385)
Zakat and income tax paid	(6,878)	(7,975)	(5,567)	(1,416)	(1,416)	(92)
<b>Net cash from operating activities</b>	<b>(50,533)</b>	<b>31,405</b>	<b>181,179</b>	<b>230,399</b>	<b>139,035</b>	<b>40,658</b>
<b>Net cash used in investing activities</b>	<b>(23,316)</b>	<b>(5,961)</b>	<b>(6,227)</b>	<b>(2,546)</b>	<b>(3,697)</b>	<b>(1,056)</b>
<b>Net cash used in financing activities</b>	<b>40,382</b>	<b>(21,877)</b>	<b>(224,178)</b>	<b>(191,885)</b>	<b>(108,521)</b>	<b>(4,930)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(33,467)</b>	<b>3,567</b>	<b>(49,226)</b>	<b>(41,060)</b>	<b>26,817</b>	<b>34,672</b>
Cash and cash equivalents acquired during the year	-	-	-	-	-	-
Cash and cash equivalents at beginning of the year	85,270	51,803	55,370	6,144	6,144	47,204
<b>Cash and cash equivalents at 30 June</b>	<b>51,803</b>	<b>55,370</b>	<b>6,144</b>	<b>47,204</b>	<b>32,961</b>	<b>81,876</b>

# Balance sheet

SAR '000	2015	2016	2017	2018	2019	H1 2019	H1 2020
<u>ASSETS</u>							
Non-current assets	840,349	860,595	818,770	754,766	709,647	773,628	716,939
Current assets	1,578,631	1,525,842	1,267,065	879,935	757,624	834,454	823,542
<b>Total assets</b>	<b>2,418,980</b>	<b>2,386,437</b>	<b>2,085,835</b>	<b>1,634,701</b>	<b>1,467,271</b>	<b>1,608,082</b>	<b>1,540,481</b>
<u>EQUITY</u>							
Total equity attributable to shareholders	1,041,975	1,044,194	874,399	676,981	624,012	638,597	627,570
<b>Total equity</b>	<b>1,057,599</b>	<b>1,056,309</b>	<b>894,639</b>	<b>698,180</b>	<b>643,945</b>	<b>657,289</b>	<b>645,630</b>
<u>LIABILITIES &amp; EQUITY</u>							
Non-current liabilities	101,201	81,114	107,901	56,751	215,096	135,018	280,142
Current liabilities	1,260,180	1,249,014	1,083,295	879,770	608,230	815,775	614,709
<b>Total liabilities</b>	<b>1,361,381</b>	<b>1,330,128</b>	<b>1,191,196</b>	<b>936,521</b>	<b>823,326</b>	<b>950,793</b>	<b>894,851</b>
<b>Total equity &amp; liabilities</b>	<b>2,418,980</b>	<b>2,386,437</b>	<b>2,085,835</b>	<b>1,634,701</b>	<b>1,467,271</b>	<b>1,608,082</b>	<b>1,540,481</b>

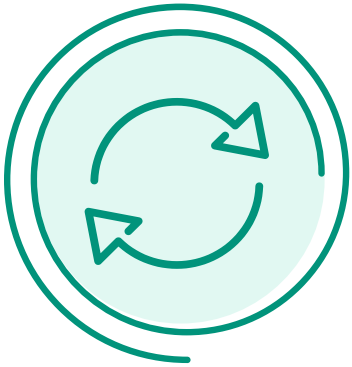
A photograph of a white Ariston front-loading washing machine in a laundry room. The machine is on the left, with its control panel at the top featuring a digital display and several buttons. To the right of the machine are light-colored wooden cabinets with dark horizontal handles. A brown shirt is hanging on the wall to the right. The entire image has a blue tint.

# **APPENDIX III: ABOUT BREAKTHROUGH PROGRAM**

# Core Business Turnaround (CBT)

## Profitable & responsible sales

## Cost excellence



### B2C, B2B and Aftersales

1. Recover sales from top key accounts and inactive accounts in LG AC market
2. Activate new channels and sales programs to capture additional market share
3. Increase the penetration of Shaker's brands within the market, through signing new dealer contracts
4. Expand coverage to remote and underserved areas
5. Strengthen commercial terms with strategic business partners to capture large-scale projects
6. Capture new Aftersales market opportunities (i.e. retrofits and annual maintenance contracts)

### Cost efficiencies and working capital excellence

1. Reduce costs of FTEs
2. Cost-cut of rent and leasing expenses
3. Exit locations that can be served centrally and re-negotiate rental terms for remaining contracts
4. Optimise other costs (i.e. marketing, other expenses etc.)



# Performance Infrastructure (PI)

## Infrastructure



### Built for transformation

1. Set-up cadence, tools to drive the Breakthrough Program
  - Transformation Office meetings
  - Sales war-rooms
  - Monthly sales meetings

## Reporting

### Measure progress

1. Measure progress of the Breakthrough Program
2. Establish reporting templates for
  - Transformation meetings
  - Management meetings
  - Board meetings

# Talent Upgrade Plan (TUP)

## Organization



### Re-structure

1. Restructure the sales organization to channel-wise basis rather than regional basis, shifting from regional focused to customer focused setup
2. Consolidate positions and functions that can be managed through centralization

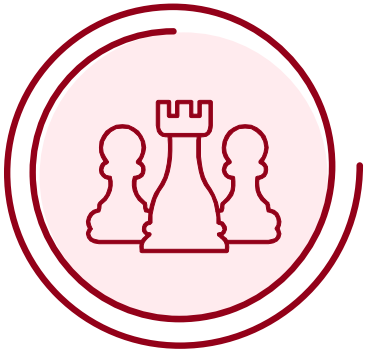
## Talent

### Completely upgrade

1. Hire and/or replace the necessary talents needed to implement the Breakthrough Program
2. Areas targeted:
  - A- Sales
  - B- Marketing
  - C- Other support functions

# Strategic Moves (STR)

## Principal relationships



### Restructure relationships

1. Restructure relationships with principals and commercial partners – especially to address:
  - Joint collaboration on market challenges
  - Setting a win-win setup and framework

## Strategic choices

### Objectives

1. Explore strategic choices beyond fixing the core business (i.e. entering new segments, developing new products etc.)

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