



8 May 2020

No. ZEN 2563-011
Subject Management Discussion and Analysis for the 1st Quarter of 2020
To The President
The Stock Exchange of Thailand

We, ZEN Corporation Group Public Company Limited (“the Group”), are pleased to provide you our management discussion and analysis for the 1st Quarter of 2020, as follows:

The Group’s Operation under the Epidemic Situation of Coronavirus 2019

Due to the global epidemic situation of Coronavirus 2019 (‘COVID-19’) and the countermeasures taken by the government such as travel restrictions and the closure of venues considered high-risk areas including department stores, it is expected that the Thai economy in 2020 will have a severe contraction with latest forecasts signaling GDP will fall by up to 6% compared to 2019. The export sector has been affected by declining demand from trading-partner countries, while the tourism sector has been severely impaired by travel restrictions which affect the number of both Thai and foreign tourists. In addition, purchasing power of consumers is thoroughly affected and this negatively impacts private consumption, although the impact on private consumption is expected to be eased to some extent by various relief measures being rolled out by the government.

The Group has committed to support and operate in accordance with the measures and orders of government agencies to limit the spread of COVID-19 with careful consideration of the health and safety of our customers and employees. The Board of Directors and management team constantly monitor the situation to manage and mitigate risks, assess the impact on the business and ensure that the operations complied with additional health and safety measures announced by the government.

In terms of sales channel management, during normal times prior to the outbreak of COVID-19, branches in shopping malls are considered as the main sales channel of the Group, accounting for approximately 90% of all sales. However, in compliance with the government’s order and measure to shut down shopping malls effective since March 22, 2020, the branches in shopping malls are permitted to provide take-home or delivery services only. The Group placed importance on maintaining continuity in providing efficient services to our customers and therefore the Group focused on improving the efficiency of take-home and delivery services to full capacity in order to meet the consumer demand. Meanwhile, during this time with reduced revenue, the Group has taken immediate and significant measures to control costs such as negotiating with landlords to reduce rental in some branch areas that were not be able to provide full services, and implementing a leave without pay scheme, initially for management but also later opened up to all employees. Maintaining a strong liquidity position has been



a priority and through controlling expenses and other various actions the group has been able to conserve cash to ensure that the Group is in a solid position going forward.

In addition to the risk management measures above, the Group has implemented a series of actions to protect the health and safety of our customers and employees, including the following: restricting travel; use of technology for online meetings; arranging and facilitating flexible working times and work from home where possible; social distancing practices; setting up alcohol-based hand sanitizing stations; installing thermal scanners at selected screening points for customers, employees and visitors and enforcing customers, employees and visitors to follow specific health protection protocols.

The Group expects that the outbreak of the COVID-19 will gradually recede and there should be consideration for the easing of the lockdown restrictions by the Government, respectively. Once the Group’s operations are allowed to open as usual, hygiene and safety standards for customers and employees will be a top priority for the Group in order to give customers the confidence to dine in our restaurants. Looking forward, the Group will carefully monitor the ongoing situation and changing consumer behaviors understood to be the ‘New Normal’ and will take actions to ensure that the Group adjusts to respond to the needs of customers in a timely manner.

Impact from Changes in Accounting Policy

From 1 January 2020, the Group has adopted Thai Financial Reporting Standard - Financial instruments group and Thai Financial Reporting Standard No.16 - Leases which impacted to the financial statement as follows:

1. Thai Financial Reporting Standard - Financial instruments group

Credit Risk

Allowance for impairment loss for trade receivables are measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the historical credit loss experience, adjusted for factors that are specific to the debtors and assessment of both the current and forecast general economic conditions.

	(in thousand Baht)		
	31 December 2019	31 March 2020	Change
Allowance for impairment losses			
Consolidated financial statements	1,055	2,955	1,900



2. Thai Financial Reporting Standard No. 16 - Leases (TFRS 16)

- Impact of adoption in TFRS 16 on Consolidated financial statements

At 1 January 2020	(in thousand Baht)
Increase in right-of-use assets	1,049,021
Increase in deferred tax assets	8,596
Decrease in property, plant and equipment	(1,132)
Increase in deferred tax assets	(1,094,526)
Decrease in accrued expenses	7,484
Decrease in retained earnings	30,557
Weighted-average incremental borrowing rate (% per annum)	4.00

Impact of adoption in new financial reporting standards on Consolidated financial statements' Net Profit (Loss) in the 1st quarter of 2020

1 st Quarter 2020	(in thousand Baht)
Total Revenue	643,662
Net Profit (Loss)	(44,217)
Reconciliation items of Consolidated financial statements according to the new standard	
Thai Financial Reporting Standard No. 16 - Leases (TFRS 16)	
Leases	(58,864)
Rights to use amortized assets	53,554
Interest Expense	10,910
Deferred income tax (income) expenses	(1,927)
Thai Financial reporting standard - Financial instruments group	
Allowance for impairment	1,900
Deferred income tax (income) expenses	(380)
Profit (loss) for the period before adjusting to new standard	(39,024)



Performance

Revenues

Revenues	1 st Quarter				% Change
	2019		2020		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Sales of Food & Beverages	710.0	97.2%	616.1	95.7%	-13.2%
Franchise Fee Income	14.1	1.9%	17.5	2.7%	24.0%
Revenue from Sales and Service	724.1	99.1%	633.6	98.4%	-12.5%
Other Income	6.3	0.9%	10.1	1.6%	59.8%
Total Revenue	730.5	100.0%	643.7	100.0%	-11.9%

Remark: ⁽¹⁾ Percentage of Total Revenue

In the 1st quarter of 2019 and 2020, the Group's total revenue decreased from THB 730.5 Mn to THB 643.7 Mn respectively, a decrease of THB 86.8 Mn or 11.9% due to a decrease in revenue from sales of food and beverages, which was the major contributor to the Group's revenue and was a consequence of the outbreak of COVID-19 and the closure of restaurants in shopping centers. During the 1st quarter of 2019 and 2020 revenue from sales of food and beverages made up 99.1% and 98.4% of total revenue, respectively.

Revenue from Sales of Food and Beverages

Revenues	1 st Quarter				% Change
	2019		2020		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Restaurant Business	651.3	91.7%	518.8	84.2%	-20.3%
Revenue from Sales of Raw Material	44.8	6.3%	37.8	6.1%	-15.7%
Revenue from Food Delivery & Catering	10.5	1.5%	49.1	8.0%	366.1%
Revenue from Retail Merchandise	3.4	0.5%	10.4	1.7%	208.4%
Total Revenue from Sales of Food and Beverages	710.0	100.0%	616.1	100.0%	-13.2%

In the 1st quarter of 2019 and 2020, revenue from sales of food and beverages was THB 710.0 Mn and THB 616.1 Mn respectively, a decrease of THB 94.0 Mn or 13.2%. This was mainly due to the decreased sales of the restaurant business and raw material to franchisees, while sales of delivery and retail merchandise increased by boosting sales through these channels in response to the changing consumer behavior and later on in response to COVID-19 crisis. Sales of retail merchandise grew 208.4% from the previous year. However, due to the epidemic situation of COVID-19 which negatively affected the economy and consumer confidence, the Group's SSSG for the year 2020 was -26.5%.



Item	1 st Quarter	
	2019	2020
Number of New Equity Branches Opened (Branch)	7	1
Number of Equity Branches at Period End (Branch)	116	172
Number of New Franchise Branches Opened (Branch)	1	13
Number of Franchise Branches at Period End (Branch)	142	182
Same Store Sales Growth: SSSG (%) ⁽¹⁾	-4.4%	-26.5%

Remark: ⁽¹⁾ Calculated based on total revenue from sales of food and beverages per total operating days of the same branch

In the 1st quarter of 2019 and 2020, franchise fee income increased from THB 14.1 Mn to THB 17.5 Mn respectively, an increase of THB 3.4 Mn or 24.0%. This increase was mainly due to an increased number of franchise branches. Meanwhile, the Group's other income increased from THB 6.3 Mn to THB 10.1 Mn respectively, an increase of THB 3.8 Mn or 59.8% due to (1) higher construction and set up income from opening new franchise branches (2) higher rental income and (3) higher membership fee income.

Costs of Sales and Service

Item	1 st Quarter				% Change
	2019		2020		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Sales of Food & Beverages	710.0	98.1%	616.3	97.2%	-13.2%
Franchise Fee Income	14.1	1.9%	17.5	2.8%	24.0%
Revenue from Sales and Service	724.1	100.0%	633.6	100.0%	-12.5%
Costs of Sales and Service ⁽²⁾	380.9	52.6%	362.4	57.2%	-4.9%
Gross Profit	343.3	47.4%	271.2	42.8%	-21.0%

Remark: ⁽¹⁾ Percentage of Revenue from main businesses.

⁽²⁾ In 2019 the Group adjusted the accounting classifications of Costs of Sales and Service and Selling Expenses to be more suitable and in line with other companies in the same industry.

In the 1st quarter of 2019 and 2020, the total costs of sales and services decreased from THB 380.9 Mn to THB 362.4 Mn respectively, a decrease of THB 18.5 Mn or 4.9 % which was mainly due to the decreased revenue from restaurant business.

Meanwhile, the gross profit decreased from THB 343.3 Mn to THB 271.2 Mn respectively, a decrease of THB 72.1 Mn or 21.0 % due to the decrease in sales from the restaurant business while still having other fixed costs of sales (kitchen area), such as staff, rent, utilities and depreciation.

The gross profit margin decreased from 47.4% in 2019 to 42.8% in 2020 due to (1) a decrease in sales from restaurant businesses (2) other fixed costs of sales (kitchen area) (3) an increase in packaging costs from more sales via delivery and (4) increased in promotion discounts to stimulate consumption.



Selling and Distribution Expenses ⁽¹⁾

In the 1st quarter of 2019 and 2020, selling and distribution expenses increased from THB 198.2 Mn to THB 215.7 Mn respectively, an increase of THB 17.5 Mn or 8.8 %. Although, the Group focused on more efficient marketing by switching towards more cost-effective marketing channels, which decreased from the previous year by THB 3.3 Mn; the main factors for the increase were (1) higher marketing support and commission expenses paid to delivery operators (Grab, Lineman, Food Panda and Get) THB 7.0 Mn which were related to the increased delivery sales and (2) higher staff, rental, utilities and depreciation expenses from new branches THB 13.7 Mn. As a percent of total revenue, selling and distribution expenses increased from 27.4% in 2019 to 34.0% in 2020.

Remark: ⁽¹⁾ In 2019 the Group adjusted the accounting classifications of Costs of Sales of Food and Beverages and Selling Expenses to be more suitable and in line with other companies in the same industry.

Administrative Expenses

In the 1st quarter of 2019 and 2020, administration costs decreased from THB 114.7 Mn to THB 112.0 Mn respectively, a decrease of THB 2.7 Mn or 2.4%. This decrease was mainly due to a decrease in support staff expenses such as overtime expense from more efficient management. However, due to the falling restaurant sales as a result of COVID-19, as a percent of total revenue, administrative expenses increased from 15.7% in 2019 to 17.4% in 2020.

Finance Expenses

In the 1st quarter of 2019 and 2020, finance expenses increased from THB 3.5 Mn to THB 10.9 Mn respectively, an increase of THB 7.4 Mn or 298.4%. This was due to the company recognized interest expenses THB 10.9 Mn on the lease liabilities following the implementation of the Thai Financial Reporting Standard No. 16 "Leases" (IFRS 16)

Tax Expenses

In the 1st quarter of 2019, the Group's income tax expense was THB 1.0 Mn. Meanwhile, in the 1st quarter of 2020, income tax expense was THB -13.3 Mn due to the Group's operating loss.

Net Profit and Net Profit Margin

In the 1st quarter of 2019 and 2020, the net profit decreased from THB 32.1 Mn to net loss THB 44.2 Mn respectively, a decrease of THB 76.3 Mn or -237.7% and the net profit margin decreased from 4.4% to -6.9%. The main reasons were (1) loss of revenue from the restaurant business which affected by the epidemic of COVID-19 (2) impact of adoption Thai Financial Reporting Standard - Financial instruments group and (3) impact of adoption Thai Financial Reporting Standard No. 16 - Leases (IFRS 16)



Financial Position Analysis

Assets

As of 31 December 2019, and 31 March 2020, the Group had total assets of THB 2,044.1 Mn and THB 2,870.2 Mn respectively, an increase of THB 826.1 Mn or 40.4%. The assets increased mainly from (1) an increase in assets, usage rights (2019: leasehold rights) by THB 1,035.6 Mn (2) a decrease in cash and cash equivalents by THB 136.0 Mn as a result of the payment for goods during the epidemic of COVID-19 situation and (3) a decrease in trade and other current receivables related to franchise branch construction work THB 28.5 Mn.

Liabilities

As of 31 December 2019, and 31 March 2020, the Group had total liabilities of THB 610.0 Mn and THB 1,510.8 Mn respectively, an increase of THB 900.8 Mn or 147.7%. The main factor in the increase was liabilities under leases (2019: liabilities under finance leases).

Shareholder Equity

As of 31 December 2019, and 31 March 2020, the Group had shareholders' equity of THB 1,434.1 Mn and THB 1,359.4 Mn respectively, a decrease of THB 74.7 Mn or 5.2%. This decrease in shareholders' equity was mainly derived from (1) impact from changes in accounting policies (TFRS16) to retained earnings THB -30.6 Mn and (2) Net loss during the period THB -44.2 Mn.

Cash Flow Analysis

Type of Cash Flow	1 st Quarter	
	2019	2020
	THB Mn	THB Mn
Net Cash from (used in) Operating Activities	24.3	(50.7)
Net Cash from (used in) Investing Activities	(11.8)	(25.7)
Net Cash from (used in) Financing Activities	217.0	(59.5)
Increase (Decrease) in Net Cash and Cash Equivalents	229.5	(136.0)

Overall, the company had an increase in net cash and cash equivalents during the three months ending 31 March 2020 of THB -136.0 Mn.

Net Cash from Operating Activities

The cash flow from operating activities was THB -50.7 Mn in the 1st quarter of 2020, a decrease of THB -75.0 Mn compared to the same period in 2019. The main reason for the lower cash flow was the decrease in net profit which decreased THB -76.3 Mn year-on-year. Other notable cash flow changes were (1) Depreciation and Amortisation which increased by THB 55.4 Mn (although this was mostly a result of new TFRS accounting standard), (2) Accrued Expenses which decreased by THB -47.8 Mn (3) Trade and other Current Payables which decreased by THB -40.1 Mn and (4) Trade and other Current Receivables which increased by THB 18.4 Mn.



Net Cash from Investments

The cash flows from investments decreased from THB -11.8 Mn in the 1st quarter of 2019 to THB -25.7 Mn in the same period of 2020, a decrease of THB -13.9 Mn. This was mainly due to increased purchase of fixed assets in 2020 compared to 2019 by amount of THB 15.3 Mn which was mainly due to (1) new branches and (2) investing in computer software.

Net Cash from Financing Activities

The cash flows from financing activities decreased from THB +217.0 Mn in the 1st quarter of 2019 to THB -59.5 Mn in the same period of 2020, a decrease of THB -276.6 Mn. This was mainly due to in 2019, the Group recorded the net cash from Financing Activities which was offset by (1) cash received from IPO THB 952.1 Mn and (2) net repayment of short-term borrowings from financial institutions of THB 630.0 Mn and (3) dividend payment to shareholders THB 101.3 Mn whereas, in the 1st quarter of 2020, the Group recorded the repayment of liabilities under lease agreement of THB 48.6 Mn.

Liquidity and Capital Structure

As of 31 March 2020, the Group had a current ratio of 0.78, decreased from 1.24 at end of 2019. This was mainly due to (1) an increase in liabilities under lease agreements and (2) a decrease in cash and cash equivalents.

The debt-to-equity ratio increase to 1.11 at 31 March 2020 compared to 0.43 at the end of 2019. This increase was mainly due to (1) an increase in liabilities under lease agreements and (2) a decrease in shareholders' equity resulted from changes in accounting policies.

Please be informed accordingly,

Yours sincerely,

(Mrs. Yupaphan Ekasittikul)
Chief Financial Officer