

# CENTRALRETAIL

CRC IR 019/2022

**Re: Management Discussion and Analysis (MD&A) for the three-month period ended 31 March 2022**

**To: President**

**The Stock Exchange of Thailand**

Date 11 May 2022

Central Retail Corporation Public Company Limited (“the Company” or “CRC”) would like to clarify Management Discussion and Analysis for the operating results for three-month period ended 31 March 2022

Please be informed accordingly.

Yours Sincerely,

*-Signature-*

(Mr. Ty Chirathivat)

Chief Financial Officer

Central Retail Corporation Public Company Limited

## Overview of Operating Performance

For the overall economic situations of Thailand, the first quarter of 2022 tended to constantly recover, compared to the previous quarter, and expanded year-on-year, mainly due to the growth of export and economic expansion of Thailand's trading partners, as well as the more active tourism sector with greater numbers of foreign visitors after the ease of restrictions that used to limit cross-country travels. Private consumption continued to grow and has been boosted by government's stimulus measures, e.g., the Shop and Payback Scheme, the Co-payment Scheme (Phase 4), the We Travel Together Scheme (Phase 4), etc. At the same time, the outbreak of the Omicron variant has contributed to more cases of COVID-19 infections. It, however, did not much affect economic activities, unlike the previous surge, as the government did not implement strict epidemic control measures. Regarding the global economy, it was likely to be recovered constantly despite being affected by the outbreak of the Omicron variant. This was because many countries had employed a compromising policy to coexist with the virus and expedited vaccination rollouts while the overall disease control measures remained relaxed. Nevertheless, conflicts between Russia and Ukraine caused higher inflation around the world as a result of rapid increase in oil prices. Moreover, higher commodity prices had also led to a rise in consumers' cost of living, which was a pressure that made the economic recovery through consumption and investment slow down. In this regard, it is one of the risk factors that might impact to the Company's operations, and the Company has continued to closely monitor it.

## Current Business Environment in the First Quarter of 2022

During the first quarter of 2022, the Omicron variant of COVID-19 spread rapidly across the globe. The Company has strictly complied with epidemic control measures implemented by the government of each country to ensure the maximum confidence of consumers towards safety and to progressively tackle the spread of the disease. Furthermore, it has supported partners' businesses to facilitate recovery, which steered the retail sector and unlocked employment opportunities for the entire economic system. On the other hand, more intense inflation raised concerns among consumers in respect of the rising cost of living and influenced operating costs of the business sector. The Company had a policy to freeze prices of several products as long as possible to help reduce impacts on consumers and also to improve operations and implement innovations; for example, solar energy usage or electric vehicles for goods transportation to minimize Company's operating costs.

- **Thailand:** Business situations in Thailand continued to recover compared to the previous quarter. In addition, the government began to relax restriction measures that limit cross-country travels and executed economic stimulus schemes, especially for the consumption segment, which was a key driver that pushed the expansion of the overall economy to be greater than that of the same period of last year. In regard to the Company's business operations, in this quarter, the Company was able to open its shopping malls, including department stores, and all stores of all business segments as usual. As a result, sales of all businesses operated by the Company increased year-on-year. Moreover, the Company has marched forward to boost sales growth through its omnichannel platforms, resulting in an omnichannel sales growth of 40% if compared to that of last year or 23% of total gross sales of Thailand segment.
- **Vietnam:** Even though the spread of the Omicron variant led to a rise in numbers of the infected in Vietnam during the quarter, business situations in the country have indeed recovered. Moreover, as the government reopened the country for cross-country visits on 15 March 2022, the overall economy has constantly been promoted. During the quarter, the Company was able to open its shopping malls and all stores of food and hardline segments. However, it was still collaborating with the Vietnamese government to prevent the spread of the disease. Some services, e.g., movie theaters and Playland, at certain shopping malls were still

temporarily closed. In regard to the Company's sales, there has been continuous recovery in line with the economic status of Vietnam while the Company also drove sales growth through the available omnichannel platforms, resulting in an omnichannel sales growth of 88% if compared to that of last year or 8% of total gross sales of Vietnam segment.

- **Italy:** Business situations in Italy tended to recover continuously after the recovery of the nationwide economy. In addition, the government proceeded to reopen the country for foreign tourists from 1 March 2022 onwards after accelerating rollout the vaccinations and ceasing the state of emergency for COVID-19 which started since January 2020 to 31 March 2022. The Company could open all department stores as usual. Together with adjusting products to resonate with the needs of consumers, especially the locals, and the distribution of products through the omnichannel platforms, the total sales of the Company was growing steadily. In this quarter, an omnichannel sales growth of 35% if compared to that of last year or 6% of total gross sales of Italy segment.

The Company progressively continued to expand projects and activities under the context of sustainability by placing importance on good environment, economic growth, improvement of the quality of life, as well as management under the principles of good governance. In the first quarter of 2022, the Company provided necessary assistance during the COVID-19 epidemic. It has continuously cooperated with the government sector to establish vaccination units and set up an isolation center in Rama 3 to support people and employees infected with COVID-19. Moreover, it supplied food and drinking water for people in the community, providing clean water sources through the Water Tanks for the Young Project in Mae Hong Son Province (by Thai Watsadu), educational materials and equipment for the visually impaired, etc. In terms of environmental protection, the Company has efficiently driven its operations, aiming at reducing greenhouse gas emissions and has been one of the founders of RE 100 Thailand Club. The Company has continually installed solar roofs at stores of Robinson Lifestyle, Thai Watsadu, and GO! mall and by the end of 2022, there are 23 stores of Robinson Lifestyle, 38 stores of Thai Watsadu and 23 stores of GO! mall with the completed installation. In terms of governance, the Company submitted documents for certification as a member of the Thai Private Sector Collective Action Against Corruption (CAC) on 25 March 2022 to demonstrate anti-corruption in all forms. In addition, the Company prepared and cascaded its Good Corporate Governance and Code of Conduct Manual for and to everyone within the organization with a copy uploaded onto the Company's website. There were tests for the directors, executives, and all employees to ensure that they were informed and integrated the best practices in their work performance, the results of which were reported to the Board of Directors for acknowledgment. In addition, the Company has carried out various projects in Vietnam; for example, the Happy Community Project, the Zero Plastic Waste Project, and the One Mall, One School Project. As a result of its efforts, the Company was recognized with the CSR Certificate of Recognition by the Saigon Times newspaper for their contribution to the local community through the above activities.

### **The Company's Key Development in the First Quarter of 2022**

#### **1) New Store Expansion and Store Renovation and Rebranding**

The Company has expanded store areas and upgraded the offline platform in 3 countries to be a Next Gen Omni Retail store in response to the change and to create a favorable shopping experience, as well as providing services that covered the needs of all customer groups. In the first quarter of 2022, the Company expanded 2 stores of strategic format, Robinson Lifestyle in Baan Chang (Rayong) and Thai Watsadu in Chaiyapoom, while also continuously introducing its supermarkets, specialty stores, and brandshops to new areas of Thailand and Vietnam.

Regarding the renovation & rebranding, for Thailand, the Company actively worked towards renovating several stores of Robinson Lifestyle and Central Department Store, as well as other compact stores. For Vietnam, it continues to rebrand and upgrade Big C to GO! mall, GO! hypermarket or Tops market. For Italy, flagship department stores have been constantly renovated such as Milan, Florence, and Cagliari.

As of 31 March 2022, the Company has 3.3 million square meters of net sales area and 0.68 square meters of net leasable area, which increase by 1.5% and 13.0% from the same period of last year, respectively.

## **2) Omnichannel**

Regarding the omnichannel strategy, the Company has continuously developed a customer-centric omnichannel platform model. It also worked with business partners to enhance and complement its ecosystem to ensure a versatile omnichannel service and seamless connection between the real and the virtual world by leveraging new technologies. In this regard, the Company has enjoyed benefits from its big data in providing a seamless, connected shopping experience for all groups of customers, as well as creating one that met individual preferences of customers in a hyper personalized manner.

Omnichannel sales in first quarter of 2022 grew 44% from the same period of last year, accounting for 18% of the Company's total gross sales. In addition, the Company has strengthened its omnichannel platforms of all segments through key mobile applications in Thailand and Italy, namely: Central App, Tops App, GO! App, and BIPBIP App, including marketplace's channel. In addition, the Company also drove sales growth of omnichannel platforms through a new sales channel that coordinates between the physical platform and online platform, or O2O Channel. This includes Personal Shopper, Social Commerce, Chat & Shop, e-Ordering, etc.

## **3) The Progress of Synergy Plan**

The Company has implemented a synergy plan to cultivate benefits in terms of both revenues and efficient management of expenses. The projects have progressed as planned, as follows:

- Generating incremental sales through product cross listings that to serve the needs of customers in each business on each platform.
- Long-term profit margin increase was done by increasing gross margins and managing expenses more efficiently in all departments of the Company. The cost of purchasing products has been managed, pool purchasing to achieve reasonable costs, which increases the gross profit margin. In part of expenses, the Company focuses on cost reduction and management efficiency, such as reducing personnel costs due to redundant work, installing solar rooftops and EV truck to save energy and be environmentally friendly, adjusting advertising through online channels or social commerce to reduce marketing costs, and managing obsolete goods to be more efficient.

## 4) New format and New Growth pillar

The Company has developed a new store model and continuously catered new stores to lifestyle needs of customers as well as extending its customer base to cover all groups of targets. It introduced a new model of the Health and Wellness segment to touch the trends of health products and services. The Company has launched new format namely, Tops Vita (Vitamins and Supplement), Tops Care (Omni-Pharmacy) including expand new stores of go!WOW (DIY product) and go!Power (Electronic product).

## 5) Merge and Acquisition (M&A)

The Company continued to drive business growth under the concept of Inclusive Growth, achieving success with partners to strengthen the ecosystem of the Company, ensuring its ability to fulfill the needs of customers of all lifestyles. In this quarter, the Company has cooperated with Kerry Express (Thailand) Public Company Limited to provide transportation services for large items, covering and meeting the needs of both partners and customers in a comprehensive way while also reinforcing the Company's logistics platform, business, and partners.

## Overview of the Operating Results for the First Quarter of 2022

Central Retail Corporation Public Company Limited and its subsidiaries (the "Company") reported its operating results of the first quarter of 2022 that total revenue was THB 56,274 million, increased by 14.8% and net profit was THB 1,324 million, increased by 188.5% from the same period of last year. The Company achieved an increase in sales of all segments, mainly due to the relief of concerns over the contagious disease and the recovery of stores in major tourist provinces, government's shopping boosting schemes, the Shopping and Payback Scheme, during 1 January till 15 February 2022, store renovation, new stores expansion, and constant introduction of new format stores. In addition, the rebranding of the fashion segment and the Food segment in the previous quarter also enjoyed positive feedback and accomplished a greater sales volume. In parallel, selling and administrative expenses (SG&A) increased as the sales and revenue rose. There were expenses for the optimization of strategic management, as well as omnichannel platform development, which has been continuously carried out in order to resonate with the needs of all groups of customers. However, %SG&A to total revenue decreased year-on-year and quarter-on-quarter.

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## Financial Summary for the First Quarter of 2022

	Three-month period ended	Three-month period ended	Three-month period ended	Increase (decrease)	Increase (decrease)
	31 March 2021 THB millions	31 December 2021 THB millions	31 March 2022 THB millions	from last year %	from last quarter %
Revenue from sales	43,749	52,722	50,694	15.9%	(3.8%)
Fashion segment	9,751	15,491	11,496	17.9%	(25.8%)
Hardline segment	15,236	19,029	18,192	19.4%	(4.4%)
Food segment	18,762	18,202	21,006	12.0%	15.4%
Revenue from rental services	1,388	1,451	1,512	8.9%	4.2%
Revenue from services	298	149	251	(16.0%)	67.9%
Investment Income	43	76	49	14.2%	(35.5%)
Other income	3,552	4,367	3,769	6.1%	(13.7%)
<b>Total revenue</b>	<b>49,031</b>	<b>58,765</b>	<b>56,274</b>	<b>14.8%</b>	<b>(4.2%)</b>
Cost of sales of goods	33,776	39,244	38,772	14.8%	(1.2%)
Gross profit from sales	9,973	13,478	11,923	19.6%	(11.5%)
Cost of rental and rendering of services	436	473	494	13.4%	4.5%
Gross profit from rental&services	1,251	1,127	1,268	1.4%	12.5%
Gross profit	11,224	14,605	13,191	17.5%	(9.7%)
Selling expenses	9,952	11,203	10,549	6.0%	(5.8%)
Administrative expenses	3,703	4,515	4,140	11.8%	(8.3%)
<b>Profit from operating activities</b>	<b>1,163</b>	<b>3,330</b>	<b>2,320</b>	<b>99.5%</b>	<b>(30.3%)</b>
Finance costs	739	807	775	4.9%	(4.0%)
Share of profit of Asso and JV	80	154	135	68.0%	(12.0%)
Profit (loss) before tax expense	504	2,677	1,680	233.0%	(37.2%)
Tax expense (income)	45	213	355	683.9%	66.8%
<b>Profit for the year</b>	<b>459</b>	<b>2,464</b>	<b>1,324</b>	<b>188.5%</b>	<b>(46.2%)</b>
Profit (loss) to owners	401	2,371	1,204	199.9%	(49.2%)
<b>Operation information</b>					
EBITDA	5,398	8,031	6,622	22.7%	(17.5%)
Normalized EBITDA	5,414	7,849	6,498	20.0%	(17.2%)
Normalized Profit (loss)	508	2,303	1,225	141.0%	(46.8%)
Normalized Profit (loss) to owner	451	2,210	1,104	145.1%	(50.0%)
<b>Financial position</b>					
		31 December 2021	31 March 2022		
Total assets		263,228	255,042	(3.1%)	
Total liabilities		204,147	194,438	(4.8%)	
Total equity		59,081	60,604	2.6%	

## The Analysis of Operating Results for the First Quarter of 2022

1. **Revenue from sales of goods** was THB 50,694 million, increased by 15.9% from the same period of last year and decreased by 3.8% from the previous quarter as it was a festive season. Revenue from sales can be categorized as follows:

1. **Revenue from sales from fashion segment** was THB 11,496 million, increased by 17.9% from the same period of last year (and decreased by 25.8% from the previous quarter). This was mainly due to the increase of sales in both Thailand and Italy segments, thanks to the operations that have returned to normal and reduced customer concerns due to vaccinations. Compared to the same period of last year, the segment was affected by COVID-19 outbreaks in Thailand during January and in Italy during in January and March, as the Company needed to temporarily cease operations of the stores located in the risk areas to comply with government measures. Also, there were benefits from the government's Shopping and Payback Scheme during 1 January till 15 February 2022 and positive feedback towards the rebranding of Robinson Department Store Khonkaen into the Central Department store last December. The omnichannel sales such as Central App and new O2O channel (e.g., Personal Shopper, Social Commerce, Chat & Shop, and e-Ordering) have continued to increase and grew by 34% from the same period of last year.

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- II. **Revenue from sales from hardline segment** was THB 18,192 million, increased by 19.4% from the same period of last year (decreased by 4.4% from the previous quarter). This was mainly due to the growth of both existing and new stores. All stores could operate as usual throughout the quarter. Also, as demands for home repairs and renovations continued to increase, the segment continuously introduced new stores, namely Chaiyapoom store of Thai Watsadu and specialty stores and new format stores, namely go!WOW and go!Power. Moreover, there were sales generated by the COL, which was consolidated with the Company in February 2021. New stores of its subsidiaries, namely B2S and OfficeMate, were launched while MEB, an e-book business operator, also achieved growth as the demand for electronic books (e-books) has continuously risen. The omnichannel sales increased by 42% from the same period last year.
- III. **Revenue from sales from food segment** was THB 21,006 million, increased by 12.0% from the same period of last year (increased by 15.4% from the previous quarter). This was mainly due to the recovery of food segment in Vietnam post to the outbreak eased. There were also sales growth thanks to new store launches, including go!, and the completed rebranding of Big C to GO! hypermarket or Tops market during the last quarter. In Thailand, food segments achieved higher sales growth due to the Company's implementation of strict measures in prevention of COVID-19 infections while customers' concerns became less due to the widespread distribution of vaccines. Moreover, the normal operations of department stores and shopping centers resulted in an increase of foot traffic. Stores located in major tourist provinces, such as Chiang Mai, Samui, Rayong, and Pattaya, etc, began to recover. In this regard, omnichannel sales have continued to increase by 95% from the same period of last year.
2. **Revenue from rental services** was THB 1,512 million, increased by 8.9% from the same period of last year. As a result of the increase in numbers of foot traffic due to less severity of COVID-19 pandemic. However, the Company still supported some tenants even though they could reopen their business as usual by offering discounts on rental fees, but at a reduced discount rate.
3. **Revenue from rendering of services** was THB 251 million, decreased by 16.0% from the same period of last year, which was partly due to the temporary closure of food centers for renovations and the decrease in foot traffic at stores located close to office buildings during the work-from-home period.
4. **Gross profit** was THB 13,191 million, increased by 17.5% from the same period of last year. Main components of the gross profit were as follows:
- **Gross profit from sales** was THB 11,923 million, increased by 19.6% and gross profit margin was 23.5%, compared to 22.8% from the same period of last year. This was mainly due to an increase in gross profit margin in the fashion segment in both Thailand and Italy from selling more high-margin products. For fashion segment in Thailand, trade discounts were adjusted to be appropriated. For the hardline segment, the gross profit margin decreased slightly which was mainly from the cost of imported goods increased due to higher oil prices. As for the food segment, gross profit margin was higher from selling more private label products and continuous adjustments of product assortments.
  - **Gross profit from rental services and rendering of services** was THB 1,268 million, increased by 1.4%. This was mainly due to the number of foot traffic increased, the Company received more rental and service fees. However, gross profit margin was 72.0%, compared to 74.2% from the same period of last

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year. This was mainly due to the Company considered offering rental discounts but at a reduced discount rate to certain groups of tenants who were unable to operate their business as usual.

5. **Selling expenses** were THB 10,549 million, increased by 6.0% from the same period of last year. This corresponded to the increase in sales generated by the normal opening of shopping malls and more number of stores, resulting in increased marketing activities. Expenses related to sales staff, utilities fee, and expenses related to preventing COVID-19 increased. However, the Company was able to manage selling expenses effectively and selling expenses to total revenue declined to 18.7% in this quarter from 20.3% in the same period of last year.
6. **Administrative expenses** were THB 4,140 million, increased by 11.8% from the same period of last year. This was mainly due to the increase of employee expenses, the increase of tax due to the revocation of Thai government real estate tax discounts, technology costs to maintain and develop omnichannel systems while the loss on the exchange rate decreased and the provision for cost of obsolete and damaged products reduced from the same period of last year thanks to better product management and long-standing clearance. The Company was able to manage administrative expenses effectively and administrative expenses to total revenue declined to 7.4% in this quarter from 7.6% in the same period of last year.
7. **Finance costs** were THB 775 million, increased by 4.9% from the same period of last year which were interest expenses from loans and lease agreement (Accounting record based on Financial Reporting Standards No. 16 on Lease Agreement).
8. **Share of profit of associates and joint ventures** was THB 135 million, increased by 68.0% from the same period of last year due to increasing profits were contributed by associates and joint ventures.
9. **Tax expense (income)** was THB 355 million, increased by 683.9%. This resulted from profit from operations in this quarter.

### Financial Position

1. **Total assets** as of 31 March 2022 and 31 December 2021 were THB 255,042 million and THB 263,228 million, respectively, which was an increase of THB 8,186 million or 3.1%. This was substantially due to the decrease in cash and cash equivalent of THB 4,965 million, investment property of THB 1,074 million, other current receivable of THB 889 million, right-of-use asset of THB 689 million and current financial investment of THB 698 million.
2. **Total liabilities** as of 31 March 2022 and 31 December 2021 were THB 194,438 million and THB 204,147 million, respectively, which was decrease by THB 9,709 million or 4.8%. This was substantially due to the decrease in trade payable of THB 4,905 million, other current payable of THB 1,819 million and short-term loans and long-term loans including current portion of long-term loans of THB 1,193 million.
3. **Total equity** as of 31 March 2022 and 31 December 2021 were THB 60,604 million and THB 59,081 million, respectively, which was an increase of THB 1,523 million or 2.6%. This was substantially due to the increase retained earning of THB 1,204 million and other components of equity-mainly from gain on remeasurements of defined benefit plans of THB 214 million.



## Capital Structure

As of 31 March 2022, the Company's capital structure comprised of total liabilities of THB 194,438 million, which included interest-bearing debt of THB 76,373 million (excluding lease liabilities), and total shareholders' equity totaled THB 60,604 million. Net interest-bearing debt to equity ratio was at 1.07 times

## Statement of Cash Flows

For the three months period ended 31 March 2022, the Company reported the cash flows as follows:

- 1) Cash flows from (used in) operating activities of THB 658 million, decreased by THB 1,499 million from the same period of last year. This was substantially due to an increase of profit after adjusted to cash of THB 972 million and changes in operating assets and liabilities being a cause of cash decreased by THB 2,493 million, while tax paid decreased by THB 22 million.
- 2) Cash flows from (used in) investing activities was THB (2,419) million. Cash flows used in investing activities decreased by THB 10,176 million from the same period of last year. This was substantially due to the acquisition of subsidiaries COL by THB 10,778 million last year. The increase of net disposal of other current financial assets of THB 369 million while the increase of net acquisition of property, plant and equipment and acquisition of other intangible assets were THB 924 million and THB 64 million respectively.
- 3) Cash flows from (used in) financing activities of THB (3,820) million, decreased by THB 11,504 million from the same period of last year. This was substantially due to loans (net) decreased by THB 11,573 million.

## Business outlook

The Company is committed to creating sustainable growth for the business and to **becoming Asia's No. 1 Retailer of the Future** through its **CRC Retail Intelligence Strategy** with 4 key strategies:

- 1) **Reinvent Next-Gen Omni Retail** – Elevate omnichannel platforms by merging physical and virtual worlds, and leveraging new digital technologies to deliver next-level shopping experiences across all business segments, including food, fashion, hardline, property and new businesses across Thailand, Vietnam, and Italy.
- 2) **Accelerate Core Leadership** – Accelerate growth across Central Retail's core businesses, both locally and globally, and capture new growth opportunities with world-class partners.
- 3) **Build New Growth Pillars** – Capture new business opportunities by starting with the health and wellness segment followed by other segments that tap into changing global trends and consumer needs.
- 4) **Drive Partnership, Acquisition and Spin-Off** – Expand the business under the concept of inclusive growth, inspiring collective success with partners and enabling value-led sustainability.

In addition, leveraging data in the CRC Data Ecosystem as a key driver and analyzed customer insights collected in the The 1 member database and other loyalty programs in order to cater products and services that truly meet each customer's needs in a hyper personalized manner. Moreover, it also developed and upgraded omnichannel platforms to cover all business groups in every country so as to strengthen the organization, making it resilient,

stable, and sustainably grow. In this regard, the Company is determined to improve the operation process of all business units, execute financial management for liquidity, and emphasize the local and global expansion of strategic growth projects in pursuit of future gains. For example, the expansion of Thai Watsadu stores, Robinson Lifestyle, and GO! Vietnam, including development of new concept stores or brands to meet customers' individual demands. Importantly, the Company focus on inclusive growth with our partners and actively exploring new opportunities to acquire (M&A) high potential businesses for the new revenue to boost revenues and enhance business capabilities in line with its growth plan in a stable and sustainable manner.

Furthermore, the Company aimed at achieving a global goal in becoming a Net Zero through the management of climate change, efficient energy management, waste management, thus committed to reducing greenhouse gas emissions, cutting the use of plastics, and promoting environmental-friendly packaging while also lessening amount of food losses and waste constantly. In addition, the Company is also determined to promote corporate governance and business ethics, valuing all stakeholders and improving the quality of life for everyone. Emphasis is placed on the distribution of healthy & safe products for consumers, human capital development, the creation of economic value for the community and the development of local products (Community Contribution), as well as customer relationship and brand management. In this regard, the Company has already published information regarding the operations in its "Sustainability Report" at <https://www.centralretail.com/th/document/sustainability-reports>.