

Quarter 3/2022
November 14, 2022

Management Discussion and Analysis
RS Public Company Limited

Industry/Sector: Services/Commerce

Key Highlights 3Q22

Significant recovery across main businesses; Commerce business was driven by ULife and new sale channels expansion, while Entertainment business grew from activities revenue and content licensing sales to online platform.

Commerce revenue grew 19.6%QoQ, thanks to ULife platform, sale growth of pet product "Lifemate" and sale channel expansion of Lifestar. Entertainment revenue grew 9.5%QoQ due to higher revenue from content licensing and activities after the relaxation of COVID-19 controls. In conclusion, total revenue 3Q22 was 947 million Baht, increasing by 14.3% QoQ and 11.1%YoY.

Lifemate extended its pet product line, while Lifestar expanded its distribution channels. RS Mall platform remained focusing in-house brand to raise gross profit margin, resulted in 70.2% GPM for 3Q22

Lifemate, pet products, launched shampoo and wet food for to extend its product line, while well-u and Vitanature+ expanded its distribution channels to traditional trade. RS Mall remained limiting marketing activities of partners' products with direct competition to in-house products and focused on marketing in-house brand. This shift would help raising long term gross profit margin for commerce. As a result, the gross profit margin of the commerce business increased to 70.2% in 3Q22 from 66.0% in the previous quarter.

High growth of 3Q22 net profit was from recovery on 2 main businesses as well as well-managed cost and expenses

Net profit 3Q22 increased from jump in revenue and improved gross profit margin following higher proportion of in-house product. Moreover, cost of service on Entertainment business declined QoQ, while SG&A excluding ULife was under control, offset by higher interest expense. In conclusion, net profit 3Q22 was 81.7 million Baht, increasing by 525%QoQ.

Expected 2 main businesses to continue growing in 4Q22, mainly from revenue from concerts and events as well as growth of Commerce business through ULife platform and launch of new products' through various platform.

Revenue from local events and concerts would be a driver for Entertainment business after the easing of COVID-19 control, while Commerce business is expected to be driven by ULife and RS Mall platform as well as variety of new products are expected to launch in 4Q22, including dietary supplements under the well u and Vitanature+ brands, new SKUs of functional drink under the CAMU C brand. These developments expect to deliver growth QoQ for 4Q22

Expanded pet related business through establishment of Pet All Co.,Ltd, first step to complete pet products and services ecosystem in the future.

Pet All Co.,Ltd, has been established to invest in pet related business and strive to provide all products and services related to pet. Pet All will start operation with 17 branches of pet retail shop in Bangkok metro area, then expand to be one stop shop for pet related products and services across Thailand in the future.

Summary of Quarter 3Q22 Performance

Despite recovery of tourism sector, Thai economy in 3Q22 remained sluggish and vulnerable by rising inflation affecting price of consumer goods and energy. Moreover, flood situation across the country had adverse impact on crop and led to weakening consumers' spending. These factors was pressuring consumer confident and spending power and remained key challenges for the Company's business.

Unit: million Baht	Quarter 3/2021		Quarter 2/2022		Quarter 3/2022		Change	
	amount	%	amount	%	amount	%	(y-y)	(q-q)
Revenue from sales and services	852.4	100%	827.7	100%	946.5	100%	11.0%	14.3%
Commerce business	541.5	63.5%	399.2	48.2%	477.4	50.4%	-11.8%	19.6%
Entertainment business	310.9	36.5%	428.6	51.8%	469.1	49.6%	50.9%	9.5%
- Media	267.5	31.4%	346.7	41.9%	367.8	38.9%	37.5%	6.1%
- Music&Others	43.3	5.1%	81.8	9.9%	101.3	10.7%	133.7%	23.8%
Cost of sales and services*	458.6	53.8%						
Cost of sales and services (after reclassification)	459.8	53.9%	427.8	51.7%	432.4	45.7%	-6.0%	1.1%
Gross profit	392.6	46.1%	399.9	48.3%	514.1	54.3%	31.0%	28.6%
Selling and administrative expenses*	430.7	50.5%						
Selling and administrative expenses (after reclassification)	419.7	49.2%	380.2	45.9%	401.1	42.4%	-4.4%	5.5%
Operating profit	-27.1	-3.2%	19.7	2.4%	237.4	25.1%	-975.7%	1105.1%
Finance costs	15.9	1.9%	23.3	2.8%	27.9	2.9%	75.4%	19.7%
Net profit/(loss)	-0.3	0.0%	13.1	1.6%	81.7	8.6%	N/A	525%

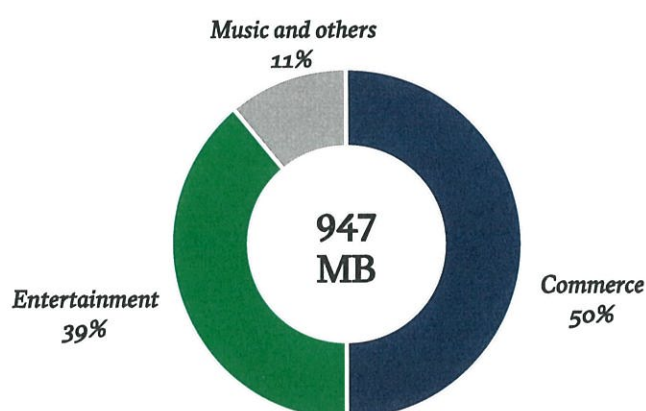
In 2Q22, research and development expenses and supply chain related expense were reclassified from SG&A to cost of sales and services.

This reclassification was adjusted in P&L from the period of 1Q2021.

Revenue

Revenue from sales and services for 3Q22 recorded 947 million Baht, increasing by 14.3%QoQ and 11.1%YoY due to higher revenue on Commerce business from full quarter revenue recognition from ULife platform, while Entertainment business also grew from content licensing sale to online platform and revenue on event sponsorship This can be explained according to the following business segments.

Revenue Structure



Commerce Business

Revenue of commerce business consists of revenue from the selling of products through 2 main platform; ULife, a direct selling platform, and RS Mall, distributing the Company's own brand and partners' product via multi-platorm. The Company strives to develop and select new products to offer a variety of products to better meet customer needs. Details on the Company's commerce business movements in 3Q22 are outlined below.

- Marketing strategies shift by focusing on promoting the Lifestar in-house brand through the Company's distribution channels (RS Mall) and limit access of products from partners with direct competition to in-house brands, in order to raise commerce business gross margin over the long term. As a result, the proportion of in-house to partners in 3Q22 was 69:31, compared to 64:36 in 2Q22 and raised commerce GPM 1Q22 to 70.2% from 66.1% in the previous quarter.
- Develop and diversify pet related products under "Lifemate" brand. In 3Q22, wet pet food and pet shampoo had been launched and Lifemate strives to provide complete product line of pet related products in near future.
- Upgrade service and sale process for top 7,000 customers on RS Mall platform by utilizing data analytics to better understand their needs, then be able to offer efficient promotion and services. This would raise sale per customer and increase revenue for RS Mall despite challenge from weak consumer spending situation.

Revenue from commerce business 3Q22 was 477 million Baht, increasing by 19.6% QoQ from full quarter revenue recognition from ULife, sale channel expansion of Lifestar products (well-u, and Vitanature) to traditional trade, as well as revenue from new products launch of pet product under "Lifemate" brand. However, Commerce revenue in 3Q22 decreased by -11.8%YoY as a result of lower sale from RS Mall platform which was under pressure from consumer spending.

Entertainment Business

Media - Revenue from media business in 3Q22 was 368 million Baht, increasing by 6.1% QoQ and 37.5% YoY due to higher revenue from content licensing sale to online platforms, offset by lower advertising revenue from seasonality.

Moreover, variety of media platform, including television, radio and online media, remain a key foundation of the Entertainmerce model. These enable the Company to differentiate with the strength of its distribution channels and to maintain continuous growth of the commerce business.

Music business and others – Revenue from music and others business in 3Q22 recorded 101 million Baht, increasing by 23.8%QoQ and 134% YoY from resuming on events sponsorship and activities as well as from agency service revenue, following the easing of COVID-19 controls. Moreover, music business continued to grow from managing music intellectual property rights following resumed operation of service businesses (Karaoke, pub, restaurants).

Cost of Sales and Services

Cost of sales and services in 3Q22 was 432 million Baht, increasing by 1.1% QoQ following increase in commerce sale revenue and cost for events production, offset by lower cost of production from media business due to partially utilizing existing contents from inventory. However, cost of sales and services in 3Q22 decreased 5.9%YoY following decrease in commerce sale revenue.

From 2Q2022 onwards, research and development expense and supply chain related expense were reclassified from SG&A to cost of sales and services. This reclassification was adjusted in P&L from the period of 1Q2021.

Gross Profit

Gross profit in 3Q22 was 514 million Baht, increasing by 28.6%QoQ and 31%YoY due to recovery of revenue on 2 main businesses. The gross profit margin was at 54.3%, increased from 48.3% in the previous quarter.

Commerce business recorded gross profit was 335 million Baht, increasing by 27.1% QoQ from recognizing ULife revenue which incurred high gross margin and improved gross margin in RS Mall platform. Meanwhile, the gross profit margin of commerce business was at 70.2% increasing from 66.0% in the previous quarter due to higher proportion of in-house brand sales.

Entertainment business recorded gross profit was 179 million Baht, increasing by 31.4%QoQ and 118%YoY from higher content licensing revenue as well as higher revenue for event. As a result, the gross profit margin of entertainment business was at 37.8% increasing from 31.4% in the previous quarter.

Selling and Administrative Expenses, and Finance Costs

The Company recorded the selling and administrative expenses in 3Q22 of 401 million Baht, increasing by 5.5% QoQ from full quarter SG&A realized from ULife. Excluding ULife, SG&A decreased by -4.6%QoQ due to reduction in marketing expense of the commerce by deploying online channel and media. Compared to the same period previous year, SG&A decreased -4.4%YoY from high marketing expense for launching new brand in previous year. SG&A to sales was at 42.4% declining from 45.9% in the previous quarter.

Financial costs in 3Q22 was 27.9 million baht, increasing by 19.7%QoQ and 75.9% YoY due to increasing interest expense following higher interest bearing debt for investment in ULife, drawn down in late Apr 2022.

Net Profit

For 3Q22, the Company recorded a net profit of 81.7 million baht, increasing by 525%QoQ due to recovery on 2 main businesses as well as well-managed cost and SG&A. In addition, the Company recognized the profit under equity method from the investment in Chase Asia Co., Ltd in 3Q22 at the amount of 5.6 million baht.

Business outlook

Expected 2 main businesses to continue to recover

Entertainment business as a key revenue drivers for post-COVID-19 when consumers resumes their normal activities. Demand on media business is witnessing uptrend as brands race to capture sale during festive season.

- Concert and event: Accelerate additional revenue from concerts as well as event sponsorship which are allowed to resume after the easing of COVID-19 controls. Two large scale concerts (RS meeting and Kamikaze) had been sold out. In additional, music business is seeing high growth from managing intellectual property rights.
- TV and Radio media: Expects advertising spending to grow QoQ from seasonality and higher no. of marketing activities to capture sale during festive season.

Commerce business to continuously develop and launch new products into main platform with over 10 SKUs under 4 brands; dietary supplements under the well u and Vitanature+ brands, new formula of functional drink under the CAMU C brand and wet pet food under the Lifemate brand. ULife also expects to support high growth in commerce business with its new product development and consumer base expansion. Moreover, Investment in Pet All is the first step to expand to pet retail with 17 branches in Bangkok metro area. Pet All is expected to start generate revenue in Dec 2022 and then expand to one stop shop for pet related products and services in the future.

RS group is also looking for business partners for expansion through M&A to extend and strengthen Entertainmerce model, while expanding sale channel and platform as well as diversifying products and services to complete RS group ecosystem and raise the efficiency among its group.

Sustainable Development

RS PCL. has been included in THSI index 2022 by the stock exchange of Thailand for 2 consecutive years with our determination to raise the standard for sustainability development across all ESG dimensions (Environmental, Social and Governance). RS is rated ESG on “AA” which indicated its continuous development to drive the company to grow together with all stakeholders.

The Company has prepared the Sustainable Development Report as a part of the One Report since 2020 to demonstrate its commitment in disclosing important information to stakeholders with accuracy, completeness and transparency. The content covers environment, social and governance undertaking and progresses are reported during the year as a part of the quarterly Management Discussion and Analysis. This report covers developments from 1 January to 30 September 2022.

Evaluation and Identification of Sustainability Issues

During 2021-2022, the Company undertakes its sustainability efforts under the concept “Fulfilling good quality of life for people in the society” in line with the organization’s business conduct. Material sustainability issues were identified per following

Economic aspect focusing on customer satisfaction and co-development of innovation with partners

Social aspect focusing on a systematic knowledge management and talent development

Environmental aspect focusing on efficient utilization of resources and a systematic waste management.

E : Environment

“Paper Mache... Separate, Exchange and Conserve” Project This project encourages people to separate paper from the starting point and getting users of such paper to recognize the value of used resources, and to increase the country’s paper recycling rate and quality. The project started since October 2020 and as of 30 September 2022, over 15,130 kilograms of accumulative used paper underwent a recycling process.

“RS net Zero” Project aims to reduce plastic waste from the Company’s head office with target to originate no plastic waste. The project began in May 2022 and collect over 200 kilograms of accumulative plastic. The plastic from this project will be recycled to be used for other environmental activities with stakeholders.

E : Economy

“RS Young blood” project to offer an opportunities for university students to learn and experience from real business case. RS group had been selected as a business case study under “Business Transformation” categories for “Thailand Accounting Case Competition 2022”. The competition allows the students to apply their knowledge to develop a business strategy under real situation as well as analyzing and developing for solutions.

S : Social

“SCG leadership forum” Under collaboration with SCG, RS PCL. was selected as a case study to share its experience and knowhow on Business transformation from media business to commerce business with “Entertainmerce” model which indicated its capability to adapt its organization along with digital transformation.

G : Governance

In 2022, RS PCL. had been rated "Excellence" or 5-star for good corporate governance for 3 consecutive years from IOD (Thai Institution of Directors)

(Mr. Wittawat Wetchabutsakorn)

Director and Chief Financial Officer

Authorized to sign on behalf of the Company
