

# CENTRALRETAIL

CRC IR 002/2023

Re: Management Discussion and Analysis (MD&A) for the three-month period ended 31 March 2023

To: President

The Stock Exchange of Thailand

15 May 2023

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 ended 31 March 2023

Please be informed accordingly.

Yours Sincerely,

*-Signature-*

(Mr. Ty Chirathivat)

Chief Financial Officer

Central Retail Corporation Public Company Limited

## Performance Overview

The overall Thai economy during the first quarter of 2023 achieves active recovery as international tourists return. According to a report provided by the Tourism Authority of Thailand (TAT), inbound tourists to Thailand in the first quarter this year reached nearly 6.5 million, an increase of more than 1,200%, most of which were from East Asia, Europe, and others. The trend clearly bolsters services associated with the tourism sector. Moreover, domestic economic activities, both private consumption and domestic tourism, have improved. Early this year, the Company benefited from the Government's "Shop and Payback" scheme as well as factors that support purchasing power, be they improving employment rates or consumer confidence. Overall export however remained weak amid the global economic slowdown. After this, Thailand's economy shall still be likely exposed to risks contributed by the sluggish global economy. The inflation rate lingers at a high level while issues still persist among financial institutions in the US and Europe. In addition, impacts on domestic spending constituted by cost pressures, the cost of living, and the household debt are still factors that weaken Thailand economic recovery, thus the Company continues to conduct the business in a prudent manner against -uncertain economic conditions.

## Business Situation in Q1 2023

The Company's performance in Q1 of 2023 has continued to improve thanks to the strong business model driven by CRC Retaillignce strategy. The Company adjusted operational strategies to be in line with changing lifestyles of consumers after the COVID-19 epidemic, including the development of the Central Retail Ecosystem and Omnichannel platform. However, in the 1<sup>st</sup> quarter of 2023, various headwinds persisted e.g., rising costs such as electricity expenses and higher finance costs. The Company continues to manage expenses with vigilance, such as managing products and promotions to suit and meet the needs of each customer group, or using energy-saving innovations, e.g., the installation of solar panels or the use of electric trucks (EV) for goods transportation in several business units to reduce its operating costs as well as adjusting the funding cost structure to be appropriate amid the rising interest rates.

- Thailand: With respect to the Company's business operations this quarter, it launched new branches in the hardline and food segments, and renovated existing branches of the Central Department Store. Together with the increasing number of foreign tourists, consumer traffic and sales volumes continued to soar, especially in tourist provinces. Additionally, the Company never ceases to develop a variety of omnichannel platforms and improve performance of services provided through its mobile application, in order to serve the needs of consumers. These all together resulted in Thailand's sales during the first quarter registered 15% YoY growth, and the Omnichannel sales accounted for 22% of the total sales in Thailand.

- Vietnam: The overall economy of Vietnam during the first quarter of 2023 slowed down compared to that of the previous year due to decrease in export as a tighter global monetary policy set in, thus reducing consumer demands. Nevertheless, the Company has executed its scheduled plan whereby, during this first quarter, it renovated GO! mall and GO! hypermarket and launched a new supermarket branch. Moreover, it has consistently driven sales through omnichannel platforms. The sales volume in Vietnam during the first quarter was relatively stable YoY while the Omnichannel sales accounted for 9% of the total sales in Vietnam.
- Italy: Business situations in Italy tend to achieve continued recovery thanks to the reopening of the country, which has stimulated purchases of domestic consumers and tourists. The Company renovated the Rinascente Department Stores and provided more brands to resonate with the needs of consumers at both offline and through Omnichannel platforms. These efforts led to an improvement in the first-quarter sales by 29%, compared to the same period of last year and the Omnichannel sales accounted for 5% of the total sales in Italy.

The Company never ceases to steer its business to achieve sustainable growth in the environmental, social, and economic aspects under CRC ReNEW strategy to turn the organization into a Green & Sustainable Retailer. It aims at reducing GHG emission and achieving the net-zero goal by 2050. The update progresses were as follows.

- Reduce Greenhouse Gases by installing solar-cell rooftops on malls and stores in 83 stores, using EV trucks for product deliveries, adopting energy-saving technologies across various forms, investing in clean energy under Greengen Energy Co., Ltd. (GGE). Moreover, we enhance Carbon Sequestration by foresting and agricultural development more than 5,500 Rai, targeting to expand to 50,000 Rai in 2050.
- Navigate Society Wellbeing. We commit to promoting diversity, equity, and inclusion by developing employee potential and supporting SME entrepreneurs such as “Central Tham” project by creating employment opportunities for people with disabilities. The company has also supported local communities and enhanced quality of life through the Jing Jai Farmers’ Market initiative and has helped a total of 9,696 households and generating an annual income of THB 255 million for local farmers.
- Eco-friendly Product & Packaging by increasing green products, the use of recyclable, natural and durable materials, which can reduce waste of single-use items and plastic materials as well as expanding a new store format which distributing high quality products with a strong commitment to the environment and communities over 60 branches.

- Waste Management. It will help in using resources more efficiently, reduce food waste throughout the value chain. The food waste will be effectively managed through fertilisation and the production of biogas and elevate plastic waste management by upcycling PET bottle' initiative where customers can donate PET bottles for recycling and upcycling into other products accounted for 15%.

In the governance-based management facet, the Company has continuously communicated and organized training on its corporate governance and code of conduct handbook, and anti-corruption policy, for all employees, to cover the entire Company and all subsidiaries. It has also communicated the anti-corruption policy to all suppliers for their acknowledgement and compliance to strengthen the Company's ambition to operate the business with transparency, verifiability, and availability of measures against and penalties for non-compliant employees. In the first quarter of this year, the Company also declared its intent to participate in the CAC Change Agent. The Company has encouraged SMEs to join the Collective Action Against Corruption (CAC) and provided them with a questionnaire to identify their readiness to express intents by the end of this year. On top of that, there is a plan to roll out activities, in collaboration with the CAC, aimed at educating SMEs about how to declare their intents and certification guidelines.

In addition, the Company has received prestigious awards from various international organizations such as Global Best Employer Brand Awards 2023 from The Employer Branding Institute and World HRD Congress. The Company received this esteemed award for two consecutive years. The Company also received the Excellence in Data Governance award from Data Intelligence company to implement Data Privacy with its Data Governance platform on a wide scale.

Moreover, Tops, food business also received Convenience Retail Sustainability award from the 2023 NACS Convenience Retail Award ASIA-PACIFIC, reaffirming its position as the #1 food retailer in Thailand with a goal to be the ultimate Food Discovery & Destination under the concept of EveryDay DISCOVERY.

Major developments in Q1 2023

#### 1) Branch Expansion and Improvement

In the 1<sup>st</sup> quarter of 2023, the Company continuously expanded and renovated its business branches. In Thailand, it launched new branches for hardline and food segment, namely 4 branches of Thai Watsadu in Rangsit Bangkok, Nakornratchasima, Kampangpetch and Phuket, 2 branches of Top Standalone supermarket in Bangkok. In Vietnam, the Company launched 1 branch of go! Tan Uyen supermarket.

Additionally, the Company has continuously launched specialty stores as well as various brand shops in Thailand and Vietnam.

With respect to Renovation & Rebranding in Thailand, the Company had renovated branches of Central and Robinson Department Store namely Chidlom, Mega Bangna and Fashion Island, as well as renovating other smaller stores. In Vietnam, the Company continued to rebrand and renovate Big C branches into GO! mall and GO! Hypermarket and completed one branch at Tan Hiep, Ho Chi Minh while in Italy it had continuously renovated Rinascente department stores namely Milan and Monza branches.

As of March 31, 2023, the Company has 3.4 million square meters of net sales area and 0.7 million square meters of net leasable area, which increased by 3.7% and 8.1% respectively compared to the same period of last year.

## 2) Omnichannel

The Company continuously developed the Next-Gen Omnichannel Platform to enhance ultra-personalized shopping experience, which is superior and able to connect offline, online platforms seamlessly, covering the entire Central Retail network in Thailand, Vietnam, and Italy. The core of its success is an in-depth analysis to cater customers with perfect shopping experiences. It also creates Inclusive Growth for partners, making this platform a 'Destination' for customers, partners, and everyone.

As for the first 3-month, Omnichannel sales grew by 10%, compared to the same period of last year, accounting for 18% of the total sales of the company. In addition, the Company has continuously strengthened its Omnichannel platform of all segments and revamped mobile application efficiency.

## 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.
- Strong and prudent financial management with the 3C strategy: The first C is Cost and expense management with maximum efficiency. The second C, Capex, focuses on investments that

maximise the benefits of strategic businesses and accelerate the expansion of proven formats. The last C, Cash Flow, expands the ability to manage working capital to become more agile, flexible and that can increase cash flow for further business growth.

- 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 expanded stores continuously to meet the lifestyle of customers for example Thai Watsadu hybrid format which combining Thai Watsadu and BnB home into one store, go!WOW (miscellaneous goods store) and go!Power (electronic appliances store) in hardline segment. For food segment, the Company launched Tops Fine Food and Tops CLUB, new membership-based store with imported exclusive offerings around the world as well as stretching the customer base to cover all groups while also accelerating the expansion of the new business segment Health & Wellness to meet the trend of demand for people's health and pet; for example, Tops Vita (selling health products with emphasis on vitamins and dietary supplements), Tops Care (pharmacy, pharmaceutical and health care products with consulting services –omni-pharmacist) and Pet 'N Me. At the end of March 2023, the Company operated go!WOW 22 stores, go! Power 12 stores, Tops Vita 46 stores, Tops Care 19 stores and Pet 'N Me 4 stores.

#### 5) Partnership and acquisition

The Company continues to accomplish new milestones under the concept Inclusive Growth, attaining success together with partners to strengthen the Company's ecosystem and ensure its capacity to meet the needs of customers regardless of their lifestyles.

# CENTRALRETAIL

## Overview of the Operating Results for the First Quarter of 2023

Central Retail Corporation Public Company Limited and its subsidiaries (“Company”) reported a total revenue of THB 63,206 million in the first quarter of 2023, an increase of 12.3% compared to last year, with a net profit of THB 2,312 million, an increase of 74.6% from last year. The Company’s sales increased in all segments as economic activities operated as usual thanks to the recovery of tourism, renovations of existing stores, and new store opening. Moreover, there were new store formats being launched and rebranding. The Company recorded higher rental income from the expansion of rental space in both Thailand and Vietnam, and other incomes that rose in correspondence to the sales volume. However, selling and administrative expenses increased as a result of strong sales growth, store expansion, and higher expenses, e.g., electricity bills, interest rates, etc.

## Financial Summary for the First Quarter of 2023

	Three-month period ended	Three-month period ended	Three-month period ended	Increase (decrease)	Increase (decrease)
	31 March 2022	31 December 2022	31 March 2023	from last year	from last quarter
	THB millions	THB millions	THB millions	%	%
Revenue from sales	50,694	57,885	56,712	11.9%	(2.0%)
Fashion segment	11,496	17,601	14,994	30.4%	(14.8%)
Hardline segment	18,192	18,318	18,723	2.9%	2.2%
Food segment	21,006	21,967	22,995	9.5%	4.7%
Revenue from rental services	1,512	1,783	1,852	22.5%	3.8%
Revenue from services	251	417	397	58.1%	(4.9%)
Investment Income	49	55	69	41.1%	25.8%
Other income	3,769	5,007	4,176	10.8%	(16.6%)
<b>Total revenue</b>	<b>56,274</b>	<b>65,147</b>	<b>63,206</b>	<b>12.3%</b>	<b>(3.0%)</b>
Cost of sales of goods	38,772	41,882	42,006	8.3%	0.3%
Gross profit from sales	11,923	16,003	14,706	23.3%	(8.1%)
Cost of rental and rendering	494	579	568	15.0%	(1.8%)
Gross profit from rental&serv	1,268	1,621	1,680	32.4%	3.6%
Gross profit	13,191	17,624	16,386	24.2%	(7.0%)
Selling expenses	10,549	12,599	12,041	14.1%	(4.4%)
Administrative expenses	4,140	5,291	4,958	19.8%	(6.3%)
<b>Profit from operating activiti</b>	<b>2,320</b>	<b>4,796</b>	<b>3,632</b>	<b>56.6%</b>	<b>(24.3%)</b>
Finance costs	775	1,007	1,031	33.0%	2.3%
JV	135	309	299	121.5%	(3.3%)
<b>Profit (loss) before tax expen</b>	<b>1,680</b>	<b>4,098</b>	<b>2,901</b>	<b>72.7%</b>	<b>(29.2%)</b>
Tax expense (income)	355	680	589	65.8%	(13.4%)
<b>Profit for the year</b>	<b>1,324</b>	<b>3,417</b>	<b>2,312</b>	<b>74.6%</b>	<b>(32.3%)</b>
<b>Profit (loss) to owners</b>	<b>1,204</b>	<b>3,311</b>	<b>2,168</b>	<b>80.1%</b>	<b>(34.5%)</b>
<b>Operation information</b>					
EBITDA	6,622	9,497	8,179	23.5%	(13.9%)
Normalized EBITDA	6,498	8,715	8,131	25.1%	(6.7%)
Normalized Profit (loss)	1,225	2,791	2,274	85.7%	(18.5%)
Normalized Profit (loss) to o	1,104	2,685	2,130	92.9%	(20.7%)
<b>Financial position</b>					
		31 December 2022	31 March 2023		
Total assets		275,984	273,668	(0.8%)	
Total liabilities		211,099	205,123	(2.8%)	
Total equity		64,885	68,545	5.6%	

## The Analysis of Operating Results for the First Quarter of 2023

1. Revenue from sales of goods was THB 56,712 million, an increase of 11.9% from the same period of last year but a decrease of 2.0% from the previous quarter. It can be classified based on types of business as follows:
  - I. Revenue from sales of fashion segment was THB 14,994 million, an increase of 30.4% from the same period of last year (14.8% decrease from the previous quarter) due to the increase in sales in Thailand, especially of branches in tourist provinces, which have substantially grown, compared to the same period last year that was still affected by the Omicron-variant COVID-19 outbreaks. In this quarter, it renovated branches, namely Chidlom, Mega Bangna and Fashion Island. With respect to the Italy segment, there was an increase in sales in line with the higher number of tourists. It benefited from the renovations of Milan and Monza branches, as well as availability of more brands to respond to consumer demands, while the country was locked down last year and the country reopening was recently done in March 2022. Omnichannel sales decreased by 3% compared to last year, as customers returned to shop in physical stores.
  - II. Revenue from sales of hardline segment was THB 18,723 million baht, a 2.9% increase from the same period last year (2.2% increase from the previous quarter) as this quarter achieved growth in sales among both existing and new stores. Branches located in tourism provinces grew stronger. Thai Watsadu launched 4 new branches in Rangsit in Bangkok, Kampangeth, Nakhon Ratchasima and Phuket, For the Omnichannel sales grew by 26% compared to that of last year after Thai Watsadu's application was rolled out in the previous quarter.
  - III. Revenue from sales of food segment was THB 22,995 million, an increase of 9.5% compared to the same period last year (up by 4.7% from the previous quarter). The sales volume increased both in Thailand and Vietnam. For Thailand, sales increased as a result of Tops rebranding to strengthen brand awareness and tourism recovery, hence sales generated in major tourist provinces grew higher. In addition, there were new branches being launched, including a Tops standalone branch in Sathupradit and Tops Food Hall in Thong Lor Bangkok. Sales contributed by Vietnam grew thanks to the domestic celebration of Chinese New Year and positive feedback after the rebranding of Big C to GO! mall and GO! hypermarket in Tan Hiep, Ho Chi Minh City. A new supermarket go! was launched, namely go! Tan Uyen. The sales generated through Omnichannel platforms constantly grew, thus representing an increase of 6% compared to that of last year.
2. Rental Revenue was THB 1,852 million, an increase of 22.5% from the same period last year, owing to the higher number of visitors and the expansion of rental spaces in Thailand and Vietnam.



3. Service Revenue was THB 397 million, an increase of 58.1% from that of the same period last year, as more visitors to food courts, especially those located in the vicinity of office buildings.
4. Gross Profit was recorded at THB 16,386 million, an increase of 24.2% from the same period last year thanks to the followings:
  - Gross profit from sales was THB 14,706 million, an increase of 23.3%. The gross profit margin was 25.9% compared to 23.5% of the previous year (decreased from 27.6% from the previous quarter due to annual rebates from suppliers in the prior quarter). The fashion segment, which has the highest profit margin compared to the others, achieved a considerable increase in sales, both in Thailand and Italy, as higher-margin products were sold. A reason for the latter to note is that customers returned to physical stores. For Thailand, promotional discounts were adjusted to be appropriated. For the headline and food segment, the profit margin was slightly higher as promotional discounts have been appropriately adjusted.
  - Gross profit from rental and services was THB 1,680 million, an increase of 32.4% compared to the same period last year. The gross profit margin was 74.7% compared to 72.0% of the previous year due to the reduction of rental discount rates.
5. Other income was THB 4,176 million, an increase of 10.8% from the same period last year due to higher income from promotions and advertising, as well as transportation and distribution revenues gained from the higher sales.
6. Selling expenses was THB 12,041 million, an increase of 14.1% from the previous year following the increase in sales and due to the expansion of new stores and new store formats. This also resulted in higher expenses in sales staff, utilities, rent, and marketing. The selling expenses accounted for 19.1% of total revenue, an increase from 18.7% from the same period last year.
7. Administrative Expenses was THB 4,958 million, an increase of 19.8% from the previous year. This was mainly due to the increase in personnel expenses and provision expenses for shrinkage and obsolete. The administrative expenses accounted for 7.8% of total revenue, an increase from 7.4% of the same period last year.
8. Finance costs which were interest expenses from loans and lease agreements, was THB 1,031 million, an increase of 33.0% YoY due to an increase in both interest rates and loan amounts.
9. Share of profit of associates and joint ventures was THB 299 million, an increase of 121.5% YoY. This was mainly due to the increase in profits of associates and joint ventures.
10. Tax expense (Income) was THB 589 million, an increase of 65.8% YoY, as the Company generated more profit from its operations.

## Financial Position

1. Total assets as of 31 March 2023 and 31 December 2022 were THB 273,668 million and THB 275,984 million, respectively, which decreased by THB 2,316 million or 0.8%. This was substantially due to the decrease in cash and cash equivalents of THB 1,929 million, other current liabilities of THB 739 million, right-of-use asset of THB 680 million while there was an increase in property, plant and equipment of THB 1,201 million
2. Total liabilities as of 31 March 2023 and 31 December 2022 were THB 205,123 million and THB 211,099 million, respectively, which decreased by THB 5,976 million or 2.8%. This was substantially due to the decrease in borrowings of THB 1,628 million, trade payable of THB 2,481 million and other current payable of THB 2,348 million.
3. Total equity as of 31 March 2023 and 31 December 2022 were THB 68,545 million and THB 64,885 million, respectively, which was an increase of THB 3,660 million or 5.6%. This was substantially due to the increase retained earnings of THB 2,168 million from net profit for the period and other components of equity-mainly from gain on remeasurements of defined benefit plans of THB 1,445 million.

## Capital Structure

As of 31 March 2023, the Company's capital structure comprised of total liabilities of THB 205,123 million, which included interest-bearing debts of THB 79,667 million (excluding lease liabilities), and total shareholders' equity totaled THB 68,545 million. Net interest-bearing debt to equity ratio was at 0.98 times.

## Statement of Cash Flows

For the year ended 31 March 2023, the Company reported the cash flows as follows:

- 1) Cash flows from (used in) operating activities of THB 4,473 million, increased by THB 3,815 million from the same period of last year. This was substantially due to an increase of profit after adjusted to cash of THB 1,880 million and changes in operating assets and liabilities being a cause of cash increased of THB 2,140 million.
- 2) Cash flows from (used in) investing activities was THB (3,448) million, increased by THB 1,029 million from the same period of last year. This was substantially due to the increase of net acquisition of property, plant, equipment, investment property of THB 620 million and net acquisition of other current financial assets of THB 331 million.

- 3) Cash flows from (used in) financing activities of THB (3,223) million, decreased by THB 597 million from the same period of last year. This was substantially due to cash proceeds from MEB's IPO of THB 1,765 million while loans (net) decreased of THB 985 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.

Central Retail is committed to improving the efficiency of operational processes of all departments, ensuring that risk management is in line with the economic conditions and shifting consumer behavior, and that cost and expense management is efficient for robust and sustainable growth. The Company is also determined to direct all businesses toward sustainability (ESG). In this regard, the monetary goals or operational figures specified have been considered by the Company to be feasible, with supporting strategies or operational measures, along with guidelines to achieve such goals, in place.

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