



24 February 2020

No. ZEN 2563-003
Subject Management Discussion and Analysis for the Year ending 31 December 2019
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 year ending 31 December 2019, as follows:

Business Overview

In 2019, the Group's total revenue growth (TSSG) increased by 6.1% compared to the previous year driven mainly by new branch expansion. In total, the Group opened a total of 100 new branches, divided into 71 equity branches owned by the Group and 29 franchise branches both domestic and international. Most new branches were under the new Khiang brand which was launched at the end of 2018. Furthermore, 2 new brands were opened at the end of 2019 to further enhance the variety of restaurants in the Group, these being Foo Flavor and Din’s, both of which received favorable responses from consumers.

However, over the course of 2019, the economic situation and consumer confidence continuously worsened and this negatively impacted the Group. Full year same store sales growth (SSSG) decreased by -4.7%, mainly due to lower sales of the ZEN brand, which contributes approximately 40% of the Group's revenue, being affected by market conditions and increasing competition in the Japanese restaurant industry. Other brands such as AKA and On the Table were meanwhile able to maintain positive SSSG due to the strength of the brands and the popularity of grilled buffet and café-style restaurants.

Although the economic slowdown and severe competition in the restaurant industry resulted in the decrease of same store sales, the Group focused efforts to maintain profitability through effective marketing to boost sales, while increasing efficiency in the management of raw material costs and other expenses. Nonetheless, from the aforementioned factors, in the year 2019, the Group had a net profit from normal operations of 106.2 million baht, a decrease of 34.0 million baht or 24.2% from 2018. However, excluding one-time items such as the reversal of provision for decommissioning costs in 2018 and also the allowance for impairment of assets in 2019, adjusted net profit for 2019 was 113.9 million baht compared to 122.9 million baht in 2018, a decrease of 8.7 million baht or 7.1%.



For 2020, the Group will continue to open new branches in order to reach more consumers, but the expansion will be slower and more conservative to align with various uncertain factors such as the economic environment and consumer demand. Instead, the Group will focus on improving performance of existing branches in terms of sales and efficiency. Growth will come from opening new franchise branches, in particularly the small-size concepts such as brand Khiang. At the branch support and back-office, the Group will put efforts and resources into improving operational efficiency by investing in IT systems.

Performance

New Branch Openings in 2019

Brand	Equity Branch	Franchise Branch (Domestic)	Franchise Branch (International)	Total Branch
ZEN	5	-	-	5
AKA	8	-	2	10
On the Table	5	-	-	5
Musha	2	-	-	2
Tummour	8	9	-	17
Lao Yuan	-	7	-	7
Jaew Hon	-	2	-	2
Khiang	39	9	-	48
Kuaytiew (Pho)	1	-	-	1
Foo Flavor	2	-	-	2
Din's	1	-	-	1
Total	71	27	2	100



Revenues

Revenues	For the Year Ending 31 December				% Change
	2018		2019		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Sales of Food & Beverages	2,852.6	96.2%	3,026.6	96.3%	6.1%
Franchise Fee Income	69.6	2.3%	75.9	2.4%	9.1%
Other Income	42.5	1.4%	41.7	1.3%	-2.0%
Total Revenue	2,964.7	100.0%	3,144.2	100.0%	6.1%

Remark: ⁽¹⁾ Percentage of Total Revenue

For the years ending 31 December 2018 and 2019, the Group's total revenue increased from THB 2,964.7 Mn to THB 3,144.2 Mn respectively, an increase of THB 179.5 Mn or 6.1%. This was mainly due to increased revenue from sales of food and beverages which was the major contributor to the Group's revenue. During the years ending 31 December 2018 and 2019 revenue from sales of food and beverages made up 96.2% and 96.3% of total revenue respectively.

Revenue from Sales of Food and Beverages

Revenues	For the Year Ending 31 December				% Change
	2018		2019		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Restaurant Business	2,672.6	93.7%	2,704.3	89.3%	1.2%
Revenue from Sales of Raw Material	159.4	5.6%	192.4	6.4%	20.9%
Revenue from Food Delivery & Catering	13.5	0.5%	101.6	3.4%	656.3%
Revenue from Retail Merchandise	7.2	0.2%	28.3	0.9%	293.1%
Total Revenue from Sales of Food and Beverages	2,852.6	100.0%	3,026.6	100.0%	6.1%

For the years ending 31 December 2018 and 2019, revenue from sales of food and beverages was THB 2,852.6 Mn and THB 3,026.6 Mn respectively, an increase of THB 174.0 Mn or 6.1%. This was mainly due to (1) the opening of new branches, (2) increased sales of delivery, (3) increased sales of raw material to franchisees and (4) increased sales of retail merchandise. However, during the year, the economic situation and consumer confidence continuously worsened which resulted in the Group's SSSG for year 2019 decreasing by -4.7%.



Item	For the Year Ending 31 December	
	2018	2019
Number of New Equity Branches Opened (Branch)	8	71
Number of Equity Branches at Period End (Branch)	110	174
Number of New Franchise Branches Opened (Branch)	34	29
Number of Franchise Branches at Period End (Branch)	145	171
Same Store Sales Growth: SSSG (%) ⁽¹⁾	4.7%	-4.7%

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

For the years ending 31 December 2018 and 2019, franchise fee income increased from THB 69.6 Mn to THB 75.9 Mn respectively, an increase of THB 6.3 Mn or 9.1%. This increase was mainly due to an increased number of franchise branches.

However, for the years ending 31 December 2018 and 2019, the Group's other income decreased from THB 42.5 Mn to THB 41.7 Mn respectively, a decrease of THB 0.8 Mn or 2.0%. This decrease was mainly due the Group recognizing THB 17.3 Mn other income in the 2nd quarter of 2018 from the reversal of the provision for decommissioning costs. However, excluding this 1-time item, the Group's other income increased from THB 25.2 Mn to 41.7 THB Mn, an increase of THB 16.5 Mn or 65.5%. due to (1) higher membership fee income (2) higher construction and set up income from opening new franchise branches and (3) higher interest income.

Costs of Sales of Food and Beverages

Item	For the Year Ending 31 December				% Change
	2018		2019		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Sales of Food & Beverages	2,852.6	97.6%	3,026.6	97.6%	6.1%
Franchise Fee Income	69.6	2.4%	75.9	2.4%	9.1%
Revenue from Main Businesses	2,922.1	100.0%	3,102.5	100.0%	6.2%
Costs of Sales of Food & Beverages ⁽²⁾	1,519.8	52.0%	1,621.3	52.3%	6.7%
Gross Profit	1,402.4	48.0%	1,481.2	47.7%	5.6%

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

⁽²⁾ 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.

For the years ending 31 December 2018 and 2019, the total costs of sales of food and beverages increased from THB 1,519.8 Mn to THB 1,621.3 Mn respectively, an increase of THB 101.5 Mn or 6.7% which was mainly due to the increased revenue from opening new branches during the year.



Meanwhile, the gross profit increased from THB 1,402.4 Mn to THB 1,481.2 Mn respectively, an increase of THB 78.8 Mn or 5.6%. The gross profit margin decreased from 48.0% in 2018 to 47.7% in 2019 due to (1) the cost of food and beverages of new brands, in particular Khiang, requiring promotional discounts to increase traffic and create brand awareness during the initial opening period of new branches. However, the cost of food and beverages for core brands was well-controlled and even decreased from the previous year.

Selling and Distribution Expenses ⁽¹⁾

For the years ending 31 December 2018 and 2019, selling and distribution expenses increased from THB 799.1 Mn to THB 901.9 Mn respectively, an increase of THB 102.8 Mn or 12.9%. The Group focused on more efficient marketing by switching towards more cost-effective marketing channels; the main factors for the increase were (1) higher staff, rental, utilities and depreciation expenses from opening new branches and (2) higher marketing support and commission expenses paid to delivery operators (Grab, Lineman, Food Panda and Get) which were related to the increased delivery sales. As a percent of total revenue, selling and distribution expenses increased from 27.0% in 2018 to 28.7% in 2019.

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

For the years ending 31 December 2018 and 2019, administration costs increased from THB 448.6 Mn to THB 489.7 Mn respectively, an increase of THB 41.1 Mn or 9.2%. This increase was mainly due to (1) increased staff to support the branch expansion for the restaurants which the company owns itself as well as franchise restaurants, (2) higher rental expense due to the head office moving to a new location where all subsidiary companies are located together for more efficient management and (3) the allowance for impairment of assets. As a percent of total revenue, administrative expenses increased from 15.1% in 2018 to 15.6% in 2019.

Finance Expenses

For the years ending 31 December 2018 and 2019, finance expenses decreased from THB 24.6 Mn to THB 3.7 Mn respectively, a decrease of THB 20.9 Mn or 85.0%. This was due to the repayment of loans from commercial banks following the initial public offering.

Tax Expenses

For the years ending 31 December 2018 and 2019, income tax expense decreased from THB 32.3 Mn to THB 21.3 Mn, a decrease of THB 11.0 Mn or 34.1%.



Net Profit and Net Profit Margin

Net Profit	For the Year Ending 31 December		% Change
	2018	2019	
Net Profit (THB Mn) (as per financial statement)	140.2	106.2	-24.2%
Net Profit Margin (%)	4.7%	3.4%	-1.3%
Exclusion of 1-Time Items (THB Mn)			
Reversal of Provision for Decommissioning Costs	-17.3	-0.7	-96.0%
Allowance for Impairment of Assets	-	8.7	-
Net Profit Excluding 1-Time Items (THB Mn)	122.9	114.2	-7.1%
Net Profit Margin Excluding 1-Time Items (%)	4.1%	3.6%	-0.5%

For the years ending 31 December 2018 and 2019, the net profit decreased from THB 140.2 Mn to THB 106.2 Mn respectively, a decrease of THB 34.0 Mn or 24.2% and the net profit margin decreased from 4.7% to 3.4%. The main reason was the negative same store sales growth. However, excluding the 1-time income from the reversal of the provision for decommissioning costs in the 2nd quarter of 2018 amount of THB 17.3 Mn and the provision for loss on termination of branches in the 4th quarter of 2019, the Group's net profit decreased from THB 122.9 Mn to THB 114.2 Mn, a decrease of THB 8.7 Mn or 7.1% and the net profit margin decreased from 4.1% to 3.6%.

Financial Position Analysis

Assets

As of 31 December 2018, and 31 December 2019, the Group had total assets of THB 1,564.0 Mn and THB 2,044.1 Mn respectively, an increase of THB 480.1 Mn or 30.7%. The assets increased mainly from (1) an increase in cash and cash equivalents remaining from the proceeds of initial public offering after deducting the repayment of loans from commercial banks, (2) an increase of property plants and equipment which was related to the branch expansion and (3) an increase in trade and other current receivables related to franchise branch construction work and marketing partnerships with banks, telephone network operators and food delivery aggregators.

Liabilities

As of 31 December 2018, and 31 December 2019, the Group had total liabilities of THB 1,095.4 Mn and THB 610.0 Mn respectively, a decrease of THB 485.3 Mn or 44.3%. The main factor in the decrease was repayment of loans from financial institutions.



Shareholder Equity

As of 31 December 2018, and 31 December 2019, the Group had shareholders' equity of THB 468.6 Mn and THB 1,434.1 Mn respectively, an increase of THB 965.5 Mn. This increase in shareholders' equity was mainly derived from the share premium relating to the initial public offering of THB 960.0 Mn. Other major changes in the shareholders' equity during the period were (1) increased paid-up capital from THB 225.0 Mn to THB 300.0 in preparation for the initial public offering (2) payment of shareholder dividend of THB 101.3 Mn and (3) net profit of the company during the period of THB 106.2 Mn.

Cash Flow Analysis

Type of Cash Flow	For the Year Ending 31 December	
	2018	2019
	THB Mn	THB Mn
Net Cash from (used in) Operating Activities	264.7	302.1
Net Cash from (used in) Investing Activities	(121.2)	(296.9)
Net Cash from (used in) Financing Activities	(134.5)	215.5
Increase (Decrease) in Net Cash and Cash Equivalents	8.9	220.7

Overall the company had an increase in net cash and cash equivalents during the year ending 31 December 2019 of THB 220.7 Mn.

Net Cash from Operating Activities

The cash flow from operating activities was THB 302.1 Mn in the year ending 31 December 2019, an increase of THB 37.3 Mn compared to the same period in 2018. Net profit decreased by THB 34.0 Mn but this was offset mainly by an increase in working capital due to (1) accrued expenses which increased by THB 39.3 Mn in 2019 compared to a decrease of THB 4.8 Mn in 2018 (change of THB +44.1 Mn) and (2) unearned income increased by THB 17.0 Mn in 2019 compared to no change in 2018.

Net Cash from Investments

The cash flows from investments decreased from THB -121.2 Mn in the year ending 31 December 2018 to THB -296.9 Mn in the same period of 2019, a decrease of THB -175.6 Mn. This was mainly due to higher purchase of fixed assets in 2019 compared to 2018 which was due to the opening of more new branches in 2019 compared to the previous year.

Net Cash from Financing Activities

The cash flows from financing activities increased from THB -134.5 Mn in 2018 to THB 215.5 Mn in 2019, an increase of THB 350.0 Mn. This was mainly due to (1) cash received from shareholders for share capital THB 975.0 Mn and (2) net repayment of short-term borrowings from financial institutions of THB 630.0 Mn.



Liquidity and Capital Structure

As of 31 December 2019, the Group had a current ratio of 1.24, increased from 0.32 at end of 2018. This improvement was mainly due to a repayment of all short-term borrowing from financial institutions.

The debt-to-equity ratio reduced to 0.43 at 31 December 2019 compared to 2.34 at the end of 2018. This improvement was mainly due to (1) the repayment of all short-term borrowings from financial institutions and (2) increased shareholder equity derived from the initial public offering.

Please be informed accordingly,

Yours sincerely,

(Mrs. Yupaphan Ekasittikul)
Chief Financial Officer