



28 April 2020

At: ACC/HO 011/63

Re: Management Discussion and Analysis for the Quarter of 1/2020

To: President

The Stock Exchange of Thailand

Following the Coronavirus 2019 (COVID-19) pandemic and the countermeasures taken by the government to control social gathering activities, including travel restrictions and the closure of venues considered high-risk areas, the Thai economy in 2020 is expected to severely contract during the outbreak. The export sector has been impacted by declining demand from trading partners and supply chain disruption, while the tourism sector has been impaired by travel restrictions which affect the number of both Thai and foreign tourists. At the same time private consumption is in a declining trend due to the freeze in economic activity, while the purchasing power of those consumers relying on agricultural income have been affected by the drought and low commodity prices. However, the impact on private consumption is expected to be eased to some extent by several relief measures being rolled out by the government.

Since the beginning of the outbreak, the Company has committed to support and operate in compliance with the government's measures and orders intended to limit the spread of COVID-19. The health and safety of our staff and customers remains our top priority. Our teams constantly evaluate the situation and use appropriate protocols to serve customers' needs, especially for: essential products for repair and maintenance; emergency home services; products related to cleaning, hygiene and health care; items supporting working from home, as well as kitchen and home appliances. Meanwhile, the Company has taken immediate and significant measures to control our costs and protect our financial position, which has subsequently minimized the impact of COVID-19 on our financial statements, financial liquidity, and debt.

Risk management

During the early stages of the outbreak of COVID 19, the Company formed a central committee to monitor and manage risks, as well as establishing working committees for all subsidiaries. These committees closely monitor and evaluate the impact on all aspects of business, as well as ensuring that our operations comply with health and safety protocols, which are regularly updated.

We had also enhanced our IT systems and management to enable us to meet the demand for products and services through online platforms.

From the start of the outbreak, the company has taken measures to protect its staff and customers, as well as closely monitor and evaluate the situation in order to limit the impact of COVID-19 on profitability and to preserve our financial flexibility.

Associate and Customer Care

The Company had implemented a series of actions to protect the health and safety of our associates, including the following: restricting travel and face-to-face meetings; arranging and facilitating flexible working time; social distancing practice both at stores and at head office; working from home; setting up alcohol-based hand sanitizing stations; installing thermal scanners at selected screening points for associates, customers and guests; reducing personal contact in office and store areas, as well as encouraging associates, customers, and guests to follow specific health protection protocols. In addition, the Company has drawn up a Business Continuity Plan to ensure that we are able to deliver products and service to serve customers' need regardless of the restrictions.

Supply Chain Management and Availability

HomePro has an approximately 10% sales-mix of products sourced from abroad; specifically, 6-8% is sourced from China. Since we had planned for products to be shipped from China prior to the Chinese New Year as normal, the availability of these products has only been slightly affected by the COVID-19 situation. Moreover, most of our vendors' factories have already resumed their operations, so the overall risk to product availability is currently considered to be manageable.

Sales, Demand, and Temporary Store Closures

We have focused on ensuring continuity and efficiency in serving our customers' needs, while also protecting the health and security of employees and customers. The closures of our stores are in line with government orders as follows:

- **Thailand:** Following the government's order of a temporary business shutdown to limit the spread of COVID-19, applying from 22nd March 2020 until present, we have closed down 66 stores of HomePro and 7 stores of Mega Home. The HomePro Expo which was scheduled in March has also been postponed.
- **Malaysia:** All 6 stores of HomePro in Malaysia have been closed down since 18th March 2020, in accordance with an order from the Government of Malaysia. The restriction period will end on 28th April 2020, if no extension is announced.

Nonetheless, the Company is putting measures in place to ensure we continue to serve customers' demand through online channels and call centers. Marketing and promotional activities have become more focused on e-commerce websites and social media platforms, while the infrastructure systems and the capacity of supporting services have been enhanced to facilitate a more convenient shopping experience for customers; these include Shop4You, Click & Collect, and Same-day and Next-day Delivery.

For our Shop4You and Click & Collect services, as well as the operations at stores remaining open, we are strictly following safety measures, such as: restricting the number of people in store at any one time; regular cleaning and disinfecting, especially at the checkouts areas; setting up self-checkout lanes to avoid the contact; enforcing social distancing rules; reducing store opening hours along with the government's curfew order.

Results, Financial Planning, and Liquidity Management

Regarding liquidity management, the Company has available credit facilities provided by major banks along with Bill of Exchange facilities. In addition, the Company has drawn down Revolving Credit Facilities (RCF) in order to sustain non-disruptive liquidity during the store closure period; these are for renewable periods of one, two, three, or six months, or any other agreed period up to the expiry date of the agreement. The Company confirms that it has capacity in relation to its interest cover covenant and that it complies with key terms on its Credit Facilities Agreement regarding the Interest bearing debt to Equity ratio.

The Company continued to focus on enhancing operational efficiency and capabilities, and on improving gross margin rates through the selection and development of products to meet with customers' expectations. However, under the current situation, and without a clear signal from the Government with regards to the easing of the restriction period, the Company has not yet been able to provide guidance for our 2020 full year results.

The Company has modelled the impact of downside scenarios for the business at various severity levels, and implemented measures to maintain profitability; namely controlling operational costs such as marketing expenses, utility expenses, over-time compensation, associate's commission and outsourced labor cost. The optimization of stock management and the delaying of all but essential capital expenditure, as well as concise management of cash flow, working capital, and financial liquidity has resulted in achieving the targeted gross profit margin.

Regarding branch expansion in the first quarter, the company did not open any new stores. As of the first quarter of 2020, the Company has 84 HomePro stores, 9 HomePro S stores, 14 Mega Home stores and 6 HomePro stores in Malaysia.

Starting 1 January 2020 onward, the Company has adopted TFRS 16 Leases, using the modified retrospective method of adoption under which the cumulative effect is recognized as an adjustment to the retained earnings as at 1 January 2020, and the comparative information was not restated. The impact to Financial statements of such adoption was presented in the Notes to consolidated financial statements No 2.

The Company and its subsidiaries had total revenue and profit of baht 15,333.29 million and baht 1,266.52 million respectively, a decrease of 7.37% and 10.80% from the previous year. The sales were impacted by several economic factors as well as the enforcement of the business shutdown order. As a result, the sales growth in this quarter did not meet the target.

The financial results of the Company and its subsidiaries for the three-month period ended March 31st, 2020 which has been audited by auditor are as follows:

Table 1: Financial Summary for the three-month period of the year 2020 and 2019

Unit: Million Baht

	Q1'2020	Q1'2019	Increase (Decrease)	% Change
Revenue from contracts with customers	14,545.59	15,496.89	(951.31)	(6.14%)
Rental income	382.00	560.82	(178.82)	(31.89%)
Other income	405.71	495.30	(89.60)	(18.09%)
Total revenues	15,333.29	16,553.01	(1,219.72)	(7.37%)
Cost of sales and service	10,806.38	11,627.20	(820.83)	(7.06%)
Gross profit	3,739.21	3,869.69	(130.48)	(3.37%)
Cost of rental	150.00	159.63	(9.63)	(6.04%)
Selling and administrative expenses	2,709.73	2,908.29	(198.56)	(6.83%)
Profit before finance cost and income tax expenses	1,667.19	1,857.88	(190.70)	(10.26%)
Finance cost	115.06	107.83	7.23	6.70%
Income tax expenses	285.60	330.21	(44.61)	(13.51%)
Profit for the period	1,266.52	1,419.84	(153.32)	(10.80%)

The Company's net profit for the first quarter of year 2020 was Baht 1,266.52 million representing a decrease of Baht 153.32 million or down by 10.80% over the same period last year. The main reasons include:

- Total revenues were Baht 15,333.29 million, a decrease of Baht 1,219.72 million or down by 7.37%, comprising of the following:
 - Revenue from contracts with customers which comprised of sales revenue and service income (Home Service) was Baht 14,545.59 million, a decrease of Baht 951.31 million or down by 6.14%, from a decline in same store sales growth of HomePro, Mega Home, and HomePro in Malaysia which were affected by store closures in Thailand since 22 March 2020 and in Malaysia since 18 March 2020 due to the Coronavirus 2019 (COVID-19) pandemic. However, there was still an increase in service income under "Home Service".
 - Rental and service income amounted to Baht 382.00 million, a decrease of Baht 178.82 million or down by 31.89%, resulted from the closure of stores and Market Village, during which the Company considered lowering the rent for tenants, and the cancellation of HomePro Expo event in the first quarter.

- Other income was Baht 405.71 million, a decrease of Baht 89.60 million or down by 18.09% in relation to the declining of sales income along with the absence of promotional activities with vendors both in stores and for HomePro Expo event.
- 2. Gross profit from product sales and service income (Home Service) was Baht 3,739.21 million, a decrease of Baht 130.48 million or down by 3.37% from the same period last year. Despite the increasing transportation costs, the gross profit margin as a percentage of sales has increased from 24.97% in the previous year to 25.71% due to change in product sales mix of general merchandise and the enhancement of directly sourced private-label goods, as well as the continuous efficiency improvement in product purchase planning of HomePro, Mega Home, HomePro in Malaysia, and the cancellation of HomePro Expo event.
- 3. Cost of rental and service was Baht 150.00 million, a decrease of Baht 9.63 million or down by 6.04% due to the lower depreciation expense, which included the impact of adopting the Financial Reporting Standard No.16, as well as the lower utility costs of space rental businesses which were closed down in compliance with government's order.
- 4. Selling and administrative expenses (SG&A) amounted to Baht 2,709.73 million, a decrease of Baht 198.56 million or down by 6.83% as compared with the same period of previous year. The major factors were the cancellation of HomePro Expo event, the contribution costs such as credit card fee, marketing expense, and variable rental expenses, as well as the fixed rental expenses which were reclassified to Finance cost in accordance with the Financial Reporting Standard No.16: Leases. This resulted in the decrease of SG&A as a percentage of sales from 18.77% in the previous year to 18.63%.
- 5. Finance cost was Baht 115.06 million, an increase of Baht 7.23 million or up by 6.70%, due to the impact of adopting the Financial Reporting Standard No.16: Leases, whereas the interest expense has decreased from the bond repayment in the fourth quarter of 2019.
- 6. Income tax expenses were Bath 285.60 million, a decrease of Baht 44.61 million or down by 13.51% as compared to the previous year. This was due to the lower earnings before tax.

Please be informed accordingly.

Sincerely yours,

(Ms.Wanee Juntamongkol)

Senior Vice President – Accounting and Finance