



29 July 2020

At: ACC/HO 014/63

Re: Management Discussion and Analysis for the Quarter of 2/2020

To: President
The Stock Exchange of Thailand

The Coronavirus 2019 (COVID-19) pandemic has had a significant impact on economic activity in the second quarter of 2020. As the outbreak has intensified the government has been implementing stricter measures to tighten control over the pandemic, causing severe disruption to the economy. Businesses and employment were affected by the lockdown measures while consumer purchasing power continued to decline due to the high level of household debt. However, the government has introduced relief measures to boost the economy and increase liquidity to alleviate the impact of COVID-19 on citizens and businesses. In response to the crisis, the government has introduced cash support and several kinds of loan package, reduced electricity and water tariffs, and put in place a debt moratorium for citizens and businesses.

The Cabinet of Ministers issued an emergency decree, imposing a lockdown order from March 22, and closing certain business and venues with a high risk of Covid19 transmission. The Company placed great importance on complying stringently and promptly with the government's measures. The health and safety of our customers and associates remains our top priority. We rapidly transformed and adapted to the change in consumer behavior by utilizing the Company's existing online channels to continue to operate, although this was not sufficient to compensate for the losses resulting from the closure of stores. However, consumer demand for our products has continued, especially for essential products for repair and maintenance, emergency home services, products related to cleaning, hygiene and healthcare, items supporting working from home, kitchen appliances, and home appliances. Therefore, the Company has allocated resources and services to facilitate and support consumer's needs and provide products promptly amid the uncertainty and constrained situation.

Financially, the Company has been able to maintain financial liquidity, so there is no significant impact of COVID-19 on debt obligations. Meanwhile, the Company has taken stringent measures to manage and control its costs in order to maintain liquidity and financial flexibility. The Company remains cautious on investment, while seeking various sources of working capital, along with effective control and management of inventory.

Impact of COVID-19

- **Consumer Behavior:** The COVID-19 pandemic has caused consumers to adapt their lifestyle to the prevailing situation that has emerged recently (New Normal), and to protect themselves from the pandemic. Consumers are spending more time at home, resulting in higher demand for renovations to effectively utilize their space for working, learning, and carrying out their daily routines at home.

Also, many restaurants have closed due to the COVID-19 crisis, prompting more people to cook at home. As consumer behavior changes and people spend more time at home, new activities have emerged such as home decoration, gardening, and activities relating to home entertainment. These changes have led to an increase in sales of related products such as household accessories, home and kitchen appliances, audio visual, kitchen wares, home decoration items and tiles.

- **Number of store closure in quarter 2:** Following the government's order to close business venues and announce a curfew, this led the Company to temporarily close the majority of HomePro and Mega Home stores, as well as reducing operating hours for the remainder. These measures lasted for 46 days in the second quarter, starting from 1st April to 16th May 2020. The details are as follows:

- **April:** In total, some 69 HomePro stores and 8 Mega Home stores were temporarily closed (as well as 6 HomePro stores in Malaysia). Nonetheless, the Company put measures in place to ensure we continued to serve customers' demand through online channels and call centers. These included SHOP4YOU, Click & Collect, and Same-day and Next-day Delivery. In addition, the Company rolled out marketing and promotional activities through e-commerce websites and social media platforms such as Facebook Live and Line Application to facilitate a more convenient shopping experience for customers, while at the same time enhancing the infrastructure systems and the capacity of supporting services. Nevertheless, although online sales surged significantly, these could not compensate for the loss of sales resulting from store closures.

- **May:** During the first 16 days of May the number of HomePro stores closed was reduced from 69 to 42, while the number of Mega Home stores closed was reduced from 6 to 4; all 6 HomePro stores in Malaysia were reopened on May 1 with reduced operating hours and restricted working days. From the 17th of May every store in Thailand was reopened, although with limited operating hours, in accordance with the second phase of the easing lockdown measures carried out by the Covid-19 Situation Administration. Sales grew tremendously following the reopening of all remaining stores in the second half of May, particularly during the first few days after the easing of lockdown measures; these sales derived mainly from those product categories that have lower propensity to be purchased online, due to the need for advice or visualization, leading to pent up demand. Overall, sales in May improved compared to April due to the resuming of business.

- **June:** The Company had positive growth in same store sales resulting from the change in consumer behavior due to the COVID-19 pandemic, and from pent up demand accumulated from May.

Managing the impact of the COVID-19

The Company has formed a central committee as well as subsidiary committees for all business units to monitor and manage risks. These committees closely monitor and evaluate the impact on all aspects of business including sales, expense, and liquidity, as well as ensuring that our operations comply with health and safety protocols. As for the measures taken to prevent the spread of COVID-19, the Company strictly adheres to and complies with the guideline specified by the Center for COVID-19 Situation Administration (CCSA).

- **Customers:** The Company has set up registration and temperature checkpoints for customers before entering the store, as well as providing hand sanitizer. The Company also limits the number of customers allowed into stores at any one time and has arranged waiting areas and priority lanes for the elderly, the disabled and pregnant women. Customers are required to maintain a 1-meter physical distance from each other. In addition, the Company thoroughly cleans and disinfects all touchpoints every hour and encourages cashless payment via Internet banking or QR Payment, as well as self-checkout. All associates wear a face mask and face shield at all times during operating hours.

- **Associates:** The Company takes great concern for associates' safety and has implemented a series of actions to reduce transmission, including the following: arranging for associates to work at home where possible; working alternate days and shifts; allocation of flexible working hours. The Company also provides the necessary tools and equipment for all associates for disease prevention. Moreover, the Company has put in place travel and meeting restrictions in compliance with social distancing practice both at stores and head office.
- **The stores that were temporarily closed:** The Company launched a service called SHOP4YOU that enables communication between associates and customers via Line Application, separate from the call center and tele-sales, to enable customers to contact associate, view products, send details of payment, and set up a delivery schedule. Customers can choose same day or next day delivery, as well as click-and-collect.
- **Online Selling Platform:** With the Omni Channel Platform, stores provide support for online orders to enable capacity expansion for click-and-collect, same day, or next day delivery. The Company has rapidly reshaped and reallocated the resources to facilitate its operations to meet a material increase in online transactions.

Operating Results, Financial Planning, and Liquidity Management

For the operating results constrained by the COVID-19 situation, the Company and its subsidiaries net profit for the first half stood at 29,702.60 million Baht and 2,209.20 million Baht, reduced by 11.46% and 25.02% respectively from same period last year. Sales have been severely impacted by the government's order closing business venues during this quarter, despite having seen a substantial growth in online sales. Furthermore, rental income has been impacted negatively as the Company exempted rental fees to tenants affected by the closures imposed by the government; although tenants' business operations have now resumed, rental income is still affected by low-traffic from customers. In addition, the gross profit margin was lower than the previous year due to a higher sales mix of lower gross margin products sold through online channels.

The Company has implemented measures to control its operational costs such as overtime compensation, associate's sales incentive, outsourced labor costs, utility expenses, rental expenses, and marketing expenses. The Company has taken significant and effective actions to optimize its cash flows and liquidity, with the impact assessed under various potential sales reduction scenarios. The Company expanded a short-term credit line and a short-term loan was drawn down during the first quarter to meet payment obligations. In the second quarter, a part of both short-term and long-term debts were paid down.

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

The financial results of the Company and its subsidiaries for the three-month and six-month periods ended as of 30 June 2020 which has been reviewed by auditor are as follows:

Table 1: Financial Summary for the 2nd Quarter of the year 2020 and 2019

Unit: Million Baht

	Q2'2020	Q2'2019	Increase (Decrease)	% Change
Revenue from contracts with customers	13,824.17	16,545.30	(2,721.14)	(16.45%)
Rental income	212.73	508.79	(296.06)	(58.19%)
Other income	352.99	511.32	(158.33)	(30.96%)
Total revenues	14,389.88	17,565.41	(3,175.53)	(18.08%)
Cost of sales and service	10,536.58	12,413.85	(1,877.27)	(15.12%)
Gross profit	3,287.59	4,131.45	(843.86)	(20.43%)
Cost of rental	119.30	165.38	(46.08)	(27.86%)
Selling and administrative expenses	2,461.78	3,001.23	(539.46)	(17.97%)
Profit before finance cost and income tax expenses	1,272.23	1,984.95	(712.72)	(35.91%)
Finance cost	125.99	107.93	18.07	16.74%
Income tax expenses	203.56	350.40	(146.84)	(41.91%)
Profit for the period	942.68	1,526.63	(583.95)	(38.25%)

The Company's net profit for the second quarter of year 2020 was Baht 942.68 million representing a decrease of Baht 583.95 million or down by 38.25% over the same period last year. The main reasons include:

- Total revenues were Baht 14,389.88 million, a decrease of Baht 3,175.53 million or down by 18.08%, comprising of the following:
 - Revenue from contracts with customers which comprised of product sales revenue and service income (Home Service) was Baht 13,824.17 million, representing a decrease of Baht 2,721.14 million or down by 16.45% due to the temporary closure of stores in both Thailand and Malaysia. HomePro stores in Thailand were temporarily closed since 22nd March 2020. Although the stores were reopened after 17th May 2020, the operating hours was limited. For HomePro stores in Malaysia, the stores were closed since 18th March 2020 and reopened on 4th May. Another reason for a decrease in revenue was due to the cancellation of HomePro Expo event in the first quarter of 2020 which typically some portion of unshipped sales amount from HomePro Expo in the first quarter should have been subsequently recognized in the second quarter. Even though online sales surged significantly in the second quarter, it could not compensate for the loss of sales resulting from the store closures.

- Rental and service income amounted to Baht 212.73 million, a decrease of Baht 296.06 million or down by 58.19%, resulted from the closure of leasable space in HomePro and Market Village, during which the Company has lowered or suspended the rent for tenants.
 - Other income was Baht 352.99 million, a decrease of Baht 158.33 million or down by 30.96% in relation to the lower-level of promotional activities with vendors in stores and lower interest income.
2. Gross profit from product sales and service income (Home Service) was Baht 3,287.59 million, a decrease of Baht 843.86 million or down by 20.43% as compared with the same period last year. The gross profit margin as a percentage of sales has decreased from 24.97% in the same period last year to 23.78%. This resulted from an increase of sales mix from the products that have lower gross profit margin than the average such as home appliances and cooling items. Especially during the store closure in the second quarter, those product's sales mix has increased in both online channel and physical stores. Despite the increase in sales mix of the directly sourced private-label goods and gross profit margin of Mega Home as compared with the previous year, it could not compensate for the lower rate of gross profit margin resulting from the higher sales mix of low gross margin products in HomePro business.
 3. Cost of rental and service was Baht 119.30 million, a decrease of Baht 46.08 million or down by 27.86% as a result of lower utility costs, depreciation expense, maintenance cost, and outsourced labor cost of space rental business.
 4. Selling and administrative expenses (SG&A) amounted to Baht 2,461.78 million, a decrease of Baht 539.46 million or down by 17.97% as compared with the same period last year. The SG&A as a percentage of sales was reduced from 18.14% in the previous year to 17.81%. This resulted from the lower both in variable and fixed expense. The variable expenses which those expenses are adjusted downwards based on sales amount, comprised of over-time compensation, associate's sales incentive, credit card fee, variable rental expenses, and marketing expense. The fixed expenses consisted of utility expense, maintenance cost and outsourced labor cost, which was reduced following to the number of stores-closing days and a stringent control of cost whereas the depreciation expense has increased due to the adjustments in compliance with the Financial Reporting Standard No.16:Leases.
 5. Finance cost was Baht 125.99 million, net increase of Baht 18.07 million or up by 16.74%, 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 and second quarter of 2020.

6. Income tax expenses were Baht 203.56 million, a decrease of Baht 146.84 million or down by 41.91% as compared to the previous year. This was due to the lower earnings before tax.

Table 2: Financial Summary for the 1st half of the year 2020 and 2019

Unit: Million Baht

	H1'2020	H1'2019	Increase (Decrease)	% Change
Revenue from contracts with customers	28,369.75	32,042.19	(3,672.44)	(11.46%)
Rental income	594.73	1,069.61	(474.88)	(44.40%)
Other income	756.13	1,006.62	(250.50)	(24.88%)
Total revenues	29,720.60	34,118.42	(4,397.82)	(12.89%)
Cost of sales and service	21,342.96	24,041.06	(2,698.10)	(11.22%)
Gross profit	7,026.80	8,001.14	(974.34)	(12.18%)
Cost of rental	269.29	325.01	(55.71)	(17.14%)
Selling and administrative expenses	5,168.94	5,909.52	(740.59)	(12.53%)
Profit before finance cost and income tax expenses	2,939.42	3,842.84	(903.42)	(23.51%)
Finance cost	241.06	215.76	25.30	11.72%
Income tax expenses	489.16	680.61	(191.45)	(28.13%)
Profit for the period	2,209.20	2,946.47	(737.27)	(25.02%)

The Company's net profit for the first half of year 2020 was Baht 2,209.20 million representing a decrease of Baht 737.27 million or down by 25.02% over the same period last year. The main reasons include:

- Total revenues were Baht 29,720.66 million, a decrease of Baht 4,397.82 million or down by 12.89%, comprising of the following:
 - Revenue from contracts with customers which comprised of product sales revenue and service income (Home Service) was Baht 28,369.75 million, representing a decrease of Baht 3,672.44 million or down by 11.46% due to the temporary closure of stores in both Thailand and Malaysia. HomePro stores in Thailand were temporarily closed since 22nd March 2020. Although the stores were reopened after 17th May 2020, the operating hours was limited. For HomePro stores in Malaysia, the stores were closed since 18th March 2020 and reopened on 4th May. Another reason for a decrease in revenue was due to the cancellation of HomePro Expo event in the first quarter of 2020. Even though online sales surged significantly in the first half of the year, it could not compensate for the loss of sales resulting from the store closures.

- Rental and service income amounted to Baht 594.73 million, a decrease of Baht 474.88 million or down by 44.4%, resulted from the closure of leasable space in HomePro and Market Village, during which the Company has lowered or suspended the rent for tenants, and the cancellation of HomePro Expo event in the first quarter of 2020.
 - Other income was Baht 756.13 million, a decrease of Baht 250.5 million or down by 24.88% in relation to the lower-level of promotional activities with vendors both in stores and for HomePro Expo event. In addition, other income has declined due to lower interest income.
2. Gross profit from product sales and service income (Home Service) was Baht 7,026.80 million, a decrease of Baht 974.34 million or down by 12.18% as compared with the same period last year. The gross profit margin as a percentage of sales has decreased from 24.97% in the same period last year to 24.77%. This resulted from an increase of sales mix from the products that have lower gross profit margin than the average such as home appliances and cooling items. Especially during the store closure in the second quarter, those product's sales mix has increased in both online channel and physical stores. Despite the increase in sales mix of the directly sourced private-label goods and gross profit margin of Mega Home as compared with the previous year, it could not compensate for the lower rate of gross profit margin resulting from the higher sales mix of low gross margin products in HomePro business.
 3. Cost of rental and service was Baht 269.29 million, a decrease of Baht 55.71 million or down by 17.14% as a result of lower utility costs, depreciation expense, maintenance cost, and outsourced labor cost of space rental business.
 4. Selling and administrative expenses (SG&A) amounted to Baht 5,168.94 million, a decrease of Baht 740.59 million or down by 12.53% as compared with the same period last year. The SG&A as a percentage of sales was reduced from 18.44% in the previous year to 18.22%. This resulted from the cancellation of HomePro Expo event together with of the lower both in variable and fixed expense. The variable expenses which those expenses are adjusted downwards based on sales amount, comprised of over-time compensation, associate's sales incentive, credit card fee, variable rental expenses, and marketing expense. The fixed expenses consisted of utility expense, maintenance cost and outsourced labor cost, which was reduced following to the number of stores-closing days and a stringent control of cost whereas the depreciation expense has increased due to the adjustments in compliance with the Financial Reporting Standard No.16:Leases.
 5. Finance cost was Baht 241.06 million, net increase of Baht 25.3 million or up by 11.72%, 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 and second quarter of 2020.

6. Income tax expenses were Bath 489.16 million, a decrease of Baht 191.45 million or down by 28.13% as compared to the previous year. This was due to the lower earnings before tax.

Please be informed accordingly.

Sincerely yours,

(Ms.Wanee Juntamongkol)

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