



27 October 2020

At: ACC/HO 019/63

Re: Management Discussion and Analysis for the Quarter of 3/2020

To: President

The Stock Exchange of Thailand

During the third quarter of 2020 the Coronavirus 2019 (COVID-19) situation has improved domestically, following a significant reduction in the number of local infections. However, the continued high rate of overseas infections, combined with Government fears of a possible recurrence of the outbreak in Thailand, have led to severe restrictions on inbound and outbound travel. This has resulted in a massive contraction of the tourism industry, as well as the shrinking of the export sector due to lower demand from overseas trading partners. In addition, this has negatively impacted local economic activity, particularly consumption and investment in the private sector, with manufacturing and industrial sectors suffering a sharp contraction. In order to mitigate the economic impact, the Government and other institutions have introduced relief measures to help stimulate expenditure, including: Let's Travel Together; credit limits increase; debt moratorium and measures for social-welfare card holders etc. Although these measures have now been implemented, consumer purchasing power has still not recovered. This is reflected in the consumer confidence index which remains at very low levels, with consumers remaining concerned over high levels of household debt and their future employment prospects. These factors are causing customers to be cautious and delay spending related to home decoration or renovation.

During the first nine months, the Company's total revenues and net profit were Baht 45,740.09 million and Baht 3,609.72 million, down by 9.41% and 18.49% respectively. The declining of operating result over last year mainly due to the store closure in both Thailand and Malaysia in the second quarter. In addition, the third quarter is typically considered as the low season for retail businesses as it coincides with the rainy season.

The Company's gross margin continues to be adversely affected by the change in sales mix towards lower gross profit margin products of home appliances such as air conditioners, refrigerators, washing machines and kitchen appliances etc.

In order to maintain overall financial results, the Company has initiated strategies focused on improvements in operational efficiency and expense control, such as adapting to the 'new normal' of customer behavior, and an improvement in the Omni Channel system; this is in parallel with the implementation of health care and safety protocols for both associates and customers, which has seen online sales continue to grow significantly this quarter.

Also, the Company has undertaken various promotional activities to encourage customers' spending, such as organizing the 31st HomePro Expo in July, the 24<sup>th</sup> Anniversary of HomePro and Double Day events on dates such as 9<sup>th</sup> day of the 9<sup>th</sup> month etc.

Regarding the financial result of subsidiaries in the third quarter, total sales of Mega Home has increased from the new stores that was opened last year while the same store sales is marginally negative. For the HomePro business in Malaysia, sales rose after resuming business due to both financial support from the Malaysian government to the end users and pent up demand. The overall operation of the subsidiaries has higher efficiency due to gross profit enhancement and efficient management of cost control.

The Company did not open any new stores in the third quarter of 2020. As at the third quarter, the Company operated 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 September 2020 which has been reviewed by auditor are as follows:

Table 1: Financial Summary for the 3<sup>rd</sup> Quarter of the year 2020 and 2019

Unit: Million Baht

	Q3'2020	% Of Revenue	Q3'2019	% Of Revenue	Increase (Decrease)	% Change
Revenue from contracts with customers	15,064.3	100.0%	15,333.1	100.0%	(268.8)	(1.8%)
Rental income	487.2	3.2%	553.0	3.6%	(65.8)	(11.9%)
Other income	468.0	3.1%	489.4	3.2%	(21.4)	(4.4%)
<b>Total revenues</b>	<b>16,019.5</b>	<b>106.3%</b>	<b>16,375.5</b>	<b>106.8%</b>	<b>(356.0)</b>	<b>(2.2%)</b>
Cost of sales and service	11,179.2	74.2%	11,370.1	74.2%	(190.9)	(1.7%)
<b>Gross profit</b>	<b>3,885.1</b>	<b>25.8%</b>	<b>3,963.1</b>	<b>25.8%</b>	<b>(77.9)</b>	<b>(2.0%)</b>
Cost of rental	135.8	0.9%	160.2	1.0%	(24.4)	(15.2%)
Selling and administrative expenses	2,892.9	19.2%	2,915.3	19.0%	(22.4)	(0.8%)
<b>Profit before finance cost and income tax expenses</b>	<b>1,811.6</b>	<b>12.0%</b>	<b>1,929.9</b>	<b>12.6%</b>	<b>(118.2)</b>	<b>(6.1%)</b>
Finance cost	110.0	0.7%	99.8	0.7%	10.3	10.3%
Income tax expenses	301.1	2.0%	347.9	2.3%	(46.8)	(13.4%)
<b>Profit for the period</b>	<b>1,400.5</b>	<b>9.3%</b>	<b>1,482.3</b>	<b>9.7%</b>	<b>(81.7)</b>	<b>(5.5%)</b>

The Company's net profit for the third quarter of year 2020 was Baht 1,400.52 million representing a decrease of Baht 81.73 million or down by 5.51% over the same period last year. The main reasons include:

- Total revenues were Baht 16,019.49 million, a decrease of Baht 355.98 million or down by 2.17%, comprising of the following:
  - Revenue from contracts with customers which comprised of product sales revenue and service income (Home Service) was Baht 15,064.31 million, representing a decrease of Baht 268.83 million or down by 1.75% resulted from the effects of weaker consumer purchasing power reflecting the decline in same store sales growth of HomePro. For subsidiaries, the same store sales growth of Mega Home was marginally declined while the same store sales of Homepro in Malaysia increased positively. Nonetheless, the revenue generated from Home Service and online sales continue to grow significantly.
  - Rental and service income amounted to Baht 487.21 million, a decrease of Baht 65.76 million or down by 11.89% as the Company has lowered the rent for some tenants in HomePro and Market Village.
  - Other income was Baht 467.97 million, a decrease of Baht 21.40 million or down by 4.37% in relation to the lower interest income.

2. Gross profit from product sales and service income (Home Service) was Baht 3,885.13 million, a decrease of Baht 77.93 million or down by 1.97% as compared with the same period last year. The gross profit margin as a percentage of sales has slightly decreased from 25.85% in the same period last year to 25.79%. This resulted from an increase of sales mix from home appliances that have lower gross profit margin than the average of Homepro business such as air conditioners, refrigerators, washing machines and kitchen appliances etc. Even though gross profit margin as a percentage of sales of Mega Home and Homepro in Malaysia have increased compared to the previous year.
3. Cost of rental and service was Baht 135.80 million, a decrease of Baht 24.41 million or down by 15.24% 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 2,892.87 million, a decrease of Baht 22.43 million or down by 0.77% as compared with the same period last year. The SG&A as a percentage of sales was increased from 19.01% in the previous year to 19.20% resulted from the lower sales even though the cost amount in absolute terms has declined. The SG&A has declined due to the lower credit card fee, variable rental expenses, utility expense, maintenance cost, and outsourced labor 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 110.01 million, net increase of Baht 10.26 million or up by 10.28%, due to the impact of adopting the Financial Reporting Standard No.16: Leases, whereas the interest payment on interest bearing debt has decreased from the bond repayment in the fourth quarter of 2019 and second quarter of 2020.
6. Income tax expenses were Baht 301.11 million, a decrease of Baht 46.77 million or down by 13.44% as compared to the previous year. This was due to the lower earnings before tax.

Table 2: Financial Summary for the nine-month period of the year 2020 and 2019

Unit: Million Baht

	9M'2020	% Of Revenue	9M'2019	% Of Revenue	Increase (Decrease)	% Change
Revenue from contracts with customers	43,434.1	100.0%	47,375.3	100.0%	(3,941.3)	(8.3%)
Rental income	1,081.9	2.5%	1,622.6	3.4%	(540.6)	(33.3%)
Other income	1,224.1	2.8%	1,496.0	3.2%	(271.9)	(18.2%)
<b>Total revenues</b>	<b>45,740.1</b>	<b>105.3%</b>	<b>50,493.9</b>	<b>106.6%</b>	<b>(4,753.8)</b>	<b>(9.4%)</b>
Cost of sales and service	32,522.1	74.9%	35,411.1	74.7%	(2,889.0)	(8.2%)
<b>Gross profit</b>	<b>10,911.9</b>	<b>25.1%</b>	<b>11,964.2</b>	<b>25.3%</b>	<b>(1,052.3)</b>	<b>(8.8%)</b>
Cost of rental	405.1	0.9%	485.2	1.0%	(80.1)	(16.5%)
Selling and administrative expenses	8,061.8	18.6%	8,824.8	18.6%	(763.0)	(8.6%)
<b>Profit before finance cost and income tax expenses</b>	<b>4,751.1</b>	<b>10.9%</b>	<b>5,772.7</b>	<b>12.2%</b>	<b>(1,021.7)</b>	<b>(17.7%)</b>
Finance cost	351.1	0.8%	315.5	0.7%	35.6	11.3%
Income tax expenses	790.3	1.8%	1,028.5	2.2%	(238.2)	(23.2%)
<b>Profit for the period</b>	<b>3,609.7</b>	<b>8.3%</b>	<b>4,428.7</b>	<b>9.3%</b>	<b>(819.0)</b>	<b>(18.5%)</b>

The Company's net profit for the nine-month period of year 2020 was Baht 3,609.72 million representing a decrease of Baht 819.00 million or down by 18.49% over the same period last year. The main reasons are as follows:

- Total revenues were Baht 45,740.09 million, a decrease of Baht 4,753.80 million or down by 9.41%, comprising of the following:
  - Revenue from contracts with customers which comprised of product sales revenue and service income (Home Service) was Baht 43,434.06 million, representing a decrease of Baht 3,941.27 million or down by 8.32% due to the temporary closure of stores in both Thailand and Malaysia. HomePro stores in Thailand were temporarily closed since 22<sup>nd</sup> March 2020. Although the stores were reopened after 17<sup>th</sup> May 2020, the operating hours was limited. For HomePro stores in Malaysia, the stores were closed since 18<sup>th</sup> March 2020 and reopened on 4<sup>th</sup> May. Another reason for a decrease in revenue was due to the cancellation of HomePro Expo event in the first quarter of 2020. Nonetheless, the revenue generated from Home Service and online sales continue to grow significantly.
  - Rental and service income amounted to Baht 1,081.93 million, a decrease of Baht 540.64 million or down by 33.32%, resulted from the closure of leasable space in HomePro and

Market Village, during which the Company has lowered the rent for tenants, and the cancellation of HomePro Expo event in the first quarter of 2020.

- Other income was Baht 1,224.10 million, a decrease of Baht 271.90 million or down by 18.18% 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 10,911.93 million, a decrease of Baht 1,052.27 million or down by 8.80% as compared with the same period last year. The gross profit margin as a percentage of sales has decreased from 25.25% in the same period last year to 25.12%. This resulted from an increase of sales mix from home appliances that have lower gross profit margin than the average of Homepro business such as air conditioners, refrigerators, washing machines and kitchen appliances etc. Despite the increase in gross profit margin of Mega Home and HomePro in Malaysia as compared with the previous year, it could not compensate for the lower rate of gross profit resulting from the higher sales mix of low gross margin products in HomePro business.
  3. Cost of rental and service was Baht 405.09 million, a decrease of Baht 80.13 million or down by 16.51% 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 8,061.81 million, a decrease of Baht 763.02 million or down by 8.65% as compared with the same period last year. The SG&A as a percentage of sales was reduced from 18.63% in the previous year to 18.56%. 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 351.07 million, net increase of Baht 35.56 million or up by 11.27%, due to the impact of adopting the Financial Reporting Standard No.16: Leases, whereas the interest payment on interest bearing debt has decreased from the bond repayment in the fourth quarter of 2019 and second quarter of 2020.

6. Income tax expenses were Baht 790.27million, a decrease of Baht 238.22 million or down by 23.16% 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