

No. IDR11/2020
Date May 12, 2020
Re: Management Discussion and Analysis (MD&A) for the First Quarter of 2020
To: The President
The Stock Exchange of Thailand

CP All Public Company Limited (the Company or CPALL) would like to clarify operating results for the first quarter of 2020 which the Company and its subsidiaries reported net profit of Baht 5,645 million. The main reasons are as follows:

Total Revenue

In 1Q20, the Company and its subsidiaries’ total revenue were Baht 145,856 million. An increase of 5.2 percent from the same period last year was mainly driven by higher sales and service revenue from new stores of convenient store business and sale revenue from cash & carry business under the name “Siam Makro”. However, the pandemic of the Coronavirus Disease 2019 (COVID-19) has impacted negatively to the Company and subsidiaries since February and the impact level was higher in March until now due to government’s control measures.

Gross Profit

The Company and its subsidiaries’ gross profit in the first quarter of 2020 was Baht 31,182 million, increased by 4.2 percent from the same period last year largely thanks to higher sales revenue and service income of the convenience store business and Siam Makro. However, gross margin to sales and service income in the consolidated financial statement was 22.1 percent in 1Q20, decreased from 22.3% in the same period last year due to lower gross profit contributed from the convenient store business.

Distribution costs and Administrative Expenses

In 1Q20, the Company and its subsidiaries’ distribution costs and administrative expenses breakdown is as follows:

Expense	1Q20
Personnel	28.6%
Store management fees	19.3%
Rental and depreciation and amortisation	17.4%
Advertising and sale promotion	12.1%
Utilities and others	22.6%
Total distribution costs and administrative expenses	100%

The Company and its subsidiaries' distribution costs and administrative expenses rose to Baht 27,307 million, increased by 6.3 percent from 1Q19. Distribution costs were Baht 22,879 million, increased by 5.5% from the same period last year. Meanwhile, administrative expense rose to Baht 4,428 million, or up 11.1% from the same period last year. Higher expenses mainly came from store expansions, store management from the pandemic of the COVID-19 as well as starting-up and pre-operating expenses at start-up phase of Makro China and Myanmar.

Nevertheless, from January 1, 2020, the Company and its subsidiaries has initially adopted TFRS 16 on contracts previously identified as leases according to TAS 17 Leases and TFRIC 4 Determining whether an arrangement contains a lease using the modified retrospective approach. In 1Q20, the Company and its subsidiaries recognized depreciation of right-of-use assets Baht 2,135 million and interest expense on lease liabilities Baht 308 million. Meanwhile, expense related to lease was Baht 401 million.

Profit Before Interest and Tax Expenses, and Net Profit

In 1Q20, profit before interest and tax expenses was Baht 8,760 million, down 0.8 percent YoY and net profit was Baht 5,645 million in 1Q20, decreased by 2.2 percent from the same period last year. Earnings per share reported in the consolidated financial statements in 1Q20 was Baht 0.60. The drop in net profit was caused by revenue from convenient store business grew lower than target and there was additional interest expense from TFRS16 Baht 308 million.

Business Segment Performance

In 1Q20, total revenue before elimination contributed from major businesses were, (1) convenience store business and other businesses accounted for 64 percent and (2) Cash & Carry business accounted for 36 percent. Portion of revenue contribution from (1) CVS business and other businesses decreased from the same period last year due to lower revenue growth than (2) Cash & Carry business's.

Profit before tax before elimination contributed from major businesses in 1Q20 were, (1) convenience store business and other businesses accounted for 73 percent and (2) Cash & Carry business accounted for 27 percent. Portion of profit before tax contribution from (1) CVS business and other businesses dropped YoY due to lower profit before tax growth than (2) Cash & Carry business's.

Operating Results of the Convenience Store Business

In 1Q20, the Company has successfully opened 271 new stores in all types including corporate, store business partner (SBP) and sub-area. At the end of 1Q20, CPALL operated 11,983 stores nationwide, which can be broken down into:

- (1) 5,401 corporate stores (45 percent of total stores), or a net new store of 186 stores,
- (2) 6,582 SBP and sub-area stores (55 percent of total stores), or a net new store of 85 stores

Majority of our stores were stand-alone, making 85 percent of total stores, while the others were in PTT gas stations.

In 1Q19, the convenience store business reported revenue from sales and services of Baht 82,885 million, increased by Baht 2,112 million or 2.6 percent YoY. However, convenience store business had a contracted SSSG at 4.0 percent in the quarter due to impact from the pandemic of the COVID-19. Average sale was Baht 82,380 per store on a daily basis. Meanwhile, average spending per ticket was approximately at Baht 70 and there were 1,122 customer visits per store per day. The lower number of customer visits per store per day resulted from the government's control measures including restrictions on inter-provincial travel and staying home to limit the spread of Covid-19.

In 1Q20, sales of both food and non-food categories (excluding phone cards) grew at a decent level YoY. In 1Q20, sales of food products grew stronger than sales of non-food products (excluding phone cards) on the back of sale growth in ready to eat products, dried foods, canned foods and beverages. As a result, food products sales mix accounted for 70.8 percent of total sales, while non-food products (excluding phone cards) accounted for 29.2 percent. However, among non-food products, sale of healthcare products, drugs and sanitary products had high growth rate.

In 1Q20 gross profit amounted to 23,234 million, increased by Baht 709 million or 3.1 percent YoY. Gross profit margin enhanced to 28.0 percent in 1Q20 from 27.9 percent in 1Q19 mainly owing to higher sales mix of higher-margin products.

Meantime, other income rose to Baht 4,910 million in 1Q20, increased by Baht 397 million or 8.8 percent YoY from sale promotion income.

In 1Q20, distribution costs and administrative expenses were Baht 22,367 million, increased by Baht 1,430 million or 6.8 percent YoY. Higher expenses were mainly related to store expansions, as well as store management from the pandemic of the COVID-19.

In 1Q20, profit before interest and taxes of the convenience store business was Baht 6,063 million, decreased by 4.7 percent YoY. Meanwhile, net profit was Baht 3,845 million, decreased by 4.5 percent YoY due to revenue from convenient store business grew lower than target and there was additional interest expense from TFRS16 Baht 214 million.

Management Outlook for Convenience Store Business in 2020

Given the ongoing situation of COVID-19 pandemic which has negative impact to revenue and expense, hence there is a possibility of other uncertainties on the Company's business operation in the future.

However, the Company is closely monitoring the situation to ensure the safety of employees, customers, store business partners and suppliers as well as manages the negative impact on the business as much as possible.

Please be informed accordingly.

Sincerely yours,

Mr. Kriengchai Boonpoapichart

Chief Financial Officer

Authorized to sign on behalf of the Company