

No IDR 20/2020
Date August 11, 2020
Re: Management Discussion and Analysis (MD&A) for the Second Quarter of 2020
CP All Public Company Limited
To: The President
The Stock Exchange of Thailand

In the second quarter of 2020, the Company and its subsidiaries' net profit was Baht 2,887 million. The main reasons are as follows:

Total Revenue

In 2Q20, the Company and its subsidiaries' total revenue was Baht 128,027 million. A decrease of 10.6 percent from the same period last year was mainly driven by lower sales and service revenue of convenient store business and cash & carry business under the name "Siam Makro". The sale and service revenue was impacted by the government's measures to contain the COVID-19 pandemic. The Company placed great importance on complying stringently and promptly with the government's measures as health and safety of our customers, employees and stakeholders remain our top priority. Nevertheless, the government's measures has significantly impacted to sale revenue in April and lessened in May and June following ease of the government's measures.

Gross Profit

The Company and its subsidiaries' gross profit in the second quarter of 2020 was Baht 26,442 million, declined by 14.9 percent from the same period last year. Gross margin to sales and service income in the consolidated financial statement narrowed to 21.5 percent from 22.5 percent in 2Q19, mainly from lower gross profit contributed from the convenient store business.

Distribution costs and Administrative Expenses

In 2Q20, the Company and its subsidiaries' distribution costs and administrative expenses breakdown is as follows:

Expense	2Q20
Personnel	27.4%
Store management fees	16.9%
Rental and depreciation and amortisation	18.0%
Advertising and sale promotion	13.7%
Utilities and others	24.0%
Total distribution costs and administrative expenses	100%

The Company and its subsidiaries' distribution costs and administrative expenses amounted Baht 26,015 million, declined by 9.4 percent from the same period last year due to stringent and efficient cost control. Distribution costs were Baht 22,043 million, decreased by 7.1 percent YoY due to lower personnel expenses, store management fees and utilities expenses. Meanwhile, administrative expenses were Baht 3,970 million, down 20.3 percent YoY as a result from the Company and its subsidiaries have amended its retirement plan in 2Q19 (as of June 30, 2020) in compliance with the change of the Labor Protection Act.

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 2Q20, the Company and its subsidiaries recognized depreciation of right-of-use assets Baht 2,331 million and interest expense on lease liabilities Baht 317 million. Meanwhile, expense related to lease was Baht 245 million.

Profit Before Interest and Tax Expenses, and Net Profit

In 2Q20, profit before interest and tax expenses was Baht 5,353 million, down 26.6 percent YoY and net profit was Baht 2,887 million, decreased by 39.8 percent from the same period last year. Earnings per share reported in the consolidated financial statements in 2Q20 was Baht 0.29.

Operating Results for the First Half of 2020

In 1H20, the Company and its subsidiaries' total revenues amounted to Baht 273,881 million, decreased by 2.8 percent from the same period of last year as mainly driven by lower sales revenue from the impact of the government's measures. Net profit was Baht 8,532 million, down by 19.2 percent YoY. Earnings per share reported in the consolidated financial statements were Baht 0.89 in 1H20.

Business Segment Performance

In 2Q20, 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 2Q20 were, (1) convenience store business and other businesses accounted for 78 percent and (2) Cash & Carry business accounted for 22 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 2Q20, the Company has successfully opened 106 new stores in all types including corporate, store business partner (SBP) and sub-area. At the end of 2Q20, CPALL operated 12,089 stores nationwide, which can be broken down into:

- (1) 5,456 corporate stores (45 percent of total stores), or a net new store of 55 stores,
- (2) 6,633 SBP and sub-area stores (55 percent of total stores), or a net new store of 51 stores

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

In 2Q20, the convenience store business reported revenue from sales and services of Baht 70,359 million, decreased by 17.0 percent YoY. Average sale was Baht 66,950 per store on a daily basis. However, convenience store business had a contracted SSSG at 20.2 percent in the quarter, which average spending per ticket was approximately at Baht 79 and there were 841 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, staying home, night curfew, ban on alcohol sale and postponement of Songkran holiday to limit the spread of Covid-19. The Company has adjusted business strategies in accordance with the change of customer behaviors from the pandemic. The business strategies include O2O e.g. 7-Eleven Delivery, All Online and 24Shopping with the aim of customers can access to various consumer products and products in 7-Eleven stores easily and speedily. In addition, customers can choose delivery service or pick up in store. These services get well customers reception but sales contribution cannot fully offset the impacts from the pandemic.

In 2Q20, food products sales mix accounted for 71.7 percent of total sales, while non-food products (excluding phone cards) accounted for 28.3 percent. These are relatively similar to the same period last year as sales of both food and non-food categories (excluding phone cards) dropped.

In 2Q20 gross profit amounted to 19,414 million, decreased by 18.7 percent YoY. Gross profit margin narrowed to 27.6 percent from 28.2 percent in 2Q19 mainly as a result from lower sales mix of higher-margin products e.g. ready-to-eat and ready-to-drink as well as personal care.

Meantime, other income rose to Baht 5,016 million in the quarter, increased by Baht 130 million or 2.7 percent YoY from sale promotion income from co-promotion campaigns with suppliers. Nevertheless, the Company recognized dividend income from subsidiaries in the amount of Baht 4,246 million, rose by Baht 21 million or 0.5 percent YoY.

In 2Q20, distribution costs and administrative expenses were Baht 21,440 million, decreased by Baht 2,248 million or 9.5 percent YoY, mainly related to personnel expenses, store management fees and, utilities expenses. Moreover, there was an increase of provision for retirement benefits of Baht 489 million in 2Q19.

In 2Q20, profit before interest and taxes of the convenience store business was Baht 7,237 million, decreased by 22.2 percent YoY, while net profit was Baht 5,484 million, decreased by 25.0 percent YoY.

For 1H20, convenience store business posted total revenues of Baht 167,673 million, declined by 6.5 percent from the same period of last year as mainly driven by lower sales revenue and services income. Meanwhile, net profit was Baht 9,329 million, decreased by 17.7 percent from the same period of last year.

As at June 30, 2020, the Company and its subsidiaries' net debt to adjusted equity according to definition of bond covenants was at 1.17 times, increased from 0.94 times as of December 31, 2020. This was due to bond issuance and higher short term loan from banks. The Company is obligated to comply with bond covenants with net debt to equity ratio calculated based on the consolidated financial statements for the period ended 31 December of each year, which covenants is not exceeding 2.0 times in 2018 onwards.

Management Outlook for Convenience Store Business in 2020

Given the ongoing situation of COVID-19 pandemic which has 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