

No. IDR 27/2020  
Date November 11, 2020  
Re: Management Discussion and Analysis (MD&A) for the Third 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 third quarter of 2020 which the Company and its subsidiaries reported net profit of Baht 3,998 million. The main reasons are as follows:

#### **Total Revenue**

In 3Q20, the Company and its subsidiaries' total revenue were Baht 135,500 million. A decrease of 3.8 percent from the same period last year was mainly due to lower revenue from sales and services of convenience store business which was impacted by COVID-19 subsequent events. Even though domestic consumption was less contraction from easing city lockdown and stimulus measure for domestic travelling, international travel restrictions were still in place which preventing foreign tourists. Moreover, consumers were more conscious with their spending and mainly focused on essential products. Number of customer footfall was also negatively impacted by rain storm occurred across the country during the quarter. At the meantime, revenue from sales and services of cash & carry business in domestic operation could grow from the same period last year as well as there was the improvement from sales revenue of oversea business.

#### **Gross Profit**

The Company and its subsidiaries' gross profit in the third quarter of 2020 was Baht 28,568 million, decreased by 7.9 percent from the same period last year. The decrease was mainly due to lower revenue from sales and services of convenience store business.

Gross margin to revenue from sales and services in the consolidated financial statement was 22.0 percent in 3Q20, decreased from 23.0 percent in 3Q19, mainly from higher gross profit contributed from cash and carry business.

#### **Distribution Costs and Administrative Expenses**

In 3Q20, the Company and its subsidiaries' distribution costs and administrative expenses breakdown is as follows:

<b>Costs and Expenses</b>	<b>3Q20</b>
Employee Benefits	28.6%
Store management fees	17.5%
Rental and depreciation and amortization	17.6%
Advertising and sale promotion	13.3%
Utilities and others	23.0%
<b>Total</b>	<b>100.0%</b>

The Company and its subsidiaries' distribution costs and administrative expenses was Baht 27,307 million, decreased by 2.1 percent from 3Q19. Distribution costs were Baht 23,032 million, declined by 1.9 percent YoY. Meanwhile, administrative expenses lessened to Baht 4,275 million, lower by 2.6 percent YoY. The lower expenses mainly came from store management fees and supply used from the convenient stores. However, the Company has controlled employee benefits expense to be at a level close to the same period of last year even number of store increased.

Furthermore, 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 3Q20, the Company and its subsidiaries recognized depreciation of right-of-use assets Baht 2,259 million and interest expense on lease liabilities Baht 317 million. Meanwhile, expense related to lease was Baht 240 million.

#### **Profit before Interest and Tax Expenses, and Net Profit**

In 3Q20, profit before interest and tax expenses was Baht 6,770 million, down 19.7 percent YoY. Net profit was Baht 3,998 million, decreased by 28.8 percent from the same period last year. Earnings per share reported in the consolidated financial statements in 3Q20 was Baht 0.42.

#### **Operating Results for the First Nine Months of 2020**

In 9M20, the Company and its subsidiaries' total revenues amounted to Baht 409,381 million, decrease by 3.2 percent from the same period of last year mainly due to the impact of the government's measures since 2Q20. At the meantime, net profit was Baht 12,530 million, down by 22.5 percent YoY. Earnings per share reported in the consolidated financial statements were Baht 1.38 in 9M20.

#### **Business Segment Performance**

In 9M20, total revenue before elimination contributed from major businesses were, (1) convenience store business and other businesses accounted for 63 percent and (2) Siam Makro cash & carry business

accounted for 37 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 9M20 were, (1) convenience store business and other businesses accounted for 72 percent and (2) Siam Makro cash & carry business accounted for 28 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 order to move toward our long-term goal of having 13,000 stores by 2021, new stores expansion has progressed on track during the quarter. In 3Q20, the Company has successfully opened 136 new stores in all types including corporate, store business partner (SBP) and sub-area. At the end of 3Q20, CPALL operated 12,225 stores nationwide, which can be broken down into:

(1) 5,527 corporate stores (45 percent of total stores), or a net new store of 71 stores,

(2) 6,698 SBP and sub-area stores (55 percent of total stores), or a net new store of 65 stores

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

In 3Q20, the convenience store business reported revenue from sales and services of Baht 74,307 million, decreased 10.5 percent YoY. Average sales was Baht 69,068 per store on a daily basis. Meanwhile, convenience store business SSSG posted at -14.3 percent which average spending per ticket was approximately at Baht 75 and there were 917 customer visits per store per day. The lower number of customer visits per store per day resulted from the COVID-19 pandemic leading to the absence of foreign tourists, slowdown in domestic consumption and more negative impact from rain storms than last year. The Company has accelerated the implementation of the O2O strategy in order to meet customers' demands which changed during the pandemic. The Company has offered products through various channels 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. Moreover, customers can choose receiving methods between home delivery and pick up in store. These services get well customers reception but sales contribution cannot fully offset the impacts from the pandemic.

In 3Q20, the decrease in revenue from sales resulted from lower sales both in food and non-food categories (excluding phone cards). Food products sales mix accounted for 71.5 percent of total sales, while non-food products (excluding phone cards) accounted for 28.5 percent. These are relatively similar to the same period last year.

In 3Q20 gross profit amounted to Baht 20,546 million, decreased by 11.4 percent YoY. Gross margin decreased to 27.7 percent in 3Q20 from 27.9 percent in 3Q19, mainly due to lower gross profit from food category, together with a less economy of scale at distribution center operation from lower sales than target.

Meantime, other income was Baht 5,495 million in 3Q20, up Baht 137 million or 2.6 percent YoY largely from higher sales promotion income from co-promotion campaigns with suppliers to boost sales. Nevertheless, the Company recognized dividend income from subsidiaries in the amount of Baht 2,086 million, rose by Baht 50 million or 2.4 percent YoY.

In 3Q20, distribution costs and administrative expenses were Baht 22,539 million, decreased by Baht 459 million or 2.0 percent YoY, mainly related to store management fees and the Company's stringent and efficient cost control plan.

In 3Q20, profit before finance costs and income tax expense of the convenience store business was Baht 5,668 million, decreased by 26.2 percent from 3Q19, while net profit was Baht 3,842 million, decreased by 31.6 percent YoY.

For 9M20, convenience store business posted total revenues of Baht 249,641 million, decreasing 7.5 percent from the same period of last year. Meanwhile, net profit was Baht 13,172 million, decreased 22.3 percent from the same period of last year.

As at September 30, 2020, the Company and its subsidiaries' net debt to adjusted equity according to definition of bond covenants was at 1.07 times, at the similar level as the same period of last year at 1.06 times. In Addition, during the quarter the Company issued the new debenture to refinance the maturing debenture in 4Q20. 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

<b>Store expansion</b>	Following our plan to reach 13,000 stores by 2021, the Company will remain active in our new store rollouts following the growth of communities, various infrastructures, and other high potential areas in order to serve convenience to all communities. Thus, the Company plans to open approximately 700 new stores in 2020.
<b>Sales and services revenue growth</b>	The Company expects to continue delivering sales and services revenue growth as driven from contribution from new store and other channels through O2O strategy. Meantime, SSSG forecasts to be in line with the projected economic growth in Thailand (GDP growth). However, this is subjected to other factors including inflation rate and private consumption growth.
<b>Gross profit margin</b>	Gross profit margin advancement is expected to be on the back of our product strategy in order to cater to consumer demand. We also continue to drive higher sales participation of the higher-margin products in both food and non-food categories.
<b>CAPEX</b>	<p>CAPEX is projected to be approximately Baht 11,500-12,000 million with details as follows (unit: million Baht)</p> <ul style="list-style-type: none"> <li>● Stores expansion 3,800 – 4,000</li> <li>● Stores renovation 2,400 - 2,500</li> <li>● Investment in new project subsidiaries and DC 4,000 – 4,100</li> <li>● Fixed assets and IT system 1,300 – 1,400</li> </ul>

Please be informed accordingly.

Sincerely yours,

Mr. Kriengchai Boonpoapichart

Chief Financial Officer

Authorized to sign on behalf of the Company