

No. 008/2020

14 May 2020

RE: Management Discussion and Analysis for Q1/2020

TO: President, Stock Exchange of Thailand

Principal Capital Public Company Limited ("Company") would like to submit the following Management Discussion and Analysis on the Company and Consolidated Financial Statements for Q1/2020, ended 31 March 2020, compare with same quarter of the Year 2019 as follows.

Major developments in Q1/2020

On March 2, 2020, Principal Healthcare - Chumphon Co., Ltd., a subsidiary of which shares are held indirectly by the Company, acquired and accepted the Entire Business Transfer (EBT) of "Virajsilp Hospital", located in Chumphon Province. The objective was to expand the coverage of the Business Group's private hospital business network, especially in southern area of Thailand, in order to enhance the Group's future revenue generating capability also enhance effectiveness and competitiveness to gain more revenue. The subsidiary paid a consideration of 512.2 million Baht. The transaction resulted in a preliminary goodwill of 156.4 million Baht in the Consolidate Financial Statement, the initial accounting for the business combination was still incomplete. The adjustments to the provisional fair values of assets and liabilities will be made once the measurement has been done.

On March 18, 2020, the Company incorporated a new subsidiary, Principal NKG Company Limited, with the objective of investing in elderly care business. The Company holds 51% of the shares in the new company and the other 49% is held by Nihon Keiei (Thailand) Company Limited. The company's concept of elderly care focuses on self-reliance, whereby elderly people resume their healthy condition and capability of conducting their Activities of Daily Living (ADL) with their family members. The aim is to assist the elderly in rehabilitating their physical and mental strength for maximum self-reliance.

The economic and industrial situations affecting the operation and business policies, strategies and decisions

At the beginning of 2020, the Covid-19 Virus was spread all over the world, the situation effected in every business, in tourism business has directly severe impact. The number of foreign travelers and Thai travelers greatly decreased from many government measures that ban the international travel, the cancellation of the flight from the airline all over the world and result to the world economy to face the recession and effected to the revenue also the travel decision, finally will change to domestic travel or the neighborhood travel in the same region to reduce the cost of traveling and the risk in the infection. Almost every hotel experiencing a loss from operation

and some hotels might have to close down, especially the small-medium hotel with a small amount of funding and is not be able to tolerate the insufficiency of the liquidity for long period.

The 2 hotels of the Company have a service apartment but yet still effected from the spreading of Covid-19 Virus, the travelers cancelled the booking up to 16.5% in the first quarter, revenue from the room, banquet and meeting room was greatly decreased comparing with the same quarter of the previous year. Our hotels maintained the liquidity and operation while waiting for the business to recover by offer the service to the foreign customers who want to live separately from the family or can not return to their country, reduced the unnecessary costs such as close the service area or temporary stop some services to reduce cost from the operation, temporary reduce the employees' salary, offer the employee the leave without pay program and the executives are voluntary reduced their salary to help reduce the cost of the Company.

In hospital business, the coronavirus pandemic and the panic of the people has clearly affected the hospital business especially the decreasing of the patients both Out-Patient and In-Patient due to the patients worried and avoiding to have a treatment in the hospital in the covid-19 pandemic period to preventing the infection. Also, the hospital has a measure to control and reduce the risk of infection by postpone or cancel the surgery, some hospitals closed the dental service. The decreasing of the patients started since end of February and continuously decreased in March until now (May)

In the Company's hospital business, was affected in the first quarter from the decreasing of the patients and resulting to the revenue extremely decreasing from the same quarter of the previous year. The new hospital which operate whole quarter in this year was missed the target, each hospital adapted and apply the new strategy to operate such as PRINC Hospital Suvarnabhumi which open the Drive Thru service to examine the Covid-19 infection, Hot Line health consulting with the specialist doctor about the medication and vaccinate by the professional nurse. Moreover, the hospital valued the cost reduction such as reduce the overtime work of employees and nurses and executives also voluntary reduce their salary.

The executives expected that the impact of Covid-19 Pandemic will affect continuously to the operation both in property business and healthcare business to 2nd and 3rd quarter this year, but the recovery of healthcare business will be faster than property business. The Company monitoring this situation closely and evaluate the impact in the operation and plan to manage the situation effectively.

Q1/2020 operating results

Statement of Comprehensive Income	Q1/2020	Q1/2019	Increase (decrease)	Change %
Unit: million				
Revenues from hospital operations	580.1	548.4	31.7	5.8
Revenues from sales and services	130.5	153.7	(23.2)	-15.1
Costs of hospital operations	507.8	422.1	85.7	20.3
Costs of sales and services	85.0	102.2	(17.2)	-16.9
Gross profit	117.8	177.8	(60.0)	-33.7
Other income	13.7	10.5	3.2	30.3
Selling and Administrative expenses	216.1	209.4	6.6	3.2
Finance costs	32.2	38.2	(6.0)	-15.7
Loss before income tax expense	(116.8)	(59.3)	(57.4)	-96.8
Income tax expense	(4.6)	(9.6)	4.9	51.4
Total comprehensive expense for the period	(121.4)	(68.9)	(52.5)	-76.2

In Q1/2020, the Company and the subsidiaries generated revenues totaling 580.1 million Baht from the hospital business and incurred costs totaling 507.8 million Baht from the hospital business, and revenues from sales and services totaling 130.5. Costs of sales and services totaled 85.0 million Baht. Selling and administrative expenses totaled 216.1 million Baht and financial costs totaled 32.2 million Baht. As a result, the Company's loss for this quarter totaled 121.4 million Baht.

The following explains the operating results by business group.

Revenues from sales and services

Unit: million	Q1/2020		Q1/2019		Change %
	Amount	%	Amount	%	
Hospital business	580.1	81.6	548.4	78.1	5.8
Property development and property rental business	130.5	18.4	152.1	21.7	-14.2
Others	-	-	1.6	0.2	-100.0
Total	710.6	100.0	702.1	100.0	1.2

The Company and the subsidiaries generated revenues from sales and the rendering of services totaling 710.6 million Baht, an increase of 8.5 million Baht or 1.2 %. The increase resulted from the following:

- The hospital business' revenues increased by 31.7 million Baht, or 5.8% due mainly to:
 - Revenues of the hospitals opened whole year in Q1/2020 and the new hospital opened in 2020; namely, Sirivej Lamphun Hospital, Pitsanuvej Uttaradit Hospital, Princ Uthai Thani Hospital and Virajsip Hospital, totaled 70.8 million Baht.
 - Revenues of existing hospitals – Pitsanuvej Hospital, Princ Hospital Paknampo, Princ Hospital Suvarnabhumi and Pitsanuvej Pichit – decreasing totaled 38.8 million Baht.
- The property development and rental business had a revenue decrease of 21.7 million Baht, or 14.2 %, due mainly to the following:
 - The Somerset Ekamai Bangkok Project had a revenue decrease of 11.0 million Baht because the occupancy rate reduce from 84.0 % in Q1/2019 to 70.8 % in Q1/2020, from the impact of Covid-19 Pandemic and the current situation of the hotel that slow down, the customers in long-term rental was reduced especially Japanese customer.
 - The Marriott Executive Apartment Sathorn Vista – Bangkok Project, had a revenue decrease of 7.8 million Baht because the occupancy rate reduce from 90.9 % in Q1/2019 to 84.2 % in Q1/2020, Average Daily Revenue (ADR) was reduced from 4,239 Baht to 3,946 Baht from the impact of Covid-19 Pandemic.

Gross profit was 60.0 million Baht (33.7%) lower than Q1/2019, for the following main reasons:

- Costs of the hospitals opened whole year in Q1/2020 and the new hospital opened in 2020 totaled 57.2 million Baht, which are from the doctor fee and employee expense at the amount of 41.3 million Baht.
- Cost of Princ Hospital Paknampo, Princ Hospital Suvarnabhumi and Pitsanuvej Pichit are higher totaled 11.3 million Baht.
- All hospitals increasing the specialist doctor to enhanced the efficiency in the service and support the customer need.
- Depreciation of both new and existing hospitals increased.

Selling and administrative expenses were 6.6 million Baht (3.2%) higher than Q1/2019 due to:

- Selling and administrative expenses of the hospitals opened whole year in Q1/2020 and the new hospital opened in 2020 totaling 15.9 million Baht which are from employee expenses, marketing and public relations expenses and other expenses.
- Expenses for financial and legal advisors for the new project due to the Company is currently undergoing restructuring for future expansion and needs to hire experts for consultancy.

EBITDA:

Unit: million	Q1/2020	Q1/2019	Increase (decrease)	Change %
EBITDA	46.0	86.8	(40.7)	-46.9
Finance costs	32.2	38.2	(6.0)	-15.7
Depreciation and amortisation	130.6	107.9	22.7	21.0
Loss before income tax	(116.8)	(59.3)	(57.4)	-96.8
Income tax expense	(4.6)	(9.6)	4.9	51.4
Loss for the period	(121.4)	(68.9)	(52.5)	-76.2

EBITDA of the Company and the subsidiaries, totaled 46.0 million Baht, 40.7 million Baht or 46.9% lower than the same quarter of the previous year due to lower gross profits and the increases in the expenses of newly opened hospitals, and investment in physicians and medical units.

Interest expenses reduced 6.0 million Baht, as a result of the decrease in borrowings from financial institutions in property development business.

Depreciation increased by 22.7 million Baht as there were the new hospitals and innovation work at some hospitals had been completed; hence, higher depreciation was booked.

Loss for the period The Company and the subsidiaries incurred a loss of 121.4 million Baht, 52.5 million Baht higher resulted from the increases in the costs of sales and services, expenses of the subsidiaries and depreciation.

Financial Position

Statement of Financial Position	31 March	31 December	Increase	Change
Unit: million	2020	2019	(Decrease)	%
Total assets	14,867.3	14,620.0	247.3	1.7
Total liabilities	5,233.1	4,908.8	324.3	6.6
Equity attributable to owners of the parent	8,692.0	8,809.7	(117.7)	-1.3
Debt to Equity Ratio (times)	0.60	0.56		

As at March 31, 2020, the Company and the subsidiaries has assets totaling 14,867.3 million Baht, increasing from total assets as at December 31, 2019 by 247.3 million Baht, resulting from:

- Right-of-use assets increased by 375.4 million Baht resulting from the adoption of TFRS 16 (leases standard) as of 1 January 2020, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases under the principles of TAS 17 Leases and for leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability.
- Other non-current assets and goodwill increase by 317.6 million Baht from acquired and accepted the Entire Business Transfer (EBT) of "Virajsilp Hospital". The transaction resulted in a preliminary goodwill of 156.4 million Baht in the Consolidate Financial Statement, the initial accounting for the business combination was still incomplete. The adjustments to the provisional fair values of assets and liabilities will be made once the measurement has been done.
- Property, plant and equipment increased by 73.6 million Baht due to the acquisition of Virajsilp hospital and renovation of the existing ones.
- Short-term Investment decreased 525.8 million Baht, from the adoption of the financial reporting standards relate to financial instruments (TAS 32 and TFRS 9) by the adjustments to financial assets measured at fair value through profit or loss and Short-term fixed deposits totally 177.1 million Baht. While there are some parts that the company sold for use in investing in new projects.

Liabilities of the Company and the subsidiaries as at March 31, 2020 totaling 5,233.1 million Baht, increasing from total liabilities as at December 31, 2019 by 324.3 million Baht, for the following reasons:

- Long-term borrowings from financial institutions increased by 329.9 million Baht, resulting from investments in the new hospitals and in renovation of the existing hospitals.
- Lease liabilities rose by 30.0 million Baht, resulting from the adoption of TFRS 16 (leases standard) and investments in additional medical supplies and equipment.

Shareholders' equity decreased by 117.7 million Baht from losses incurred by the Company during the period.

The debt-to-equity (D/E) ratio stood at 0.60, up from 0.56 on December 31, 2019, resulting from long-term borrowings from financial institution. While the shareholders' equity decreased due to the operation during the period.

For your kind acknowledgement.

Yours respectfully.

Signature 

(Miss Preeyaporn Aphiwathwithaya)

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