

# MANAGEMENT DISCUSSION AND ANALYSIS

**DEAR VALUED SHAREHOLDERS,**

**ON BEHALF OF THE BOARD OF DIRECTORS, WE ARE PLEASED TO PRESENT THE ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS OF CARING PHARMACY GROUP BERHAD FOR THE FINANCIAL YEAR ENDED 31 MAY 2019.**

## FINANCIAL REVIEW

The financial year 2018/19 (FY2018/19) was another exciting and significant year of performance and progress for Caring, with revenues and profits ahead of expectations leading to a solid improvement in cash generation.

We continue to deliver commendable results despite operating in a highly competitive retail environment. In FY2018/19, we achieved RM599.2 million in revenues, representing a growth of 17.9% against RM508.3 million in the previous financial year. We note that a portion of this strong growth was attributable to the change of accounting standard to MFRS15. Based on the former accounting standard, revenue growth would still have been a commendable 12.3%. Revenue growth was mainly driven by same-store sales growth of matured outlets of more than 2 years old and new outlets opening during the year.

The Group's pre-tax profit was RM34.0 million, an increase of 14.9% as compared to the previous year, while our statutory profit after tax increased to RM25.7 million.

The culmination of our efforts to fortify operational efficiency through emphasising a lean culture within business operations had elevated us to a healthy financial position with RM131.3 million in cash and cash equivalents at the end of the financial year under review. We generated retail operating cash flow of RM44.4 million, up by 41.5% compared to the previous year, driven by the strong improvement in our operating profit. Our net borrowings remained low at RM9.0 million while shareholders' funds amounted to RM153.5 million, thus providing net assets per share of RM0.70, with a growth of 6.1% from the previous financial year.



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## OPERATIONS REVIEW

With a tough and uncertain business environment in the near future, we had adopted a prudent outlet expansion strategy with stringent selection criteria by committing to only open outlets in the most strategic, high-potential areas. In the financial year under review, we opened 14 new outlets, comprising of 8 complex outlets and 6 high street outlets. Our outlet expansion focused on new areas where we had minimal or no presence so that more Malaysians could benefit from our competitive pharmacy services and high-quality health and beauty product offerings.

As we progressively opened new outlets, we also consistently reviewed strategic choices around our current portfolio, including closing certain underperforming outlets. In the last financial year, we had to make the difficult but necessary decision to close down 4 underperforming outlets (3 complex and 1 high street), deemed essential to position our business for greater efficiency and sustainable growth in the future.

Moving forward, we aim to assess the market environment across different areas to identify any opportunities for expansion while continuously monitoring and improving our stores' performances. As of 31 May 2019, our group consisted of total 125 community pharmacies.

We have continued to roll out high quality and exciting health and personal care products in our Exclusive and Home brand stable, as these ranges had performed very well, with like-for-like sales growth of 50.1% year-on-year. Our **Tresor** brand – the natural, wholesome health food range of products – had proved to be particularly popular, contributing 28% in overall own brand's participation. We also launched our affordable vitamin range, **Vitalita**, targeting the mass market and benefiting a wider customer base who appreciated cost effective vitamin supplements. In the beauty category, we had refined our general cosmetic and beauty ranges by consistently reviewing and rationalising underperforming SKUs (stock keeping units) while focusing on specialised dermo-cosmetics range with higher sustainable profitability. Last year, we launched our own premium bath care brand, **Calme** which was widely anticipated to deliver strong sales growth in that category.

In order to provide maximum saving and highest value to our customers, we worked hard to keep our costs of doing business down by embracing operational excellence and holding strict operating discipline in everything we do.



In the Category and Supply Chain management, we continued to make headway in cost of goods efficiencies and working capital productivity with strong inventory management. Within the last financial year, we further trimmed our inventory holding days down to 75 days which translated into healthy positive cash flow, operational expenses reduction and eventually a positive contribution to our encouraging bottom line.

On the ground, we were changing how our outlets' employees work to become operationally efficient, as well as equipping and empowering our people with better information, tools and training in order to be resourceful and productive. The reform enabled our people to spend more time serving customers and driving sales instead of doing mundane repetitive tasks. We enhanced our training programmes to further develop the retail skills of our frontline staff to serve our customers better. In addition, we had successfully explored and deployed new technology and applications to help them improve in-stock levels and better manage price changes.

## CORPORATE SOCIAL RESPONSIBILITY

We care for the communities we serve. Corporate social responsibility is an integral part of Caring's operations. We recognise the unique opportunity we have to change lives for the better in local communities by establishing partnerships with our stakeholders who share our values of improving the health and wellbeing of the communities that we serve. (Our corporate social responsibility initiatives are set out separately in the Sustainability Report section in this Annual Report.)

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## PROSPECTS AND STRATEGY

The 2018/19 financial year was a significant year of progress for us, as we were able to manage and execute our strategic game plan against a very challenging retail landscape. Looking ahead, we expect market conditions to remain tough and challenging. That being said, we are determined to take bold steps into the future on enhancing our brand and reinforcing our leadership position within the marketplace.

In the short to medium terms, the operating environment is expected to remain highly competitive and we anticipate intensifying pressures on margins as consumers' living costs rise. Nevertheless, the Group will persevere in elevating operational efficiency and focus on exploiting various marketing strategies to safeguard the Group's revenues and profitability. The Board of Directors remains optimistic that the Group will persist to be profitable in coming financial year.

We remain encouraged by our progress on the strategic plans we have put in place. Internally we are on track with targets and key performance indicators, showing positive signs for current financial year 2019/20. The Group will maintain a modest yet pragmatic plan to open 12-15 new outlets a year with renewed focus at peripheral towns outside Klang Valley and other

major cities in both peninsular and East Malaysia. Our experiences and learning from newly opened stores at East Coast (Peninsular Malaysia) and East Malaysia shall form the basis for future fruitful expansion in the said locations. We are also committed to undertake refurbishment and upgrades of our existing outlets to provide a better shopping experience for our valued customers.

All efforts will be taken to ensure that Caring Pharmacy outlets remain the preferred pharmacy to our patrons. In Caring, we shall strive to uphold our mantra of offering excellent customer services, with great prices as our inherent objective. Regardless of the economic weather, the benchmark for best value is set so that our customers get the best possible deals with no compromise in quality or services. This is our promise.

Despite the challenging business environment ahead, we remain extremely confident about the future of this great business. Caring is a household brand in community pharmacy and a responsible organisation that genuinely wants to shape an ethical and professional pharmacy practice in Malaysia. Barring any unforeseen circumstances, we shall deliver greater encouraging performances in the financial year to come.

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## CARING'S 5-YEAR TRANSFORMATION PLAN

The encouraging results of FY2018/19 marked an excellent achievement of our three years' turnaround plan that had started in FY2016/17. Though our business has steadfastly thrived and produced commendable financial outcomes, it has become clear that if we want to sustain the successes and continue delivering good results, change is inevitable. And consequently, we have to transform ourselves into a truly sophisticated and competent retail player. We need to consistently upgrade ourselves, raise the standards of work and further strengthen our market position and hone our competitive advantages.

Encouraged by the impressive records and supported by the renewed ambitions, Caring Pharmacy has embarked on a critical and strategic 5-year transformation plan since the beginning of this new fiscal year with a project code-named **Project V1B**. The plan is co-developed by Caring's core management team with support from a global management consulting firm. We are pleased to update you on some insights of **Project V1B** as below:

## VISION

**By 2024, we shall have 200 outlets across all cities and major towns in Malaysia where we will extend our caring and professional services and offer the highest quality, trusted, and genuine products to more Malaysians for betterment of their health and well-being.**

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## 4 CORE FOCUS AREAS

In order for us to materialise our vision, we have identified core focus areas as follows which we must relentlessly build strength on.

### 1. TO OUR CUSTOMER

Caring Pharmacists in white coats ready to serve in a patient-centric approach and with integrity. Sales assistants will take initiative to approach customers and offer assistance in a friendly and enthusiastic manner. Cashiers are attentive in completing sale transactions speedily with accuracy and yet still putting on a smiley face.

Personnel at headquarters to take pride in executing business operations effectively and to provide support in ensuring a hassle-free environment for the frontline to focus on customer service excellence and to drive sales and profits.

As a company we set our goal to engage more productively with Malaysian families to be more health conscious and self-empowered in enhancing their quality of life and pursuit of lifestyles.

### 2. RETAIL SPACE AND MERCHANDISE

Organised and attractive merchandising with clear segregation of product categories displayed in a well-balanced store with soothing ambient lighting. Pharmacist desk and cashier counter are constantly clean and neat.

Promotional materials are displayed in designated locations, while shop-floor aisles and walkways are cleared of clutter and obstacles. Price tags and shelf labels are clearly displayed for the right products at right location with right information to provide a convenient shopping environment.

### 3. CUSTOMER EXPERIENCE MANAGEMENT

Multiple channels to provide a seamless and convenient shopping experience for all types of customers without distinction of age, gender and ethnicity. Powerful and functional mobile technology with loyalty reward system, health management and information retrieval, as well as online shopping features that create added values and enhance our responsiveness towards our customers. The Caring mobile app shall play a greater role to complement the services and duties of our Pharmacists as enshrined in our pharmacists' "12 Promises" to our customers.

### 4. TO OUR PEOPLE

Employees form the backbone of the company. Everyone is crystal clear of the company's vision and strategies, and committed to deliver results within a healthy and safe environment that values a unique Caring culture. In return, everyone shall share and enjoy the fruits of success in terms of job satisfaction, career advancement and good financial rewards.

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## FOUR KEY BUSINESS CAPABILITIES

We have also identified Key Business Capabilities that we have to relentlessly build and deliver within these 5 years.

1. To achieve **5% Compound Annual Growth Rate (CAGR)** for all matured outlets (older than 2 years old).
2. To become the **Pharmacy of Choice** for all consumers in the market we serve.
3. To normalise our customer base according to a realistic **Malaysian Market Profile**.
4. To build and strengthen our Caring Pharmacy brand with more outlets via **Nationwide Expansion in Malaysia**.

## DELIVERABLES AND OUTCOMES

With the concerted efforts and teamwork underlying the delivery of operational excellence in our business, we envision to achieve our **V1B's** objectives by 2024 – we shall break **RM1 Billion in revenue**; we are proud to be **Best in operations** in the industry; Caring Pharmacy is the most **Brilliant pharmacy brand**; we are running the **Biggest pharmacy chain** in our country, we have the **Brightest talents** to run our business, we embrace **Brave culture** and we dare to take **Bold strategies** to win the game!

Project V1B will be the true north for everything we do in Caring for the next 5 years.

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## DIVIDEND

Our cash flows provided by operating activities, coupled with our low borrowings have allowed us to sustain our operations and give us the flexibility to invest in activities that fuel our long-term growth as well as reward our shareholders. With the net cash position of RM131.3 million, the Board recommends the payment of a final single tier dividend of RM0.06 per share subject to the shareholders' approval at the forthcoming annual general meeting. The dividend declared for the financial year is RM13.1 million representing a dividend pay-out rate of approximately 50.9% to the profit after taxation for FYE 31 May 2019.

## NOTE OF APPRECIATION

On behalf of the Board of Directors, we would like to thank the management and staff of the Company for their concerted efforts towards the customers and our business this financial year.

Performance indicators of the financial year under review show we are firmly on track, and positive figures from the year before have only served to further spur us in our efforts to execute our business strategies to the very best of our abilities. With our operating principles centred on our key strategic drivers of providing unparalleled products and services to our customers, we are confident we will continue to find success with our group and reach further heights so long as we remain crystal clear on our strategies and pool all our resources, energy and focus to execute these plans.

To our customers, shareholders, suppliers, and business associates, who have given us the support in this journey that made us who we are today, we wish to express our sincere appreciation and thanks to all of you for your enduring trust and confidence in our business.