



28 February 2019

No. ZEN 2562-010  
 Subject Management Discussion and Analysis for the Year as at 31 December 2018  
 To The President  
 The Stock Exchange of Thailand

We, ZEN Corporation Group Public Company Limited (“the Group”), are please to inform you our management discussion and analysis for the year as at 31 December 2018, as follow

**Analysis of Financial Performance Full Year 2018**

**Revenues**

Revenues	For the Year Ending 31 Dec			
	2017		2018	
	THB Mn	% <sup>(1)</sup>	THB Mn	% <sup>(1)</sup>
Revenue from Sales and Service	2,425.0	96.4	2,852.6	96.2
Franchise Fees Income	56.5	2.2	69.6	2.3
Other Income	33.7	1.3	42.5	1.4
<b>Total Revenue</b>	<b>2,515.2</b>	<b>100.0</b>	<b>2,964.7</b>	<b>100.0</b>

Remark: <sup>(1)</sup> Percentage of Total Revenue

For the years ending 31 December 2017 and 2018, the Group’s total revenue increased from THB 2,515.2 Mn in 2017 to THB 2,964.7 Mn in 2018, an increase of THB 449.5 Mn or 17.9%. This was mainly due to increased revenue from sales and service which itself was the major contributor of the Group’s revenue. During 2017 and 2018 revenue from sales and service made up 96.4% and 96.2% of total revenue respectively.

For the years ending 31 December 2017 and 2018, revenue from sales and service was THB 2,425.0 Mn and THB 2,852.6 Mn respectively. This was an increase of THB 427.6 Mn or 17.6% and was mainly due to (1) the opening of new branches, (2) positive same-store-sales growth and (3) increased sales of raw material to franchisees.

Franchise fee income increased from THB 56.5 Mn in 2017 to THB 69.6 Mn in 2018, an increase of THB 13.1 Mn or 23.2%. This increase was mainly due to the (1) the increased number of franchise branches (2) adjustment increasing the royalty and marketing fee rates for those franchisees renewing their franchise contracts.



Item	For the Year Ending 31 Dec	
	2017	2018
Net Number of New Branches Opened <sup>(1)</sup> (Branch)	14	8
Number of Branches at Period End <sup>(1)</sup> (Branch)	102	110
Number of Franchise Branches at Period End <sup>(1)</sup> (Branch)	127	145
Sales from Restaurant Business During the Period (THB Mn)	2,308.8	2,672.6
Same-Store Sales Growth: SSSG (%) <sup>(2)</sup>	4.0%	4.7%
Growth of Revenue from Restaurant Business (%)	8.3%	16%

Remark: <sup>(1)</sup> Outlets owned by the Group

<sup>(2)</sup> Calculated based on total revenue from sales and service per total operating days of the same branch

Other income grew from THB 33.7 Mn in 2017 to THB 42.5 Mn in 2018, an increase of THB 8.8 Mn or 26.2%. This increase was mainly due to (1) reversal of provision for decommissioning costs and (2) higher membership fee income.

### Cost of Sales and Services

Item	For the Year Ending 31 Dec			
	2017		2018	
	THB Mn	% <sup>(1)</sup>	THB Mn	% <sup>(1)</sup>
Revenue from Sales and Service	2,425.0	97.7	2,852.6	97.6
Franchise Fee Income	56.5	2.3	69.6	2.4
Revenue from Main Businesses	2,481.5	100.0	2,922.1	100.0
Cost of Sales and Service	1,878.7	75.7	2,218.5	75.9
Gross Profit	602.8	24.3	703.6	24.1

Remark: <sup>(1)</sup> Percentage of Revenue from main businesses

The cost of sales and service increased from THB 1,878.7 Mn in 2017 to THB 2,218.5 Mn in 2018, an increase of THB 339.8 Mn or 18.1%. This increase was mainly due to (1) the increase of raw material cost from both the restaurants which the company owns itself as well as franchise restaurants and (2) increased service cost of outsourced warehouse and logistics.

The gross profit grew from THB 602.8 Mn in 2017 to THB 703.6 Mn in 2018, an increase of THB 100.8 Mn or 16.7%. The gross profit margin decreased slightly from 24.3% in 2017 to 24.1% in 2018 which was mainly due to the increased service cost of outsourced warehouse and logistics.



### **Selling Expenses**

Selling expenses increased from THB 86.6 Mn in 2017 to THB 100.3 Mn in 2018, an increase of THB 13.7 Mn or 15.8%. The main factors for the increase was increased marketing expenses. As a percent of total revenue, selling expenses remained stable at 3.4% during both 2017 and 2018.

### **Administrative Expenses**

Administration costs increased from THB 423.5 Mn in 2017 to THB 448.6 Mn in 2018, an increase of THB 25.1 Mn or 5.9%. This increase was mainly due to staff increase to support the future business expansion and higher accrued staff bonus. As a percent of total revenue, administrative expenses decreased from 16.8% in 2017 to 15.1% in 2018.

### **Finance Expenses**

Financial expenses increased slightly during the period from THB 24.5 Mn in 2017 to THB 24.6 Mn in 2018, an increase of THB 0.1 Mn or 0.5%. This was mainly due to increased average balance of short-term borrowing over the 12-month period.

### **Tax Expenses**

Income tax expense increased from THB 20.1 Mn in 2017 to THB 32.3 Mn in 2018, an increase of THB 12.2 Mn. This was due to higher profit from the restaurant business.

### **Net Profit**

For the 12 months of 2017 and 2018, the net profit increased from THB 81.8 Mn to THB 140.2 Mn respectively, an increase of THB 58.4Mn or 71.4% and the net profit margin increased from 3.3% to 4.7%. The main reasons for the increase were (1) higher revenue from sales and service (2) higher franchise fees income (3) increased efficiency in support functions which resulted in limited increase in administrative expenses.

### **Analysis of Financial Position**

#### **Assets**

As of 31 December 2017, and 31 December 2018, the Group had total assets of THB 1,588.9 Mn and THB 1,564.0 Mn respectively, a decrease of THB 24.9 Mn or 1.6%. The assets decreased mainly from a decrease in property, plant and equipment assets related to the reversal of provision for decommissioning costs.

#### **Liabilities**

As of 31 December 2017, and 31 December 2018, the Group had total liabilities of THB 1,223.3 Mn and THB 1,095.4 Mn respectively, a decrease of THB 127.9 Mn or 10.5%. The main



factors in the decrease was (1) decreased short term borrowing from financial institutions and (2) reversal of provision for decommissioning costs.

### **Shareholder Equity**

As of 31 December 2017, and 31 December 2018, the Group had shareholders' equity of THB 365.6 Mn and THB 468.6 Mn respectively, an increase of THB 103.0 Mn. This increase in shareholders' equity was mainly attributed to the company net profit during the period of THB 140.2 Mn. Other major changes to shareholder equity during the period were (1) increase in paid-up capital from THB 140.6Mn to THB 225.0 Mn as preparation for registration on The Stock Exchange of Thailand and (2) payment of shareholder dividend of THB 124.3 Mn.

### **Cash Flow Analysis**

Type of Cash Flow	For the Year Ending 31 Dec	
	2017	2017
	THB Mn	THB Mn
Net Cash from Operating Activities	398.0	264.7
Net Cash from Investments	(206.4)	(121.2)
Net Cash from Financing Activities	(186.2)	(134.5)
Increase (Decrease) in net cash and cash equivalents	<b>5.4</b>	<b>8.9</b>

Overall the company had an increase in net cash and cash equivalents during the year 2018 of THB 8.9 Mn.

### **Net Cash from Operating Activities**

The cash flows from operating activities was THB 264.7 Mn in 2018, a decrease of THB 133.3 Mn. Operating profit increased by THB 58.4 Mn but this was offset by a reduction in working capital due to (1) account payables which decreased by THB 18.9 Mn in 2018 compared to an increase of THB 85.1 Mn in 2017 (change of THB -104.0 Mn) and (2) accrued expenses which decreased by THB 4.8 Mn in 2018 compared to an increase of THB 22.7 Mn in 2017 (change of THB -27.5 Mn)

### **Net Cash from Investments**

The cash flows from investments increased from THB -206.4 Mn in 2017 to THB -121.2 Mn in 2018, an increase of THB 85.2 Mn. This was mainly due to (1) purchase of intangible assets relating to the Japanese brand "Sushi Cyu" in 2017 and (2) lower investment in new branch assets in 2018 compared to 2017.



### **Net Cash from Financing Activities**

The cash flows from financing activities increased from THB -186.2 Mn in 2017 to THB -134.5 Mn in 2018, an increase of THB 51.7 Mn. This was mainly due to (1) Decreased payment of dividend of THB 179.4 Mn in 2018 compared to 2017, (2) paid up capital increase of THB 84.4 Mn in 2018 (3) net decreased short term borrowings from financial institutions of THB 70 Mn in 2018 compared to net increase of THB 144.2 Mn in 2017.

### **Liquidity and Capital Structure**

As of 31 December 2018, the Group had current ratio of 0.32, increase from 0.27 in 2017. This improvement was mainly due to reduction in short-term borrowing from financial institutions during the period 2018.

Debt-to-equity ratio improved to 2.34 at end 2018 compared to 3.35 at end of 2017. This improvement was mainly due to (1) decrease in short-term borrowings from financial institutions (2) reversal of provision for decommissioning expenses and (3) increased shareholder equity related to the capital increase in preparation for registration on the stock exchange of Thailand.

Please be informed accordingly,

Yours Sincerely,

(Mrs. Yupaphan Ekasittikul)

Chief Financial Officer