

Management Discussion and Analysis for Q1 FY2019

Change of accounting period and new international financial reporting standards adoption

MC Group Public Company Limited and its subsidiaries (“MC” or “the Company”) changed in accounting period starting from 1st January to 31st December to the period from 1st July to 30th June, starting from the period ended 30th June 2018 onward. During the period, the Federation of Accounting Professions announced a new standard on international financial reporting 15: Revenue from contracts with customers (IFRS 15) which is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The Company and its subsidiaries agreed to adopt the new IFRS 15 Revenue prior to the effective date, resulting in the adjustment of financial statement in earlier period for comparison and impact toward result in adoption of such new standard financial reporting.

Economic outlook and retail industry

Domestic consumption in second-half year still has been more challenged if compared with first-half period due to sluggish growth in foreign tourist arrivals and shrinking purchasing power pressured from household debt, agricultural products and clearer picture of election next year.

Overall Business Performance

For Q1 FY2019 (for accounting period of July to September)

MC Group Public Company Limited (“the Company”) reported its total sales revenue of THB 815 mn. in Q1 2019, a decrease of 8.4% or equivalent to THB 75 mn. from the same period last year amidst continued spending slowdown and wait-and-see economy slows recovery. From current quarter, sales revenue from local department stores was more improved thanks to better product-mix management while sales revenue from free standing shops and chain department stores was down due to strategies of promotional campaign at points of sale to adopt with overall domestic purchasing power, resulting in the same store sales slipped by 6.6% from the same period last year. However, if compared with prior quarter, sales revenue was decreased by 5.3% or equivalent to THB 46 mn. from seasonal factor which current quarter (July to September) is the lowest retail off-season.

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Income Statement

(THB millions)	1Q'19 (IFRS)	1Q'18 (Adjusted)	% chg YoY
Revenue from Sales	815	890	(8.4%)
Total revenue	822	898	(8.5%)
Cost of Goods sold	327	416	(21.4%)
Selling expenses	266	276	(3.6%)
Administrative expenses	116	119	(2.5%)
Earnings before share of profit (loss) from JV	112	87	29.5%
Share of profit (loss) from JV	(9)	5	(291.3%)
EBIT	103	92	12.7%
Finance cost	0	1	(93.2%)
EBT	103	91	13.5%
Income tax expenses	6	2	180.9%
Net income	97	91	9.4%
Non-controlling interest	(3)	(3)	(6.6%)
Net income to the firm	94	85	10.1%
Gross profit margin	59.8%	53.2%	
Net profit margin	11.4%	9.5%	

As result of sales strategy and continuously cost management, the Company can increase the gross profit margin to be 59.8% from 53.2% in same period of Y2017 and recorded overall gross profit of THB 488 mn. or a 2.9% increase from the same period of last year. Gross profit margin of the apparel business was 61.6% increased from 54.9% while gross profit margin of the watch business was fallen slightly to 42.8% from 45.8% from the same period last year.

Selling, general and administrative (SG&A) expenses were at THB 382 mn. a slight drop of 3.3% or THB 13 mn. from the same period of Y2017 mainly due to lower marketing expenses. SG&A expenses to total sales revenue edged up to 46.9% from 44.4% in the same period last year.

The Company's earnings before interest, taxes, depreciation and amortization (EBITDA) for the first three-month period was at THB 136 mn. increased by 6.7% or equivalent to THB 9 mn. from the same period last year, resulting in an EBITDA margin of 16.6%, which rose from 14.2% in the same period last year.

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The effective tax rate for the 6 months period of 2018 stood at 5.8%, thanks to the tax privileges under Investment Promotion Act granted to the Company's subsidiary. These tax privileges will gradually expire in 2019 and 2021.

The Company registered a net profit of THB 94 mn., up 6.8% or equivalent to THB 6 mn. from the same period last year as a result of higher gross profit margin. The Company's profit margin was at 11.4% increased from 9.5% from the same period of 2017.

As of 30th September 2018, the Company had a total of 896 outlets according to the distribution channel management as follows:

By distribution channel	Apparel and lifestyle Products under "MC Group"		Watch Products under "Time Deco"	
	Number of POS	Increase (+) /Decrease(-)	Number of POS	Increase (+) /Decrease(-)
Free standing shop	291	+3	16	+2
Modern Trade	493	-	76	-3
Mobile Unit	6	-	-	-
Total POS (Domestic)	790	+3	92	-1
International markets	14	-	-	-
Total	804	+3	92	-1

*During July to September 2018, Mc Group has 7 new points of sale and 8 enlarged stores.

Financial Position Analysis

(THB millions)	30-Sep-18 (IFRS)	30-Jun-18 (Adjusted)	% chg
Cash and short-term investments	1,181	1,011	16.8%
Trade receivables	372	414	(10.2%)
Inventory	2,156	2,179	(1.1%)
Other assets	1,262	1,266	1.3%
Total assets	4,970	4,870	2.1%
Trade payables	233	210	11.3%
Interest-bearing liabilities	0	16	(100.0%)
Other liabilities	445	446	(0.3%)
Total liabilities	678	671	1.0%
Equity attributable to the firm	4,146	4,053	2.3%
Non-controlling interest	146	146	0.4%
Shareholders' equity	4,293	4,199	2.2%

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Assets

As of 30 September 2018, the Company recorded total assets of THB 4,970 mn. compared to THB 4,870 mn. as of 30 June 2018. An increase of THB 100 mn. in total assets was main results of

- 1) An increase in cash and short-term investment of THB 170 mn.
- 2) A decrease in trade receivables of THB 42 mn.
- 3) A decrease in inventory of THB 23 mn.

Liabilities

As of 30 September 2018, the Company had THB 678 mn. in total liabilities, increased by THB 7 mn. from THB 671 mn. as of 30 June 2018. This was mainly due to a rise of THB 23 mn. In trade payable and a fall of THB 16 mn. in short-term loan.

Shareholders' Equity

As of 30 September 2018, shareholders' equity of the Company amounted to THB 4,293 mn., rising by THB 94 mn. from THB 4,199 mn. as of 30 June 2018. The main factors contributing to an increase of total comprehensive income for 3m FY2019.

Liquidity

As of 30 September 2018, cash and cash equivalents of the Company increased to total amount of THB 468 mn. with net rose by THB 117.6 mn. from 30 June 2018 as a result of following factors:

- 1) Cash flow from operations of THB 199.4 mn. driven mainly by an increase of the Company's cash profit of THB 114.9 mn., a decrease from trade receivables of THB 43.2 mn., a fall in inventories of THB 16.5 mn. and payments to trade payables of THB 16.7 mn.
- 2) Cash flow from investment activities of THB 64.3 mn. due to a decrease in short-term investment of THB 50.3 mn. and the net purchase of property, plant and equipment for business expansion of THB 12.1 mn.
- 3) Cash flow from financing activities of THB 17.5 mn. of which came from the payment of short-term loans from financial institutions of one of the Company's subsidiaries at THB 15.9 mn.

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Outlook

The Company divided into 2 business groups to accommodate its strategic plans which the first business group is Brand Management Group and the second business group is distribution channels expansion

Most recently, the Company just launched U-P brands which are activewear products that offer collections of apparels harmoniously combining streetwear and sportswear together. U-P products are both stylish and functional for all kinds of fun and energetic activities suitable for customer groups with active lifestyle. Currently, the website UPACTIVELIFE.COM has introduced the new product release for many varieties and the customer can purchase through mcshop.com and U-P flagship store at Stadium One. In addition, U-P has many activities and events selected for its customers at Mc stores, Warrix stores including additional points of sale expansion at leading department stores to gain more targeted customers.

The expansion of points of sales and space management for mcmc outlet store helps to penetrate the local community thoroughly and increase more capabilities of product management. In November and December, the first-two branches outside PTT gas station are at Global House, Wiang Kum Kam and Phang, Chiang Mai. Its retail platform via mcshop.com that also sources various popular products under different brands from business partners that help meet the needs of consumers, e.g. 'Beauty Buffet' personal care, 'Anello' Bag. In addition, the Company entered into a joint venture with Mc Million (Thailand) Company Limited in October with the purpose to integrate its warehouse management for e-commerce business that includes warehouse space management, searching and packaging as well as delivery through the Company's online retail platforms. In this FY2019, MC Group continues to grow more sale areas to approach more customer groups and plans to open more 40 new points of sale for both free standing shops and modern trade.

Brand management and trade platform management together will enable the Company to keep abreast of the world full of new technologies that play important roles in changing consumers' lifestyles and behaviors. Moreover, delivery and services are enhanced to ensure quality through effective and continuous shared experience with customers for all channels under retail ecosystem. The Company aspires to be the leader in lifestyle product retail business who creates long-term results in a sustainable manner.

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Key Financial Ratios

Financial Ratios			
Liquidity Ratios		30-Sep-18	30-Jun-18
Current Ratio	times	6.2	6.1
		Q1 2019	Q1 2018
Average Days Receivable	days	43	58
Average Days in Finished Goods Inventory	days	579	446
Average Days Payable	days	61	116
Cash Cycle	days	561	387
Profitability Ratios		Q1 2019	Q1 2018
Gross Profit Margin	%	59.8	53.2
- Apparel business	%	61.6	54.9
- Time Deco	%	42.8	45.8
Net Profit Margin	%	11.4	9.8
- Apparel business	%	12.2	10.1
- Time Deco	%	5.8	7.4
EBITDA Margin	%	16.6	14.2
Return on Equity (Annualized)	%	9.2	8.9
Efficiency Ratios		Q1 2019	Q1 2018
Return on Assets (Annualized)	%	7.6	7.0
Leverage Ratios		30-Sep-18	30-Jun-18
Interest Bearing Debt to Equity	times	-	0.00
Debt to Equity Ratio	times	0.16	0.16