

# MC GROUP

## Management Discussion and Analysis for the 1<sup>st</sup> Quarter of 2015

### 1. Overall Business Performance

For 1Q 2015, MC GROUP PLC (“Company”) reported sales revenue of THB 892 mn and recorded a moderate sales growth of 4.3% compared to the same period last year. This growth mainly stemmed from the incessant expansion of points of sales especially in free standing shop format as well as other new sales channels to respond to changing purchasing behavior of the consumers and to support its expansion in apparel and lifestyle product retail business. As of 31 March 2015, number of points of sales reached 830 locations; equivalent to 11 additional points of sales opened since the end of 2014 which can be classified as follow:

- 10 new points of sales in Thailand, totaling 808 locations
  - o 8 new free standing shops, totaling 259 locations
  - o 2 new locations in modern trade venues, totaling 544 locations
  - o No new mobile unit and other channels, staying at 5 locations
- 1 new point of sales in foreign countries, totaling 22 locations

Same store sales growth was negatively affected by the sluggish recovery in domestic consumption during the period and dropped 5.4% from the same period last year.

Regarding the profitability, the Company recorded THB 500 mn in gross profit for the 1Q 2015 or up 5.9% from the same period in 2014. The improvement in gross profit was derived from rising sale revenues and higher gross profit margin from higher sales contributions from free standing shops which stood at 50% of total sales revenue compared to 46% last year. Moreover, production line enhancement and effective cost control also contributed to this surge in gross profit. Gross profit margin jumped from 55.3% in 1Q 2014 to 56.1% for 1Q 2015.

EBITDA for the period declined at a rate of 9% from the same period last year to THB 235 mn while EBITDA margin dropped moderately from 29.8% in 2014 to 26.0%. Investments in new products and brands, increasing depreciation costs from expanding free standing shop channel as well as higher rentals and service and other fees from enlarging sales network and manpower to support future business growth led to higher costs and lower EBITDA while sales was still affected from weak domestic consumption.

The Company's effective tax rate for 1Q 2015 equaled to 2.6%, compared with 11.6% in the same period in 2014. The significant drop in effective tax rate was driven primarily by an increase in earnings contribution of one of affiliated companies benefiting from BOI (Thailand Board of Investment).

The Company posted a net profit of THB 195 mn or a 5.6% decrease from the same period last year and recorded a drop of net profit margin from 23.6% in 2014 to 21.4% resulted from the aforementioned higher selling expenses to total sales revenue.

# MC GROUP

## Financial Position Analysis

### Assets

As of 31 March 2015, the Company held a total asset of THB 5,104 mn compared to THB 4,857 mn as of 31 December 2014. An increase of THB 247 mn in total assets was mainly a result of:

- 1) An increase in inventory of THB 230 mn resulted from higher inventory level to support more points of sales and new brands as well as a slowdown in domestic consumption.
- 2) A net increase in property, plant and equipment of THB 40 mn from an investment in plant equipments to support production expansion, warehouse and sales channels.
- 3) An addition of THB 23 mn in intangible assets from the newly-implemented IT system to enhance efficiency in management.
- 4) A decline in account receivables of THB 93 mn due to seasonal effects of retail business as consumption peaked at the end of the year and then adjusted downward during the first quarter.

### Liabilities

As of 31 March 2015, the Company held a total liability of THB 979 mn, up THB 48 mn from THB 932 mn as of 31 December 2014. This is due to the additional THB 77 mn in income tax payables, THB 26 mn increase in short term loans from financial institutions of one of subsidiaries and a drop in account payables of THB 55 mn from payments made to trade creditors.

### Shareholders' Equity

As of 31 December 2015, shareholders' equity of the Company surged THB 200 mn to THB 4,124 mn from THB 3,925 mn as of 31 December 2014. The increase was derived mainly from the total net profit of THB 195 mn from 1Q 2015.

### Liquidity

For 1Q 2015, the Company's cash and equivalents fell THB 210,000 as a result of the following factors:

- 1) Cash flow from operating activities of THB 34 mn: cash profit of THB 231 mn was used to support business expansion which led to an increase of inventories of THB 227 mn.
- 2) Cash flow from investment activities of THB 59 mn: this cash flow consisted of THB 74 mn from the purchase of property, plant and equipment to expand business and an investment in new IT system of THB 24 mn to enhance efficiency in management.
- 3) Cash flow from financing activities of THB 24 mn: This came from a cash inflow of THB 26 mn from short term loans.

# MC GROUP

## Income Statement:

<i>(THB millions)</i>	Q1 '15	Q1 '14	% chg
Sales revenue	892	855	4.3%
<b>Total revenue</b>	<b>911</b>	<b>876</b>	<b>3.9%</b>
COGS	392	382	2.5%
Selling expenses	214	182	17.9%
Administrative expenses	98	72	36.5%
Finance cost	1	2	N/M
<b>EBT</b>	<b>205</b>	<b>239</b>	<b>(14.1%)</b>
Income tax expenses	5	28	(80.6%)
<b>Net income</b>	<b>200</b>	<b>211</b>	<b>(5.3%)</b>
Non-controlling interest	4	4	N/M
<b>Net income to the firm</b>	<b>195</b>	<b>207</b>	<b>(5.6%)</b>

## Balance Sheet:

<i>(THB millions)</i>	31-Mar-15	31-Dec-14	% chg
Cash and cash equivalent	1,667	1,699	(1.9%)
Account receivables	539	634	(15.0%)
Inventory	1,766	1,536	15.0%
Other assets	1,132	988	14.6%
<b>Total assets</b>	<b>5,104</b>	<b>4,857</b>	<b>5.1%</b>
Account payables	480	491	(2.1%)
Interest-bearing liabilities	181	155	16.7%
Other liabilities	318	286	11.2%
<b>Total liabilities</b>	<b>979</b>	<b>932</b>	<b>5.1%</b>
Equity attributable to the firm	4,014	3,819	5.1%
Non-controlling interest	111	106	4.1%
<b>Shareholders' equity</b>	<b>4,124</b>	<b>3,925</b>	<b>5.1%</b>

# MC GROUP

## Key Financial Ratios:

<b>Financial Ratios</b>			
<b><u>Liquidity Ratios</u></b>		31-Mar-15	31-Dec-14
Current Ratio	times	4.37	4.49
		Q1 2015	Q1 2014
Average Days Receivable	days	59	60
Average Days in Inventory	days	342	291
Average Days Payable	days	111	80
Cash Cycle	days	290	270
<b><u>Profitability Ratios</u></b>		Q1 2015	Q1 2014
Gross Profit Margin	%	56.1	55.3
- Clothing business	%	57.0	56.3
- Time Deco	%	49.7	47.7
Net Profit Margin	%	21.4	23.6
- Clothing business	%	23.7	26.0
- Time Deco	%	8.2	9.1
Return on Equity (Annualized)	%	19.9	22.8
<b><u>Efficiency Ratios</u></b>		Q1 2015	Q1 2014
Return on Assets (Annualized)	%	15.7	17.9
<b><u>Leverage Ratios</u></b>		31-Mar-15	31-Dec-14
Debt to Equity Ratio	times	0.24	0.24