

MEDIA INDUSTRY AND BUSINESS IMPACT ANALYSIS

The Bank of Thailand reported GDP growth of 3.2% in 2016, an increase from the previous year (GDP growth of 2.8% in 2015). Government expenditure continued to be an important driver, followed by the encouraging recovery in exports and private consumption, growing 0.5% and 3.1% YoY respectively. The end of 3 years of export contraction and reflation of commodity prices are encouraging signs of broader growth cylinders.

Nevertheless, advertising expenditures reported a double digit decline by 11.2% YoY to THB 106,702mn in 2016/17, mainly due to the one-month moratorium on digital advertising and postponement of activities during the mourning period subsequent to the passing of His Majesty King Bhumibol Adulyadej. Traditional media (Newspaper, Magazine and Radio) was hardest hit, with a decrease of 21.2% YoY to THB 17,071mn, followed by the TV sector, which declined by 14.9% YoY to THB 70,051mn.

In 2016/17, Out-of-Home media, which includes Transit, Outdoor and In-store media (collectively, “OOH”) and Online media – segments which VGI focuses on – recorded THB 12,052mn and THB 1,687mn in advertising expenditure, an increase of 25.5% and 35.9%, respectively. VGI outperformed the overall industry, benefiting from a shift in people’s behaviour to spend more time outside and the rapidly growing influence of Online media, albeit from a low base.

Overall media spending is heavily asymmetrical, where upcountry has long been an underserved geographical segment. With 80% of the households and 75% of the country’s household income derived from areas beyond Bangkok and its vicinities, only 30% of OOH media spend has been allocated to this market. As advertisers start to realise the growth potential of this segment, OOH media spending growth should continue to outperform.

Our media portfolio covers all forms of OOH advertising such as Transit, Outdoor, Office Building, Aviation and Activation, altogether amounting to THB 6bn in media capacity nationwide. This business unit is expected to continue to grow substantially on the back of mass transit line expansion both domestically and internationally, new office building supply, digitisation of billboards and the increasing popularity of low cost airlines. Our OOH media complements our nascent Digital services business, which offers targeted and measurable advertising. This places the Company in a good position to offer optimal solutions to our customers as well as capturing market share in OOH and Online media in the future.

IMPORTANT EVENTS IN 2016/17

2016/17 marked another important milestone for VGI, as we successfully expanded our media coverage by making investments in high potential out-of-home media companies as well as making a presence in Malaysian market. In addition, VGI achieved our goal by transforming ourselves from being just a real media estate agent to become a “Data Centric Media Hypermarket”. Altogether, VGI has become the largest OOH media company.

May 2016

- Acquired an additional 375 million shares (or 12.5%) of Master Ad Public Company Limited (“MACO”), resulting in a total holding of 1,126 million share (or 37.4%).

Billboard



CBD LED Network



August 2016

- Completed the acquisition of an additional 10.0% in Aero Media Group Company Limited (“Aero Media”) with total investment of THB 80mn, thereby increasing our holding in Aero Media to 28.0%¹.

September 2016

- Entered into the Malaysian market through a 19.0% investment with an option to invest up to 30.0% in Titanium Compass Sdn Bhd (“TCSB”). TCSB has successfully been awarded a 10-year contract by the Mass Rapid Transit Corporation to manage advertising media across 31 stations of Sungai Buloh – Kajang Line (“SBK Line”) or Klang Valley MRT (“KV MRT”) with total length of 51 kilometers and 58 trains.

SBK Line



November 2016

- Acquired 40.0% of ordinary shares of Demo Power (Thailand) Company Limited (“Demo Power”) with a total investment of THB 412.5mn. Demo Power is the largest demonstration service company in Asia, with a network covering more than 1,000 stores nationwide in Thailand and more than 10 years’ experience in demonstration business.

March 2017

- Completed an acquisition transaction of 90.0% of Bangkok Smartcard Systems Company Limited and BSS Holding Company Limited on 21 March 2017.

The first kick in synergy between VGI and Rabbit Group



May 2017

- On 16 May 2017, the BOD resolved to approve the cash dividend payment from the operating results of 2H 16/17 at THB 0.025 per share (a total of THB 172mn). The total dividend payment from 2016/17 operations will be equal to THB 412mn (subject to the resolution of 2017 Annual General Meeting of Shareholders, which will be held on 6 July 2017).

¹On 31 October 2016, Aero Media issued 6,080 additional new shares to its partner resulting in the reduction of VGI’s shareholding from 30.0% to 28.0% in Aero Media as of 31 March 2017.

2016/17 SNAPSHOT & ANALYSIS
CONSOLIDATED P&L SNAPSHOT

THB (mn)	2015/16 (Restated)	2016/17	YoY (%)
Operating revenue	2,341	3,052	30.4%
Cost of sales	881	1,269	44.1%
Gross profit	1,461	1,783	22.0%
EBITDA	1,391	1,356	-2.5%
Net profit from operation (excl. NCI)	806	755	-6.3%
Net profit FS (excl. NCI)	941	826	-12.1%

Gross profit margin	62.4%	58.4%	
EBITDA margin	59.4%	44.5%	
NPAT margin from operation (excl. NCI)	34.4%	24.7%	
NPAT margin FS (excl. NCI)	40.2%	27.1%	

Note:

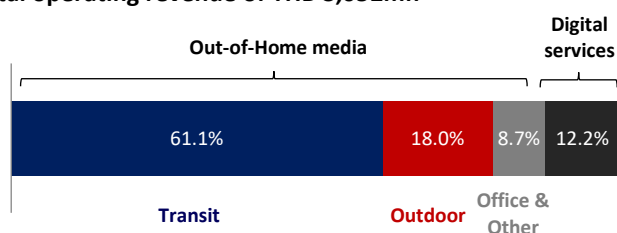
*The Company reclassified commission rebate in cost of sales to be selling expense, which started in 1Q 2016/17 onwards. Reclassified the calculation of net profit from operation by excluding share of profit (loss) from investments in a joint venture and associates as well as non-controlling interests of the subsidiaries.

**The Company restated 2015/16 financial performance after the consolidation of Rabbit Group under the common control basis.

PERFORMANCE ANALYSIS (2016/17 vs 2015/16)

In a challenging environment, the VGI Group reported a consolidated operating revenue of THB 3,052mn, an increase of 30.4% YoY. The growth was stemming in turn from both M&A transactions and organic growth of existing entities. We consolidated revenue from Outdoor media segment after the consolidation of MACO in June 2016. Moreover, the Company consolidated full-year results of BSS and BSSH, altogether known as “Rabbit Group”, under common control basis into the Company (the VGI Group’s financial statements are restated as if the combination had taken place since 1 April 2014)

After VGI spent a year expanding its media coverage in various OOH media platform as well as transforming itself from being solely a real media estate agent to becoming a “Data Centric Media Hypermarket”, we successfully established a well-diversified business portfolio. Currently, VGI is focusing on two main businesses comprising 1) OOH media and 2) Digital services business.

REVENUE CONTRIBUTION
Total operating revenue of THB 3,052mn

REVENUE (THB MN)

	2015/16 (Restated)	2016/17	YoY (%)
Out-of-Home media	2,083	2,681	28.7%
Transit	1,793	1,865	4.0%
Outdoor	-	550	n/a
Office and Other	240	266	11.1%
Modern Trade ¹	50	-	n/a
Digital services	258	371	43.8%
Total revenue	2,341	3,052	30.4%

¹2015/16, there was a Modern Trade revenue of THB 50mn, which we discontinued the operations since 1 May 2015.

1. Out-of-Home Media Business

OOH media revenue contributed 87.8% of total revenue or THB 2,681mn. Revenue from OOH media increased by THB 598mn, or 28.7% YoY contributed to the higher consolidated revenue from Outdoor segment. Adjusted for the business acquisitions, our OOH segment saw slightly lower-than-expected revenue growth as a result of the suspension of all advertising during the official 30-day mourning period tribute to the late King (total advertising expenditures declined by 11.2% YoY) as well as subdued macroeconomic situation in Thailand.

Within the OOH media, **Transit media** revenue increased by 4.0% YoY to THB 1,865mn. This product group has already benefited from the integration of the newly acquired business segment “Digital Services”. During the end of 2016/17, the Rabbit Group launched a “Station Sponsorship” campaign by selectively utilised lower occupied space at 3 BTS stations through their data analytics. The campaign was able to build on brand awareness, and then by utilising several online mobile channels are able to engage such commuters throughout their entire journey through data analytics of daily commuters’ behavior. In return, this campaign is deepening our services with targeted and measurable advertising capabilities. Moreover, it was partially improved our Transit media’s occupancy from 79% in 2015/16 to 81% in 2016/17. We expect to see more initiatives with the remaining media platforms in the near future.

Meanwhile, **Office Building and Other media** segment remains encouraging, recording revenue growth of 11.1% YoY at THB 266mn from THB 240mn, mainly from the continuous increase in the number of office buildings, to 162 buildings in this year and up from 135 buildings in 2015/16 which is surpassing our target.

Our **Outdoor media** revenue was THB 550mn after a consolidation of MACO made in June 2016. The growth of MACO itself was mainly from an expansion through 70.0% acquisition in Multi Sign Company Limited.

2. Digital Services business

Digital Services business contributed 12.2% of total revenue or THB 371mn. Revenue increased by THB 113mn or 43.8% YoY. This robust growth was mainly due to an increase in the revenue generated from 1) a growth in the revenue from system development, card issuing fee as well as the improvement in marketing and co-promotion revenue of Rabbit cards and 2) an increase in insurance commission revenue, IT services revenue generated by Rabbit Internet Group.

Cost of Sales increased 44.1% YoY from THB 881mn to THB 1,269mn, mainly due to additional cost of sales from the abovementioned newly acquired entities. This resulted in a decrease in **gross profit margin** to 58.4% in 2016/17 from 62.4% last year. **Selling, General and Administrative expenses** were affected to a large extent by VGI Group’s expansion strategy, the THB 490mn increase to THB 1,018mn was almost entirely attributed to the newly acquired in MACO’s outdoor media segment and Rabbit Group. MACO is in the process of digitising its media in order to capture the acceleration of the migration of advertising businesses from static media to digital media, which corresponds to an increase of expenses. Also, Rabbit group is rapidly developing and investing in its burgeoning data driven media capacity to uncover opportunities for enhances customers and shareholder return. Furthermore, one-time expenses such as legal and consulting fees incurred in connection with the acquisitions, survey expenses as well as management fees during the transitional period were believed to have a short-term negative contribution to the Company’s performance in 2016/17.

As a result, **net profit from operation** fell to THB 755mn which decreased by 6.3% YoY from THB 806mn in the same period last year. Nevertheless, we foresee that the integration of our OOH media platform, which are primarily aimed at increasing brand awareness, are strategically supplemented by our data-driven business model from Rabbit Group which will generate revenue and earnings potential starting from next year (please see further detail for 2017/18’s outlook).

FINANCIAL POSITION**ASSETS**

ASSETS BREAKDOWN	31 MARCH 2016 (Restated)		31 MARCH 2017	
	(THB mn)	% out of total	(THB mn)	% out of total
Cash & cash equivalents and short-term investments	1,658	29.8%	1,210	15.2%
Trade & other receivables	484	8.7%	763	9.6%
Equipment – net	1,330	23.9%	1,503	18.8%
Investment in JVs, associates and other long-term investments	781	14.0%	1,373	17.2%
Goodwill	236	4.2%	1,487	18.6%
Other assets	1,074	19.3%	1,649	20.6%
Total assets	5,563	100.0%	7,985	100.0%

Total assets as of 31 March 2017 stood at THB 7,985mn, an increase of THB 2,422mn or 43.5% from THB 5,563mn as of 31 March 2016. **Total current assets** were THB 2,613mn, decreasing by 1.3% or THB 34mn. The movement of financial position was primarily attributed to the consolidation of MACO's financial statement made in June 2016, and the Rabbit Group made in March 2017. These resulted in 1) a decrease in cash & cash equivalents and short-term investments of THB 447mn mainly from cash used for investing in Rabbit Line Pay, 2) an increase in trade and other receivables of THB 279mn (see further details in trade and other receivable section), 3) an increase in bank account for advances received from cardholders of THB 90mn, 4) an increase in prepaid expense from rental cost of MACO's billboard of THB 72mn and 5) an increase in short-term loans to related parties of THB 38mn.

Total non-current assets stood at THB 5,372mn, an increase of 84.2% or THB 2,456mn primarily due to the abovementioned acquisition resulting in an increase of 1) a goodwill of THB 1,251mn separated into MACO of THB 880mn and Multi Sign of THB 370mn, 2) an investment in Rabbit Line Pay, a joint venture of BSSH of THB 701mn, 3) an increase in intangible assets - net of THB 361mn, 4) an increase in equipment –net of THB 173mn. However, the increase was partially offset by a decrease in investment in associated company of THB 101mn as a result of the change in ownership in MACO from associated company to VGI's subsidiary.

Trade and other receivables were THB 763mn, an increase of THB 279mn. The increase was in-line with higher sales in 2016/17. The Company gives 60 – 90 days credit terms to customers. For accounts receivables of more than 120 days, the Company has a policy for allowance for doubtful accounts, which also considers the customers' payment history and credit-worthiness. As of 31 March 2017, the allowance for doubtful accounts was THB 34mn, an increase of THB 24mn following our consolidation of MACO.

AGEING OF TRADE RECEIVABLES (THB mn)	31 MARCH 2016	31 MARCH 2017
Not yet due	383	577
Up to 6 months	35	93
Over 6 months	36	39
Total	454	709
% of total receivables	93.8%	93.0%
Allowance for doubtful debt	10	34
% of total receivables	2.0%	4.5%

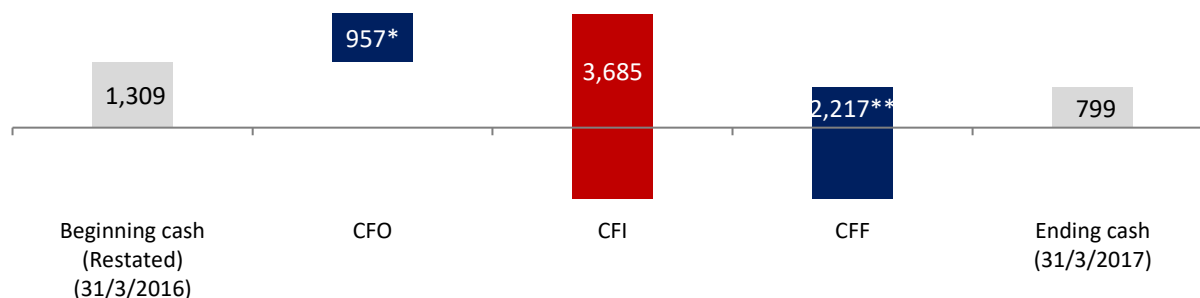
LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES AND EQUITY BREAKDOWN	31 MARCH 2016 (Restated)		31 MARCH 2017	
	(THB mn)	% out of total	(THB mn)	% out of total
Short term loans	240	4.3%	778	9.7%
Trade & other payables	164	3.0%	536	6.7%
Accrued expenses	292	5.3%	400	5.0%
Current portion of long-term loans from financial institutions	33	0.6%	246	3.1%
Other current liabilities	777	13.9%	848	10.6%
Long term loan	173	3.1%	1,933	24.2%
Other non-current liabilities	49	0.9%	139	1.7%
Total liabilities	1,728	31.1%	4,880	61.1%
Shareholders' equity	3,835	68.9%	3,105	38.9%
Total liabilities and equity	5,563	100.0%	7,985	100.0%

Total liabilities were THB 4,880mn, an increase of THB 3,152mn or 182.4% from THB 1,728mn as of 31 March 2016 mainly from increase in 1) long-term loan from financial institution of THB 1,760mn mainly for Rabbit Group's transaction, 2) short-term loans of THB 538mn mainly for an acquisition of Demo Power, 3) trade and other payables of THB 372mn, 4) current portion of long-term loans from financial institutions of THB 213mn and 5) accrued expense of THB 107mn.

Total equity was THB 3,105mn decreasing by THB 730mn or 19.0% mainly from a differences on business combination (under common control) between VGI and Rabbit Group of THB 672mn. Return on equity for 2016/17 was 23.8%.

LIQUIDITY AND CASH FLOW (THB mn)



*After tax (THB 187mn) and interest expense (THB 26mn)

**Included translation adjustment of THB 5mn

For the twelve months ended 31 March 2017, **cash and cash equivalents** reached THB 799mn, a decrease of 39.0% or THB 511mn mainly from cash used for investing in Rabbit Line Pay. Cash from operating activities was THB 1,170mn, increasing by 17.2% or THB 172mn. After deducting cash paid for corporate income tax of 187mn (12M 2015/16: THB 246mn) and cash paid for interest expenses of THB 26mn (12M 2015/16: THB 21mn), **net cash from operating activities** was THB 957mn. **Net cash used in investing activities** was THB 3,685mn. The key components are cash paid for purchase of Rabbit Group, Rabbit Line Pay, MACO (included Multi Sign) and Demo Power of THB 1,956mn, THB 750mn, THB 467mn and THB 413mn, respectively. **Net cash from financing activities** was THB 2,213mn, primarily from long-term loans from financial institution of THB 2,000mn for financing Rabbit Transaction, short-term loans from financial institution of THB 838mn and cash received from an issuance of ordinary shares to Ashmore OOH Media of THB 428mn, nevertheless, the increase was offset by dividend payment and long-term loans repayment of THB 652mn and THB 343mn, respectively.

FINANCIAL RATIOS

Profitability Ratios		FY 2015/16	FY 2016/17	Liquidity Ratios		FY 2015/16	FY 2016/17
Gross profit ¹	(%)	62.4%	58.4%	Current ratio	(times)	1.8	0.9
Operating EBITDA	(%)	59.4%	44.5%	Quick ratio ⁵	(times)	1.7	0.9
Cash-to-net profit	(%)	63.4%	94.8%	Account receivable turnover	(times)	4.5	4.9
Net profit (excl. NCI)	(%)	36.4%	24.6%	Average collection period	(days)	81.8	74.6
Return on equity ²	(%)	31.6%	23.8%	Payable days	(days)	81.0	100.8
Efficiency Ratios				Leverage Ratios			
Return on assets ³	(%)	19.1%	12.2%	Liability to Equity ⁶	(times)	0.5	1.6
Return on fixed assets ⁴	(%)	85.2%	82.8%	Debt to equity ⁷	(times)	0.1	1.0
Asset turnover	(times)	0.5	0.5				

¹Calculated from revenue from services

²Net Profit (Annualised) / Average Total Shareholders' equity (average of outstanding at end of the same period in the previous year and at end of this year)

³Net Profit (Annualised) / Average Total Assets (average of outstanding at end of the same period in the previous year and at end of this year)

⁴(Net Profit + Depreciation) / Net Average Non-current Asset (average of outstanding at end of the same period in the previous year and at end of this year)

⁵(Current Assets – Other Current Assets) / Average Current Liabilities (average of outstanding at end of the same period in the previous year and at end of this year)

⁶Total liability/ total shareholder's equity

⁷Total interest bearing debt/ total shareholders' equity

MANAGEMENT OUTLOOK

For 2017/18 we focus on our goal to become a “Data-centric Media Hypermarket” – a one-stop shop for “Out-of-Home” media that is enhanced with our newly acquired “Digital services” business. We expect to extract and realise more shareholder and customer value from synergies of our well-diversified business platforms and our enlarged media inventory.

Further details are as follows:

- Total revenue is expected to reach THB 4,000mn driven by robust performance across all of our business segments.
- Transit media revenue is expected reach THB 2,150mn, primarily from an increase in rack-rate and occupancy that is in part bolstered by synergies from Rabbit Media.
- Outdoor Media is expected to recognise revenue of THB 950mn, mainly from the full year consolidation of MACO’s acquisition of Multi Sign Company Limited last year, additional M&A and digital conversion of static billboards.
- Digital services business managed by Rabbit Group is expected to generate THB 600mn for VGI, mainly driven by the full year revenue recognition from BSSH’s subsidiaries and additional revenue from cross media campaigns.
- Lastly, Office Building and Other media revenue is expected reach THB 300mn, mainly driven by the expansion of our office building network to 170 buildings (162 buildings as of March 2017) as well as an increase in package price.

Total CAPEX for 2017/18 is expected to be THB 700mn, comprising of THB 340mn at VGI level, THB 210mn from MACO and THB 150mn from Rabbit Group.

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Chitkasem Moo-Ming
(Chief Financial Officer)