



Ref. FN. 036/2017

Management Discussion and Analysis
For operation of the second quarter of year 2017

FN Factory Outlet Public Company Limited was founded in 2000 and has been operated the outlet business, featuring both house brand products and other brand products. To date, the Company has nine outlets, i.e. Phetchaburi Branch, Kancharaburi Branch, Pattaya Branch, Pak Chong Branch, Sing Buri Branch, Hua Hin Branch, Sriracha Branch, Phra Nakorn Sri Ayutthaya Branch and Hat Yai Branch (which started to operate since 6 April 2017). The Company plans to open at least three new outlets by 2018.

Industry Overview

In term of the retail industry in 2Q17, low growth rate has been continued from the previous quarter due to the higher household debts and credit card debts from middle-low consumers in which affected to limited buying power. For the 2H17, although the government has announced policy to urge economic, the majority of policy related with investment in government and infrastructure which take a period of time to affect retail industry. Thus, retail industry in 3Q17 is expected to show constant growth and arise in 4Q17.

Performance Analysis

Unit : MB	2Q17	2Q16	%YoY	1Q17	%QoQ
Net sales	250.70	266.68	(5.99)	256.13	(2.12)
Other income	12.75	8.53	49.47	10.57	20.62
Total revenues	263.45	275.21	(4.27)	266.70	(1.22)
Cost of goods sold	132.88	144.09	(7.79)	145.94	(8.96)
Distribution costs and administrative expenses					
Distribution costs	47.18	34.63	36.24	37.54	25.68
Administrative expenses	57.14	46.04	24.11	55.05	3.80
Earnings before interest and taxes (EBIT)	26.26	50.45	(47.95)	28.17	(6.78)
Financial costs	0.03	4.48	(99.33)	0.04	(25.00)
Income tax expenses	5.34	9.67	(44.78)	5.46	(2.20)
Net profit	20.89	36.30	(42.45)	22.68	(7.89)

1H17	1H16	%YoY
506.83	525.79	(3.61)
23.32	16.84	38.48
530.16	542.63	(2.30)
278.81	287.60	(3.06)
84.73	67.99	24.62
112.19	92.22	21.65
54.43	94.82	(42.61)
0.07	8.02	(99.13)
10.79	17.84	(39.52)
43.56	68.95	(36.82)

Earnings before interest, taxes, depreciation and amortization (EBITDA)	40.18	60.42	(33.51)	41.38	(2.90)
Depreciation and amortization	13.92	9.98	39.48	13.21	5.37

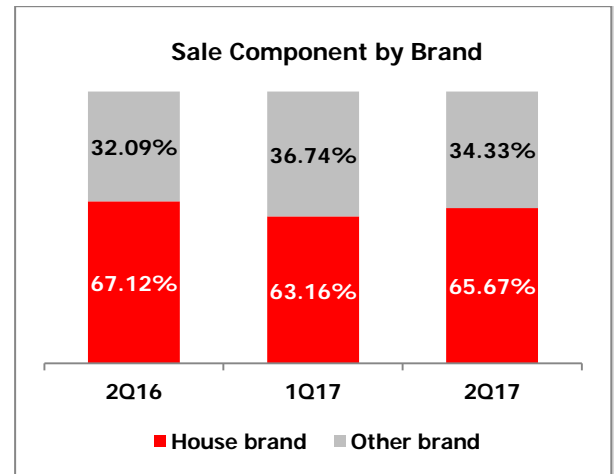
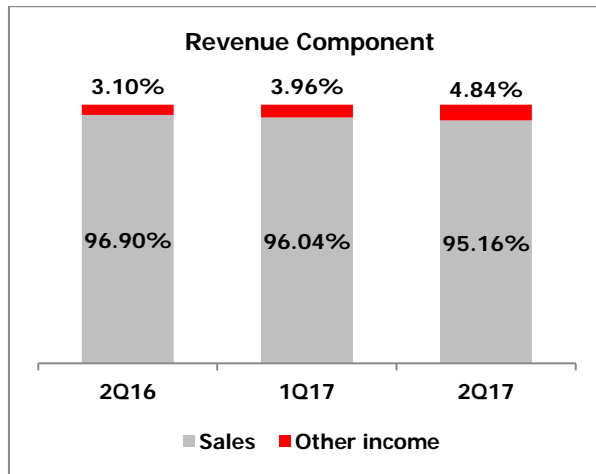
81.55	114.62	(28.86)
27.12	19.80	36.97

Key financial ratio related with operating result (%)	2017			2016		
	2Q17	1Q17	%YoY	2Q16	1Q16	%YoY
Gross profit margin (%)	47.00	43.02	1.03	45.97	44.99	(0.31)
Distribution costs and administrative expenses to total revenue (%)	39.60	34.72	10.29	29.31	37.14	7.62
Net profit margin (%)	7.93	8.50	(5.26)	13.19	12.71	(4.49)

1. Total revenues

For the second quarter of year 2017

Total revenue in 2Q17 decreased by 0.27% YoY and 1.22% QoQ as a result of the decrease in sales whereas other income increased by 49.47% YoY and 20.62% QoQ.

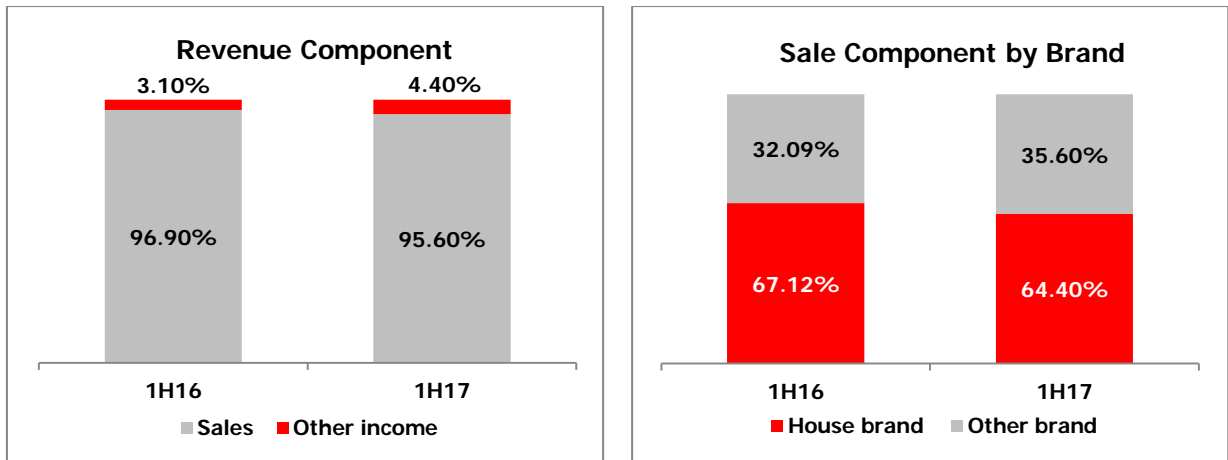


The decrease of 2Q17 sales compare with 2Q16 and 1Q17 was attributable to the delay of household consumption. The decrement in sales caused from the decrease in house brand products, however, the Company was able to maintain proportion of house brand product for 2Q17 at 65.67%.

The increase in other income of 2Q17 was mainly driven by larger rental areas in the new store and gain on sale of current investment to expand business purpose. The ratio of other income in 2Q17 increased to 4.84% compared with 3.10% in 2Q16 and 3.96% in 1Q17.

For the first six-months of year 2017

Total revenue in 1H17 represented Baht 530.16 million, decreased by 2.30% YoY. In March 2016, the Company had a one-time special wholesale of Baht 8.80 million. If excluding this transaction, the total revenue for 1H16 was Baht 533.83 million. Consequently, the total revenue of 1H17 decreased by Baht 3.67 million, or 0.18% YoY as a result of the decrease in sales whereas other income increased by 38.48% YoY.



The decrease of 1H17 sales was attributable to the decrease in the existing branches sales from the low purchasing power whereas sales from new outlet achieved Company's target. However, the Company was able to maintain proportion of house brand product for 1H17 at 64.40%.

The increase in other income of 2Q17 by 34.48% YoY, was mainly driven by larger rental areas and gain on redemption of partial investment to support the expanding of Company's business. The Company targets to increase its income from rental and service fees from larger rental areas from existing branches and new outlets in the future

2. Cost of goods sold and gross profit

The decrement cost of goods sold for 2Q17 compared with 2Q16 and 1Q17 and 1H17 compared with 1H16 was in line with the decrement in sales. The gross profit margin was 47%, higher than 2Q16 and 1Q17 due to the Company effort to carefully control marketing expenses.

For 1H17, the gross profit margin was 44.99%. The margin was slightly decreased from the same period of 2016 as a result of event arrangement such as "FN Thank you sale" in late of March 2017 and "Celebrate 20 years: paid the second item only Baht 20" in late of June 2017.

3. Distribution costs and administrative expenses

A. Distribution costs

The distribution costs for 2Q17 were Baht 47.18 million, increased from 2Q16 and 1Q17 and distribution costs for 1H17 were Baht 84.73 million, increased from 1H16. The increase was mainly due to the increase of distribution cost of new outlet (i.e. Phra Nakorn Sri Ayutthaya Branch and Hat Yai branch) such as sales employee expenses, depreciation, rental expenses and utility expenses, etc. In addition, the Company have a marketing expenses related to marketing activities.



B. Administrative expenses

The Company's administrative expenses for 2Q17 were Baht 57.14 million, increased from 2Q16 and administrative expenses for 1H17 were Baht 112.19 million, increased from 1H16. The increase was attributed to the difference in inventory reserve from reversal of inventory reserve for year 2016 from the selling inventory which already recorded inventory reserve, personnel expense to support business expansion, expense related to SET compliance (i.e. annual report, AGM arrangement), etc.

4. Finance cost

For 2Q17, finance cost was decreased to Baht 0.03 million, decreased by 99.33% YoY as a result of fully repayment of all bank loan in late 2016.

5. Net profit and net profit margin

Although the Company encountered the low economic growth rate, the Company was able to maintain 2Q17 net profit of Baht 20.89 million, which was the same level as 1Q17, and 1H17 net profit of Baht 43.56 million which representing the net profit margins of 7.93% and 8.22%, respectively. Notwithstanding, the Company highly focuses and concentrates on same store sales strategy to response and attract customers.

Financial Position Analysis

Unit : MB	For the period ended 30 June 2017	For the year ended 31 December 2016	Change	
			MB	%
Cash and cash equivalents	193.10	89.90	103.20	114.79
Current investment	201.40	469.99	(268.59)	(57.15)
Inventories	367.01	362.30	4.71	1.30
Property, plant and equipment	755.63	616.83	138.80	22.50
Other assets	47.92	51.96	(4.04)	(7.78)
Total assets	1,565.06	1,590.98	(25.92)	(1.63)
Accounts payable	57.78	59.89	(2.11)	(3.52)
Other liabilities	58.31	66.02	(7.71)	(11.68)
Total liabilities	116.09	125.91	(9.82)	(7.80)
Total shareholders' equity	1,448.97	1,465.07	(16.10)	(1.10)
Total liabilities and shareholders' equity	1,565.06	1,590.98	(25.92)	(1.63)

1. Total assets

The Company's total assets as at 30 June 2017 were Baht 1,565.06 million, decreased by Baht 25.92 million or 1.63% from 2016 due to redemption of partial investment to support the expanding of Company's business and payment dividend to shareholders. However, there was an increase of Baht 138.80 million in fixed assets for construction of Hat Yai Branch and expanding new branch.



2. Liabilities

As at 30 June 2017, the Company's liabilities totaled Baht 116.09 million, decreasing by Baht 9.82 million or 7.80% from 2016 as a result of the 2016 tax payment and fully payment 2016 outstanding liabilities which occurred from construction of Phra Nakorn Sri Ayutthaya Branch.

3. Shareholders' equity

As at 30 June 2017, the Company's shareholders' equity was Baht 1,488.97 million, decreasing by Baht 16.10 million or 1.10% from 2016, mainly due to dividend payment.

Cash Flow Statement Analysis

Unit : MB	For the period ended 30 June 2017	For the period ended 30 June 2016	Change	
			MB	%
Cash flow from operating activities	73.76	125.59	(51.83)	(41.27)
Cash flow from investing activities	89.75	(20.65)	110.40	(534.62)
Cash flow from financing activities	(60.32)	(92.01)	31.69	(34.44)

1. Cash flow from operating activities

The Company's net cash flow from operating activities was Baht 73.76 million, decreasing by Baht 51.83 million or approximately 41.27% from 1H16 in accordance with the decreasing in sales.

2. Cash flow from investing activities

The Company had a cash inflow from redemption of partial investment of Baht 270.36 million, whereas the Company had cash outflow from investing in fixed assets to support business expansion and construction of the new outlet, namely Hat Yai Branch and others totally of Baht 180.61 million. For those reasons, the Company had net cash inflow from investing activities of Baht 89.75 million.

3. Cash flow from financing activities

The Company had a cash outflow from financing activities of Baht 60.32 million as a result of dividend payment in May 2017 and payment of financial lease.



Key Financial Ratio Analysis

	For the period ended 30 June 2017	For the year ended 31 December 2016	Change	Reason
Liquidity Ratio (x)	7.88	8.56	(0.68)	The decreases were attributable to the redemption of partial investment to support the expanding of Company's business and dividend payment.
Quick Ratio (x)	3.97	5.10	(1.13)	
Return on Equity (%)	12.70	14.53	(1.83)	The lower ROE was a result of lower net profit for 1H17.
Debt-to-Equity Ratio (x)	0.08	0.09	(0.01)	The lower D/E ratio was a result of decreases in liabilities.

For more information, please contact:

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