



Ref. FN. 040/2017

## Management Discussion and Analysis For operation of the third 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, Kanchanaburi 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 its 10<sup>th</sup> branch at Chachoengsao province within December 2017.

### Industry Overview

In term of the retail industry in 3Q17, there has been constant low growth from the previous quarter due to the weakness in buying power especially for low-income people. This is because the limitation of wages increases which appeared in some industries such as Food, Electronic, etc. together with the rise of business transformation to be more automated. In addition, higher household debts pressured consumer to carefully control their spending. (Source: Quarterly Economic Assessment and Outlook 3/2017 Bangkok Bank Public Company Limited)

### Performance Analysis

Unit : MB	3Q17	3Q16	%YoY	2Q17	%QoQ	9M17	9M16	%YoY
Net sales	253.93	241.41	5.19	250.70	1.29	760.77	767.20	(0.84)
Other income	11.55	8.23	40.34	12.75	(9.41)	34.87	25.07	39.09
<b>Total revenues</b>	<b>265.48</b>	<b>249.64</b>	<b>6.35</b>	<b>263.45</b>	<b>0.77</b>	<b>795.64</b>	<b>792.27</b>	<b>0.43</b>
Cost of goods sold	139.69	129.14	8.17	132.87	5.13	418.50	416.74	0.42
Distribution costs and administrative expenses								
Distribution costs	46.25	33.48	38.14	47.18	(1.97)	130.98	101.47	29.08
Administrative expenses	57.87	43.50	33.03	57.14	1.28	170.06	135.72	25.29
<b>Earnings before interest and taxes (EBIT)</b>	<b>21.67</b>	<b>43.52</b>	<b>(50.21)</b>	<b>26.26</b>	<b>(17.48)</b>	<b>76.10</b>	<b>138.34</b>	<b>(44.98)</b>
Financial costs	0.03	4.58	(99.34)	0.03	-	0.10	12.60	(99.21)
Income tax expenses	4.25	8.39	(49.34)	5.34	(20.41)	15.05	26.23	(42.62)
<b>Net profit</b>	<b>17.39</b>	<b>30.55</b>	<b>(43.08)</b>	<b>20.89</b>	<b>(16.75)</b>	<b>60.96</b>	<b>99.51</b>	<b>(38.74)</b>
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA)</b>	<b>35.70</b>	<b>54.03</b>	<b>(33.93)</b>	<b>40.18</b>	<b>(11.15%)</b>	<b>117.27</b>	<b>168.65</b>	<b>(30.47)</b>
Depreciation and amortization	14.03	10.51	33.47	13.92	0.79	41.17	30.31	35.83

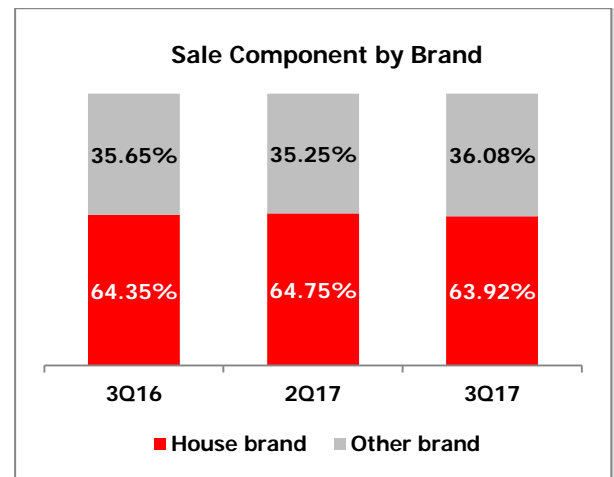
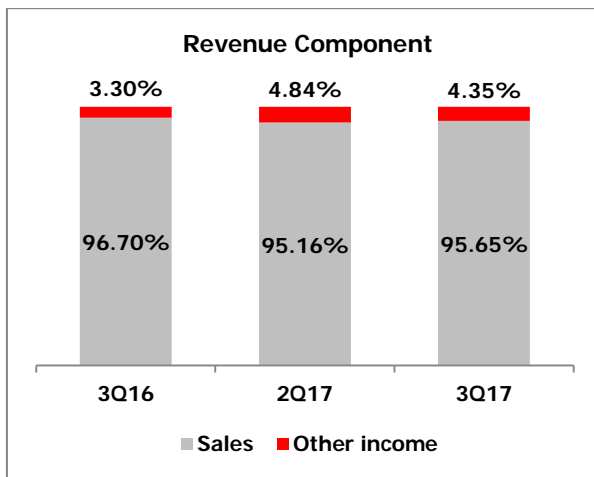


Key financial ratios (%)	3Q17			3Q16			%YoY			2Q17			%QoQ		
	3Q17	3Q16	%YoY	2Q17	%QoQ	9M17	9M16	%YoY	9M17	9M16	%YoY	9M17	9M16	%YoY	
Gross profit margin (%)	44.99	46.51	(1.52)	47.00	(2.01)	44.99	45.68	(0.69)	44.99	45.68	(0.69)	44.99	45.68	(0.69)	
Distribution costs and administrative expenses to total revenue (%)	39.22	30.84	8.38	39.60	(0.38)	37.83	29.94	7.90	37.83	29.94	7.90	37.83	29.94	7.90	
Net profit margin (%)	6.55	12.24	(5.69)	7.93	(1.38)	7.66	12.56	(4.90)	7.66	12.56	(4.90)	7.66	12.56	(4.90)	

## 1. Total revenues

### For the third quarter of year 2017

Total revenue in 3Q17 increased by 6.35% YoY as a result of the increase in sales and other income. For total revenue in 3Q17, it was slightly increased when compared with 2Q17.

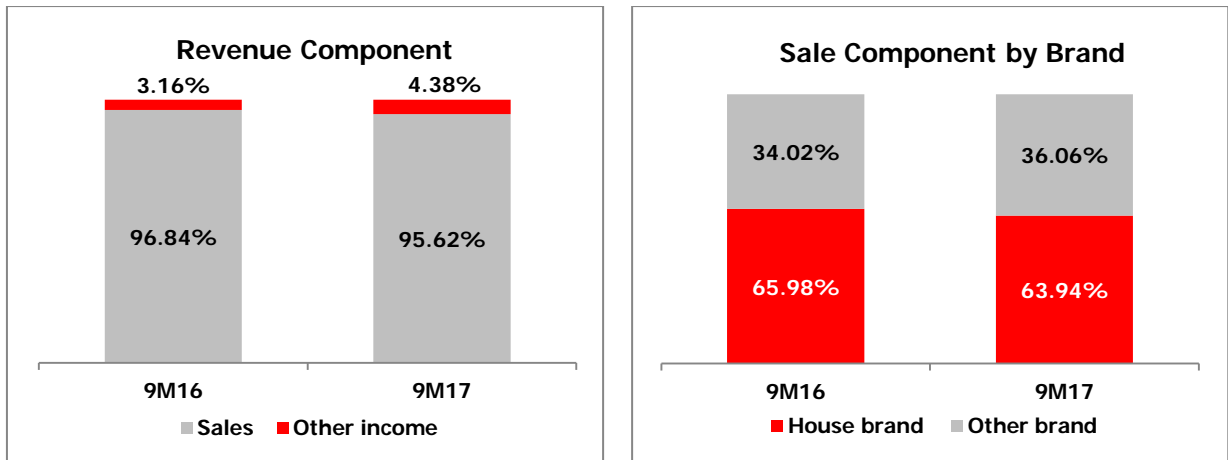


The YoY sales increase was attributable to the new two outlets i.e. Phra Nakorn Sri Ayutthaya and Hat Yai. The Company was able to maintain proportion of house brand products for 3Q17 at 63.92% which was the same level compared with prior year.

The increase in other income by 40.34% YoY was mainly driven by larger rental areas in the new store. The ratio of other income in 3Q17 increased to 4.35% compared with 3.30% in 3Q16.

### For the nine-months of year 2017

Total revenue in 9M17 represented Baht 795.64 million, increased by 0.43% YoY as a result of increase in other income by 39.09% YoY whereas sales was slightly decreased.



The decrease of 9M17 sales was attributable to the decrease in first six-months sales; however, sales from new outlet (at Phra Nakorn Sri Ayutthaya and Hat Yai) achieved the Company's target. The Company was able to maintain proportion of house brand product for 9M17 at 63.94%.

The increase in other income of 9M17 by 39.09% 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 increment cost of goods sold for 3Q17 compared with 3Q16 and 2Q17 were in line with the increment in sales. The Company held more events such as "FN Fair" at head office and "FN Thank you sale" at branch, thus, gross profit margin of 3Q17 was dropped compared with 3Q16 and 2Q17 but it stands at the normal Company's gross profit level.

For 9M17, even though the Company held more event arrangement in year 2017 than prior year, the gross profit margin was 44.99%, relatively steady compared with same period of 2016 which was the result of the Company's effort to carefully control promotion expenditure.

## 3. Distribution costs and administrative expenses

### A. Distribution costs

The distribution costs for 3Q17 were Baht 46.25 million, increased from 3Q16 and distribution costs for 9M17 were Baht 130.98 million, increased from 9M16. The increase was mainly due to the increase of distribution cost of new outlets (i.e. Phra Nakorn Sri Ayutthaya Branch and Hat Yai branch) and marketing expenses related to marketing activities.

### B. Administrative expenses

The Company's administrative expenses for 3Q17 were Baht 57.87 million, increased from 3Q16 and administrative expenses for 9M17 were Baht 170.06 million, increased from the same period of 2016. The increase was attributed to the personnel expenses to support business expansion, expenses related to the Company in SET.



#### 4. Finance cost

For 3Q17, finance cost was decreased to Baht 0.03 million, decreased by 99.34% YoY as a result of fully repayment of all bank loan in late 2016.

#### 5. Net profit and net profit margin

The 3Q17 net profit was Baht 17.39 million, representing the net profit margins of 6.55% and for 9M17, net profit was Baht 60.96 million representing the net profit margins of 7.66%. Notwithstanding, the Company highly focuses and concentrates on same store sales strategy to response and attract customers together with effort to manages and efficiency controls the expenses.

#### Financial Position Analysis

Unit : MB	For the period ended 30 September 2017	For the year ended 31 December 2016	Change	
			MB	%
Cash and cash equivalents	99.13	89.90	9.23	10.27
Current investment	302.06	469.99	(167.93)	(35.73)
Inventories	375.91	362.30	13.61	3.76
Property, plant and equipment	759.04	616.83	142.21	23.05
Other assets	49.85	51.96	(2.11)	(4.06)
<b>Total assets</b>	<b>1,585.99</b>	<b>1,590.98</b>	<b>(4.99)</b>	<b>(0.31)</b>
Accounts payable	59.56	59.89	(0.33)	(0.55)
Other liabilities	59.54	66.02	(6.48)	(9.82)
<b>Total liabilities</b>	<b>119.10</b>	<b>125.91</b>	<b>(6.81)</b>	<b>(5.41)</b>
<b>Total shareholders' equity</b>	<b>1,466.89</b>	<b>1,465.07</b>	<b>1.82</b>	<b>0.12</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,585.99</b>	<b>1,590.98</b>	<b>(4.99)</b>	<b>(0.31)</b>

#### 1. Total assets

The Company's total assets as at 30 September 2017 were Baht 1,585.99 million, slightly decreased due to redemption of partial investment to support the expanding of Company's business and dividend payment to shareholders. However, there was an increase of Baht 142.21 million in fixed assets for construction of Hat Yai Branch and expanding new branch couple with the increase in inventories of Baht 13.61 million due to the inventory of new product categories to support the customers' need and to reserve for the new outlet.

#### 2. Liabilities

As at 30 September 2017, the Company's liabilities totaled Baht 119.10 million, decreasing by Baht 6.81 million or 5.41% from 2016 mainly from decrease in accrued tax as a result of 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 September 2017, the Company's shareholders' equity was Baht 1,466.89 million, slightly increasing by Baht 1.82 million or 0.12% from 2016, mainly due to the 2017 net profit of Baht 60.96 million whereas the Company paid dividend by Baht 60 million in May 2017.

#### Cash Flow Statement Analysis

Unit : MB	For the period ended 30 September 2017	For the period ended 30 September 2016	Change	
			MB	%
Cash flow from operating activities	94.30	171.23	(76.93)	(44.93)
Cash flow used in investing activities	(24.60)	(49.68)	25.08	(50.48)
Cash flow used in financing activities	(60.47)	(130.78)	70.31	(53.76)

#### 1. Cash flow from operating activities

The Company's net cash flow from operating activities was Baht 94.30 million, decreasing by Baht 76.93 million or approximately 44.93% from 9M16 in accordance with the decreasing in sales.

#### 2. Cash flow used in investing activities

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 193.43 million and additional of current investment of Baht 230 million, whereas the Company had cash inflow from redemption of partial investment of Baht 400.36 million. For those reasons, the Company had net cash flow used in investing activities of Baht 24.60 million.

#### 3. Cash flow used in financing activities

The Company had a cash outflow from financing activities of Baht 60.47 million as a result of dividend payment in May 2017 and payment of financial lease.



**Key Financial Ratio Analysis**

	For the period ended 30 September 2017	For the year ended 31 December 2016	Change	Reason
Liquidity Ratio (x)	7.68	8.56	(0.88)	The decreases were attributable to the redemption of partial investment to support the expanding of Company's business and dividend payment.
Quick Ratio (x)	3.87	5.10	(1.23)	
Return on Equity (%)	11.04	14.53	(3.49)	The lower ROE was a result of lower net profit for 9M17.
Debt-to-Equity Ratio (x)	0.08	0.09	(0.01)	The lower D/E ratio was a result of decreases in liabilities.

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