



Ref. FN. 033/2018

Management Discussion and Analysis For operation of the second quarter of year 2018

FN Factory Outlet Public Company Limited was founded in 2000 and has been operated the outlet business, featuring both house brand and other brand products. To date, the Company has 10 outlets (Phetchaburi, Kanchanaburi, Pattaya, Pak Chong, Sing Buri, Hua Hin, Sriracha, Phra Nakorn Sri Ayutthaya, Hat Yai and Chachoengsao branch). The Company plans to open Rayong branch, the 11st branches in the last quarter of year 2018.

Industry Overview

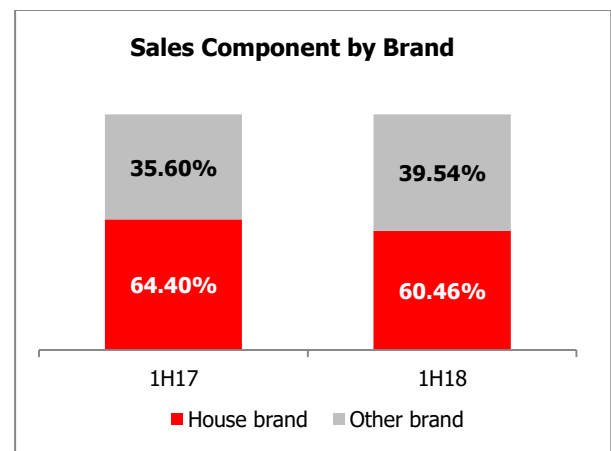
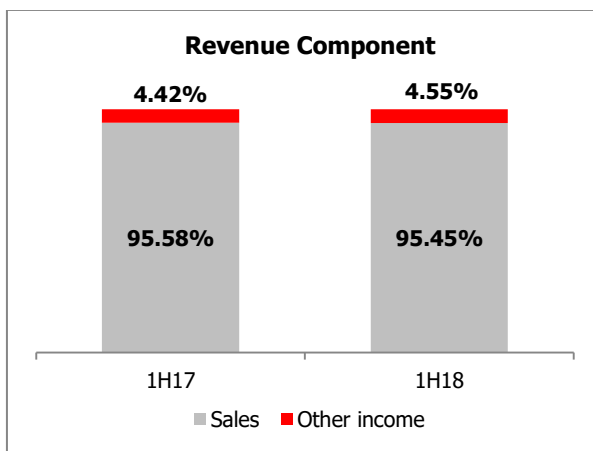
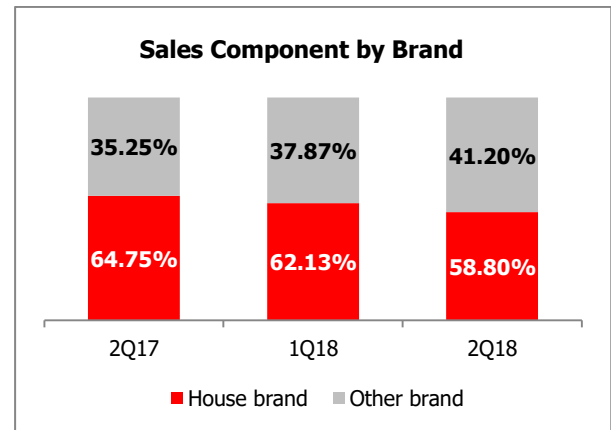
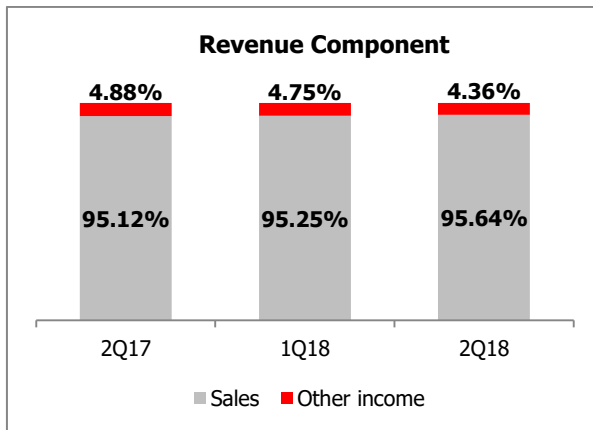
Domestic purchasing power has been under pressure due to the domestic tourists and earnings of Thai labor have declined while unemployment rate has been increasing. In addition, whilst private consumption shows some growth but limits in some areas; therefore, purchasing power is still weak and no clear sign of recovery in sight. To strengthening their competitive edge in other to enlarge market share, the players have to focus on boosting sales figures rather than by relying on consumers' higher purchasing power. Moreover, retail players need to prepare for E-Commerce business which presents high growth lately. (Source : EIC Outlook Q2/2018)

Performance Analysis

Unit : MB	2Q18	2Q17	%YoY	1Q18	%QoQ	1H18	1H17	%YoY
Net sales	262.65	250.42	4.89	261.84	0.31	524.50	506.32	3.59
Other income	11.96	12.84	-6.82	13.06	-8.41	25.02	23.41	6.87
Total revenues	274.61	263.25	4.32	274.90	-0.10	549.51	529.72	3.74
Cost of goods sold	154.23	133.04	15.93	151.91	1.53	306.13	279.60	9.49
Selling expenses and administrative expenses	115.04	103.96	10.66	105.32	9.23	220.36	195.70	12.60
Selling expenses	57.80	49.09	17.73	49.09	17.73	106.89	88.92	20.20
Administrative expenses	57.25	54.87	4.33	56.23	1.81	113.48	106.78	6.27
Earnings before interest and taxes (EBIT)	5.34	26.26	-79.65	17.67	-69.76	23.02	54.43	-57.71
Financial costs	0.04	0.03	20.59	0.04	-6.82	0.09	0.07	23.19
Income tax expenses	1.24	5.34	-76.82	1.86	-33.49	3.10	10.79	-71.31
Net profit	4.07	20.89	-80.53	15.77	-74.22	19.84	43.57	-54.47
Earnings before interest, taxes, depreciation and amortization (EBITDA)	21.68	40.24	-46.12	33.64	-35.54	55.32	81.69	-32.28
Depreciation and amortization	16.34	13.99	16.82	15.96	2.35	32.30	27.26	18.50

Key financial ratio related with operating result (%)	2018					2017		
	2Q18	2Q17	%YoY	1Q18	%QoQ	1H18	1H17	%YoY
Gross profit margin (%)	41.28	46.87	-5.59	41.99	-0.70	41.63	44.78	-3.15
Distribution costs and administrative expenses to total revenue (%)	41.89	39.49	2.40	38.31	3.58	40.10	36.94	3.16
Net profit margin (%)	1.48	7.93	-6.45	5.74	-4.26	3.61	8.22	-4.61

1. Total revenue



Due to the delay of domestic tourist recovery, the Company arranged more promotion and marketing events to increase sales amounts in the first six-months periods such as "FN Fair" at head office and branches. This attributes to the increase in 2Q18 sales and 1H18 sales when compare with the 2Q17 sales and 1H17 sales respectively.

Notwithstanding the arranging of promotion and marketing events, brandname products have been extended in order to attract more customers. Sales proportion of other brand products in 2Q18 has been increased to approximately 40%. However the Company keeps focusing on house brand products to emphasize FN brand awareness and increase FN brand equity in a long run.

For the proportion of other income to total revenue, the Company was able to maintain proportionate compared to previous period. The Company targets to expand rental areas in existing branches and new outlets in the future so that the Company will receive extra income and draw customers' attention.

2. Cost of goods sold and gross profit

2Q18 and 1H18 gross profits represented 41.28% and 41.63% respectively as a result of arranging more promotion and marketing events and the increase in proportion of other brand sale to attract the customers. The company takes into account that during the first stage marketing activities can be cause of increasing in cost of goods sold but in the long run it will emphasize FN brand awareness and increase FN brand equity. However, to dampening the impact from higher cost, the Company will focus on improving gross profit margin and efficiency of marketing spending.

3. Selling and administrative expenses

Selling and administrative expenses for 2Q18 and 1H18 were Baht 103.96 million and Baht 220.36 million, increased from previous period. The increase was mainly due to the expenses of new outlets (i.e. Hat Yai and Chachoengsao branches) and marketing expenses related to marketing activities which concentrate to the brand awareness to support sustainable growth. However, the Company concerns about the importance of expenditure management efficiency.

4. Net profit and net profit margin

2Q18 and 1H18 net profit were Baht 4.07 million and Baht 19.84 million, as a result of the decreasing in gross profit margin from marketing events couple with the increase in operating expense.

In 2018 the Company plans to open a new full scale outlet in Rayong, stronghold location with high density, high purchasing power and high growth as a part of Eastern Economic Corridor. Rayong outlet is expected to operate in 4Q18. For eCommerce channel which has been developed since end of 2017 the Company keep investing in this platform to serve the change of consumer lifestyle, likewise investing in product development to serve needs of target customers and change in product mix strategy to get high quality product which is value for money to serve customer. The company focused on marketing strategy to emphasize FN brand awareness and increase FN brand equity which is support sustainable growth. For expense management efficiency, the Company implements IT system to reduce operation and resource, investing in solar rooftop to decrease electricity expense by starting the first pilot project in Phra Nakorn Sri Ayutthaya outlet with a plan to roll-out to other outlets in the future. The total investment amount for all project in 2018 is approximately Baht 220 million.

Financial Position Analysis

Unit : MB	As at 30 June 2018	As at 31 December 2017	Change	
			MB	%
Cash and cash equivalents	71.86	124.63	-52.77	-42.34
Current investment	261.08	252.71	8.37	3.31
Inventories	382.62	349.04	33.58	9.62
Property, plant and equipment	845.92	838.14	7.78	0.93
Other assets	64.77	58.26	6.51	11.17
Total assets	1,626.24	1,622.78	3.47	0.21
Accounts payable	123.95	98.72	25.23	25.56
Other liabilities	27.74	32.79	-5.05	-15.39
Total liabilities	151.70	131.51	20.18	15.35
Total shareholders' equity	1,474.55	1,491.26	-16.72	-1.12
Total liabilities and shareholders' equity	1,626.24	1,622.78	3.47	0.21

1. Assets

The Company's total assets as at 30 June 2018 were Baht 1,626.24 million, increased YoY mainly from an increase in inventories of more variety goods to support sales in the last six-months. Moreover, there was an increase of fixed assets for construction of Rayong branch, additional of building for Chachoengsao branch and renovate the existing branches. However, total cash and cash equivalent and current investment decrease by Baht 44.40 million from the dividend payment to shareholders and 2017 corporate tax payment.

2. Liabilities

As at 30 June 2018, the Company's liabilities totaled Baht 151.70 million, rose by Baht 20.18 million or 15.4% from 2017 mainly from an increase in accounts payable of Baht 16.28 million from purchasing more variety of goods to support the sales in the second half of 2018.

3. Shareholders' equity

As at 30 June 2018, the Company's shareholders' equity was Baht 1,474.55 million, decreasing by Baht 16.72 million or 1.1% from end of 2017, mainly due to the dividend payment to shareholders.

Cash Flow Statement Analysis

หน่วย: ล้านบาท	For the period ended		Change	
	30 June 2018	30 June 2017	MB	%
Cash flow from operating activities	37.79	74.14	-36.35	-49.03
Cash flow used in investing activities	-53.98	89.31	-143.29	-160.44
Cash flow used in financing activities	-36.58	-60.25	23.67	-39.29

1. Cash flow from operating activities

The Company's net cash flow from operating activities was Baht 37.79 million, decreasing by Baht 36.35 million or approximately 49.0% from the decreasing in operating profit together with the increase in operating expenses and purchasing of goods.

2. Cash flow used in investing activities

The Company had cash outflow from investing in fixed assets and intangible assets totally of Baht 47.41 million and additional of current investment of Baht 310.00 million, whereas the Company had cash inflow from redemption of partial investment of Baht 302.58 million. For those reasons, the Company had net cash out flow in investing activities of Baht 53.98 million.

3. Cash flow used in financing activities

The Company had a cash outflow from financing activities of Baht 36.58 million as a result of dividend and financial lease payment.

Key Financial Ratio Analysis

	For the period ended 30 June 2018	For the year ended 31 December 2017	Change	Reason
Liquidity Ratio (x)	5.77	6.80	(1.03)	The increase in accounts payable.
Quick Ratio (x)	2.62	3.47	(0.85)	
Return on Equity (%)	4.27	5.83	(1.56)	The decrease in 1H18 net profit.
Debt-to-Equity Ratio (x)	0.10	0.09	0.01	Slightly increase from incremental in account payable.

For more information, please contact:

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