



Ref. FN. 075/2018

Management Discussion and Analysis For operation of the third 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 11 outlets (Phetchaburi, Kanchanaburi, Pattaya, Pak Chong, Sing Buri, Hua Hin, Sriracha, Phra Nakorn Sri Ayutthaya, Hat Yai, Chachoengsao and Rayong Branch (which started operating since 1 November 2018)).

Industry Overview

In 3Q18, Thailand's overall economic growth accelerated from all major spending categories. Although the economy performed well in a big picture, the economy at grassroots level has yet to sufficiently expand. This was seen in growth of private consumption, growth of durable goods consumption represented 10.6% YOY while non-durable goods, in which high proportion of low to medium-income household expenditure, growth only 0.0% YOY since partly owing to household debt that was still elevated at 78% to GDP meanwhile income and wages did not exhibit high growth rates. However, most of retailer concerned about that and recognized that the consumers concentrated on conservative spending by limited only necessary items, decrease in spending frequency and low-price favorable from consumer and retailer must also rely on promotion and marketing campaign. (Source : 3Q18 BOT Economic Report/EIC Outlook quarter 4/2018)

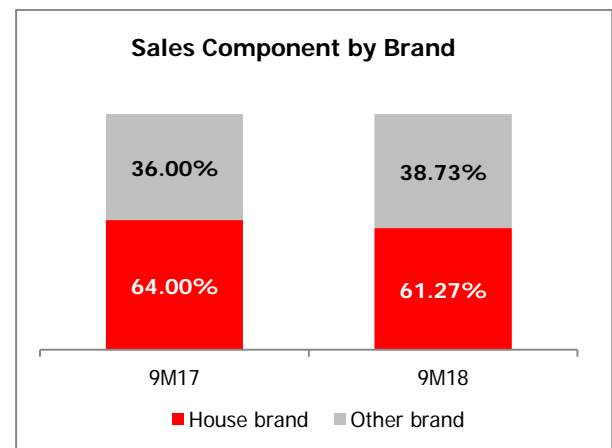
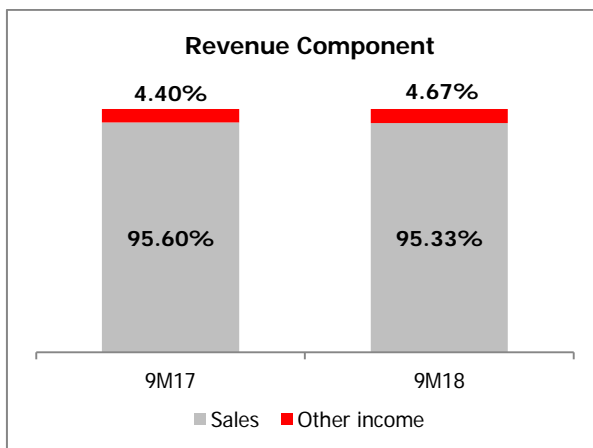
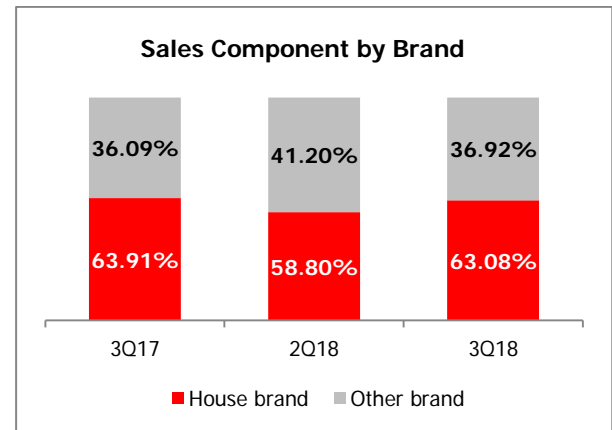
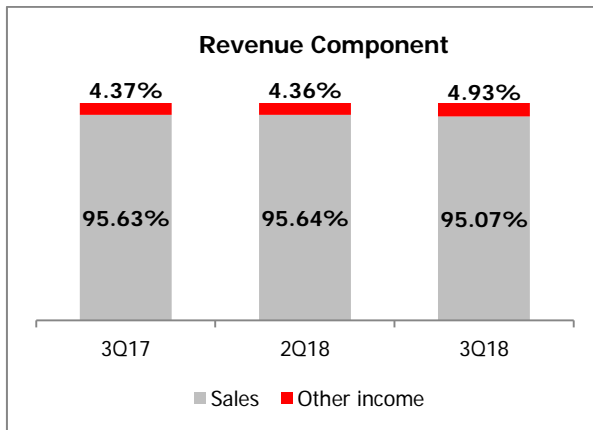
Performance Analysis

Unit : MB	3Q18	3Q17	%YoY	2Q18	%QoQ	9M18	9M17	%YoY
Net sales	233.52	253.72	-7.96	262.65	-11.09	758.01	760.04	-0.27
Other income	12.11	11.60	4.36	11.96	1.22	37.13	35.01	6.04
Total revenues	245.62	265.32	-7.43	274.61	-10.56	795.14	795.05	0.01
Cost of goods sold	134.41	140.05	-4.03	154.23	-12.85	440.55	419.66	4.98
Selling expenses and administrative expenses	109.32	103.59	5.53	115.04	-4.98	329.68	299.29	10.15
Selling expenses	50.13	48.46	3.44	57.80	-13.27	157.01	137.38	14.29
Administrative expenses	59.19	55.13	7.37	57.25	3.40	172.67	161.91	6.65
Earnings before interest and taxes (EBIT)	1.89	21.68	-91.27	5.34	-64.60	24.91	76.10	-67.27
Financial costs	0.04	0.03	41.94	0.04	7.32	0.13	0.10	29.00
Income tax expenses	0.05	4.26	-98.75	1.24	-95.72	3.15	15.04	-79.07
Net profit	1.80	17.39	-89.62	4.07	-55.61	21.63	60.96	-64.51

Earnings before interest, taxes, depreciation and amortization (EBITDA)	19.30	35.72	-45.97	21.68	-10.99	74.62	117.48	-36.48
Depreciation and amortization	17.41	14.04	23.95	16.34	6.55	49.71	41.38	20.14

Key financial ratio related with operating result (%)	3Q18	3Q17	%YoY	2Q18	%QoQ	9M18	9M17	%YoY
Gross profit margin (%)	42.44	44.80	-2.36	41.28	1.16	41.88	44.79	-2.90
Distribution costs and administrative expenses to total revenue (%)	44.51	39.04	5.46	41.89	2.61	41.46	37.64	3.82
Net profit margin (%)	0.73	6.55	-5.82	1.48	-0.75	2.72	7.67	-4.95

1. Total revenue



3Q18 sales was Baht 233.52 million, decreased from previous period since in 3Q17, the Company arranged big event named "FN Fair" at head office. Also, the third quarter is normally affected by seasonal and usually the "low season" of the year, the delay of domestic consumption recovery and the high household debt. This attributes to sale in 3Q18 were not achieve the target.

9M18 sales slightly decrease when compared with 9M17 due to the Company arranged more promotion and marketing events to increase sales amounts in the first six-month periods such as "FN Fair" at head office and branches.

The Company keeps focusing on house brand products to emphasize FN brand awareness and increase FN brand equity in a long run. The Company was able to maintain house brand product proportionate in 3Q18 compared with 3Q17 and able to increase the house brand product proportionate when compared with 2Q18.

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

3Q18 and 9M18 gross profits represented 42.44% and 41.88% respectively, as a result of increase in proportion of other brand sales and arranging more promotion and marketing events to promote sales volume. However, the Company has concern about the maintaining gross profit margin, so that the marketing activities has been arranged to emphasize FN brand awareness with sales plan improvement and promotion efficiency spending. This attribute to the improving in gross profit margin in 3Q18 compare with 2Q18.

3. Selling and administrative expenses

Selling and administrative expenses for 3Q18 and 9M18 were Baht 109.32 million and Baht 329.68 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

3Q18 and 9M18 net profit were Baht 1.80 million and Baht 21.63 million, respectively as a result of the sales target was not achieved and decreasing in gross profit margin from marketing events couple with the increase in operating expense due to the expenses of new outlets.

In November 2018 the Company opened a new outlet in Rayong, stronghold location with high density, high purchasing power and high growth as a part of Eastern Economic Corridor. 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. Moreover, for product development the Company focuses on how 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 with marketing strategy to emphasize FN brand awareness and increase FN brand equity which is support sustainable growth. The Company is making the best effort to manage expenses efficiency by implementing 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.

Financial Position Analysis

Unit : MB	As at 30 September 2018	As at 31 December 2017	Change	
			MB	%
Cash and cash equivalents	92.16	124.63	-32.47	-26.06%
Current investment	155.85	252.71	-96.86	-38.33%
Inventories	428.89	349.04	79.85	22.88%
Property, plant and equipment	891.41	838.14	53.27	6.36%
Other assets	68.24	58.26	9.99	17.14%
Total assets	1,636.55	1,622.78	13.78	0.85%
Accounts and others payable	131.89	98.72	33.17	33.60%
Other liabilities	28.50	32.79	-4.29	-13.08%
Total liabilities	160.39	131.51	28.88	21.96%
Total shareholders' equity	1,476.16	1,491.27	-15.11	-1.01%
Total liabilities and shareholders' equity	1,636.55	1,622.78	13.78	0.85%

1. Assets

The Company's total assets as at 30 September 2018 were Baht 1,636.55 million, increased from 2017 mainly from an increase in inventories of more variety goods and to support the opening of new outlet at Raying which started to operate in 1 November 2018. 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 129.33 million from the investing in assets, dividend payment to shareholders and 2017 corporate tax payment.

2. Liabilities

As at 30 September 2018, the Company's liabilities totaled Baht 160.39 million, rose by Baht 28.88 million or 22.0% from 2017 mainly from an increase in accounts payable from purchasing more variety of goods and other payable to support the investing in assets.

3. Shareholders' equity

As at 30 September 2018, the Company's shareholders' equity was Baht 1,476.16 million, decreasing by Baht 15.10 million or 1.0% from end of 2017, mainly due to the dividend payment to shareholders.

Cash Flow Statement Analysis

หน่วย: ล้านบาท	For the period ended		Change	
	30 September 2018	30 September 2017	MB	%
Cash flow from (used in) operating activities	(6.02)	96.44	-102.46	-106.25%
Cash flow from (used in) investing activities	10.56	(26.74)	37.29	-139.48%
Cash flow (used in) financing activities	(37.00)	(60.47)	23.47	-38.81%

1. Cash flow from (used in) operating activities

The Company's net cash flow used in operating activities was Baht 6.02 million from the decreasing in operating profit together with the increase in operating expenses and purchasing of goods.

2. Cash flow from (used in) investing activities

The Company had cash inflow from redemption of partial investment of Baht 508.17 million, whereas the Company had cash outflow from investing in fixed assets and intangible assets totally of Baht 88.94 million and additional of current investment of Baht 410.00 million. For those reasons, the Company had net cash flow from investing activities of Baht 10.56 million.

3. Cash flow (used in) financing activities

The Company had a cash outflow from financing activities of Baht 37.00 million as a result of dividend and financial lease payment.

Key Financial Ratio Analysis

	For the period ended 30 September 2018	For the year ended 31 December 2017	Change	Reason
Liquidity Ratio (x)	5.28	6.80	(1.52)	The increase in accounts payable and other payable.
Quick Ratio (x)	1.88	3.47	(1.59)	
Return on Equity (%)	3.19	5.83	(2.64)	The decrease in 9M18 net profit.
Debt-to-Equity Ratio (x)	0.11	0.09	0.02	Slightly increase from incremental in account payable and other payable.

For more information, please contact:

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