

**BEC WORLD**  
**PUBLIC COMPANY**  
**LIMITED**

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# Management Discussion and Analysis

## FY2018

(Translation)



February 22, 2019

The President  
 The Stock Exchange of Thailand

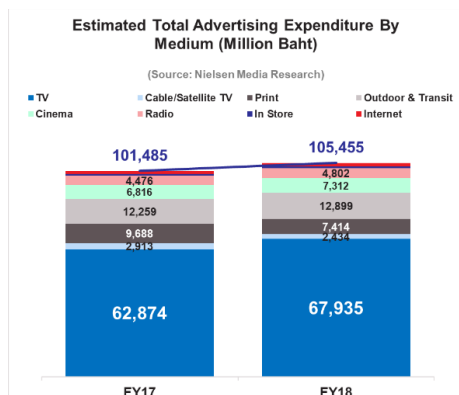
Dear Madam/Sir,  
 Re: Management's Discussion and Analysis for FY2018

- Cash and cash equivalents increased by 77%
- BEC group had net cash flow from operating activities of Baht 2.9 billion as at ending 2018
- Strong EBITDA amounting to Baht 3.4 billion
- Normalized net losses to BEC in 2018 of Baht 98 million (Excluding Special Items)

**Executive Summary**

**Economic Overview and Market Situation**

The National Economic and Social Development Board or NESDB estimated that Thailand's economy expanded by approximately 4.1% in 2018. The growth could be attributed to steady recovery of external demand including export and tourism, which had favored employment. However, export sector growth had softened towards the end of the year in line with the slowdown in trading partners' economies and global financial situation. Thailand's tourism sector faced limitations of its airports' capacity as well as the decline in the number of Chinese and Russian tourists. In addition, public sector investment in large infrastructure would help stimulate domestic demand and result in higher employment. Household income began to gradually recover. The growth, however, might not be fast as it had just started to recover after the farm income contracted in the second half of 2017. Notwithstanding the recovery, Thailand's household debt remained at a high level which resulted in concentrated recovery within the household sector and adversely affected TV industry.



Nielsen Media Research ("Nielsen") reported that advertising expenditures (AdEx) for the year 2018 were Baht 105,455 million, an increase of Baht 3,970 million or a 3.9% growth from the year 2017 at Baht 101,485 million. Television media (Analog and Digital) remained the main media that had the most advertising expenditures spending at Baht 67,935 million, increasing by Baht 5,061 million or 8% from the year 2017 at Baht 62,874 million. Taking into account the widespread increases in Home Shopping programs

across the channels, however, the figures were believed to be overestimated. Estimated total advertising expenditure by medium was collected based on the overall air-timer and advertising Rate Card or advertising "Set Price" before discount. As could be seen from the information provided by Nielsen that, in 2018, TV Direct was the brand with the highest advertising budget of Baht 2,085 million.

The AdEx for TV Group (TV + Cable/Satellite) in 2018 was at Baht 70,369 million, increasing by Baht 4,582 million or 7% growth from year 2017 at Baht 65,787 million. TV group continued to dominate in media spending and accounting for about 66.7% of the total AdEx. The advertising spending for Media that increased in 2018 are Radio, (increased by Baht 326 million or 7.3%), Cinema (increased by Baht 496 million or 7.3%), and Outdoor and Transit group (increased by Baht 640 million or 5.2%). The advertising spending for Media that decreased in 2018 were Print Media (decreased by Baht 2,274 million or 23.5%) and TV-Cable/Satellite (decreased by Baht 479 million or 16.4%)

Given the low growth in AdEx in 2018 and changes in consumer behavior in watching TV/content via over-the-top ("OTT" - OTT is the audio, video, and other media content distributed through the Internet), BEC World Public Company Limited or ("BEC Group") has adapted its strategies to support these changes by launching its own Online Video Platform called "Mello". Under the name Mello Original, Mello is a content provider as well as a service provider of video entertainment platforms. Mello provides convenience to viewers who are unable to watch content at regular airtime on TV channels (Analog and digital) and can watch it on Mello at midnight after broadcast on TV channels. It has also launched a partnership with LINE TV and Youtube in order to penetrate new generation viewers who prefer OTT platforms.

In addition, we also saw opportunities for the international market. In 2018 we had collaborated with Tencent Video (Under Tencent Holding PLC, one of the largest content providers in China) via Inside Technology (Thailand) to simulcast Thai drama to China and received satisfactory results which laid the foundation for future international marketing. Currently, BEC Group has a presence conducting its own marketing activities in 6 countries including China, Vietnam, Hong Kong, Macau, Myanmar and Cambodia. In addition, BEC Group has signed a partnership with JKN Global Media Public Company Limited (JKN) to distribute BEC's contents to countries around the world (excluding the 6 countries above) and this will help expand our audience base around the world.

The total revenue of the BEC group in 2018 was Baht 10,375.7 million, a decrease of 6% from the year 2017 at Baht 11,035.0 million baht. Net loss attributed to BEC group was Baht 330.2 million. However, to reflect the real company performance, we deducted non-recurring item expenses that occurred in 2018:

1. Expenses from retirement and manpower reduction programs according to the organizational restructuring policy of Baht 140.6 million
2. Provision for Long-term Employee Benefits expenses according to the draft of Labor Protection Act of Baht 134.8 million

The above items, net of taxes and non-controlling interests, would be Baht 232.1 million. The BEC group had a Normalized net loss attributed to BEC in 2018 of Baht 98.1 million baht with a net cash flow from operating activities of Baht 2,931.2 million and cash and cash equivalents, including short-term investment in the consolidated balance sheet, of Baht 2,168.2 million at the end of 2018

## Consolidated Performance Summary

STATEMENT OF INCOME	FY17		FY18		YoY	
	M.THB	%	M.THB	%	(+/-)	%
<b>Total Revenues</b>	<b>11,035.0</b>	100.0%	<b>10,375.7</b>	100.0%	(659.3)	-6.0%
Advertising income	9,890.2	89.6%	8,878.8	85.6%	(1,011.4)	-10.2%
Income from copyright and other services	618.6	5.6%	1,054.8	10.2%	436.2	70.5%
Income from organizing concerts and shows	454.2	4.1%	368.5	3.6%	(85.7)	-18.9%
Sales of goods	72.0	0.7%	73.5	0.7%	1.5	2.2%
<b>Total Cost</b>	<b>(9,176.8)</b>	-83.2%	<b>(8,789.2)</b>	-84.7%	(387.6)	-4.2%
Cost of sales and services	(8,790.3)	-79.7%	(8,480.3)	-81.7%	(310.0)	-3.5%
Cost of organizing concerts and shows	(386.5)	-3.5%	(308.8)	-3.0%	(77.7)	-20.1%
<b>Gross Profit</b>	<b>1,858.2</b>	16.8%	<b>1,586.5</b>	15.3%	(271.6)	-14.6%
Selling and admin expenses	(1,799.4)	-16.3%	(1,795.4)	-17.3%	(4.0)	-0.2%
Other income	176.9	1.6%	110.7	1.1%	(66.2)	-37.4%
Provision for Long-term Employee Benefits expenses according to the draft of Labor Protection Act	-	0.0%	(134.8)	100.0%	134.8	100.0%
Share of profit (loss) of associates held by subsidiary	14.2	0.1%	17.7	0.2%	3.5	24.3%
Finance costs	(181.8)	-1.6%	(168.7)	-1.6%	(13.1)	-7.2%
<b>Profit before income tax expense</b>	<b>68.0</b>	0.6%	<b>(384.0)</b>	-3.7%	(452.0)	-664.9%
Income tax (expense) revenue	(41.1)	-0.4%	72.1	0.7%	(113.2)	-275.5%
Profit for the period	26.9	0.2%	(311.9)	-3.0%	(338.9)	-1258.9%
<b>Net Profit attributable to BEC World</b>	<b>61.0</b>	0.6%	<b>(330.2)</b>	-3.2%	(391.2)	-641.2%
Non-controlling interests	(34.1)	-0.3%	18.2	0.2%	52.3	153.5%
<b>EBITDA</b>	<b>3,759.2</b>	34.1%	<b>3,451.0</b>	33.3%	(308.2)	-8.2%

BEC Group's advertising income for the year 2018 was Baht 8,878.8 million, a decreased of 10.2% from year 2017 at Baht 9,890.2 million while the total advertising expenditures slightly grew at 3.9%. The main advertising income of BEC Group accounted for 85.6% of total revenue and was mainly from the advertising sales from "Channel 3". The decline in advertising income was from the high competition in the advertising market while the economic conditions had resulted in restricted advertising spending from advertisers than in the past. Moreover, advertising income from radio business also declined.

Income from copyrights and other services for the year 2018 was at Baht 1,054.8 million, an increase of Baht 436.2 million or 70.5% from the year 2017 at Baht 618.6 million. The increase was mainly from an increase in revenue of online businesses via BEC Group's online platform and websites such as CH3Thailand and Mello as well as partnership platforms and growth of Global Content Licensing.

Income from organizing concerts and shows for the year 2018 was at Baht 368.5 million which decreased by Baht 85.7 million or 18.9% from the year 2017 at Baht 454.2 million. In 2018, there were concerts and shows such as Disney On Ice, Ninja Exhibition, BRICK LIVE LEGO SHOW, B5 Now 15 Concert, and organizing of Miss Thailand World 2018, and concert arrangement for Bruno Mars, Harry Styles, Celine Dion, Mike Shinoda of Linkin Park, Sam Smith, and Charlie Puth. However, since the second half of 2015, the organizing activities of foreign artists concerts in Thailand

have been transferred to Live Nation BEC-Tero Entertainment Company Limited (associated company).

For the year 2018, BEC Group had revenue from product sales of Baht 73.5 million, an increase of Baht 1.5 million or 2.2% from the year 2017 at Baht 72 million.

However, the increase of income from copyright and other services in the year 2018 had contributed to BEC Group total revenue of Baht 10,375.7 million, which decreased by Baht 659.3 million or 6% from the year 2017 at Baht 11,035 million.

BEC's total cost for the year 2018 was at Baht 8,789.2 million which decreased by Baht 387.6 million or 4.2% from the year 2017 at Baht 9,176.8 million. The decrease in BEC's total cost for the year 2018 was mainly from lower cost of sale and services, which decreased by Baht 310 million or 3.5% from the year 2017 from lower production expenses. Production expenses decreased by Baht 284 million or 4.8% from Baht 5,910.7 million for the year 2017 to Baht 5,626.7 million for year 2018. In addition, the cost related to networks in the year 2018 decreased by Baht 122 million from year 2017 mainly from NBTC's assistance measures. However, in the year 2018 BEC Group had a retirement and manpower reduction programs according to the organizational restructuring policy and paid extra compensation in the consolidated financial statement in the amount of Baht 250.3 million. Under this program, a part of extra compensation was deducted from incremental liabilities from provision for long-term employee benefits in the consolidated financial statement in amount of Baht 109.7 million and recorded as expenses in the consolidated statement of income in the amount of Baht 140.6 million (recorded in the Cost of sales and cost of services amounting to Baht 87.5 million and recorded in the selling and administrative expenses of Baht 53.1 million). While the cost of organizing concerts and shows in 2018 amounted to Baht 308.8 million, a decrease of Baht 77.7 million or 20.1% according to the smaller number and size of activities in 2018 compared to 2017.

Gross Profit for year 2018 was at Baht 1,586.5 million, a decrease by 14.6% from the year 2017 at Baht 1,858.2 million with a gross margin of 15.3%

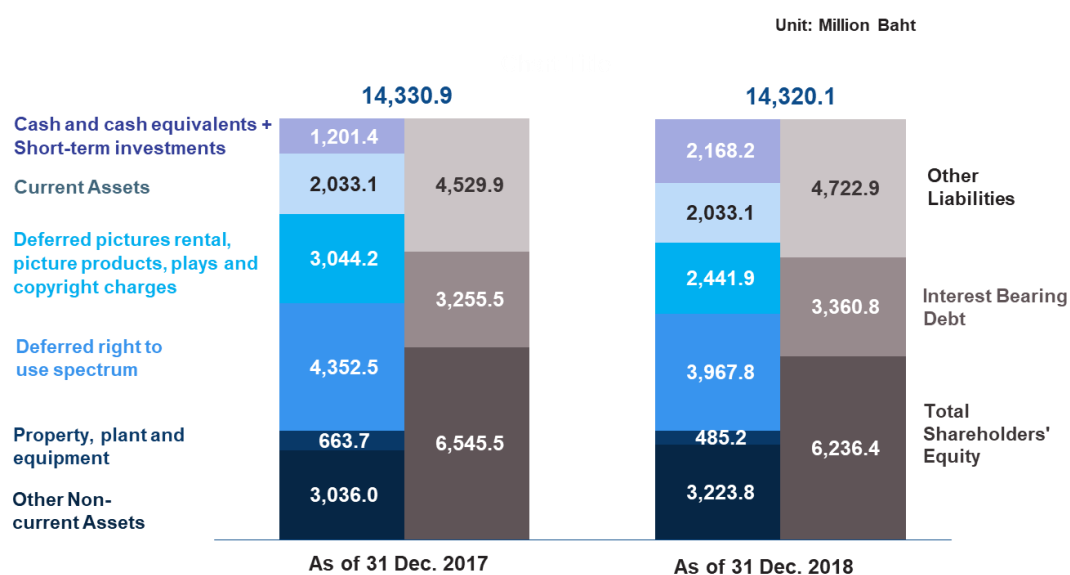
In addition, selling and administrative expenses of BEC Group has continuously decreased during year but registered an increase of Baht 53.1 million from the retirement and manpower reduction programs according to the organizational restructuring policy. Commission and sales promotion expenses increased by Baht 32.2 million or 8.5 % to Baht 411.1 million for the year 2018. From the reasons mentioned, selling and administrative expenses in 2018 was at Baht 1,795.4 million and decreased by only 0.2% from 2017 at Baht 1,799.4 million.

For the year 2018, BEC had other income of Baht 110.7 million which decreased by Baht 66.2 million or 37.4% from the year 2017 at Baht 176.9 million. On December 13, 2018, the National Legislative Assembly passed a resolution approving the draft of a new Labour Protection Act, which is in the process being published in the Royal Gazette. The new Labour Protection Act stipulates additional legal severance pay rates for employees who have worked for an uninterrupted period of twenty years or more. Such employees are entitled to receive compensation of not less than that of the last 400 days, based on the final wage rate. This change is considered a post-

employment benefits plan amendment and the Company and its subsidiaries have additional liabilities for long-term employee benefits. The Company and its subsidiaries have recorded the effect of the change by recognizing past service costs as expenses immediately in the consolidated statements of income in the amount of Baht 134.8 million. Financial cost for the year 2018 was at Baht 168.7 million, decreased by 7.2% from the year 2017 at Baht 181.8 million.

In conclusion, BEC Group reported consolidated net loss attributable to BEC World of Baht 330.2 million and normalized net loss attributable to BEC World of Baht 98.1 million, net cash flow from operation of Baht 2,931.2 million and Cash and cash equivalents and short-term investment of Baht 2,168.2 million as at ending 2018.

## Statement of Financial Position



### Assets

As of December 31, 2018, BEC group had total assets of Baht 14,320.1 million which decreased by Baht 10.8 million from Baht 14,931.0 million as of December 31, 2017.

Total current assets increased by 30% to Baht 4,201.3 million mainly from cash and cash equivalent and short-term investments on its consolidated balance sheet totaling Baht 2,168.2 million, an increase of Baht 966.8 million or 80.5% from ending year 2017 at Baht 1,201.4 million. Trade and other receivables and current portion of receivable from investment disposal slightly decreased.

Total non-current assets decreased by Baht 977.7 million or 9% to Baht 10,118.7 million. The decrease was mainly from lower deferred rights to use of property and spectrum totaling Baht 602.6 million, decline of property, plant, and equipment totaling Baht 178.5 million, and decrease of deferred pictures rental, picture products, plays and copyright charges totaling Baht 602.2 million. However, deferred tax assets increased by Baht 336.7 million mainly from unused tax losses and provision for long-term employee benefits. Other non-current assets increased by Baht 288.2 million baht from withholding taxes (due over 1 year).

## Liabilities

As at December 31, 2018, BEC group had total liabilities of Baht 8,083.7 million, an increase of Baht 298.3 million or 3.8% from end of year 2017 at Baht 7,785.4 million.

The total current liabilities decreased by Baht 176.3 million, mainly due to trade and other payables decrease by Baht 290.4 million and current portion of accrued right to use spectrum which reduced by Baht 471.9 million as license holder received assistance from the National Broadcasting and Telecommunication Commission (NBTC) to ease the financial burden for the business of radio broadcasting, television broadcasting and telecommunication by delaying the payment period to not exceed 3 years and would be paid from the year 2021 onwards. Other current liabilities increased by Baht 435.6 million.

Interest-bearing debt increased by Baht 105.3 million from Baht 3,255.5 million as at ending year 2017 to Baht 3,360.8 million as at ending year 2018, mainly from bank overdrafts and short-term borrowings from financial institutions which increased by Baht 108.3 million. Approximately 89% of the interest-bearing debt is the 5-year debenture amounting to Baht 3,000 million issued in 2017 with a coupon rate of 3.14%.

## Shareholders' equity

As of December 31, 2018, BEC group had total shareholders' equity of Baht 6,236.4 million baht (total shareholders' equity of Parent Company was at Baht 6,084.1 million and for non-controlling interest was at Baht 152.2 million) which decreased by Baht 309.2 million from 31 December 2017 at Baht 6,545.5 million. Moreover, the decrease in total shareholders' equity was mainly due to the decrease in retained earnings of Baht 255.4 million from net loss for the year.

## Statement of Cash Flows

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For the statement of cash flows for the year ended December 31, 2018, BEC Group had net cash from operating activities of Baht 2,931.2 million with cash provided from operation of Baht 3,612.2 million which was 4% lower than in 2017.

Net cash used in investing activities was Baht 2,097.1 million, which decreased by Baht 1,274.5 million or 38% from the ending year 2017 at Baht 3,371.7 million, mainly from lower cash used for content rental, content production, dramas and copyright charges. Cash used for content rental, content production, dramas and copyright charges decreased by Baht 760.3 million or 26% reduction from the year ended December 31, 2017 at Baht 2,945 million to Baht 2,184.7 million as at ended December 31, 2018. In addition, on May 23, 2018, the National Peacekeeping Council (NCPO) issued an order under Section 44 to help ease the financial burden for the business of radio broadcasting, television broadcasting and telecommunications. The order allows the license holders, who do not want to comply with the rules of payment of remaining license fees in accordance with the terms and conditions, to notify NBTC as such by providing a written notification to NBTC within 30 days from the effective date of this order. Should NBTC deem the request appropriate, it would grant a moratorium on fee payments, in which a delay of payment period must not exceed 3 years and payment to resume in 2021 onwards with the final installment due in 2025. A subsidiary of the Company has exercised the moratorium rights for the rest of its license fee payment and consequently the cash payment for rights to use spectrum reduced by Baht 545.6 million from the year ended December 31, 2017.

BEC group had a net cash flow from financing activities of Baht 88.8 million, mainly from the increase in bank overdrafts and short-term borrowings from financial institutions amounting to Baht 108.3 million.

Together with beginning cash and cash equivalents as at 1 January 2018, BEC Group had consolidated cash and cash equivalents at the end of the year 2018 of Baht 2,116.4 million. Including short-term investments, BEC Group reported consolidated cash and cash equivalents and short-term investments totaling Baht 2,168.2 million.

Yours faithfully,



(Piriyadit Choophungart)

Chief Financial Officer

BEC World Public Company Limited



## Key Financial Ratios

Financial Ratios	FY2017	FY2018
Current Ratio (Times)	1.32	1.85
EBITDA to Revenue (%)	34.07%	33.26%
Net Profit to Revenue (%)	0.55%	-3.18%
Book Value Per Share (Baht/Share)	3.27	3.12
Earning Per Share (Baht/Share)	0.03	-0.17
Return on Total Assets (%)	0.46%	-2.68%
Return on Equity (%)	0.92%	-5.29%
Total Debt to Equity	1.19	1.30
Interest Bearing Debt to Equity (Times)	0.50	0.54
Net Interest Bearing Debt to Equity (Times)	0.31	0.19
Net Interest Bearing Debt to EBITDA (Times)	0.55	0.35

### Note :

Current ratio	=	Current assets divided by current liabilities
EBITDA to sales revenue	=	EBITDA divided by sales revenue
Net profit on sale revenue	=	Net profit divided by sales revenue
Book Value Per Share	=	Total Shareholders' Equity divided by number of shares
Earning Per Share	=	Profit(Loss) attribute to equity holders of the parent divided by number of shares
Return on total assets	=	Net profit divided by average total assets
Return on equity	=	Net profit divided by average total shareholder's equity
Interest Bearing Debt to Shareholders' Equity	=	Interest Bearing Debt divided by shareholder's equity
Net Interest Bearing Debt to Equity	=	Interest Bearing Debt net from cash and cash equivalent and current investments divided by shareholder's equity
Net Interest Bearing Debt to EBITDA	=	Interest Bearing Debt net from cash and cash equivalent and current investments divided by EBITDA
EBITDA	=	Earning Before Interest, Tax, Depreciation and Amortization