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February 25, 2019

Subject: Management's Discussion and Analysis for Financial Year Ended December 31, 2018

To The President
The Stock Exchange of Thailand

Management Discussion and Analysis
Consolidated Financial Statements
For Financial Year ended December 31, 2018

Overall Group Performance

Table 1: Overall Financial Performance of Humanica Group

	Million baht					
	FY'2017	%	FY'2018	%	Change	% YoY
Revenue	482.37	100.0%	523.23	100.0%	40.86	8.5%
Cost	289.96	60.1%	285.52	54.6%	(4.44)	(1.5%)
Gross Profit	192.41	39.9%	237.71	45.4%	45.30	23.5%
SG&A	82.75	17.2%	97.39	18.6%	14.64	17.7%
EBITDA	155.43	32.2%	186.69	35.7%	31.26	20.1%
EBIT	109.66	22.7%	140.33	26.8%	30.67	28.0%
Interest Expenses	(0.80)	(0.2%)	(0.63)	(0.1%)	0.17	(21.3%)
EBT	108.85	22.6%	139.69	26.7%	30.84	28.3%
Tax	(11.41)	(2.4%)	(17.78)	(3.4%)	(6.37)	55.8%
Net profit after Tax	97.45	20.2%	121.91	23.3%	24.46	25.1%

Revenue from service

The Humanica Group of Companies ("HUMAN") delivered a revenue at 523.23 mb (2017: 482.37), increased by 40.86 mb or 8.5 %. For 2018, revenue from HR Solution is the main contributor to our growth, comparing to the financial solution. We continue to see strong domestic demand in Thailand, customers are seeking good HR technology and catching up on the wave of HR digitalization. Increasing, more companies see value in outsourcing HR/payroll services, to allow their own HR team to focus on their own businesses. We experienced better growth in Thailand and

Malaysia than Singapore, which was in line with our expectation that the outsourcing markets in both Thailand and Malaysia is less mature and hence, providing greater opportunities.

The growth in Financial solution has slowed in 2018, our resources were tied up in delivering the implementation for orders we have booked in late 2017 and hence limited our ability to generate more license sales in 2018.

Cost of Service

Despite an 8.5% increase in revenue, our cost of service decreased by 4.44 mb or 1.5 % to 285.52 mb (2017: 289.96 mb), the reduction is mainly due to the smaller payment of license fee to partners as we registered less sales in the financial solution division. It is worth mentioning that we have managed to drive productivity and delivered our services with better efficiency in the use of resources.

Gross Profit

As a combined result of improved revenue and reduced cost of services, we booked a gross profit of 237.71 mb (2017: 192.41 mb), a significant increase of 45.30 mb or 23.5% improvement. The reduction in cost of service also contributed positively to a better gross profit margin at 45.4% from 39.9% in previous year.

Selling and administration expense.

Selling and administration expense ("SG&A") closed at 97.39 mb (2017: 82.75 mb), an increase of 14.64 mb or 17.7 %. SG&A is composed of mainly indirect staff cost, office rental and depreciation & amortization. The increase in SG&A is mainly attributed to the write off of 16.97 mb of accrued work-in-progress resulting from termination of implementation projects. After adjusting the one-off impact of this write-off, the SG&A was marginally lower at 2.33 mb compared to last year.

Net profit after Tax

The net profit after tax closed the year at 121.91 mb (2017: 97.45 mb) and increased by 24.46 mb or 25.1%. The strong improvement in net profit after tax is backed by growth in revenue and more efficient use of resources that improves our gross margin, as well as, our effort in managing SG&A.

1. Revenue Structure

Table 2: The break down revenue by business entities.

Type of Revenue	Year 2017		Year 2018	
	Million Baht	%	Million Baht	%
1. HR solutions				
1.1 Human Resources and Payroll Outsourcing services	226.89	47.0%	237.35	45.4%
1.2 Income from software and human resources system	131.21	27.2%	159.64	30.5%
Revenues from HR solutions	358.10	74.2%	396.99	75.9%
2. Financial solutions				
2.1 Enterprise Resource Planning	96.99	20.1%	98.94	18.9%
2.2 Accounting & Finance Outsourcing	23.79	4.9%	19.18	3.7%
Total revenue from financial solutions	120.78	25.0%	118.12	22.6%
3. Other income	3.49	0.8%	8.12	1.5%
Total revenues	482.37	100.0%	523.23	100.0%

Note: * Other income consist of supporting money from the software developers, interest income, dividend income, gain from sale of fixed assets and gain on investment.

In Table 2 , HUMAN's revenue structure comprise of 2 business units , HR service and Financial solution with HR services representing 75.9% of our revenue, Financial services representing 22.6% and other income representing a small 1.5%. In 2018, the HR services has grown at a higher rate than Financial services, hence its weightage has steadily increased from 74.2% in 2017 to 75.9% in 2018.

HR Solution

Revenue from HR solution closed at 396.99 mb (2017: 358.10 mb), growing by 38.89 mb or 10.9%. The increase is in line with our expectation of demand of HR technology and services in local and overseas markets. Our order book remains strong and the sales pipe lines is healthy, especially in Thailand.

Financial Solution

In 2018, revenue from Financial solution closed at 118.12 mb (2017: 120.78 mb), decreasing by 2.66 mb or 2.2%. The reduction is mainly due to the lost jobs in accounting and financial outsourcing revenue. Of the revenue we have lost, there was a larger value contract with very thin margin. Hence, despite the lost in revenue, the overall margin for accounting and financial outsourcing did not suffered. For the ERP business, it was a year that we were busy fulfilling the backlog from last year. We have booked higher implementation revenue but the license income slowed down compared to 2017. Overall, the growth in implementation revenue was offset with the reduction in license revenue. At year-end, we have a sizable order backlog for ERP implementation and good sales pipeline.

The recurring and non-recurring income of HMCG :

Table 3: The break down revenue by recurring & non-recurring revenue

HR solutions	FY17	%	FY18	%	%YoY
Revenues-Recurring	305.67	85.4%	341.50	86.0%	11.7%
Revenues-Non Recurring	52.43	14.6%	55.49	14.0%	5.8%
Total revenues	358.10	100.0%	396.99	100.0%	10.9%

Financial Solutions	FY17	%	FY18	%	%YoY
Revenues-Recurring	58.75	48.6%	62.10	52.6%	5.7%
Revenues-Non Recurring	62.03	51.4%	56.02	47.4%	(9.7%)
Total revenues	120.78	100.0%	118.12	100.0%	(2.2%)

Grand Total Recurring	364.42	76.1%	403.60	78.4%	10.8%
Grand Total Non-recurring	114.46	23.9%	111.51	21.6%	(2.6%)
Gran Total Revenue	478.88	100.0%	515.11	100.0%	7.6%

We continue to report a high proportion of recurring income, improving from 76.1% in 2017 to 78.4% in 2018. Both HR services and Financial services showed positive increase in proportion of recurring income as we continue to expand our customer base for recurring revenue. For ERP services, as a result of booking more license sales in 2017, we have increased the base for maintenance services and hence bringing an additional 5.7% in recurring income.

For HR Solution, recurring income continued to grow 35.83 mb, making up 86.0% of total revenue from HR services as compared to 85.4% in 2017. This is a good indicator that customers are warming up to outsourcing as they undergo their own journey of HR transformation.

2. Financial position

Table 4: Overall Financial position

	2017	%	2018	%	#amt YoY	% YoY
<u>Asset</u>						
Cash	88.14	7.6%	111.34	9.1%	23.20	26.3%
current investment	650.08	56.2%	406.79	33.2%	(243.29)	(37.4%)
Other current Asset	151.18	13.1%	120.45	9.8%	30.73	20.3%
Non-Current asset	266.71	23.1%	587.40	47.9%	320.69	120.2%
Total Asset	1,156.11	100.0%	1,225.98	100.0%	69.87	6.0%
<u>Liability</u>						
Current liability	82.52	7.2%	77.35	6.3%	(5.17)	(6.3%)
Non-Current liability	29.15	2.5%	28.99	2.4%	(0.16)	(0.5%)
Total liability	111.67	9.7%	106.34	8.7%	(5.33)	(4.8%)
Net Asset	1,044.44	90.3%	1,119.64	91.3%	75.20	7.2%
Equity	1,044.44	90.3%	1,119.64	91.3%	75.20	7.2%

(a) Total assets

Total asset as at December 31, 2018 stand at 1,225.98 mb, an increase of 69.87 mb or 6.0%. The main reasons for the increase is the capitalization of leased-hold assets due to the use of the new building and the capitalization of our software as we introduced more features.

Cash surplus increased by 23.20 mb or 26.3% due to cash flow generated from operation and good working capital management.

(b) Total Liabilities

Total liability as of December 31, 2018 was 106.34 mb, a decrease of 5.33 mb or 4.8%. The decline is due to the quicker payment to supplier and financial leasing.

(c) Shareholders' equity

Total shareholder's equity as of December 31, 2018 was 1,119.64 mb, increasing by 75.20 mb or 7.2%. This is in line with the increase in operating profit for 2018.

3. Cash Flow Statement

Million Baht	2017	2018
Net cash provided by (used in)		
Cash Flow from Operating (CFO)	124.69	200.84
Cash Flow from Investing (CFI)	(708.67)	(123.10)
Cash Flow from Financing (CFF)	626.00	(54.16)
Decrease in translation adjustments	(0.14)	(0.39)
Net increase (decrease) in cash and cash equivalents	41.88	23.19

Cash Flow from Operating Activities

CFO as of December 31, 2018 was 200.84 mb, increasing from last year due to the higher earnings in 2018 compared to 2017. The management will consider using the surplus CFO in other activities to create better value for the group.

Cash Flow from Investing Activities

CFI as of December 31, 2018 was -123.10 mb. We have actively spent money in M&As where they generate synergies with our business. We also invested surplus funding that we received from our IPO in mutual fund in accordance with our investment policies which adopted a conservative asset allocation.

Cash Flow from Financing Activities

CFF as of December 31, 2018 was -54.16 mb, mainly due to dividend distribution to our shareholders. After IPO fund raising, the company does not have any financing project as we have ample fund for working capital.

Please be informed accordingly,

Yours Sincerely,

Mr. Soontorn Dentham
Chief Executive Officer