



Ref. FN. 011/2019

## Management Discussion and Analysis

### For operation of the 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. During 2018, the Company opened 2 branches i.e. Rayong branch (which started operating since 1 November 2018) and Diana branch (which started operating since 7 December 2018). To date, the Company has 12 outlets (the existing branches: Phetchaburi, Kanchanaburi, Pattaya, Pak Chong, Sing Buri, Hua Hin, Sriracha, Phra Nakorn Sri Ayutthaya, Hat Yai and Chachoengsao).

### Industry Overview

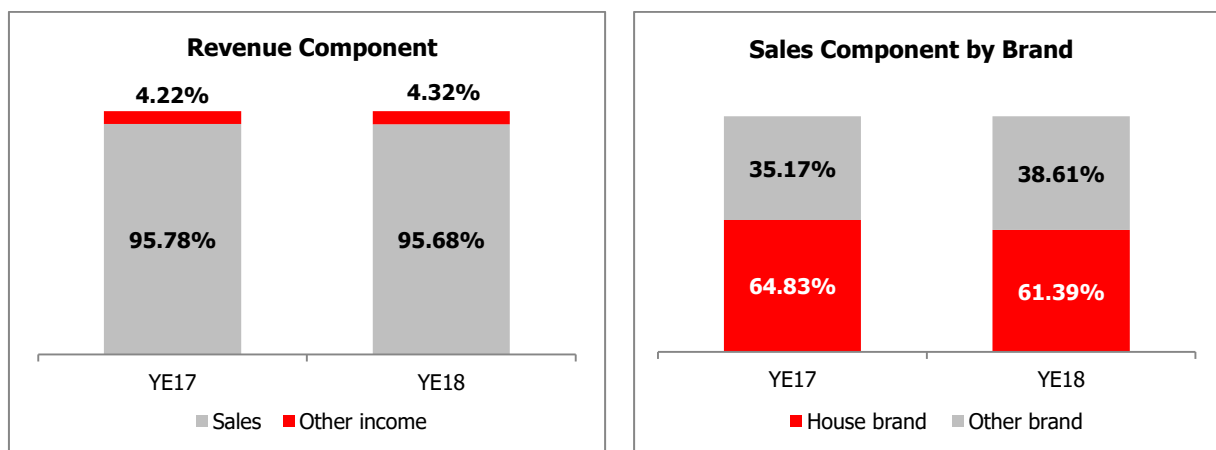
The Office of the National Economic and Social Development Council (NESDC) reported that Thailand's GDP in 2018 growth 4.1% YOY, driving by private consumption and investment. Although the household consumption index continued to expand but the recovery in consumption of low-income households remained subdued, reflecting growth in limited sections. Moreover, growth in tourism industry failed to achieve the target especially in second half of the year due to the decline of Chinese tourists and economic slowdown in several countries especially in Europe which negatively affect spending power of tourists. Nevertheless, going forward, if government's stimulus measures in investment, tourism and consumption successfully implement. The impact would positively support overall economy. (Source : SCB EIC)

### Performance Analysis

Unit : MB	For the year ended		Change	
	2018	2017	MB	%
Net sales	1,057.38	1,054.67	2.71	0.26
Other income	47.74	46.50	1.24	2.67
<b>Total revenues</b>	<b>1,105.12</b>	<b>1,101.17</b>	<b>3.95</b>	<b>0.36</b>
Cost of goods sold	624.93	585.38	39.55	6.76
Selling expenses and administrative expenses	447.41	408.64	38.77	9.49
Selling expenses	217.44	187.00	30.44	16.28
Administrative expenses	229.97	221.64	8.33	3.76
<b>Earnings before interest and taxes (EBIT)</b>	<b>32.79</b>	<b>107.16</b>	<b>(74.37)</b>	<b>(69.40)</b>
Financial costs	0.72	0.13	0.59	453.85
Income tax expenses	2.86	20.81	(17.95)	(86.26)
<b>Net profit</b>	<b>29.21</b>	<b>86.21</b>	<b>(57.00)</b>	<b>(66.12)</b>
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA)</b>	<b>101.16</b>	<b>163.08</b>	<b>(61.92)</b>	<b>(37.97)</b>
Depreciation and amortization	68.37	55.92	12.45	22.26

Key financial ratio related with operating result (%)	For the year ended		Change
	2018	2017	
Gross profit margin	40.90	44.50	(3.60)
Selling expenses and administrative expenses to total revenue	40.49	37.11	3.38
Net profit margin	2.64	7.83	(5.19)

## 1. Total revenue



The Company was able to maintain sales at same level of previous year mainly from sales of two new outlet branches i.e. Rayong and Diana branch which was still achieve the target. In addition, the Company arranged more promotion and marketing events to increase sales amounts in this year such as "FN Fair" at head office and branches. For sales of existing branches, it was not achieve the target since the delay of domestic consumption recovery and the high household debt.

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 YE18 compared with YE17

For the proportion of other income to total revenue, the Company was able to maintain proportionate compared to previous year. 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

YE18 gross profits represented 40.90%, as a result of arranging more promotion and marketing events to promote sales volume together with the increase in proportion of other brand sales in first half of the year. 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.

## 3. Selling and administrative expenses

Selling and administrative expenses for YE18 were Baht 477.41 million, increased from previous year. The increase was mainly due to the expenses of new outlets (i.e. Hat Yai, Chachoengsao, Rayong and Diana branches) particularly personnel and marketing expenses which relatively high during the opening period. Also, the Company recognized additional depreciation from new outlets.

#### 4. Net profit and net profit margin

YE18 net profit were Baht 29.21 million 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.

The company concentrated to develop more strategies i.e. 1) 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. 2) 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 and 3) 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 31 December 2018	As at 31 December 2017	Change	
			MB	%
Cash and cash equivalents	159.65	124.63	35.02	28.10
Current investment	156.04	252.71	(96.67)	(38.25)
Inventories	472.08	349.04	123.04	35.25
Property, plant and equipment	919.08	838.14	80.94	9.66
Other assets	69.00	58.26	10.74	18.44
<b>Total assets</b>	<b>1,775.85</b>	<b>1,622.78</b>	<b>153.07</b>	<b>9.43</b>
Accounts payable	149.37	98.72	50.65	51.31
Long-term loan	108.67	-	108.67	-
Other liabilities	34.53	32.79	1.74	5.31
<b>Total liabilities</b>	<b>292.57</b>	<b>131.51</b>	<b>161.06</b>	<b>122.47</b>
<b>Total shareholders' equity</b>	<b>1,483.28</b>	<b>1,491.26</b>	<b>(7.98)</b>	<b>(0.54)</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,775.85</b>	<b>1,622.78</b>	<b>153.07</b>	<b>9.43</b>

##### 1. Assets

The Company's total assets as at 31 December 2018 were Baht 1,775.85 million, increased Baht 153.08 million from 2017 mainly from an increase in inventories of more variety goods and to support the opening of new outlet at Rayong and Diana branches. Moreover, there was an increase of fixed assets for construction of Rayong and Diana branch, additional of building for Chachoengsao branch and renovate the existing branches. However, total cash and cash equivalent and current investment decrease by Baht 61.65 million from the investing in assets, dividend payment to shareholders and 2017 corporate tax payment.

##### 2. Liabilities

As at 31 December 2018, the Company's liabilities totaled Baht 292.57 million, rose by Baht 161.06 million or 122.47% from 2017 mainly from an increase in long-term loans from financial institution to support the construction of Rayong branch. Moreover, there was increase in accounts payable from purchasing more variety of goods and other payable to support the investing in assets.

### 3. Shareholders' equity

As at 31 December 2018, the Company's shareholders' equity was Baht 1,483.28 million, decreasing by Baht 7.98 million or 0.54% from end of 2017, mainly due to the YE18 net profit of Baht 29.21 million whereas the Company paid dividend of Baht 36 million to shareholders.

### Cash Flow Statement Analysis

Unit : MB	For the period ended		Change	
	31 December 2018	31 December 2017	MB	%
Cash flow from operating activities	18.44	159.55	(141.11)	(88.44)
Cash flow from used in investing activities	(54.26)	(64.26)	10.00	(15.56)
Cash flow from (used in) financing activities	70.83	(60.57)	131.40	(216.94)

#### 1. Cash flow from operating activities

The Company's net cash flow used in operating activities was Baht 18.44 million 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 154.52 million and additional of current investment of Baht 410 million whereas the Company had cash inflow from redemption of partial investment and interest income of Baht 510.28 million. For those reasons, the Company had net cash flow used in investing activities of Baht 54.26 million.

#### 3. Cash flow from (used in) financing activities

The Company had cash inflow from long-term loan of Baht 108.67 million whereas the Company had cash outflow from financing activities of Baht 37.84 million as a result of dividend and financial lease payment. For those reasons, the Company had net cash flow from financing activities of Baht 70.83 million.

### Key Financial Ratio Analysis

	For the year 2018	For the year 2017	Change	Reason
Liquidity Ratio (x)	4.53	6.80	(2.27)	The increase in accounts payable, other payable and long-term loan.
Quick Ratio (x)	1.78	3.47	(1.69)	
Return on Equity (%)	1.96	5.83	(3.87)	The decrease in YE18 net profit.
Debt-to-Equity Ratio (x)	0.20	0.09	0.11	The increase in accounts payable, other payable and long-term loan.

#### For more information, please contact:

Boontharika Boonkhum, Investor Relations

Tel: 02-300-4807, E-mail: [boontharika@fnoutlet.com](mailto:boontharika@fnoutlet.com)