



8 August 2019

No. ZEN 2562-021
 Subject Management Discussion and Analysis for 2nd Quarter of 2019
 and 6-months period ending 30 June 2019
 To The President
 The Stock Exchange of Thailand

We, ZEN Corporation Group Public Company Limited (“the Group”), are pleased to provide you our management discussion and analysis for the 2nd Quarter of 2019 and the six months period ending 30 June 2019, as follows:

Financial Performance Analysis

Revenues

Revenues	2 nd Quarter (April-June)			
	2018		2019	
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾
Revenue from Sales and Service	708.4	94.0%	739.4	96.6%
Franchise Fees Income	21.0	2.8%	17.3	2.3%
Other Income	23.9	3.2%	8.5	1.1%
Total Revenue	753.3	100.0%	765.2	100.0%

Revenues	6-Months Period Ending 30 June (January-June)			
	2018		2019	
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾
Revenue from Sales and Service	1,406.0	95.7%	1,449.5	96.9%
Franchise Fees Income	34.1	2.3%	31.4	2.1%
Other Income	29.2	2.0%	14.8	1.0%
Total Revenue	1,469.3	100.0%	1,495.7	100.0%

Remark: ⁽¹⁾ Percentage of Total Revenue



In the 2nd quarter of 2018 and 2019, the Group's total revenue increased from THB 753.3 Mn to THB 765.2 Mn respectively, an increase of THB 11.9 Mn or 1.6%. And for the six months ending 30 June 2018 and 2019, the Group's total revenue increased from THB 1,469.3 Mn to THB 1,495.7 Mn respectively, an increase of THB 26.4 Mn or 1.8%. This was mainly due to increased revenue from sales and service which itself was the major contributor to the Group's revenue. During the 2nd quarter of 2018 and 2019 revenue from sales and service made up 94.0% and 96.6% of total revenue respectively. And during the six months ending 30 June 2018 and 2019 revenue from sales and service made up 95.7% and 96.9% of total revenue respectively.

In the 2nd quarter of 2018 and 2019, revenue from sales and service was THB 708.4 Mn and THB 739.4 Mn respectively, an increase of THB 31.0 Mn or 4.4%. And for the six months ending 30 June 2018 and 2019, revenue from sales and service was THB 1,406.0 Mn and THB 1,449.5 Mn respectively, an increase of THB 43.5 Mn or 3.1%. This was mainly due to (1) the opening of new branches, (2) increased sales of raw material to franchisees, (3) increased sales of retail merchandise and (4) increased sales of delivery.

Franchise fee income decreased from THB 21.0 Mn in the 2nd quarter of 2018 to THB 17.3 Mn in the same period of 2019, a decrease of THB 3.7 Mn or 17.6%. And for the six months ending 30 June 2018 and 2019, franchise fee income decreased from THB 34.1 Mn to THB 31.4 Mn respectively, a decrease of THB 2.7 Mn or 7.9%. This decrease was mainly due to decreased income of initial fee from the lower number of franchise branches opening when compared to the same period of 2018.

Item	6-Months Period Ending 30 June	
	2018	2019
Net Number of New Branches Opened ⁽¹⁾ (Branch)	(1)	19
Number of Equity Branches at Period End ⁽¹⁾ (Branch)	101	129
Number of Franchise Branches at Period End (Branch)	136	146
Sales from Restaurant Business During the Period (THB Mn)	1,336.1	1,345.3
Same-Store Sales Growth: SSSG (%) ⁽²⁾	9.4%	-2.9%
Growth of Revenue from Restaurant Business (%)	21.9%	0.7%

Remark: ⁽¹⁾ Outlets owned by the Group

⁽²⁾ Calculated based on total revenue from sales and service per total operating days of the same branch

In the 2nd quarter of 2018 and 2019, the Group's other income dropped from THB 23.9 Mn to THB 8.5 Mn respectively, a decrease of THB 15.4 Mn or 64.4%. And for the six months ending 30 June 2018 and 2019, the Group's other income decreased from THB 29.2 Mn to THB 14.8 Mn respectively, a decrease of THB 14.4 Mn or 49.3%. This decrease was mainly due to the Group had other income from the reversal of the provision for decommissioning costs of THB 17.3 Mn in the 2nd quarter of 2018. However, excluding the 1-time income from the reversal of the provision for decommissioning costs in the 2nd quarter of 2018, the Group's other income increased from THB 11.9 Mn to THB 14.8 Mn, an increase of THB 2.9 Mn or 24.4%. This increase was mainly due to (1) higher membership fee income and (2) higher interest income.



Cost of Sales and Services

Item	2 nd Quarter (April-June)			
	2018		2019	
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾
Revenue from Sales and Service	708.4	97.1%	739.4	97.7%
Franchise Fee Income	21.0	2.9%	17.3	2.3%
Revenue from Main Businesses	729.4	100.0%	756.7	100.0%
Costs of foods and beverages	258.3	35.4%	277.2	36.6%
Other operating expenses	293.9	40.3%	306.7	40.5%
Costs of Sales and Service	552.2	75.7%	583.9	77.2%
Gross Profit (After deduct Costs of foods and beverages)	471.1	64.6%	479.5	63.4%
Gross Profit (After deduct Cost of Sales and Service)	177.2	24.3%	172.8	22.8%

Item	6-Months Period Ending 30 June (January-June)			
	2018		2019	
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾
Revenue from Sales and Service	1,406.0	97.6%	1,449.5	97.9%
Franchise Fee Income	34.1	2.4%	31.4	2.1%
Revenue from Main Businesses	1,440.1	100.0%	1,480.9	100.0%
Costs of foods and beverages	505.7	35.1%	540.7	36.5%
Other operating expenses	586.7	40.8%	600.7	40.6%
Costs of Sales and Service	1,092.4	75.9%	1,141.4	77.1%
Gross Profit (After deduct Costs of foods and beverages)	934.4	64.9%	940.2	63.5%
Gross Profit (After deduct Cost of Sales and Service)	347.7	24.1%	339.5	22.9%

Remark: ⁽¹⁾ Percentage of Revenue from main businesses

In the 2nd quarter of 2018 and 2019, the costs of sales and service increased from THB 552.2 Mn to THB 583.9 Mn respectively, an increase of THB 31.7 Mn or 5.7%. And for the six months ending 30 June 2018 and 2019, the costs of sales and service increased from THB 1,092.4 Mn to THB 1,141.4 Mn respectively, an increase of THB 49.0 Mn or 4.5%. This increase was mainly due to (1) increase in revenue contribution of the brands with higher % cost of goods sold. (2) the increase of packaging cost related to increased sales of delivery (3) increased cost of branch staff, rental and utilities from branch expansion and (4) issuing discount promotions to draw traffic and create brand awareness.



The gross profit (after deducting costs of sales and service) decreased from THB 177.2 Mn in the 2nd quarter of 2018 to THB 172.8 Mn in the same period of 2019, a decrease of THB 4.4 Mn or 2.5%. The gross profit margin decreased from 24.3% in the 2nd quarter of 2018 to 22.8% in the same period of 2019 which was mainly due to (1) change in sales mix with more contribution from brands with higher food cost (2) negative same-store sales growth and (3) increased cost of branch staff, rental and utilities from branch expansion.

For the six months ending 30 June 2018 and 2019, the gross profit (after deducting costs of sales and service) decreased from THB 347.7 Mn to THB 339.5 Mn respectively, a decrease of THB 8.2 Mn or 2.4%. The gross profit margin decreased from 24.1% in the six months ending 30 June 2018 to 22.9% in the same period of 2019.

Selling Expenses

In the 2nd quarter of 2018 and 2019, selling expenses decreased from THB 31.7 Mn to THB 23.2 Mn respectively, a decrease of THB 8.5 Mn or 26.8%. The main factor for the decrease was mainly from switching to other marketing channels with lower expenses. As a percent of total revenue, selling expenses decreased from 4.2% in the 2nd quarter 2018 to 3.0% in the same period of 2019.

For the six months ending 30 June 2018 and 2019, selling expenses decreased from THB 58.7 Mn to THB 44.7 Mn respectively, a decrease of THB 14.0 Mn or 23.9%. As a percent of total revenue, selling expenses decreased from 4.0% in the six months ending 30 June 2018 to 3.0% in the same period of 2019.

Administrative Expenses

In the 2nd Quarter of 2018 and 2019, administration costs increased from THB 105.0 Mn to THB 117.9 Mn respectively, an increase of THB 12.9 Mn or 12.3%. This increase was mainly due to staff cost of brand support increase in order to support the expansion of branch for both the restaurants which the company owns itself as well as franchise restaurants. As a percent of total revenue, administrative expenses increased from 13.9% in the six months ending 30 June 2018 to 15.4% in the same period of 2019.

For the six months ending 30 June 2018 and 2019, administration costs increased from THB 217.8 Mn to THB 232.6 Mn respectively, an increase of THB 14.8 Mn or 6.8%. As a percent of total revenue, administrative expenses increased from 14.8% in the six months ending 30 June 2018 to 15.6% in the same period of 2019.

Finance Expenses

Finance expenses decreased from THB 6.4 Mn in the 2nd quarter of 2018 to THB 0.1 Mn in the same period of 2019, a decrease of THB 6.3 Mn or 98.4%. This was mainly due to the utilization of some proceeds from initial public offering to pay back all loans from commercial banks.

For the six months period of 30 June 2018 and 2019, finance expenses decreased from THB 12.8 Mn to THB 3.6 Mn respectively, a decrease of THB 9.2 Mn or 71.9%.



Tax Expenses

Income tax expense decreased from THB 11.1 Mn in the 2nd quarter of 2018 to THB 7.0 Mn in the same period of 2019, a decrease of THB 4.1 Mn or 36.9%. For the six months period of 30 June 2018 and 2019, Income tax expense decreased from THB 16.6 Mn to THB 8.0 Mn, a decrease of THB 8.6 Mn or 51.8%.

Net Profit and Net Profit Margin

In the 2nd quarter of 2018 to 2019, the net profit decreased from THB 46.9 Mn to THB 33.2 Mn respectively, a decrease of THB 13.7 Mn or 29.2% and the net profit margin decreased from 6.2% to 4.3%. However, excluding the 1-time income from the reversal of the provision for decommissioning costs of THB 17.3 in the 2nd quarter of 2018, the Group's net profit increased from THB 29.6 Mn baht to THB 33.2 Mn, an increase of THB 3.6 Mn or 12.2% and the net profit margin increased from 4.0% to 4.3%.

For the six months period of 30 June 2018 and 2019, the net profit decreased from THB 71.1 Mn to THB 65.3 Mn respectively, a decrease of THB 5.8 Mn or 8.2% and the net profit margin decreased from 4.8% to 4.4%. However, excluding the 1-time income from the reversal of the provision for decommissioning costs in the 2nd quarter of 2018, the Group's net profit increased from THB 53.8 Mn baht to THB 65.3 Mn, an increase of THB 11.5 Mn or 21.4% and the net profit margin increased from 3.7% to 4.4%.

The main reasons were (1) more efficient cost management (2) decreased financial expenses and (3) decreased income tax expense.

Financial Position Analysis

Assets

As of 31 December 2018, and 30 June 2019, the Group had total assets of THB 1,564.0 Mn and THB 1,917.9 Mn respectively, an increase of THB 353.9 Mn or 22.6%. The assets increased mainly from an increase in cash and cash equivalents remaining from the proceeds of initial public offering after deducting the repayment of loans from commercial banks.

Liabilities

As of 31 December 2018, and 30 June 2019, the Group had total liabilities of THB 1,095.4 Mn and THB 531.9 Mn respectively, a decrease of THB 563.5 or 51.4%. The main factor in the decrease was repayment of loans from financial institutions.

Shareholder Equity

As of 31 December 2018, and 30 June 2019, the Group had shareholders' equity of THB 468.6 Mn and THB 1,386.0 Mn respectively, an increase of THB 917.4 Mn. This increase in shareholders' equity was mainly derived from the share premium relating to the initial public offering at THB 955.4 Mn. Other major changes in the shareholders' equity during the period were (1) increased paid-up capital from THB 225.0 Mn to THB 300.0 in preparation for the initial public offering (2) payment of shareholder dividend of THB 101.3 Mn and (3) net profit of the company during the period of THB 65.3 Mn.



Cash Flow Analysis

Type of Cash Flow	6-Months Period Ending 30 June	
	2018	2019
	THB Mn	THB Mn
Net Cash from Operating Activities	94.6	137.4
Net Cash from Investments	(34.1)	(96.9)
Net Cash from Financing Activities	(72.6)	215.8
Increase (Decrease) in net cash and cash equivalents	(12.1)	256.3

Overall the company had an increase in net cash and cash equivalents during the six months ending 30 June 2019 of THB 256.3 Mn.

Net Cash from Operating Activities

The cash flows from operating activities was THB 137.4 Mn in the six months ending 30 June 2019, an increase of THB 42.8 Mn compared to the same period in 2018. Operating profit decreased by THB 5.8 Mn and this was offset mainly by an increase in working capital due to (1) account payables which increased by THB 23.3 Mn in 2019 compared to a decrease of THB 46.8 Mn in 2018 (change of THB +70.2 Mn) and (2) accrued expenses increased by THB 2.6 Mn in 2019 compared to a decrease of THB 9.1 Mn in 2018 (change of THB +17.8 Mn)

Net Cash from Investments

The cash flows from investments decreased from THB -34.1 Mn in the six months ending 30 June 2018 to THB -96.9 Mn in the same period of 2019, a decrease of THB -62.8 Mn. This was mainly due to higher purchase of fixed assets in 2019 compared to 2018.

Net Cash from Financing Activities

The cash flows from financing activities increased from THB -72.6 Mn in 2018 to THB 215.8 Mn in 2019, an increase of THB 288.4 Mn. This was mainly due to (1) cash received from shareholders for share capital THB 975.0 Mn (2) repayment of short-term borrowings from financial institutions THB 630.0 Mn.



Liquidity and Capital Structure

As of 30 June 2019, the Group had a current ratio of 1.37, increase from 0.32 at end of 2018. This improvement was mainly due to a repayment of all short-term borrowing from financial institutions.

The debt-to-equity ratio reduced to 0.38 at 30 June 2019 compared to 2.34 at the end of 2018. This improvement was mainly due to (1) the repayment of all short-term borrowings from financial institutions and (2) increased shareholder equity derived from the initial public offering.

Please be informed accordingly,

Yours Sincerely,

(Mrs. Yupaphan Ekasittikul)
Chief Financial Officer