



Ref FN. 036/2019

Management Discussion and Analysis
For operation of the second quarter of year 2019

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 12 outlets (Phetchaburi, Kanchanaburi, Pattaya, Pak Chong, Sing Buri, Hua Hin, Sriracha, Phra Nakorn Sri Ayutthaya, Hat Yai, Chachoengsao, Rayong and Diana Hat Yai Branch.

Industry Overview

Thailand's overall economy expanded at a slower pace than expected in 2Q19 due to external demand. The escalated trade tension between the U.S. and China caused lower global trade volume. The tourism sector also expanded at a slower rate mainly from Chinese tourists. The domestic demand grew at a slower rate resulted from private consumption and investment. The slower growth is expected to continue in 3Q19 since the external factors remain unsolved. Although private consumption was supported by sales promotion and government measures, however, it would be restrained by non-farm household income given signs of moderation in earnings, and lower consumer confidence among low-income households due to elevated household debt. Bank of Thailand has revised down its growth forecast for Thailand's gross domestic product this year to 3.3 percent from 3.8 percent. (Source : BOT Press Release No.37/2019 on Monetary Policy Report)

Performance Analysis

Unit : MB	2Q19	2Q18	%YoY	1Q19	%QoQ	1H19	1H18	%YoY
Net sales	272.28	262.65	3.66	238.99	13.93	511.27	524.50	-2.52
Other income	12.21	11.96	2.11	9.49	28.68	21.70	25.02	-13.25
Total revenues	284.49	274.61	3.60	248.48	14.49	532.97	549.51	-3.01
Cost of goods sold	152.47	154.23	-1.14	139.89	8.99	292.36	306.13	-4.50
Selling expenses and administrative expenses	124.74	115.04	8.43	111.29	12.08	236.03	220.36	7.11
Selling expenses	66.19	56.23	17.70	55.33	19.62	121.51	106.89	13.68
Administrative expenses	58.55	58.81	-0.44	55.96	4.63	114.51	113.48	0.91
Earnings before interest and taxes (EBIT)	7.28	5.34	36.25	(2.70)	-369.67	4.58	23.02	-80.09
Financial costs	1.17	0.04	2760.98	1.09	7.61	2.26	0.09	2556.47
Income tax expenses	0.13	1.24	-89.81	(2.03)	-106.21	(1.90)	3.10	-161.41
Net profit	5.98	4.07	47.12	(1.76)	-439.89	4.23	19.84	-78.69

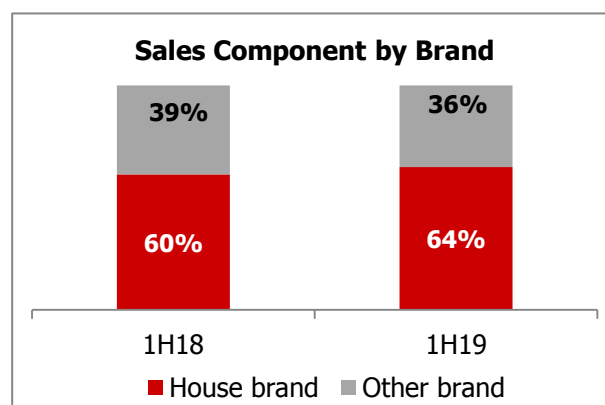
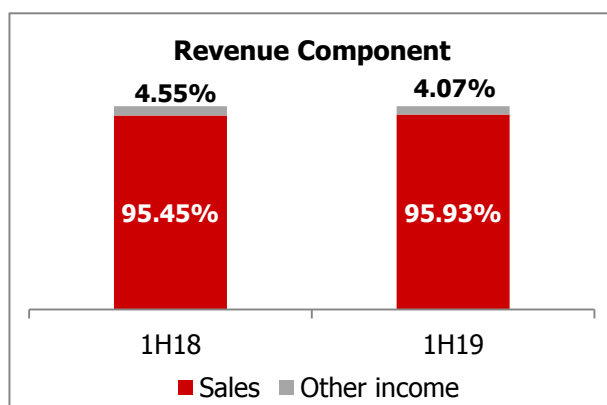
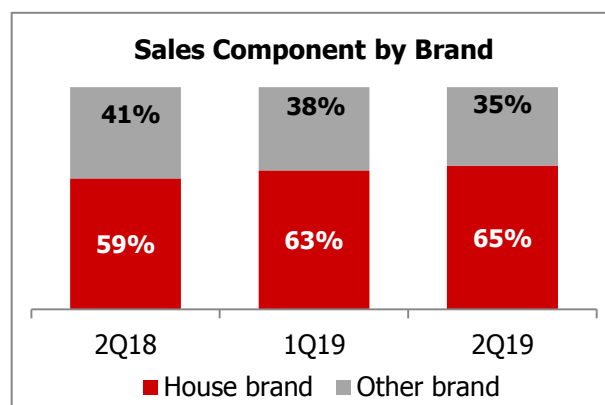
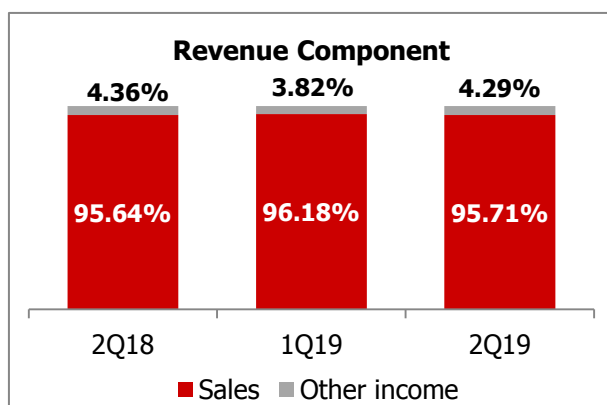
Earnings before interest, taxes, depreciation and amortization (EBITDA)	27.11	21.68	25.04	17.06	58.93
Depreciation and amortization	19.83	16.34	21.37	19.76	0.36

44.18	55.32	-20.15
39.59	32.30	22.56

Key financial ratio related with operating result (%)	2Q19	2Q18	%YoY	1Q19	%QoQ
Gross profit margin (%)	44.00%	41.28%	2.72	41.47%	2.54%
Selling expenses and administrative expenses to total revenue (%)	43.85%	41.89%	1.95	44.79%	-0.94%
Net profit margin (%)	2.10%	1.48%	0.62	-0.71%	2.81%

1H19	1H18	%YoY
42.82%	41.63%	1.18
44.28%	40.10%	4.18
0.79%	3.61%	-2.82

1. Total Revenue



Total revenue in 2Q19 was Baht 272.28 million, increased by 3.66% YOY as a result of new branch performance and the expansion of new distribution channels such as Pop-up Store, Mini Shop at HQ Rama 9, and E-commerce. Total revenue in 1H19 was Baht 511.27 million, decreased by 2.52% YOY because sales target was not achieved in 1Q19.

The Company arranged marketing activities to draw customers and to maintain sales. Furthermore, the Company's direction to grow house brand products, especially bedding group, demonstrated higher proportionate in 2Q19 to 65% which increasing compared to 2Q18 and 1Q19. The proportionate of house brand products in 1H19 was 64% increased from previous period resulted in higher gross profits margin.

For the proportion of other income to total revenue, it's slightly decreased compared to previous period from giving a discount to tenants. The Company emphasizes tenants' selection to match customers' need, to draw customers' attention and to draw traffic.

2. Cost of goods sold and gross profit

2Q19 and 1H19 gross profits represented 44.0% and 42.82%, respectively. Gross profits improved from higher proportion of house brand product sales compared to previous period. However, the Company has concern about the maintaining gross profit margin, emphasizing FN brand awareness and increasing FN brand equity, so the marketing activities has been arranged with sales plan improvement and promotion efficiency spending.

3. Selling and administrative expenses

Selling and administrative expenses for 2Q19 and 1H19 was Baht 124.74 million, and Baht 236.03 million, respectively, which increased from previous period. The increase was mainly due to the expenses of new outlets (i.e. Rayong and Diana Hat Yai branches) such as depreciation, utilities 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 (loss) and net profit (loss) margin

2Q19 and 1H19 net profits was Baht 5.98 million, and Baht 4.23 million, respectively, as a result of marketing events couple with the increase in operating expense due to the expenses of new outlets.

The company focuses on the sustainable growth, thus, set up a strategy to support the business direction as below.

- 1. Differentiate marketing campaigns to increase brand awareness**
- 2. Emphasize FN as a DESTINATION with house brands which increases profitability.**
- 3. Focusing and developing E-commerce with potential partners**
- 4. Focusing cost-efficiency and productivity**
 - Utilizing information technology (IT) system to optimize operation and resources**
 - Optimizing human resources**
 - Installing Solar Rooftop to promote green environment and optimize utilities. The first project is in Phra Nakorn Sri Ayutthaya outlet and continues to roll-out to other outlets in the future.**

Financial Position Analysis

Unit : MB	As at	As at	Change	
	30 June 2019	31 December 2018	MB	%
Cash and cash equivalents	67.34	159.65	(92.31)	-57.82
Current investment	102.98	156.04	(53.06)	-34.01
Securities purchased under resale agreements	50.17	0.00	50.17	100
Inventories	513.10	472.08	41.02	8.69
Property, plant and equipment	929.54	919.08	10.45	1.14
Other assets	82.13	69.00	13.13	19.03
Total assets	1,745.26	1,775.85	(30.59)	-1.72
Accounts payable	119.36	149.37	(30.01)	-20.09
Long-term loan	116.51	108.67	7.83	7.21
Other liabilities	34.92	34.53	0.39	1.12
Total liabilities	270.78	292.57	(29.62)	-10.13
Total shareholders' equity	1,474.48	1,483.28	(8.80)	-0.59
Total liabilities and shareholders' equity	1,745.26	1,775.85	(30.59)	-1.72

1. Assets

The Company's total assets as of 30 June 2019 were Baht 1,745.26 million, decreased from the end of 2018. The main reason was decreased in cash and cash equivalents used for operating, investing and financing activities.

2. Liabilities

As of 30 June 2019, the Company's liabilities totaled Baht 270.78 million, decreased by Baht 29.62 million from 2018 as a result of paying to suppliers.

3. Shareholders' equity

As at 30 June 2019, the Company's shareholders' equity was Baht 1,474.48 million, decreasing by Baht 8.80 million or 10.13% from end of 2018, mainly due to dividend payment to shareholders.

Cash Flow Statement Analysis

Unit : MB	For the period ended	For the period ended	Change	
	30 June 2019	30 June 2018	MB	%
Cash flow from operating activities	(39.35)	37.79	(77.14)	-204.14
Cash flow used in investing activities	(44.85)	(53.98)	9.13	-16.92
Cash flow used in financing activities	(8.11)	(36.58)	28.47	-77.83

1. Cash flow from (used in) operating activities

The Company's net cash flow used in operating activities was Baht 39.35 million from the decreasing in operating profit together with the increase in purchasing of goods and paying to suppliers.

2. Cash flow from (used in) investing activities

The Company had cash outflow from investing Baht 44.85 million mainly from purchasing in fixed assets and new branch expansion (Rayong).

3. Cash flow from (used in) financing activities

The Company had a cash inflow from financing activities of Baht 8.11 million as a result of dividend payment to shareholders and interest payment.

Key Financial Ratio Analysis

	For the period ended 30 June 2019	For the year ended 31 December 2018	Change	Reason
Liquidity Ratio (x)	4.90	4.53	0.37	The decrease in account payable
Quick Ratio (x)	1.68	1.93	(0.25)	The decrease in cash and cash equivalents used for operating activities
Return on Equity (%)	0.84	1.89	(1.05)	Decrease in performance
Debt-to-Equity Ratio (x)	0.18	0.20	(0.02)	Payment to suppliers resulted in lower total liabilities

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