



Ref FN. 023/2020

Management Discussion and Analysis For operation of the first quarter of year 2020

FN Factory Outlet Public Company Limited was founded in 2000 and has been operated the outlet business, featuring both house brand – separate by Apparel under brand Inco, Cheval, Sleep Mate, ETC brand, Non-Apparel under brand Cherish, Prim, Rollica, Cushy, etc., 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. In addition, the Company has expanded new channels especially e-commerce through owned official platforms, Facebook: FN Outlet, Line Official Account: @fnoutlet as well as other marketplaces e.g. Shopee, Lazada etc.

Industry Overview

Overall economic activities in the first quarter of 2020 contracted from the prior last year. The Coronavirus disease 2019 (COVID-19) pandemic is continuing to evolve, resulting in an economic slowdown and adversely impacting most businesses and industries in terms of supply chains, consumer spending, operational delays, and more. The Group's business activities in terms of sales of goods due to temporary closure of 11 branches since March 22, 2020 in order to comply with regulation issued under The Emergency Decree on Public Administration in Emergency Situations.

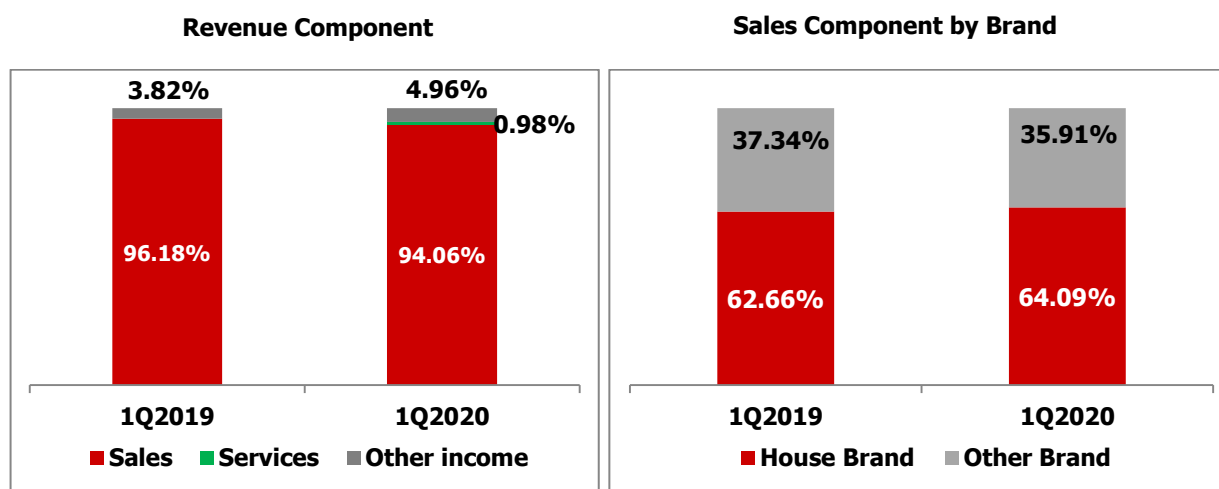
Performance Analysis

Unit : MB	For the period ended		Change	
	31 March 2020	31 March 2019	MB	%
Net sales	195.84	238.99	(43.15)	(18.06)
Revenue from services	2.05	-	2.05	100.00
Other income	10.32	9.49	0.83	8.77
Total revenues	208.21	248.48	(40.27)	(16.21)
Cost of goods sold	102.59	139.89	(37.30)	(26.66)
Cost of services	0.33	-	0.33	100.00
Selling expenses and administrative expenses	94.31	111.29	(16.98)	(15.26)
Selling expenses	61.27	67.82	(6.55)	(9.66)
Administrative expenses	33.04	43.47	(10.43)	(24.00)
Earnings before interest and taxes (EBIT)	10.97	(2.70)	13.67	(506.71)
Financial costs	2.77	1.09	1.69	155.39
Income tax expenses	0.84	(2.03)	2.86	(141.17)
Net profit	7.37	(1.75)	9.12	(519.77)

Unit : MB	For the period ended		Change	
	31 March 2020	31 March 2019	MB	%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	34.53	17.06	17.47	102.38
Depreciation and amortization	23.56	19.76	3.80	19.22

Key financial ratio related with operating result (%)	For the period ended		Change
	31 March 2020	31 March 2019	% YoY
Gross profit margin from sales (%)	47.61%	41.47%	6.15%
Gross profit margin from services (%)	83.79%	-	100.00%
Selling expenses and administrative expenses to total revenue (%)	45.30%	44.79%	0.51%
Net profit margin (%)	3.54%	(0.71%)	4.24%

1. Total Revenue



Total revenue in Q120 was Baht 208.21 million, decreased by 16.21% QOQ as a result of economy slowdown, the Coronavirus disease 2019 (COVID-19), and low spending season causing consumers slow down their spending. However, the Company have new services - spray service to spraying chemicals into a fine mist size of 10-50 microns, called name "Virus Buster" under Cherish Brand. In addition, the Company has continued to expand new distribution channels such as Pop-up Store, Mini Shop at HQ Rama 9, and E-commerce.

The Company arranged marketing activities to draw customers and to maintain sales. Furthermore, the Company's direction to grow house brand products, demonstrated higher proportionate in Q120 to 64.09% which increasing compared to 62.66% QOQ, resulted in higher gross profits margin.

Proportion of other income to total revenue slightly decreased compared to previous period.

2. Cost of goods sold and gross profit

1Q20 and 1Q19 gross profits from Sales represented 47.61% and 41.47%, respectively. Gross profits improved from higher proportion of house brand product sales compared to previous period. The Company has focus in 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.

1Q20 gross profits from services represented 83.79%, increased by 100% due to the Company have new spray service for all types of residential buildings, offices, shops, restaurants, hotels, schools, playgrounds, auditoriums, factories, warehouses, government agencies, cars or public transports and other places.

3. Selling and administrative expenses

Selling and administrative expenses for 1Q20 was Baht 94.31 million which decreased by 15.26% QoQ. The decrease was mainly due to selling and marketing expenses, personnel expenses, and rental in term of TFRS 16. Moreover, the Company efficiently controlled and managed expenses of existing outlets such as decreasing personnel expenses with increasing productivity, installation of solar rooftop.

4. Net profit (loss) and net profit (loss) margin

For Q120 net profits was Baht 7.37 million which increased from previous quarter by 4.24%, mainly due to new spray service, gross profit increasing and selling & administrative expenses decreasing. The company focuses on the sustainable growth, thus, set up a strategy to support the business direction as below.

1. Differentiate marketing activities, promotion, and marketing campaigns to increase house brand awareness, house brand separate by Apparel under brand Inco, Cheval, Sleep Mate, ETC brand, Non-Apparel under brand Cherish, Prim, Rollica, Cushy, etc. Emphasize FN as a BEDDING DESTINATION with house brands which increases profitability.
2. Focusing and developing E-commerce with potential partners.
3. Increase spray services to spraying chemicals into a fine mist size of 10-50 microns, called name "Virus Buster" under Cherish Brand, for all types of residential buildings, offices, shops, restaurants, hotels, schools, playgrounds, auditoriums, factories, warehouses, government agencies, cars or public transports and other places.
4. Focusing cost-efficiency and productivity
 - Utilizing information technology (IT) system to optimize operation and resources
 - Cost reduction such as greater productivity, 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	
	31 March 2020	31 December 2019	MB	%
Cash and cash equivalents	172.37	61.33	111.04	181.04
Current investment	-	136.65	(136.65)	(100.00)
Inventories	521.33	518.18	3.15	0.61
Other current financial assets	30.29	0.00	30.29	100.00
Property, plant and equipment	910.63	922.13	(11.49)	(1.25)
Right-of-use assets	149.01	-	149.01	100.00
Other assets	82.88	88.48	(5.60)	(6.34)
Total assets	1,866.51	1,726.77	139.74	8.09
Accounts payable	83.81	88.56	(4.74)	(5.36)
Long-term loan	110.63	118.73	(8.10)	(6.82)
lease liabilities	156.78	0.00	156.78	100.00
Other liabilities	42.24	39.86	2.37	5.95
Total liabilities	393.46	247.15	146.31	59.20
Total shareholders' equity	1,473.05	1,479.62	(6.57)	(0.44)
Total liabilities and shareholders' equity	1,866.51	1,726.77	139.74	8.09

1. Assets

The Company's total assets as of 31 March 2020 were Baht 1,866.51 million, increased from the end of 2019. The main reason was increased in Right of use assets and Other current financial assets under new financial reporting standards that became effective in the current period - TFRS16, TFRS9, respectively, cash and cash equivalents, inventory for new products to serve customer needed. Decreased from Current investment.

2. Liabilities

As of 31 March 2020, the Company's liabilities totaled Baht 393.46 million, increased by Baht 146.31 million from 2019 as a result of lease liabilities under TFRS16. However, the Company have paid money to supplier and repayment to long term loan.

3. Shareholders' equity

As at 31 March 2020, the Company's shareholders' equity was Baht 1,473.05 million, decreasing by Baht 6.57 million or 0.44% from end of 2019, mainly due to adopted TFRS9, TFRS 16 using the modified retrospective method of initial adoption of which the cumulative effect is recognized as an adjustment to the retained earnings as at 1 January 2020, and the comparative information was not restated amount Baht 13 million and operating profit increased amount Baht 7.37 million.

Cash Flow Statement Analysis

Unit : MB	For the period ended	For the period ended	Change	
	31 March 2020	31 December 2019	MB	%
Cash flow from (used in) operating activities	32.99	(54.98)	87.97	(160.00)
Cash flow from (used in) investing activities	92.65	(24.91)	117.55	(472.00)
Cash flow from (used in) financing activities	(14.60)	14.39	(28.99)	(201.47)

1. Cash flow from operating activities

The Company's net cash inflow from operating activities was Baht 32.99 million from the increasing in operating profit, cash from account receivable and other receivable.

2. Cash flow from investing activities

The Company has cash inflow from investing activities was Baht 92.65 million mainly from sales on current investment.

3. Cash flow from financing activities

The Company had a cash outflow in financing activities of Baht 14.61 million as a result of cash drew down from long term loans to investing in Rayong branch, long term loans and interest repayment.

Key Financial Ratio Analysis

	For the period ended 31 March 2020	For the year ended 31 December 2019	Change	Reason
Liquidity Ratio (x)	5.39	5.85	(0.46)	Decreased mainly due to current portion of long-term lease liabilities increasing while asset increased less that liabilities increased.
Quick Ratio (x)	1.77	1.91	(0.14)	Decreased from current portion of long-term lease liabilities increasing.
Return on Equity (%)	1.21	0.59	0.62	Increased from under performance
Debt-to-Equity Ratio (x)	0.27	0.17	(0.10)	Increased in lease liabilities and decreased from equity due to adopt new TFRS16.

For more information, please contact:

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