



Ref FN. 026/2019

Management Discussion and Analysis
For operation of the first 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 Branch.

Industry Overview

Thailand's overall economy grew slower than expected in 1Q19 due to domestic and global factors. The biggest impact is from the global economic slowdown resulting in declining export and plunging tourists' spending especially Chinese tourists. The instability in Thailand politic and election in March 2019 slowed public investment. High level of household debt and conservative spending are continue to hinder domestic consumption by limiting consumption with only necessary items, decreasing in spending frequency and low-price. The economics' slowdown is expected to continue in 2Q19 since the negative impacts remain unsolved. The global economic is expected to be pressured from an uncertainty of the USA-China Trade War. New government is the key factor driven domestic's consumption and investment. Bank of Thailand has revised down its growth forecast for Thailand's gross domestic product this year to 3.8 percent from 4.0 percent. (Source : BOT Press Release No.19/2019 on Monetary Policy Report, March 2019/EIC Outlook quarter 1/2019)

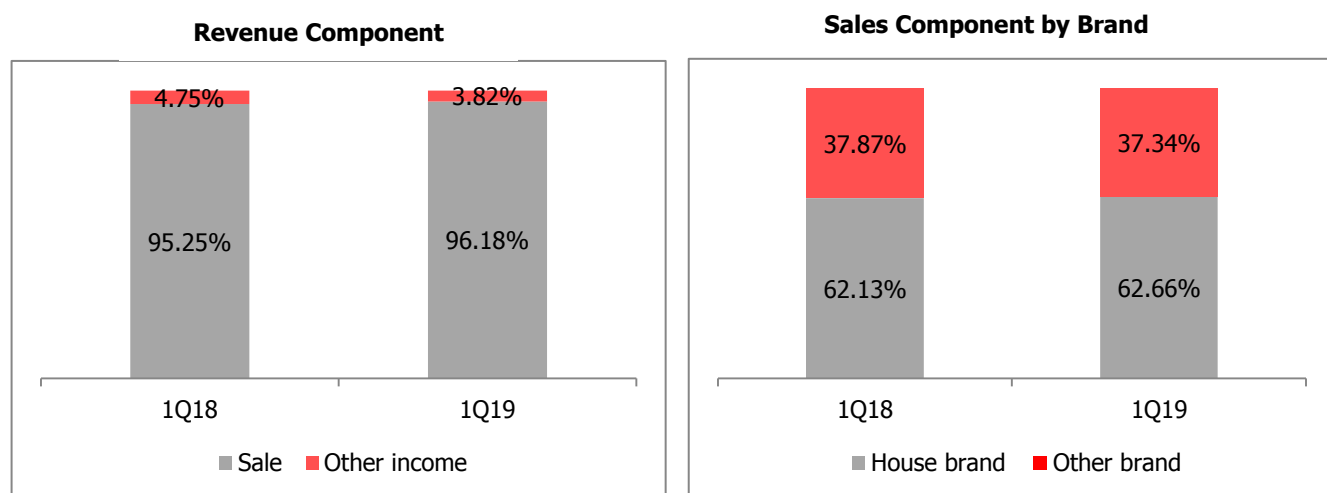
Performance Analysis

Unit : MB	For the period ended		Change	
	31 March 2019	31 March 2018	MB	%
Net sales	238.99	261.84	(22.85)	(8.73)
Other income	9.49	13.06	(3.57)	(27.34)
Total revenues	248.48	274.90	(26.42)	(9.61)
Cost of goods sold	139.89	151.91	(12.02)	(7.91)
Selling expenses and administrative expenses	111.29	105.32	5.97	5.67
Selling expenses	55.33	50.65	4.68	9.24
Administrative expenses	55.96	54.67	1.29	2.36
Earnings before interest and taxes (EBIT)	(2.70)	17.67	(20.37)	(115.27)
Financial costs	1.09	0.04	1.05	2,365.91
Income tax expenses	(2.03)	1.86	(3.89)	(209.14)
Net profit	(1.75)	15.77	(17.53)	(111.16)

Earnings before interest, taxes, depreciation and amortization (EBITDA)	17.06	33.63	(16.57)	(49.27)
Depreciation and amortization	19.76	15.96	3.80	23.81

Key financial ratio related with operating result (%)	For the period ended		Change
	31 March 2019	31 March 2018	
Gross profit margin (%)	41.47	41.99	(0.52)
Distribution costs and administrative expenses to total revenue (%)	44.79	38.31	6.48
Net profit margin (%)	(0.71)	5.74	(6.44)

1. Total Revenue



Total revenue in 1Q19 was Baht 248.48 million, decreased by 9.61% YOY as a result of decrease in sales of same stores while new stores sales were in line with plan.

1Q19 sales was Baht 238.99 million, decreased by 8.73% YoY. Since domestic consumption in 1Q19 was declining, the Company reacted by arranged more promotion especially the discount scheme in order to attract customers and maintain sales. However, those programs were not success as expected which, therefore, negatively impacted sales volume and gross profit margin. In term of product proportion, house brand products proportion in 1Q19 was 62.66% which was the same level as last year

Proportion of other income to total revenue slightly decreased compared to previous period from price revision to tenants. The Company focuses to select the proper tenants that satisfy customers' need in order to draw customers' attention.

2. Cost of goods sold and gross profit

1Q19 gross profits represented 41.47% relatively steady compared to previous period effect from a promotion that mention above. However, the Company has concern about the maintaining gross profit margin, so the marketing activities has been arranged with sales plan improvement and promotion efficiency spending and emphasizing FN brand awareness and increasing FN brand equity.

3. Selling and administrative expenses

Selling and administrative expenses for 1Q19 was Baht 111.29 million, increased from previous period. The increase was mainly due to the expenses of new outlets (i.e. Rayong and Diana branches) such as depreciation, utilities and marketing expenses while the Company was able to slightly decrease expenses of

same stores. However, the Company closely monitors and makes the best to manage expenditure more efficiency.

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

1Q19 net loss was Baht 1.75 million, respectively as a result of the sales target was not achieved and slightly decreasing in gross profit margin from 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 31 March 2019	As at 31 December 2018	Change	
			MB	%
Cash and cash equivalents	94.15	159.65	(65.50)	(41.03)
Current investment	156.25	156.04	0.21	0.13
Inventories	510.39	472.08	38.31	8.12
Property, plant and equipment	931.94	919.08	12.85	1.40
Other assets	85.43	69.00	16.43	23.80
Total assets	1,778.16	1,775.85	2.31	0.13
Accounts payable	135.68	149.37	(13.69)	(9.16)
Long-term loan	124.49	108.67	15.82	14.55
Other liabilities	36.30	34.53	1.77	5.11
Total liabilities	296.47	292.57	3.89	1.33
Total shareholders' equity	1,481.69	1,483.28	(1.59)	(0.11)
Total liabilities and shareholders' equity	1,778.16	1,775.85	2.31	0.13

1. Assets

The Company's total assets as at 31 March 2019 were Baht 1,778.16 million, increased from the end of 2018 mainly from an increase of inventories to support the opening of new outlet at Rayong and to support Songkran Festival in April, an increase of fixed assets for construction of Rayong branch and renovate the existing branches as well as an increase in credit card accounts receivable from FN fair at the end of March 2019.

2. Liabilities

As at 31 March 2019, the Company's liabilities totaled Baht 296.47 million, rose by Baht 3.89 million or 1.33% from year ended 2018 mainly from an increase in long-term loan to support the investing in new branches in Rayong.

3. Shareholders' equity

As at 31 March 2019, the Company's shareholders' equity was Baht 1,481.69 million, decreasing by Baht 1.59 million or 0.11% from end of 2018, mainly due to net loss.

Cash Flow Statement Analysis

Unit : MB	For the period ended		Change	
	31 March 2019	31 March 2018	MB	%
Cash flow from (used in) operating activities	(54.98)	42.19	(97.17)	(229.66)
Cash flow from (used in) investing activities	(24.91)	(29.12)	4.21	(14.46)
Cash flow (used in) financing activities	14.39	(0.03)	14.36	(47,866.67)

1. Cash flow from (used in) operating activities

The Company's net cash flow used in operating activities was Baht 54.98 million from the decreasing in operating profit together with the increase in purchasing of goods and paying to supplier.

2. Cash flow from (used in) investing activities

The Company had cash outflow from investing Baht 24.91 million mainly from fixed assets of Rayong branch.

3. Cash flow from (used in) financing activities

The Company had a cash inflow from financing activities of Baht 14.39 million as a result of long-term loan drawdown to invest in fixed assets of new branch.

Key Financial Ratio Analysis

	For the period ended 31 March 2019	For the year ended 31 December 2018	Change	Reason
Liquidity Ratio (x)	4.54	4.53	0.01	The increase in inventories
Quick Ratio (x)	1.69	1.93	(0.24)	The increase in current portion from long-term loan
Return on Equity (%)	0.79	1.96	(5.95)	The decrease of operational performance
Debt-to-Equity Ratio (x)	0.20	0.19	0.01	The increase of long-term loan

For more information, please contact

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