

Ref: BC.022/2019

August 14, 2019

Subject: Management's Discussion and Analysis for Six Months Ended June 30, 2019

To The President
The Stock Exchange of Thailand

Management's Discussion and Analysis
Consolidated Financial Statements
For six months ended June 30, 2019

Overall Group Performance

Table 1: Overall Financial Performance

Unit: million baht

	Jan-Jun 2018	%	Jan-Jun 2019	%	Change	% YoY
Revenue	254.34	100.0%	273.96	100.0%	19.62	7.7%
Cost	144.42	56.8%	147.42	53.8%	3.00	2.1%
Gross Profit	109.92	43.2%	126.54	46.2%	16.62	15.1%
SG&A	35.95	14.1%	48.13	17.6%	12.18	33.9%
EBIT	73.97	29.1%	78.41	28.6%	4.44	6.0%
Share of Gain in Associates	-	-	0.15	0.1%	0.15	
Interest Expenses	0.29	0.1%	0.25	0.1%	(0.04)	(13.8%)
EBT	73.68	29.0%	78.31	28.6%	4.63	6.3%
Tax	7.83	3.1%	7.74	2.8%	(0.09)	(1.1%)
Net Profit After Tax	65.85	25.9%	70.57	25.8%	4.72	7.2%

Revenue from service

The Humanica Group of Companies ("HUMAN" or the "Company") delivered a revenue of 273.96mb (Q2 2018: 254.34mb), a marginal increase of 19.62mb or 7.7%. For Q2 2019, revenue from HR Solutions contributed to an increase of 12.62mb or 6.3% to our growth year-on-year. On the other hand, revenue from our Financial Solutions increased by 5.12mb or 10.4%.

We continued our momentum in building recurring revenue, with the recurring revenue from HR Solutions growing by 18.46mb or 11.1% and recurring revenue from Financial Solutions increasing by 4.82mb or 16.7%. However, the growth in recurring revenue was partially offset by the reduction in non-recurring revenue for HR Solutions.

HR Solution suffered a dip of 5.84mb or -17.0% due to the recognition of a one-off license fee for a big project in Q1 2018. Financial Solutions registered a marginal increase in non-recurring income of 0.30mb or 1.5%.

Adjusting the one-time recognition of 12.00mb non-recurring revenue in Q1 2018, the total revenue should have improved by 13.0% YoY. This 12.00mb revenue booked in Q1 2018 was subsequently written off in Q4 2018 due to the termination of project.

Other Income

Other income has increased by 1.88mb or 43.8% to 6.17mb (Q2 2018 : 4.29mb) as a result of better returns from our investments, as well as improvements in surplus cash management where we have invested surplus cash in money market products giving a better yield.

Cost of Services

While our revenue has grown 7.7% compared year-on-year, the growth in our cost of service increased by 3.00mb or 2.1% to 147.42mb (Q2 2018: 144.42mb). The slower growth in cost is mainly due to improved productivity in our bid to improve our gross margin.

Gross Profit

As a result of overall improvements in productivity, we achieved a gross profit of 126.54mb (Q2 2018: 109.92mb), an increase of 16.62mb or 15.1%. This slower growth in cost also contributed positively to a better gross profit margin at 46.2% (Q2 2018: 43.2%)

Selling and Administration expense

Selling and administration expense (“SG&A”) closed at 48.13mb (Q2 2018: 35.95mb), increased by 12.18mb or 33.9%. SG&A consists of mainly indirect staff costs, office rental and depreciation & amortization. The increase in SG&A is mainly attributed a debt written back in Q2 2018 of 4.70mb and 3.6mb of exchange losses booked in Q2 2019 in relation to our exposure in foreign currency as a result of strengthening of Thai Baht. We have also booked higher staff cost in marketing department and marketing cost in Q2 2019 as we geared up for the new businesses.

Net profit after Tax

The net profit after tax closed at 70.57mb (Q2 2018: 65.85mb), improving by 4.72mb or 7.2% due to a combination of reasons including an increase in revenue and other income, improved gross margin but partially offset by higher SG&A.

Adjusting the impact on the one-off recognition of 12.00mb in Q1 2018 which was subsequently written off in Q4 2018, the improvement in net profit should be 12.4%.

1. Revenue Structure

Table 2: The break down revenue by business entities.

Type of Revenue	Jan-Jun 2018		Jan-Jun 2019	
	Million Baht	%	Million Baht	%
1. <u>HR Solutions</u>				
1.1 Human Resources and Payroll Outsourcing services	119.48	47.0%	129.28	47.2%
1.2 Income from software and human resources system	81.48	32.0%	84.30	30.8%
Total revenues from HR solutions	200.96	79.0%	213.58	78.0%
2. <u>Financial Solutions</u>				
2.1 Enterprise Resource Planning (ERP)	41.12	16.2%	42.09	15.4%
2.2 Accounting & Finance Outsourcing	7.97	3.1%	12.12	4.4%
Total revenue from financial solutions	49.09	19.3%	54.21	19.8%
3. <u>Other income</u>¹	4.29	1.7%	6.17	2.2%
Total revenues	254.34	100.0%	273.96	100.0%

¹ Other income consist of interest income, dividend income and gain on investment.

In Table 2, The Company's revenue structure comprises 2 business units, HR Solutions and Financial Solutions with HR Solutions representing 78.0% of our revenue while Financial services representing 19.8% and other income representing a small 2.2%.

HR Solutions

Revenue from HR Solutions closed at 213.58mb (Q2 2018: 200.96mb), increasing by 12.62mb or 6.3%. This increase is in line with our expectations of the demand for HR technology and services in local and overseas markets. Due to the strengthening of Thai Baht, the contribution from our overseas offices has also been impacted by a reduction of 1.50mb at group's consolidated level due to currency conversion.

Financial Solutions

Revenue from Financial Solutions contributed 54.21mb (Q2 2018: 49.09mb), 5.12mb or 10.4% more than the same period last year. This increase is mainly due to a pick up in ERP business.

The recurring and non-recurring income:

Table 3: The break down revenue by recurring & non-recurring revenue

HR Solutions	Jan-Jun 2018	%	Jan-Jun 2019	%	%YoY
Revenues-Recurring	166.68	82.9%	185.14	86.7%	9.7%
Revenues-Non Recurring	34.28	17.1%	28.44	13.3%	(11.6%)
Total Revenues	200.96	100.0%	213.58	100.0%	6.3%

Financial Solutions	Jan-Jun 2018	%	Jan-Jun 2019	%	%YoY
Revenues-Recurring	28.89	58.9%	33.71	62.2%	16.5%
Revenues-Non Recurring	20.20	41.1%	20.50	37.8%	1.3%
Total Revenues	49.09	100.0%	54.21	100.0%	10.2%

Grand Total Recurring	195.57	78.2%	218.85	81.7%	10.7%
Grand Total Non-Recurring	54.48	21.8%	48.94	18.3%	(6.6%)
Grand Total Revenues	250.05	100.0%	267.79	100.0%	7.0%

Overall, the Company continued to report a higher proportion of recurring income, improving from 78.2% in Q2 2018 to 81.7% in Q2 2019. Both HR Solutions and Financial Solutions grew its recurring income by 18.46mb and 4.82mb respectively as we continue to expand our customer base for recurring revenue.

For HR Solutions, we experienced a drop in non-recurring revenue as a result of booking a one-time license fee of around 12.00mb in Q1 2018 for a big project. When excluding this one-off license fee, the non-recurring revenue grew around 6.00mb compared to Q2 2018.

For Financial Solutions, we have improved our recurring revenue while ERP implementation is picking up momentum after a slow start in Q1 2019.

2. Financial position

Table 4: Overall Financial position

	As of Dec 31, 2018	%	As of Jun 30, 2019	%	Change YoY	% YoY
<u>Assets</u>						
Cash	111.34	9.1%	122.73	9.5%	11.39	10.2%
Current investments	100.00	8.2%	25.12	1.9%	(74.88)	(74.9%)
Trade & Other receivable	118.32	9.7%	146.29	11.4%	32.43	28.5%
Other current Asset	2.14	0.1%	1.74	0.1%	(0.40)	(18.7%)
Other long-term investments	569.79	46.5%	683.88	53.1%	114.09	20.0%
Non-Current asset	324.39	26.4%	308.75	24.0%	(15.64)	(4.8%)
Total Assets	1,225.98	100.0%	1,288.51	100.0%	62.53	5.1%
<u>Liabilities</u>						
Current liability	77.35	6.3%	86.80	6.7%	9.45	12.2%
Non-Current liability	28.99	2.4%	34.54	2.7%	5.55	19.1%
Total liabilities	106.34	8.7%	121.34	9.4%	15.00	14.1%
Net Assets	1,119.64	91.3%	1,167.17	90.6%	47.53	4.2%
Equity	1,119.64	91.3%	1,167.17	90.6%	47.53	4.2%

(a) Total assets

Total asset as at Jun 30, 2019 stand at 1,288.51mb, an increase of 62.53mb or 5.1%. The main reason for the increase is due to higher trade receivables and cash on hand.

Cash surplus increased by 11.39mb or 10.2% due to our cash flow generated from operations and good working capital management.

(b) Total Liabilities

Total liability as of June 30, 2019 was 121.34mb, increasing by 15.00mb or 14.1% due to the booking of revenue received in advance for new projects. The amount will be recognized progressively as revenue when the project reaches its milestone in the course of the project timeline.

(c) Shareholders' equity

Total shareholder's equity as of June 30, 2019 was 1,167.17mb, increasing by 47.53mb or 4.2 % YoY, mainly contributed from operating profits.

3. Cash Flow Statement

Million Baht	Jan-Jun 2018	Jan-Jun 2019
Net cash provided by (used in)		
Cash Flow from Operating (CFO)	93.22	79.82
Cash Flow from Investing (CFI)	(61.92)	(23.08)
Cash Flow from Financing (CFF)	(24.01)	(43.79)
Decrease in translation adjustments	0.24	(1.55)
Net increase (decrease) in cash and cash equivalents	7.53	11.40

Cash Flow from Operating Activities

CFO as of June 30, 2019 was 79.82mb, lower than same period last year. The management will consider using the surplus CFO in investment or any other activities to create better value for the Company.

Cash Flow from Investing Activities

CFI as of June 30, 2019 was -23.08mb due to increased investment of surplus working capital in a mutual fund in accordance with our investment policies which adopted a conservative asset allocation.

Cash Flow from Financing Activities

CFF as of June 30, 2019 was -43.79mb, mainly due to dividend payout. After IPO fund raising, the Company has no financing project as we have ample funds for a working capital and other investment plans.

Please be informed accordingly,

Yours sincerely,

Mr. Soontorn Dentham
Chief Executive Officer