



Ref FN. 047/2019

**Management Discussion and Analysis**  
**For operation of the third 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. In addition, the Company has expanded new channels especially e-commerce through owned official platforms i.e. www.fnshopnow, Facebook: FN Outlet, Line Official Account: @fnoutlet as well as other marketplaces e.g. Shopee, Lazada etc.

**Industry Overview**

Thai economy in 3Q19 was slowdown. Impacts from slowdown in trading partners' economy continually hit merchandise exports, and domestic demand. Private consumption indicators indicated the slower expansion in most sectors. Manufacturing production and private investment contracted. Nevertheless, public spending and tourism sector still expanded which resulted from low base in the previous year. (Source: BOT Press Release No.64/2019 on the Economic and Monetary Conditions for September and the third quarter of 2019)

Thai economy was expected to expand at a slower pace than previous expected at 2.8 and 3.3 percent in 2019 and 2020, respectively, due to both external and domestic demand. Merchandise and services exports were expected to exhibit slower growth than the previous assessment. Tourism sector was also expected to expand slower. Private consumption was expected to be weighed down due to lower household income, sharp decline in employment, particularly in export-related manufacturing sectors, and high rate of household debt. Despite the government economic stimulus, the impact of economic slower expansion indicated risk of soften retail trade sector. (Source: BOT Press Release No.56/2019 on Monetary Policy Report and Monetary Policy Committee's Decision 7/2019)

## Performance Analysis

Unit : MB	3Q19	3Q18	%YoY	2Q19	%QoQ
Net sales	222.89	233.52	-4.55	272.28	-18.14
Other income	10.44	12.11	-13.78	12.21	-14.53
<b>Total revenues</b>	<b>233.32</b>	<b>245.62</b>	<b>-5.01</b>	<b>284.49</b>	<b>-17.98</b>
Cost of goods sold	119.31	134.41	-11.24	152.47	-21.75
Selling expenses and administrative expenses	111.06	109.32	1.59	124.74	-10.96
Selling and distribution expenses	68.89	63.23	8.95	66.19	4.09
Administrative expenses	42.17	46.09	-8.50	58.55	-27.98
<b>Earnings before interest and taxes (EBIT)</b>	<b>2.96</b>	<b>1.89</b>	<b>56.40</b>	<b>7.28</b>	<b>-59.36</b>
Financial costs	1.27	0.04	2,790.91	1.17	8.44
Income tax expenses	(0.80)	0.05	-1,609.43	0.13	-734.92
<b>Net profit</b>	<b>2.49</b>	<b>1.79</b>	<b>38.55</b>	<b>5.98</b>	<b>-58.43</b>

1H19	1H18	%YoY
734.15	758.01	-3.15
32.14	37.12	-13.42
<b>766.29</b>	<b>795.14</b>	<b>-3.63</b>
411.67	440.55	-6.56
347.09	329.68	5.28
216.39	195.29	10.81
130.69	134.40	-2.76
<b>7.54</b>	<b>24.91</b>	<b>-69.72</b>
3.53	0.13	2,636.43
(2.70)	3.15	-185.78
<b>6.71</b>	<b>21.63</b>	<b>-68.96</b>

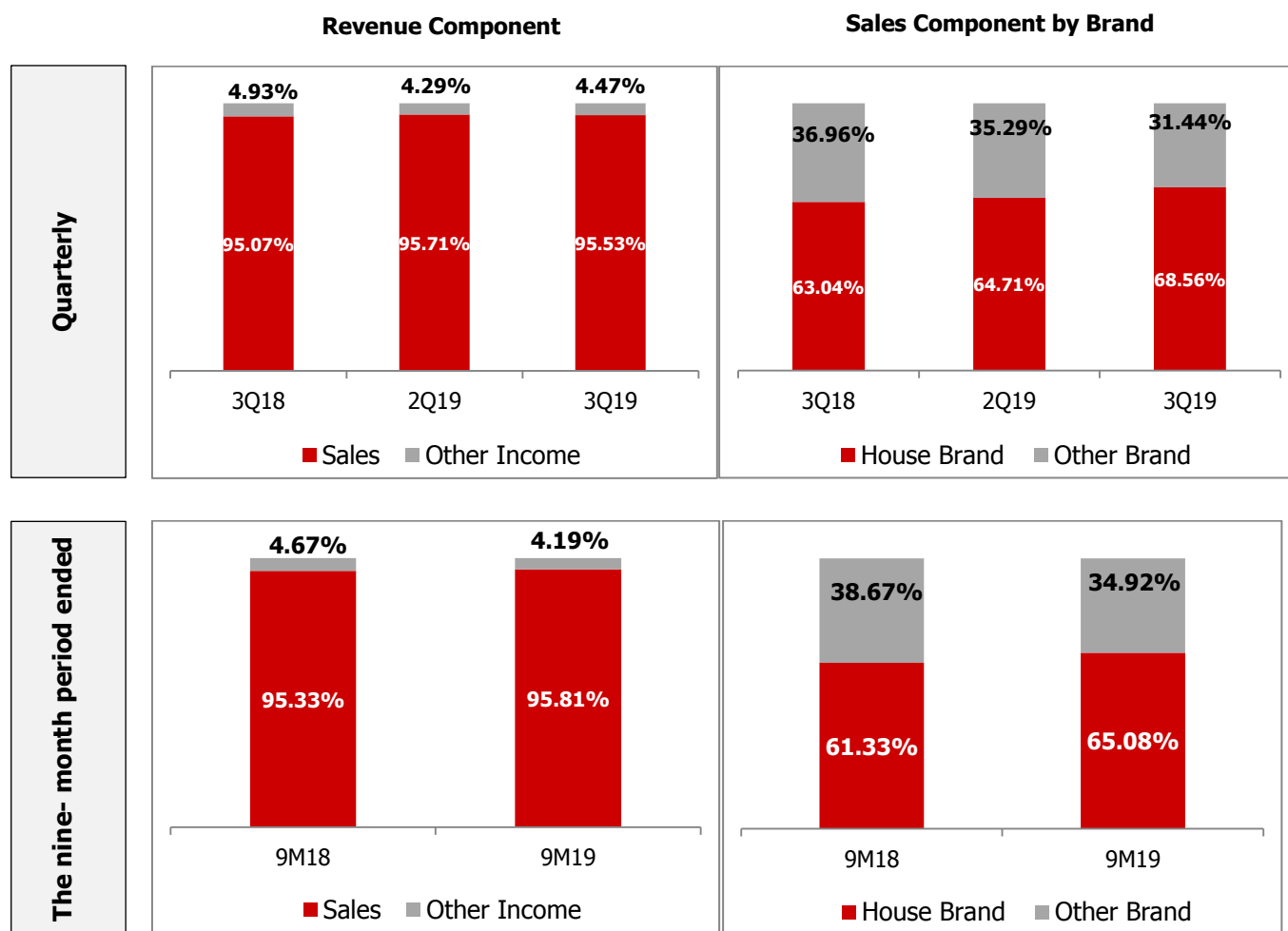
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA)</b>	23.15	19.30	19.94	27.11	-14.63
Depreciation and amortization	<b>20.19</b>	<b>17.41</b>	<b>15.98</b>	<b>19.83</b>	<b>1.80</b>

67.32	74.62	-9.78
<b>59.78</b>	<b>49.71</b>	<b>20.26</b>

Key financial ratio related with operating result (%)	3Q19	3Q18	%YoY	2Q19	%QoQ
Gross profit margin (%)	46.47	42.44	4.03	44.00	2.47
Selling expenses and administrative expenses to total revenue (%)	47.60	44.51	3.09	43.85	3.75
Net profit margin (%)	1.07	0.73	0.34	2.10	-1.04

9M19	9M18	%YoY
43.93	41.88	2.04
45.29	41.46	3.83
0.88	2.72	-1.84

## 1. Total Revenue



Total revenue in 3Q19 was Baht 222.89 million, decreased by 4.55% YOY as a result of economy slowdown, and low spending season causing consumers slow down their spending. However, the Company has continued to expand new distribution channels such as Pop-up Store, Mini Shop at HQ Rama 9, and E-commerce. Total revenue in 9M19 was Baht 734.15 million, decreased by 3.15% YOY, the mainly from economy slowdown.

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 3Q19 to 68.56% which increasing compared to 63.04% in 2Q18 and 64.71% in 2Q19. The proportionate of house brand products in 9M19 was 65.08% increased from previous period of 61.33% in year 2018, resulted in higher gross profits margin.

Proportion of other income to total revenue slightly decreased compared to previous period from a discount given 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

3Q19 and 9M19 gross profits represented 46.47% and 43.93%, 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.

### 3. Selling and administrative expenses

Selling and administrative expenses for 3Q19 and 9M19 was Baht 111.06 million, and Baht 347.09 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, and utilities. The Company efficiently controlled and managed expenses of existing outlets indicated in decreasing such expenses by 4% YoY in spite of higher marketing expenses to build brand awareness. Selling and administrative expenses decreased by 10.96% compared to 2Q19 due to selling-related expenses and adoption of cost-control policy such as optimization of marketing activities, installation of solar rooftop, decreasing personnel expenses with increasing productivity.

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

3Q19 and 9M19 net profits was Baht 2.49 million, and Baht 6.71 million, respectively. 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 brand awareness. Emphasize FN as a BEDDING DESTINATION with house brands which increases profitability.
2. Focusing and developing E-commerce with potential partners
3. 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 30 September 2019	As at 31 December 2018	Change	
			MB	%
Cash and cash equivalents	55.44	159.65	(104.21)	-65.27
Current investment	106.30	156.04	(49.74)	-31.88
Securities purchased under resale agreements	30.16	-	30.16	N/A
Inventories	537.24	472.08	65.16	13.80
Property, plant and equipment	933.67	919.08	14.59	1.59
Other assets	87.22	69.00	18.22	26.41
<b>Total assets</b>	<b>1,750.03</b>	<b>1,775.85</b>	<b>(25.82)</b>	<b>-1.45</b>
Accounts payable	108.90	149.37	(40.47)	-27.09
Long-term loan	126.72	108.67	18.05	16.60
Other liabilities	37.51	34.53	2.98	8.62
<b>Total liabilities</b>	<b>273.13</b>	<b>292.57</b>	<b>(19.44)</b>	<b>-6.64</b>
<b>Total shareholders' equity</b>	<b>1,476.90</b>	<b>1,483.28</b>	<b>(6.37)</b>	<b>-0.43</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,750.03</b>	<b>1,775.85</b>	<b>(25.82)</b>	<b>-1.45</b>

## 1. Assets

The Company's total assets as of 30 September 2019 were Baht 1,750.03 million, decreased from the end of 2018. The main reason was decreased in cash and cash equivalents from increased in inventory to support new outlets (i.e. Rayong and Diana Hat Yai branches) and new products to serve customer needed, Improvement the existing outlets, repayment to loans, and dividend paid.

## 2. Liabilities

As of 30 September 2019, the Company's liabilities totaled Baht 273.13 million, decreased by Baht 37.49 million from 2018 as a result of paying to suppliers.

## 3. Shareholders' equity

As at 30 September 2019, the Company's shareholders' equity was Baht 1,476.90 million, decreasing by Baht 6.37 million or 0.43% from end of 2018, mainly due to dividend payment to shareholders and operating profit increasing.

### Cash Flow Statement Analysis

Unit : MB	For the period ended	For the period ended	Change	
	30 September 2019	30 September 2018	MB	%
Cash flow from operating activities	(104.21)	(6.02)	(66.31)	1,101.50
Cash flow used in investing activities	(49.74)	10.56	(42.94)	-406.63
Cash flow used in financing activities	30.16	(37.00)	37.51	-101.38

### 1. Cash flow from operating activities

The Company's net cash flow used in operating activities was Baht 72.33 million from the decreasing in operating profit together with the increase in purchasing of goods to support new outlets and new products to serve customer needed, along with payment.

### 2. Cash flow from investing activities

The Company has cash outflow from investing Baht 32.38 million mainly from investing in Rayong's fixed assets.

### 3. Cash flow from financing activities

The Company had a cash inflow from financing activities of Baht 0.51 million as a result of cash drew down from long term loans to investing in Rayong branch, dividend payment to shareholders and long term loans and interest repayment.

### **Key Financial Ratio Analysis**

	<b>For the period ended 30 September 2019</b>	<b>For the year ended 31 December 2018</b>	<b>Change</b>	<b>Reason</b>
Liquidity Ratio (x)	5.23	4.53	0.70	Increased mainly due to the decline of account payable, while current asset decreased at slower pace.
Quick Ratio (x)	1.63	1.93	(0.30)	Decreased from lower cash and cash equivalents used for operating activities
Return on Equity (%)	0.97	1.89	(0.92)	Decline from under performance
Debt-to-Equity Ratio (x)	0.18	0.20	(0.02)	Lower total liabilities as a result of suppliers payment

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