



11 November 2019

No. ZEN 2562-023  
 Subject Management Discussion and Analysis for 3<sup>rd</sup> Quarter of 2019  
 and 9-months period ending 30 September 2019  
 To The President  
 The Stock Exchange of Thailand

We, ZEN Corporation Group Public Company Limited (“the Group”), are pleased to provide you our management discussion and analysis for the 3<sup>rd</sup> Quarter of 2019 and the nine months period ending 30 September 2019, as follows:

**Financial Performance Analysis**

**Revenues**

Revenues	3 <sup>rd</sup> Quarter (July-September)			
	2018		2019	
	THB Mn	% <sup>(1)</sup>	THB Mn	% <sup>(1)</sup>
Revenue from Sales and Service	736.1	97.2%	759.5	95.7%
Franchise Fees Income	15.2	2.0%	22.0	2.8%
Other Income	5.7	0.8%	11.7	1.5%
<b>Total Revenue</b>	<b>757.0</b>	<b>100.0%</b>	<b>793.2</b>	<b>100.0%</b>

Revenues	9-Months Period Ending 30 September			
	2018		2019	
	THB Mn	% <sup>(1)</sup>	THB Mn	% <sup>(1)</sup>
Revenue from Sales and Service	2,142.0	96.2%	2,209.0	96.5%
Franchise Fees Income	49.3	2.2%	53.4	2.3%
Other Income	35.0	1.6%	26.5	1.2%
<b>Total Revenue</b>	<b>2,226.3</b>	<b>100.0%</b>	<b>2,288.9</b>	<b>100.0%</b>

Remark: <sup>(1)</sup> Percentage of Total Revenue



In the 3<sup>rd</sup> quarter of 2018 and 2019, the Group's total revenue increased from THB 757.0 Mn to THB 793.2 Mn respectively, an increase of THB 36.2 Mn or 4.8%. And for the nine months ending 30 September 2018 and 2019, the Group's total revenue increased from THB 2,226.3 Mn to THB 2,288.9 Mn respectively, an increase of THB 62.6 Mn or 2.8%. This was mainly due to increased revenue from sales and service which itself was the major contributor to the Group's revenue. During the 3<sup>rd</sup> quarter of 2018 and 2019 revenue from sales and service made up 97.2% and 95.7% of total revenue respectively. And during the nine months ending 30 September 2018 and 2019 revenue from sales and service made up 96.2% and 96.5% of total revenue respectively.

In the 3<sup>rd</sup> quarter of 2018 and 2019, revenue from sales and service was THB 736.1 Mn and THB 759.5 Mn respectively, an increase of THB 23.4 Mn or 3.2%. And for the nine months ending 30 September 2018 and 2019, revenue from sales and service was THB 2,142.0 Mn and THB 2,209.0 Mn respectively, an increase of THB 67.0 Mn or 3.1%. This was mainly due to (1) the opening of new branches, (2) increased sales of delivery, (3) increased sales of raw material to franchisees and (4) increased sales of retail merchandise. However, in the nine months ending 30 September 2018 and 2019, the economic situation and consumer confidence continuously worsened which resulted in the Group's Same-Store Sales Growth decreasing from +7.4% to -5.3% respectively.

Franchise fee income increased from THB 15.2 Mn in the 3<sup>rd</sup> quarter of 2018 to THB 22.0 Mn in the same period of 2019, an increase of THB 6.8 Mn or 44.7%. And for the nine months ending 30 September 2018 and 2019, franchise fee income increased from THB 49.3 Mn to THB 53.4 Mn respectively, an increase of THB 4.1 Mn or 8.3%. This increase was mainly due to increased income of initial fee from the higher number of franchise branches opening when compared to the same period of 2018.

Item	9-Months Period Ending 30 September	
	2018	2019
Net Number of New Branches Opened <sup>(1)</sup> (Branch)	2	44
Number of Equity Branches at Period End <sup>(1)</sup> (Branch)	104	154
Number of Franchise Branches at Period End (Branch)	138	154
Sales from Restaurant Business During the Period (THB Mn)	2,020.0	2,046.5
Same-Store Sales Growth: SSSG (%) <sup>(2)</sup>	7.4%	-5.3%
Growth of Revenue from Restaurant Business (%)	19.7%	1.3%

Remark: <sup>(1)</sup> Outlets owned by the Group

<sup>(2)</sup> Calculated based on total revenue from sales and service per total operating days of the same branch

In the 3<sup>rd</sup> quarter of 2018 and 2019, the Group's other income increased from THB 5.7 Mn to THB 11.7 Mn respectively, an increase of THB 6.0 Mn or 105.3%. And for the nine months ending 30 September 2018 and 2019, the Group's other income decreased from THB 35.0 Mn to THB 26.5 Mn respectively, a decrease of THB 8.5 Mn or 24.3%. This decrease was mainly due to the Group had other income from the reversal of the provision for decommissioning costs of THB 17.3 Mn in the 2<sup>nd</sup> quarter of 2018. However, excluding this 1-time income, the Group's other income increased from THB 17.7 Mn to 26.5 THB Mn, an increase of THB 8.8 Mn or 49.7%. This increase was mainly due to



(1) higher membership fee income (2) higher interest income and (3) higher construction and set up income from opening new franchise branches.

### **Cost of Sales and Services**

Item	3 <sup>rd</sup> Quarter (July-September)			
	2018		2019	
	THB Mn	% <sup>(1)</sup>	THB Mn	% <sup>(1)</sup>
Revenue from Sales and Service	736.1	98.0%	759.5	97.2%
Franchise Fee Income	15.2	2.0%	22.0	2.8%
Revenue from Main Businesses	751.3	100.0%	781.5	100.0%
Costs of foods and beverages	266.4	35.5%	280.3	35.9%
Other Costs of Sales and Service	301.1	40.1%	331.0	42.4%
Total Costs of Sales and Service	567.5	75.5%	611.3	78.2%
Gross Profit (After deduct Costs of foods and beverages)	484.9	64.5%	501.2	64.1%
Gross Profit (After deduct Cost of Sales and Service)	183.8	24.5%	170.2	21.8%

Item	9-Months Period Ending 30 September			
	2018		2019	
	THB Mn	% <sup>(1)</sup>	THB Mn	% <sup>(1)</sup>
Revenue from Sales and Service	2,142.0	97.8%	2,209.0	97.6%
Franchise Fee Income	49.3	2.2%	53.4	2.4%
Revenue from Main Businesses	2,191.3	100.0%	2,262.4	100.0%
Costs of foods and beverages	772.1	35.2%	821.0	36.3%
Other Costs of Sales and Service	887.8	40.5%	931.7	41.2%
Total Costs of Sales and Service	1,659.9	75.7%	1,752.7	77.5%
Gross Profit (After deduct Costs of foods and beverages)	1,419.2	64.8%	1,441.4	63.7%
Gross Profit (After deduct Cost of Sales and Service)	531.4	24.3%	509.7	22.5%

Remark: <sup>(1)</sup> Percentage of Revenue from main businesses

In the 3<sup>rd</sup> quarter of 2018 and 2019, the total costs of sales and service increased from THB 567.5 Mn to THB 611.3 Mn respectively, an increase of THB 43.8 Mn or 7.7%. And for the nine months ending 30 September 2018 and 2019, the total costs of sales and service increased from THB 1,659.9 Mn to THB 1,752.7 Mn respectively, an increase of THB 92.8 Mn or 5.6%. This was mainly due to the opening of new branches during the period.



The gross profit (after deducting costs of sales and service) decreased from THB 183.8 Mn in the 3<sup>rd</sup> quarter of 2018 to THB 170.2 Mn in the same period of 2019, a decrease of THB 13.6 Mn or 7.4%. The gross profit margin decreased from 24.5% in the 3<sup>rd</sup> quarter of 2018 to 21.8% in the same period of 2019. The cost of food and beverages for core brands was well-controlled and even decreased from the previous year, yet the cost of food and beverages of new brands required promotional discounts to increase traffic and create brand awareness during the opening of new branches. The other cost of sales and services increased due to other branch-related expenses such as staff, rental, utilities and depreciation the majority of which are fixed costs resulting in higher proportion when Same-Store Sales decrease.

For the nine months ending 30 September 2018 and 2019, the gross profit (after deducting costs of sales and service) decreased from THB 531.4 Mn to THB 509.7 Mn respectively, a decrease of THB 21.7 Mn or 4.1%. The gross profit margin decreased from 24.3% in the nine months ending 30 September 2018 to 22.5% in the same period of 2019.

### **Selling Expenses**

In the 3<sup>rd</sup> quarter of 2018 and 2019, selling expenses increased from THB 22.7 Mn to THB 28.6 Mn respectively, an increase of THB 5.9 Mn or 26.0%. The main factor for the increase was mainly from higher marketing support and commission expense to delivery operators to create brand awareness during the opening of new branches. As a percent of total revenue, selling expenses increased from 3.0% in the 3<sup>rd</sup> quarter 2018 to 3.6% in the same period of 2019.

For the nine months ending 30 September 2018 and 2019, selling expenses decreased from THB 81.4 Mn to THB 73.3 Mn respectively, a decrease of THB 8.1 Mn or 10.0%. As a percent of total revenue, selling expenses decreased from 3.7% in the nine months ending 30 September 2018 to 3.2% in the same period of 2019. This increase was mainly due to switching towards more cost-effective marketing channels.

### **Administrative Expenses**

In the 3<sup>rd</sup> Quarter of 2018 and 2019, administration costs increased from THB 114.6 Mn to THB 126.7 Mn respectively, an increase of THB 12.1 Mn or 10.6%. This increase was mainly due to (1) increased staff to support the expansion of branch for both the restaurants which the company owns itself as well as franchise restaurants and (2) higher rental expense due to the head office moving to a new location where all subsidiary companies are located together for more efficient management. As a percent of total revenue, administrative expenses increased from 15.1% in the 3<sup>rd</sup> quarter 2018 to 16.0% in the same period of 2019.

For the nine months ending 30 September 2018 and 2019, administration costs increased from THB 332.4 Mn to THB 359.4 Mn respectively, an increase of THB 27.0 Mn or 8.1%. As a percent of total revenue, administrative expenses increased from 14.9% in the nine months ending 30 September 2018 to 15.7% in the same period of 2019.



### **Finance Expenses**

Finance expenses decreased from THB 6.1 Mn in the 3<sup>rd</sup> quarter of 2018 to THB 0.0 Mn in the same period of 2019, a decrease of THB 6.1 Mn or 100.0%. This was due to repayment of loans from commercial banks following the initial public offering.

For the nine months period of 30 September 2018 and 2019, finance expenses decreased from THB 18.9 Mn to THB 3.7 Mn respectively, a decrease of THB 15.2 Mn or 80.4%.

### **Tax Expenses**

Income tax expense decreased from THB 8.5 Mn in the 3<sup>rd</sup> quarter of 2018 to THB 4.4 Mn in the same period of 2019, a decrease of THB 4.1 Mn or 48.2%. For the nine months period of 30 September 2018 and 2019, Income tax expense decreased from THB 25.1 Mn to THB 12.4 Mn, a decrease of THB 12.7 Mn or 50.6%.

### **Net Profit and Net Profit Margin**

In the 3<sup>rd</sup> quarter of 2018 to 2019, the net profit decreased from THB 37.7 Mn to THB 22.1 Mn respectively, a decrease of THB 15.6 Mn or 41.4% and the net profit margin decreased from 5.0% to 2.8%. The main reason was negative Same-Store Sales Growth due to the economic slowdown.

For the nine months period of 30 September 2018 and 2019, the net profit decreased from THB 108.7 Mn to THB 87.4 Mn respectively, a decrease of THB 21.3 Mn or 19.6% and the net profit margin decreased from 4.9% to 3.9%. However, excluding the 1-time income from the reversal of the provision for decommissioning costs in the 2<sup>nd</sup> quarter of 2018, the Group's net profit decreased from THB 91.4 Mn to THB 87.4 Mn, a decrease of THB 4.0 Mn or 4.4% and the net profit margin decreased from 4.1% to 3.8%.

### **Financial Position Analysis**

#### **Assets**

As of 31 December 2018, and 30 September 2019, the Group had total assets of THB 1,564.0 Mn and THB 1,972.0 Mn respectively, an increase of THB 408.0 Mn or 26.1%. The assets increased mainly from (1) an increase in cash and cash equivalents remaining from the proceeds of initial public offering after deducting the repayment of loans from commercial banks. and (2) an increase of property plants and equipment which was related to the branch expansion.

#### **Liabilities**

As of 31 December 2018, and 30 September 2019, the Group had total liabilities of THB 1,095.4 Mn and THB 562.4 Mn respectively, a decrease of THB 533.0 or 48.7%. The main factor in the decrease was repayment of loans from financial institutions.



### **Shareholder Equity**

As of 31 December 2018, and 30 September 2019, the Group had shareholders' equity of THB 468.6 Mn and THB 1,409.7 Mn respectively, an increase of THB 941.1 Mn. This increase in shareholders' equity was mainly derived from the share premium relating to the initial public offering at THB 955.4 Mn. Other major changes in the shareholders' equity during the period were (1) increased paid-up capital from THB 225.0 Mn to THB 300.0 in preparation for the initial public offering (2) payment of shareholder dividend of THB 101.3 Mn and (3) net profit of the company during the period of THB 87.4 Mn.

### **Cash Flow Analysis**

Type of Cash Flow	9-Months Period Ending 30 September	
	2018	2019
	THB Mn	THB Mn
Net Cash from Operating Activities	193.6	219.3
Net Cash from Investments	(47.3)	(208.6)
Net Cash from Financing Activities	(118.6)	215.7
Increase in net cash and cash equivalents	<b>27.7</b>	<b>226.3</b>

Overall the company had an increase in net cash and cash equivalents during the nine months ending 30 September 2019 of THB 226.3 Mn.

### **Net Cash from Operating Activities**

The cash flows from operating activities was THB 219.3 Mn in the nine months ending 30 September 2019, an increase of THB 25.7 Mn compared to the same period in 2018. Operating profit decreased by THB 21.3 Mn and this was offset mainly by an increase in working capital due to (1) account payables which increased by THB 17.5 Mn in 2019 compared to a decrease of THB 32.1 Mn in 2018 (change of THB +49.6 Mn) and (2) accrued expenses increased by THB 20.3 Mn in 2019 compared to an increase of THB 0.9 Mn in 2018 (change of THB +19.4 Mn)

### **Net Cash from Investments**

The cash flows from investments decreased from THB -47.3 Mn in the nine months ending 30 September 2018 to THB -208.6 Mn in the same period of 2019, a decrease of THB -161.3 Mn. This was mainly due to higher purchase of fixed assets in 2019 compared to 2018 which was due to the opening of more new branches in 2019 compared to the previous year.



### **Net Cash from Financing Activities**

The cash flows from financing activities increased from THB -118.6 Mn in 2018 to THB 215.7 Mn in 2019, an increase of THB 334.3 Mn. This was mainly due to (1) cash received from shareholders for share capital THB 975.0 Mn (2) repayment of short-term borrowings from financial institutions THB 1,120.0 Mn.

### **Liquidity and Capital Structure**

As of 30 September 2019, the Group had a current ratio of 1.26, increased from 0.32 at end of 2018. This improvement was mainly due to a repayment of all short-term borrowing from financial institutions.

The debt-to-equity ratio reduced to 0.40 at 30 September 2019 compared to 2.34 at the end of 2018. This improvement was mainly due to (1) the repayment of all short-term borrowings from financial institutions and (2) increased shareholder equity derived from the initial public offering.

Please be informed accordingly,

Yours Sincerely,

(Mrs. Yupaphan Ekasittikul)  
Chief Financial Officer