



Ref FN. 031/2020

Management Discussion and Analysis For operation of the second 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. The Company closed Hat Yai branch on 1 July 2020 to improve profitability of the Company. Currently, the Company has 11 outlets (Phetchaburi, Kanchanaburi, Pattaya, Pak Chong, Sing Buri, Hua Hin, Sriracha, Phra Nakorn Sri Ayutthaya, 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

In quarter 2/2020, the economic outlook has contracted resulted from the Coronavirus disease 2019 (COVID-19) outbreak, the Government commanded lock down policy, shut down business and industries all over the country and announced to public to stay home, this situation resulted in reduction of consumer's incomes and consumption since quarter 1/2020, the situation was moving without ending limited, consequence, consumers had changed behavior to spend more carefully and on necessary consumption, moreover they changed to used new channel market particularly online and digital technology. This situation impacts overall business and industries particularly retails, restaurant, entertainment, airlines and travel business sector which resulted in corporate sales, thus significantly effects the decreasing of sales. The company adjusts selling method to new channel: online channel, and more focus on daily life products in order to increase sales, in the meantime focus on control system and reduce expenses to conform actual incomes which decreased.

Performance Analysis

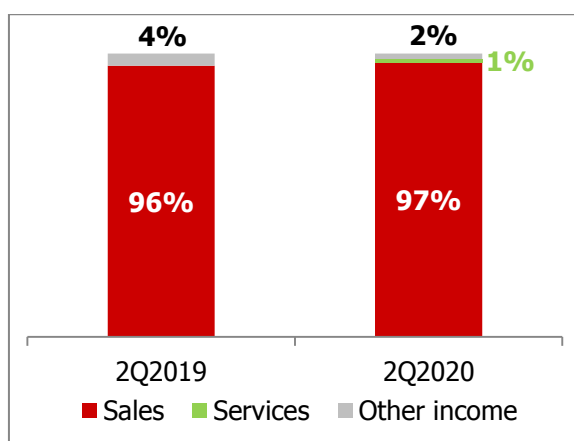
Unit : MB	For the quarterly		Change		For the six-month period		Increase (Decrease)	
	2Q20	2Q19	MB	%	2020	2019	Amount (MB)	%YoY
Revenue from Sales	139.69	272.28	(132.59)	(48.70)	335.53	511.27	(175.74)	(34.37)
Revenue from services	1.71	-	1.71	100.00	3.76	-	3.76	100.00
Other income	2.87	12.21	(9.34)	(76.50)	13.19	21.70	(8.51)	(39.21)
Total revenues	144.27	284.49	(140.22)	(49.29)	352.48	532.97	(180.49)	(33.87)
Cost of goods sold	75.81	152.47	(76.66)	(50.28)	178.58	292.36	(113.78)	(38.92)
Cost of services	0.08	-	0.08	100.00	0.23	0.00	0.23	100.00
Selling expenses and administrative expenses	75.07	124.74	(49.67)	(39.82)	169.38	236.02	(66.64)	(28.23)
Selling expenses	42.73	79.69	(36.96)	(46.38)	104.01	147.50	(43.49)	(29.49)
Administrative expenses	32.34	45.05	(12.71)	(28.22)	65.37	88.52	(23.15)	(26.15)
Earnings before interest and taxes (EBIT)	(6.69)	7.28	(13.97)	(191.90)	4.29	4.58	(0.29)	(6.33)
Financial costs	1.52	1.17	0.35	29.91	4.29	2.26	2.03	89.82
Tax (income) expenses	(0.42)	0.13	(0.55)	(432.08)	0.42	(1.90)	2.32	(121.11)
Net profit (Loss)	(7.79)	5.98	(13.77)	(230.27)	(0.42)	4.23	(4.65)	(119.93)

Earnings before interest, taxes, depreciation and amortization (EBITDA)	19.91	27.11	(7.20)	(26.56)	54.44	44.18	10.27	23.24
Depreciation and amortization	26.60	19.83	6.77	34.15	50.15	39.60	10.55	26.64

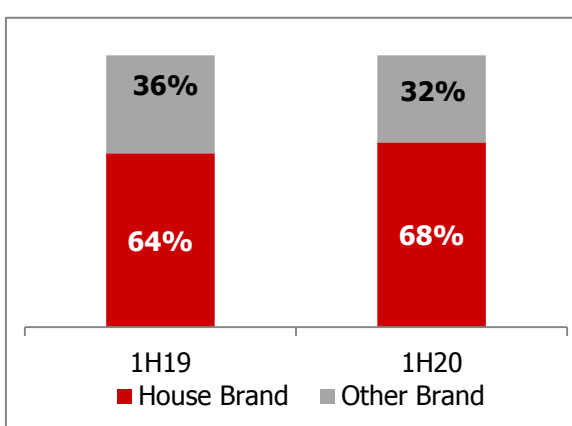
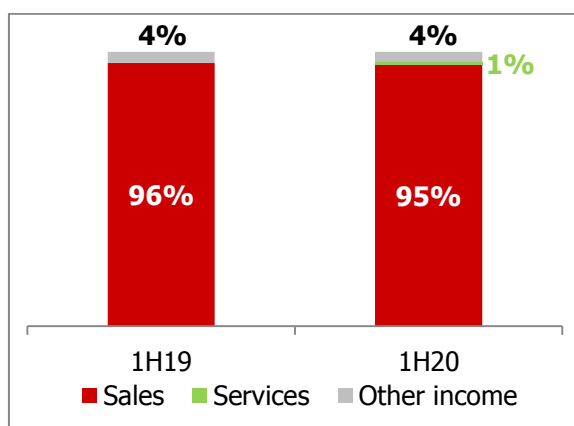
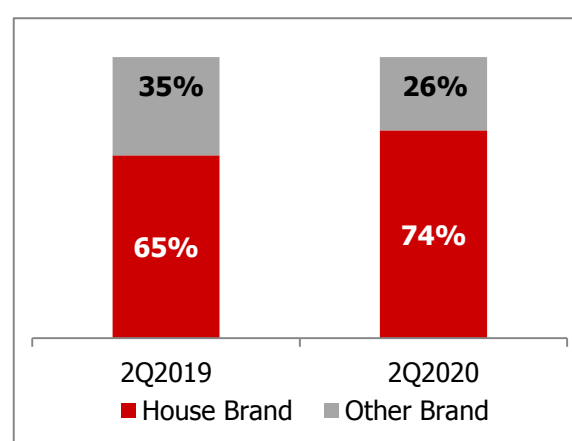
Key financial ratio related with operating result (%)	For the quarterly		Change	For the six-month period		Change
	2Q20	2Q19	% YoY	2020	2019	%YoY
Gross profit margin from sales (%)	45.73%	44.00%	1.73	46.78%	42.82%	3.96
Gross profit margin from services (%)	95.25%	-	100.00	93.79%	-	100.00
Selling expenses and administrative expenses to total revenue (%)	52.04%	43.85%	8.19	48.06%	44.28%	3.77
Net profit margin (%)	(5.40%)	2.10%	(7.50)	(0.12%)	0.79%	(0.91)

1. Total Revenue

Revenue Component



Sales Component by Brand



Total revenue in Q2/20 and H1/20 was Baht 144.27 million and Baht 352.48 million, respectively, decreased by 49.29% QoQ and 33.87% YoY as a result of revenue from sales have dramatically decreased due to temporary closure of 11 branches from end of March 2020 to end of May 2020 in order to comply with regulation issued under The Emergency Decree on Public Administration in Emergency Situations from the Coronavirus disease 2019 (COVID-19), and low spending season. Even though online sales channel have been growth. However, the Company have new services - spray service to spraying chemicals into a fine mist size of 10-50 microns, named "Virus Buster" under Cherish Brand.

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 Q2/20 at 74% compared with 65% in Q2/19. The proportion of house brand products in H1/20 at 68% compared with 64% in H1/19, resulted in higher gross profits margin ratio.

Proportion of other income to total revenue decreased compared to previous period, result from the closure of leasable space in branch and the Company has lowered or suspended the rental for tenants. At present, tenant business have resumed as normal but rental and services income is still impacted by lower traffic from customer.

2. Cost of goods sold and gross profit

Q2/20 and H1/20 gross profits margin ratio from Sales represented 45.73% and 46.78%, respectively. Gross profits margin ratio 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.

Q2/20 and H1/20 gross profits margin ratio from services represented 95.25% and 93.79%, respectively, increased by 100% from previous period, due to the Company have spray services for all types of cars or public transports, residential buildings, offices, shops, restaurants, hotels, schools, playgrounds, auditoriums, factories, warehouses, and other places.

3. Selling and administrative expenses

Selling and administrative expenses for Q2/20 and H1/20 was Baht 75.07 million and Baht 169.38 million, respectively, which decreased from previous period. The decrease was mainly due to temporary closure have impacted with selling and administrative expenses decreasing such as marketing expenses, personnel expenses, and rental expenses.

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

For Q2/20 and H1/20, net loss was Baht 75.07 million and Baht 0.42 million, respectively. Profit has decreased from previous period, mainly due to temporary closure. The higher gross profit margin have still not covered selling & administrative expenses which caused net loss. In addition, the Company closed Hat Yai branch on 1 July 2020 to improve profitability of the Company and had already written off fixed asset.

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 of spray services to spray the chemicals into a fine mist size of 10-50 microns, named "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 30 June 2020	As at 31 December 2019	Change	
			MB	%
Cash and cash equivalents	198.64	61.33	137.31	223.87
Current investment	-	136.65	(136.65)	(100.00)
Inventories	503.42	518.18	(14.76)	(2.85)
Property, plant and equipment	893.42	922.13	(28.71)	(3.11)
Right-of-use assets	142.65	-	142.65	100.00
Other assets	72.02	88.48	(16.47)	(18.61)
Total assets	1,810.14	1,726.77	83.37	4.83
Accounts payable	65.80	88.56	(22.76)	(25.70)
Long-term loan	102.37	118.73	(16.36)	(13.78)
lease liabilities	151.25	2.75	148.50	5,399.96
Other liabilities	26.43	37.11	(10.68)	(28.78)
Total liabilities	345.85	247.15	98.70	39.93
Total shareholders' equity	1,464.29	1,479.62	(15.32)	(1.04)
Total liabilities and shareholders' equity	1,810.14	1,726.77	83.37	4.83

1. Assets

The Company's total assets as of 30 June 2020 were Baht 1,810.14 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, decreased from current investment.

2. Liabilities

As of 30 June 2020, the Company's liabilities totaled Baht 345.85 million, increased by Baht 98.70 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 30 June 2020, the Company's shareholders' equity was Baht 1,464.29 million, decreasing by Baht 15.33 million 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 in Note 2 to the financial statements and dividend payment to shareholders.

Cash Flow Statement Analysis

Unit : MB	For the six-month period		Change	
	2020	2019	MB	%
Cash flow from (used in) operating activities	55.91	(39.35)	95.27	(242.08)
Cash flow from (used in) investing activities	113.20	(44.85)	158.05	(352.42)
Cash flow used in financing activities	(31.81)	(8.11)	(23.70)	292.34

1. Cash flow from operating activities

The Company's net cash inflow from operating activities was Baht 55.91 million from cash from account receivable and other receivable, and inventory decreasing.

2. Cash flow from investing activities

The Company has cash inflow from investing activities was Baht 113.20 million mainly from sales on current investment.

3. Cash flow used in financing activities

The Company had a cash outflow in financing activities of Baht 31.81 million as a result of cash drew down from long term loans to investing in Rayong branch, long term loan, interest repayment and dividend payment.

Key Financial Ratio Analysis

	For the period ended 31 March 2020	For the year ended 31 December 2019	Change	Reason
Liquidity Ratio (x)	6.40	5.85	0.55	The decrease in account payable.
Quick Ratio (x)	2.05	1.91	0.14	The decrease in account payable.
Return on Equity (%)	0.28	0.59	(0.31)	Decreased from under performance
Debt-to-Equity Ratio (x)	0.24	0.17	0.07	Increased in lease liabilities and decreased from equity due to adopt new TFRS16 and dividend payment.

For more information, please contact:

Investor Relations Department

Tel: 02-300-4951 Ext. 5109, E-mail: corporatesecretary@fnoutlet.com