

MC GROUP

Management Discussion and Analysis for Q3 FY2019 (January – March 2019) and for nine-month period FY2019 (July 2018 – March 2019)

Economic outlook and retail industry

Thailand's overall economic outlook, trimming its growth forecast to 3.8% from 4.0% amid sluggish export demand and impact from less spending by inbound tourists. The household debt remains higher as 78.6% of GDP from year end to be as potential 79.5% of GDP in Y2019 and still factors dragging on private consumption growth. Moreover, the consumer confidence index edged down consecutively and hit 16-month low due to the country's unclear post-election stability, slow economic recovery, higher oil prices following the downward trend of agricultural prices e.g. oil palm, rubber and corn, still lower than the cost of producing for prolonged period.

(Source: Business Outlook Report 1Q2019 Bank of Thailand, Consumer confidence index survey by economic and business forecast center-the University of the Thai Chamber of Commerce (UTCC), Office of Agricultural Economics- Ministry of Agriculture and Cooperatives)

The above-mentioned factors, resulting the price wars and more intense competition among apparel and lifestyle product retailers than the past periods, impact overall performance toward various industry players. However, if the political situation becomes stable and economic sentiment stimulus by new measures are launched, these will increase people's purchasing power, spending momentum and start to pick up in the second half of this year.

Overall Business Performance

Income Statement:

(THB millions)	3Q FY19		% chg	9-month Period of		% chg
	(Jan-Mar19)	(Jan-Mar18)		(Jul18-Mar19)	(Jul17-Mar18)	
Sales revenue	980	1,178	(16.8%)	2,894	3,262	(11.3%)
Total revenue	995	1,185	(15.6%)	2,937	3,298	(11.0%)
COGS	412	479	(12.7%)	1,224	1,441	(15.0%)
Selling expenses	319	348	(8.4%)	891	948	(6.0%)
Administrative expenses	124	117	5.7%	351	358	(1.9%)
Earnings before share of profit (loss) from JV	139	241	(42.1%)	470	551	(14.8%)
Share of profit (loss) from JV	6	4	40.8%	(4)	18	(123.1%)
EBIT	145	245	(40.7%)	466	569	(18.2%)
Finance cost	(0)	(0)	(99.7%)	0	1	(95.0%)
EBT	145	245	(40.7%)	465	568	(18.0%)
Income tax expenses	7	17	(61.1%)	34	46	(26.6%)
Net income	139	228	(39.2%)	432	522	(17.2%)
Non-controlling interest	(0)	(6)	(99.8%)	(9)	(17)	(43.9%)
Net income to the firm	139	222	(37.6%)	422	505	(16.4%)
Gross profit margin	57.90%	59.36%		57.87%	55.82%	
Net profit margin	14.30%	19.30%		14.40%	15.30%	

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For Q3 FY2019 (January – March 2019)

Amidst fierce competition with price wars and recurring promotions in apparel market to gain spending contracted from high household-debt consumer especially in Bangkok and greater, Mc Group Public Company Limited (“the Company”) reported its total sales revenue of THB 980 mn. in Q3 FY2019, a decrease of 16.8% or equivalent to THB 198 mn. from the same period last year, resulting in same store sales slipped by 14.3% from January to March 2018. Nevertheless, if compare with last quarter (October – December 2018), total sales revenue fell by 10.8% or equivalent to THB 119 mn. from retail season which is the highest retail season.

Responding to the competitive price pressures, the Company recorded overall gross profit of THB 567 mn. or a 18.9% or equivalent to THB 132 mn. decrease, resulting in gross profit margin at 57.9% lessen from 57.2% in the same period last year. Gross profit margin of the apparel business was 57.2% down from 58.7% and for watch business, gross profit margin fell to 48.1% from 51.8% from January to March 2018.

Selling, general and administrative (SG&A) expenses were at THB 443 mn. a fall of 4.8% or THB 23 mn. from the same period last year, mainly due to lower marketing support, resulting in SG&A expenses to total sales revenue edged up to 45.2% from 39.5% in the same period last year from decreased total sales revenue.

The Company’s earnings before interest, taxes, depreciation and amortization (EBITDA) was at THB 176 mn. slipped by 42.5% or equivalent to THB 130 mn. from January to March 2018., resulting in an EBITDA margin of 17.7%, which fell from 25.9% in the same period of prior year.

The Company registered a net profit of THB 139 mn, down 37.6% or equivalent to THB 84 mn., resulting in net profit margin at 13.9% fell from 18.7% from decreased total sales revenue and lessen gross profit margin.

For nine-month period FY2019 (July 2018 to March 2019)

From overall business performance and above-said economic outlook, the Company reported its total sales revenue for the 9-month period FY2019 of THB 2,894 mn., declined by 11.3% or equivalent to THB 368 mn. from the same period last year resulting in same store sales which dropped by 9.6% from the period of July 2017 to March 2018.

Nevertheless, the Company recorded overall gross profit of THB 1,675 mn. fell by 8.0% or equivalent to THB 146 mn. with higher gross profit margin at 57.9% from 55.8% in the same period last year from cost management measures responded to sale contraction by temporary sluggish economy. Gross profit margin of

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the apparel business was 58.8% increased from 56.3% and for watch business, gross profit margin fell to 49.4% from 52.2% in the same period last year.

Selling, general and administrative (SG&A) expenses were at THB 1,243 mn. a fall of 4.8% or THB 63 mn. from the same period last year mainly due to efficient management of administrative expenses. SG&A expenses to total sales revenue edged up to 42.9% from 40.0% in the period of July 2017 to March 2018.

The Company's earnings before interest, taxes, depreciation and amortization (EBITDA) was at THB 558 mn. decreased at 21.1% or equivalent to THB 149 mn. resulting in EBITDA margin of 19.0%, down from 21.4%. in the same period last year.

The effective tax rate for the 9 months period FY2019 stood at 7.2% due to the tax privileges under Investment Promotion Act granted to the Company's subsidiary. These tax privileges will gradually expire in 2019 and 2021.

The Company registered a net profit of THB 422 mn., a decrease 16.4% or equivalent to THB 83 mn. from the period of July 2017 to March 2018 with net profit margin at 14.4% slipped from 15.3% due to decreased total sales revenue.

Remark: Change of accounting period and new international financial reporting standards adoption

MC Group Public Company Limited and its subsidiaries ("MC" or "the Company") changed in accounting period starting from 1st January to 31st December to the period from 1st July to 30th June, starting from the period ended 30th June 2018 onward. During the period, the Federation of Accounting Professions announced a new standard on international financial reporting 15: Revenue from contracts with customers (IFRS 15) which is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The Company and its subsidiaries agreed to adopt the new IFRS 15 Revenue prior to the effective date, resulting in the adjustment of financial statement in earlier period for comparison and impact toward result in adoption of such new standard financial reporting.

As of 31st March 2019, the Company had a total of 932 outlets according to the distribution channel management as follows:

By distribution channel	Apparel and lifestyle Products under "MC Group"		Watch Products under "Time Deco"	
	Number of POS	Increase (+) /Decrease(-)	Number of POS	Increase (+) /Decrease(-)
Free standing shop	309	+10	18	-1
Modern Trade	509	-5	76	+1
Mobile Unit	6	-	-	-
Total POS (Domestic)	824	+5	94	-
International markets	14	-	-	-
Total	838	+5	94	-

**During January to March 2019. Mc Group has 10 new points of sales.*

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Financial Position Analysis

Balance Sheet:

<i>(THB millions)</i>	31-Mar-19	30-Jun-18	% chg
Cash and short term investments	1,218	1,011	20.5%
Account receivables	398	414	(3.9%)
Inventory	1,786	2,179	(18.1%)
Other assets	1,198	1,266	(5.4%)
Total assets	4,600	4,870	(5.5%)
Account payables	203	210	(3.2%)
Interest-bearing liabilities	0	16	(100.0%)
Other liabilities	453	446	1.6%
Total liabilities	656	671	(2.3%)
Equity attributable to the firm	3,792	4,053	(6.5%)
Non-controlling interest	153	146	4.7%
Shareholders' equity	3,944	4,199	(6.1%)

Assets

As of 31 March 2019, the Company recorded total assets of THB 4,600 mn. compared to THB 4,870 mn. as of 30 June 2018. A decrease of THB 270 mn. in total assets was main results of

- 1) A decrease in inventory of THB 393 mn. from better efficiency of inventory program management compatible with distribution plan
- 2) An increase in cash and short-term investment of THB 207 mn.
- 3) A decrease in other assets of THB 68 mn.

Liabilities

As of 31 March 2019, the Company had THB 656 mn. in total liabilities, fell by THB 15 mn. from THB 671 mn. as of 30 June 2018. This was mainly due to a decrease of THB 16 mn. In interest-bearing debt from one of the Company's subsidiaries

Shareholders' Equity

As of 31 March 2019, shareholders' equity of the Company amounted to THB 3,944 mn., fell by THB 255 mn. from THB 4,199 mn. as of 30 June 2018. The main factors contributing to net dividend payment of THB 600 mn. and reserve for stock repurchase of THB 87 mn. while an increase of total comprehensive income for 9-month FY2019 of THB 422 mn.

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Liquidity

As of 31 March 2019, cash and cash equivalents of the Company amounted to THB 551 mn. net increased by THB 200 mn. from 30 June 2018 as a result of following factors:

1) An Increase in Cash flow from operations of THB 944 mn. driven mainly by the Company's cash profit of THB 546 mn. and a fall in inventories of THB 403 mn.

2) A Decrease in Cash flow from investment activities of THB 41 mn. due to a redemption in short-term investment of THB 19 mn., the net purchase of property, plant and equipment for business expansion of THB 50 mn., and purchase of intangible asset of THB 13 mn.

3) A Decrease in Cash flow from financing activities of THB 703 mn. of which came from the payment of dividend at THB 600 mn., stock repurchase of THB 87 mn. and payment of short-term loans from financial institutions of one of the Company's subsidiaries at THB 16 mn.

Key Financial Ratios

Financial Ratios			
Liquidity Ratios		31-Mar-19	30-Jun-18
Current Ratio	times	5.9	6.1
		9M 2019	9M 2018
Average Days Receivable	days	38	47
Average Days in Finished Goods Inventory	days	425	384
Average Days Payable	days	46	76
Cash Cycle	days	417	355
Profitability Ratios		9M 2019	9M 2018
Gross Profit Margin	%	57.9	55.8
- Apparel business	%	58.8	56.3
- Time Deco	%	49.4	52.2
Net Profit Margin	%	14.4	15.3
- Apparel business	%	15.5	16.8
- Time Deco	%	3.2	8.6
EBITDA Margin	%	19.0	21.4
Return on Equity (Annualized)	%	14.4	16.1
Efficiency Ratios		9M 2019	9M 2018
Return on Assets (Annualized)	%	11.9	13.1
Leverage Ratios		31-Mar-19	30-Jun-18
Interest Bearing Debt to Equity	times	-	0.00
Debt to Equity Ratio	times	0.17	0.16

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Outlook

The Company continues to make strategic investments in the light of an expected recovery of domestic economy during the latter half of 2019 in order to lay a strong business foundation for gaining competitive advantage, add value to its brands and further enhance consumer accessibility with New Product Introduction. The Company has a plan to accelerate its denim product sales under “Mc Jeans” brand through its collection of selvedge or self-edge or “red-edge” denim. This collection offers unique identity and upcoming models launched in the second-half year after successful responses for the first 5 models from consumer since the beginning of Y2019. Selvedge has been considered to boost sale from premium segment and upsell or cross-sell for other denim products. Moreover, the Company also promoted its non-denim or casual wear products led by a new brand “U-P” with 3rd collection of ‘Livelihood’ after its premiere and 2nd collection since the end of 2018. In addition, the increasing line of products of ‘Modern Workwear’ taped into broader office workers and urban people. Plus, the Company’s sales of fashion accessories and personal care products are still growing continuously to be more sophisticated style with outfits, e.g. sneaker and slip-on, etc.

The Company still has continued to increase Value creation and brand awareness building using many influencers in different lifestyles to communicate products that are in line with social trends and new generations of consumers. For instance, The Company launched project “Mc X” offering “Everyday Peak” after “Black Valentines by Mc X Jindachot” collection with the popular actress named ‘Peak- Pattarasaya Kreursuwansiri’ with denim shorts offering casual chic, preppy, fun, classy and minimal styles and activities through social media and in-store campaign with ‘MC Club’ membership program, allowing the Company to leverage on its existing 800,000 members (as of end-April 2019). The Company incessantly grows its points of sales through its “Mc” and “mcmc Outlet Store” located inside and outside PTT gas stations according to strategic business expansion plan plus the Company will further add its online marketplace from current channels, “mcshop.com”, Lazada, Shopee, JD, Looksi, Buzzbee including new channels, Zilingo, Shop@24 including K+ Market to reach customers anywhere and anytime.