

Economic outlook and retail industry

Thailand's overall economy expanded at a slower pace than expected in Quarter 2 Year 2019 due to external demand impacted by the escalated trade tension between the U.S. and China. Private consumption was restrained by lower non-farm household income and lower consumer confidence among low-income households due to high household debt level. Bank of Thailand has revised down its growth forecast for Thailand's GDP this year to 3.3 percent from 3.8 percent.

Trade sector slowed down due to intense competition both online and offline channels and declined purchasing power as well as lower consumer confidence. Revenue of retail sector, in particular related to consumer products, declined in the upcountry area. This was reflected by decreasing consumer spending and frequency of purchase, causing various retailers to continuously launch promotional campaigns to stimulate sales. In addition, consumer confidence index as of June 2019 edged down to its lowest point in 21 months since October 2017.

(Source: Business Outlook Report 2Q2019 Bank of Thailand, Consumer confidence index survey by economic and business forecast center-the University of the Thai Chamber of Commerce (UTCC))

Overall Business Performance

MC Group Public Company Limited and its subsidiaries ("MC" or "the Company") changed the accounting period, for the period of 1st January to 31st December to the period of 1st July to 30th June, 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.

The reviewed financial statements of the Company reported the comparative information in the consolidated and separate statements of income and comprehensive income for the year 2019 presented for the period from 1st July 2018 to 30th June 2019 and 1st January 2018 to 30th June 2018. Balance sheet, consolidated and separate statements of changes in equity and cash flows reported for the year ended 30th June 2019 and compared with the period ended 30th June 2018, which was in accordance with the required standard of the financial statements.

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Income Statement:

In addition, the Company summarized Management Discussion and Analysis for the accounting period from 1st July 2018 to 30th June 2019 and the accounting period from 1st July 2017 to 30th June 2018 for comparison purpose to demonstrate increasing or decreasing trend of financial results between the two periods.

The Company would like to report operating results for year ended 2019 (1st July 2018 to 30th June 2019) of the Company and its subsidiaries with the main reasons as follows:

<i>(THB millions)</i>	Yearly (Jul18-Jun19)	Half Year (Jan18-Jun18)	% chg
Sales revenue	3,694	2,082	77.4%
Total revenue	3,737	2,098	78.2%
COGS	1,529	853	79.4%
Selling expenses	1,203	635	89.6%
Administrative expenses	596	240	148.3%
Impairment loss on goodwill	108	0	(100.0%)
Impairment loss on equipment and other assets	21	0	(100.0%)
Earnings before share of profit (loss) from JV	279	370	(24.5%)
Share of profit (loss) from JV	(4)	8	(148.1%)
EBIT	276	378	(27.0%)
Finance cost	0.1	0.5	(78.6%)
EBT	276	377	(26.9%)
Income tax expenses	(38)	(24)	60.0%
Net income	238	354	(32.7%)
Non-controlling interest	68	(7)	(1016.0%)
Net income to the firm	306	346	(11.7%)
Gross profit margin	58.6%	59.1%	
Net profit margin	8.2%	16.5%	

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Revenue

The Company reported its total sales revenue for the year 2019 (from 1st July 2018 to 30th June 2019) of THB 3,694 mn., increased by 77.4% or equivalent to THB 1,612 mn. compared with the period from 1st January to 30th June 2018. A significant increase was mainly due to different accounting period of the financial statements as stated earlier at the beginning of the report.

However, if compared with the same period last year (from 1st July 2017 to 30th June 2018), total sales revenue dropped by THB 472 mn. or by 11.3% from THB 4,166 mn. to THB 3,694 mn., resulting in total system sales fell by 11.2% from the same period last year. The decrease was mainly due to contracted sales revenue from Free-standing shop by 17.3 %, Superstore by 78.9%. Nonetheless, sales revenue from Department Store improved by 5.8% and E-commerce sales revenue increased significantly by 146.9%.

Gross Profit

The Company recorded overall gross profit for year 2019 (from 1st July 2018 to 30th June 2019) of THB 2,165 mn. fell by 76.0% or equivalent to THB 935 mn. with lower gross profit margin at 58.6% from 59.1% when compared with the period from 1st January 2018 to 30th June 2018.

Compared with the same period last year, the Company reported overall gross profit of THB 2,165 mn. slipped by 7.9% or equivalent to THB 186 mn. due to lower sales revenue. However, gross profit margin was improved from 56.4% to 58.6% over the same period last year, mainly due to efficient cost management.

Selling, general and administrative (SG&A) expenses

Selling, general and administrative (SG&A) expenses for year 2019 (from 1st July 2018 to 30th June 2019) were at THB 1,928 mn. an increase of 120.4% or THB 1,053 mn. compared with the period from 1st January to 30th June 2018. The significant increase was mainly due to one-off provisions, amounted to THB 258 mn, under its subsidiary and an increase of marketing expenses related to marketing activities which focus on brand value creation.

Compared with the same period last year, (SG&A) expenses increased by 12.5% or THB 214 mn. from 1,715 mn. to 1,928 mn. mainly due to those one-off items as stated earlier. SG&A expenses to total sales revenue rose from 41.2% to 52.4% .

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However, (SG&A) expenses excluding one-off items were at 1,670 mn., a decrease of THB 45 mn. or 2.6%, mainly due to efficient cost management.

Earnings before interest, taxes, depreciation and amortization (EBITDA)

The Company's EBITDA for year 2019 (from 1st July 2018 to 30th June 2019) was at THB 396 mn., a decrease of 12.8% or equivalent to THB 58 mn. Therefore, EBITDA margin reduced from 21.8% to 10.7%, compared with the period from 1st January to 30th June 2018.

Compared with the same period last year, the Company's EBITDA for year 2019 was at THB 396 mn., a decrease of 53.2% or equivalent to THB 450 mn. resulting in lower EBITDA margin, 10.6% compared with 20.1% of the same period last year.

However, the Company's EBITDA for year 2019, excluding one-off items, were at 654 mn., a decrease of 22.7% from the same period last year.

Effective Tax Rate

The effective tax rate for year ended 2019 was at 13.7% due to the tax privileges under Investment Promotion Act granted to the Company's subsidiary. These tax privileges will be expired within 2019.

Net Profit

The Company registered a net profit for year 2019 of THB 306 mn., a decrease of 11.7% or equivalent to THB 41mn. from THB 346 mn., compared with the period from 1st January 2018 to 30th June 2018.

Nevertheless, the Company reported a net profit for year 2019 of THB 306 mn., a decrease of 51.4% or equivalent to THB 324 mn., mainly due to contracted total sales revenue and increased SG&A expenses including one-off items, resulting in lower net profit margin from 15.0% to 8.2%.

However, a net profit for year 2019 excluding one-off items were at THB 564 mn., a decrease of 10.5% or equivalent to THB 66 mn. from the same period last year. Net profit margin excluding one-off items were at 15.3% of sales revenue compared with 15.1% of the same period last year.

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As of 30th June 2019, the Company had a total of 731 outlets 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	312	+3	19	+1
Modern Trade	306	-5	74	-2
Mobile Unit	6	-	-	-
Total POS (Domestic)	624	-2	93	-1
International markets	14	-	-	-
Total	638	-2	93	-1

*During April to June 2019, Mc Group has 3 new points of sales.

Financial Position Analysis

Balance Sheet:

(THB millions)	30-Jun-19	30-Jun-18	% chg
Cash and short term investments	1,344	1,011	32.9%
Account receivables	303	414	(26.9%)
Inventory	1,604	2,179	(26.4%)
Other assets	1,039	1,266	(17.9%)
Total assets	4,289	4,870	(11.9%)
Account payables	179	263	(31.9%)
Interest-bearing liabilities	0	16	(100.0%)
Other liabilities	350	393	(10.8%)
Total liabilities	529	671	(21.2%)
Equity attributable to the firm	3,685	4,053	10.0%
Non-controlling interest	75	146	(48.3%)
Shareholders' equity	3,760	4,199	(10.5%)

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Assets

As of 30th June 2019, the Company recorded total assets of THB 4,289 mn. compared to THB 4,870 mn. as of 30th June 2018. A decrease of THB 581 mn. in total assets was mainly resulted from

- 1) A decrease in inventory of THB 576 mn. from better efficiency of inventory program management in accordance with distribution plan
- 2) An increase in cash and short-term investments of THB 332 mn.
- 3) A decrease in account receivables of THB 111 mn.

Liabilities

As of 30th June 2019, the Company had THB 529 mn. in total liabilities, a decrease THB 142 mn. from THB 671 mn. as of 30th June 2018. This was mainly due to lower account payables by THB 84 mn.

Shareholders' Equity

As of 30 June 2019, shareholders' equity of the Company amounted to THB 3,760 mn., a decrease of THB 439 mn. from THB 4,199 mn. as of 30th June 2018, was as a result of net dividend payment of THB 597 mn. and reserve for stock repurchase of THB 87 mn. Total comprehensive income for year 2019 was at THB 248 mn.

Liquidity

As of 30th June 2019, cash and cash equivalents of the Company amounted to THB 673 mn. net increase of THB 323 mn. from 30th June 2018 mainly caused by:

- 1) An Increase in Cash flow from operations of THB 1,090 mn. driven mainly by the Company's cash profit of THB 671 mn. and a fall in inventories of THB 449 mn.
- 2) A Decrease in Cash flow from investment activities of THB 64 mn. due to the net purchase of property, plant and equipment for business expansion of THB 54 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 597 mn., and stock repurchase of THB 87 mn.

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Key Financial Ratios

Financial Ratios			
<u>Liquidity Ratios</u>		30-Jun-19	30-Jun-18
Current Ratio	times	7.1	6.1
		2019 (Jul18-Jun19)	2018 (Jul17-Jun18)
Average Days Receivable	days	35	31
Average Days in Finished Goods Inventory	days	440	371
Average Days Payable	days	52	44
Cash Cycle	days	423	358
<u>Profitability Ratios</u>		2019 (Jul18-Jun19)	2018 (Jul17-Jun18)
Gross Profit Margin	%	58.6	56.4
Net Profit Margin	%	8.2	15.0
EBITDA Margin	%	10.6	20.1
Return on Equity	%	7.9	16.3
<u>Efficiency Ratios</u>		2019 (Jul18-Jun19)	2018 (Jul17-Jun18)
Return on Assets	%	6.7	13.8
<u>Leverage Ratios</u>		30-Jun-19	30-Jun-18
Interest Bearing Debt to Equity	times	0	0
Debt to Equity Ratio	times	0.14	0.16

Outlook

The Company has continued to focus on growth of sales revenue and profit by emphasizing on the development of quality products, brand awareness building, distribution channels optimization and effective costs and SG&A management. Furthermore, the Company has moved forward to expand business and investment for sustainable growth as well as to restructure organization's strategy and IT infrastructure to become a leading "Denim Centric Lifestyle" retailer to serve the changing customer behavior in conjunction with developing mcshop.com and Omni Channel to create seamless shopping experience between offline and online channels and to grow both existing and new point of sales. Along with Customer Relationship Management under "Mc Club" membership program that facilitates more convenient offers to customers and act as one of crucial part of modern marketing communications which help creates compelling strategies to fit

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with each target customer group. As of 30th June 2019, the Company had more than 800,000 existing members under the membership program.

The Company has focused 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 generation of consumers. For instance, the Company has introduced new presenter of “MC Jeans”, Pakin Kamvilaisak (Tono), for its new exclusive “Mc Biker Collection” for jeans and jackets products representing functional fashion lifestyle that fit not only to bikers but for every day wear basis. In addition, for the ongoing project “Mc X” of the year, the Company has launched “MC X MOO” collection in collaboration with the famous Thai designer, Polpat Asavaprapha (Moo) from “MOO” brand, by introducing a special collection that features a contemporary twist between American Vintage and Workwear Lifestyle that combines functionality with classic vintage design.