

## Management Discussion and Analysis

(for 3 months and 9 months performance ending 30 September 2014)

### 1. Overall business performances

#### 3Q 2014

MC GROUP posted 3Q 2014 sales revenue of THB 752 million, equivalent to a 14.4% increase from the same quarter last year. The growth is due to the consolidation of sales revenue of THB 95 million from its new business, Time Deco Corporation Limited ("Time Deco") which the Company acquired in November 2013.

With continued economic challenges from weak consumer consumption across the country started since mid-2013, overall same store sales for 3Q 2014 fell 6.8% from the same period last year.

Considering sales revenue by channel, sales through company-owned free standing shop for this quarter made up for 51.7% of the total sales revenue, up from 38.0% in 3Q 2013. An increase in free standing shop sales contribution is driven by MC GROUP's strategic plan to emphasize growth through free standing shop expansion given its advantages from flexibility to quickly respond to customers' needs as well as to introduce new brands which help enhance store productivity, in addition to 11.9% growth in free standing shop same store sales from same period last year.

MC GROUP announced gross profit of THB 412 million in 3Q 2014, representing an 11.4% increase. This accounted for a consolidated gross profit margin of 54.7%. Due to contraction of domestic consumption, MC GROUP used active sales promotional campaigns to stimulate consumer's spending which led gross profit margin of its clothing retail business during 3Q 2014 to be 55.8% comparing to 56.2% from the same period in the prior year; while the gross profit margin of Time Deco stood at 47.3%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) stood at THB 176 million, a decrease of 12.2% from the same period last year with consolidated EBITDA margin of 23.0%. In addition to promotional sales activities introduced during the quarter to boost consumer spending; investment in new brands launched in 2013 and increase in selling expenses from sales channel expansion while overall sales were affected by the slowdown in consumption resulted in a temporary increase in SG&A to sales revenue ratio to 37.4% in 3Q 2014 from 30.3% in 3Q 2013. Thus, the clothing retail business reported EBITDA margin of 23.5%, declining from 30.2% in 3Q 2013. Time Deco reported EBITDA margin of 20.0%.

With regard to profitability, MC GROUP reported a net profit of THB 136 million, down 23.8% from same period last year as a result of promotional campaigns and increase in selling expenses

# MC GROUP

from distribution channels expansion while consumption remains weak. Clothing retail business' net profit margin was at 19.4% down from 26.3%. Time Deco net profit was at 11%. Consolidated net profit margin was at 17.6%

## **First Nine Months of 2014**

For the first nine months of 2014 (9M 2014), sales revenue grew 22.8% compared to the same period last year to THB 2,423 million. This was due to the consolidation of Time Deco's financial results, the business which it had acquired in late 2013, together with continued expansion of the Company's points of sale. As at end of September 2014, MC GROUP had a total of 784 points of sales which represented an increase of 90 additional points of sales from end of 2013, details of which are as follows:

- 82 new domestic points of sales to total of 766 locations. Consisting of:
  - 49 new free standing shops, resulting in a total of 236 point of sales;
  - 30 new points of sales in modern trade, making modern trade points of sales to reach 526 sites
  - 3 new mobile units to total of 4 at present
- 8 new points of sales in overseas market to total 18

The slowdown in domestic economic activity took its toll on consumer spending across the industry - esp. in the upcountry, causing same store sales growth during 9M 2014 to fell 5.3% from the same period previous year.

Driven by the above mentioned sales growth, gross profit rose 16.7% during the first nine months of 2014, leading the consolidated gross profit margin to be at 54.4%. For the clothing retail business, gross profit margin was at 55.5% down from 57.3% as a result of promotional sales campaigns conducted to boost consumer spending during the economic slowdown. For Time Deco, 9M 2014 gross profit margin was at 46.2%

Earnings before interest, taxes, depreciation and amortization (EBITDA) during 9M 2014 increased 3.3% to THB 655 million with consolidated EBITDA margin of 26.7%. The clothing retail business reported EBITDA margin of 28.0% from 31.9% as a result of promotional campaigns mentioned above and increase selling expenses from shop expansion while overall sales were affected by the slowdown in consumption resulted in a temporary increase in SG&A to sales revenue ratio. Meanwhile, Time Deco reported EBITDA margin of 17.5%.

MC GROUP recorded net profit during the first nine months of 2014 of THB 516 million or a 1.3% drop. The clothing retail business net profit margin was at 23.0% down from 26.2% same period last year due to the above mentioned sales promotion and increase in selling expenses due to expansion to support future business growth. Time Deco net profit margin was at 9.4%. The consolidated net profit margin was at 20.8%

# MC GROUP

## Financial Position Analysis

### Assets

As of September 30, 2014, MC GROUP held a total asset of THB 4,471 million compared to THB 4,652 million as of December 31, 2013. A decrease of THB 181 million caused mainly by the followings:

- 1) A significant decrease of THB 286 million in account receivables which is in line with the nature of the retail business where consumers usually spent the most during the peak season of 4Q, causing its account receivables to increase around end of year before gradually coming down in subsequent quarters.
- 2) A net increase of property, plant and equipment assets of THB 109 million following investments on equipments for factory distribution center and distribution channel expansion.

### Liabilities

As of September 30, 2014, the Company recorded a total liability of THB 743 million, down THB 207 million from THB 951 million as at December 31, 2013. This was mainly due to repayment of THB 72 million of account payables, reduction of other current liabilities totaling THB 60 million and deferred tax liabilities of THB 80 million.

### Shareholders' Equity

As of September 30, 2014, the Company registered a shareholders' equity totaling THB 3,727 million compared to THB 3,701 million as at December 31, 2013, which represents an increase of THB 26 million as a result of THB 530 million worth of consolidated net profit during the nine months of 2014 and THB 504 million dividend payment.

## 2. Liquidity and Financial Ratios

### Cash Flow

During the first nine months of 2014, the Company's cash and equivalents decreased THB 182 million as a result of:

- 1) Cash flow received from operating activities of THB 604 million driven mainly from the Company net profit of THB 530 million together with cash received from debtors of THB 285 million which drastically reduced account receivables. Most cash was spent to repay trade creditors, other current liabilities and income tax totaling THB 234 million.
- 2) Cash flow spent in investment activities totaling THB 294 million – Part was spent on equipments for factory, distribution center and distribution channel expansion of THB 203 million and in tangible assets of THB 90 million.

# MC GROUP

- 3) Cash flow spent on financing activities totaling THB 491 million - most of which was paid out as dividend totaling THB 504 million to shareholders.

## **Financial Ratios**

MC GROUP's IPO proceed of THB 3,000 million raised during June 2013 caused its average assets and shareholders' equity for the first nine months of 2014 to significantly increase compared to the same period in 2013. This led to a drop in the Company's Return on Equity (ROE) to 18.5% from 32.2% and Return on Assets (ROA) to decline to 15.1% from 23.1%.

For the first nine months of 2014, the Company's average days in inventory totaled 309 days. The clothing retail business's average day in inventory increased slightly to 276 days from 266 days during the same period in 2013 due to weakening consumer's spending that had started in mid-2013 and that affected inventory levels during the past year.

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## Income Statement:

<i>(THB millions)</i>	3Q'14	3Q'13	% chg	9M '14	9M '13	% chg
Sales revenue	752	658	14.4%	2,423	1,973	22.8%
<b>Total revenue</b>	<b>772</b>	<b>679</b>	<b>13.7%</b>	<b>2,482</b>	<b>1,999</b>	<b>24.1%</b>
COGS	341	288	18.3%	1,104	843	30.9%
Selling expenses	194	128	52.2%	556	377	47.4%
Administrative expenses	87	72	22.2%	231	195	18.9%
Finance cost	2	0	N/M	5	17	N/M
<b>EBT</b>	<b>148</b>	<b>191</b>	<b>(22.6%)</b>	<b>585</b>	<b>567</b>	<b>3.1%</b>
Income tax expenses	7	13	(50.4%)	55	46	20.6%
<b>Net income</b>	<b>141</b>	<b>178</b>	<b>(20.5%)</b>	<b>530</b>	<b>521</b>	<b>1.6%</b>
Non-controlling interest	6	(0)	N/M	13	(2)	N/M
<b>Net income to the firm</b>	<b>136</b>	<b>178</b>	<b>(23.8%)</b>	<b>516</b>	<b>523</b>	<b>(1.3%)</b>

## Balance Sheet:

<i>(THB millions)</i>	30-Sep-14	31-Dec-13	% chg
Cash and cash equivalent	1,666	1,792	(7.0%)
Account receivables	440	726	(39.4%)
Inventory	1,401	1,363	2.8%
Other assets	963	772	24.9%
<b>Total assets</b>	<b>4,471</b>	<b>4,652</b>	<b>(3.9%)</b>
Account payables	368	441	(16.6%)
Interest-bearing liabilities	120	114	5.9%
Other liabilities	256	396	(35.4%)
<b>Total liabilities</b>	<b>744</b>	<b>951</b>	<b>(21.8%)</b>
<b>Shareholders' equity</b>	<b>3,727</b>	<b>3,701</b>	<b>0.7%</b>

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## Key Financial Ratios:

<b>Financial Ratios</b>			
<b><u>Liquidity Ratios</u></b>		30-Sep-14	31-Dec-13
Current Ratio	times	5.16	4.38
		9M 2014	9M 2013
Average Days Receivable	days	65	74
Average Days in Inventory	days	309	266
Average Days Payable	days	99	100
Cash Cycle	days	275	239
<b><u>Profitability Ratios</u></b>		9M 2014	9M 2013
Gross Profit Margin	%	54.4	57.3
- Clothing business	%	55.5	57.3
- Time Deco	%	46.2	
Net Profit Margin	%	20.8	26.2
- Clothing business	%	23.0	26.2
- Time Deco	%	9.4	
Return on Equity (Annualized)	%	18.5	32.2
<b><u>Efficiency Ratios</u></b>		9M 2014	9M 2013
Return on Assets (Annualized)	%	15.1	23.1
<b><u>Leverage Ratios</u></b>		30-Sep-14	31-Dec-13
Debt to Equity Ratio	times	0.20	0.26