



No. MM-SET 13/2018

November 12, 2018

Subject : Management Discussion and Analysis Quarterly Ending 30 September 2018

To : The President
The Stock Exchange of Thailand

Income Statement

Total Revenue

Mudman PCL and the subsidiaries (“MM” or the “Company”) earned THB 735 mm and THB 795 mm in 3Q/17 and 3Q/18 respectively, equaling to Y-o-Y growth of 8.1%. For the first 9-month period (Jan – Sep), the Company earned THB 2,192 mm and THB 2,417 mm in 9M/16 and 9M/17 respectively or growth of 10.2%. The key factor is mainly from revenue recognition of the new restaurants, Le Grand Vefour in Paris, France, Greyhound Café in London, England, Kin Hey by Greyhound, and Greyhound Coffee in Bangkok in previous periods.

Cost of Sales and Services

Cost of sales and services in 3Q/17 and 3Q/18 totaled THB 297 mm and THB 313 mm respectively, accounting for 40.4% and 39.4% of total revenue respectively. For the first 9-month period (Jan – Sep), the cost of sales and services recorded THB 865 mm and THB 1,014 mm or 39.5% and 41.9% of total revenues in 9M/16 and 9M/17 respectively. There is slightly different in such ratio, primarily from well-stabilized under the effective collaboration between purchasing department, logistics department, marketing department, and branch employees through the application of effective procurement and inventory management systems.

Selling and Administrative Expenses (S&A)

In 3Q/17 and 3Q/18, MM’s selling and administrative expenses amounted to THB 433 mm and THB 459 mm, respectively, accounting for 58.9% and 57.8% of total revenue, respectively. For the first 9-month period (Jan – Sep), the S&A reported THB 1,334 mm and THB 1,368 mm or 60.8% and 56.6% of total revenues in 9M/16 and 9M/17 respectively.

S&A Breakdown by Type

	<i>3-month period (Jul – Sep)</i>			<i>6-month period (Jan – Sep)</i>		
	3Q/17	3Q/18	Y-o-Y Change	9M/17	9M/18	Y-o-Y Change
Amortization of intangible assets from business acquisitions ⁽¹⁾	17	12	(29.4%)	50	36	(28.0%)
Other selling expenses ⁽²⁾	339	379	11.8%	1,041	1,142	9.7%
Administrative expenses ⁽³⁾	77	68	(11.7%)	243	190	(21.8%)
Total selling and administrative expenses	433	459	6.0%	1,334	1,368	7.0%

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Note

- (1) Non-cash items from business acquisitions are divided into amortization of Dunkin' Donut, Au Bon Pain, and Greyhound Café franchises totaling THB 6 mm, THB 2 mm, and THB 4 mm in 3Q18. The Company has reviewed the economic useful lives of certain franchises and considered changing the estimated economic useful lives of the franchises from 10 years to 20 years to reflect the current usage condition and the future economic benefits in 1Q/2018.
- (2) The Company incurred higher personnel cost, rental and service costs in 3Q/18 due to the performance recognition of Le Grand Vefour in Paris, France and Greyhound Café in London, England
- (3) Administrative expenses include remuneration of management and employees at office, administrative expenses, and other related costs. The decrease was primarily from intensive cost saving policy.

Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)

The Company recorded EBITDA of THB 64 mm and THB 77 mm in 3Q/17 and 3Q/18 respectively or %EBITDA of 8.7% and 9.6% of total revenues respectively.

For the first 9-month period (Jan – Sep), the Company recorded EBITDA of THB 176 mm and THB 199 mm or %EBITDA of 8.0% and 8.2% of total revenues in 9M/16 and 9M/17 respectively.

Finance Cost

In 3Q/17 and 3Q/18, the Company incurred finance cost amounting THB 5 mm and THB 9 mm respectively. The higher finance cost is primarily from the acquisition of Le Grand Vefour (Paris, France) in 4Q/17 with bank loan of approx. THB 338 mm.

In 9M/17 and 9M/18, the Company incurred finance cost amounting THB 27 mm and THB 24 mm respectively.

Net Profit (Loss)

In 3Q/17 and 3Q/18, the Company's net profit (loss) amounted to THB (3) mm and THB 13 mm, respectively. Net profit (loss) of the Company equaled to (0.4%) and 1.6% of total revenues respectively.

In 9M/17 and 9M/18, the Company's net profit (loss) amounted to THB (39) mm and THB 5 mm, respectively. Net profit (loss) of the Company equaled to (1.8%) and 0.2% of total revenues respectively.



Statement of Financial Position

Total Assets

As of 30 June and 30 September 2018, the Company's assets equaled THB 4,256 mm and THB 4,379 mm, respectively. Majority of assets is non-current assets. As of 2Q/18 and 3Q/18, the Company's non-current assets accounted for 90% of total assets, while the current assets accounted for 10% of total assets, respectively.

Total Assets	30 June 2018 (2Q/18)		30 September 2018 (3Q/18)	
	THB mm	THB mm	THB mm	%
Current assets	420	9.9	536	12.2
Non-current assets	3,836	90.1	3,843	87.8
Total assets	4,256	100.0	4,379	100.0

1. Current Assets

The Company's current assets totaled THB 420 mm and THB 536 mm at 2Q/18 and 3Q/18 accounting for 9.9% and 12.2% of total assets respectively. The Company recorded cash and cash equivalent of THB 115 mm and THB 224 mm in 2Q/18 and 3Q/18 respectively. Account receivables were THB 110 mm and 105 mm at 2Q/18 and 3Q/18. Inventories were THB 175 mm and THB 186 mm accounting for 4.1% and 4.3% of total assets at 2Q/18 and 3Q/18, respectively. The majority of inventories are finished products of Lifestyle business (i.e. apparel).

2. Non-Current Assets

As of 2Q/18 and 3Q/18, MM's non-current assets totaled THB 3,836 mm and THB 3,843 mm, accounting for 90.1% and 87.8% of total assets, respectively. The main item in non-current assets were building improvement and equipment, goodwill and intangible assets. Building improvement and equipment totaled THB 614 mm and THB 617 mm or 14.4% and 14.1% of total assets, respectively. Goodwill from business acquisition was stable at THB 2,140 mm at 2Q/18 and 3Q/18. Goodwill was comprised of goodwill from Donut business at THB 484 mm, goodwill from bakery business at THB 298 mm, and goodwill from restaurants at THB 1,358 mm based on the business acquisition of Greyhound group since 2014 and Le Grand Véfour in 4Q/17. At 2Q/18 and 3Q/18, other intangible assets amounted to THB 871 mm and THB 938 mm or 20.5% and 21.4% of total assets, respectively.

Total Liabilities

Total Liabilities	30 June 2018 (2Q/18)		30 September 2018 (3Q/18)	
	THB mm	THB mm	THB mm	%
Current Liabilities	974	66.5	749	47.5
Non-Current Liabilities	491	33.5	826	52.5
Total Liabilities	1,465	100.0	1,575	100.0



1. Current Liabilities

As of 2Q/18 and 3Q/18, the Company's current liabilities totaled THB 974 mm and THB 749 mm, respectively, accounting for 66.5% and 47.5% of total liabilities. As of 2Q/18 and 3Q/18, the Company had short-term loan from financial institution of THB 394 mm and THB 256 mm or 26.9% and 16.3% of total liabilities respectively. In 3Q/18, the Company issued long-term debentures and repaid some short-term borrowings from financial institutions in the same quarter.

2. Non-Current Liabilities

As of 2Q/18 and 3Q/18, non-current liabilities totaled THB 491 mm and THB 826 mm, representing 33.5% and 52.5% of total liabilities, respectively. Majority of non-current liabilities were long-term debt from financial institution in which long-term debt, net of current portion, equaled to THB 194 mm and THB 5 mm, respectively, accounting for 13.2% and 0.3% of total liabilities, respectively. However, in 3Q/18, the Company issued long-term debentures of THB 500 mm and repaid some short-term borrowings from financial institutions and some long-term borrowings in the same quarter.

Shareholders' Equity

As of 2Q/18 and 3Q/18, the Company's shareholders' equity stood at THB 2,791 mm and THB 2,804 mm respectively.

Management Outlook

The Company is a leading company in food & beverage and lifestyle business under its own brands (Greyhound Café, Another Hound Café, Greyhound Original, M-Kitchen, and Le Grand Vefour) and its exclusive franchisee in Thailand of global brands (Dunkin's Donuts, Au Bon Pain, and Baskin Robbins). In addition, MM is master franchisor of Greyhound Café in various cities/counties (i.e. Hong Kong, Shanghai, Beijing, Malaysia, Singapore, and Indonesia). In total, MM has more than 430 stores under strong and experienced management team. MM is promised to deliver the best-quality products, excellence services, and sustainable growth.

The Company has key strategies to create sustainable growth as followed

- **Continuing Innovation & Creativity:** The experienced team has been developing and innovating products and services to meet the rapid changes of consumers' behavior and needs. For example, strengthen "Value for Money" concepts, product innovation (i.e. festive menus, trendy menu such as durian donuts, ice-cram cake in various formats, and special menu for Mother's Day).
- **Store Expansion in Strategic Locations:** Since store expansion is a key factor to create sustainable growth, the Company has determined to continuously develop and expand stores of both owned- and franchised-brand in strategic locations to create sustainable growth and meet consumers' needs. In addition, the Company has the experienced team who understands the market situation and competition. Moreover, the Company has been strengthening good relationships with the existing landlords and at the same time developing new relationship with potential landlords.



- **International Growth:** The Company has determined and realized the opportunities in presenting unique Thai cuisine to the global market. Therefore, the Company has been aggressively expanded “Greyhound Café” to not only Asian market in which there are exceptional success, but also the first flagship store in Europe (London, England) in 4Q/17 to build the brand awareness of Greyhound Café in Europe. In addition, the Company has been granted the territory expansion of Au Bon Pain into CLMV countries (Cambodia, Laos, Myanmar, and Vietnam). The Company is on the study and partner selection process.
- **Competitive Advantages of Costs and Expenses:** The Company is aiming not only to establish sustainable revenue growth, but also to create competitive advantage of costs and expenses. The Company has been developing centralized unit in order to support each brand (owned and franchised brands) in the areas of accounting and finance, information technology, supply chain management, human resource, and etc. With the centralized support unit, each brand is able to concentrate on consumer and to efficiently control costs and expenses i.e. big order for all brands.
- **Inorganic Growth:** The Company not only focuses on the organic growth of the existing business, but also eyes on the optimal new business opportunities to create inorganic growth. In 4Q/17, MM acquired the ordinary shares of SLVH which operates food and beverage business under the trademark of Le Gand Vefour, a historic restaurant (since 1784) with more than 230 years of operation. SLVH has only one restaurant located in the area of The Palais Royal's Gardens in Paris, France with two Michelin stars.

Yours Sincerely

(Miss Hansa Sermsri)

Chief Finance Officer