



No. MM-SET 07/2017

November 10, 2017

Subject : Management Discussion and Analysis Quarterly Ending 30 September 2017

To : The President
The Stock Exchange of Thailand

Income Statement

Total Revenue

Mudman PCL and the subsidiaries (“MM” or the “Company”) earned THB 762 mm and THB 735 mm in 3Q/16 and 3Q/17 respectively, equaling to Y-o-Y growth of (3.6%). For the first 9-month period (Jan – Sep), the Company earned THB 2,237 mm and THB 2,192 mm in 9M/16 and 9M/17 respectively or growth of (2.0%). The key factors are the economic slowdown, especially retail sector which directly affects the consumers’ spending in food and beverage and lifestyle business.

Total Revenues Breakdown by Business

	<i>3-month period (Jul – Sep)</i>			<i>9-month period (Jan – Sep)</i>		
	3Q/16	3Q/17	Y-o-Y Change	9M/16	9M/17	Y-o-Y Change
Food & Beverage	717	696	(2.9%)	2,098	2,081	(0.8%)
Lifestyle	45	39	(13.3%)	139	111	(20.1%)
Total Revenues	762	735	(3.6%)	2,237	2,192	(2.0%)

Cost of Sales and Services

Cost of sales and services in 3Q/16 and 3Q/17 totaled THB 303 mm and THB 291 mm respectively, accounting for 39.7% and 39.6% of total revenue respectively. For the first 9-month period (Jan – Sep), the cost of sales and services recorded THB 880 mm and THB 857 mm or 39.3% and 39.1% of total revenues in 9M/16 and 9M/17 respectively. The better of %cost of sales and services in Q3/17 was 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/16 and 3Q/17, MM's selling and administrative expenses amounted to THB 451 mm and THB 439 mm, respectively, accounting for 59.1% and 59.7% of total revenue, respectively. For the first 9-month period (Jan – Sep), the S&A reported THB 1,332 mm and THB 1,342 mm or 59.5% and 61.2% of total revenues in 9M/16 and 9M/17 respectively.

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S&A Breakdown by Type

	3-month period (Jul – Sep)			9-month period (Jan – Sep)		
	3Q/16 ⁽¹⁾	3Q/17	Y-o-Y Change	9M/16 ⁽¹⁾	9M/17	Y-o-Y Change
Amortization of intangible assets from business acquisitions ⁽²⁾	18	17	(5.4%)	53	50	(5.6%)
Other selling expenses ⁽³⁾	352	339	(3.9%)	1,039	1,040	0.1%
Administrative expenses ⁽⁴⁾	80	83	3.3%	239	252	5.2%
Total selling and administrative expenses	451	439	(2.7%)	1,332	1,342	0.8%

Note

(1) Excluded the impairment loss of THB 155 mm in 3Q/16

(2) Non-cash items from business acquisitions are divided into amortization of Dunkin' Donut, Au Bon Pain, Greyhound Café franchises totaling THB 25 mm, THB 7 mm, and THB 29 mm every year, respectively. From 2016 onward, there is no more amortization of trademarks of Greyhound group in lifestyle business (THB 4 mm a year) because MM has recorded impairment loss of such assets in 3Q/16.

(3) The Company incurred lower personnel cost, rental and service costs in 3-month period (Jul – Sep) due to better cost control in opening new stores. However, the other selling expenses in 9-month period (Jan – Sep) incurred higher expenses because the cost control plan has been implemented in 2Q/17 onward.

(4) Administrative expenses include remuneration of management and employees at office, administrative expenses, and other related costs.

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

The Company recorded EBITDA of THB 68 mm and THB 64 mm in 3Q/16 and 3Q/17 respectively or %EBITDA of 8.9% and 8.7% of total revenues in 3Q/16 and 3Q/17 respectively.

For the first 9-month period (Jan – Sep), the Company recorded EBITDA of THB 197 mm and THB 176 mm or %EBITDA of 8.8% and 8.0% of total revenues in 9M/16 and 9M/17 respectively.

For comparison purpose of 3Q/16 vs 3Q/17 and 9M/16 vs 9M/17, the impairment loss of THB 155 mm in 3Q/16 has been excluded for such comparison. However, the EBITDA incorporated the impairment loss would be THB (87) mm and THB 42 mm in 3Q/16 and 9M/16 respectively.

Finance Cost

In 3Q/16 and 3Q/17, the Company incurred finance cost amounting THB 14 mm and THB 5 mm respectively. The lower finance cost is primarily due to the partial debt repayment after the initial public offering in Apr-17.

In 9M/16 and 9M/17, the Company incurred finance cost amounting THB 43 mm and THB 27 mm respectively.

Net Profit (Loss)

In 3Q/16 and 3Q/17, the Company's net profit (loss) amounted to THB (8) mm and THB (3) mm, respectively. Net profit (loss) of the Company equaled to (1.0%) and (0.4%) of total revenues respectively.

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In 9M/16 and 9M/17, the Company's net profit (loss) amounted to THB (27) mm and THB (39) mm, respectively. Net profit (loss) of the Company equaled to (1.2%) and (1.8%) of total revenues respectively.

For comparison purpose of 3Q/16 vs 3Q/17 and 9M/16 vs 9M/17, the impairment loss of THB 155 mm in 3Q/16 has been excluded for such comparison. However, the net profit (loss) incorporated the impairment loss would be THB (132) mm and THB (151) mm in 3Q/16 and 9M/16 respectively.

Statement of Financial Position

Total Assets

As of 30 June 2017 and 30 September 2017, the Company's assets equaled THB 3,872 mm and THB 3,855 mm, respectively. Majority of assets is non-current assets. As of 2Q/17 and 3Q/17, 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 2017 (2Q/17)		30 September 2017 (3Q/17)	
	THB mm	%	THB mm	%
Current assets	446	11.5	440	11.4
Non-current assets	3,426	88.5	3,415	88.6
Total assets	3,872	100.0	3,855	100.0

1. Current Assets

The Company's current assets totaled THB 446 mm and THB 440 mm at 2Q/17 and 3Q/17 accounting for 11.5% and 11.4% of total assets respectively. The Company recorded cash and cash equivalent of THB 180 mm and THB 177 mm in 2Q/17 and 3Q/17 respectively. Account receivables were THB 51 mm and THB 60 mm at 2Q/17 and 3Q/17, respectively. Inventories were THB 182 mm and THB 168 mm accounting for 4.7% and 4.3% of total assets at 2Q/17 and 3Q/17, respectively. The majority of inventories are finished products of Lifestyle business (i.e. apparel).

2. Non-Current Assets

As of 2Q/17 and 3Q/17, MM's non-current assets totaled THB 3,426 mm and THB 3,415 mm, accounting for 88.5% and 88.6% 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 493 mm and THB 493 mm or 12.7% and 12.8% of total assets, respectively. Goodwill from business acquisition was stable at THB 1,896 mm at 2Q/17 and 3Q/17. 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 1,114 mm based on the business acquisition of Greyhound group since 2014. At 2Q/17 and 3Q/17, intangible assets amounted to THB 850 mm and THB 836 mm or 22.0% and 21.7% of total assets, respectively.



Total Liabilities

Total Liabilities	30 June 2017 (2Q/17)		30 September 2017 (3Q/17)	
	THB mm	%	THB mm	%
Current Liabilities	478	46.5	498	49.8
Non-Current Liabilities	550	53.5	503	50.2
Total Liabilities	1,028	100.0	1,000	100.0

1. Current Liabilities

As of 2Q/16 and 3Q/17, the Company's current liabilities totaled THB 478 mm and THB 498 mm, respectively, accounting for 46.5% and 49.8% of total liabilities.

2. Non-Current Liabilities

As of 2Q/17 and 3Q/17, non-current liabilities totaled THB 550 mm and THB 503 mm, representing 53.5% and 50.2% 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 281 mm and THB 259 mm, respectively, accounting for 27.4% and 25.9% of total liabilities, respectively.

Shareholders' Equity

As of 2Q/17 and 3Q/17, the Company's shareholders' equity stood at THB 2,845 mm and THB 2,855 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, and M-Kitchen) 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, and Singapore). In total, MM has more than 400 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, Spiderman ice-cream cake, 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. 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, business development, 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.

Yours Sincerely

(Miss Hansa Sermsri)

Chief Finance Officer