

SELIC Corp Public Company Limited

Management Discussion and Analysis Q2/2019

Executive Summary

Q2/2019 proved to be a strong period for SELIC as the company continued to focus on its ongoing business growth alongside the transition process of PMC Group. SELIC delivered reported Revenue and Net profit at Baht 354.36 million and Baht 21.29 million consecutively.

- Total consolidated revenue for Q2/2019 was Baht 354.36 million, an increase of 127.2% YOY.
- Total Sales Revenue was Baht 349.18 million, an increase of 128.1% YOY (*From Consolidated Financial Statement Perspective*).
 - Adhesive business recognized sales revenue of Baht 179.84 million, an increase of 17.5% YOY.
 - Self-Adhesive label business recorded sales revenue of Baht 193.90 million, a decrease of 2.3% YOY.
- Gross Profit was at Baht 85.85 million, an increase of 139.6% YOY.
- Net Operating Profit at Baht 21.29 million, an increase of 392.3% YOY

Unit : Million Baht	Quarter 2 2019	Quarter 2 2018	YoY (%)
Total Revenue	354.36	155.94	127.2%
Revenue from Sales (Net)	349.18	153.10	128.1%
Gross Profit	85.85	35.84	139.6%
Net Profit	21.29	4.32	392.3%

Significant Events and Major Development

Following the company's strategy to grow through M&A, Selic successfully acquired PMC Label Materials Company Limited (PMCT) in Thailand and PMC Label Material Pte. Ltd. (PMCS) in Singapore in earlier January of this year. PMC is a manufacturer and distributor of self-adhesive and label products. This move has resulted in a major structural change for the company to include PMCT and PMCS as Selic' subsidiaries with the overall income generated by the two main business operations:

1) Adhesive Business

Operated by Selic Corp Public Company Limited. A manufacturer and distributor of industrial adhesive products, namely solvent based, hot melt and water based, for domestic and international markets.

2) Self-Adhesive Label Business

Operated by PMC Label Materials Company Limited in Thailand and PMC Label Material Pte. Limited (Singapore). A manufacturer and distributor of stickers and label products for industrial uses domestically and internationally.

In Q2/2019, the company continued its focus on growing existing adhesive business, improving product and process, as well as ensuring smooth operation of PMC Group and the synergy program which began to show positive results already. New standard operating procedure has been put in place and the scheme to improve the internal control system is underway. During Q2/2019, the company had successfully deployed ERP (Enterprise

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Resource Planning) system at PMC Label Material Pte. Ltd in Singapore, which allow for standardized accounting and internal control practice for the whole group.

Operational and Financial Summary

Consolidated Financial Statement

Unit : Million Baht	Quarter 2 2019	Quarter 1 2019	Quarter 2 2018	QoQ (%)	YoY (%)
Total Revenue	354.36	359.33	155.94	(1.4%)	127.2%
Revenue from Sales (Net)	349.18	357.41	153.10	(2.3%)	128.1%
Other Revenue	5.17	1.92	2.84	170.0%	82.2%
Cost of Sales	263.34	268.99	117.26	(2.1%)	124.6%
Gross Profit	85.85	88.42	35.84	(2.9%)	139.6%
EBITDA	50.36	51.29	10.08	(1.8%)	399.3%
Earning before financial cost and Tax	38.11	39.43	4.33	(3.4%)	779.4%
Financial Cost	10.77	10.39	0.05	3.6%	19541.2%
Tax Expense	6.05	5.12	(0.05)	18.3%	538.9%
Net Profit	21.29	23.92	4.32	(11.0%)	392.3%

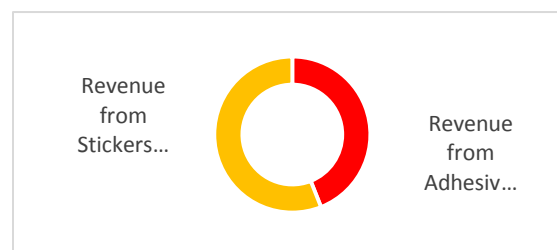
Revenue

The company reported revenue of Baht 354.36 million for Q2/2019, an increase of 127.2% when compared to Baht 155.94 million in Q2/2018. The acquisition of the PMC Label Materials Company Limited in Thailand and PMC Label Material Pte. Limited in Singapore, and the Sales growth of existing adhesive business accounted for much of the increase of the group's top line revenue, following the management's previous expectation.

Sales Revenue Structure

Revenue Structure for the group by business segments in this quarter consisted of 44% of the revenue from sales of adhesive and 56% from sales of self-adhesive labels.

Revenue Proportion after the elimination of related transaction.



Adhesive Business

Revenue from the adhesives business consists of revenues from domestic and international. The adhesive segment generated Baht 179.84 million in Q2/2019, an increase of Baht 26.74 million from the same quarter of previous year or an increase of 17.5%. The increase in sales revenue over this segment derived mainly from sales of water based and Hot-melt, whereas the sales revenue of solvent based products declined slightly. The growth in water based adhesive products was the direct result of the company's expanded customer base within the beverage market and sales of adhesives to PMC Label Materials Company Limited.

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Unit : Million Baht	Quarter 2 2019	Quarter1 2019	Quarter 2 2018	QoQ (%)	YoY (%)
Solvent Based	76.07	80.37	86.76	-5.4%	-12.3%
Hot Melt	61.03	56.72	50.92	7.6%	19.8%
Water Based	40.32	12.35	12.28	226.5%	228.4%
Other	2.42	2.35	3.13	2.9%	-22.7%
Total Adhesive Sales Revenue	179.84	151.80	153.10	18.5%	17.5%

Sales revenue of this segment improved both domestic and international when compared to the same period in previous year (YoY) and the same period in previous quarter (QoQ). Domestic sales for Q2/2019 was at Baht 114.14 million, an increase of 27.28% YoY and 21.3% QoQ. The international sales revenue also generated the compelling result at Baht 65.70 million, an increase of 3.59% YoY and 13.8% QoQ resulted in the overall growth in sales revenue of this segment.

Unit : Million Baht	Quarter 2 2019	Quarter 1 2019	Quarter 2 2018	QoQ (%)	YoY (%)
Domestic Sales Revenue	114.14	94.08	89.67	21.3%	27.28%
International Sales Revenue	65.70	57.71	63.42	13.8%	3.59%

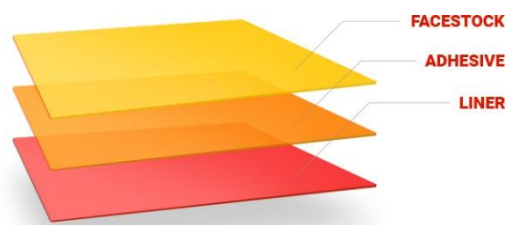
The effectiveness of company's cost control strategy continued and was evident in the past 2 quarters, as the company recognized its gross profit of Baht 39.90 million in Q2/2019, an increase of 11.3% YoY and an increase of 7.4% QoQ. Furthermore, the company had been focusing on effective control strategy of the administrative expense, resulted in the higher of EBITDA and Net Profit when compared to the same quarter of previous year. The company reported EBITDA of Baht 25.30 million, an increase of 150.8% and Net Profit of Baht 5.95 million, an increase of 37.5% YoY.

Net Profit dropped slightly at 9.8% QoQ was impacted partly from the increase provision of employee benefit from 300 days to 400 days following the 400 days legislation.

Unit : Million Baht	Quarter 2 2019	Quarter 1 2019	Quarter 2 2018	QoQ (%)	YoY (%)
Total Revenue	190.09	162.21	155.94	17.2%	21.9%
Sales Revenue (Net)	179.84	151.80	153.10	18.5%	17.5%
Other Revenue	10.25	10.41	2.84	-1.5%	261.2%
Cost of Sales	139.94	114.66	117.26	22.1%	19.3%
Gross Profit	39.90	37.14	35.84	7.4%	11.3%
EBITDA	25.30	24.49	10.08	3.3%	150.8%
Net Profit	5.95	6.59	4.32	-9.8%	37.5%

Self-Adhesive Label Business

Adhesive Labels (Stickers) or Pressure Sensitive consist 3 layers, facestock (the visible part of label for printing or graphics) adhesive (coated and cured onto the back side of the facestock) และ liner (this is the part of the label that is peeled off before use).



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Revenue from sales of Self-Adhesive and Label segment was at Baht 193.9 Million for the quarter, a decrease of 5.6% QoQ. The drop in Sales Revenue of the segment came mainly from the contraction of Domestic Sales and the slightly dip in International Sales Revenue. From the overall perspective, Domestic sales revenue contributed to 67% of the total sales revenue for the segment, as most of the major customers for the segment are printing houses. Revenue structure of this segment are as follows:

Unit : Million Baht	Quarter 2 2019	Quarter 1 2019	QoQ (%)	Income Proportion	
				Quarter 2 2019	%
Domestic Sales Revenue	129.21	139.88	-7.6%	129.21	67%
International Sales Revenue	64.69	65.75	-1.6%	64.69	33%

As the company was concentrating on business process re-engineering for existing operation in order to achieve the better future growth in self-adhesive business, the company spent most resources in developing the better internal control system, and improving accounting standard and policy through ERP system implementation. The company still expects to grow substantially in self-adhesive market, especially in Asia Pacific. Thanks to the change in consumer behavior and the expansion of online-shopping or e-commerce, the company still expects that the high demand in this sector will create positive advantages to the company and facilitate the future growth..

On growing the sales of 'specialty' products there was a slight delay for product trial test in Q2 and this had to be postponed to Q3.

Cost of Sales

Cost of sales was at Baht 263.34 million, an increase of 124.6% YOY, but slightly decrease of 2.1% QoQ. This decrease was proportion to the sales revenue within the period. Cost of sales percentage was at 75.42% of Sales Revenue, unchanged when compared to the previous quarter as a result from the economy of scale after the business acquisition and the company's ability to execute the cost control strategy effectively by continuing the fixed price policy, including the price negotiation with the major suppliers, and finding cheaper raw material replacement.

Selling and Administrative Expense

The selling expense was at Baht 8.57 million from the consolidated financial statement perspective, an increase of 82.3% YoY, proportionated to the significant increase in sales revenue top line. This quarter, the company reported the administrative expense of Baht 44.34 million, an increase of 49.6% YoY, and a slightly increase of 2.1% QoQ, as a result of the increment in provision expense of Employee benefit according to the 400 days employee benefit legislation.

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Financial cost

The main part for the Company's Financial Cost is the Long-Term Loan interest expense to one of the financial institutions. Financial cost increase substantially in 2019 from the acquisition loan, resulted in financial cost of Baht 10.77 million, a slightly increase of Baht 0.38 million from the previous quarter.

Profit

The company reported EBITDA for the period at Baht 50.36 million, an increase of 399.3% from the same period last year due to the better control over the company's expenditures. In short, the company generated Net Profit for Q2/2019 at Baht 21.29 million, an increase of 392.3% from the same quarter last year, and a slightly decline of 11% from previous quarter.

2019 Outlook

The adhesive and self-adhesive label markets are expected to experience a substantial growth in the future, especially in Asia Pacific which was expected to grow at the highest growth rate¹, which could be a good signal for future growth and expansion of the company.

In 2019, Selic will still focus on both adhesive and self-adhesive segments, by giving the priority in new market expansion for future growth, and expand existing markets through new product development strategy, as well as providing the exceptional customer service experience. Selic is still seeking the opportunity to grow its business through M&A and other type of Business integration, including Joint Venture or Partnership.

Nevertheless Selic is aware of the global economic situations that could bring challenging factors to the business namely trade war, unsteady foreign exchange rates, crude oil and raw material prices.

For adhesive business, the company is operating based on its strategic marketing plan, launching new quality products, focusing on quality control, responding to customer needs and building a long-term relationship with them. Selic management team will continue to see through all improvement of business process in the long run with sustainability and growth in mind for direction.

On the self-adhesive label business side, the company already implemented new ERP system and enhanced new accounting standard at PMC group after the acquisition earlier on in the year. The company will now be focusing on the improvement of business procedures and existing operations for stronger future growth.

The synergy plan has already begun to take place in Q2 in the form of activities such as selling water based adhesive from the glue business to the self-adhesive label business, merging all accounts of both companies and sub-company into one system, and organizing internal control systems. Further synergy related programs will gradually be rolled out during the rest of 2019 to ensure a smooth running for both companies including human resource development focusing on specific expertise and vocational skills, machinery and tools, and new distribution channels.

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The company expects to continuously maintain the current operating results, create and gain the benefits from the synergy, in order to maximize profit and future sustainability growth.

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(Chief Executive Officer)

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¹ Source: Markets and Markets Report

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