

SELIC Corp Public Company Limited
Management Discussion and Analysis Q3/2019



Executive Summary

Q3/2019 proved to be another successful period for SELIC as the company continued to grow and reach all time high revenue at Baht 368.99 million and profitability at Baht 27.01 million.

- Total consolidated revenue for Q3/2019 was Baht 368.99 million, an increase of 143.3% YOY.
- Total Sales Revenue was Baht 366.77 million, an increase of 143.2% YOY (*From Consolidated Financial Statement Perspective*).
 - Adhesive business recognized revenue of Baht 192.86 million, an increase of 27.6% YOY.
 - Self-Adhesive label business recorded revenue of Baht 220.35 million, an increase of 7.2% YOY.
- Gross Profit was at Baht 91.08 million, an increase of 163.3% YOY.
- EBITDA was at Baht 54.47, an increase of 810.7% YOY.
- Net Operating Profit at Baht 27.01 million, an increase of 71725.4% YOY

Unit : Million Baht	Quarter 3 2019	Quarter 3 2018	YoY (%)
Total Revenue	368.99	151.17	143.3%
Revenue from Sales (Net)	366.77	150.78	143.2%
Gross Profit	91.08	34.59	163.3%
EBITDA	54.47	5.98	810.7%
Net Profit	27.01	0.04	71725.4%

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 Q3/2019, The Company still focused on 2 majors operations, which were pushing for sales growth of its existing adhesive business, product and process improvement, as well as ensure smooth operation of PMC Group

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and the synergy program which began to show positive results already. During Q3/2019, The Company had been developing the new product line, improving and developing the staff knowledge in order to achieve sustained profitability growth, as well as performing an improvement for the stability of existing machinery. In addition, the company had adjusted its sales and marketing strategies in order to expand the customer base, as well as improve the internal control system for the company and its subsidiary.

Operational and Financial Summary

Consolidated Financial Statement

Unit : Million Baht	Quarter 3 2019	Quarter 2 2019	Quarter 3 2018	QoQ (%)	YoY (%)
Total Revenue	368.99	354.36	151.17	4.1%	144.1%
Revenue from Sales (Net)	366.77	349.18	150.78	5.0%	143.2%
Other Revenue	2.23	5.17	0.39	(56.9%)	466.7%
Cost of Sales	275.69	263.34	116.19	4.7%	137.3%
Gross Profit	91.08	85.85	34.59	6.1%	163.3%
EBITDA	54.47	50.36	5.98	8.2%	810.7%
Earning before financial cost and Tax	41.74	38.11	0.25	9.5%	779.4%
Financial Cost	10.52	10.77	0.04	(2.3%)	16620.7%
Tax Expense	4.21	6.05	0.18	(30.4%)	2300.3%
Net Profit	27.01	21.29	0.04	26.9%	71725.4%

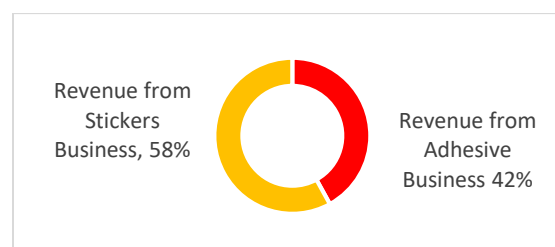
Revenue

The company reported sales revenue of Baht 366.77 million for Q3/2019, an increase of 143.2% when compared to Baht 150.78 million in Q3/2018. 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 and stickers accounted for much of the increase of the group's top line sales revenue.

Sales Revenue Structure

Revenue Structure for the group by business segments in this quarter consisted of 42% of the revenue from sales of adhesive and 58% from sales of self-adhesive labels.

Revenue Proportion after the elimination of related transaction.



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Adhesive Business

Revenue from the adhesives business consists of revenues from domestic and international. The adhesive segment generated Baht 182.54 million in Q3/2019, an increase of Baht 31 million from the same quarter of previous year or an increase of 21.1%. 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 continued to decline as previous expectation due to the declining demand from leather industry. The Revenue from Solvent based adhesive was at Baht 72.07 million in Q3/2019, a decrease of 5.6% YOY, as the management expected the declining in this product category, the company had mitigate the effect of this situation by striving to get the replacement market, in order to compensate the bottom line.

Unit : Million Baht	Quarter 3 2019	Quarter 2 2019	Quarter 3 2018	QoQ (%)	YoY (%)
Solvent Based	72.07	76.07	76.39	-5.3%	-5.6%
Hot Melt	63.58	61.03	56.34	4.2%	12.9%
Water Based	44.46	40.32	14.24	10.3%	212.2%
Other	2.43	2.42	3.82	0.2%	-36.4%
Total Adhesive Sales Revenue	182.54	179.84	150.78	1.5%	21.1%

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 Q3/2019 was at Baht 117.48 million, an increase of 33.4% YoY and 2.9% QoQ. The international sales revenue also generated the compelling result at Baht 65.06 million, an increase of 3.74% YoY, but slightly declined in term of QoQ due to the continuously strengthened of Thai Baht against other major currency; however, the company was able to reach the revenue growth overall.

Unit : Million Baht	Quarter 3 2019	Quarter 2 2019	Quarter 3 2018	QoQ (%)	YoY (%)
Domestic Sales Revenue	117.48	114.14	88.06	2.9%	33.4%
International Sales Revenue	65.06	65.70	62.72	-1%	3.74%

The effectiveness of company's cost control strategy continued and was evident in the past 9 months, as the company recognized its gross profit of Baht 40.93 million in Q3/2019, an increase of 18.3% YoY and an increase of 2.6% 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 27.30 million, an increase of 356.5% and Net Profit of Baht 10.41 million, an increase of 27,582.3% YoY, and 75.1% QoQ.

Unit : Million Baht	Quarter 3 2019	Quarter 2 2019	Quarter 3 2018	QoQ (%)	YoY (%)
Total Revenue	192.86	190.09	151.17	1.5%	27.6%
Sales Revenue (Net)	182.54	179.84	150.78	1.5%	21.1%
Other Revenue	10.32	10.25	0.39	0.6%	2524.2%
Cost of Sales	141.62	139.94	116.19	1.2%	21.9%
Gross Profit	40.93	39.90	34.59	2.6%	18.3%
EBITDA	27.3	25.30	5.98	7.9%	356.5%
Net Profit	10.41	5.95	0.04	75.1%	27582.3%



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).



Revenue from sales of Self-Adhesive and Label segment was at Baht 211.59 Million for the quarter, an increase of 9.1% QoQ. The increase in Sales Revenue of the segment came mainly from Domestic sales. From the overall perspective, Domestic sales revenue contributed to 69% 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				Income Proportion	
	Quarter 3 2019	Quarter 2 2019	QoQ (%)	Quarter 3 2019	%
Domestic Sales Revenue	145.26	129.21	12%	145.26	69%
International Sales Revenue	66.33	64.69	2.5%	66.33	31%
Total	211.59	193.90	9.1%	211.59	100%

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, the company has finished the trial process and is now in the process of actual production testing. The company is evaluating the test result and will be preparing to launch the product in the near future.

Cost of Sales

Cost of sales was at Baht 275.69 million, an increase of 137.3% YOY and 4.7% QoQ. The increment was proportion to the sales revenue within the period. Cost of sales percentage was at 75.17% of Sales Revenue, a slightly decrease of 0.3% 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 and stabilize 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 8.98 million from the consolidated financial statement perspective, an increase of 188.2% YoY, proportionated to the significant increase in sales revenue top line. This quarter, the company reported the administrative expense of Baht 42.59 million, an increase of 34.7% YoY, and a slightly decrease of 4% QoQ.

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 10.52 million for the quarter, a slightly decrease of 2.3% from previous quarter.

Profit

The company reported EBITDA for the period at Baht 54.47 million, an increase of 810.7% from the same period last year due to the better control over the company's expenditures. In short, the company generated Net Profit for Q3/2019 at Baht 27.01 million, an increase of 71725.4% from the same quarter last year, and an increase of 26.9% from the 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.

For the remaining of the year, the company is operating based on its strategic plan for both Adhesive and self-adhesive label business in order to achieve the sustainability growth as planned.

The synergy plan has already begun to take place and started to see the result from Q2 and Q3 of 2019, the company expected the synergy plan to continue to take place throughout the year. 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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As for the global economic situations that could bring challenging factors to the business namely trade war, unsteady foreign exchange rates, the management team is well aware of the situation and is following up the situation closely in order to maintain its highest profitability growth.

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)

SELIC Corp Public Company Limited

¹ Source: Markets and Markets Report

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