



Always Thinking Beyond  
ซึ่ลึคคิต เพื่่ออนาคต เพื่่อคุณ

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## Management's Discussion and Analysis

**For the 3<sup>rd</sup> Quarter Ended September 30<sup>th</sup>, 2018**

November 14<sup>th</sup>, 2018

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## Executive Summary

### Sales Revenue

Q3/2018's sales revenue has softened resulted in slight decline comparing to the previous quarter (-1.5%) and same quarter last year (-1.6%).

Considering the first 9 months, performance in terms of revenue slightly increases compare to last year at 3.1% growth in 9M, 2018 vs 9M, 2017.

### Margin and EBITDA

Drop of gross profit is observed due to higher raw material costs which drive the higher cost of good solds in Q3/2018.

EBITDA and net profit has been impacted directly from the company's acquisition plan. There has been expenses relating to the acquisition recognized in this quarter.

### Acquisition of PMC group

Aligned with the company business growth strategy through M&A (merging & acquisition), the target company considered a potential synergy factor to accelerate growth and business expansion. The project has been studied, assessed and in the process of necessary due diligences to ensure the perfect fit and fulfil the company's growth direction.

The acquisition of PMC group will provide huge synergy and expansion ability that will benefit directly to SELIC both in terms of business expansion and operation synergy.

PMC group is a manufacturer of sticker or self-adhesive labels supplying to printing houses where they then make finished stickers for their customers. Major industries PMC are currently offering relating to consumer products e.g. household products, food and beverage, security and specialty products for security segment etc.

The acquisition will create key benefits for the company in the following areas :

- Support market expansion of the company in penetrating to larger coverage of market through labelling sector
- Create new distribution channel for PMC group in distributing stickers and label products.
- Opportunity to increase utilization rate of production of water-based and hot melt adhesive as adhesive is the key raw materials for sticker production of PMC group.
- Strategic location for the company to establish regional hub for supporting market penetration to multi-national companies.
- Opportunity in developing new products both adhesive products and sticker products. This will create synergies in terms of knowledge and expertise sharing between the company and PMC and to increase the efficiency of raw materials sourcing.





## Summary of Consolidated Operating performance

Unit : Million Baht	Q3/2018	Q2/2018	Q3/2017	%QoQ	%YoY
Sales - Net	150.78	153.10	153.29	(1.5%)	(1.6%)
Other income	0.39	2.84	0.06	(86.1%)	560.1%
<b>Total Revenue</b>	<b>151.17</b>	<b>155.94</b>	<b>153.35</b>	<b>(3.1%)</b>	<b>(1.4%)</b>
Cost of Sales	116.19	117.26	114.40	(0.9%)	1.6%
<b>Gross Profit (Excluding Other Revenue)</b>	<b>34.59</b>	<b>35.84</b>	<b>38.90</b>	<b>(3.5%)</b>	<b>(11.1%)</b>
Selling Expenses	3.12	4.70	4.34	(33.7%)	(28.2%)
Administrative Expenses	31.62	29.64	30.78	6.7%	2.7%
<b>EBITDA</b>	<b>5.98</b>	<b>10.08</b>	<b>9.86</b>	<b>(40.7%)</b>	<b>(39.3%)</b>
Depreciation	5.73	5.75	6.02	(0.3%)	(4.9%)
EBIT	0.25	4.33	3.84	(94.2%)	(93.5%)
Financial Cost	0.04	0.05	0.06	(33.2%)	(37.3%)
EBT	0.21	4.28	3.78	(95.0%)	(94.4%)
Tax	0.18	(0.05)	0.82	(482.4%)	(78.6%)
<b>Net Profit for the Year</b>	<b>0.04</b>	<b>4.32</b>	<b>2.96</b>	<b>(99.1%)</b>	<b>(98.7%)</b>
Other Comprehensive Income	-	-	-	0.0%	0.0%
<b>Total Comprehensive Income for the Year</b>	<b>0.04</b>	<b>4.32</b>	<b>2.96</b>	<b>(99.1%)</b>	<b>(98.7%)</b>

### Sales Revenue

For the period of 9M, total revenue is 450.13 million Baht, increases by 3.1% compared to last year at the same period. However, sales revenue of Q3/2018 recognized at 150.78 million Baht which is lower than previous quarter by 1.5% at 153.10 million Baht.

Unit : Million Baht	For the 9 month			
	9M-2018	9M-2017	change	(+/-)%
Sales - Net	446.20	434.32	11.88	2.7%
Other income	3.93	2.39	1.54	64.6%
<b>Total Revenue</b>	<b>450.13</b>	<b>436.71</b>	<b>13.42</b>	<b>3.1%</b>

Unit : Million Baht	Q3/2018	Q2/2018	Q3/2017	%QoQ	%YoY
Sales - Net	150.78	153.10	153.29	(1.5%)	(1.6%)
Other income	0.39	2.84	0.06	(86.1%)	560.1%
<b>Total Revenue</b>	<b>151.17</b>	<b>155.94</b>	<b>153.35</b>	<b>(3.1%)</b>	<b>(1.4%)</b>

Domestic Sales revenue softened QoQ, but remained strong for YoY as the domestic sales revenues of Q3/2018 and Q3/2017 were Baht 88.06 million and Baht 85.16 million, respectively. A decrease of 1.8% QoQ but an increase of 3.4% YoY.

The slowdown of sales revenue in this quarter contributed by both local and export markets. Domestic sales has been impacted by the low season of beverage especially in alcohol segments due to the approximately 3-month long (July 28-October 24) of Buddhist Lent as well as the slowdown of other beverage products such as ready to drink and energy drink which impacted by the trend of wellness and sugar tax.

Consolidated Sales Revenue by Type	Q3/2018	Q2/2018	Q3/2017	%QoQ	%YoY
Domestic Sales	88.06	89.67	85.16	(1.8%)	3.4%
International Sales	62.72	63.42	68.14	(1.1%)	(8.0%)





The decrease of international sales has been caused by the political uncertainty in Africa and Pakistan in which the risk of payment inability became higher therefore, the slowdown in sales in the region. On the otherhand, sales revenue report strong in Australia.

Sales by product proportion has been as planned to increase in the hotmelt and waterbased groups and these 2 product groups have shown strong growth over time. Solvent based product group, on the contrary has dropped aligned with global adhesive forecast plus the impact from the drop of sales of the company in the 2 regions mentioned above.

Sales Revenue by Product Group	Q3/2018	Q2/2018	%QoQ	Q3/2017	%YoY
Solvent	76.39	86.76	(12.0%)	87.17	(12.4%)
Hotmelt	56.34	50.92	10.6%	52.75	6.8%
Water Based	14.24	12.28	16.0%	10.60	34.4%
Other	3.82	3.13	21.9%	2.79	37.1%

### Cost of Goods Sold and Gross Profit

Q3/2018, the company's reported Cost of Sales as percentage of Sales Revenue (excluding other revenue) at 77.06% compared to 76.59% in Q2/2018 which is higher by 0.9%. The increase of the COGs mainly driven by higher raw material costs resulted from the higher global oil price and petrochemical related products occurred in this period. Amidst the rise of the raw material cost, the company is well aware of the situation and that we managed to secure fixed price contracts with major suppliers to minimise the risk of unexpected raw material price rise.

The slightly higher COG has impacted the company's gross profit in this quarter causing the drop of %GP at 3.5%.

Unit : Million Baht	Q3/2018	%	Q2/2018	%	%QoQ	Q3/2017	%	%YoY
Cost of Sales	116.19	77.06%	117.26	76.59%	(0.9%)	114.40	74.63%	1.6%
Gross Profit (Excluding Other Revenue)	34.59	22.94%	35.84	23.41%	(3.5%)	38.90	25.37%	(11.1%)

### Selling expenses and Administrative expenses

Selling expenses totalled at Baht 3.12 million, a decrease of 33.7% QoQ and a decrease of 28.2% YoY. The decrease of such expense coincided with sales revenue.

Administrative expenses increased 6.7% QoQ and 2.7% YoY as the company reported such expense at Baht 31.62 million in Q3/2018. Main driver of the increase of the expense came from the expenses relating to acquisition of PMC group. This expense is non-recurring transaction cost (one off expense) and essential in order for the company to make informed decision prior to enter into binding offer. These transaction expenses comprise of, but not limited to, the legal and financial advisory cost, due diligence cost, and internal audit cost.

Unit : Million Baht	Q3/2018	Q2/2018	Q3/2017	%QoQ	%YoY
Selling Expenses	3.12	4.70	4.34	(33.7%)	(28.2%)
Administrative Expenses	31.62	29.64	30.78	6.7%	2.7%

### Outlook and strategy for the remaining of the year.

The company is well aware of the rise in cost of sales and there were few areas relating to manage to maintain the cost. One of those as already mentioned is that we managed to get the fixed



contract from major suppliers, however, the company is in the process of continuous projects to manage this better.

Market strategy remains the same for this year mainly to focus on expansion in new industry sectors as well as new territory to drive growth. The company continues to focus product improvement and development of hotmelt and water based to support this growth strategy.

Lastly, merger and acquisition as part of the company direction is in process and be part of the direction for the remaining of the year.

The synergies between Selic and PMC are expected to start from January 2019 after closing of the transaction.

#### **Synergies of PMC group and Selic, the advantages of the acquisition**

The acquisition will create key benefits for the company in the following areas :

- Support market expansion of the company in penetrating to larger coverage of market through labelling sector as well as expansion of distribution channel for PMC groups in distributing stickers and label products. Therefore, this can support the company to expand the existing label market from 'glue-applied label' to 'self-adhesive label' that implies the expansion of market and customer base in both domestic and international markets.
- Opportunity to increase utilization rate of production of water-based and hot melt adhesive as adhesive is the key raw materials for sticker production of the Target Companies.
- Currently the company offers its products and services directly to the end customers which are manufacturers in various sectors. Hence, the company can support PMC in order to expand their distribution channel to penetrate directly to end customers as well as to build relationship and get requirement directly from the potential customers.
- With the office in Singapore which is consider a strategic location for many multi-national companies, can benefit the distribution channel that can offer services to those multi-national companies in order to expand the company to be regional hub of international market.
- Opportunity in developing new products both adhesive products and sticker products. This will create synergies in terms of knowledge and expertise sharing between the company and PMC. This can be expected to development of adhesive for new type of sticker and label that can be offered as new products to serve the customers' needs including increase the efficiency of raw materials sourcing.

Strong financial performance of PMC group will immediately add on after the acquisition. 2017 financial statement indicates that PMC group had 850.47 million Baht on total income, with 223.22 million Baht gross profit and 138.24 million Baht EBITDA. The projected consolidated total income post transaction could be up to 1,400 million Baht.

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(Chief Executive Officer)

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