

# Management Discussion and Analysis

## For the Third Quarter 2015

### Executive Summary

GMM Grammy has taken the lead in media and total entertainment business with continuous development for future growth and sustainable returns to its shareholders. At the same time, it is always committed to its responsibilities to all stakeholders.

As a result of Thai economic recession and low consumer consumption provided adversely effect on advertising industry, those created challenging situation for GMM Grammy. In addition, the digital TV industry became tougher due to high numbers of players. In 3Q15, the Company realized the slowdown of revenue from media and satellite platform has caused total operating revenue to drop by 13.1% Y-o-Y. Though the economic condition was not favorable, the Company strived to achieve its bottom line results by emphasizing on cost control program, which led to the decrease of selling and administration expenses by 16.3% Y-o-Y. While Music, especially digital music, and home shopping business have continuously produced significant growth with more than 790k customer base. Altogether and without any extraordinary items, the

Company posted a net loss for 3Q15 at THB 119 million.

The convenience and ease of use, at affordable price for smart devices, coupled with wide coverage internet networks have provided significant growth in digital streaming and pay on demand viewing. The Company has focused on growing its digital music business, as evident from strategic partnering with YouTube through “GMM Grammy Official” since last year and still remained as No.1 ranked of YouTube (Thailand). Besides, the Company joined iTunes Music Store with considerable number of download activities. The Company’s success in digital media was overwhelming as proven by significant amount of albums booking for “Cocktail” and “25 Hours” Band in iTunes Music Store. Another sample of success in digital media was the Top 5 Download ranked for 7 consecutive months of the single “Please” by “Atom” and “Leave Me Behind” by “Potato” also made a new record being the fastest song achieving top download in iTunes Music Store, and reaching 100 million views in YouTube (Thailand). Recently, GMM Grammy together with LINE Music started providing music streaming application on

mobile phones by utilizing its massive song library over 50,000 records targeting to reach out 33 million LINE application users in Thailand. This was a part of the Company’s strategies to expand its online streaming customer.

Given the roll-out of government economic stimulus package recently, the Company expected that 2016 media industry will gradually rebound from several mega project investments hopefully uplifting consumer confidence and advertising spending. Both GMM digital TV channels mainly focused on development of drama, series, sitcoms and variety contents, which are the most preferred attractions. Both channels were among top of the chart with blockbuster dramas: “Ban Lang Mek”, “Tawan Tad Burapa”, Club Friday the Series”, and “Ugly Duckling”. Indeed, the Company geared towards tapping mass market through its new program, “Suk Wan Duan Pleng” showcasing a folk song contest, which gained high popularity at the moment, all synchronizing well as part of digital TV roadmap to cover nationwide audiences. Though the transition of TV platform from analog to digital was quite delayed and not in favor of operators, DTT business still

having high growth potential with positive trend. Going forward, digital TV together with total music business will be the key revenue generator for the Company and lay a solid foundation for future growth and sustainable returns.

After the organization restructuring with core business streamlining to achieve a

corporate goal towards being the leader in “Total Media Marketing Solutions” across all platforms, it was a great honor of the Company to receive “Excellent” or “Five Star” marked from Thai Institute of Directors (IOD), over fifth consecutive years for the 2015 Corporate Governance (CG) Appraisal. Moreover the

Company appraisal score was also ranked Top Quartile among listed company having market capitalization above 10 billion Baht out of the total of 588 listed companies.

The Company financial status remained healthy and strong, the interest-bearing debt to equity improved significantly to 0.57 by the end of 3Q15.

### 3Q15 Operating Results

unit: THB thousand	3Q15	3Q14 (Restated)	Change (%)
Total operating revenues	2,019,355	2,323,191	-13.1
Other revenues	44,070	96,731	-54.4
<b>Total Revenues</b>	<b>2,063,425</b>	<b>2,419,922</b>	<b>-14.7</b>
Cost of sales and services	1,274,703	1,610,341	-20.8
Selling expenses	156,585	177,794	-11.9
Administrative expenses	602,361	728,897	-17.4
<b>Total expenses</b>	<b>2,033,649</b>	<b>2,517,032</b>	<b>-19.2</b>
Profit/(Loss) before share of income from investments in associates, finance cost, and corporate income tax	29,776	(97,110)	-130.7
Share of income from investments in associates	8,890	12,918	-31.2
Share of income from investments in joint ventures	(111,569)	923	-12,187.6
Profit/(Loss) before finance cost and corporate income tax	(72,903)	(83,269)	-12.4
Finance cost	(29,520)	(90,959)	-67.5
Profit/(Loss) before corporate income tax	(102,423)	(174,228)	-41.2
Corporate income tax	(928)	35,822	-102.6
Profit/(Loss) for the period	(103,351)	(138,406)	-25.3
Profit/(Loss) attributable to non-controlling interests of the subsidiaries	15,869	25,604	-38.0
<b>Profit/(Loss) attributable to equity holders of the Company</b>	<b>(119,220)</b>	<b>(164,010)</b>	<b>-27.3</b>

#### Financial Ratios

Gross profit margin (%)	36.9	30.7
SG&A to revenues (%)	36.8	37.5
Net profit margin (%)	(5.8)	(6.8)

In 3Q15, sales of goods and services and copyrights (Operating revenues) equal to THB 2,019 million, decreased by 13.1% Y-o-Y from the slowdown in media business both TV and radio broadcasting, together with a significant drop in satellite platform. From now on, the performance of each segment will be categorized based on corporate administration structure.

In addition, based on the changes in ONE shareholding structure together with accounting principles used in considering whether control exists for the Company over investees, the management determined that the Company had joint control over "The One Enterprise Company Limited" (Formerly named "GMM One TV Trading") Thus, the Company classifies this shareholding as an investment in joint venture and start to account for by using the equity method, therefore, the consolidated financial statements in this quarter has excluded financials of One Digital TV.

Operating results from each business segment can be summarized as follows.

### Core businesses

**Music business** comprises sale of physical products, collection of copyright/ licensing fees, showbiz, and free-to-air satellite under Fan TV channel; total revenue of 3Q15 was THB 645 million, increased by 5.7% from last year. Revenue from this

business represented 32% of total operating revenues, increasing from 26% last year.

Underlying the growth of music group this quarter was fuelled by digital music marketing, while showbiz performance, though maintained the same level as last year, somewhat slowdown after the blast happened at Ratchaprasong intersection. Whereas copyrights revenue trended upward with music rights becoming increasingly used in popular TV singing contest for many digital TV programs and music also forms an essential part of most entertainment platforms

**Digital TV Channel ONE business** mainly comprising ONE digital TV channel, production/sales/marketing units who support ONE channel including Exact and Acts Studio. The Company reported 3Q15 revenue of THB 174 million, excluding financial statement of The One Enterprise, representing a drop by 46%Y-o-Y as a result of migrating most TV programs from analog channel to own digital TV channel.

Since ONE channel excelled in drama content which was typically a high production cost format, and the channel frequently launched new programs to excite the audience, altogether led to net operating loss during the startup period as advertising revenue slowly pick-up. Nevertheless these killer contents on hand proven to have commercial value over the long run to attract the mass audience.

So far ONE channel stood from the crowd with positive rating development and well-known for its high quality formats. Following the success in prime-time dramas and series, ONE channel stepped forward in Quarter 4 to expand the drama airtime over weekend starting with "Thor Fan Kap Mawin" and Phooying Khonnan Chue Boonrot" coupled with top-rated sitcoms "Heng Heng Heng", "Phu Kong Chao Sanae", "Baan Nee Mee Rak", "Mue Prab Kook KooK Koo" and continued with series "Room Alone 2" following "Room Alone 401-410", "Magic Lord Teacher" as well as creative variety programs "Hangover Thailand", "One Dream One Day", "Around Campus by S.U.N. Report", "Wi-Fi Society", and reality show "Thai Hero Season 3: National Football League". All servings fully packed with maximum entertainment under slogan "Yours ONE, All day, Everyday"

**Digital TV Channel GMM 25 business** comprising GMM25 digital TV channel, Radio business, Free analog television business and Free to Air satellite channel under Bang Channel. In 3Q15, revenue totaled THB 409 million, increasing by 2.3% from the same period last year due to the rise of digital TV business's revenue while the revenue of radio and Atime showbiz businesses decreased by 12% from the same period of last year. However, comparing to last quarter, the revenue from radio and Atime showbiz increased by 8.4% from concerts

i.e. “Big Heroes” and “the Lost Love Songs”

GMM 25’s target viewers clearly are new generations who have open-minded and creative lifestyle. Therefore, media agencies can directly reach their target through advertising in GMM25 channel with highlighted contents that continuously gained popularity, starting from “Club Friday the Series” to the first drama “I wanna be Sup’tar” which not only popular in Thailand, but also in China with approximately 190 million views. The Company plans to distribute this drama to other countries as well. GMM 25 strengthens its slogan “Entertaining Drama & Great Fun premiered at 8 pm” by launching new project i.e. “Love Song Love Stories” the series which based on all-time favorite love songs of famous song writer. The channel believes that this series will offer the new concept to excite the market and enhance viewer experience.

Continuous transition to multiscreen behavior is not only the challenge for the channel, but also the opportunity to expand to online streaming that can increase customers’ base. TV producers have to adapt themselves to meet customers’ behaviors. As such, GMM 25 cooperates with LINE TV who has similar target viewers by broadcasting popular GMM 25’s contents such as “Hormones the series season 3” the series “Ugly Duckling” “Club Friday the Series Season 6” and “Torfun &

Marvin” on LINE TV shortly after the first run. The Company is planning to co-produce the series and exclusively broadcasts on LINE TV. The Company believes that this strategy can create more copyright revenue, broaden viewers’ base to on-line viewers coupled with being the marketing tools. In case the contents received well feedback e.g. number of views touches 100 million, it will further attract TV advertising spending from product owners and media agencies onto DTT platform.

### Other Businesses

**Merchandise Business** includes Home Shopping and Satellite box business. Home Shopping business reported 3Q15 revenue of THB 451 million, increasing 48% Y-o-Y. The success factors are products, services i.e. free delivery and payment methods, and broadcasting channels. Strategies for this year focus on sourcing variety of products which have high growth potential e.g. fashionable, e-commerce, and lifestyle products together with increasing number of products from 600 items to 1,000 items. In addition, the Company proactively introduces the brand to build wider awareness, for example, the “Show Host” reality show on GMM 25 channel, being advertised on several media platforms all over the country and improving the broadcast on HDTV system for more customers’ satisfaction. Regarding the selling channels, after introducing on-line

shopping channels since mid-last year i.e. Oshoppingtv.com website and application on smartphone both iOS and android systems, sales growth was risen significantly in a short period of time. Customers will be assured that full range of products will be served with high security payment methods.

Satellite box business recognized revenue of THB 102 million, declining 74% from previous year, due mainly to the economic slowdown along with decreased consumption and purchasing power. In an attempt to stimulate sales, the Company launched series of promotion following the new product lines “Mini Gold” with gold prize, together with big regional event “Z super Mechanic Fin Fun Fair” across 4 provinces – Bangkok, Hadyai, Chiangmai, Khonkaen with parades of high prizes lucky draw campaign. Furthermore, the Company joined hands with Tesco Lotus presented “Exclusive Trip Around the World 2” giveaway Prague-Berlin tour package along with tons of special prize including tablet, payTV trial voucher; and closed out festive season with another co-promotion “Big Shoppers Farewell Year end” for Tesco Lotus customers to win iPhone 6S. All of which was aimed for driving further growth in platform base with high quality product and customer satisfaction guaranteed.

**Movie Business** the Company recorded the revenue of THB 187

million, decreased 2% Y-o-Y with new movie "Freelance, Leave, Rest, Love Not Allowed" generated box office revenue by THB 88 million together with substantial copyrights revenue in ASEAN market. Movie business accounted for 9% of total operating revenue, slightly higher from previous year.

Overall film industry grew at a slower pace this year due partly to political unrest, economic recession and strong competition from Hollywood blockbusters, caused most production house to delay investment or trim down the budget, resulted in fewer number of new film releases. Over the next quarter, GTH prepared to premiere new teen movie "May Who?" directed by famous producer "Chayanop Boonprakob" whose past achievement in "SuckSeed" was very popular. The new film "May Who?" featured Japanese comic story telling format with fantasy character and animation technique scene offering refresh motion to enhance youth sensation.

**Other business** In 3Q15, revenue amounted to THB 52 million, represented 2.6% of total operating revenue.

**Cost of sales and services** in 3Q15 was THB 1,275 million, decreased by 21% Y-o-Y and representing 63% of total operating revenues, down from 69% in the same period last year. Businesses which reported cost decrease were music group with stringent cost control along with online music marketing strategy

led to a significant improvement in profitability, while movie business also incurred less production cost for Indy film format premiered this quarter and satellite box business cost decreased in line with lower sales. However, cost of sales and services of DTT business increased from MUX expense, and Home Shopping costs rose in line with revenue growth.

**Gross profit** for 3Q15 was THB 745 million, increased by 4.5% from previous year. It represented 37% of total revenue, up from 31% from the same period of last year due mainly to cost efficiency program for core business and tighten cost of sales and services in home shopping while sales continued to grow.

**SG&A expenses** in 3Q15 amounted to THB 759 million, representing 36.8% of total revenue which dropped Q-o-Q at 37.8%, as well as Y-o-Y at 37.5% mainly from improved sales and cost performance in Music and Home Shopping.

**Net loss** in this quarter amounted to THB 119 million, improved by 27% from the same period of last year from a strong recovery of Music business together with Home shopping reached the breakeven point, while net loss mainly attributed from Digital TV business.

**Total Assets** as of 30 Sept 2015 was THB 9,776 million, decreasing by 35% from the end of 2014 due to debt repayment, redemption of current

investment, sales of long term investment in SE-ED shares, disposal of investment in publishing, Index Creative Village, K-Arena, lower receivables and inventories, installment of the 2<sup>nd</sup> year Digital TV license fee, together with the shareholding arrangement in ONE channel. Moreover, the investments in joint ventures increased from additional investment in 3,060,000 ordinary shares of The One Enterprise Company Limited, at a price of THB 100 per share (fully paid-up) totaling THB 306 million.

**Total Liabilities** Interest-bearing debt at the end of 3Q15 was THB 2,100 million, declined from THB 4,319 million at the end of 2014 from repayment of loans from banks and the decrease of liabilities from Digital TV spectrum licenses after the shareholding arrangement in ONE channel. Thus, total liabilities at the end of 3Q15 stood at THB 6,115 million, decreasing by 47% from the end of last year. Shareholders' equity amounted to THB 3,661 million, increased 2%. from interim net profit. Moreover, the interest-bearing debt to equity ratio decreased from 1.21x at the end of 2014 to 0.57x by end of 3Q15.

**In 3Q15**, cash flow from operating activities amounted to THB 428 million, cash flow used in investing activities totaled THB 288 million, and cash flow used in financing activities amounted to THB 137 million. This resulted in a drop of net cash by THB 0.15 million. At the

end of 3Q15, cash on hand and THB 1,157 million.  
cash equivalents amounted to

Unit: THB Million	Q3/2015	2014 (Restated)
Cash and equivalents	1,157	865
Other current assets	2,372	4,428
Non-current assets	6,247	9,813
<b>Total assets</b>	<b>9,776</b>	<b>15,106</b>
Current liabilities	2,796	4,491
Non-current liabilities	3,319	7,032
<b>Total liabilities</b>	<b>6,115</b>	<b>11,523</b>
Shareholders' equity	3,661	3,583
<b>Total liabilities and shareholders' equity</b>	<b>9,776</b>	<b>15,106</b>
Net interest-bearing debt to equity ratio (x)	0.57	1.21

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