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November 16, 2020

Subject: Management's Discussion and Analysis for Nine Months Ended September 30, 2020

To The President
The Stock Exchange of Thailand

Management's Discussion and Analysis
Consolidated Financial Statements
For nine months ended September 30, 2020

Overall Group Performance

Table 1: Overall Financial Performance

Unit: million baht

	Jan-Sep 2019 Restated	%	Jan-Sep 2020	%	Change	% YoY
Total Revenues	440.78	100.0%	540.18	100.0%	99.40	22.6%
Cost of sales and services	(239.46)	(54.3%)	(294.13)	(54.4%)	(54.67)	22.8%
Gross Profit	201.32	45.7%	246.05	45.6%	44.73	22.2%
SG&A	(84.36)	(19.1%)	(105.28)	(19.5%)	(20.92)	24.8%
Operating Profit	116.96	26.5%	140.77	26.1%	23.81	20.4%
Share of Profit in Associates	0.51	0.1%	1.66	0.3%	1.15	223.9%
Interest Expense	(0.35)	(0.1%)	(6.28)	(1.2%)	(5.93)	(1,678.2%)
EBT	117.12	26.6%	136.15	25.2%	19.03	16.3%
Tax	(12.39)	(2.8%)	(14.82)	(2.7%)	(2.43)	(19.6%)
Net Profit After Tax	104.73	23.8%	121.33	22.5%	16.60	15.9%

Total Revenues

Total Revenues include sales and service revenue and other income, increased by 99.40mb or 22.6% to 540.18mb (9M 2019: 440.78mb). Of which, sales and services grew by 95.99mb or 22.4% and other income increased by 3.41mb or 27.8%.

Sales and Services revenue:

For the 9M 2020, The Humanica Group of Companies ("HUMAN" or the "Company") delivered sales and service revenue of 524.51mb (9M 2019: 428.52mb), an increase of 95.99mb or 22.4%. Revenue from HR Solutions contributed 104.00mb or 29.6% to our growth year-on-year but partially offset by a decline in our Financial Solutions revenue by -8,01mb or -10.4%. The growth in HR Solutions is largely because of

the consolidation of the result of our subsidiary, Tiger Soft (1998) Company Limited (“TigerSoft”) only from July 2019 in last financial year. On a year-on-year basis, TigerSoft contributed an increased 74.28mb to HUMAN’s sales and service revenue, together with an organic growth of 29.72mb or 9.3%, bring an increase of 104.00mb for HR Solutions.

Our overall recurring revenue grew by 31.30mb or 9.4% (16.96mb or 5.1% excluding TigerSoft) while non-recurring revenue grew by 64.70mb or 67.9% (4.66mb or 7.2% excluding TigerSoft).

Other Income:

Other income increased by 3.41mb or 27.8% to 15.67mb (9M 2019: 12.26mb). We reported increase in dividend income from our investment portfolio and increase in interest income from additional investment in convertible notes by 1.87mb or 30.3%. Our other non-recurring income also increased by 3.98mb, largely from additional government grants received by our overseas subsidiaries. This was partially offset by unfavorable change in realized & unrealized gain / loss on investment.

Cost of Sales and Services

Overall cost of sales and services increased by 54.67mb or 22.8% to 294.13mb (9M 2019: 239.46mb), 56.97mb of which came from the consolidation of TigerSoft and additional amortization of software (know-how) from fair value adjustment from purchase price allocation on TigerSoft’s acquisition (Q3 2019 vs. 9M 2020 impact). Excluding this addition of cost of sales and services from TigerSoft, HUMAN actually managed to slightly lower cost of sales and services, in line with our mid-term target to improve gross margin.

Gross Profit

We reported gross profit margin of 45.6%, at par with 45.7% in 9M 2019, and achieved a gross profit of 246.06mb (9M 2019: 201.32mb), an increase of 44.74mb or 22.2%. TigerSoft contributed an incremental gross profit 21.34mb. (9M 2020: 37.12mb vs. 9M 2019: 15.78mb). Excluding the impact from the consolidation of TigerSoft and additional amortization of software (know-how) cost of 2.83mb, HUMAN’s gross profit would grow 26.23mb or 14.0%, at a rate higher than its organic growth in total revenue.

Selling and Administration Expense

Selling and administration expense (“SG&A”) closed at 105.28mb (9M 2019: 84.36mb), an increase of 20.92mb or 24.8%, with SG&A% of revenue inching up to 19.5% (9M 2019: 19.1%). The consolidation of TigerSoft along with additional amortization of customer relationship from fair value adjustment from purchase price allocation on TigerSoft’s acquisition added 16.12mb to the overall SG&A increase (Q3 2019 vs. 9M 2020 impact). Excluding these impacts, SG&A would increase by 4.80mb or 6.5%. These increases are mainly attributed to increase in staff cost, one-offs in professional fees, and expenses related to office space expansion, partially offset by favorable FX gain / loss included as part of SG&A.

Interest Expense

Increase in interest expense was mainly a result of the adoption of TFRS16 Leases this year.

Net profit after Tax

The net profit after tax closed at 121.33mb (9M 2019: 104.81mb), improving by 16.60mb or 15.9% with overall net profit margin inching down to 22.5% (9M 2019: 23.8%) mainly due to TFRS 16 adoption and FV adjustment effect from the acquisition of TigerSoft. Excluding the impacts from the consolidation of TigerSoft's result, additional amortization from software (know-how) and customer relationship (net of tax), and TFRS16 adoption, the Company would report net profit after tax of 116.31mb (net profit margin of 26.9%), an increase of 16.42mb or 16.4% from 9M 2019 (net profit after tax of 99.89mb and net profit margin of 24.5%).

1. Revenue Structure

Table 2: The break down revenue by business entities.

Type of Revenue	Jan-Sep 2019		Jan-Sep 2020	
	Million Baht	%	Million Baht	%
1. HR Solutions				
1.1 Human Resources and Payroll Outsourcing services	192.46	43.7%	201.26	37.3%
1.2 Income from software and human resources system	146.25	33.2%	197.13	36.5%
1.2 Income from sales of hardware	12.65	2.9%	56.97	10.5%
Total revenues from HR solutions	351.36	79.7%	455.36	84.3%
2. Financial Solutions				
2.1 Enterprise Resource Planning (ERP)	59.74	13.6%	52.29	9.7%
2.2 Accounting & Finance Outsourcing	17.42	4.0%	16.86	3.1%
Total revenue from financial solutions	77.16	17.5%	69.15	12.8%
3. Other income¹	12.26	2.8%	15.67	2.9%
Total revenues	440.78	100.0%	540.18	100.0%

¹ Other income consist mainly of interest income, dividend income and realized & unrealized gain / loss on investment.

In Table 2, The Company's revenue structure comprises 2 business units, HR Solutions and Financial Solutions with HR Solutions representing 84.3% of our revenue while Financial Solutions representing 12.8% and other income representing a small 2.9%.

HR Solutions

Revenue from HR Solutions closed at 455.36mb (9M 2019: 351.36mb), increasing by 104.00mb or 29.6%. This increase is mainly due to consolidation of TigerSoft's result as well as organic growth of existing business in HR technology and services in Thailand and overseas markets. In 9M 2020, we have completed significant projects, both upgrading projects from existing clients and new projects, contributing to higher recurring revenue going forward.

Revenue from SMEs were slower than expectation due to the impact of Covid, but we saw a pick up in the hardware sales as Tiger was agile in offering advance clocking devices that incorporate temperature control during the Covid era.

Financial Solutions

Revenue from Financial Solutions contributed 69.15mb (9M 2019: 77.16mb), decreasing by 8.01mb or 10.4%. Business in the ERP segment remains soft due to the weaker market outlook.

With the ability to offer both SAP Business 1 and Oracle Netsuit for the more cloud savvy customers, we believe we will be well-positioned to pick up businesses when the market sentiment improves.

The recurring and non-recurring income:

Table 3: The break down revenue by recurring & non-recurring revenue

HR Solutions	Jan-Sep 2019	%	Jan-Sep 2020	%	%YoY
Revenues-Recurring	283.71	80.7%	313.49	68.8%	10.5%
Revenues-Non Recurring	67.65	19.3%	141.87	31.2%	109.7%
Total Revenues	351.36	100.0%	455.36	100.0%	29.6%

Financial Solutions	Jan-Sep 2019	%	Jan-Sep 2020	%	%YoY
Revenues-Recurring	49.56	64.2%	51.07	73.9%	3.1%
Revenues-Non Recurring	27.60	35.8%	18.08	26.1%	(34.5%)
Total Revenues	77.16	100.0%	69.15	100.0%	(10.4%)

Grand Total Recurring	333.27	77.8%	364.57	69.5%	9.4%
Grand Total Non- Recurring	95.25	22.2%	159.95	30.5%	67.9%
Grand Total Revenues	428.52	100.0%	524.51	100.0%	22.4%

Overall, the Company's recurring revenue proportion decreased from 77.8% in 9M 2019 to 69.5% this year, while non-recurring revenue proportion increased from 22.2% in 9M 2019 to 30.5% this year. The change in the composition of revenue between recurring and non-recurring income is due to the change in revenue composition upon acquisition of TigerSoft which is heavily weighted on non-recurring revenue due to the on premises sales of its software and the sales of hardware.

Recurring revenue reported an overall growth of 31.30mb or 9.4%, driven by organic growth in our existing business in HR technology and services and the consolidation of TigerSoft's recurring revenue, and revenue increase from Financial Solutions. With respect to overall recurring revenue base, HR Solutions continued its year-on-year growth momentum by 10.5% while Financial Solutions maintained moderate growth of 3.1%.

Non-recurring revenue reported overall growth of 64.70mb or 67.9%, mainly from the aforementioned consolidation of TigerSoft's result and organic growth of 4.66mb or 7.2% in implementation revenue in HR Solutions, partially offset by the decline in implementation revenue from Financial Solutions.

2. Financial position

Table 4: Overall Financial position

<u>Assets</u>	As of Dec 31, 2019	%	As of Sep 30, 2020	%	Change YoY	% YoY
Cash	159.47	11.6%	196.43	12.8%	36.96	23.2%
Current investments	83.07	6.0%	174.93	11.4%	91.86	110.6%
Trade & Other receivable	114.24	8.3%	136.47	8.9%	22.23	19.5%
Current contract assets	24.58	1.8%	22.98	1.5%	(1.60)	(6.5%)
Inventory	9.42	0.7%	19.96	1.3%	10.54	112.0%
Other current Asset	4.50	0.3%	8.42	0.5%	3.92	87.1%
Other long-term investments	558.38	40.6%	421.05	27.4%	(137.33)	(24.6%)
Right to use assets	-	-	134.60	8.8%	134.60	-
Non-Current asset	421.93	30.7%	423.25	27.5%	1.32	0.3%
Total Assets	1,375.59	100.0%	1,538.09	100.0%	162.50	11.8%
<u>Liabilities</u>						
Current liability	116.20	8.4%	137.69	9.0%	21.49	18.5%
Non-Current liability	65.44	4.8%	180.72	11.7%	115.33	176.2%
Total liabilities	181.64	13.2%	318.41	20.7%	136.77	75.3%
Shareholders' equity	1,193.95	86.8%	1,219.68	79.3%	25.73	2.2%
Total liabilities and Shareholders' equity	1,375.59	100.00%	1,538.09	100.0%	162.50	11.8%

(a) Total assets

Total assets as of Sep 30, 2020 stand at 1,538.09mb, an increase of 162.50mb or 11.8%. The increase was mainly due to the adoption of TFRS 16 Leases, which gave rise to right to use assets from office lease agreement.

Working capital position also increased from 2019 year-end level, mainly trade and other receivables and inventory, which increased by 12.23mb (19.5%) and 10.54mb (112.0%), respectively.

Total Liabilities

Total liability as of Sep 30, 2020 was 318.41mb, increasing by 136.77mb or 75.3%, mainly due to recognition of liabilities under finance lease agreement according to TFRS16.

(b) Shareholders' equity

Total shareholder's equity as of Sep 30, 2020 was 1,219.68mb, increasing by 25.73mb or 2.2% YoY, mainly from profits during the period, less dividend payment.

3. Cash Flow Statement

	Jan-Sep 2019	Jan-Sep 2020
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Net cash provided by (used in)		
Cash Flow from Operating (CFO)	149.34	146.31
Cash Flow from Investing (CFI)	(48.88)	(10.26)
Cash Flow from Financing (CFF)	(86.47)	(101.11)
Decrease in translation adjustments	(2.33)	2.01
Net increase (decrease) in cash and cash equivalents	11.66	36.95

Cash Flow from Operating Activities

CFO for the 9M 2020 was 146.31mb. The management will consider using the surplus CFO in investment or any other activities to create better value for the Company.

Cash Flow from Investing Activities

CFI for the 9M 2020 was -10.26mb mainly due to Capex spending (PP&E and software), partially offset by net proceeds from sales of non-current financial assets.

Cash Flow from Financing Activities

CFF for the 9M 2020 was -101.11mb, mainly due to dividend payment of 81.60mb and finance lease payment (principal & interest) of 19.51mb. The Company has no current plan for financing project as we still have ample funds from IPO fund raising for a working capital and other investment plans.

Please be informed accordingly,

Yours sincerely,

Mr. Soontorn Dentham
Chief Executive Officer