

Taokaenoi Food and Marketing Public Company Limited



**Management Discussion
and Analysis (MD&A)**

FOR QUARTER 3/2021



November 15, 2021

To President
The Stock Exchange of Thailand

Subject Management Discussion and Analysis for the Third Quarter ended September 30, 2021

Taokaenoi Food and Marketing Public Company Limited (the “Company”) would like to clarify the revenues from sales and net profit in the consolidated financial statements for the three-month and nine-month periods ended September 30, 2021, which may be summarized as follows:

Consolidated Financial Statements	3rd Quarter (July–September)				
	Q3/ 2021		Q3/ 2020		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	830.7	100.0 %	978.7	100.0 %	(15.1 %)
Cost of Sales	(670.9)	(80.8 %)	(713.4)	(72.9 %)	(5.9 %)
Gross Margin	159.8	19.2 %	265.3	27.1 %	(39.8 %)
Distribution Costs	(86.1)	(10.4 %)	(99.0)	(10.1 %)	(13.1 %)
Administrative Expenses	(69.7)	(8.4 %)	(69.2)	(7.1 %)	0.8 %
Profit before Income Tax Expenses	17.7	2.1 %	106.6	10.9 %	(83.4 %)
Income Tax Expenses	1.6	0.2 %	(17.6)	(1.8 %)	(108.8 %)
Net Profit : Owners of the Parent	19.3	2.3 %	88.9	9.1 %	(78.3 %)

Consolidated Financial Statements	9M (January – September)				
	9M/ 2021		9M/ 2020		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	2,533.7	100.0 %	3,100.2	100.0 %	(18.3 %)
Cost of Sales	(1,965.4)	(77.6 %)	(2,256.0)	(72.8 %)	(12.9 %)
Gross Margin	568.3	22.4 %	844.2	27.2 %	(32.7 %)
Distribution Costs	(276.6)	(10.9 %)	(328.1)	(10.6 %)	(15.7 %)
Administrative Expenses	(209.9)	(8.3 %)	(217.2)	(7.0 %)	(3.3 %)
Profit before Income Tax Expenses	105.8	4.2 %	299.4	9.7 %	(64.7 %)
Income Tax Expenses	(8.5)	(0.3 %)	(36.3)	(1.2 %)	(76.6 %)
Net Profit : Owners of the Parent	97.7	3.9 %	263.5	8.5 %	(62.9 %)

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Consolidated Financial Statements	3rd Quarter (July–September) vs. 2nd Quarter (April–June)				
	Q3/ 2021		Q2/ 2021		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	830.7	100.0 %	783.0	100.0 %	6.1 %
Cost of Sales	(670.9)	(80.8 %)	(598.4)	(76.4 %)	12.1 %
Gross Margin	159.8	19.2 %	184.7	23.6 %	(13.5 %)
Distribution Costs	(86.1)	(10.4 %)	(92.6)	(11.8 %)	(7.0 %)
Administrative Expenses	(69.7)	(8.4 %)	(67.8)	(8.7 %)	2.9 %
Profit before Income Tax Expenses	17.7	2.1 %	25.8	3.3 %	(31.4 %)
Income Tax Expenses	1.6	0.2 %	(3.9)	(0.5 %)	(140.5 %)
Net Profit : Owners of the Parent	19.3	2.3 %	22.2	2.8 %	(13.4 %)

Revenue from Sales

The Company has revenue from sales in the third quarter in the amount of 830.7 million Baht **decreased by 15.1 percent** from the same quarter of the previous year (increased by 6.1 percent from Q2/ 2021) and has revenue from sales in the first nine months in the total amount of 2,533.7 million Baht decreased by 18.3 percent from the same period of the previous year, mainly due to the fact that in the third quarter, the third wave of COVID-19 pandemic continued to give rise to widespread impact, particularly on the industrial sector, and as such, the Company was affected in terms of production and shortage of labor for a certain period of time. However, the Company introduced such bubble and seal measures at both factories in compliance with the government measures regarding Good Factory Practice (GFP) so as to ensure that our staff are safe from the pandemic. All staff have been vaccinated 100% and undergone PCR testing weekly, to assure consumers that our products have been produced safely, primarily taking into account the quality thereof. Thanks to such measures implemented by the Company, the Company was given the awards for **Ayutthaya Mode's prototype standard factory for COVID-19 management** on September 17, 2021. Further to the proactive COVID-19 management, the Company started to resume our product in response to increasing demand since September.

The third quarter's demand was improved from that of Q2/2021, particularly in such international markets as China, US or Indonesia, where they were recovering and had a significant increase in demand for seaweed products. However, since the Company encountered supply shortage, our response to the third quarter's demand for products was not up to the full capacity.

Domestic Sales: Revenue from sales in the third quarter is 293.2 million Baht **decreased by 8.3 percent** from the same quarter of the previous year (decreased by 23.5 percent from Q2/2021) and total sales in the first nine months amount to 1,065.3 million Baht **increased by 10.8 percent** from the same period of the previous

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year. The growth rate in the seaweed products slightly decreased while the major growth in the domestic market in the first nine month of this year arose from sales of new products, namely “Just Drink” pasteurized milk tea and coffee latte products, which were launched and marketed since late 2020, and well received by consumers, and the Company is able to generate sales from the launch at the end of 2020 until the third quarter of 2021 nearly 10 million bottles.

International Sales: Revenue from sales in the third quarter is 537.5 million Baht **decreased by 18.4 percent** from the same quarter of the previous year (increased by 34.4 percent from Q2/2021). In this third quarter, the demand in the China market significantly improved after the Company revisit our distribution strategy in China with an additional distributor since July 2021, and as such, the products were distributed more through Traditional Trade and E-commerce, to cover all target customers in every channel. This can be seen by the fact that sales in China in the third quarter increased by 119 percent from Q2/2021. International sales were similar to those of Q2/2021 due to production restrictions which prevented the response to the third quarter’s demand for products was not up to the full capacity.

Total international sales in the first nine months amount to 1,468.4 million Baht **decreased by 31.3 percent** from the same period of the previous year. This mainly was due to the impact of the ongoing shortage of containers throughout the year and the decrease of sales in China in the first half of the year which is the period that company has revised the market expansion strategy in China to enable the distribution of products for more coverage. As a result of the additional distributor in China, the demand for products in the second half of the year increased significantly.

Gross Margin

In the third quarter, the Company has gross profit of 159.8 million Baht representing 19.2 percent of revenue from sales. The ratio of gross profits to sales revenue is **decreased by 7.9 percent** from the same quarter of the previous year (decreased by 4.3 percent from Q2/2021). The decreased gross profit rate was due to the following key factors:

- Impact from decreased sales, which affected the unit production costs to increase compared to the previous year;
- The ratio of gross profits to sales revenue, which was decreased by 4.4 percent, due to such impact of the expenses of bubble and seal measures during the pandemic, so as to enable the Company to continue its products with safety, comprising such expenses of accommodation for staff, meal allowances, including the costs of weekly COVID-19 testing, and other expenses, including welfare and assistance during the pandemic, such as, survival bags, facial masks, alcohol gels, and other essential supplies for staff, so as to help support the living allowances and COVID-19 insurance taken out for staff, which covered infection and vaccination effects;

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- COVID-19 impact during both second and third waves of the pandemic, causing restaurants to close down during a certain period of time, which affected the business of Taokaenoi Restaurant and Franchise in respect of fixed costs of rental and staff.

Distribution Costs

The Company has the distribution costs in the third quarter in the amount of 86.1 million Baht representing 10.4 percent of revenue from sales. The ratio of distribution costs to sales revenues is **increased by 0.3 percent** from the same quarter of the previous year (decreased by 1.5 percent from Q2/2021). The distribution costs in the first nine month which account for 10.9 percent increased by 0.3 percent from the same period of the previous year. This slight increase rate was the result of the shortage of containers which led to the increasing transportation costs in this year, including the fixed costs which were not variable according to sales. However, the Company continued to manage the sales and marketing expenses to be in line with sales and the channels with potential growth.

Administrative Expenses

The Company has the administrative expenses in the third quarter in the amount of 69.7 million Baht representing 8.4 percent of revenue from sales. The ratio of administrative expenses to sales revenue is **increased by 1.3 percent** from the same quarter of the previous year (decreased by 0.3 percent from Q2/2021), due to the declining sales against the Company's continued measures to strictly control the administrative expenses not to be different from the same quarter of 2020, in which the administrative expenses amounted to 69.2 million Baht.

The Company has the administrative expenses in the first nine months in the total amount of 209.9 million Baht representing 8.3 percent of revenue from sales which **increased by 1.3 percent** from the same period of the previous year, although the amount of money spent was decreased by 7.3 million Baht thanks to the improved cost management compared to the same period of the previous year.

Net Profit: Owners of the Parent

The Company has the net profit in the third quarter in the amount of 19.3 million Baht representing 2.3 percent of revenue from sales which **decreased by 78.3 percent** from the same quarter of the previous year. The ratio of net profit to sales revenue is **decreased by 6.8 percent** from the same quarter of the previous year (decreased by 0.5 percent from Q2/2021), mainly affected by the declining sales due to the COVID-19 pandemic as a result of the production restrictions to support increasing demand, including such expenses incurred by the bubble and seal measures to ensure staff's safety and the Company's production with quality, as described above, and also due to the fact that the business of Taokaenoi Restaurant and Franchise was affected throughout the year in terms of revenues and fixed costs borne by the Company during the ban on dining-in due to COVID-19.

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The Company has the net profit in the first nine months in the total amount of 97.7 million Baht representing 3.9 percent of revenue from sales which **decreased by 4.6 percent** of revenue from sales from the same period of the previous year.

Business Trends in the Fourth Quarter

The Company is confident that the business in the fourth quarter will start to recover due to a variety of contributing factors including trend of domestic market where the lockdown has been lifted and the country has been reopened for traveling and stimulating the economy in the country. With regard to the international markets, after the Company's revisions to the market expansion strategy in China, the demand for products in China significantly improved since the third quarter onwards, as well as the demands in several other countries, which will help increase the Company's sales and resulting in reducing in the production cost per unit. The Company continues to proceed with its focus on cost restructuring by introducing more machinery in the production process, which will be beneficial to the production costs in the long run, and continued development of new products, which will consequently increase the Company's profitability in the fourth quarter and continuing to 2022.

Please be informed accordingly.

Yours sincerely,

(Mr. Jirapong Suntipiromkul)

Deputy Managing Director

Authorized to sign on behalf of the Company

Taokaenoi Food and Marketing PLC

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