

Date: 14th November 2022
Subject: 9M22 Management Discussion and Analysis
To: The President of the Stock Exchange of Thailand

Business Overview

Mega Lifesciences PCL (MEGA) is a leading participant in the health and wellness industry in developing countries. Our business may be categorized into below segments:

- Mega We Care™ branded products business:** We develop, manufacture, market and sell our own brand of market leading nutraceutical products, prescription pharmaceutical products and OTC products which are mostly sold in developing countries with market leading presence in Southeast Asia and growing reach in Sub-Saharan Africa. Our branded products include products where we own perpetual license to third party trademarks.
- Maxxcare™ distribution business:** We market, sell and distribute various branded prescription pharmaceutical products, OTC and consumer products. We operate our Maxxcare™ distribution business in three countries, namely, Myanmar, Vietnam and Cambodia. Our clients for this business segment include leading domestic and international pharmaceutical and consumer goods companies. This segment also includes business arising from markets other than aforementioned countries where MEGA has distribution rights for third party products.

Analysis of Financial Status and Performance 9M22

Consolidated Income Statement Summary:

- **Overall operating revenue** of THB 11,802mn in 9M22 (up by 8.6% YoY) and THB 4,052mn in 3Q22 (up by 1.3% YoY).
- **Gross profit** of THB 5,248mn in 9M22 representing 44.5% of operating revenue and THB 1,864mn in 3Q22 representing 46.0% of operating revenue.
- **SG&A expenses** of THB 3,167mn in 9M22, representing 26.8% of operating revenue and THB 1,094mn in 3Q22 representing 27.0% of operating revenue.
- **Reported net profit** came in at THB 1,840mn in 9M22 (up by 27.3% YoY) and THB 658mn in 3Q22 (up by 7.7% YoY). Adjusted net profit¹ came in at THB 1,881mn in 9M22 (up by 34.6% YoY) and THB 690mn in 3Q22 (up by 26.2% YoY).
- **Operating cash flow** of THB 974mn in 9M22 representing 53% of reported net profits.

Key points:

- **Overall operating revenue** in 9M22 was THB 11,802mn, higher by 8.6% YoY and THB 4,052mn in 3Q22, higher by 1.3% YoY.
 - Mega We Care™ revenue was THB 5,991mn in 9M22 (up by 14.3% YoY) and THB 2,034mn in 3Q22 (down by 0.3% YoY), growth driven by Southeast Asia and Africa with strong consumer demand and depreciation of Thai Baht to USD. Compared to the best ever performing quarter that was 3Q21 in terms of Revenue, we were able to maintain Mega We Care™ revenue in 3Q22 YoY.

1. Adjusted net profits are net profit adjusted for losses from newly started businesses including startups, net foreign exchange gains or losses and non-recurring material income or expenses to reflect normal business performance. For details, please see summarized income statement on Page 3 of this report.

- Maxxcare™ revenue was THB 5,568mn in 9M22 (up by 3.4% YoY) and THB 1,928mn in 3Q22 (up by 3.3% YoY). Despite the challenges in Myanmar, distribution revenue remained relatively stable, partially helped by Baht depreciation.
 - **Overall gross margin** in 9M22 remained steady at 44.5% compared to 43.7% in H122 and improved from 41.4% in 9M21. Improvement in 9M22 gross margin was mainly a result of growth in Mega We Care revenue causing favourable revenue mix and better segmental gross margins.
 - **Mega We Care™ business** gross margins remained healthy at 67.6%. The gross margins of Mega We Care™ business are influenced by revenue growth, product mix, country mix, depreciation of Thai Baht to USD and level of output amongst other factors.
 - **Maxxcare™ business**
 - i. Gross margin (normalised) remained steady in 9M22 at 17.8% (the reported improvement to 19.9% compared to 17.2% in 9M21) is mainly attributable to the business model change for a few principals in Myanmar combined with the temporary delay caused in remitting money back from Myanmar on a timely basis, both not effecting EBITDA in an adverse manner.²
 - ii. The net margins (EBITDA/gross profits) in 9M22 also was stable at 45.0% after normalising for the model change impact as discussed above.
 - **Selling and administrative expenses (SG&A)** have remained stable at THB 3,167mn in 9M22, representing 26.8% of operating revenue and THB 1,094mn in 3Q22 representing 27.0% of operating revenue compared to 26.4% in 9M21 and 27.0% in 3Q21.
 - **Reported net profit** in 9M22 came in at THB 1,840mn reflecting a growth of 27.3% YoY and THB 658mn in 3Q22 reflecting a growth of 7.7% YoY. Net profit in 3Q22 is the highest ever quarterly profit reported in the history of the company. Growth in 9M22 was mainly a result of growth in Mega We Care revenue and better gross margins.
 - **Adjusted net profit** in 9M22 came in at THB 1,881mn reflecting a growth of 34.6% YoY and THB 690mn in 3Q22 reflecting a growth of 26.2% YoY. Growth in 9M22 was mainly a result of growth in Mega We Care revenue and better gross margins.
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MEGA remains focused on further cementing its leadership position in Southeast Asia and deepening our presence in the Sub-Saharan African countries, driven by our market leading brands, healthy pipeline of new products, underlying potential of Southeast Asia and Sub-Saharan African regions, strategic tie-ups, partnerships, joint ventures and acquisitions. MEGA has a strategy and fundamentals in place to double its 2019 business in 5-7 years. Notwithstanding tremendous future opportunity, due to the nature of the industry, the markets we are in and our long term approach to value creation; growth may not be a straight line up but with occasional impacts that may be caused by economic, political and other factors.

2. The forex losses arising from delay in remitting funds from Myanmar, when charged to Principals, have the impact of inflating revenue while the corresponding loss gets accounted under forex losses as per International Financial Reporting Standards, thereby showing higher gross margins, even though there is no impact on overall profitability.

Summarized Income Statement*

<i>Figures in THBmn</i>	3Q21	2Q22	3Q22	YoY Gr.	9M21	9M22	YoY Gr.	Growth in Mega We Care revenue and better gross margins contributed to net profits growth
Operating revenue	3,998.7	3,929.8	4,052.2	1.3%	10,863.5	11,801.8	8.6%	
Gross profits	1,732.4	1,674.2	1,863.8	7.6%	4,495.1	5,248.4	16.8%	
Gross margin (%)	43.3%	42.6%	46.0%		41.4%	44.5%		
Selling and Admin. exp (SGA)	1,080.3	1,084.0	1,094.3	1.3%	2,868.8	3,167.1	10.4%	
SGA (% to operating revenue)	27.0%	27.6%	27.0%		26.4%	26.8%		
Reported net profit	611.0	569.3	658.2	7.7%	1,446.1	1,840.3	27.3%	
Net losses from new businesses	13.6	13.1	21.2	55.3%	44.0	43.4	(1.3%)	
Net foreign exchange loss/(gain)	(78.0)	(25.7)	10.5	(113.5%)	(92.6)	(2.5)	(97.3%)	
Net profit (Adjusted)	546.6	556.7	689.9	26.2%	1,397.5	1,881.2	34.6%	

1. Overall Revenue

Overall operating revenue in 9M22 was THB 11,802mn, higher by 8.6% YoY, driven by growth in Mega We Care™ business of 14.3% YoY, while Maxxcare™ business revenue grew by 3.4% YoY. Despite the challenges in Myanmar, distribution revenue remained relatively stable, partially helped by Baht depreciation.

Overall operating revenue in 3Q22 was THB 4,052mn, higher by 1.3%. Compared to the best ever performing quarter that was 3Q21 in terms of Revenue, we were able to maintain Mega We Care™ revenue in 3Q22 YoY while Maxxcare™ business grew by 3.3% YoY.

Southeast Asia³ and Indochina⁴ contributed 87.3% and 79.0% of overall operating revenues in 9M22.

The following table represents the revenue generated under each operating segments.

Revenue* by Business Segment

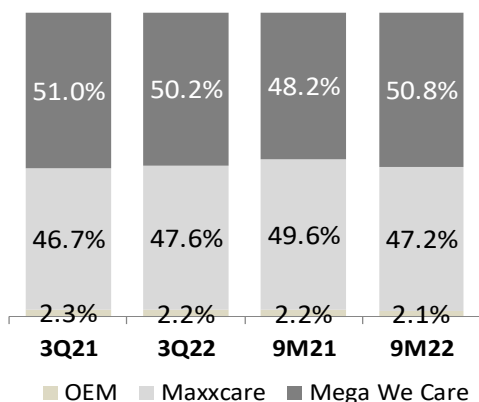
<i>Figures in THBmn</i>	3Q21	2Q22	3Q22	YoY Gr.	9M21	9M22	YoY Gr.
Mega We Care™	2,039.2	2,003.6	2,033.9	(0.3%)	5,239.6	5,991.3	14.3%
Maxxcare™	1,866.7	1,852.3	1,928.0	3.3%	5,384.9	5,567.7	3.4%
OEM	92.8	73.9	90.3	(2.8%)	239.1	242.7	1.5%
Total	3,998.7	3,929.8	4,052.2	1.3%	10,863.5	11,801.8	8.6%

*Revenue is net of inter segment charges & eliminations relating to consolidation.

3. Thailand, Myanmar, Vietnam, Cambodia, Malaysia, Philippines, Indonesia and Singapore.

4. Thailand, Myanmar, Vietnam and Cambodia.

Revenue mix by segments (%)



Proportion of Mega We Care™ revenue to total operating revenue was 50.8% in 9M22 and 50.2% in 3Q22 and Maxxcare contributing 47.2% in 9M22 and 47.6% of total operating revenue in 3Q22. Mega We Care™ revenue contribution to overall revenue improved in 9M22 while 3Q22 Mega We Care™ revenue remained similar to 3Q21.

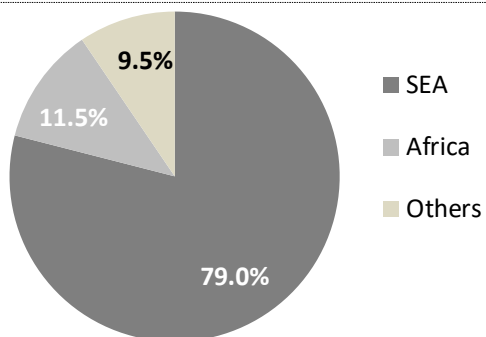
Mega We Care™ Branded Products Revenue

Revenue from sale of products under Mega We Care™ branded products business was THB 5,991mn in 9M22, an increase of THB 752mn or 14.3% YoY, the revenue in 3Q22 came in at THB 2,034mn (down by 0.3% YoY). Compared to the best ever performing quarter that was 3Q21 in terms of Revenue, we were able to maintain Mega We Care™ revenue in 3Q22 YoY. 9M22 growth is driven by Southeast Asia and Africa with strong consumer demand and depreciation of Thai Baht to USD.

Mega We Care™ Branded Products Revenue by Geography

Figures in THBmn	3Q21	2Q22	3Q22	YoY Gr.	9M21	9M22	YoY Gr.
Southeast Asia	1,602.4	1,625.3	1,595.4	(0.4%)	4,096.7	4,733.0	15.5%
Africa	257.6	216.5	255.9	(0.7%)	609.3	690.7	13.4%
Others	179.2	161.9	182.7	1.9%	533.6	567.6	6.4%
Total	2,039.2	2,003.6	2,033.9	(0.3%)	5,239.6	5,991.3	14.3%

Mega We Care™ Branded Products Revenue by Geography (9M22)



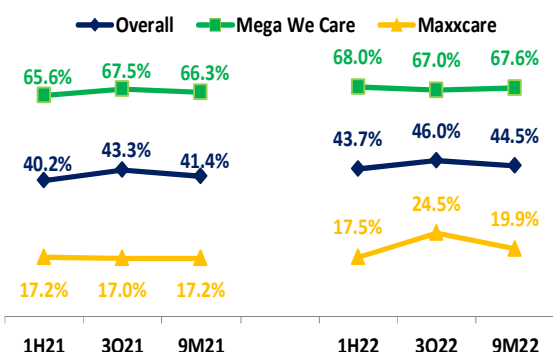
- Southeast Asia contributed 79.0%, while Indochina contributed 62.6% of the Mega We Care™ branded products business revenue.
- Africa, contributed 11.5% of the Mega We Care™ branded products business revenue.

Maxxcare™ Distribution Revenue

- Maxxcare™ distribution business revenue was THB 5,568mn in 9M22, an increase of THB 183mn or 3.4% YoY and Revenue in 3Q22 came in at THB 1,928mn reflecting a growth of 3.3% YoY. Despite the challenges in Myanmar, distribution revenue remained relatively stable, partially helped by Baht depreciation.

2. Gross Profits

Segmental gross profit (%) to segmental operating revenue



Overall gross margin in 9M22 was 44.5% compared to 41.4% in 9M21 and 46.0% in 3Q22 compared to 43.3% in 3Q21. Improvement in 9M22 gross margin was mainly a result of growth in Mega We Care revenue causing favourable revenue mix and better segmental gross margins. Mega We Care gross margins were healthier at 67.6% in 9M22. Maxxcare™ business gross margin (normalised) remained steady in 9M22 at 17.8% (the reported improvement to 19.9% compared to 17.2% in 9M21) is mainly attributable to the business model change for a few principals in Myanmar combined with the temporary delay caused in remitting money back from Myanmar on a timely basis, both not effecting EBITDA in an adverse manner.²

Mega We Care™ Branded Products Business Gross Profit

Mega We Care™ branded products gross margin was 67.6% in 9M22 and 67.0% in 3Q22 compared to 66.3% in 9M21 and 67.5% in 3Q21. The gross margins are influenced by revenue growth, product mix, country mix, depreciation of Thai Baht to USD and level of output amongst other factors.

Maxxcare™ Distribution Business Gross Profit

Maxxcare™ distribution business gross margin was 19.9% in 9M22 compared to 17.2% in 9M21 and 24.5% in 3Q22 compared to 17.0% in 3Q21. Maxxcare™ business gross margin (normalised) remained steady in 9M22 at 17.8% and 19.6% in 3Q22 (the reported improvement to 19.9% compared to 17.2% in 9M21 and the reported improvement to 24.5% compared to 17.0% in 3Q21) is mainly attributable to the business model change for a few principals in Myanmar combined with the temporary delay caused in remitting money back from Myanmar on a timely basis, both not effecting EBITDA in an adverse manner.²

OEM Business

OEM business contributed 2.1% to overall operating revenue in 9M22. OEM revenue came in at THB 243mn (up 1.5% YoY) in 9M22 and THB 90mn (down 2.8% YoY) in 3Q22. Gross margins came in at 35.7% in 9M22 compared to 40.4% in 9M21 and 33.1% in 3Q22 compared to 41.9% in 3Q21. Gross margins are influenced by customer mix amongst other factors.

3. Consolidated Selling and Administration Expenses (SG&A)

Selling and administrative expenses (SG&A) have remained stable at THB 3,167mn in 9M22, representing 26.8% of operating revenue and THB 1,094mn in 3Q22 representing 27.0% of operating revenue compared to 26.4% in 9M21 and 27.0% in 3Q21.

4. Consolidated Net Profit

Reported net profit in 9M22 came in at THB 1,840mn reflecting a growth of 27.3% YoY and THB 658mn in 3Q22 reflecting a growth of 7.7% YoY. Growth in 9M22 was mainly a result of growth in Mega We Care revenue and better gross margins.

Adjusted net profit in 9M22 came in at THB 1,881mn reflecting a growth of 34.6% YoY and THB 690mn in 3Q22 reflecting a growth of 26.2% YoY. Growth in 9M22 was mainly a result of growth in Mega We Care revenue and better gross margins.

5. Cash Flows

Operating Activities

Operating cash inflow of THB 974mn in 9M22. Operating cash inflow represents 53% of net profits. The Operating cash inflows are likely to improve by year end.

Core working capital

	Dec'21	Jun'22	Sep'22
Average receivable days	64	74	72
Average inventory days	160	166	170
Average payable days	(100)	(114)	(115)
Cash cycle (days)	124	126	128

Cash cycle days in Sep'22 was 128 days compared to 126 days in Jun'22 and 124 days in Dec'21.

Investing Activities

In 9M22, THB 243mn was invested in tangible assets⁵ mainly driven by spending of THB 190mn towards Thailand manufacturing plant.

Capex plan: Besides regular improvement and maintenance capex which are incurred every year, an amount of THB 475mn is expected to be spent during 2022-23 towards below projects:

1. **Thailand :** THB 268mn towards consolidation of manufacturing operations and capacity expansion and THB 46mn towards ESG.
2. **Indonesia:** THB 161mn towards adding new dosage form, warehouse and plant up-gradation in newly acquired Indonesian manufacturing plant.

Financing Activities

In 9M22, net cash outflow from financing activities was THB 1,395mn, mainly arising from dividend payout of THB 1,405mn.

5. Capital advances are not considered as cash outflow towards acquisition of tangible assets in this report.

6. Balance Sheet

Current Assets

Cash and bank balance (including cash and cash equivalents and term deposits with bank) was THB 1,958mn as at 30 Sep 2022 as compared to cash and bank balance of Baht 2,531mn as at 31 December 2021. The utilization was mainly towards payment of dividend.

Trade receivables were THB 3,414mn as at 30 Sep 2022, an increase of THB 856mn compared to THB 2,558mn as at 31 December 2021. Inventories were THB 3,984mn as at 30 Sep 2022, marginal growth as compared to 31 December 2021 levels. The increase in Trade receivable is mainly arising on account of growth in business.

As at 30 Sep 2022, Current ratio was at 1.9 times. The cash cycle days as at 30 Sep 2022 was 128 days compared to 124 days as at 31 December 2021.

Non-current Assets

Non-current assets were THB 4,181mn as at 30 Sep 2022, an increase of THB 210mn or 5.3% from 31 December 2021 mainly on account of additions to tangible assets for Thailand manufacturing operations.

Current Liabilities

Current liabilities were THB 5,157mn as at 30 Sep 2022, an increase of THB 304mn or 6.3% compared to 31 December 2021. The increase in current liabilities is mainly on account of increase in Trade payable due to growth in business and borrowing per working capital requirements.

Trade payables were THB 2,731mn as at 30 Sep 2022, an increase of THB 205mn from 31 December 2021 levels, increase mainly on account of growth in business.

Non-current Liabilities

Non-current liabilities were THB 387mn as at 30 Sep 2022, similar to THB 393mn as at 31 December 2021.

As at 30 Sep 2022, net-debt to equity was (0.21) times, while debt to equity was 0.65 times and interest bearing debt to equity at 0.03 times.

Shareholders' Equity

Shareholders' equity was THB 8,530mn as at 30 Sep 2022, an increase of THB 527mn compared to 31 December 2021, mainly driven by 9M22 net profits and dividend payouts.

Consolidated Balance Sheet

<i>Figures in THBmn</i>	30-Sep-22		31-Dec-21		Change	
	Amount	%	Amount	%	Amount	%
Current Assets						
Cash and bank balances ⁶	1,958.3	13.9%	2,531.4	19.1%	(573.1)	(22.6%)
Trade accounts receivable	3,413.8	24.3%	2,557.3	19.3%	856.5	33.5%
Inventories	3,983.7	28.3%	3,822.9	28.8%	160.9	4.2%
Other current assets	537.4	3.8%	389.4	2.9%	148.0	38.0%
Total Current Assets	9,893.2	70.3%	9,300.9	70.1%	592.3	6.4%
Non-Current Assets						
Property, plant and equipment ⁷	1,962.8	13.9%	1,873.5	14.1%	89.2	4.8%
Intangible assets ⁸	1,387.8	9.9%	1,353.1	10.2%	34.7	2.6%
Deferred tax asset	289.5	2.1%	210.4	1.6%	79.1	37.6%
Right-of-use assets	245.9	1.7%	265.4	2.0%	(19.6)	(7.4%)
Other non-current assets	294.9	2.1%	268.3	2.0%	26.6	9.9%
Total Non-Current Assets	4,180.9	29.7%	3,970.8	29.9%	210.1	5.3%
Total Assets	14,074.1	100.0%	13,271.7	100.0%	802.4	6.0%
Current Liabilities						
Bank overdrafts & short-term Loans	257.8	1.8%	168.2	1.3%	89.6	53.3%
Trade accounts payable	2,731.2	19.4%	2,526.6	19.0%	204.6	8.1%
Other payables	1,019.3	7.2%	1,109.1	8.4%	(89.7)	(8.1%)
Current portion of lease liabilities	84.4	0.6%	56.2	0.4%	28.2	50.1%
Income tax payable	166.4	1.2%	185.9	1.4%	(19.5)	(10.5%)
Accrued expenses	898.3	6.4%	807.4	6.1%	90.8	11.2%
Total Current Liabilities	5,157.4	36.6%	4,853.4	36.6%	304.0	6.3%
Non-Current Liabilities						
Lease liabilities	98.0	0.7%	131.9	1.0%	(34.0)	(25.7%)
Deferred tax liability	-	0.0%	-	0.0%	-	-
Employees benefits obligation	289.2	2.1%	261.3	2.0%	27.9	10.7%
Other non-current liabilities	-	0.0%	-	0.0%	-	-
Total Non-Current Liabilities	387.1	2.8%	393.2	3.0%	(6.1)	(1.5%)
Total Liabilities	5,544.5	39.4%	5,246.6	39.5%	297.9	5.7%
Equity						
Issued and paid-up share capital	435.9	3.1%	435.9	3.3%	-	0.0%
Premium on ordinary shares	2,304.5	16.4%	2,304.5	17.4%	0.0	0.0%
Retained earnings:						
Appropriated	76.1	0.5%	76.1	0.6%	0.0	0.0%
Unappropriated	6,143.9	43.7%	5,692.2	42.9%	451.6	7.9%
Other components of equity	(430.9)	(3.1%)	(506.0)	(3.8%)	75.0	(14.8%)
Owners Equity	8,529.5	60.6%	8,002.8	60.3%	526.7	6.6%
Non-controlling interests	0.1	0.0%	22.3	0.2%	(22.2)	(99.6%)
Total Equity	8,529.6	60.6%	8,025.1	60.5%	504.5	6.3%
Total Liabilities and Equity	14,074.1	100.0%	13,271.7	100.0%	802.4	6.0%

6. Cash and bank balances as at balance sheet dates include non-restricted term deposits with banks. 7. Includes asset classified as investment property of THB 36.8mn as at Sep '22 and THB 36.2mn as at Dec'21. 8. Includes goodwill of THB 505.4mn as at Sep'22 and THB 476.2mn as at Dec'21.

Consolidated Income Statement

<i>Figures in THBmn</i>	3Q21	2Q22	3Q22	YoY Gr.	9M21	9M22	YoY Gr.
Operating Revenue	3,998.7	3,929.8	4,052.2	1.3%	10,863.5	11,801.8	8.6%
Other income	12.2	22.4	27.0	120.2%	34.0	63.2	85.9%
Total Income	4,011.0	3,952.3	4,079.1	1.7%	10,897.5	11,864.9	8.9%
Cost of goods sold	2,266.4	2,255.7	2,188.3	(3.4%)	6,368.5	6,553.4	2.9%
Gross profits	1,732.4	1,674.2	1,863.8	7.6%	4,495.1	5,248.4	16.8%
<i>Gross margin (%)</i>	43.3%	42.6%	46.0%		41.4%	44.5%	
Selling expense	605.7	622.7	658.1	8.6%	1,682.1	1,888.4	12.3%
Administrative expense	474.5	461.3	436.2	(8.1%)	1,186.6	1,278.7	7.8%
Selling & Administrative exp (SGA)	1,080.3	1,084.0	1,094.3	1.3%	2,868.8	3,167.1	10.4%
<i>SGA (% to operating revenue)</i>	27.0%	27.6%	27.0%		26.4%	26.8%	
Net foreign exchange loss/(gain)	(78.0)	(25.7)	10.5	(113.5%)	(92.6)	(2.5)	(97.3%)
Depreciation & Amortization	68.4	67.7	69.5	1.5%	204.9	204.0	(0.5%)
Finance cost	5.7	6.4	7.5	31.7%	22.8	19.9	(12.6%)
Share of profit/(loss) from JV	(0.5)	(0.0)	0.1	(122.6%)	(1.0)	0.0	(103.3%)
Profit before tax	736.2	631.9	778.5	5.8%	1,729.1	2,127.1	23.0%
Tax expense	125.2	62.6	120.3	(3.9%)	283.0	286.8	1.3%
Reported net profit	611.0	569.3	658.2	7.7%	1,446.1	1,840.3	27.3%
Basic earning per share	0.70	0.65	0.75	7.7%	1.66	2.11	27.3%
Net losses from new businesses	13.6	13.1	21.2	55.3%	44.0	43.4	(1.3%)
Net foreign exchange loss/(gain)	(78.0)	(25.7)	10.5	(113.5%)	(92.6)	(2.5)	(97.3%)
Net profit (Adjusted)	546.6	556.7	689.9	26.2%	1,397.5	1,881.2	34.6%
<i>Net profit margin to operating revenue</i>	13.7%	14.2%	17.0%		12.9%	15.9%	
Basic earning per share	0.63	0.64	0.79	26.2%	1.60	2.16	34.6%

Disclaimer

The information contained in our analysis is intended solely for your personal reference only. In addition, any forward- looking statements reflect our current views with respect to future events and financial performance.

These views are based on assumptions subject to various risks and uncertainties. No assurance is given that future events will occur or that our assumptions are correct. Actual results may differ materially from those projected.