

nForce Secure Public Company Limited

Management Discussion and Analysis

For the Year Ended 31 December 2022

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Business overview

nForce Secure Public Company Limited (the Company) is a distributor of cyber products and solutions as well as network management products and solutions. Wherein the revenue ended 31 December 2022 consisted of (1) revenue from sales of all products related to information technology systems, accounting for 97.06%; (2) revenue from services, it is the revenue generated from providing information technology services related to due to the products that the Company being a full-service distributor, accounting for 2.57% (3) other revenue, accounting for 0.37%, respectively.

Performance summary for the year ended 31 December 2022

For the year ended 31 December 2022, the Company had total revenue of Baht 897.19 million, an increase of Baht 70.85 million from the previous year or an increase of 8.57 percent with a total comprehensive income of Baht 56.39 million, an decrease Baht 7.05 million from the year 2021 or an decrease of 11.12% due to fluctuating exchange rate during the year resulted in lower gross profit as well as increased selling and administrative expenses.

Items	For the Year Ended					
	31-Dec-20		31-Dec-21		31-Dec-22	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Revenue						
Revenue from sales	611.94	95.74	802.44	97.11	870.80	97.06
Revenue from services	21.99	3.44	20.94	2.53	23.10	2.57
Other income	5.22	0.82	2.96	0.36	3.29	0.37
Total revenue	639.15	100.00	826.34	100.00	897.19	100.00
Expenses						
Cost of sales and services	(508.47)	(79.55)	(667.53)	(80.78)	(748.82)	(83.46)
Selling expenses	(39.40)	(6.16)	(37.59)	(4.55)	(41.07)	(4.58)
Administrative expenses	(50.34)	(7.88)	(44.28)	(5.36)	(46.81)	(5.22)
Loss on exchange rate, net	(5.24)	(0.82)	(0.91)	(0.11)	13.41	1.49
Fair value gain (loss) on derivatives	(1.76)	(0.28)	0.22	0.03	(1.57)	(0.17)
Net impairment losses on financial assets	-	-	(0.04)	-	(1.97)	(0.22)
Share of loss from joint ventures	-	-	(1.35)	(0.16)	(1.84)	(0.21)
Total expenses	(605.21)	(94.69)	(751.48)	(90.94)	(828.67)	(92.36)
Profit before finance costs and income tax expenses	33.94	5.31	74.86	9.06	68.52	7.64
Financial Cost	(3.39)	(0.53)	(1.41)	(0.17)	(0.83)	(0.09)
Profit before income tax	30.55	4.78	73.45	8.89	67.71	7.55
Income tax expenses	(7.00)	(1.10)	(12.34)	(1.49)	(12.65)	(1.41)
Profit for the year	23.55	3.68	61.11	7.40	55.06	6.14

Revenue, cost, and gross profit

Sales revenues when considering the sources of products classified by type can be divided into 5 groups as follows:

1. Revenues from sales of network security system solutions, comprising of comprehensive Cybersecurity products and solutions to prevent cyber threats, including hacking attacks and malware attacks, for example, Firewall and proxy servers.
2. Revenues from sales of endpoint security systems, comprising of endpoint protection hardware and software, for example, antivirus software and anti-malware software.
3. Revenues from sales of network performance & monitoring systems, comprising of hardware and software that contribute to efficiency and effectiveness of computer networks and equipment in order to enhance organization

management, including programs that monitor systems and notify system administrators of the issues in the systems so the administrators can plan ahead as a precaution against system failure or disruption.

4. Revenues from sales of the unified consent management and the centralized management, platform supporting the Personal Data Protection Act and protecting the infraction of personal data with the aim of preventing the breach of anyone's privacy including data collection and use without notice and prior consent from the data owner, as well as being a centralized management platform that can be managed flexibly, effective, stability and easy to use.
5. Revenues from sales of other products, comprising of management products, data management systems and user identification products.

Source of Revenue	Year 2020		Year 2021		Year 2022	
	Million Baht	Percent (%)	Million Baht	Percent	Million Baht	Percent (%)
1. Network security	359.97	58.82	619.83	77.24	684.92	78.65
2. Endpoint security	146.36	23.92	105.97	13.21	124.81	14.33
3. Network performance & monitoring	64.55	10.55	73.90	9.21	40.09	4.6
4. PDPA	-	-	-	-	1.65	0.19
5. Others	41.06	6.71	2.74	0.34	19.33	2.22
Revenue from sales	611.94	100.00	802.44	100.00	870.80	100.00

For the year ended 31 December 2022, the Company's revenue from sales amounted to Baht 870.80 million, increased by Baht 68.36 million or 8.52% from 2021. The main source of income is revenue from the sale of network security products, which has increase by Baht 65.08 million, representing 10.50%; compared to the year 2021, as well as revenue from sales of endpoint security and Other increased by Baht 18.85 million and Baht 16.58 million or 17.78% and 604.69%, respectively, while revenue from sale of network performance and monitoring products decreased by Baht 33.81 million or 45.75%.

In addition, if considering the sources of revenue from sales classified by type of users (End user), can be divided into 5 groups of users as follows:

1. Banking, Financial services and Insurance (BFSI) in the banking, securities, and insurance industries
2. Industry group (Enterprise), which is in the manufacturing industry
3. Government & State enterprise
4. Telecom & Internet service provider (ISP) in the information and communication technology industry
5. Others, which are in the private sector business that focuses on providing services such as movie theaters, hotels, hospitals, schools, nursing homes, and trading, etc.

The Company will sell products to system integrator contractors (SI) to assemble a technology solution offered directly to the end user.

Unit: Million Baht	For the Year Ended 31 December					
	2020		2564		2020	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million	Percent
1. Banking, financial services and insurance	171.34	28.00	174.38	21.73	214.28	24.61
2. Industry (Enterprise)	190.34	31.10	219.12	27.31	230.28	26.47
3. Government and State Enterprises	119.67	19.56	211.36	26.34	189.20	21.73
4. Telecommunication (Telecom & ISP)	75.06	12.27	87.80	10.94	111.48	12.80
5. Others (Others)	55.52	9.07	109.79	13.68	125.36	14.40
Revenue from sales	611.94	100.00	802.44	100.00	870.80	100.00

The main end user group is the industry group, followed by the BFSI group, which for the year ended 31 December 2022 the Company has revenue from selling products through system integrator contractors (SI) directly to the end user of both groups. Total in 51.08%

Revenue from sales in 2022 was a Baht 870.80 million, increased by Baht 68.36 million from 2021, or 8.52%, mainly due to the increasing demand from users, including semiconductor shortage which began to unravel in late 2022, vendors are able to deliver more products to the Company. As a result, total revenue increased.

Revenue from services

Unit: Million Baht	Year 2020		Year 2021		Year 2022	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
1. System maintenance service	15.60	70.94	12.89	61.53	13.14	56.86
2. Installation service	6.11	27.77	7.09	33.87	9.34	40.41
3. Training service	0.28	1.29	0.96	4.60	0.63	2.73
Revenue from services	21.99	100.00	20.94	100.00	23.10	100.00

Service revenue is divided into 3 main categories: Maintenance Service, Installation Service, and Training Service

For the year ended 31 December 2022, the Company's revenue from services amounted to Baht 23.10 million, which is similar to the year 2021.

In addition, if considering the sources of revenue from sales and services, which are divided into 3 types as follows:

1. Revenue from software sales in the first year
2. Revenues from maintenance service agreement (MA) which were recurring income
3. Revenues from sales of other products and services

Unit: Million Baht	Year 2020		Year 2021		Year 2022	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
1. Revenue from sales of software	250.88	39.58	376.90	45.77	363.89	40.71
2. Maintenance agreement: MA	226.05	35.66	268.06	32.56	349.32	39.08
3. Revenue from others	157.00	24.77	178.42	21.67	180.69	20.21
Total revenue from sales and services	633.93	100.00	823.38	100.00	893.90	100.00

Other revenue

Other revenue consists of interest income, rental income, profit from disposal of assets, and operating expenses from activities etc. For the year ended 31 December 2022, had other income of Baht 3.29 million or 0.37% of total revenue which increased Baht 0.3 million mainly from increased in interest revenue.

Cost of sales and services, and gross profit

Unit: Million Baht	For the year ending December 31					
	2020		2021		2022	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Revenue from sales and services	633.93	100.00	823.38	100.00	893.90	100.00
Cost of sales and services	(508.47)	(80.21)	(667.53)	(81.07)	(748.82)	(83.77)
Gross profit	125.45	19.79	155.85	18.93	145.08	16.23

For the year ended 31 December 2022, the Company's gross profit margin was 16.23 percent, a decrease compared to the previous year mainly from the volatility of the Baht that weakened during the year. As a result, the cost of goods has risen compared to the date of pricing, and product owners (Vendors) have increased the price during the year, resulting in a decrease in gross profit.

Selling expenses

Selling expenses	For the year ending 31 December					
	2020		2021		2022	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Employee expense	24.90	63.20	24.03	63.93	25.41	61.87
Advertising and promotional costs	3.76	9.54	1.56	4.15	2.53	6.16
Commission	6.54	16.60	8.50	22.61	8.18	19.92
Other selling expenses	4.20	10.66	3.50	9.31	4.95	12.05
Total	39.40	100.00	37.59	100.00	41.07	100.00

For the year ended 31 December 2022, the Company had selling expenses in the amount of Baht 41.07 million, or 4.58% of total revenue; whereas selling expenses for the year 2022 increased compared to the year 2021 in the amount of Baht 3.48 million or 9.26%. This was mainly due to lower advertising and promotion costs. As a result of the COVID-19 virus epidemic, promotional activities cannot be organized, while the commission increases in line with the increase in sales in 2022. This was mainly due to increase in employee expenses as the number of employees increased to support the expansion of the business, as well as increased in other selling expenses.

Administrative expenses

Administrative expenses	For the year ending 31 December					
	2020		2021		2022	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Employee expense	24.53	48.73	22.46	50.72	26.94	57.55
Professional fee	12.08	23.99	8.25	18.63	5.98	12.78
Depreciation	7.03	13.97	5.65	12.76	8.03	17.15
Employee's benefit expense	1.92	3.81	2.23	5.03	1.49	3.18
Administrative expenses	4.78	9.50	5.69	12.86	4.37	9.34
Total	50.34	100.00	44.28	100.00	46.81	100.00

The main administrative expenses are employee expenses and professional fees. For the year ended 31 December 2022, the Company had administrative expenses in the amount of Baht 46.81 million, increased compared to the previous year Baht 2.53 million or 5.71 percent. This was mainly due to increase in employee expenses as the number of employees in the amount of Baht 4.48 million or 19.95% and increased in depreciation expenses of Baht 2.38 million or 42.12% due to the depreciation of technical support center.

Net profit and net profit margin

For the year ended 31 December 2022, the Company had a net profit of Baht 56.39 million, decreasing from the year 2021 by the amount of Baht 7.05 million or 11.11%. Net profit margin for the year ended 31 December 2022 was 6.14%, decrease compared to the previous year, driven by volatility of exchange rate during the year. As a result, gross profit decreased, as well as increased in selling and administrative expenses to support business expansion.

Statement of financial position

Total assets overview

As at 31 December 2022 and 2021, the Company had total assets of Baht 811.87 million and Baht 736.02 million, respectively. The details of each item can be described as follows:

Current assets

As at 31 December 2022 and 2021, the Company had current assets of Baht 706.47 million and Baht 656.26 million, representing 87.02 percent and 89.16 percent of total assets in each year, respectively. The main current assets were cash and cash equivalents, account receivables and other receivables, inventories, and receivables under lease agreements due within one year - net, each of which can be described as follows:

Cash and cash equivalents

As at 31 December 2022 and 2021, the Company had cash and cash equivalents amounting to Baht 398.24 million and Baht 402.98 million, respectively. Cash and cash equivalents decreased mainly due to payment for building the Technical support Center, dividend payment to shareholders and additional investment in joint Venture.

Account receivables and other receivables

Items	31 December					
	2020		2021		2022	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Account Receivable	129.05	96.74	170.14	97.37	236.52	95.03
Accounts receivable - related party	-	-	2.51	1.44	8.97	3.60
Accrued income	3.00	2.25	2.68	1.53	1.94	0.78
Less Loss allowance	(2.00)	(1.50)	(2.40)	(1.37)	(2.70)	(1.08)
Total accounts receivables - net	130.05	97.49	172.93	98.97	244.73	98.32
Prepaid expenses	3.14	2.36	1.61	0.92	3.98	1.60
Employee account receivable	0.13	0.10	0.20	0.11	0.17	0.07
Accrued interest - related party	-	-	-	-	0.02	0.01
Accrued interest - unrelated party	0.07	0.05	-	-	-	-
Total other receivables	3.35	2.51	1.81	1.03	4.17	1.68
Total account and other receivables - net	133.39	100.00	174.74	100.00	248.90	100.00

As at 31 December 2022 and 2021, the Company had account and other receivables amounting to Baht 248.91 million and Baht 174.74 million, or accounted for 30.66% percent and 23.74% of total assets, respectively. As at 31 December 2022, the

Company's account receivables and other receivables increased in the amount of Baht 74.17 million, mainly due to most account receivables are not due.

The Company has accounts receivable classified by overdue period, counting from the date the payment is due as follows

Items	31 December					
	2020		2021		2022	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Not yet due	117.56	89.03	15.95	9.10	21.98	8.88
Less than 3 months overdue	13.50	10.22	157.85	90.03	224.47	90.72
Overdue more than 3 months but not over 6 months	0.99	0.75	0.54	0.30	-	-
Overdue 6 months but not over 12 months	-	-	-	-	-	-
Over 12 months overdue	-	-	0.99	0.56	0.99	0.40
Total account receivables	132.05	100.00	175.33	100.00	247.43	100.00
Allowance for expected credit losses / doubtful accounts	(2.00)	(1.51)	(2.40)	(1.37)	(2.70)	(1.09)
Total account receivables - net	130.05	98.49	172.93	98.63	244.73	98.91

Current portion of lease receivables, net

As at 31 December 2022, the Company has receivables from current portion of lease receivables amounting to Baht 17.19 million, which are receivables arising from leasing of hardware equipment and software to unrelated parties; classified as a financial lease.

Inventory

As at 31 December 2022 and 2021, the Company had net inventories of Baht 13.88 million and Baht 35.14 million, respectively. Most inventories included the ordered devices, equipment, and computer software, pending delivery as per customers' purchase orders for which the Company has no policy of storing inventory for sale. As at 31 December 2022, the Company's inventories decreased compared to 31 December 2021, as the Company delivered most of its goods to customer within the year.

Non-current assets

As at 31 December 2022 and 2021, the Company had non-current assets of Baht 105.40 million and Baht 79.76 million, accounting for 12.98% and 10.84% of total assets, respectively. The majority of non-current assets are: collateralize deposits, property, plant and equipment, and right-of-use assets, details as follow:

Property, land and equipment

The Company's property, land and equipment which comprise the main items such as computers and equipment, and leasehold improvements, as at 31 December 2022 and 2021, amounted to Baht 20.73 million and Baht 11.39 million, respectively, a increase of Baht 9.34 million or 82.04% compared to as at 31 December 2021, mainly due to the construction of the Technical support center, which was completed in 2022 and increased in computers and equipment.

Right-of-use assets

The Company recorded the office rental fee as a right-to-use asset according to the Thai Financial Reporting Standards No. 16 (TFRS16). The Company's right-of-use assets as at 31 December 2021 and 31 December 2022, amounted to Baht 21.35 million and Baht 11.83 million, respectively, a increase of Baht 9.52 million or 80.52% compared to as at 31 December 2021, mainly due to the Company entered into a building lease agreement to be used as a Technical Support Center during the year, resulting in an increase in the right-of-use assets.

Liability overview

Liability structure

As at 31 December 2022 and 2021, the Company had total liabilities of Baht 199.83 million and Baht 162.54 million, respectively. Total liabilities as at 31 December 2022 increased from as at 31 December 2021 amounting to Baht 37.29 million or 22.94%. The main reason is because of trade and other payable. The details of each item can be described as follows.

Current Liability

As at 31 December 2022 and 2021, the Company has current liabilities of Baht 165.77 million and Baht 138.67 million, accounting for 82.95% and 85.31% of total liabilities, respectively. The main items are trade and other payables and deferred revenue.

Trade and other payable

Most of the trade payable are the owners of the products, the developers of hardware and software systems that the Company purchases to sell to the customers. As at 31 December 2022, the Company has accounts and other payables amounting to Baht 134.56 million, increase from the previous year Baht 13.30 million or 10.97% due to the increased in shipment for sale during year end period thus most trade payable are not yet due. As a result, trade and other payables have increased.

Deferred revenue - current

Deferred revenue from customers mostly came from customers who purchased equipment maintenance services, for which the Company received money from such customers before the actual service. As at 31 December 2022, the Company had an increase in current deferred revenue of Baht 1.98 million. The number of customers purchasing equipment maintenance services continues to increase in line with the Company's constant acquisition of service competency and expertise each year.

Non-current liability

As at 31 December 2022 and 31 December 2021, the Company has non-current liabilities of Baht 34.06 million and Baht 23.87 million, respectively. The main non-current liabilities are deferred revenue, liabilities under finance lease agreements and employee benefit obligations.

Lease liabilities

As at 31 December 2022 and 31 December 2021, the Company has financial lease liabilities of Baht 22.44 million and Baht 10.63 million, respectively, has recorded office rental items as financial lease liabilities in accordance with the Notification of Financial Reporting Standard No. 16 (TFRS16). During the year, the Company entered into a lease agreement for the building as a Technical support center, resulting in an increasing in lease liabilities.

Overview of Shareholders' Equity

As at 31 December 2022 and 31 December 2021, the Company had shareholders' equity of Baht 612.04 million and Baht 573.47 million, respectively. The Company's shareholders' equity as at 31 December 2022 increased by Baht 38.57 million because the Company has ability to make profit continuously. However, the Company paid dividends to shareholders on 29 April 2022 in amount of Baht 0.18 per share, totaling Baht 18.49 million.

Analysis of key financial ratios

Items	As at/ For the year ended 31 December		
	2020	2021	2022
Liquidity ratio (times)	1.42	4.74	4.26
Quick ratio (times)	1.01	4.06	3.75
D/E ratio (times)	1.68	0.28	0.33
Cash cycle			
Average collection period (days)	85.99	64.52	79.11
Average sale period (days)	40.14	25.94	11.95
Average payment period (days)	71.45	60.26	54.81
Cash cycle (days)	54.69	30.19	36.25

Liquidity Ratio, quick Ratio and D/E Ratio

As at 31 December 2022, the liquidity and quick ratio were 4.26 times and 3.75 times, respectively, slightly decreasing from as at 31 December 2021, However, the Company's operating profit has provided the Company with good liquidity, while its D/E Ratio was 0.33 times, a slightly increase compared to 31 December 2021 due to increased trade payables.

Cash cycle

As at 31 December 2022, the Company's cash cycle was at 36.25 days, increased from the year 2021 by the amount of 6.06 days, mainly due to 1) the average debt collection period increasing 14.59 days due to the credit term to customers 2) The average selling period has decreased 13.99 days because the Company is able to sell and ship most product in period due to customer demand for products 3) the average repayment period was reduced by 5.45 days because the Company having good liquidity from the Company's operating results in 2022, the Company therefore repays debts to the product owners (Vendor) faster.