

Taokaenoi Food and Marketing Public Company Limited



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

FOR QUARTER 4/2022



February 23, 2023

To President

The Stock Exchange of Thailand

Subject Management Discussion and Analysis for the Fourth Quarter ended December 31, 2022

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 twelve-month periods ended December 31, 2022, which may be summarized as follows:

Consolidated Financial Statements	4th Quarter (October - December)				
	Q4/ 2022		Q4/ 2021		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	1,231.5	100.0 %	1,077.2	100.0 %	14.3 %
Cost of Sales	(852.9)	(69.3 %)	(777.0)	(72.1 %)	9.8 %
Gross Margin	378.6	30.7 %	300.2	27.9 %	26.1 %
Distribution Costs	(149.6)	(12.1 %)	(123.2)	(11.4 %)	21.4 %
Administrative Expenses	(75.6)	(6.1 %)	(88.4)	(8.2 %)	(14.5 %)
Profit before Income Tax Expenses	135.2	11.0 %	85.5	7.9 %	58.2 %
Income Tax Expenses	(14.0)	(1.1 %)	(1.8)	(0.2 %)	672.0 %
Net Profit : Owners of the Parent	121.2	9.8 %	84.4	7.8 %	43.5 %

Consolidated Financial Statements	12M (January - December)				
	12M/ 2022		12M/ 2021		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	4,366.6	100.0 %	3,610.9	100.0 %	20.9 %
Cost of Sales	(3,111.4)	(71.3 %)	(2,742.4)	(75.9 %)	13.5 %
Gross Margin	1,255.3	28.7 %	868.5	24.1 %	44.5 %
Distribution Costs	(493.3)	(11.3 %)	(399.7)	(11.1 %)	23.4 %
Administrative Expenses	(309.4)	(7.1 %)	(298.3)	(8.3 %)	3.7 %
Profit before Income Tax Expenses	474.1	10.9 %	191.3	5.3 %	147.9 %
Income Tax Expenses	(39.4)	(0.9 %)	(10.3)	(0.3 %)	282.7 %
Net Profit : Owners of the Parent	434.7	10.0 %	182.1	5.0 %	138.7 %

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Consolidated Financial Statements	4th Quarter (October - December) vs. 3rd Quarter (July-September)				
	Q4/ 2022		Q3/ 2022		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	1,231.5	100.0 %	1,208.7	100.0 %	1.9 %
Cost of Sales	(852.9)	(69.3 %)	(840.1)	(69.5 %)	1.5 %
Gross Margin	378.6	30.7 %	368.6	30.5 %	2.7 %
Distribution Costs	(149.6)	(12.1 %)	(127.6)	(10.6 %)	17.3 %
Administrative Expenses	(75.6)	(6.1 %)	(79.1)	(6.5 %)	(4.4 %)
Profit before Income Tax Expenses	135.2	11.0 %	190.2	15.7 %	(28.9 %)
Income Tax Expenses	(14.0)	(1.1 %)	(10.0)	(0.8 %)	39.5 %
Net Profit : Owners of the Parent	121.2	9.8 %	180.0	14.9 %	(32.7 %)
Gain/(Loss) on Exchange rate	(28.4)	(2.3 %)	23.2	1.9 %	(222.7 %)
Profit before Income Tax Expenses excluded Gain/(loss)	163.6	13.3 %	167.1	13.8 %	(2.1 %)

Revenue from Sales

The Company has revenue from sales in the fourth quarter in the amount of 1,231.5 million Baht **Increased by 14.3 percent** from the same quarter of the previous year. It is noted that sales in the fourth quarter continued to increase from that of the third quarter by 1.9 percent, and represented the new highest sales over the past three years since the COVID-19 pandemic in early 2020, primarily due to the growth in sales in Thailand and China. Domestic growth was driven by the growing seaweed consumption in the country, which the Company was involved in the growing consumption by new products and continued marketing promotions, including the expansion of the distribution channels, particularly local channels. As for China, despite a slowdown in domestic consumption, the Company was able to continue increasing sales in this fourth quarter by focusing on sales and marketing promotions in China via both online and offline channels to boost sales and strengthen the foundation of products to consumers to accommodate the economic recovery in China. The Company's domestic sales in the fourth quarter accounted for 38 percent while international sales were at 62 percent.

The Company has revenue from sales in the year 2022 in the total amount of 4,366.6 million Baht increased by 20.9 percent from the same period of the previous year, thanks to the domestic sales growth representing 15.2 percent and international sales representing 24.8 percent. Sales for the entire year 2022 were generated in the country which accounted for 38 percent while international sales represented 62 percent.

Domestic Sales: Revenue from sales in the fourth quarter is 479.1 million Baht **Increased by 26.9 percent** from the same quarter of the previous year (increased by 7.8 percent from Q3/2022) and total sales in the year 2022 amount to 1,661.6 million Baht increased by 15.2 percent from the same period of the previous

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year. In 2022, the domestic sales continued to grow in every quarter, due to a variety of factors contributing to such growth in sales, which may be summarized as follows:

1. The domestic demand for seaweed consumption grew and increased substantially in every quarter. The most recent figures of seaweed consumption in the fourth quarter of this year represented a total market value higher than that of Q4/2019 (before the COVID-19 outbreak) by up to 12 percent, demonstrating a strong growth in domestic seaweed consumption. Such growth in domestic seaweed consumption was in part caused by the Company, as the market leader in the seaweed market, by launching new roasted seaweed products, which were well received to boost sales continuously.

The seaweed consumption market in 2022 for the entire year expanded up to 33 percent as compared to the previous year, whereby the Company was able to increase its market share to 63.4 percent in 2022.

2. The distribution channels were continuously and further increased to reach consumers via Traditional Trade, and in the fourth quarter, the Company prepared to distribute its products to 14 local distributors throughout Thailand to accommodate a major sales restructuring program to be implemented in January 2023 for the purpose of expanding to Traditional Trade to further achieve a strong, quality and sustainable growth in 2023.
3. The number of tourists in the countries increased in 2022 up to 11.1 million tourists, thereby resulting in a partial increase in sales from tourists.
4. New products and sales and marketing promotions were ongoing throughout the year, in which the Company continued to focus on reaching out to consumers through a variety of activities, both online and offline channels, e.g., collaboration with Bitkub, launch of products in association with After Yum, activities in Thailand Game Show 2022, promotion of seaweed consumption during the World Cup 2022, including access to consumers via social media, namely Twitter, Tik Tok and Facebook.

International Sales: Revenue from sales in the fourth quarter is 752.4 million Baht **increased by 7.5 percent** from the same quarter of the previous year (decreased by 1.5 percent from Q3/2022). Total sales in 2022 amount to 2,705.1 million Baht increased by 24.8 percent from the same period of the previous year, comprising sales in China representing 1,110 million Baht increased by 12.4 percent from the same period of the previous year, and sales from other countries in the amount of 1,595.1 million Baht increased by 35.1 percent from the same period of the previous year.

In 2022, international markets were able to increase sales substantially, particularly those markets in other countries with the growth for the entire year which increased by 35.1 percent as compared to that of 2021. Increased growth was reflected in almost every country, particularly in the United States of America, where the client base was remarkably expanded both in Asian Grocery in respect of Taokaenoi brand, and Mainstream through NORA brand. In addition, certain markets in Asia, e.g., Indonesia, Malaysia and Vietnam, enjoyed a substantial growth in sales, due to the launch of new products and marketing activities to enhance brand awareness among a wider variety of consumers.

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China market which continued to be the Company's major export market showed an increased growth in 2022 by 12.4 percent amidst the severe COVID-19 situations in China in 2022 due to the Zero COVID-19 policy and major city lockdown, thereby causing the transportation, consumption and economy in China to sustain a dramatic slowdown. The gross domestic product (GDP) in Q4/2022 still indicated a declining growth at 2.9%YoY as compared to 3.5% YoY in Q3/2022. However, as a result of such announcement canceling the Zero-COVID policy on December 7, 2022, and the country re-opening, the situations tended to improve by the end of the fourth quarter.

Nevertheless, the Company continued to emphasize and focus on marketing promotion activities in China in every quarter. Last month, the Company received a bronze medal award from the Chinese Marketing Federation (NEWRANK.CN) for Co-Branding idea from the seaweed marketing in collaboration with a major coffee brand in China (Double Win) in the third quarter last year. Furthermore, the Company continued to focus on online marketing in China to stimulate sales, as evidenced by sales figures via online channel of TAOBAO in December 2022, in which the Company was ranked top 2 highest sales and top 4 highest sales for the entire year via TAOBAO.

International sales in 2022 represented 61.9 percent of total sales, divided into 25.4 percent in China and 36.5 percent in other international markets.

Gross Margin

In the fourth quarter, the Company has gross profit of 378.6 million Baht representing 30.7 percent of revenue from sales. The ratio of gross profits to sales revenue is **increased by 2.9 percent** from the same quarter of the previous year. The Company continued to maintain its gross profit rate to increase in the fourth quarter by 0.2 percent as compared to that of Q3 / 2022, due to the continued increase in sales from the third quarter, thereby causing the fixed production costs per unit to decrease. Despite the fact that in the fourth quarter, the Company was affected by the government policy on increase in minimum wages, the Company was able to efficiently manage other expenses, e.g., implementation of the solar rooftop in its factory to partially reduce the power consumption, more efficient management of expenses in the factory, including sales of products that generated a good gross profit, thereby causing the ratio of gross profits to sales to improve accordingly.

In 2022, the Company has gross profit of 1,255.3 million Baht representing 28.7 percent of revenue from sales. The ratio of gross profits to sales revenue is increased by 4.7 percent from the same period of the previous year, due to the following factors contributing to a materially improved ratio of gross profits:

1. The consolidation of its production factories at Rojana Factory by introducing machinery to increase production efficiency and minimize labor costs proceeded throughout the year as planned, thereby causing the labor costs per unit to decrease, despite the increase in minimum wages in the fourth quarter.
2. Such increased sales in 2022 by 20.9 percent or over 756 million Baht helped reduce the fixed product costs per unit.
3. The overall costs of raw materials and packaging were managed to increase only slightly from purchase plan, despite such considerable increase in costs of both oil and packages in 2022.

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- The storage costs of raw materials were managed to reduce as a result of the decreased volume of storage of raw materials, particularly seaweed, as compared to 2021, including the introduction of the solar rooftop implementation to partially help lessen the costs of power consumption in the factory.
- The COVID-19 situations in 2022 improved, whereby the Company had no expenses in respect of control or bubble and seal measures this year as compared to 2021.

Distribution Costs

The Company has the distribution costs in the fourth quarter in the amount of 149.6 million Baht representing 12.1 percent of revenue from sales. The ratio of distribution costs to sales revenues is **increased by 0.7 percent** from the same quarter of the previous year (increased by 1.5 percent from Q3/2022). The increase in the distribution costs was caused by the focus on marketing promotion activities, both in the country and abroad, to reach out to more consumers and promote brand awareness, including to obtain sales and marketing data in China.

The Company's distribution costs throughout the year 2022 account for 11.3 percent, increased merely by 0.2 percent as compared to that of the same period of the previous year. Such costs were increased from marketing expenses to strengthen the brand foundation for future growth. The Company's overview still focuses on managing the ratio of distribution costs to sales to stay nearly at the same level as that of the same period of the previous year to improve its profitability. However, the transportation costs in the country were increased by oil price, while in other countries, the transportation costs for export tended to stay nearly the same level as that prior to the COVID-19 outbreak, not to mention that the supply of containers for export was sufficient to meet the demand, thereby allowing the overall transportation costs to be manageable without impact.

Administrative Expenses

The Company has the administrative expenses in the fourth quarter in the amount of 75.6 million Baht representing 6.1 percent of revenue from sales. The ratio of administrative expenses to sales revenue is **decreased by 1.2 percent** from the same period of the previous year, and decreased by 0.4 percent as compared to Q3/2022.

The Company has the administrative expenses in 2022 in the total amount of 309.4 million Baht representing 7.1 percent of revenue from sales which **decreased by 1.2 percent** from the same period of the previous year. Such continued decrease in the ratio of administration expenses to sales was caused by higher revenue growth, coupled with the maintenance of monetary expenses in terms of both the number of employees and other expenses, and as a result, total expenses increased by merely 3.7 percent in 2022.

Net Profit: Owners of the Parent

The Company has the net profit in the fourth quarter in the amount of 121.2 million Baht representing 9.8 percent of revenue from sales. The net profit in the fourth quarter increased by 43.5 percent from the same quarter of the previous year, and when compared to the ratio of net profit to sales revenue, **Increased by 2.0 percent** from the same quarter of the previous year. Such increase in the net profit to sales revenue was the result of the improvement in profitability along with cost management. However, when compared to Q3/2022, the ratio of net profit to sales revenue decreased by 5.0 percent, although the fourth quarter enjoyed a higher ratio of gross profits

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to sales. This is mainly due to the loss on exchange rate in the amount of 28.4 million Baht or representing 2.3 percent to sales, and also the increase in marketing expenses incurred by marketing activities and marketing data research in China in order to formulate basic understanding and properly manage the distribution channels. When compared the net profit before income tax by disregarding gain or loss on exchange rate in the fourth quarter, it would represent 13.3 percent to sales, which was nearly the same as 13.8 percent to sales in the third quarter.

The Company has the net profit in 2022 in the total amount of 432.6 million Baht representing 10.0 percent of revenue from sales, with the ratio of net profit to sales revenue **increased by 5.0 percent** from the same period of the previous year.

Business Trends and Challenges in 2023

In 2023, the Company sets its goals to continue strengthening its sales growth to achieve five billion Baht or representing a growth rate of 15 percent when compared to 2022, and improve its profitability to increase a net profit over 2022 to achieve its goals. Set forth below are the Company's strategies and goals to be achieved in 2023:

- Growth in domestic and international sales through innovative products and expansion of the distribution channels;
- Cost management, including efficient management of expenses (Productivity);
- Improvement of profitability in each respective channel;
- Enhancement of profitability of new products.

However, in 2023, there will be challenges that continue from 2022 to be closely controlled and monitored, namely:

- Tentative increase in costs of several raw materials;
- Recovery of tourism industry in the country;
- Economic recovery in China in 2023;
- Economic slowdown in several countries, including inflation that causes consumption to decline.

Please be informed accordingly.

Yours sincerely,

(Mr. Jirapong Suntipiromkul)

Deputy Managing Director

Authorized Persons to Disclose Information

Taokaenoi Food and Marketing PCL

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