

Taokaenoi Food and Marketing Public Company Limited



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

FOR QUARTER 1/2023



May 11, 2023

To President

The Stock Exchange of Thailand

Subject Management Discussion and Analysis for the First Quarter ended March 30, 2023

Taokaenoi Food and Marketing Public Company Limited (the “**Company**”) would like to clarify the revenue from sales and net profit in the consolidated financial statement for the three-month period ended March 31, 2023, which may be summarized as follows:

Consolidated Financial Statements	1st Quarter (January- March)				
	Q1/ 2023		Q1/ 2022		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	1,243.7	100.0 %	968.2	100.0 %	28.5 %
Cost of Sales	(836.4)	(67.3 %)	(713.6)	(73.7 %)	17.2 %
Gross Margin	407.3	32.7 %	254.6	26.3 %	59.9 %
Distribution Costs	(145.6)	(11.7 %)	(112.7)	(11.6 %)	29.2 %
Administrative Expenses	(87.6)	(7.0 %)	(75.2)	(7.8 %)	16.5 %
Profit before Income Tax Expenses	178.1	14.3 %	71.4	7.4 %	149.3 %
Income Tax Expenses	(11.5)	(0.9 %)	(8.9)	(0.9 %)	29.1 %
Net Profit : Owners of the Parent	166.0	13.3 %	62.8	6.5 %	164.4 %

Consolidated Financial Statements	1st Quarter (January- March) vs. 4th Quarter (October - December)				
	Q1/ 2023		Q4/ 2022		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	1,243.7	100.0 %	1,231.5	100.0 %	1.0 %
Cost of Sales	(836.4)	(67.3 %)	(852.9)	(69.3 %)	(1.9 %)
Gross Margin	407.3	32.7 %	378.6	30.7 %	7.6 %
Distribution Costs	(145.6)	(11.7 %)	(149.6)	(12.1 %)	(2.7 %)
Administrative Expenses	(87.6)	(7.0 %)	(75.6)	(6.1 %)	15.9 %
Profit before Income Tax Expenses	178.1	14.3 %	135.2	11.0 %	31.7 %
Income Tax Expenses	(11.5)	(0.9 %)	(14.0)	(1.1 %)	(17.5 %)
Net Profit : Owners of the Parent	166.0	13.3 %	121.2	9.8 %	37.0 %

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Revenue from Sales

The Company has revenue from sales in the first quarter in the amount of 1,243.7 million Baht **Increased by 28.5 percent** from the same quarter of the previous year and also increased from Q 4/2522 (which is the quarter with the highest sales than other quarters) by 1.0 percent. Such increase in sales in the first quarter by 28.5 percent or 276 million Baht was due to domestic sales growth in every channel, along with sales promotion and marketing, thereby causing continued increase in demand for seaweed consumption in the country, and international sales growth from China where the Zero-COVID-19 policy was terminated, thereby resulting in increased consumption and demand for goods, as well as growth in various countries, e.g., the United States of America, Indonesia, Malaysia, where sales continued to increase accordingly.

Sales in the first quarter were generated in the country which accounted for 38 percent while international sales represented 62 percent.

Domestic Sales: Revenue from sales in the first quarter is 466.7 million Baht **increased by 24.2 percent** from the same quarter of the previous year (decreased by 2.6 percent from Q4/2022), due to sales growth from the Company's focus on sales promotional and marketing activities for main products, namely Taokaenoi crispy seaweed and Big Roll grilled seaweed, and from the launch of new products in the category of roasted seaweed since last year. In this first quarter, the Company has launched a new product, namely **“Long Sheet Roasted Seaweed”**, which offers consumers with extra-long sheet seaweed for more fun and deliciousness while eating. Moreover, the increasing number of tourists up to more than 6.5 million tourists in Thailand in the first quarter of 2023 also partially helped increase sales from tourists in this first quarter.

Based on marketing data, the domestic consumption of seaweed for Q1 / 2023 continued to increase by more than 40 percent as compared to the same quarter of the previous year, and seaweed continued to serve as the product category with the highest growth as compared to other salty snacks, thereby demonstrating the trending snack consumption by consumers who chose delicious yet healthy snacks, and as such, seaweed snacks become more popular. The Company's market share in the first quarter was 63.6 percent.

International Sales: Revenue from sales in the first quarter is 777.0 million Baht **increased by 31.2 percent** from the same quarter of the previous year (increased by 3.3 percent from Q4/2022) due to sales growth in China in the first quarter in the amount of 303.1 million Baht, representing an increase by 31.2 percent from the same quarter of the previous year, and sales in other countries in the first quarter which were in aggregate 473.9 million Baht, representing an increase by 31.1 percent from the same quarter of the previous year.

Sales in China were supported by positive factors from termination of Zero COVID-19 measures since late last year, which helped increase more domestic consumption. This can be seen from China's economic figures in the first quarter of 2023 which grew higher than anticipated up to 4.5 percent. Moreover, the Company also

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continued to focus on sales promotional and marketing activities. During the Chinese New Year in the first quarter, the Company held a core activity to boost sales during the festival by offering the Chinese New Year Box Set as a stroke of fortune for sale via Hema, a new supermarket platform by Alibaba, along with promotional campaign via social media by Brand Ambassadors, namely Khun Zee and Khun Nunew, for Chinese consumers' brand awareness. Moreover, packages of the products were redesigned to display images of the Brand Ambassadors (Zee/Nunew) to set the trend among Chinese people to boost sales in the first quarter.

Other international markets continued to grow, particularly major markets which were able to increase sales substantially, e.g., the United States of America, where the Company started to promote Taokaenoi products in response to consumers' demand via COSTCO, a major wholesale and retail channel, which were well received, including Indonesia and Malaysia, where sales promotional campaigns were launched during the Chinese New Year and Ramadan to boost sales in this first quarter.

International sales in Q1/2023 represented 62 percent of total sales, in respect of which China accounted for 24 percent and other countries for 38 percent.

Gross Margin

In the first quarter, the Company has gross profit of 407.3 million Baht representing 32.7 percent of revenue from sales. The ratio of gross profit to sales revenue is **Increased by 6.4 percent** from the same quarter of the previous year, and the Company continued to maintain its gross profit rate to increase by 2.0 percent as compared to that of Q4/2022. The increased gross profit was due to the increase in sales in the first quarter by 28.5 percent or over 275 million Baht, resulting in higher utilization of the factory's production capacity, and causing the fixed production costs per unit to decrease. Furthermore, the factors in terms of improvement of production efficiency in the factory by introducing machinery to partially replace labor, thereby causing the labor costs per unit to decrease as a result of the increase in output, and management of various costs in the factory to achieve the economy of scale from higher volume of output to compensate for the increase in prices of raw materials and packages, and as such, the overall costs per unit were improved from the same quarter of the previous year.

Distribution Costs

The Company has the distribution costs in the first quarter in the amount of 145.6 million Baht representing 11.7 percent of revenue from sales. The ratio of distribution costs to sales revenue is **Increased by 0.1 percent** from the same quarter of the previous year (decreased by 0.8 percent from Q4/2022). The Company was able to maintain the ratio of distribution costs to revenue from sales to remain unchanged, by managing the overall distribution costs used in sales promotional and marketing activities in both domestic and international markets to the maximum to increase sales and Taokaenoi brand awareness. However, the overseas shipment costs increased

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nearly at the normal rate as before the COVID-19 outbreak in the first quarter as compared to the same quarter of the previous year, given the fact that the COVID-19 situations have subsided, thereby causing the volume of containers to be sufficiently supplied in response to demand.

Administrative Expenses

The Company has the administrative expenses in the first quarter in the amount of 87.6 million Baht representing 7.0 percent of revenue from sales. The ratio of administrative expenses to sales revenue is **decreased by 0.7 percent** from the same period of the previous year, and increased by 0.9 percent as compared to Q4/2022. The Company's administrative expenses were relatively increased from the same period of the previous year by 16.5 percent due to the increase in staff wages and welfare benefits as well as technology costs, although such increase was less than the increase in sales revenue, thereby causing the ratio of administrative expenses to sales revenue to decrease.

Net Profit: Owners of the Parent

The Company has the net profit in the first quarter in the amount of 166.0 million Baht representing 13.3 percent of revenue from sales. The net profit in the first quarter increased by 164 percent from the same quarter of the previous year (increased by 37 percent from Q4/2022), and when compared to the ratio of net profit to sales revenue, **increased by 6.9 percent** from the same quarter of the previous year

The Company's ratio of net profit to sales revenue continued to increased due to the focus on management and development of gross profitability by way of overall cost management, both variable costs and fixed costs, to achieve the economy of scale from sales increase, as well as management of other expenses, both selling and administrative expenses, to increase the ratio of net profit to sales revenue. In addition, the Company also benefited from two new investment promotional certificates which mainly provided tax incentives in respect of increased profits.

Business Trends and Challenges in Q2/2023

The Company will continue to focus on generating sales in the second quarter in parallel to maintaining the profitability level, which will be supported by local factors, such as, the tentative increase in the volume of tourists and the growth in seaweed consumption through marketing campaigns and new product offering to consumers. The contributing factors in international markets are the economic recovery in China, coupled with the Company's marketing both online and offline channels to potentially cause demand for Taokaenoi products to increase. In major countries, such as, the United States of America, the distribution channels have been expanded through, e.g., COSTCO and multiple mainstream channels, while in other international markets, sales tend to increase as well.

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However, the Company foresees challenges in terms of cost management as a result of inflation which would cause the costs of various raw materials to tentatively increase, and the likelihood of wages increase in the future, although the Company will continue to manage and improve its production efficiency along with effective management of internal fixed costs to accommodate uncertainties in the future.

Please be informed accordingly.

Yours sincerely,

(Mr. Jirapong Suntipiromkul)

Deputy Managing Director

Authorized to sign on behalf of the Company

Taokaenoi Food and Marketing PCL

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