

KERRY EXPRESS (THAILAND) PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS Q1/2023

NAVIGATING Q1 2023 CHALLENGES AND EMBRACING TRANSFORMATIVE EXPANSION IN THE EXPRESS PARCEL DELIVERY INDUSTRY

- Q1/2023 has been a challenging quarter for KEX, with the significant drop in delivery volume amidst suppressed demand led by **LOW SEASONALITY, LACKLUSTER ECONOMIC CONDITIONS, TAPERED PRIVATE CONSUMPTION, DWINDLING ONLINE RETAIL SALES**, a continuous ripple effect from post-pandemic country's reopening, as well as sales loss following service difficulties experienced during the peak 11-11 / 12-12 campaign periods last year.
- On a positive note, our price per parcel trend has been reversed for the first time in over a year in Q1/2023, following **DAMPENING PRICE COMPETITION** in the market as well as our **CUSTOMER SEGMENTATION** exercise. This, however, was overshadowed by a significant rise in unit cost led by shedding economies of scale despite our continuous **LEAN PROGRAMME IMPLEMENTATION** since Q4/2022.
- Going forward in 2023, KEX will pursue **MARKET SEGMENTATION** approach aiming to achieve **HIGHER REVENUE PER PARCEL**, including targeting medium to high end clients and establishing unique and premium services as well as reducing its reliance on lower-yield E-commerce platforms and avoiding aggressive price cut to attract sales.
- On the operation front, KEX will put its heavy emphasis on expediting the drastic transformation and upgrade of its operating networks and systems to uplift its operating efficiency. Now, with the robust collaboration and solid support from its ultimate major shareholder, KEX will move forward with the integration of SF Express's proven-successful way of work and best practices in various aspects including **SYSTEM AND TECHNOLOGY ADOPTION, PROCESS RE-ENGINEERING, COMPREHENSIVE TRANSIT PLATFORM REVAMP, PICKUP & DELIVERY RESOURCE INTEGRATION**, and **VEHICLE RESOURCE OPTIMIZATION** aiming to propel KEX technology and operational efficiency to a new level. This will include the **INVESTMENT IN NETWORK TRANSFORMATION, AUTOMATION, AND DIGITIZATION** to reduce the dependence on manpower and pull down its operating costs.
- Currently, our team consists of motivated multinational workforce with in-depth experiences in various fields, collaborating together to accomplish common goals while enhancing knowledge and experience sharing and strengthening our competitiveness. With such collaborative dedication and efforts, SF Express' wide range of industrial know-how and technological experience in express business as well as **SOLID FINANCIAL SUPPORT** from major shareholders, KEX targets this support to help KEX breaking through the transformative year, gradually narrowing its operation losses, strengthening its market position, propelling its unique operational efficiency and **RETURNING TO PROFITABILITY** within 2024.

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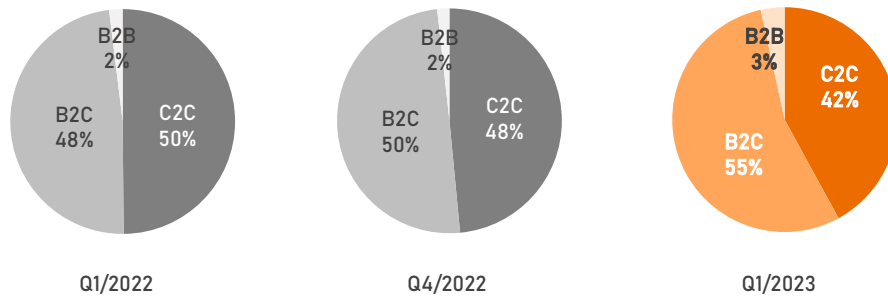
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Q1/2023 FINANCIAL PERFORMANCE

Table 1: Selected Indicators for Operational Results

(Unit: Million THB)	Q1/2022	Q4/2022	Q1/2023	YoY % +/-	QoQ % +/-
Parcel volume growth (%)				-24.9%	-26.0%
Sales and services income	4,416.0	4,085.4	3,130.6	-29.1%	-23.4%
Cost of sales and services	(4,630.4)	(4,605.7)	(3,724.2)	-19.6%	-19.1%
Gross profit	(214.4)	(520.3)	(593.6)	-176.9%	-14.1%
Selling and administrative expenses	(430.0)	(655.3)	(387.6)	-9.9%	-40.9%
EBITDA	39.5	(583.6)	(395.5)	-1,102.3%	32.2%
EBIT	(605.3)	(1,172.7)	(966.3)	-59.6%	17.6%
Net profit attributable to the owners of the company	(491.1)	(931.8)	(787.5)	-60.4%	15.5%
EPS (THB/Share)	(0.282)	(0.535)	(0.452)	-60.4%	15.5%
Gross Profit Margin (%)	-4.9%	-12.7%	-19.0%		
EBITDA Margin (%)	0.9%	-14.3%	-12.6%		
EBIT Margin (%)	-13.7%	-28.7%	-30.9%		
Net Profit Margin (%)	-11.1%	-22.8%	-25.2%		

Table 2: Revenue by Segment



- KEX's delivery volume declined by 26% QoQ during the low season of Q1/2023. This mostly came as a result of a substantial drop in online retail transactions during the first quarter following the lackluster economic outlook, lower domestic private consumption as well as impact from country's reopening, which shifted consumer behaviours towards physical shopping. According to the Bank of Thailand economic statistics, retail sales index in the category of sales via mail order houses and via internet fell to 83,807.75 in February 2023 from 114,322.07 six months earlier, representing a 26.7% drop. In addition to the unfavourable macro environment, during the period that KEX underwent business restructuring and commenced our LEAN Programme, we had experienced certain service quality difficulties during the peak 11-11 / 12-12 campaign periods, resulting in customer and sales loss during the subsequent months. These issues have been seriously handled by the management and core operation teams and our service quality has largely been brought back to normal.
- The company's sales and service income was reported at THB 3,130.6 million, decreased by 23.4% compared to the previous quarter. The decline was seen at a slower rate than that of delivery volume due to a slight increase in revenue per parcel during the quarter, on the backdrop of relatively stable competitive landscape as well as our differential market segmentation approach.

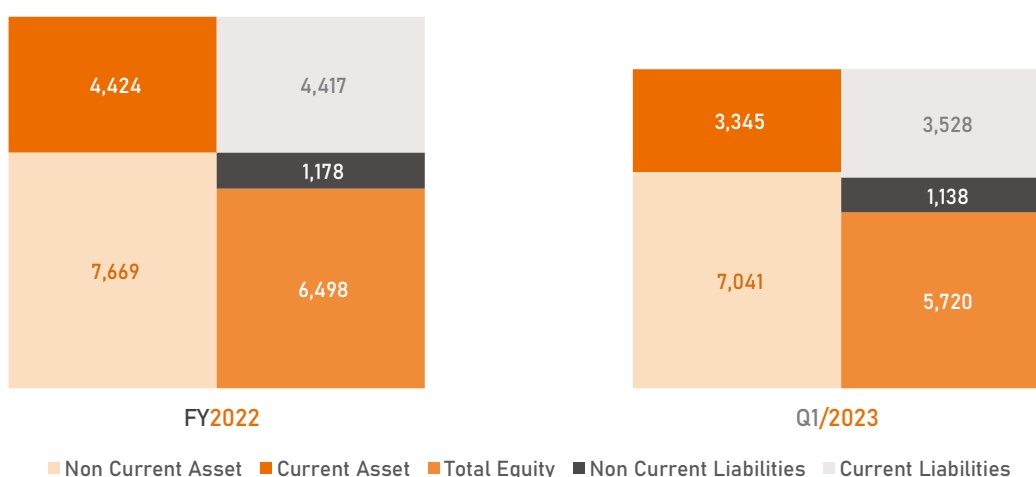
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- Cost of sales and services was reported at THB 3,724.2 million in Q1/2023, decreased by 19.6% from Q1/2022 and 19.1% from the previous quarter. During the quarter, KEX has continuously executed the recently initiated LEAN programme with the strong determination to enhance its operating efficiency. While diesel price has slightly softened, manpower cost remained a challenge with the tightening labour market and the rising activities in the tourism and service industries. During the past quarter, KEX has been minimising the redundancy as well as optimising resource utilisation in its core operation in a prudent manner, with emphasis on maintaining service quality and staff engagement and morale. Nonetheless, with the significant drop in volume, our economies of scale has been affected, giving rise to higher cost per parcel and more pressure on profitability during the quarter.
- Selling and administrative expenses (SG&A) decreased from Q1/2022 and the previous quarter by 9.9% and 40.9%, resulted from the stringent cost control approaches of the Company. Nevertheless, KEX has continuously developed the digitalisation for excellent information and technology infrastructure that provides KEX with the improvement in operation efficiency and timely monitoring.
- The Company and its subsidiaries reported a net loss attributable to owners of the Company of THB 787.5 million, 15.5% narrower loss than that of Q4/2022, when substantial amount of one-off expenses were incurred at the initiation of LEAN Programme. In order to improve the profitability of the Company, we aim to focus on market segmentation to expand mid-to-high market and gain high priced businesses. In addition, with the close cooperation and solid support from our ultimate major shareholder, S.F. Holding via SF Express, we will restructure our operating networks, invest in automation and digitization, upgrade our technology platforms and systems, aiming at reducing the reliance on manpower and drastically enhancing our operating efficiency to achieve monthly profitability turnaround within 2024.

FINANCIAL POSITION AND LIQUIDITY

Figure 1: Financial Position
(Unit: Million THB)



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Table 2: Asset Breakdown

(Unit: Million THB)	FY 2022	Q1/2023	Change % +/- (-)
Cash and investment in liquid financial assets	2,963.1	1,764.5	-40.4%
Trade and other receivables	1,852.3	1,586.0	-14.4%
Plant and equipment	2,490.1	2,370.5	-4.8%
Right-of-use assets	2,903.4	2,551.3	-12.1%
Investment in associates	-	18.0	-
Other assets	1,884.3	2,095.6	11.2%
Total Assets	12,093.2	10,386.0	-14.1%

Table 3: Liabilities and Shareholders' Equity

(Unit: Million THB)	FY 2022	Q1/2023	Change % +/- (-)
Trade and other payables	1,941.5	1,516.5	-21.9%
Cash on delivery payable	568.3	400.0	-29.6%
Current portion of lease liabilities	1,812.2	1,551.4	-14.4%
Lease liabilities	945.5	883.7	-6.5%
Other liabilities	328.0	314.1	-4.3%
Total Liabilities	5,595.5	4,665.8	-16.6%
Total Shareholders' Equity	6,497.7	5,720.3	-12.0%
Total Liabilities and Equity	12,093.2	10,386.0	-14.1%

- Cash and investment in liquid financial assets went down 40.4% to THB 1,764.5 million at the end of March 2023, mainly as a result of operating cash depletion and lease liability payments.
- Right of use assets and lease liabilities decreased 12.1% and 11.7% respectively, resulted from the declining rental contract lives per existing lease agreements and lease cancellation associated with our LEAN programme.
- KEX has invested THB 18.0 million in the shares of our new associate, HiveBox (Thailand) Co., Ltd., with 18% ownership stake. The new company aims to provide smart locker service in Thailand by offering 24/7 parcel pickup and delivery services. The service is expected to be fully launched within Q2/2023.
- Following our core business strategy under the current macroeconomic conditions and outlook, KEX will continue to be strategic with our cash flow management and investment plans. Exhibiting a strong financial support from our major shareholder, KLN (TH) has extended the short-term shareholder loan in the amount of THB 1,500 million to be used in existing operation and support our investments in the network transformation plans to achieve operating efficiency enhancement. The amount is expected to be drawn down during Q3/2023.

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KEY FINANCIAL RATIOS

Table 4: Key Financial Ratios

		Q1/2022	Q4/2022	Q1/2023
Liquidity ratios				
Current ratio ⁽¹⁾	(times)	1.30	1.00	0.95
Quick ratio ⁽²⁾	(times)	1.25	0.95	0.88
Cash flow liquidity ratio ⁽³⁾	(times)	-0.11	-0.26	-0.19
Accounts receivable turnover ⁽⁴⁾	(times)	17.81	13.86	13.81
Average collection period ⁽⁵⁾	(days)	20.50	26.34	26.43
Accounts payable turnover ⁽⁶⁾	(times)	30.21	18.29	24.14
Average payment period ⁽⁷⁾	(days)	12.08	19.96	15.12
Cash cycle ⁽⁸⁾	(days)	8.42	6.38	11.31
Profitability ratios				
Gross profit margin ⁽⁹⁾	(%)	-4.85	-9.89	-18.96
Net profit margin ⁽¹⁰⁾	(%)	-11.12	-16.64	-31.10
Return on equity ⁽¹¹⁾	(%)	-7.49	-35.79	-43.01
Efficiency ratios				
Return on total assets ⁽¹²⁾	(%)	-4.48	-19.42	-24.35
Total asset turnover ⁽¹³⁾	(times)	1.14	1.17	1.22
Financial policy ratios				
Total liabilities to equity ratio ⁽¹⁴⁾	(times)	0.73	0.86	0.82

Remarks:

(1) Current ratio = total current assets divided by total current liabilities

(2) Quick ratio = sum of cash and cash equivalents, short-term investments and trade and other receivables, divided by total current liabilities

(3) Cash flow liquidity ratio = net cash generated from operating activities divided by average total current liabilities

(4) Accounts receivable turnover = sales and services income divided by average gross trade accounts receivable

(5) Average collection period = 365 divided by accounts receivable turnover

(6) Accounts payable turnover = cost of sales and services divided by average trade account payable

(7) Average payment period = 365 divided by accounts payable turnover

(8) Cash cycle = the difference between the average collection period and the average payment period

(9) Gross profit margin = gross profit divided by sales and services income

(10) Net profit margin = profit (loss) for the period divided by sales and services income

(11) Return on equity = profit (loss) for the period divided by average total equity

(12) Return on total assets = profit (loss) for the period divided by average total assets

(13) Total asset turnover = sales and services income divided by average total assets

(14) Total liabilities to equity ratio = total liabilities divided by total equity

Alex Ng
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