

nForce Secure Public Company Limited

Management Discussion and Analysis

For the three-month Period Ended 31 March 2023

.....

**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 for the three-month period ended 31 March 2023 consisted of (1) revenue from sales of all products related to information technology systems, accounting for 96.40%; (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 3.15% (3) other revenue, accounting for 0.45%, respectively.

**Performance summary**

For the three-month period ended 31 March 2023, the Company had total revenue of Baht 252.28 million, an increase of Baht 76.84 million compared to the same period of the previous year or an increase of 43.80% with a total comprehensive income of Baht 27.22 million, increased by Baht 23.80 million from same period of the previous year or an increase of 695.92%

Items	For the three-month period ended 31 March					
	2021		2022		2023	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Revenue						
Revenue from sales	278.95	98.73	168.59	96.10	243.19	96.40
Revenue from services	3.23	1.14	5.80	3.30	7.95	3.15
Other income	0.35	0.13	1.05	0.60	1.14	0.45
<b>Total revenue</b>	<b>282.53</b>	<b>100.00</b>	<b>175.44</b>	<b>100.00</b>	<b>252.28</b>	<b>100.00</b>
Expenses						
Cost of sales and services	(224.36)	(79.41)	(149.15)	(85.01)	(194.54)	(77.11)
Selling expenses	(10.32)	(3.65)	(10.16)	(5.79)	(11.51)	(4.56)
Administrative expenses	(10.12)	(3.58)	(11.83)	(6.74)	(11.59)	(4.59)
Gain (Loss) on exchange rate, net	(2.16)	(0.76)	1.06	0.60	1.19	0.47
Fair value gain (loss) on derivatives	0.46	0.16	0.30	0.17	(0.35)	(0.14)
Net impairment losses on financial assets	-	-	(0.74)	(0.42)	0.03	0.01
Share of loss from joint ventures	-	-	(0.50)	(0.28)	(1.23)	(0.49)
<b>Total expenses</b>	<b>(246.50)</b>	<b>(87.25)</b>	<b>(171.02)</b>	<b>(97.48)</b>	<b>(218.00)</b>	<b>(86.41)</b>
<b>Profit before finance costs and income tax expenses</b>	<b>36.03</b>	<b>12.75</b>	<b>4.42</b>	<b>2.52</b>	<b>34.28</b>	<b>13.59</b>
Financial Cost	(0.58)	(0.21)	(0.15)	(0.09)	(0.20)	(0.08)
<b>Profit before income tax</b>	<b>35.45</b>	<b>12.54</b>	<b>4.27</b>	<b>2.43</b>	<b>34.08</b>	<b>13.51</b>
Income tax expenses	(7.67)	(2.71)	(0.85)	(0.48)	(6.86)	(2.72)
<b>Profit for the year</b>	<b>27.78</b>	<b>9.83</b>	<b>3.42</b>	<b>1.95</b>	<b>27.22</b>	<b>10.79</b>

## 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.

Unit: Million Baht	For the three-month period ended 31 March					
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
1. Network security	221.72	79.49	129.04	76.54	200.35	82.38
2. Endpoint security	37.40	13.41	25.34	15.03	28.28	11.63
3. Network performance & monitoring	18.07	6.48	13.51	8.01	7.27	2.99
4. PDPA	-	-	-	-	-	-
5. others	1.75	0.63	0.70	0.42	7.29	3.00
<b>Revenue from sales</b>	<b>278.95</b>	<b>100.00</b>	<b>168.59</b>	<b>100.00</b>	<b>243.19</b>	<b>100.00</b>

For the three-month Period Ended 31 March 2023, the Company's revenue from sales amounted to Baht 243.19 million, increased by Baht 74.61 million or 44.25% from the same period of previous year. The main source of income is revenue from the sale of network security products, which has increase by Baht 71.31 million, representing 55.27%;

compared to the same period of previous year, while revenue from sale of network performance and monitoring products decreased by Baht 6.24 million or 46.21%.

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 three-month period ended 31 March					
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
1. Banking, financial services and	61.41	22.01	54.31	32.21	44.56	18.32
2. Industry (Enterprise)	90.70	32.52	39.97	23.71	55.15	22.68
3. Government and State Enterprises	53.54	19.19	40.50	24.02	78.24	32.17
4. Telecommunication (Telecom & ISP)	24.19	8.67	12.33	7.32	39.36	16.18
5. Others (Others)	49.11	17.61	21.48	12.74	25.88	10.64
<b>Revenue from sales</b>	<b>278.95</b>	<b>100.00</b>	<b>168.59</b>	<b>100.00</b>	<b>243.19</b>	<b>100.00</b>

For the three-month period Ended 31 March 2023, the main end user group is the Government and State Enterprises group, followed by the industry group.

Revenue from sales for the three-month period Ended 31 March 2023 was a Baht 243.19 million, increased by Baht 74.60 million from the same period of previous year, or 44.24%, mainly due to the increasing demand from users, including semiconductor shortage which began to unravel since late 2022, vendors are able to deliver more products to the Company. As a result, total revenue increased.

**Revenue from services**

Unit: Million Baht	For the three-month period ended 31 March					
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
1. System maintenance service	2.23	69.07	3.26	56.14	4.21	52.98
2. Installation service	0.44	13.76	2.32	40.06	3.33	41.85
3. Training service	0.55	17.16	0.22	3.80	0.41	5.17
<b>Revenue from services</b>	<b>3.23</b>	<b>100.00</b>	<b>5.80</b>	<b>100.00</b>	<b>7.95</b>	<b>100.00</b>

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

For the three-month period Ended 31 March 2023, the Company's revenue from services amounted to Baht 7.95 million, increased of Baht 2.16 million or 37.11% compared to the same period of previous year in line with revenue from sales.

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	For the three-month period ended 31 March					
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
1. Revenue from sales of software	126.55	44.85	48.48	27.80	114.58	35.83
2. Maintenance agreement: MA	94.35	33.44	94.36	54.11	90.00	45.62
3. Revenue from others	61.27	21.71	31.54	18.09	46.57	18.54
<b>Total revenue from sales and services</b>	<b>282.17</b>	<b>100.00</b>	<b>174.38</b>	<b>100.00</b>	<b>251.14</b>	<b>100.00</b>

**Other revenue**

Other revenue consists of interest income, rental income, profit from disposal of assets, and operating expenses from activities etc. For the three-month period ended 31 March 2023, had other income of Baht 1.14 million or 0.45% of total revenue which slightly increased when compared to the same period of previous year.

**Cost of sales and services, and gross profit**

Unit: Million Baht	For the three-month period ended 31 March					
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
Revenue from sales and	282.17	100.00	174.38	100.00	251.14	100.00
Cost of sales and services	(224.36)	(79.51)	(149.15)	(85.53)	(194.54)	77.46
<b>Gross profit</b>	<b>57.81</b>	<b>20.49</b>	<b>25.23</b>	<b>14.47</b>	<b>56.60</b>	<b>22.54</b>

For the three-month Period Ended 31 March 2023, the Company's gross profit margin was 22.54 percent, an increase of 55.77% compared to the previous year mainly due to adjustment of the strategy to expand the market into products with profit potential for the Company. This includes an improvement in semiconductor shortage situation. This results in a shorter period of receiving goods from vendors compared to the delivery period during the crisis, it contributes to reducing the impact of the fluctuations risk in product costs due to fluctuations in exchange rates.

**Selling expenses**

Selling expenses	For the three-month period ended 31 March					
	2021		2022		2023	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Employee expense	6.23	60.38	6.50	63.98	7.16	62.21
Advertising and promotional costs	0.37	3.60	0.71	6.99	0.72	6.26
Commission	2.72	26.40	0.95	9.35	2.33	20.24
Other selling expenses	0.99	9.62	2.00	19.68	1.30	11.29
<b>Total</b>	<b>10.32</b>	<b>100.00</b>	<b>10.16</b>	<b>100.00</b>	<b>11.51</b>	<b>100.00</b>

For the three-month period ended 31 March 2023, the Company had selling expenses in the amount of Baht 11.51 million, or 4.56% of total revenue; whereas selling expenses for the three-month period ended 31 March 2022 increased compared to the same period of previous year in the amount of Baht 1.35 million or 13.32%. mainly due to increased commission in line with the increase in sales in the period.

**Administrative expenses**

Administrative expenses	For the three-month period ended 31 March					
	2021		2022		2023	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Employee expense	5.54	54.77	7.19	60.78	6.77	58.41
Professional fee	1.13	11.18	1.66	14.03	1.22	10.53
Depreciation and amortization	1.53	15.10	1.50	12.68	2.52	21.74
Employee's benefit expense	0.54	5.30	0.59	4.99	0.32	2.76
Administrative expenses	1.38	13.65	0.89	7.52	0.76	6.56
<b>Total</b>	<b>10.12</b>	<b>100.00</b>	<b>11.83</b>	<b>100.00</b>	<b>11.59</b>	<b>100.00</b>

The main administrative expenses are employee expenses, depreciation and amortization and professional fees. For the three-month Period Ended 31 March 2023, the Company had administrative expenses in the amount of Baht 11.59 million, slightly decreased compared to the same period of previous year Baht 0.25 million or 2.08%.

**Net profit and net profit margin**

For the three-month period ended 31 March 2023, the Company had a net profit of Baht 27.22 million, increasing from the year 2022 by the amount of Baht 23.80 million or 695.92%. Net profit margin for the three-month period ended 31 March 2023 was 10.79%, increased compared to the same period of previous year due to increased gross profit margin.

## Statement of financial position

### Total assets overview

As at 31 March 2023 and 31 December 2022, the Company had total assets of Baht 838.88 million and Baht 811.87 million, respectively. The details of each item can be described as follows:

#### Current assets

As at 31 March 2023 and 31 December 2022, the Company had current assets of Baht 746.60 million and Baht 706.47 million, representing 89.00 percent and 87.02 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 March 2023 and 31 December 2022, the Company had cash and cash equivalents amounting to Baht 419.99 million and Baht 398.24 million, respectively. Cash and cash equivalents increased mainly due to operating results and repayment from trade account receivables and other receivables.

#### Account receivables and other receivables

Items	As at 31 December				As at 31 March	
	2021		2022		2023	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Account Receivable	170.14	97.37	236.52	95.03	150.42	72.14
Accounts receivable - related party	2.51	1.44	8.97	3.60	50.29	24.12
Accrued income	2.68	1.53	1.94	0.78	2.56	1.23
<u>Less</u> Loss allowance	(2.40)	(1.37)	(2.70)	(1.08)	(1.54)	(0.75)
<b>Total accounts receivables - net</b>	<b>172.93</b>	<b>98.97</b>	<b>244.73</b>	<b>98.32</b>	<b>201.73</b>	<b>96.74</b>
Prepaid expenses	1.61	0.92	3.98	1.60	6.22	2.98
Employee account receivable	0.20	0.11	0.17	0.07	0.37	0.18
Accrued interest - related party	-	-	0.02	0.01	0.20	0.10
Accrued interest - unrelated party	-	-	-	-	-	-
<b>Total other receivables</b>	<b>1.81</b>	<b>1.03</b>	<b>4.17</b>	<b>1.68</b>	<b>6.79</b>	<b>3.26</b>
<b>Total account and other receivables - net</b>	<b>174.74</b>	<b>100.00</b>	<b>248.90</b>	<b>100.00</b>	<b>208.52</b>	<b>100.00</b>



As at 31 March 2023 and 31 December 2022, the Company had account and other receivables amounting to Baht 208.52 million and Baht 248.91 million, or accounted for 24.86% and 30.66% of total assets, respectively. As at 31 March 2023, the Company's account receivables and other receivables decreased in the amount of Baht 40.39 million, mainly due to receipt of payment from account receivable during the period.

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

Items	For the three-month period ended 31 March					
	2021		2022		2023	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Not yet due	15.95	9.10	21.98	8.88	166.68	83.05
Less than 3 months overdue	157.85	90.03	224.47	90.72	33.04	16.46
Overdue more than 3 months but not over 6 months	0.54	0.30	-	-	-	-
Overdue 6 months but not over 12 months	-	-	-	-	-	-
Over 12 months overdue	0.99	0.56	0.99	0.40	0.99	0.49
<b>Total account receivables</b>	<b>175.33</b>	<b>100.00</b>	<b>247.43</b>	<b>100.00</b>	<b>200.71</b>	<b>100.00</b>
Allowance for expected credit losses / doubtful accounts	(2.40)	(1.37)	(2.70)	(1.09)	(1.54)	(0.77)
<b>Total account receivables - net</b>	<b>172.93</b>	<b>98.63</b>	<b>244.73</b>	<b>98.91</b>	<b>199.17</b>	<b>99.23</b>

#### Current portion of lease receivables, net

As at 31 March 2023, the Company has receivables from current portion of lease receivables amounting to Baht 7.85 million, which are receivables arising from leasing of hardware equipment and software to unrelated parties; classified as a financial lease.

#### Inventory

As at 31 March 2023 and 31 December 2022, the Company had net inventories of Baht 45.18 million and Baht 13.88 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 March 2023, the Company's inventories increased compared to 31 December 2022, due to the delivery of products from vendors near the end of period and the Company has not yet delivered the products to the customers.

---

## Non-current assets

As at 31 March 2023 and 31 December 2022, the Company had non-current assets of Baht 92.28 million and Baht 105.40 million, accounting for 11.00% and 12.98% of total assets, respectively. The majority of non-current assets are restricted deposits, property, plant and equipment, and right-of-use assets, details as follow:

### Property, plant and equipment

The Company's property, plant and equipment which comprise the main items such as computers and equipment, and leasehold improvements, as at 31 March 2023 and 31 December 2022, amounted to Baht 18.91 million and Baht 20.73 million, respectively, decreased of Baht 1.82 million or 8.77% compared to as at 31 December 2022 from depreciation during period.

### 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 March 2023 and 31 December 2022, amounted to Baht 20.05 million and Baht 21.35 million, respectively, decreased of Baht 1.30 million or 6.08% compared to as at 31 December 2022, mainly due to amortization during period.

## Liability overview

### Liability structure

As at 31 March 2023 and 31 December 2022, the Company had total liabilities of Baht 199.53 million and Baht 199.83 million, respectively. Total liabilities as at 31 March 2023 increased from as at 31 December 2022 amounting to Baht 0.30 million or 0.15%. The details of each item can be described as follows.

### Current Liability

As at 31 March 2023 and 31 December 2022, the Company has current liabilities of Baht 166.65 million and Baht 165.77 million, accounting for 83.52% and 82.95% 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 March 2023, the Company has trade and other payables amounting to Baht 141.68 million, increase from as at 31 December 2022 Baht 7.11 million or 5.29% 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 March 2023, the Company had an increase in current deferred revenue of Baht 0.77 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 March 2023 and 31 December 2022, the Company has non-current liabilities of Baht 32.88 million and Baht 34.06 million, respectively. The main non-current liabilities are deferred revenue, liabilities under finance lease agreements and employee benefit obligations.

#### Lease liabilities

As at 31 March 2023 and 31 December 2022, the Company has financial lease liabilities of Baht 21.16 million and Baht 22.44 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 period, lease liabilities decreased from amortization.

#### **Overview of Shareholders' Equity**

As at 31 March 2023 and 31 December 2022, the Company had shareholders' equity of Baht 639.35 million and Baht 612.04 million, respectively. The Company's shareholders' equity as at 31 March 2023 increased by Baht 27.31 million from the Company's Q1 2023 performance.

**Analysis of key financial ratios**

Items	As at/ For the year ended 31 December	As at/ For the three-month ended 31 March	
	2022	2022	2023
Liquidity ratio (times)	4.26	6.24	4.48
Quick ratio (times)	3.88	5.14	3.72
D/E ratio (times)	0.33	0.24	0.31
<b>Cash cycle</b>			
Average collection period (days)	86.31	85.52	92.03
Average sale period (days)	11.95	21.11	13.57
Average payment period (days)	54.81	47.51	41.09
Cash cycle (days)	43.44	59.11	64.51

Liquidity Ratio, quick Ratio and D/E Ratio

As at 31 March 2023, the liquidity and quick ratio were 4.48 times and 3.72 times, respectively, slightly decreasing from as at 31 December 2022, However, the Company's operating profit has provided the Company with good liquidity, while its D/E Ratio was 0.31 times, a slightly decrease compared to 31 December 2022 due to increased trade payables.

Cash cycle

As at 31 March 2023, the Company's cash cycle was at 64.51 days, increased from the same period of previous year by the amount of 5.40 days, mainly due to 1) the average debt collection period increasing 6.51 days due to the credit term to customers 2) The average selling period has decreased 7.54 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 has decreased by 6.42 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.