

Taokaenoi Food and Marketing Public Company Limited



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

FOR QUARTER 2/2023



August 11, 2023

To President
The Stock Exchange of Thailand

Subject Management Discussion and Analysis for the Second Quarter ended June 30, 2023

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 six-month periods ended June 30, 2023, which may be summarized as follows:

Consolidated Financial Statements	2nd Quarter (April - June)				
	Q2/ 2023		Q2/ 2022		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	1,304.1	100.0 %	958.2	100.0 %	36.1 %
Cost of Sales	(874.3)	(67.0 %)	(704.9)	(73.6 %)	24.0 %
Gross Margin	429.8	33.0 %	253.4	26.4 %	69.7 %
Distribution Costs	(138.9)	(10.7 %)	(103.4)	(10.8 %)	34.3 %
Administrative Expenses	(101.2)	(7.8 %)	(79.5)	(8.3 %)	27.2 %
Profit before Income Tax Expenses	208.0	15.9 %	77.2	8.1 %	169.3 %
Income Tax Expenses	(12.2)	(0.9 %)	(6.4)	(0.7 %)	90.0 %
Net Profit : Owners of the Parent	195.0	14.9 %	70.8	7.4 %	175.4 %

Consolidated Financial Statements	1H (January - June)				
	1H/ 2023		1H/ 2022		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	2,547.8	100.0 %	1,926.4	100.0 %	32.3 %
Cost of Sales	(1,710.7)	(67.1 %)	(1,418.4)	(73.6 %)	20.6 %
Gross Margin	837.1	32.9 %	508.0	26.4 %	64.8 %
Distribution Costs	(284.5)	(11.2 %)	(216.1)	(11.2 %)	31.7 %
Administrative Expenses	(188.8)	(7.4 %)	(154.7)	(8.0 %)	22.0 %
Profit before Income Tax Expenses	(386.1)	(15.2 %)	(148.7)	(7.7 %)	159.7 %
Income Tax Expenses	(23.8)	(0.9 %)	(15.4)	(0.8 %)	54.6 %
Net Profit : Owners of the Parent	361.0	14.2 %	133.6	6.9 %	170.2 %

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**Consolidated
Financial Statements**

	2nd Quarter (April - June) vs. 1st Quarter (January - March)				
	Q2/ 2023		Q1/ 2023		Change
	(Million Baht)	(%)	(Million Baht)	(%)	(%)
Revenue from Sales	1,304.1	100.0 %	1,243.7	100.0 %	4.9 %
Cost of Sales	(874.3)	(67.0 %)	(836.4)	(67.3 %)	4.5 %
Gross Margin	429.8	33.0 %	407.3	32.7 %	5.5 %
Distribution Costs	(138.9)	(10.7 %)	(145.6)	(11.7 %)	(4.6 %)
Administrative Expenses	(101.2)	(7.8 %)	(87.6)	(7.0 %)	15.5 %
Profit before Income Tax Expenses	208.0	15.9 %	178.1	14.3 %	16.8 %
Income Tax Expenses	(12.2)	(0.9 %)	(11.5)	(0.9 %)	6.0 %
Net Profit : Owners of the Parent	195.0	14.9 %	166.0	13.3 %	17.4 %

Revenue from Sales

The Company has revenue from sales in the second quarter in the amount of 1,304.1 million Baht **increased by 36.1 percent** compared to the same quarter of the previous year (increased by 4.9 percent from Q1/2023) and has revenue from sales in the first six months in the amount of 2,547.8 million Baht increased by 32.3 percent or 621 million Baht compared to the same period of the previous year. Such revenue in the first half of the year has been restored to be at the level close to that of the first half of 2019 before the COVID-19 pandemic. Such improvement of the operating results in terms of revenues and profits was due to the Company's focus on the 3GO strategy in its business management, namely:

1. **GO FIRM** refers to corporate restructuring to be compact, cost reduction and cost control for productivity;
2. **GO BOARD** represents an expansion of its business foundation to be wider and create value, including branding;
3. **GO GLOBAL** leads to an expansion to foreign markets to ensure quality and sustainability.

Such increase in sales in the second quarter by 36.1 percent or 346 million Baht was due to the domestic market's growth at 30.1 percent from the growing customer base in seaweed consumption in Thailand thanks to innovative products and domestic market promotion to strengthen the Taokaenoi brand among consumers, and the international markets' growth at 39.7 percent from major countries where the Company focused on sales promotional and marketing activities, both online and offline, with consumers, i.e., China, USA, Indonesia and Malaysia, which resulted in the continued growth over the past several quarters.

In the second quarter, the Company's domestic sales accounted for 36 percent against 64 percent of international sales.

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Domestic Sales: Revenue from sales in the second quarter is 471.5 million Baht **increased by 30.2 percent** compared to the same quarter of the previous year (increased by 1.0 percent from Q1/2023) and total sales in the first six months amount to 938.2 million Baht increased by 27.1 percent compared to the same period of the previous year. Such growth of seaweed products was due to the Company's regular launch of new products in response to consumers' demand, particularly roasted seaweed products which are more widely popular among consumers. In this second quarter, the Company has launched new products in two seaweed flavors newly designed by Taokaenoi's two Brand Ambassadors, Khun Zee and Khun Nunew, namely Khao Soi flavor and Salmon and Japanese sauce, along with sales promotional and marketing activities, both online and offline, in which both Brand Ambassadors also participated. In addition, the Company has emphasized its leading role in seaweed product segment by organizing Taokaenoi Global Fun Fair on April 26 to celebrate the 20th anniversary of Taokaenoi with our consumers worldwide through live streaming in several countries, e.g., China, Indonesia and Malaysia, along with influencers in those countries who joined the event on that day in Thailand.

Based on marketing data, the Company has increased its market share in the first six months to 64 percent, which represented a total marketing value similar to that of the first half of 2019 before the COVID-19 pandemic, despite merely 12.9 million tourists in Thailand in the first half of the year (based on the records from the Ministry of Tourism and Sports) or representing merely 6.5 % compared to the number of tourists in the first half of 2019. This has shown that the domestic consumption of seaweed snack products has substantially grown and become more popular among consumers, despite the unsubstantial growth in the market from tourists.

International Sales: Revenue from sales in the second quarter is 832.7 million Baht **increased by 39.7 percent** from the same quarter of the previous year (increased by 7.2 percent from Q1/2023) and total sales in the first six months amount to 1,609.7 million Baht increased by 35.4 percent from the same period of the previous year. This represents such six-month sales that has rebounded to the level higher than 1,528 million Baht of the first half of 2019 before the COVID-19 outbreak late in 2019. Such sales growth in the second quarter represented sales growth in China in the second quarter in the amount of 343.3 million Baht, representing an increase by 54.1 percent from the same quarter of the previous year, and sales in other countries in the second quarter which were in aggregate 489.4 million Baht, representing an increase by 31.1 percent from the same quarter of the previous year.

Sales growth in China tends to improve continuously due to positive factors from its country's opening and the government policy on post-COVID-19 economic stimulus to expand its domestic demand. China's economic figures in the first half of 2023 grew at 5.5 percent, and 6.3 percent in Q2/2023 compared to the same period of the previous year. This includes the Company's sales promotional and marketing activities which continue in the second quarter to focus on sales activities via online channels, both live and e-commerce, including events held with Chinese consumers through Brand Ambassadors to strengthen the Taokaenoi brand

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among Chinese consumers. Taokaenoi Global Fun Fair 2023 in Thailand last April was also participated by Chinese influencers who also made their live streaming to China.

Moreover, other international markets continued to grow in every quarter, and in this second quarter, grew by 31.1 percent from the same quarter of the previous year (increased by 3.3 percent from Q1 /2023), mainly from Indonesia where the growth of roasted seaweed products became more popular, and in USA whose growth of Tempura and grilled seaweed products was outstanding thanks to marketing activities and expansion of products in wider sales channels.

International sales in Q2/2023 represented 64 percent of total sales, in respect of which China accounted for 26 percent and other countries for 38 percent.

Gross Margin

In the second quarter, the Company has gross profit of 429.8 million Baht representing 33.0 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 0.3 percent as compared to that of Q1 /2023, and has gross profit in the first six months in the total amount of 837.1 million Baht, representing 32.9 percent of revenue from sales. The ratio of gross profits to sales revenue in this second quarter is supported by the following positive factors:

- Sales in the second quarter increased at 36.1 percent and were higher than sales in the first quarter by 4.9 percent, thereby enabling the Company to utilize total production capacity at both factories up to 73 percent to achieve the economy of scale in terms of factory expenses and reduction of fixed production costs per unit.
- Machinery was introduced to enhance production efficiency, which enabled the Company to manage labor costs not to be increased too much against higher production volume.
- Costs were managed by adhering to GO FIRM strategy to improve performance efficiency and cause certain expenses to decrease, e.g., Solar Rooftop was used to reduce electricity costs in the factory.
- Costs of raw materials and packages were controlled to remain steady without any material change.

Distribution Costs

The Company has the distribution costs in the second quarter in the amount of 138.9 million Baht representing 10.7 percent of revenue from sales. The ratio of distribution costs to sales revenue is **decreased by 0.1 percent** from the same quarter of the previous year (decreased by 1.1 percent from Q1 /2023), and has the distribution costs in the first six months representing 11.2 percent, which was the same rate as that of the same period of the previous year. The Company was able to maintain the ratio of distribution costs to revenue from sales to remain unchanged, by managing such expenses in sales promotional and marketing activities in both domestic and international markets to focus on such activities to optimize efficiency to the maximum to increase sales in channels

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with potential growth, and build Taokaenoi brand awareness. The overseas shipment costs returned to the normal rate as before the COVID-19 outbreak, and as such, the Company was able to manage the distribution costs better, and improve its budget allocation for sales and marketing activities which resulted in sales growth.

Administrative Expenses

The Company has the administrative expenses in the second quarter in the amount of 101.2 million Baht representing 7.8 percent of revenue from sales. The ratio of administrative expenses to sales revenue is **decreased by 0.5 percent** from the same period of the previous year (increased by 0.8 percent as compared to Q1/2023). Despite the increase in expenses in respect of staff wages and welfare benefits as well as technology costs, the Company managed to maintain the ratio of administrative expenses to sales revenue to remain the same, and tend to decrease, thanks to such measures to efficiently optimize cost management and control without any substantial change in the number of staff.

The Company has the administrative expenses in the first six months in the amount of 188.8 million Baht representing 7.4 percent of revenue from sales, **decreased by 0.6 percent** from the same period of the previous year.

Net Profit: Owners of the Parent

The Company has the net profit in the second quarter in the amount of 195.0 million Baht representing 14.9 percent of revenue from sales. The net profit increased by 175 percent from the same quarter of the previous year (increased by 17 percent from Q1/2023), and when compared to the ratio of net profit to sales revenue, **increased by 7.6 percent** from the same quarter of the previous year.

Such continued increase in the ratio of net profit to sales revenue was supported by the Company's focus on the 3GO strategy in its management, along with improvement of gross profitability by way of revenue management by boosting growth of products with potential gross profitability in parallel to overall cost management and factory expenses, both variable costs to reduce and fixed costs to achieve the economy of scale from sales increase. It can be seen that the gross margin to sales revenue in this second quarter increased by 6.5 percent from the same quarter of the previous year. The Company also focused on management of other expenses, both selling and administrative expenses, to increase the ratio of net profit to sales revenue, thereby causing such ratio of net profit to sales revenue to increase from management of such expenses by 0.6 percent. In addition, the Company also benefited from two new investment promotional certificates at Rojana Factory, which provided tax incentives in respect of increased profits.

The Company's net profit in the first six months amounts to 361.0 million Baht representing 14.2 percent of revenue from sales, **increased by 7.2 percent** of revenue from sales from the same period of the previous year.

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Business Trends and Challenges in the Second Half of 2023

The Company will continue to focus on generating sales in the second half of 2023 in parallel to strengthening the profitability level, which is expected to be supported by local factors, e.g., the potential increase in the volume of tourists, particularly in the fourth quarter during China's long holiday weekend or the Golden Week when more Chinese tourists are expected to visit Thailand than the first half of the year, 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, which tends to improve in the second half of the year, coupled with the Company's marketing both online and offline channels to potentially cause demand for Taokaenoi products to increase, and expansion of products and channels in major countries, such as, USA, Indonesia which enjoys the continued growth momentum from marketing activities and innovative products in response to consumers' needs.

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 from the first half of the year. Despite these challenges, the Company has planned to adjust prices of certain products should the costs rise up, so as to maintain its profitability to a certain extent, along with its focus on production management to ensure efficiency and reduce production costs from sales growth, and as such, its profitability would stay the same as much as possible.

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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