

KERRY EXPRESS (THAILAND) PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS Q2/2023

Q2/2023 A QUARTER TO ADJUST AND GET PREPARED FOR REBOUND

- Despite the end of pandemics and reopening to international tourists, Thai economy and political environment remain uncertain. Even though the demand for express delivery services gradually resumes, competition (especially those towards the demand from e-commerce platforms) in this industry grows. Other existing players are more willing to reduce prices in exchange for increasing volume. At the same time, platforms are expediting their pace in building its self-operated delivery networks.
- Q2/2023 was an important quarter of KEX as it marked a new milestone in our history. Collaboration with our major stakeholders, KLN and SF Express, reached another level; personnel, technology and industry know-how exchanges deepened / business strategies updated to put customer's and courier's satisfaction as all-time priority. To achieve these KEX's hub-and-spoke network, operating procedures, product designs and people's principles are set to be upgraded. Our latest Q2 NPS research shows that KEX continues to lead in most aspects, which signals the market's recognition of our brand and quality. Operation result in the latter part of Q2/2023 also showed return on all these actions.
- Delivery volume in Q2/2023 slightly dropped led by softer demand. Despite the drop in overall volume, the contribution of the C2C segment to our total revenue increased from the proportion of 42% to 45% of total revenue. This effect kicked in in late Q2/2023 and expected to reflect the full result in 2H2023. KEX continues to put a big effort into serving e-commerce platforms by providing distinguished service to retain our share of this segment.
- During Q2/2023, with the **PROGRESSIVE TRANSFORMATION** with plenary collaboration of SF Express, KEX has planned to **OPTIMISE THE NETWORK PLANNING** to minimise the redundancy of the operating activities. This improvement together with newly implementation of automation sorting systems aims to reduce entire transferring processes and delivery time, along with the full resource utilisation and efficiency improvement. In addition, we target to improve the capacity of distribution facilities to establish the **INTEGRATION OF COLLECTION AND DELIVERY SERVICES** and streamlining the warehouse operation processes started in BKK area and target to expand nationwide during the next few years. These can foresee the upcoming Capex to support the operation restructuring. For the investment perspective, KEX is fully supported by our major shareholders for financial support (via financing and other feasible proposal) to help KEX breaking through transformative year, **NARROWING OPERATION LOSSES** with clear targets and milestones, propelling a unique operational efficiency and **RETURN TO PROFITABILITY** within 2024. This above adjusted strategy from market share approach to quality approach does not contradict with KEX's journey. An express network with distinguished quality requires state-of-the-art systems, equipment as well as technology know-how. Thus, KEX adjusted strategy puts solid P&L target alongside quality targets. We believe Q2/2023 might have marked the watershed to our rebound.
- Going forward in term of business strategy in 2023, KEX aims to be recognized as a comprehensive solutions expert by pursuing **MARKET SEGMENTATION APPROACH** to achieve higher revenue per parcel focusing on the intensive cultivation of C-end customers and industries, **TARGETING MEDIUM TO HIGH END CLIENTS**, and establishing unique and premium services. These will serve B2C better due to our stronger resilience to seasonal fluctuations of demand, more frequent receiving/delivery cycles, and lower cost via "co-loading effect" etc. 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. In addition, KEX focuses on the improvement in profit level by optimizing operations and refining business strategies. This

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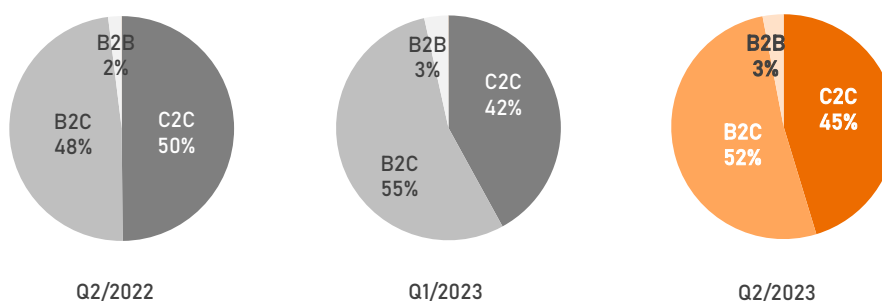
approach is a renewed approach to ensure that in long term KEX's position will be highly aligned with SF Express's approach in China and SE Asia.

Q2/2023 FINANCIAL PERFORMANCE

Table 1: Selected Indicators for Operational Results

(Unit: Million THB)	Q2/2022	Q1/2023	Q2/2023	YoY % +/-	QoQ % +/-
Parcel volume growth (%)				-27.6%	-3.0%
Sales and services income	4,283.0	3,130.6	2,923.3	-31.7%	-6.6%
Cost of sales and services	(4,783.1)	(3,724.2)	(3,814.8)	-20.2%	2.4%
Gross loss	(500.1)	(593.6)	(891.4)	-78.3%	-50.2%
Selling and administrative expenses	(459.0)	(387.6)	(448.8)	-2.2%	15.8%
EBITDA	(300.2)	(395.5)	(758.7)	-152.7%	-91.8%
EBIT	(919.0)	(966.3)	(1,315.5)	-43.2%	-36.1%
Net loss attributable to the owners of the company	(732.4)	(787.5)	(1,047.7)	-43.1%	-33.0%
EPS (THB/Share)	(0.420)	(0.452)	(0.601)	-43.1%	-33.0%
Gross Profit Margin (%)	-11.7%	-19.0%	-30.5%		
EBITDA Margin (%)	-7.0%	-12.6%	-26.0%		
EBIT Margin (%)	-21.5%	-30.9%	-45.0%		
Net Profit Margin (%)	-17.1%	-25.2%	-35.8%		

Table 2: Revenue by Segment



- KEX's delivery volume marginally declined by 3.0% QoQ. This was mostly from a continuing drop in demand from e-commerce platforms. However, we expected that during 2H2023, the delivery volume would recover from the favorable expansion of private consumption which has been revised by the Bank of Thailand from a 3.2% increase in the previous estimation to a 3.7% increase. In addition, there will be the 11-11 / 12-12 campaign periods which will also boost our delivery volume. Our sales performance in the latter part of Q2/2023 also showed that our sharper focus on the C2C and high-end segment could give to improving force our overall average price per parcel and C2C's contribution.
- **Sales and service income** reported at THB 2,923.3 million, decreased by 6.6% QoQ. The decline was mainly from a slight decline in delivery volume from B2B and B2C segments as well as a slight drop in average revenue per parcel during the quarter.

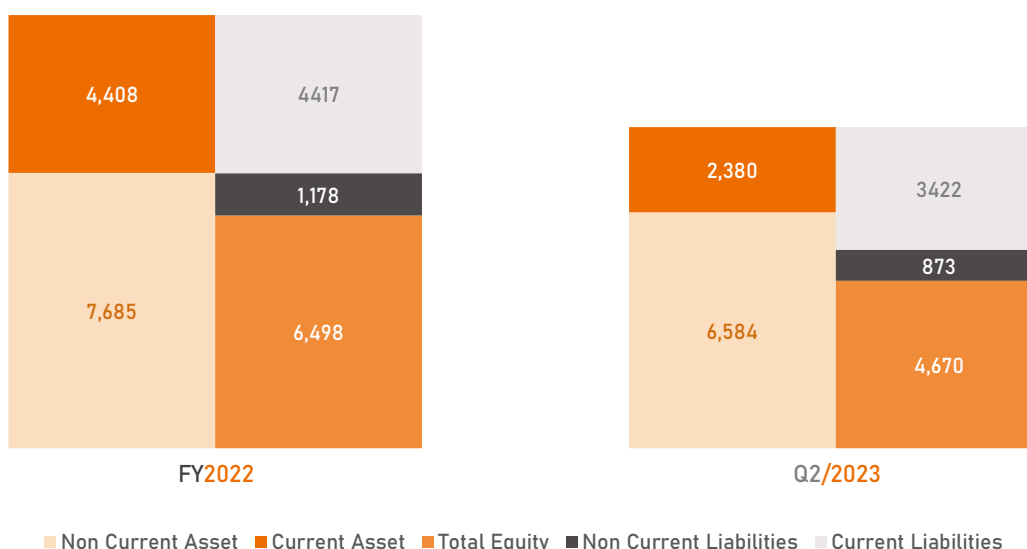
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- Cost of sales and services** reported at THB 3,814.8 million, slightly increased by 2.4% QoQ. Although fuel cost has been slightly dropped, our outsourced transport and agent commission costs remained challenges due to the labour shortage caused by the recovery of tourism and service industries. However, with our strong determination to improve operating efficiency, our cost of sales and services dropped over 20% compared to the previous year. Selling and administrative expenses (SG&A) reported at THB 448.8 million, increased by 15.8% QoQ but dropped by 2.2% YoY. The increased QoQ mainly resulted from the relevant IT systems implementation and marketing expenses from continuously developed the digitalisation for excellent information and technology infrastructure that provides KEX with the improvement in operation efficiency and timely monitoring. In addition, during Q2/2023, KEX has incurred one-time expenses from (I) rationalisations of non-performing sites and locations and (II) assets/consumables adjustments/write-off. However, we have been closely monitoring and targeting to minimize these kind of one-time cost and expense in the future.
- The Company and its subsidiaries reported a **net loss attributable to owners** of the Company of THB 1,047.7 million, 33.0% wider loss than that of Q1/2023. 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 drastically enhancing our operating efficiency to achieve monthly profitability turnaround within 2024. Such returns to profitability and market leadership shall be driven by incomparable customer's and front-line worker's satisfaction. This is a basic principle which SF Express has embraces in the past three decades and KEX wholeheartedly agrees.

FINANCIAL POSITION AND LIQUIDITY

Figure 1: Financial Position
(Unit: Million THB)



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Table 2: Asset Breakdown

(Unit: Million THB)	FY 2022	Q2/2023	Change % +/- (-)
Cash and investment in liquid financial assets	2,163.0	692.2	-68.0%
Trade and other receivables	1,852.3	1,496.0	-19.2%
Plant and equipment	2,490.1	2,157.1	-13.4%
Right-of-use assets	2,903.4	2,289.6	-21.1%
Investment in associates	-	17.6	100.0%
Other assets	1,884.3	2,312.1	22.7%
Total Assets	12,093.2	8,964.7	-25.9%

Table 3: Liabilities and Shareholders' Equity

(Unit: Million THB)	FY 2022	Q2/2023	Change % +/- (-)
Trade and other payables	1,941.5	1,521.2	-21.7%
Cash on delivery payable	568.3	307.6	-45.9%
Current portion of lease liabilities	1,812.2	1,538.0	-15.1%
Lease liabilities	945.5	619.0	-34.5%
Other liabilities	328.0	309.1	-5.8%
Total Liabilities	5,595.5	4,294.9	-23.2%
Total Shareholders' Equity	6,497.7	4,669.7	-28.1%
Total Liabilities and Equity	12,093.2	8,964.7	-25.9%

- As of 30 June 2023, **cash and investment in liquid financial assets** decreased by 68.0% to THB 692.2 million.
- **Right of use assets** decreased by 21.1%, resulted from the depreciation and amortization of rental contract lives per existing lease agreements.
- For the **investment in associates**, 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. During Q2/2023, KEX recorded a share loss from investment in associates of THB 0.4 million. The service is expected to be fully launched within Q4/2023.
- **Cash on delivery payables** declined by 45.9% to THB 307.6 million, mainly as a result of sales and service volume decreases.
- **Lease liabilities (both current and non-current portion)** dropped by 21.8% from THB 2,157.0 million to THB 2,757.7 million, primarily due to lease cancellation associated with our LEAN programme.
- 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 has extended the short-term shareholder loan 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. Our major shareholders, including SF Express and KLN, continue to emphasize their support to KEX until it returns to be planned financial goal of loss cutting in 2023 and turning profitable in 2024.

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KEY FINANCIAL RATIOS

Table 4: Key Financial Ratios

		Q2/2022	Q1/2023	Q2/2023
Liquidity ratios				
Current ratio ⁽¹⁾	(times)	1.10	0.95	0.70
Quick ratio ⁽²⁾	(times)	1.04	0.88	0.64
Cash flow liquidity ratio ⁽³⁾	(times)	-0.31	-0.19	-0.39
Accounts receivable turnover ⁽⁴⁾	(times)	14.52	13.81	11.62
Average collection period ⁽⁵⁾	(days)	25.13	26.43	31.41
Accounts payable turnover ⁽⁶⁾	(times)	27.32	24.14	24.82
Average payment period ⁽⁷⁾	(days)	13.36	15.12	14.71
Cash cycle ⁽⁸⁾	(days)	11.77	11.31	16.71
Profitability ratios				
Gross profit margin ⁽⁹⁾	(%)	-11.68	-18.96	-30.49
Net profit margin ⁽¹⁰⁾	(%)	-17.10	-25.15	-35.84
Return on equity ⁽¹¹⁾	(%)	-18.98	-43.01	-54.13
Efficiency ratios				
Return on total assets ⁽¹²⁾	(%)	-11.47	-24.35	-29.92
Total asset turnover ⁽¹³⁾	(times)	1.18	1.22	1.25
Financial policy ratios				
Total liabilities to equity ratio ⁽¹⁴⁾	(times)	0.75	0.82	0.92

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

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