

NAM 2023/059

October 30, 2023

Subject: Management’s Discussion and Analysis of Financial Condition and Results of Operations for the three-month and six-month periods ending on June 30, 2023

To: The President of The Stock Exchange of Thailand

Namwivat Medical Corporation Public Company Limited (“the company”) would like to explain the company's operating results for the three-month and six-month periods ending on June 30, 2023, with the following details:

Operating results for the 3-month period, quarter 2 of 2023 and 2022

(Unit: Million Baht)

	the 3-month period		Change	
	2022	2023	Amount	%
Operating revenues	210.29	315.56	105.27	50.06
Operating costs	132.45	197.89	65.44	49.41
Gross profit	77.84	117.67	39.83	51.17
Gross margin (%)	37.02	37.29	0.27	0.73
Other income	0.39	0.70	0.31	79.49
Distribution costs	15.81	23.84	8.03	50.79
Administrative expenses	31.71	44.81	13.10	41.31
Finance costs	3.11	3.73	0.62	19.94
Tax expense	6.69	11.56	4.87	72.80
Profit for the period	20.91	34.44	13.53	64.71
Net margin (%)	9.94	10.92	0.98	9.76

Operating revenues

For the 3-month period ending on June 30, 2022, and 2023, the company had net sales and service revenue of 210.28 million baht and 315.57 million baht, respectively. The revenue increased by 105.27 million baht, representing a 50.06% increase. The main reason for this increase was the sale of medical equipment, with the primary product still being automatic sterilization devices, contributing to a growth of 99.59 million baht. Additionally, revenue from sterilization and waste disposal services increased by 7.26 million baht, and revenue from construction contracts increased by 6.50 million baht. However, revenue from the sale of medical consumables decreased by (6.79) million baht.

Gross margin

For the 3-month period ending on June 30, 2022, and 2023, the company had gross profits of 77.84 million baht and 117.67 million baht, respectively. This represents a gross margin of 37.02% and 37.29%, respectively. The company's initial profit margin remained unchanged, as the revenue composition was consistent with the previous year.

Other income

For the 3-month period ending on June 30, 2022, and 2023, the company had other income of 0.39 million baht and 0.70 million baht, respectively. This represents an increase of 0.28 million baht or 0.73%.

Distribution costs

For the 3-month period ending on June 30, 2022, and 2023, the company had distribution costs of 15.81 million baht and 23.84 million baht, respectively. This represents an increase of 8.03 million baht or 50.79%. The increase in expenses is in line with the higher revenue and is primarily due to the increase in the number of sales personnel, especially in the sales of medical equipment and coordination services, to support the company's business expansion. Compensation in the form of commissions to employees, which includes commissions for selling products in both medical equipment and medical consumables, as well as for providing maintenance and repair services, certification, and public relations to promote sales. This is in line with the company's policy of building a more proactive customer relationship to efficiently deliver products and services for customers' use.

Administrative expenses

For the 3-month period ending on June 30, 2022, and 2023, the company had administrative expenses of 31.71 million baht and 44.81 million baht, respectively. This represents an increase of 13.10 million baht or 41.31%. The primary reasons for this increase are as follows:

1. Employee salaries and compensation increased by 5.61 million baht, which is a result of hiring additional staff to support the company's business expansion, along with the annual compensation adjustments, leading to an increase in salaries and compensation.
2. The provision for doubtful accounts increased by 2.83 million baht because in the 3-month period ending on June 30, 2023, the company changed the credit terms for both government and private sector customers to 90 days, effective from July 1, 2026. This change in credit terms will only apply to sales transactions that occur after the effective date, as communicated to customers.
3. The company incurred a foreign exchange loss of 1.40 million baht because it sold products to foreign customers towards the end of 2022, which resulted in an impact from recognizing losses due to adjustments in the exchange rates of foreign trade receivables. This led to a net loss from foreign exchange rates at the end of the quarter.

Net profit

For the three-month periods ended on June 30, 2022, and 2023, the company had a net profit of 20.91 million baht and 34.44 million baht, respectively. The net profit increased by 13.53 million baht, which is a 64.71% increase, in line with the growth in revenue from sales and services.

Operating results for the 6-month period, quarter 2 of 2023 and 2022

(Unit: Million Baht)

	the 6-month period		Change	
	2022	2023	Amount	%
Operating revenues	509.98	594.36	84.38	16.55
Operating costs	363.06	348.58	(14.48)	(3.99)
Gross profit	146.92	245.78	98.86	67.28
Gross margin (%)	28.81	41.35	12.54	43.53
Other income	3.21	1.66	(1.55)	(48.29)
Distribution costs	31.77	44.57	12.80	40.29
Administrative expenses	48.07	78.89	30.82	64.11
Finance costs	6.23	7.16	0.93	14.93
Tax expense	13.56	24.76	11.20	82.60
Profit for the period	50.50	92.06	41.56	82.30
Net margin (%)	9.90	15.49	5.59	56.46

Operating revenues

For the six-month periods ended on June 30, 2022, and 2023, the company had net revenue from sales and services of 509.98 million baht and 594.36 million baht, respectively. The revenue increased by 84.38 million baht, or 16.55%, primarily due to increased sales of medical equipment. The main contributors to this increase were the sales of automatic sterilization devices, which increased by 122.53 million baht, revenue from sterilization and waste disposal services, which increased by 13.78 million baht, and revenue from construction contracts, which increased by 21.05 million baht. However, revenue from the sale of medical consumables decreased by (71.81) million baht, mainly due to reduced demand for COVID-related testing kits as the disease's prevalence decreased.

Gross margin

For the first six months of 2023, the company's total revenue from sales and services increased by 16.55% compared to the same period in 2022. The primary driver of this growth was the increase in revenue from the sales of medical equipment and service provision. Specifically, the sales of medical equipment, which constitute the company's core product category, experienced growth in both revenue and gross margin. This was a result of the company's effective cost control in production, optimizing raw material costs according to production plans. Consequently, the company achieved a 67.28% increase in overall profit margin when compared to the same period in 2022, representing a 41.35% gross margin, an improvement from the 28.81% gross margin in the corresponding period of 2022.

Other income

For the six-month periods ending on June 30, 2022, and 2023, the company had other income of 3.21 million baht and 1.66 million baht, respectively. This represents a decrease of (1.55) million baht or a (48.29%) reduction.

Distribution costs

For the six-month periods ending on June 30, 2022, and 2023, the company had distribution costs of 31.77 million baht and 44.57 million baht, respectively. This represents an increase of 12.80 million baht or a 40.29% rise. The increased expenses are in line with the higher revenue and are primarily due to the growth in the number of sales staff, especially in the sales of medical equipment and sales coordination to support the company's business expansion. Commission payments to employees, including commissions from selling both medical equipment and medical consumables, maintenance and repair services, certification, and public relations activities to promote sales, such as seminar and training expenses and customer welfare, have all increased, following the company's policy of building stronger customer relationships to ensure the most efficient use of products and services.

Administrative expenses

For the six-month periods ending on June 30, 2022, and 2023, the company had administrative expenses of 48.07 million baht and 78.89 million baht, respectively. This represents an increase of 30.82 million baht or a 64.11% rise. The main reasons for the increase are as follows

1. Employee salaries and compensation increased by 12.34 million baht, which resulted from hiring additional personnel to support the company's business expansion, along with annual compensation adjustments. This led to an increase in salaries and compensation, and employee training and seminars were conducted.
2. Provision for doubtful debts increased by 6.16 million baht due to the company's adjustment of credit terms for government and private sector customers to 90 days, starting from July 1, 2023. This change in credit terms only applies to sales transactions that occurred after the effective date and was communicated to customers.

3. For the first 6 months of the year 2023, the company incurred a foreign exchange loss of 7.13 million baht. This was due to the Baht strengthening against foreign currencies compared to the end of 2022. While the company benefited from exchange rates for importing goods, it also suffered a net loss from foreign exchange rates, mainly because it sold products to foreign customers at the end of 2022 and was impacted by the subsequent adjustment of exchange rates by foreign trade partners.

Net profit

During the first 6 months of 2023, the company saw a growth in revenue from sales and services compared to the same period in 2022, especially in revenue from the sale of medical equipment, which has a higher gross profit margin compared to other products and services. This resulted in a significant increase in the company's gross profits. The company also effectively controlled distribution costs and administrative expenses, keeping them at a lower growth rate than the increase in gross profits. As a result, the company achieved a net profit of 92.06 million baht, representing a growth rate of 82.30% compared to the same period in 2022. The net profit margin also increased from 9.90% in the first 6 months of 2022 to 15.49% in the first 6 months of 2023.

Financial Position

(Unit: Million Baht)

	on December 31,	on December 31,	Change	
	2022	2023	Amount	%
Total Assets	1,697.19	1,615.68	(81.51)	(4.80)
Total Liabilities	487.03	474.29	(12.74)	(2.62)
Shareholders' Equity	1,210.16	1,141.39	(68.77)	(5.68)
Debt-to-equity ratio (times)	0.40	0.42	0.02	3.25

Total Assets

As of June 30, 2023, the company's total assets amounted to 1,615.68 million baht, a decrease of 81.51 million baht from the total assets as of December 31, 2022. The primary reasons for this decrease are as follows:

- An increase in cash and cash equivalents of 139.38 million baht due to the company's cash flow generated from operations, totaling 150.34 million baht, and net cash inflows from investment activities, amounting to 170.91 million baht from the sale of investment securities. The majority of the cash flow has been used for dividend payments (-160.65 million baht), and the company has made payments on borrowings and lease obligations, resulting in a net cash outflow from financing activities of (-181.87) million baht.

- An increase in trade receivables and other current receivables of 25.48 million baht, primarily driven by increased sales.
- Deposits at financial institutions with obligations increased by 15.01 million baht due to a change in the collateral for the company's director credit line from real estate to fixed deposits. This was done to reduce the company's reliance on the personal guarantee of the directors for the credit line.
- The decrease in other current financial assets amounted to (198.66) million baht, resulting from the sale of investment units.
- The decrease in current contract assets amounted to (48.70) million baht, resulting from the recognition of increased project revenue.
- The decrease in inventory amounted to (26.29) million baht, as a result of reduced finished goods inventory, which is in line with the increased sales volume.

Total Liabilities

As of June 30, 2023, the company's total liabilities amounted to 474.29 million baht, a decrease from the total liabilities as of December 31, 2022, which was (12.74) million baht. The primary reasons for this change are as follows:

- The increase in overdrafts and short-term borrowings from financial institutions amounted to 24.21 million baht to be used as working capital to support growth.
- The decrease in long-term borrowings of (18.84) million baht is due to repayments.
- The decrease in trade and other current payables by (9.22) million baht can be attributed to various factors. Firstly, there was a substantial increase in trade payables by 28.22 million baht, driven by the company's procurement of medical equipment to support growing sales. Additionally, current contract liabilities decreased by (25.61) million baht, mainly due to the timely receipt of invoices from subcontractors. Lastly, current income tax payable decreased by (8.20) million baht, contributing to the overall reduction in current liabilities.
- The decrease in current contract liabilities by (7.45) million baht is due to the inspection and acceptance of work by the subcontractors for the construction project.

Shareholders' Equity

As of June 30, 2023, the company's equity attributable to shareholders amounted to 1,141.39 million baht, a decrease from the equity attributable to shareholders of (68.77) million baht as of December 31, 2022, representing a decrease of (5.68%). This decrease is primarily attributed to an increase in retained earnings of 91.88 million baht due to the company's operational performance, and the payment of dividends amounting to (160.65) million baht.

Debt-to-equity ratio

As of June 30, 2023, compared to the end of the year on December 31, 2022, the company's debt-to-equity ratio stood at 0.42 and 0.40, respectively. These ratios illustrate the stability of the company's capital structure and its ability to borrow to support future growth.

Yours Respectfully,



(Mr.Sukhum Phothisawasdee)

Chief Financial Officer

Namwiwat Medical Corporation Public Company Limited