

Stars Microelectronics (Thailand) Public Company Limited

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

Quarter 3 Ending September 30, 2023

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Stars Microelectronics (Thailand) Public Company Limited

## Executive Summary

The electronics industry still continued to encounter difficulties from soft demand in the market which not fully recovered yet and uncertainty in the global economy and war situation. This uncertainty led to a significant impact on businesses, leading them to change their activities by reducing their inventory levels, delaying orders, and extending the production lead times.

Stars Microelectronics (Thailand) Public Company Limited (“The Company”) still operated as its plan by focusing on high-quality customer groups, diversifying revenue streams across various business segments, expanding its customer base to multiple countries worldwide, and consistently developing modern and high-quality products. As a result of these efforts, the company reported of 703.03 million baht in total revenue and 84.17 million baht in net profit in the third quarter of the year 2023.

In conclusion, the management team remains confident that our expertise in business segment and the strategies chosen by the management team will support and maintain company’s sustainable growth.

Sincerely

Stars Microelectronic (Thailand) Public Company Limited)

(Mr. Chaiyot Thaveeratitham)

Chief Financial Officer

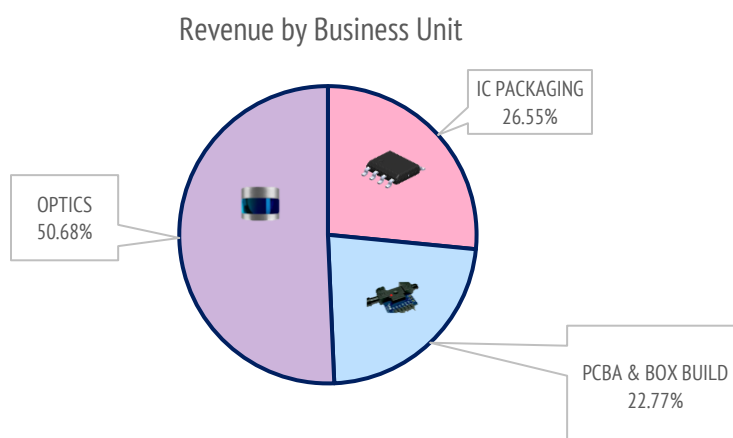
## Consolidated Income Statement for Quarter 3 Ending September 30, 2023 Compared With the Same Period In 2022

Unit: Thousand Baht

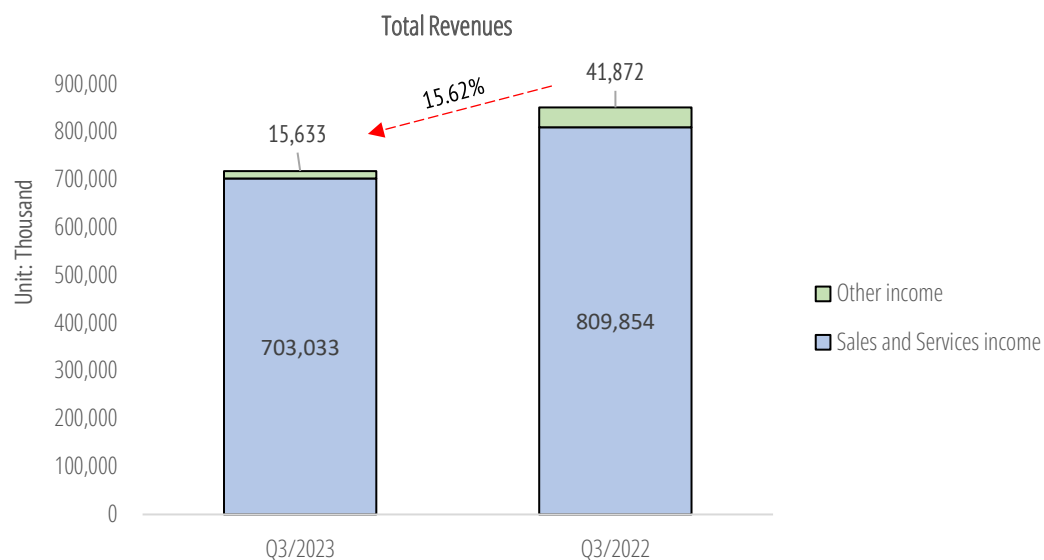
Profit/Loss	Quarter 3		Change		9-Month Period		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
Sales and Service income	703,033	809,854	(106,821)	-13.19	2,055,368	2,084,293	(28,925)	-1.39
Revenue from scrap sales	3,581	7,990	(4,409)	-55.18	12,886	24,228	(11,342)	-46.81
Gain on exchange	5,077	1,391	3,686	>100	5,636	10,773	(5,137)	-47.68
Bad debt receives	-	29,291	(29,291)	-100.00	-	29,291	(29,291)	-100.00
Other income	6,975	3,200	3,775	>100	27,592	6,576	21,016	>100
Total revenues	718,666	851,726	(133,060)	-15.62	2,101,482	2,155,161	(53,679)	-2.49
Cost of sales and services	562,027	644,765	(82,738)	-12.83	1,600,604	1,643,789	(43,185)	-2.63
Selling and distribution expenses	5,448	20,543	(15,095)	-73.48	51,330	56,300	(4,970)	-8.83
Administrative expenses	61,314	54,587	6,727	12.32	179,257	162,372	16,885	10.40
Loss on derivatives	3,503	9,678	(6,175)	-63.80	159	14,398	(14,239)	-98.90
Operating profit (EBIT)	86,374	122,153	(35,779)	-29.29	270,132	278,302	(8,170)	-2.94
Finance income	28	14	14	100.00	127	52	75	>100
Finance cost	(1,620)	(7,172)	(5,552)	-77.41	(9,700)	(23,431)	(13,731)	-58.60
Profit before income tax expenses	84,782	114,995	(30,213)	-26.27	260,559	254,923	5,636	2.21
Income tax expenses	-609	-11,595	(10,986)	-94.75	(18,256)	(23,226)	(4,970)	-21.40
Profit for the period	84,173	103,400	(19,227)	-18.59	242,303	231,697	10,606	4.58

## Revenue by Business Unit

Revenue by business unit for Q3 ending September 30, 2023



## Profit and Loss Analysis



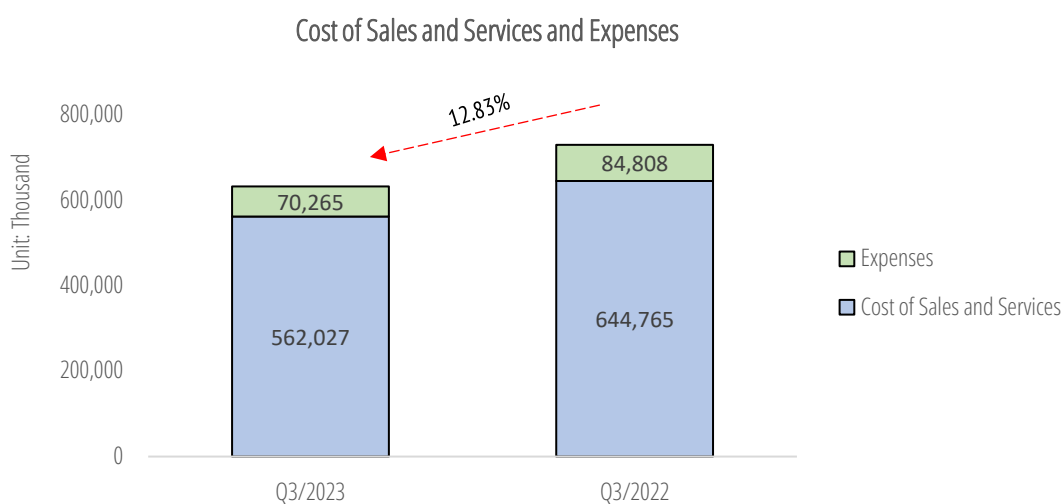
## Sales and Services income

In the third quarter of 2023, the company reported of 703.03 million baht from sales and services, decrease by 106.82 million baht or 13.19% from the same period last year. This was the result of a global market demand that was still subdued, and customers' inventory levels were still at a quantity that customers expected to be able to meet their current demand. As a result, the number of product orders from customers decreased. However, the company managed its portfolio risk by producing and selling a variety of products to reduce reliance on any one product category. The revenue from each product group can be divided as follows:

- Revenue from the Original Design manufacturer and Outsourced assembly and test (OSAT) was 185.29 million baht or 26.55% of the revenue from sales, a decrease of 138.77 million baht or 42.82% from the same period last year, this was the result of a subdued global market demand, and customers' inventory levels were still at a quantity that customers believe could meet their current demand. This led to a decrease in the number of product orders from customers.
- Revenue from Print Circuit Board Assembly and Box build (PCBA & Box build) was 158.88 million baht or 22.77% of the revenue from sales, decrease of 100.66 million baht or 38.78% from the same period in the previous year.
- Revenue from Optical Products was 353.63 million baht or 50.68% of the revenue from sales, an increase of 133.40 million baht or 60.57% from the same period last year. This was the result of a significant growth in the global data center market, driven by various factors such as an increase in internet users and the growing reliance on digital infrastructure. As a result, customers placed more orders for products in the Optical category to accommodate the increased demand in the global market.

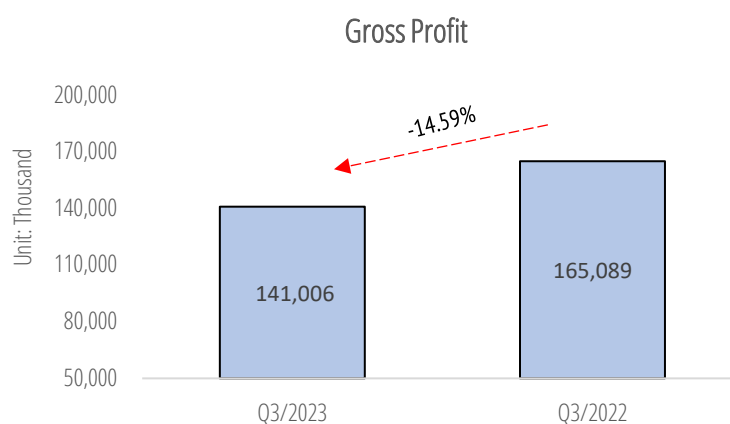
### Other income

Q3/2023, The Company reported other income of 15.63 million baht. It went down from the same period last year which was an amount of 26.24 million baht or a percentage decrease of 62.66% The reason of high other income in 2022 due to the company got paid from debt which already recognized as bad debts in the third quarter of 2022 in the amount of 29.29 million baht. In addition, increasement from the same period of the previous year by 3.78 million baht in 2023, or more than 100% was the result from sale of some of the company's machinery.



## Cost of Sales and Services

The company reported the cost of sales and services in Q3/2023 of 562.03 million baht, decrease from the same period last year, which was 82.74 million baht, or decrease of 12.83%. The decreased in costs were in line with the plunge in sales and service.



## Gross Profit

The company had gross profit of 141.01 million baht or 20.06% of the revenue from sales and services in Q3/2023, a decrease of 24.08 million baht or 14.59% from the corresponding period in the previous year, as a result of decline in sales.

## Selling, Distribution, and Administrative expenses

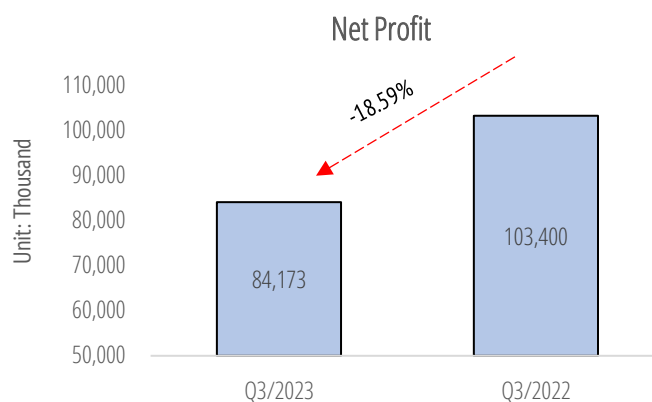
Q3/2023, The Company reported Selling, Distribution, and administrative expenses of 70.27 million baht, decrease of 14.54 million baht or 17.15% from the same period last year, in accordance with lower in sales.

## Financial Cost

In the third quarter of 2023, The Company reported a financial expense of 1.62 million baht, a decrease from the same period last year of 5.55 million baht, or 77.41%. It was a result of the company paying off its long-term debt ahead of its scheduled by using its surplus liquidity.

## Income tax expenses

The company reported income tax expenses of 0.61 million baht, a decrease of 10.99 million baht or 94.75% from the same period in the previous year, stemmed from a decrease in deferred tax asset, which a result of decline in the income tax expenses in Q3/2023.

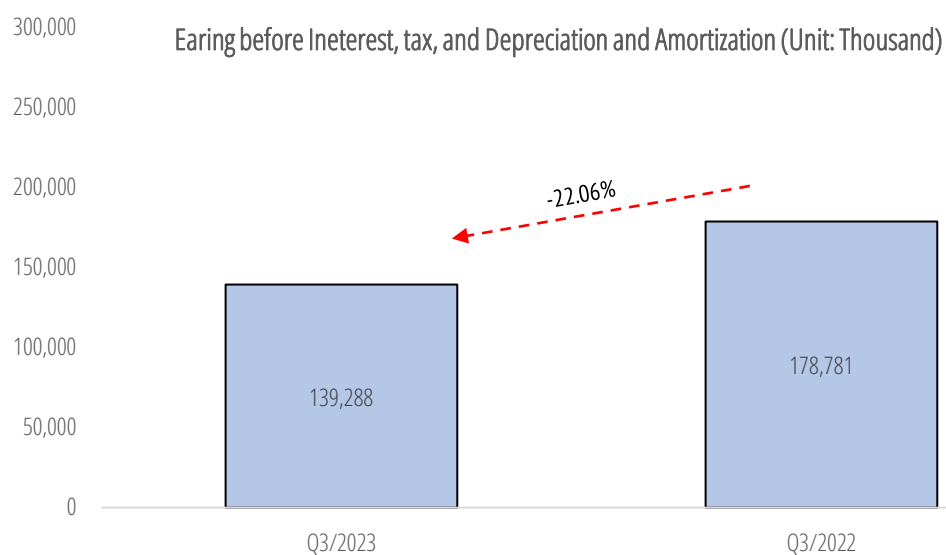


### Net Profit

The Company reported net profit of 84.17 million baht in Q3/2023, decreasing of 19.23 million baht or 18.59% compared to the corresponding period in the last year.

### Earnings before Interest, Tax, and Depreciation and Amortization (EBITDA) Analysis

Income Statement	Consolidated Financial Statement					
	30 Sep 2023		30 Sep 2022		Change	
	Thousand	% of revenue	Thousand	% of revenue	Thousand	%
Operating profit	86,374	12.02	122,153	14.34	35,779	-29.29
Depreciation and Amortization	52,914	7.36	56,565	6.64	3,651	-6.45
Earnings before Interest, Tax, and Depreciation and Amortization (EBITDA)	139,288	19.81	178,781	20.99	(39,493)	-22.06

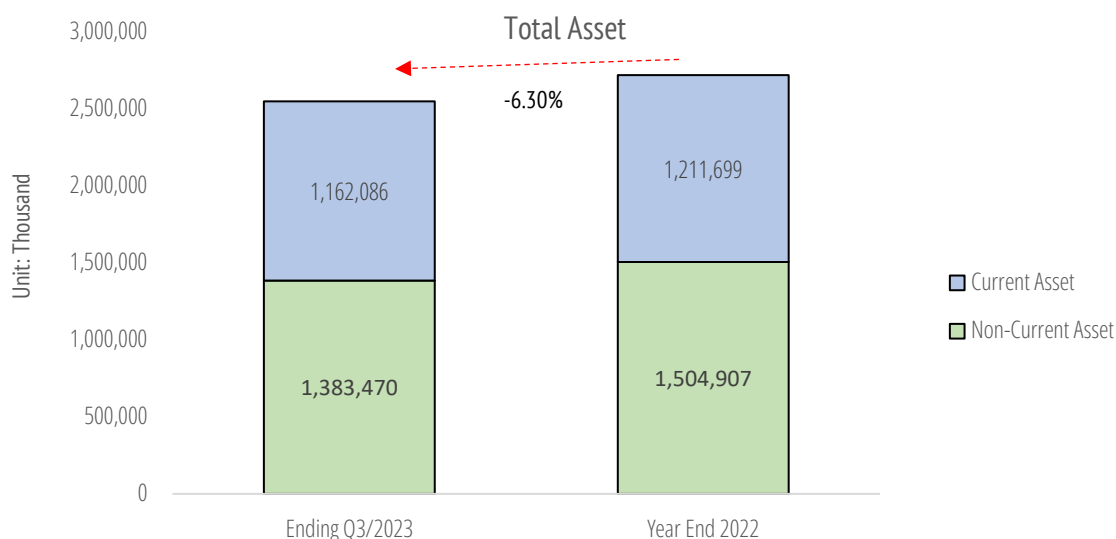




## Consolidated Statement of Financial Position ending September 30, 2023

Financial Position	Consolidated Statement of Financial Position					
	30 Sep 2023		31 Dec 2022		Change	
	Thousand	%	Thousand	%	Thousand	%
Cash and cash equivalents	53,966	2.12	119,258	4.39	(65,292)	-54.75
Trade and other receivables	400,256	15.72	370,059	13.62	30,197	8.16
Inventories	693,973	27.26	712,040	26.21	(18,067)	-2.54
Total current assets	1,162,086	45.65	1,211,699	44.60	(49,613)	-4.09
Property, plant and equipment	1,333,419	52.38	1,446,330	53.24	(112,911)	-7.81
Total non-current assets	1,383,470	54.35	1,504,907	55.40	(121,437)	-8.07
Bank overdrafts and short-term loans from financial institutions	-	-	25,893	3.13	(25,893)	-100.00
Trade and other payables	380,936	14.96	388,546	46.96	(7,610)	-1.96
Current portion of long-term loans	-	-	154,383	18.66	(154,383)	-100.00
Total current liabilities	401,751	15.78	585,677	70.78	(183,926)	-31.40
Long-term loans, net of current portion	-	-	174,363	21.07	(174,363)	-100.00
Lease liabilities, net of current portion	872	0.03	438	0.05	434	99.09
Total non-current liabilities	76,757	3.02	241,727	29.22	(164,970)	-68.25
Total liabilities	478,508	18.80	827,404	30.46	(348,896)	-42.17
Total shareholders' equity	2,067,048	81.20	1,889,202	69.54	177,846	9.41
Total liabilities and shareholders' equity	2,545,556	100.00	2,716,606	100	(171,050)	-6.30

## Balance Sheet Analysis



### Total Asset

The company reported a total asset of 2,545.56 million baht as of September 30, 2023, a decrease of 171.05 million baht or 6.30% from the year-end 2022. Besides, it reported current assets of 1,162.09 million baht and non-current assets of 1,383.47 million baht. The value and changes of each asset item are as follows:

### Cash and cash equivalents

As of September 30, 2023, The Company reported cash and cash equivalents of 53.97 million baht, decrease from the year end 2022 of 65.29 million baht or 54.75%. It was mainly from paying off interest bearing debt ahead of its schedule for managing the interest rate risk.

### Trade and other receivables

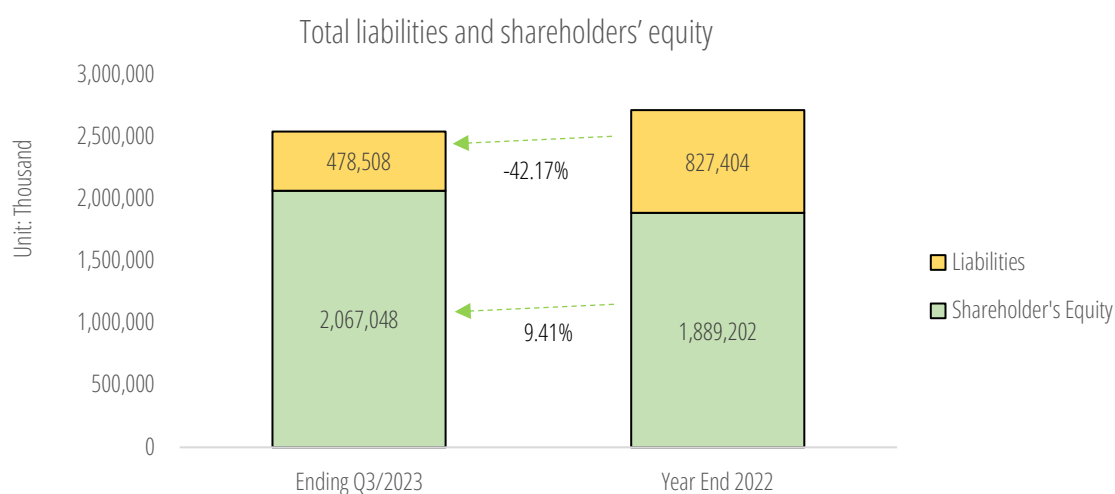
The company reported trade and other receivables as of September 30, 2023 of 400.26 million baht, an increase of 30.20 million baht or 8.16% from year end 2022, as a result of an extending payment term for some customers.

### Inventories

The company reported its inventory as of September 30, 2023 of 693.97 million baht, a decrease of 18.07 million baht or 2.54% from the year end 2022.

## Property, plant and equipment

The company reported the value of Property, plant, and equipment as of September 30, 2023 at 1,333.42 million baht, a decrease of 112.91 million baht or 7.81% from the year end 2022. It was mainly result from depreciation and amortization expenses.



## Total Liabilities

The company reported total liabilities as of September 30, 2023 of 478.51 million baht, decreased by 348.90 million baht or 42.17% from the year end 2022. It divided into current liabilities of 401.75 million baht and non-current liabilities of 76.76 million baht. The value of liabilities and its change are as follows:

## Bank overdrafts and short-term loans from financial institutions

The company reported none of interest-bearing debt from bank overdrafts and short-term loans from financial institutions as of September 30, 2023, thank to paying-off a short-term debt from cash surplus and it's managing of interest rate risk.

## Trade and other payables

As of September 30, 2023, The Company reported trade and other payables of 380.94 million baht, which decreased from the year end 2022 with an amount of 7.61 million baht, or 1.96%.

## Long-term loans

There was no amount of a long-term loan from the company's report as of September 30, 2023, due to paying-off the interest-bearing debt ahead of its schedule in order to manage interest rate risk and alleviate the finance expense.

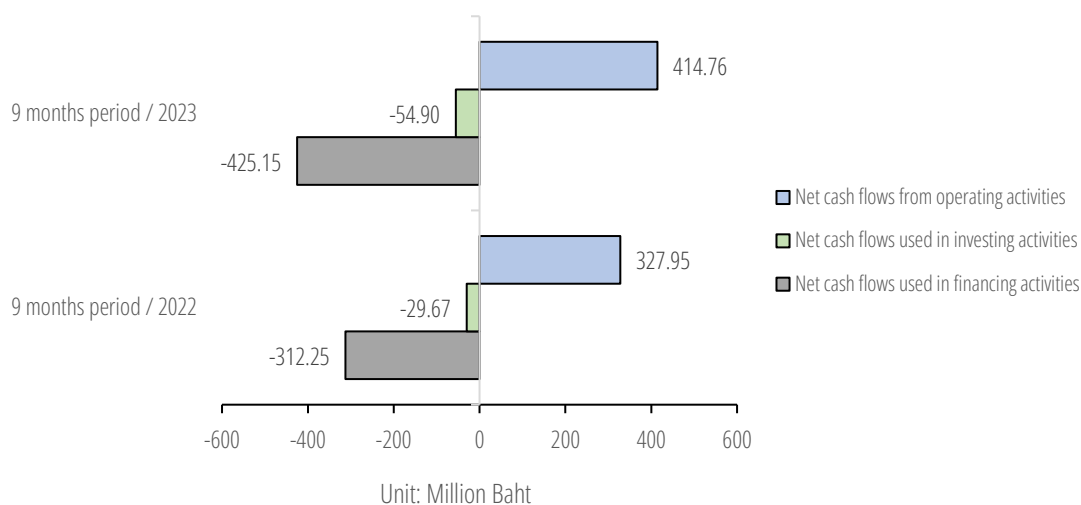
## Total shareholders' equity

The company reported total shareholders' equity of 2,067.05 million baht at September 30, 2023, which increased from the year end 2022 amount of 177.85 million baht, or 9.41% as a result of the company gaining profits from its operations during the nine-month period in 2023.

## Cash Flows Statement for 9-month period, ending September 30, 2023

Unit: Thousand Baht

Cash flows statement	Consolidated Cash flows statement	
	9-Month 2023	9-Month 2022
Net cash flows from operating activities	414,759	327,947
Net cash flows used in investing activities	(54,903)	(29,626)
Net cash flows used in financing activities	(425,148)	(312,252)
Net decrease in cash and cash equivalents	(65,292)	(13,931)
Cash and cash equivalents at beginning of year	119,258	35,663
Cash and cash equivalents at end of year	53,966	21,732



## Overview of The Company's Cash Flow for the 9 months period ending on September 30, 2023

The Company reported the overview of cash flow for the 9-month period ending on September 30, 2023 as following information:

The company reported a net cash flow from operating activities of 414.76 million baht in the 9-month period of 2023, an increase of 86.81 million baht or 26.47% from the same period of the previous year. This increase was in line with the growth in revenue from sales and services.

In 9-month period 2023, The Company reported a net cash outflow of 54.90 million baht on cash flow investing activities. It was an increase of 25.27 million baht or 85.32% compared to the same period of the previous year as a result of purchasing tools and machine.

The company reported a net cash outflow of 425.15 million baht for the 9-month period of 2023 on cash flow financing activities. The net cash outflow for financing activities increased 112.90 million baht or 36.16% compared to the same period of the previous year. The majority of the activities were used to repay long-term loans, which resulted in a decrease in interest expenses together with share repurchase for liquidity management, the scheme expired in April 2023 including dividend payment for the year 2023.

As a result from all the financial activities mentioned above the company reported a decline in net cash and cash equivalents on hand for 9-month period of 65.29 million baht; therefore, as of September 30, 2023, the net cash and cash equivalents was a balance of 53.97 million baht.

Key Financial Metric and Ratio	Q3/2023	9-Month 2023	Unit
Gross Profit Margin	20.06	22.13	%
EBITDA Margin	19.81	20.95	%
EBIT Margin	12.29	13.14	%
Net Profit Margin	11.97	11.79	%
Earnings Per Share	0.10	0.29	Baht/Share

### Appendix:

Gross Profit Margin	=	Gross Profit divided by Sales and Service income
EBITDA Margin	=	EBITDA divided by Sales and Service income
EBIT Margin	=	EBIT divided by Sales and Service income
Net Profit Margin	=	Net Profit divided by Sales and Service income
Earnings Per Share	=	Profit attributable to Equity holders of the Company divided by weighted average number of share outstanding