

KERRY

EXPRESS

KERRY EXPRESS (THAILAND) PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

of the third quarter and nine-month period
ended 30 September 2023



Key Highlight in Third Quarter of 2023

- Thai economy is expected to continue to recover, and face challenges from global economic uncertainties, China's economic slowdown, and tensions in Israel that could prolong or expand conflict which could cause global oil prices to stay elevated for a significant period of time. The growth of E-commerce continues and there is still intense competition in the parcel delivery business (especially those towards the demand from E-commerce platforms). While the price competition may not be as intense as before. Both price and service quality still influence the decision to choose a service provider.
- Delivery volume in Q3/2023 slightly dropped compared to the previous quarter. This was due to a decrease in E-commerce platform volumes led by recalibrated demand at the end of Q3/2023. KEX puts more focus into acquiring new customers to compensate for the delivery volume decrease. The contribution of the C2C segment to KEX revenue keeps at the level 45% in Q3/2023 and is expected to jump in Q4 as KEX is targeting to keep only productive points in franchisee and retail service points (RTSP). KEX targets to acquire more higher yield customers (including C2C, key accounts, international parcels, event logistics) in order to increase revenue proportion of the segment while retaining our market share of E-commerce platforms with our distinguished service.
- In Q3/2023, KEX has commenced the newly implemented automation sorting machines in particular regions from pilot project plan in northeastern and southern area. Some of the sorting hubs have been shut down due to the **NETWORK PLANNING OPTIMISATION** that can minimise both fixed and variable costs from facility rental and staff cost in hub-sorting activities effectively. We have launched the **INTEGRATION OF COLLECTION AND DELIVERY SERVICES** that utilised the productivity of couriers in daily operation started from Q3'23 onwards. The investment plan is in progress with full support from our major shareholders in both financial and operational aspects. For operational and financial performance, KEX has been controlling and monitoring operational cost with its top priority to **NARROW OPERATION LOSSES** with clear targets and milestones, propelling a unique operational efficiency and **RETURN TO PROFITABILITY** within 2024. 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.
- Going forward in terms of business strategy in 2023, KEX aims to be recognised 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, corporate key accounts, industrial experts, international senders and sellers in special professional markets (eg. fruit, fish product, handicrafts, event logistics, etc.), **TARGETING MEDIUM TO HIGH END CLIENTS**, and establishing unique and premium services. In addition, for KEX service retail channels, KEX has been expanding KEX retail shops and Distribution Centre Service Points (DCSP) to serve and acquire more volume from C-end customers. The expansion plan of service points has been thoroughly evaluated in both revenue and cost perspectives to align with scale and potential of volume acquisitions and clientele service provided. On the operation front, KEX 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 and new low cost (in absolute amount). This is an approach to ensure that in long term KEX's position will be highly aligned with SF Express's approach in China and SE Asia.

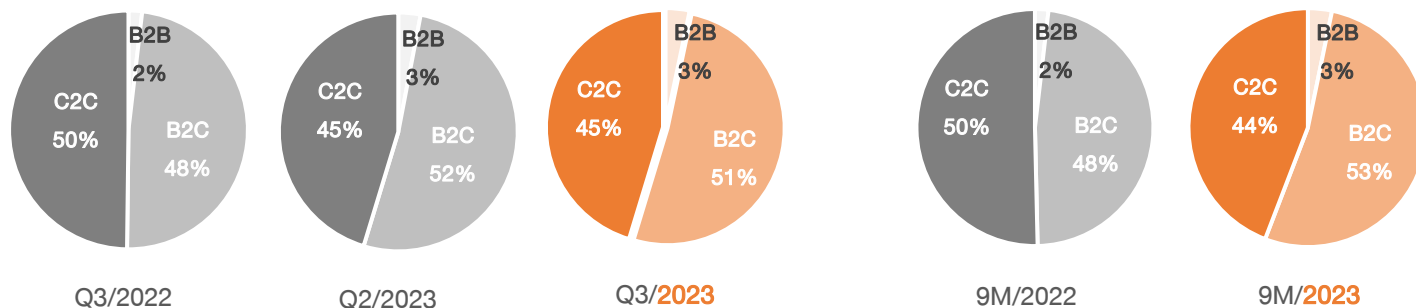


Financial Performance

Table 1: Operational Results

(Unit: Million THB)	Q3/2022	Q2/2023	Q3/2023	Change		9M2022	9M2023	Change
				%YoY	%QoQ			
Sales and services income	4,218.6	2,923.3	2,896.6	-31.3%	-0.9%	12,917.7	8,950.5	-30.7%
Cost of sales and services	-4,665.9	-3,814.8	-3,571.7	-23.5%	-6.4%	-14,079.5	-11,110.7	-21.1%
Gross loss	-447.4	-891.4	-675.1	-50.9%	24.3%	-1,161.8	-2,160.2	-85.9%
Selling and administrative expenses	-452.1	-448.8	-431.7	-4.5%	-3.8%	-1,341.1	-1,268.1	5.4%
EBITDA	-229.4	-758.7	-663.7	-189.3%	12.5%	-490.1	-1,817.9	-270.9%
EBIT	-839.5	-1,315.5	-1,101.9	-31.3%	16.2%	-2,363.8	-3,383.8	43.2%
Net loss attributable to owners of the Company	-674.6	-1,047.7	-889.9	-31.9%	15.1%	-1,898.1	-2,725.1	-43.6%
EPS (Baht/Share)	-0.387	-0.601	-0.511			-1.089	-1.564	
Gross Profit Margin (%)	-10.6%	-30.5%	-23.3%			-9.0%	-24.1%	
EBITDA Margin (%)	-5.4%	-26.0%	-22.9%			-3.8%	-20.3%	
EBIT Margin (%)	-19.9%	-45.0%	-38.0%			-18.3%	-37.8%	
Net Profit Margin (%)	-16.0%	-35.8%	-30.7%			-14.7%	-30.4%	

Figure 1: Revenue Breakdown by Segment



For the Third quarter of 2023 compared with the second quarter of 2023

- Sales and Services Income

- **Sales and services income** was recorded at THB 2,896.6 million as of Q3/2023, slightly decreased by 0.9% compared to the previous quarter due to a decrease in delivery volume. Total delivery volume decreased slightly by 0.9% compared to the previous quarter.
- C2C revenue contribution kept unchanged as a result from the closing of poorly performing service points offsets by new volume hunted in both existing and new locations. Moreover, our sales and services income from B2B increased by 9% from the previous quarter from the new clients that acquired from SF express.



- Cost of sales and services

In Q3/2023 **cost of sales and services** were at THB 3,571.7 million, decreased by 6.4% comparing to the previous quarter, due to our cost reduction plans during July to September (i.e. truck utilization, route plan optimizing, hub relocation etc.). By utilizing more outsourced instead of insourced transportation in areas that stretched resources, KEX was able to control transportation costs more effectively. Moreover, with our new strategy collaborating with SF Express, KEX also managed the utilisation of trucks and fuel costs more efficiently. As a result, the idle trucks have been returned and the fuel costs have been optimized.

- Selling and administrative expenses (SG&A)

Selling and administrative expenses declined from THB 448.8 million in Q2/2023 to THB 431.7 million in Q3/2023 or a 3.8% decrease QoQ. The decrease mainly came from marketing and administrative expenses which our company has a specific approach to emphasize on our targeted segment.

- Net loss attributable to owners of the Company

The Company reported **net loss attributable to owners** of the Company at THB 889.9 million despite flat revenue, improved by 15.1% comparing to the previous quarter mainly from our cost control efficiency, restructuring on operating networks, investment in automation and digitalization, and upgrading technology platforms and systems which we started to implement in the second quarter of this year.



Snapshot for the nine-month period ended September 2023 compared with 2022

Company's sales and service income for the nine-month period was reported at THB 8,950.5 million, decreased by 30.7% compared to 9M2022. The decrease in revenue was impacted by the drop in delivery volume especially the significant decrease in the E-commerce marketplace platform volume segment. This was caused by **the aggressive price negotiation** of major E-commerce companies in Thailand by rely more on in-house logistics arm starting in the second quarter of 2023. The delivery volume during the first nine months this year has remained relatively flat, despite facing the challenges regarding the services quality issues due to manpower shortage in some regions. Nevertheless, the issues have been gradually relieved and solved in 2023 by the newly implemented system with full support from our major shareholders that provides efficiency improvement to our operations started in Q2'23 onwards.

The Company is in the process of implementing a market segmentation strategy, focusing on mid to high-end customers or C-end customers and industry customers which is the potential customer in terms of revenue per parcel and volume, while improving the quality of services to serve high-end customers and increasing the revenue per parcel to reach the Company's goals.

Cost of sales and services for the nine-month period were reported at THB 11,110.7 million decreased by 21.1% from 9M2022 which is the benefits of continuously executed cost management both fixed and variable costs. In terms of fixed costs, KEX has optimized our routes and closed non-performing sites and locations to minimize redundancy of the network facility such as facility rental and fleet rental. Regarding variable costs, KEX has continued to improve the productivity of employee and couriers and reduce sorter cost from auto sort implementation led to improve efficiency of staff cost. Furthermore, the Company also benefited from the softening of diesel price during period.

Selling and administrative expenses (SG&A) for the nine-month period were reported at THB 1,268.1 million, decreased by 5.4% from 9M2022 mainly resulted from reduction of staff cost and administrative expenses.

As a result, the Company and its subsidiaries reported **loss before income tax** for nine-month period of THB 3,383.8 million, decreased by 43.2% compared to 9M2022 and reported **Net loss attributable to owners of the Company** for the nine-month period of THB 2,725.1 million, 43.6% wider loss compared to 9M2022.

Overall, Thailand and SEA express market is evolving from a singular market to a more diversify market with different specializations (like China, U.S., etc.)



Major Highlights in 9M2023

1. Optimize Distribution Center and Shops Network

Since the beginning of 2023, the Company Distribution Center and Kerry Shops network has been optimized by transferred or relocated non-performance Distribution Centers to a new optimal location for delivery mapping, and relocated Kerry shops to a new potential location while improving the quality of services to serve high-end customers.

2. Pilot Projects for Automated Sorting Machine in Major Cities

The Company has started to rebuild sorting and transit facility to build strong and nationwide network. In June 2023, the Company first pilot project for automated sorting machine started in Khon Kaen which was the center point of northeast transit, and the project started to show a cost efficiency achieved in per parcel of delivery.

3. Win 6 consecutive years as "No.1 Brand Thailand 2023"

In July 2023, The Company earned the prestigious No.1 Brand Thailand award from the Marketeer No.1 Brand Thailand for six consecutive years accolade that further solidifies position as a leader in the nationwide express parcel delivery industry for over half a decade.



Financial Position and Liquidity

Figure 2: Financial Position

(Unit: Million THB)

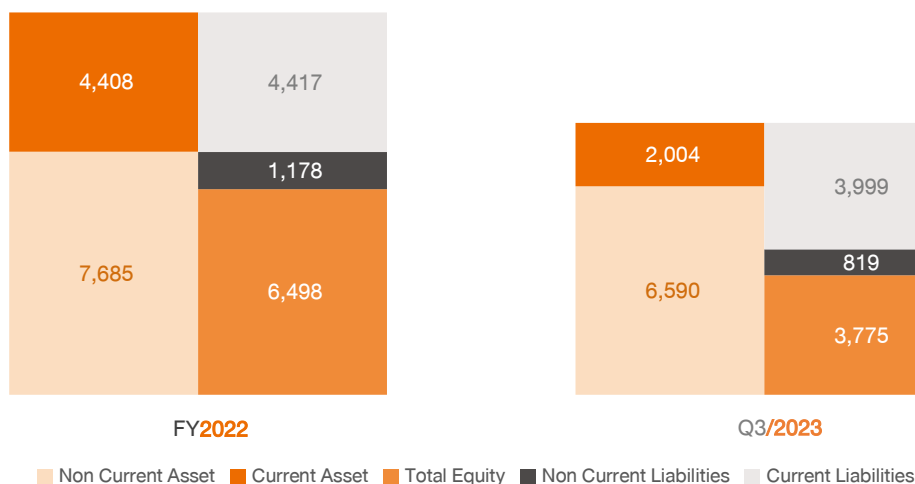


Table 2: Asset Breakdown

(Unit: Million THB)	2022	Q3/2023	YoY % +/-
Cash and cash equivalents	2,163.0	484.8	-77.6%
Short-term investments & financial assets	800.1	0.0	-100.0%
Trade and other receivables	1,852.3	1,336.3	-27.9%
Plant and equipment	2,490.1	2,065.9	-17.0%
Right-of-use assets	2,903.4	2,310.9	-20.4%
Deferred tax assets	879.5	1,580.9	79.8%
Other Assets	1,004.8	815.0	-18.9%
Total Assets	12,093.2	8,593.7	-28.9%

Table 3: Liabilities and Shareholders' Equity

(Unit: Million THB)	2022	Q3/2023	YoY % +/-
Short-term loan from parent company	0.0	200.0	100.0%
Loan from financial institutions	38.3	243.5	535.8%
Trade and other payables	1,941.5	1,630.5	-16.0%
Cash on delivery payable	568.3	379.1	-33.3%
Current portion of lease liabilities	1,812.2	1,545.5	-14.7%
Lease liabilities	945.5	571.5	-39.6%
Other Liabilities	289.7	248.6	-14.2%
Total Liabilities	5,595.5	4,818.7	-13.9%
Total Shareholders' Equity	6,497.7	3,775.0	-41.9%
Total Liabilities and Equity	12,093.2	8,593.7	-28.9%



- As of 30 September 2023, **cash and cash equivalents** decreased by 77.6% to THB 484.8 million.
- 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 Q3/2023, KEX recorded a share loss from investment in associates of THB 0.8 million. The service is expected to be fully launched within Q4/2023.
- **Right of use assets** decreased by 20.4% to THB 2,310.9 million, resulted mainly from the depreciation and amortization of rental contract lives useful per existing lease agreements, lease cancellation following our relocation plan.
- **Deferred tax assets** increased by 79.8% to THB 1,580.9 million which was caused by recognized tax losses and expected to be utilized in the near future.
- **Cash on delivery payables** declined by 33.3% to THB 379.1 million, mainly because of sales and service volume decreases.
- During Q3/2023, KEX received **short-term borrowings from parent company**, KLN Logistics (Thailand), the major shareholder of KEX, amounted THB 200.0 million for the working capital in the Company.
- In addition to the above, the Company had **borrowings from financial institutions** (both current and non-current portion portions) with an amount of THB 243.5 million as of 30 September 2023. The purpose of the borrowing is to support the Company's operations and investments.
- **Lease liabilities** (both current and non-current portions) dropped by 23.2% from THB 2,757.7 million to THB 2,117.0 million, primarily due to lease cancellation associated with the relocation plan to maximize our productivity.



KEY FINANCIAL RATIOS

Table 4: Key Financial Ratios

		Q3/2022	Q2/2023	Q3/2023	9M2022	9M2023
Liquidity ratios						
Current ratio ⁽¹⁾	(times)	0.87	0.70	0.50	0.87	0.50
Quick ratio ⁽²⁾	(times)	0.82	0.64	0.46	0.82	0.46
Cash flow liquidity ratio ⁽³⁾	(times)	-0.17	-0.37	-0.38	-0.17	-0.38
Accounts receivable turnover ⁽⁴⁾	(times)	13.90	11.62	12.04	13.90	12.04
Average collection period ⁽⁵⁾	(days)	26.27	31.41	30.31	26.27	30.31
Accounts payable turnover ⁽⁶⁾	(times)	19.60	24.82	18.29	19.60	18.29
Average payment period ⁽⁷⁾	(days)	18.63	14.71	19.96	18.63	19.96
Cash cycle (days) ⁽⁸⁾	(days)	7.64	16.71	10.35	7.64	10.35
Profitability ratios						
Gross profit margin ⁽⁹⁾	(%)	-10.60	-30.49	-23.31	-8.99	-24.13
Operating profit margin	(%)	-20.88	-45.69	-38.16	-19.10	-38.15
Non-operating profit margin	(%)	0.98	0.69	0.12	0.80	0.35
Cash flow to income ratio	(times)	-0.50	0.51	0.18	0.32	0.47
Net profit margin ⁽¹⁰⁾	(%)	-15.99	-35.84	-30.72	-14.69	-30.45
Return on equity ⁽¹¹⁾	(%)	-29.14	-54.13	-65.66	-29.14	-65.66
Efficiency ratios						
Return on total assets ⁽¹²⁾	(%)	-16.40	-29.92	-33.48	-16.40	-33.48
Return on fixed assets	(%)	0.18	-9.83	-28.16	0.18	-28.16
Total asset turnover ⁽¹³⁾	(times)	1.15	1.25	1.19	1.15	1.19
Financial policy ratios						
Total liabilities to equity ratio ⁽¹⁴⁾	(times)	0.80	0.92	1.28	0.80	1.28
Interest-bearing debt to EBITDA ⁽¹⁵⁾	(times)	-5.45	-1.12	-0.90	-5.45	-0.90
Interest coverage ratio ⁽¹⁶⁾	(times)	-12.62	-50.59	-40.75	-8.74	-39.45
Debt service coverage ratio ⁽¹⁷⁾	(times)	-0.27	-1.27	-1.54	-0.27	-1.54

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

(15) Interest-bearing debt to EBITDA ratio = total interest-bearing debt and lease liabilities divided by EBITDA

(16) Interest coverage ratio = EBITDA divided by interest expense

(17) Debt service coverage ratio = EBITDA divided by the sum of the current portion of short-term loan obligation, lease liabilities due within one year and finance cost.

