



KERRY EXPRESS

KERRY EXPRESS (THAILAND) PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

for the year ended 31 December 2023

2023 Highlights

- 2023 was a difficult year with numerous factors and challenges impacting KEX's performance. The fierce competition faced within the industry, e-commerce volume fluctuations, and the prolonged market reception of new products we introduced (e.g. real-time D2D service) in the market are only a few that were overcome in the year and impacting recovery of performance. As the macro-economy softened along with weakened consumer demands, the tasks and needs to reform KEX after its 17 years of operations in a bigger scale were both demanding and indisputable. Despite the difficulties, in 2023 KEX continued to win the "Number 1 Brand Thailand" award for the sixth consecutive years, and NPS surveys done in 2023 continued to show KEX being the most trusted brand in the industry. Our brand continued to be very strong.
- KEX focused on its operations reformation in 2023 and the improvement was evidenced, after expertise, technical know-how, and operations systems were shared from SF Express. The improvement in the quality of service was proven by *customers complaints rate* reduced by 61% as well as continuous reduction in damage, loss & claims amounts. Courier's turnover rate reduced by more than threefold largely due to their increase in earnings. These can correlate with our new resources planning and efficiency improvement measures enabled by the operations revamped which consisted of **SYSTEM AND TECHNOLOGY ADOPTION, PROCESS RE-ENGINEERING, COMPREHENSIVE TRANSIT PLATFORM PLANNING, and ACCURATE RESOURCE INTEGRATION AND OPTIMIZATION.**
- Delivery volume reduced 30% YoY in 2023, driven down mainly by unexpected e-commerce volume fluctuations, which also increased the difficulty to maintain operations stability. In 2H2023, both B2B and C2C volume (i.e. higher yield segments) stabilized and started to trend close to 40% of total volume. In terms of revenue contribution, these two segments were trending above 50% thank to their higher price per unit. KEX continues to target in acquiring more high yield customers (including senders who are individuals, SMEs, big corporations, local farmers, fishermen and craftsmen, event organizers and attendees, etc.) to increase their revenue contribution while retaining our market share of E-commerce platforms with our distinguished service.
- In Q4 KEX, the establishment of a "three-tier" organization structure and a new "regional management" model ensured that customer satisfaction and front-line staff satisfaction (Tier 1) are KEX's priorities. This is another way of reflecting true improvements in **OPERATION EFFICIENCY and SERVICE QUALITY.** The full introduction of *pay-per-unit* ("PPU") and dynamic outsourcing courier management method to improve both productivities and earnings of KEX couriers. A thorough revisit to the network profile of KEX in 2023 also enable KEX to have better cost and efficiency: (i) locations and sizes of shops, DCs and service points are being rationalized, (ii) transportation routes connecting these locations are being optimized, (iii) new hubs are being built while non-performing hubs are being replaced, (iv) more motorbikes are running in our network while reliance on 4-wheel trucks reduces.

The implementation of automated sorting systems reduced entire sorting processes and end-to-end delivery time; these were evidenced by the double-digit growth in our *on-time-in-full* ("OTIF") delivery rates reported QoQ. KEX also deepened

to leverage more regional sourcing especially in the resourceful network in China, to engage capable regional suppliers for higher quality and lower priced material supplies as well as industrial solutions.

- We believe the most difficult times of KEX are behind. KEX will solidify our unwavering strategy to retain market share in E-Commerce platform while putting focus on “differentiations” to serve better our high yield customers: faster lead time, better end-to-end user experience (“UX”), one-stop service and international shipping that market competitors cannot compare. With more service points in our network to reach the high yield customers, more differentiated products offered, and new income streams (local specialties and cross-border international) developed, there will be sustainable growth in revenue. In Q1 2024, we will continue to build on the foundations we established in 2023 and streamline our costs to prepare KEX for the turnaround long expected.
- The management pays high attention to the latest announcement of our major shareholder (KLN, 0636.HK) and ultimate shareholder (SF, stock code SHE: 002352.SZ) in respective countries and stock exchanges. We believe KEX will continue to gain strong technical and financial supports from our major shareholders to continue our reform and bounce-back. The management is highly focused on delivering improving operational results.

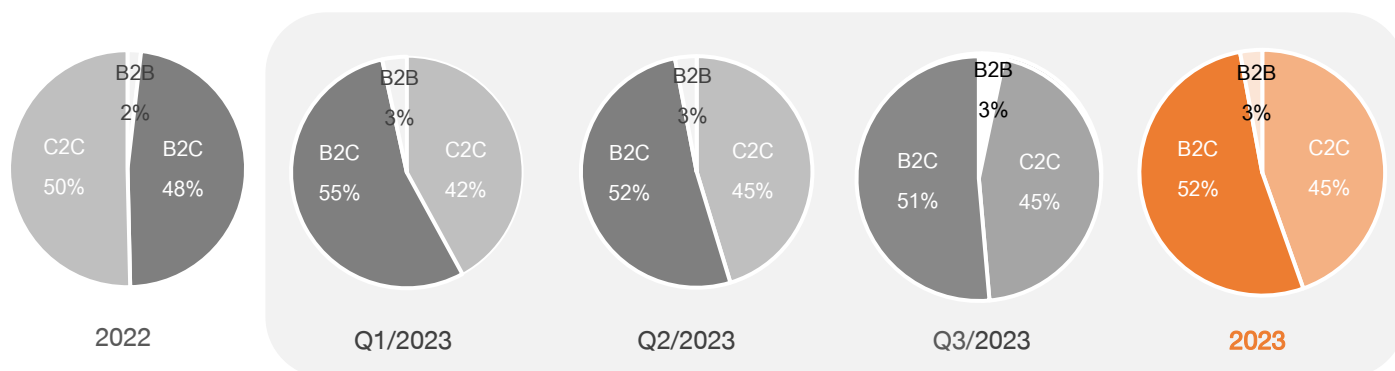


Financial Performance

Table 1: Operational Results

(Unit: Million THB)	2022	2023	Change %YoY
Sales and services income	17,003.0	11,470.3	-32.5%
Cost of sales and services	-18,685.1	-14,337.8	-23.3%
Gross loss	-1,682.1	-2,867.5	-70.5%
Selling and administrative expenses	-1,996.4	-1,718.1	-13.9%
EBITDA	-1,073.7	-2,535.3	-136.1%
EBIT	-3,536.5	-4,514.5	-27.7%
Net loss attributable to owners of the Company	-2,829.8	-3,880.6	-37.1%
EPS (Baht/Share)	-1.624	-2.227	
Gross Profit Margin (%)	-9.9%	-25.0%	
EBITDA Margin (%)	-6.3%	-22.1%	
EBIT Margin (%)	-20.8%	-39.4%	
Net Profit Margin (%)	-16.6%	-33.8%	

Figure 1: Revenue Breakdown by Segment



For the year ended 2023 compared with the previous year

- Sales and Services Income
 - **Sales and services income** was recorded at 11,470.3 million, decreased by 32.5% compared to the previous year due to a decline in delivery volume. Total delivery volume decreased by 30% compared to the year 2022 mainly caused by lower-than-expected e-commerce volume especially the one-off drop in Q3 2023.
 - Stable C2C / B2B demand mitigated partially the impact from e-commerce volume drop due to a higher contribution (i.e. high yield customers) of up to two to three folds compared to the amount paid by e-commerce platforms.
 - The development of new income streams started to solidify to 4% of total company’s revenue. Aside from expanding the express business to new markets and industries (e.g. local specialties and events & exhibitions), cross-border international shipping and supply chain businesses started to contribute and continue to develop.

- Cost of sales and services

In 2023 **cost of sales and services** were at THB 14,337.8 million, decreased by 23.3% compared to in 2022. Although full compensation for the revenue drop cannot be matched, our cost reduction actions allowed KEX a healthier foundation that costs and efficiencies are linear proportional and have continuous improvement.

The service points and shops revamp program enabled: 1) GP modules to allow meticulous pricing, 2) clearance of non-performing service points, channels and tools, and 3) new partnership models to elevate sales motivation and cap costs of sales.

Operation costs and productivities are interlinked by 1) *pay-per-unit* (“PPU”) scheme widely applied to couriers and workers 2) dynamic use of insource employees and outsourcing workforce, 3) automation of sorting hubs integrated with renewed linehaul and service points network, and 4) apps and software modules which were implemented in these processes to support and unleash the maximum efficiency.

- Selling and administrative expenses (SG&A)

Selling and administrative expenses declined from THB 1,996.4 million in 2022 to THB 1,718.1 million in 2023 or a 13.9% decrease YoY. The decrease mainly came from other administrative expenses, where marketing expenses reduced, and regional synergy achieved from regional sourcing (especially from China). The full impact included by THB 37 million one-off expenses in Q4 2023 (FY2023 is THB 221 million) in relation to network reformation.

- Net loss attributable to owners of the Company

The Company reported **net loss attributable to owners** of the Company at THB 3,880.6 million for the year 2023, a wider loss than the previous year by 37.1% attributable mainly to the dropped in delivery volume which mainly affected from the drop in E-commerce platform volumes and the shift of consumer behaviors towards physical shopping after the country’s reopening.

Major Development in 2023

1. Optimize Distribution Center and Shops Network

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

2. Pilot Projects for Automated Sorting Machines in Major Cities

The Company has started to rebuild the sorting and transit facility to build a strong and nationwide network. In June 2023, the Company's first pilot project for an 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 the six consecutive years accolades that further solidified position as a leader in the nationwide express parcel delivery industry for over half a decade.

4. Earns 5-Stars CGR rating of "Excellent" in Corporate Governance Assessment for 2023

In October 2023, The Company received a corporate governance assessment score of 5 stars "Excellence" from the Thai Institute of Directors (IOD) affirming the Company good business conduct and transparency.



5. Received "BBB" rating for SET ESG Rating of 2023

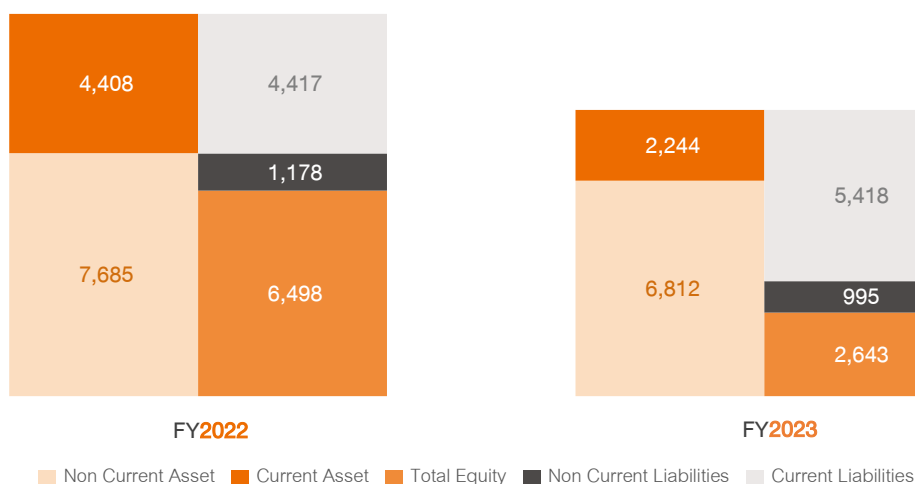


In November 2023, The Company received a "BBB" rating for SET ESG Ratings of 2023 from the Stock Exchange of Thailand (SET), reflecting our continuous and outstanding achievements in corporate sustainability.

Financial Position and Liquidity

Figure 2: Financial Position

(Unit: Million THB)


Table 2: Asset Breakdown

(Unit: Million THB)	2022	2023	YoY % +/-
Cash and cash equivalents	2,163.0	736.3	-66.0%
Short-term investments & financial assets	800.1	0.0	-100.0%
Trade and other receivables	1,852.3	1,338.3	-27.7%
Plant and equipment	2,490.1	2,146.0	-13.8%
Right-of-use assets	2,903.4	2,449.3	-15.6%
Investment in associates	0.0	16.1	100.0%
Deferred tax assets	879.5	1,575.9	79.2%
Other Assets	1,004.8	793.8	-21.0%
Total Assets	12,093.2	9,055.7	-25.1%

Table 3: Liabilities and Shareholders' Equity

(Unit: Million THB)	2022	2023	YoY % +/-
Short-term loan from related party	0.0	1,300.0	100.0%
Loan from financial institutions	38.3	340.7	789.6%
Trade and other payables	1,941.5	1,717.7	-11.5%
Cash on delivery payable	568.3	614.8	8.2%
Current portion of lease liabilities	1,812.2	1,441.1	-20.5%
Lease liabilities	945.5	775.3	-18.0%
Other Liabilities	289.7	223.1	-23.0%
Total Liabilities	5,595.5	6,412.8	14.6%
Total Shareholders' Equity	6,497.7	2,642.9	-59.3%
Total Liabilities and Equity	12,093.2	9,055.7	-25.1%

- As of 31 December 2023, **cash and cash equivalents** decreased by 66.0% to THB 736.3 million.
- For the **investment in associates**, in 2023, 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 2023, KEX recorded a share loss from investment in associates of THB 1.9 million. The service is expected to be fully launched within Q1/2024.
- **Right of use assets** decreased by 15.6% to THB 2,449.3 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 79.2% to THB 1,575.9 million which was caused by recognized tax losses and expected to be utilized in the future.
- **Cash on delivery payables** increased by 8.2% to THB 614.8 million.
- During 2023, KEX received **short-term borrowings from parent company**, KLN Logistics (Thailand), the major shareholder of KEX, amounted THB 1,300.0 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 340.7 million as of 31 December 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 19.6% from THB 2,757.7 million to THB 2,216.4 million, primarily due to lease cancellation associated with the reorganization plan to maximize our productivity.

KEY FINANCIAL RATIOS

Table 4: Key Financial Ratios

		2022	2023
Liquidity ratios			
Current ratio ⁽¹⁾	(times)	1.00	0.41
Quick ratio ⁽²⁾	(times)	0.95	0.38
Cash flow liquidity ratio ⁽³⁾	(times)	-0.26	-0.41
Accounts receivable turnover ⁽⁴⁾	(times)	13.86	10.42
Average collection period ⁽⁵⁾	(days)	26.33	35.03
Accounts payable turnover ⁽⁶⁾	(times)	18.29	17.81
Average payment period ⁽⁷⁾	(days)	19.96	20.49
Cash cycle (days) ⁽⁸⁾	(days)	6.37	14.54
Profitability ratios			
Gross profit margin ⁽⁹⁾	(%)	-9.89	-25.00
Operating profit margin	(%)	-21.37	-39.87
Non-operating profit margin	(%)	0.57	0.52
Cash flow to income ratio	(times)	0.35	0.45
Net profit margin ⁽¹⁰⁾	(%)	-16.64	-33.83
Return on equity ⁽¹¹⁾	(%)	-35.79	-84.91
Efficiency ratios			
Return on total assets ⁽¹²⁾	(%)	-19.42	-36.70
Return on fixed assets	(%)	-5.67	-36.65
Total asset turnover ⁽¹³⁾	(times)	1.17	1.08
Financial policy ratios			
Total liabilities to equity ratio ⁽¹⁴⁾	(times)	0.86	2.43
Interest-bearing debt to EBITDA ⁽¹⁵⁾	(times)	-2.60	-0.89
Interest coverage ratio ⁽¹⁶⁾	(times)	-14.66	-36.52
Debt service coverage ratio ⁽¹⁷⁾	(times)	-0.59	-0.46

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.