



DEXON



*Inspection for a **sustainable** future*

We are Dexon Technology
More than 30 Years of Inspection Experience

**DEXON Technology Public Company Limited
Management's Discussion and Analysis
For the Year 2023**

Management Discussion and Analysis

2023

Table of Contents

1. EXECUTIVE SUMMARY	3
2023 PERFORMANCE OVERVIEW	3
IPO PROCEEDS UTILIZATION: INVESTMENT FOR BUSINESS EXPANSION	4
THE REVENUE GROWTH TARGET FOR 2024	4
STRATEGY OVERVIEW TO ACHIEVE 704 MB	4
BUSINESS OPPORTUNITIES IN U.S.	5
BUSINESS OPPORTUNITIES IN EUROPEAN CONTINENT	6
IN SUMMARY	6
2. COMPANY'S KEY DEVELOPMENT & ACHIEVEMENT DURING 2023	7
3. FINANCIAL PERFORMANCE OVERVIEW	8
2023 COMPANY'S PERFORMANCE	8
REVENUE BY SEGMENT ANALYSIS	9
4. BALANCE SHEET AS OF 31 DECEMBER 2023	11
5. CASH FLOW AS OF DECEMBER 31, 2023	12
6. KEY FINANCIAL RATIO	13

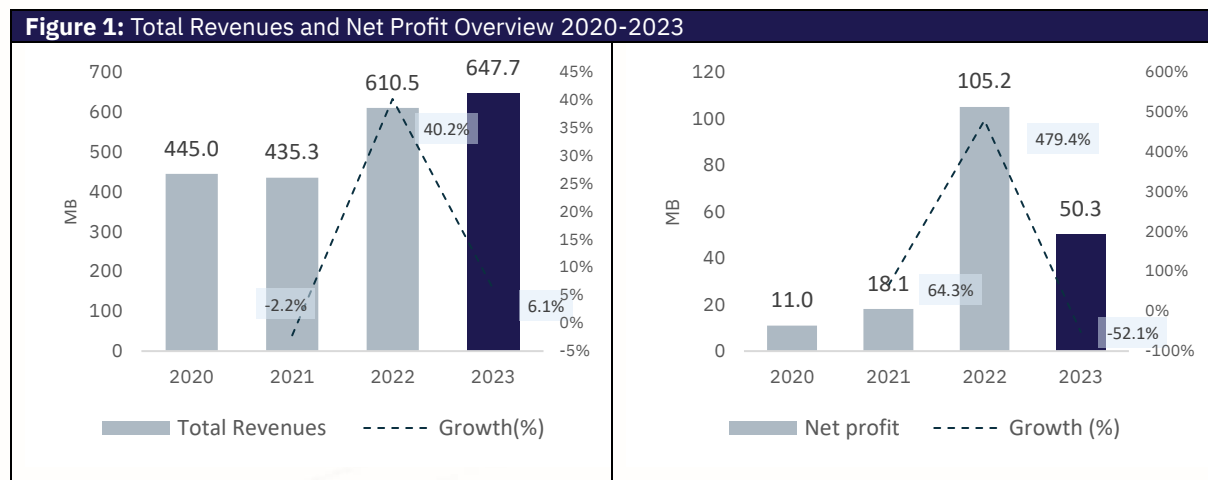
1. Executive Summary

2023 Performance Overview

Dexon Technology Public Company Limited (“Company”) having the total income amounted to 648 MB increasing by 38 MB from 610 MB in 2023 (+6%) The increased income came from expanding into international markets, providing in-line inspection services to major customers in the United States, European countries, and countries in the Latin America region. These customers became new clients of the company in 2023. Additionally, the company also generated increased revenue from providing research and development services to existing customers.

However, the company achieved a net profit of 50 MB, decreasing by 54 MB (-52%) The main causes of the decrease were a 20% increase in the cost of services and a 21% increase in SG&A expenses. This comprised:

1. The increase in service costs resulted from the increase in the volume of inspection work received by the company, requiring more resources including personnel and equipment expenses.
2. Personnel expenses increased due to the business expansion strategy both domestically and internationally, necessitating skilled and specialized personnel, an increase in the number of employees, and enhanced training.
3. Non-recurring items such as expenses from capital raising in the Stock Exchange of Thailand, MAI market and expenses for publicity and advertising to raise capital and generate investor’s awareness to the company.
4. Marketing expenses for promoting the company's inspection services to benefit market expansion and create awareness of the company's inspection innovations, technologies, and business service opportunities both domestically and internationally.



IPO Proceeds Utilization: Investment for business expansion

After the company successfully registered on the Stock Exchange of Thailand, Market for Alternative Investment (MAI) on 31 March 2023, the company executed investment plan according to the specified objectives during IPO. The company utilized the funds raised, amounting to 554 MB, and the net proceeds (after deducting all IPO-related expenses) is 536 MB for the following purposes:

1. **Expanding business internationally** by establishing subsidiary companies in the United States and European countries, totaling 120 MB. The establishment of these subsidiary companies aimed to seize market opportunities in these regions and enhance responsiveness to customer needs.
2. **Investing in research and development** amounted to 60 MB. Research and development are crucial foundations enabling the company to innovate and provide efficient tools and services to customers by leveraging scientific and technological resources. This allows the company to offer an innovative and advanced inspection service and better meet market demands. Efficient tools facilitate adaptability to market changes, systems, and evolving technologies, ensuring quality service to customers.
3. **Repaying loans** from financial institutions totaling 110 MB.
4. **Utilizing funds for working capital purposes.** The expenditure plan aligns with the company's objectives for the years 2023 and 2024 as per the specified-out plan.

The revenue growth target for 2024

To drive revenue growth in 2024, the company has set a target to increase revenue to 704 MB, up 8.7% from 2023. The company has a clear vision to expand its business into the markets of the United States of America and Europe. The company believes that accessing these new markets will be a significant step in generating additional revenue. Setting a target increase of 8.7% reflects confidence in the business plan, anticipating achievement of the revenue target. Expanding into these markets will be a key factor enabling the company's growth in the future.

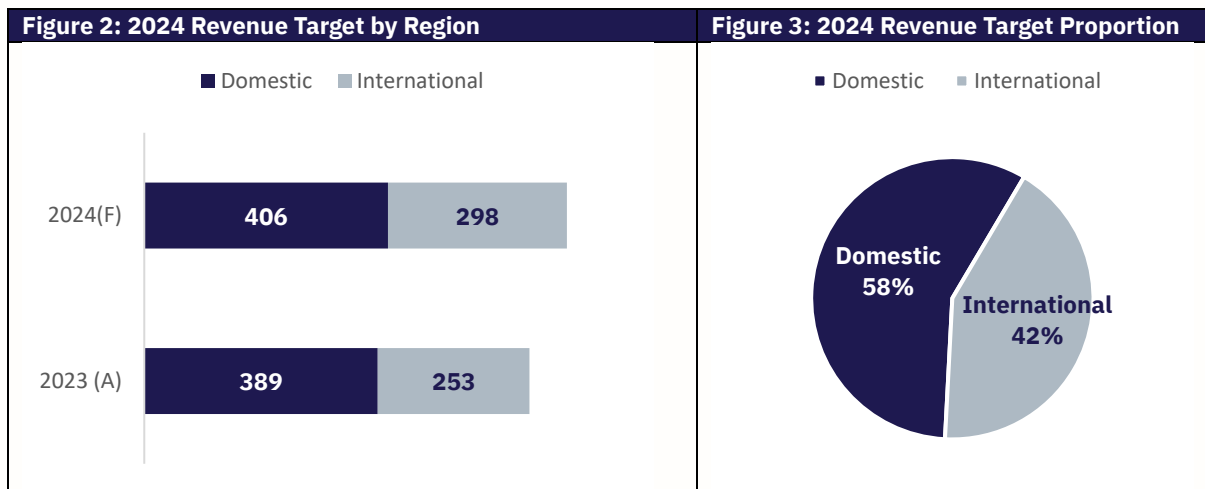
Strategy Overview to achieve 704 MB

For the company's strategy in 2024 as approved by the Board of Directors, the company has outlined marketing strategies to drive sales growth in 1. Domestic Market 2. International Market

For the Domestic Market, revenue proportion comprises revenue from 1. Revenue from Advanced Inspection (company's core business) ; 2. Revenues from Training Services (DTC); 3. Engineering Design, Manufacturing, Modification, Repair, and Installation Services (DMS). Presently, the engineering inspection services market in Thailand has a total market value of 3,000 MB, with the company holding an 11% market share, or 328 MB (based on the company's sales data for 2023 and data from the Department of Business Development). The company aims to reach 356 MB in the domestic market, growing by 8.5% from 2023, or capturing a 12% market share through increased market share targeting through the focus on presenting Turnkey Project contracts to target customer groups. This includes elevating the company's service offerings to be more comprehensive, starting from presenting complete inspection and maintenance works, aiming to provide maximum benefits to customers, to delivering completed projects to customers. The revenue targets for DTC and DMS are set at 20 MB and 30 MB respectively. Currently, the revenue proportions from these two businesses compared to the total company revenue are less than 10%, indicating a

relatively small proportion but growth opportunities in 2024. Thus, the total revenue target for the domestic market of the company is estimated at 406 MB, accounting for approximately 58% (down from 61% in 2023 as the company aims to increase the international market share), with a revenue target growth of 4.3% from 2023.

For the international market, the company has a global footprint in 40 countries across Europe, Asia, Oceania, the Middle East, Africa, North America, and Latin America, with an expected continuous increase in the number of countries. The company has set a revenue target from international markets for 2024 at 298 MB, which includes sales targets encompassing the United States of America and Europe. This figure is a conservative estimate and accounts for approximately 42% (up from 39% in 2023 as from the company’s strategy to increase international market share) of the total revenue target, representing a revenue growth target of 18% from 2023.



Business Opportunities in U.S.

For the company's operations in the United States of America, the company holds a 100% stake in Dexon Technology Inc. U.S.A. (“DEXUS”) and is located in Houston, Texas, which is a significant area in the Oil & Gas industry group of the United States. Currently, the company has 5 employees, including the manager, sales and service specialists, and technical experts.

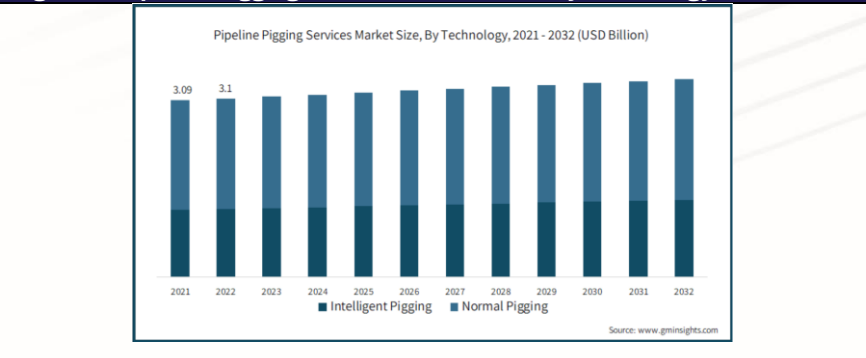
The company's plan for 2024 focuses on marketing and aggressively promoting its services. Following investments in office buildings, increasing the sales and service workforce, and sending technical staff for training in Thailand, the costs, and operational expenses for 2023 increased to enhance our market presence in the United States. We anticipate that these strategic initiatives will pave the way for future growth and improved financial outcomes.

The company is confident in its potential to receive new and challenging projects from the American market. Looking at the overall market value of Pipeline Integrity Management in the United States, which stands at 5,420 MB (including In-Line Inspection, Maintenance, Refurbishment, and Cleaning services), and the 20% market share of Inspection Services, estimated to grow at a CAGR of 3.6% from 2021 to 2028 (data from Fortune Business Insights Report 2021-2028), it is evident that the company's opportunities in the American market are highly promising and challenging in 2024.

Figure 4: North America Market



Figure 5: Pipeline Pigging Services Market Size, By Technology 2021-2032



Business Opportunities in European Continent

Currently, the company holds a 100% stake in Dexon Technology Europe BV (“DEXEU”) and is based in the Netherlands. The company is in the process of establishing another subsidiary in Germany to expand into another strategic area. This is because Germany is a significant market in Europe for Pipeline Integrity Management, with a total pipeline inspection market length of 41,000 kilometers, and Germany itself has a combined pipeline length of over 4,000 kilometers, ranking second in Europe (data from the Kimberlite Report 2021).

With the significant market size and challenges, the company is undertaking business planning, risk assessment, market opportunity evaluation, and is in the process of establishing a company in Germany to capitalize on this promising market opportunity.

In Summary

The company has confidence in the potential of its business expansion strategy for the year 2024, as presented to the company's board of directors to set realistic revenue targets achievable yet challenging. The revenue growth target of 704 MB poses both opportunities and challenges. The company is particularly determined to achieve success through market growth in both the domestic and international sectors, training business, and inspection, design, and maintenance services. The year 2024 will mark another key milestone and significant development for the company.

2. Company’s Key Development & Achievement during 2023

Period	Description
31 MAR 23	“DEXON”, the common shares commenced trading on the alternative investment market “MAI”
5 MAY 23	Resolution at the Board of Directors Meeting No. 2/2023, approved the establishment of subsidiary companies and registered additional capital in the subsidiary companies to expand the advanced pipeline inspection technology both domestically and internationally.
5 MAY 23	The resolution at the Board of Directors Meeting No.2/2023, approved increasing the capital in the subsidiary company to expand the advanced pipeline inspection technology in the Netherlands.
5 MAY 23	The resolution at the Board of Directors Meeting No.2/2023, approved the increase in capital for the subsidiary company, Dexon Mechanical Solutions (DMS)
SEP 23	Investment in additional machinery. This investment will not only increase production capacity for components used in inspection tools and equipment but also improve the precision of these components. Furthermore, providing training to employees on the use of this machinery will enhance the accuracy and quality of the tools & equipment that use to provide inspection services.
SEP 23	Manufacturing advance in-line inspection tools specifically designed for long distance pipelines with larger diameters, aimed at providing inspection services to customers in the Q4/2023
NOV 23	 <p>“DEXON” received 2023 Outstanding Innovation Company Awards for the Intelligent Crack Sizing In-Line Inspection System on SET Awards 2023 stage, organized by the Stock Exchange Market and Banking & Finance Magazine, demonstrating the outstanding potential of the company and reaffirming the importance of the company’s internal R&D team in which help drive the company for growth and sustainability direction.</p>
NOV 2023	Investing in expanding research facilities, increasing workspace for research and continuous production to facilitate the manufacturing of the company’s components and equipment. This is supported by the growing demand for both domestic and international inspection technology activities.

3. Financial Performance Overview

Unit: MB	2023	2022	Change YoY
Operating Revenues	648	610	+6%
EBITDA (Earnings before interest, tax, depreciation & amortization)	173	211	-18%
Net Profit	50	105	-52%
EPS (baht/share)	0.11	0.22*	-50%

*Fully Diluted

2023 Company's Performance

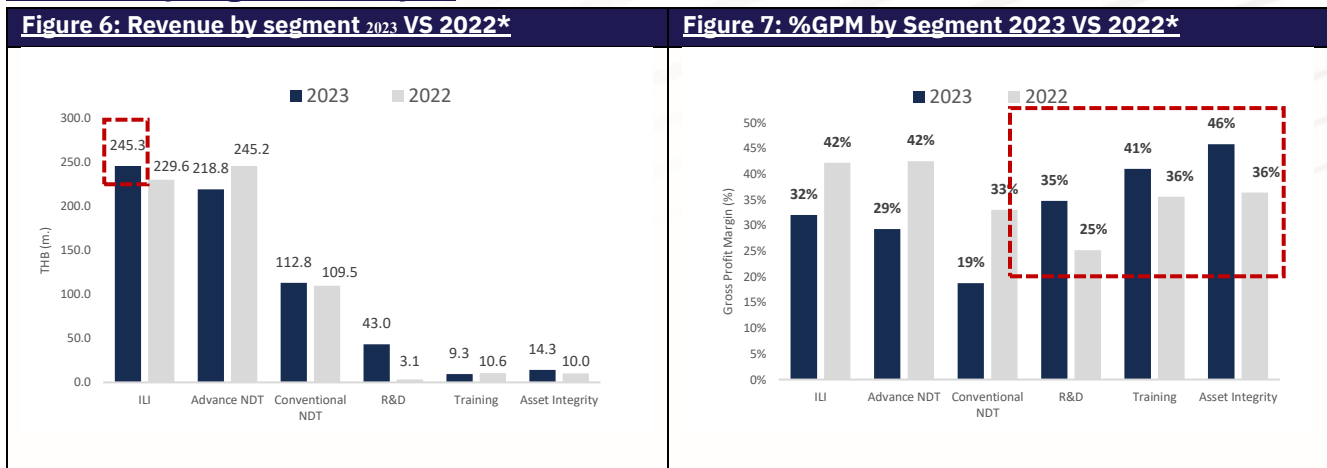
In the fiscal year 2023, DEXON's revenue from services amounted to 648 MB, increasing by 38 MB (6% YoY increase) compared to 610 MB in 2022. The primary revenue growth came from expanding into international markets, providing in-line inspection services to major clients in the United States, European countries, and Latin American countries. These clients became new customers for the company in 2023. Additionally, the company also saw increased revenue from providing research and development services to existing clients.

The company's 2023 EBITDA amounted to 173 MB, decreasing by 38 MB or -18% YoY compared to 2022. This decline was attributed to a 20% increase in service costs and a 21% increase in sales and administrative expenses. The rise in costs and expenses can be attributed to:

1. The increased service costs resulted from the variable impact of increased inspection workloads, requiring more resources for additional inspections. This includes personnel and equipment expenses.
2. The increase in personnel expenses was due to the business expansion strategy both domestically and internationally, necessitating skilled personnel, increased headcount, and additional training.
3. Non-recurring expenses such as those related to capital raising in the securities market and expenses for public relations and advertising to raise capital and generate investor response.
4. Marketing expenses to promote the company's inspection services, expand market reach, create awareness of the company's innovative inspection technologies, and business opportunities for service provision both domestically and internationally.

The company achieved a net profit of 50 MB (decreasing by 52% YoY), primarily due to the increase in service costs, sales-related expenses, and administrative expenses as detailed above.

Revenue by Segment Analysis



Remark: *Revenue from sales and services is classified according to the revenue structure of each type as specified in the financial statement notes, excluding entries of subsidiary accounts incorporated into the revenue structure of each type.

The company's 2023 revenue from services by segment can be categorized as follow:

1. Revenue from Advance In-line inspection technology (ILI)

Revenue from Advance In-line Inspection (ILI) technology amounted to 245.3 MB, the highest in the company's main revenue group, and grew by 7% from 229.6 MB in 2022, driven by the company's strategy to expand the ILI market internationally. Additionally, gross margin decreased from 42% in 2022 to 32% in 2023 due to the company securing major projects with high gross profit margin in 2022, resulting in a higher profit base in 2022 compared to 2023.

2. Revenue from Advance Non-destructive testing (Advance NDT)

Revenue from Advance Non-destructive Testing (Advance NDT) amounted to 218.8 MB, experiencing a decline of 11% from 245.2 MB. This decline is attributed to the company's increased focus on providing ILI services internationally. Additionally, gross profit margin stood at 29% in 2023, down from 42% in 2022 due to the higher gross profit margin from projects with higher gross profit margin from customers.

3. Revenue from Conventional inspection technology

Revenue from Conventional inspection technology amount is 112.8 MB, increase by 3% from 109.5 MB due to the company's increased focus on providing ILI services abroad. Gross profit margin is 19% in the year 2023, down from 33% in 2022, due to the nature of non-destructive testing jobs, which mostly consist of major shutdown projects for customer groups and the gross profit margin will vary according to the type of work.

4. Revenue from Research and development innovation

Revenue from Research and development innovation amount is 43 MB, growing 1,296% from 3.1 MB in 2022. The growth is attributed to the company receiving research and development projects from existing clients, who engage the company to conduct research and development and produce tools tailored to their needs.

5. Revenue from training services

Revenue from training amount is 9.3 MB, decreasing by 12% from 10.6 MB in 2022. The company has set goals for the year 2024 to increase its external customer base by offering training courses tailored to customer needs as much as possible. This includes analyzing a group of customers’ needs and planning for successful sales growth.

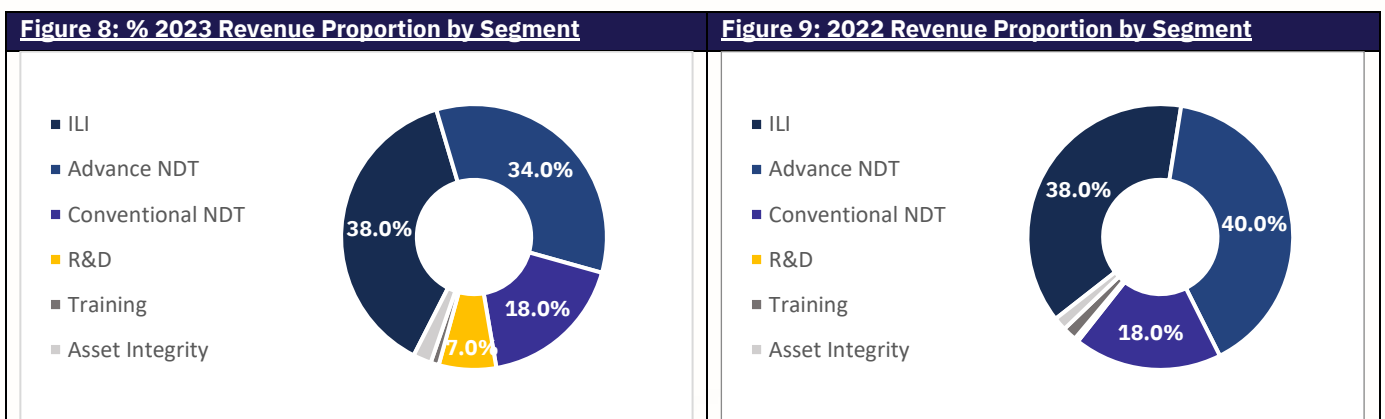
6. Revenue from Dexon Mechanical Solutions

Revenue from Dexon Mechanical Solutions amount is 14.3 MB, increasing by 43% from 10 MB in 2022 from receiving more projects from external customers.

In summary

- **Revenue from the "Advanced In-line Inspection" or ILI, showed remarkable growth from 229.6 MB in 2022 to 245.3 MB (+7%)** (Figure 6). Meanwhile, revenue from the Advance NDT and Conventional NDT business groups slightly decreased, attributed to the company's strategy to increase revenue share internationally, particularly in the ILI category.
- **Despite having a relatively small revenue share compared to the company's main business, gross profit margin of the Research and Development innovation, Dexon Mechanical Solutions, and Training Services showed outstanding growth** (Figure 7) in 2023. The company has more aggressive plans to drive growth in these business groups, as explained in the revenue growth targets for 2024.
- **Gross profit margin of the main business groups ILI, Advance NDT, and Conventional NDT** decreased from the previous year due to fewer high-profit margin projects and major shutdown projects occurring less frequently in the previous year, depending on customer inspection service demand cycles. However, in 2024, the company aims to increase the gross profit margin for each business group.

For the year 2023, the company’s revenue proportion is as follows:



4. Balance Sheet as of 31 December 2023

Item (Unit: MB)	2023		2022		Increase/ Decrease (Amount)	%Change (YoY)
	2023	%	2022	%		
Cash and cash equivalents	148.9	14.4%	26.1	4.1%	122.8	470.2%
Trade and other receivables	141.4	13.7%	182.5	28.4%	(41.0)	-22.5%
Contract assets	114.2	11.0%	17.8	2.8%	96.5	543.4%
Inventories	60.3	5.8%	39.1	6.1%	21.2	54.3%
Property, plant, and equipment	447.5	43.2%	306.8	47.7%	140.7	45.9%
Intangible assets	61.1	5.9%	45.8	7.1%	15.3	33.3%
Other assets	61.3	5.9%	25.0	3.9%	36.3	145.4%
Total assets	1,034.8	100.0%	643.1	100.0%	391.8	60.9%
Trade and other payables	68.9	6.7%	88.0	13.7%	(19.1)	-21.7%
Loans from financial institution	57.5	5.6%	208.6	32.4%	(151.1)	-72.4%
Employee benefit obligations	24.8	2.4%	20.5	3.2%	4.3	20.9%
Other liabilities	25.2	2.4%	52.9	8.2%	(27.7)	-52.4%
Total liabilities	176.3	17.0%	370.0	57.5%	(193.6)	-52.3%
Paid-up share capital	238.3	23.0%	176.7	27.5%	61.6	34.9%
Retained Earnings	159.7	15.4%	110.1	17.1%	49.6	45.0%
Others	460.6	44.5%	(13.7)	-2.1%	474.2	3470.5%
Total equity	858.5	83.0%	273.1	42.5%	585.4	214.4%
Total equity and shareholders' equity	1,034.8	100.0%	643.1	100.0%	391.8	60.9%

Assets: The company's total assets amount to 1,035 MB, increasing by 392 MB, which is a 61% increase from December 31, 2022. Details of the increase include:

- 1) **Property, plant, and equipment (representing for 43% of total assets)** increased by 141 MB from 2022, or a 46% increase from increased investments in the R&D department, such as machinery and equipment for manufacturing inspection tools used in inspection services. These increases were in response to special customer demand projects due to the nature of the company's business in advanced in-line inspection, where customer needs vary. The company thus provides consulting services in research and development to align inspection services with customer objectives, necessitating the creation or upgrade of inspection tools and equipment in challenging projects.
- 2) **Cash and cash equivalents (representing for 14% of total assets)** increased by 123 MB from 2022, or a 470% increase from fundraising in the Stock Exchange of Thailand under MAI (Market for Alternative Investment)
- 3) **Contract assets (representing for 11% of total assets)** increased by 96 MB from 2022, or a 543% increase, as in the fourth quarter of 2566, the company received additional inspection tasks from customers but had not yet been invoiced, leading to an increase in contract assets.
- 4) **Trade and other receivables (representing 14% of total assets)** decreased by 41 MB as the company improved its efficiency in collecting payments from customers.

The above 4 asset items account for 82% of the total assets of the company.

Liabilities: The company's liabilities amount to 176 MB, decreasing by 194 MB from 2022, or a 52% decrease, attributed to the repayment of loans from financial institutions as specified in the capital raising objectives in the company's prospectus.

Total equity: As for the owner's equity, it stands at 859 MB, increasing by 586 MB from the capital increase for fundraising in the securities market as of March 31, 2023.

5. Cash Flow as of December 31, 2023

Cash flow Statement (Unit: MB)	2023	2022	%Change
Profit before income tax	52.5	114.1	-53.9%
Net Cash flow from operating	3.3	176.0	-98.1%
Net Cash flow from investing	(244.8)	(112.7)	117.1%
Net cash flow from financing	365.0	(81.4)	-548.3%
Net change in cash flow	123.5	(18.2)	-778.9%
Others adjustment	(0.7)	1.1	-163.7%
Cash at the beginning of the period	26.1	43.2	-39.5%
Cash at the ending of the period	148.9	26.1	470.2%

As of December 31, 2023, the company had cash and cash equivalents totaling 149 MB, marking a 470% increase from December 31, 2022. This increase stemmed from capital raised through the listing on the stock exchange. The company had net cash from operating activities amounting to 3 MB. Cash was used for investment activities amounting to 245 MB, primarily in machinery, equipment, automation, and robotics for transducer production and subsea high-pressure connectors. Additionally, investments were made in tools and equipment for newly developed inspection service operations. The company also had net cash from financing activities of 365 MB.

6. Key Financial Ratio

Key Financial Ratio	Unit	2020	2021	2022	2023
Liquidity Ratio					
Current Ratio	x	0.9x	0.9x	0.9x	3.4x
Quick Ratio	x	0.8x	0.8x	0.7x	2.9x
Profitability Ratio					
Gross Profit Margin	%	30.2%	30.6%	41.8%	34.9%
EBITDA Margin	%	20.9%	25.0%	34.5%	25.4%
Net Profit Margin	%	2.5%	4.2%	17.2%	7.8%
ROE	%	6.5%	9.6%	44.2%	8.9%
Efficiency Ratio					
ROA	%	1.9%	3.3%	17.5%	6.0%
Fixed Assets Turnover	%	1.6 x	1.5 x	2.1 x	1.8 x
Leverage and Solvency Ratio					
Debt/Equity	x	2.0 x	1.8 x	1.4 x	0.2 x
Cost of Debt	%	4.5%	4.0%	4.5%	4.0%

Remark: *Financial costs are calculated based on the average Interest-Bearing Debt (IBD) at the beginning and end of the period.

Financial Ratio Analysis

- The company has improved in the liquidity ratio, developing from the previous average of 0.9X to 3.4X as the company received IPO funds from listing on the Stock Exchange of Thailand under “MAI”
- The company’s Gross profit margin, EBITDA margin, and net profit margin have decreased due to increase in COGS and SG&A expenses in 2023. However, the company still maintains a higher gross profit margin compared to 2020-2021.
- The company's debt-to-equity ratio decreased from 1.4x to 0.2x as the company repaid short-term and long-term loans to financial institutions after receiving IPO funds.
- The financial costs of the company decreased from 4.5% in 2565 to 4.0% in 2566 due to the company's repayment of loan debts during the year.