

KERRY EXPRESS

KERRY EXPRESS (THAILAND) PUBLIC COMPANY LIMITED



MANAGEMENT DISCUSSION AND ANALYSIS

for the first quarter ended 31 March 2024

1Q/2024 Began to See the Developments in the Technology Adoption

- In the first quarter of 2024, SF Holding Co., Ltd. (“SF Holding”), the largest integrated logistics service provider in China and Asia, and the fourth largest in the world, became the major shareholder of KEX, holding indirectly a total of 62.66% of the total issued and paid-up shares. This development positions KEX to benefit from more flexible support, as well as access to the technology and operational expertise of SF Holding, which KEX has consistently relied on. The change in the shareholder structure will bring about positive impacts and empower KEX to achieve its ambitious goals. Despite facing fierce competition within the industry, and fluctuations in e-commerce volume that continue to impact our performance recovery, the utilization of technology such as sorting automation, and platform upgrade since last year has begun to yield more noticeable results in terms of cost management. With SF Holding’s elevated involvement and support, KEX is well-positioned to navigate challenges and capitalize on opportunities in the evolving market landscape.
- KEX is committed to intensifying our strongest efforts to boost our sales to retail and corporate customers as well as international shippers. Our focus remains on acquiring more high yield customers which include individuals, SMEs, big corporations, local farmers, fishermen and craftsmen, event organizers and attendees, etc. This strategy aims to increase the revenue contribution through our distinguished service offerings while keeping a stable market share of E-commerce platforms. Regarding our services, we implement SF Express’s approach to focus on On-Time-in-Full “OTIF” and customers satisfaction ratio, to ensure that KEX’s customers are the most satisfied ones compared to other service providers. Our goal is to continuously improve the quality of service and maintain high levels of customer satisfaction.
- Delivery volume reduced 3% QoQ and 18% YoY, driven mainly by off-peak season of the e-commerce platforms, while the focus on retail customers continued to develop. As Thai economy and income level are recovering slowly, leading to a continuous slowdown in GDP growth and the household debt to GDP ratio is trending upwards from the increase in outstanding household debt. This has led to an increase of caution in spending and consumption.
- Moving forward, KEX will embark on the **DIVERSIFIED BUSINESS INITIATIVES TO EXPLORE NEW REVENUE STREAMS**, **ENHANCE MARGINS**, and **OPTIMIZE NETWORK PLANNING**. This will involve leveraging our facilities rental, and effectively managing staff costs in hub sorting activities. KEX will segment market in a new way based on the importance factors such as yield and potential size of customers’ pool. Additionally, KEX will continue **INTERNATIONAL PARCEL DELIVERY SERVICE** spanning over 50 routes in 45 countries across Asia-Pacific and Europe. This will be achieved through collaboration with SF International, leveraging their expertise in international shipment. The synergy created by this collaboration will strengthen the KEX ecosystem and add significant value to our core express business.

Remark: /1 According to Frost & Sullivan Report, in terms of revenue in 2022.



Financial Performance

Table 1: Operational Results

(Unit: Million THB)	1Q/2023	4Q/2023	1Q/2024	Change	
				%YoY	%QoQ
Sales and services income	3,130.6	2,519.8	2,559.0	-18.3%	1.6%
Cost of sales and services	(3,724.2)	(3,227.1)	(3,343.8)	-10.2%	3.6%
Gross loss	(593.6)	(707.3)	(784.8)	32.2%	11.0%
Selling and administrative expenses	(387.6)	(450.0)	(384.9)	-0.7%	-14.5%
EBITDA	(395.5)	(717.4)	(671.3)	69.7%	-6.4%
EBIT	(966.3)	(1,130.7)	(1,149.0)	18.9%	1.6%
Net loss attributable to owners of the Company	(790.9)	(1,152.1)	(1,188.3)	50.2%	3.1%
EPS (Baht/Share)	(0.452)	(0.663)	(0.682)		
Gross Profit Margin (%)	-19.0%	-28.1%	-30.7%		
EBITDA Margin (%)	-12.6%	-28.5%	-26.2%		
EBIT Margin (%)	-30.9%	-44.9%	-44.9%		
Net Profit Margin (%)	-25.3%	-45.7%	-46.4%		

Figure 1: Revenue Breakdown by Segment



Remark: C2C = Customers that use our services through shops channels, applications, website, and call center. CKA = Corporate Key Account which uses quoted contract pricing and have standard contract. SKA = Strategic Key Account which has the highest volume and fully quoted contract pricing and contract terms.

For the first quarter ended 31 March 2024

● Sales and Services Income

- **Sales and services income** was recorded at 2,559.0 million, slightly increased by 2% QoQ but decreased by 18% YoY. The QoQ increase mainly came from retail key accounts volume, which we put an effort into the high yield customers as well as target to differential market segmentation approach by using special campaign during 1Q/2024. YoY dropped are driven by our plan to consolidate and optimize our retail network.
- In terms of **revenue contribution**, **C2C** increased from 41% in 1Q/2023 to 46% in 1Q/2024 due to our strategy focusing on high-yield customers and acquiring new customers. These high-yield segments will continue to be developed to contribute further than the strategically controlled volume of E-Commerce platform where **SKA** decreased from 47% in 1Q/2023 to 40% in 1Q/2024.

- **Cost of sales and services**

Cost of sales and services were at THB 3,343.8 million, increased by 4% QoQ, but dropped by 10% YoY. It is worth noting that the QoQ increase was mainly from depreciation due to the accounting policy change and the staff cost which resulted from the shop relocating plan that we started last year. However, when comparing YoY, our execution in terms of optimizing resource utilization in our core operation and sorting automation started to show a prudent result in terms of facility and fleet rental, staff cost and fuel cost.

- **Selling and administrative expenses (SG&A)**

Selling and administrative expenses reported at THB 384.9 million, declined by 15% QoQ and 0.7% YoY, resulting from the meticulous cost control approach when KEX started the lean program at the end of the year 2022. The QoQ decrease mainly came from internal wastages (i.e. claims costs from customers, Repair & Maintenance and consumable supplies) while marketing expenses were spent with more purposeful planning.

- **Net loss attributable to owners of the Company**

The Company reported net loss attributable to owners of the Company at THB 1,188.3 million for the first quarter of this year, a wider loss by 3% QoQ and 50% YoY attributable mainly to one-off adjustment from change of accounting estimates and provision for impairment of fixed assets. Excluding one-off adjustments, the net loss attributable to owners of the company is THB 968.2 million.

To improve the profitability of the Company, KEX aims to focus on market segmentation to expand to the mid-to-high market and rank our customers into long-tail retail customers. The Company will spend our strongest efforts in boosting our sales to retail, corporate customers as well as international shippers, and will work hard to reduce our reliance on E-Commerce platform as much as possible. In terms of cost management and control, we expect that our operating networks restructuring, investment in automation and digitization, upgrading our technology platforms and systems will start to show results this year.

Major Development in first quarter of 2024 ended 31 March 2024

1. KEX is now available for fresh fruit delivery with plastic basket service at all branches nationwide.

In response to the escalating demand for seamless fresh produce and plant delivery, customers can now experience the convenience of sending fresh fruits or plants by using "plastic baskets with secure lids.



2. KEX Teams Up with SF Holding to Ignite International Parcels Delivery Services, hosts Marketing Promotion Activity at Chatuchak Market.



KEX with SF team proactively organized troop marketing at Chatuchak Market to raise awareness, targeting merchants with a foreign customer base and tourists seeking to send purchases home. Kerry Express Parcel Shop, located on the 2nd floor of JJ Mall Building, is highlighted as a point of service, with the option to utilize international express delivery services available at 125 other Kerry Express branches nationwide.

3. SF Holding* becomes KEX's major shareholder with 62.66% holding, and puts Kerry Express on the path to reach another level.

SF Holding, the largest integrated logistics service provider in China and Asia becomes a major shareholder of KEX with total 1,091,818,327 shares or 62.66 % of total issued and paid-up shares.

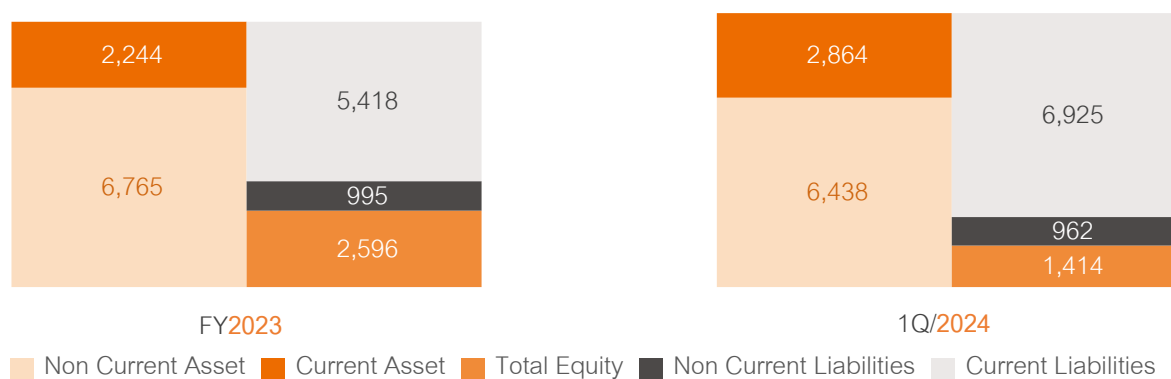
Remark: * SF International Holding (Thailand) Co., Ltd. ("SFTH") is an indirect subsidiary of SF Holding and is obliged to make a mandatory tender offer.



Financial Position and Liquidity

Figure 2: Financial Position

(Unit: Million THB)


Table 2: Asset Breakdown

(Unit: Million THB)	31-Dec-2023	31-Mar-2024	Change
	Restated		% +/-
Cash and cash equivalents	736.3	1,292.5	75.5%
Trade and other receivables	1,338.3	1,389.5	3.8%
Plant and equipment	2,146.0	1,965.4	-8.4%
Right-of-use assets	2,449.3	2,324.3	-5.1%
Investment in associates	16.1	15.1	-5.9%
Deferred tax assets	1,529.3	1,524.5	-0.3%
Other Assets	793.8	790.1	-0.5%
Total Assets	9,009.1	9,301.5	3.2%

Table 3: Liabilities and Shareholders' Equity

(Unit: Million THB)	31-Dec-2023	31-Mar-2024	Change
	Restated		% +/-
Short-term loan from related party	1,300.0	3,200.0	146.2%
Loan from financial institutions	340.7	37.9	-88.9%
Trade and other payables	1,717.7	1,647.7	-4.1%
Cash on delivery payable	614.8	669.4	8.9%
Current portion of lease liabilities	1,441.1	1,364.0	-5.4%
Lease liabilities	775.3	737.4	-4.9%
Other Liabilities	223.1	230.9	3.5%
Total Liabilities	6,412.8	7,887.3	23.0%
Total Shareholders' Equity	2,596.3	1,414.3	-45.5%
Total Liabilities and Equity	9,009.1	9,301.5	3.2%

- As of 31 March 2024, **cash and cash equivalents** increased by 75.5% to THB 1,292.5 million mainly came from short-term borrowings from a related party.
- For the **investment in associates**, in September 2023, KEX has invested THB 18.0 million in the shares of our new associate, HiveBox (Thailand) Co., Ltd., with 18% ownership stake. It aims to provide smart locker service in Thailand by offering 24/7 parcel pickup and delivery services. As of 31 March 2024, KEX recorded a share loss from investment in associates of THB 0.9 million.
- **Right of use assets** decreased by 5.1% to THB 2,324.3 million, resulted mainly from the depreciation and amortization of rental contract lives useful per existing lease agreements, lease cancellation following our plan to utilize the service points and shops.
- **Deferred tax assets** slightly decreased by 0.3% to THB 1,524.5 million which was caused by the additional recognized tax losses and expected to be utilized in the future.
- **Short-term borrowing** agreement with KLN Logistics (Thailand), now a related company, with a total of THB 3,200 million is unaffected after SF Holding became the direct major shareholder. This amount will be used as working capital and support investment for the improvement of operation's efficiency of the Company.
- **Loans from financial institutions** (both current and non-current portion portions) decreased from THB 340.7 million as of 31 December 2023 to THB 37.9 million as of 31 March 2024 since the Company made a repayment during 1Q/2024.
- **Lease liabilities** (both current and non-current portions) dropped by 5.2% from THB 2,216.4 million to THB 2,101.4 million, primarily due to lease liabilities payment from rental contract lives per existing lease agreements.

KEX will continue to implement prudent cash flow management and investment plans, to ensure sufficient liquidity to support our existing operation and our investments in the network transformation plans to achieve operating efficiency enhancement.

KEY FINANCIAL RATIOS

Table 4: Key Financial Ratios

		1Q/2023	2023	1Q/2024
Liquidity ratios				
Current ratio ⁽¹⁾	(times)	0.95	0.41	0.41
Quick ratio ⁽²⁾	(times)	0.88	0.38	0.39
Cash flow liquidity ratio ⁽³⁾	(times)	-0.19	-0.41	-0.12
Accounts receivable turnover ⁽⁴⁾	(times)	13.81	10.42	10.95
Average collection period ⁽⁵⁾	(days)	26.43	35.03	33.33
Accounts payable turnover ⁽⁶⁾	(times)	24.14	17.81	23.60
Average payment period ⁽⁷⁾	(days)	15.12	20.49	15.46
Cash cycle (days) ⁽⁸⁾	(days)	11.31	14.54	17.86
Profitability ratios				
Gross profit margin ⁽⁹⁾	(%)	-18.96	-25.00	-30.67
Operating profit margin	(%)	-31.10	-39.87	-45.58
Non-operating profit margin	(%)	0.23	0.52	0.68
Cash flow to income ratio	(times)	0.79	0.45	0.52
Net profit margin ⁽¹⁰⁾	(%)	-25.26	-33.83	-46.44
Return on equity ⁽¹¹⁾	(%)	-43.06	-85.35	-119.92
Efficiency ratios				
Return on total assets ⁽¹²⁾	(%)	-24.38	-36.78	-43.46
Return on fixed assets	(%)	-12.40	-36.65	-49.90
Total asset turnover ⁽¹³⁾	(times)	1.22	1.09	1.11
Financial policy ratios				
Total liabilities to equity ratio ⁽¹⁴⁾	(times)	0.82	2.47	5.58
Interest-bearing debt to EBITDA ⁽¹⁵⁾	(times)	-1.65	-1.52	-1.90
Interest coverage ratio ⁽¹⁶⁾	(times)	-26.72	-36.52	-23.66
Debt service coverage ratio ⁽¹⁷⁾	(times)	-0.97	-0.83	-0.61

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.