
nForce Secure Public Company Limited

Management Discussion and Analysis

For the three-month Period Ended 31 March 2024

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Business overview

nForce Secure Public Company Limited (the Company) is a distributor of cyber products and solutions as well as network management products and solutions. Wherein the revenue for the three-month period ended 31 March 2024 consisted of (1) revenue from sales of all products related to information technology systems, accounting for 96.49%; (2) revenue from services, it is the revenue generated from providing information technology services related to due to the products that the Company being a full-service distributor, accounting for 2.72% (3) other revenue, accounting for 0.79%, respectively.

Performance summary

For the three-month period ended 31 March 2024, the Company had total revenue of Baht 347.70 million, an increase of Baht 95.42 million compared to the same period of the previous year or an increase of 37.82% with a total comprehensive income of Baht 41.77 million, increased by Baht 14.55 million from same period of the previous year or an increase of 53.48%.

Revenue, cost, and gross profit

Sales revenues when considering the sources of products classified by type can be divided into 4 groups as follows:

1. Revenues from sales of network security system solutions, comprising of comprehensive Cybersecurity products and solutions to prevent cyber threats, including hacking attacks and malware attacks, for example, Firewall and proxy servers.
2. Revenues from sales of endpoint security systems, comprising of endpoint protection hardware and software, for example, antivirus software and anti-malware software.
3. Revenues from sales of network performance & monitoring systems, comprising of hardware and software that contribute to efficiency and effectiveness of computer networks and equipment in order to enhance organization management, including programs that monitor systems and notify system administrators of the issues in the systems so the administrators can plan ahead as a precaution against system failure or disruption.
4. Revenues from sales of other products, comprising of management products, data management systems and user identification products.

Unit: Million Baht	For the three-month period ended 31 March					
	2022		2023		2024	
	Amount	%	Amount	%	Amount	%
1. Network security	129.04	76.54	200.35	82.38	264.29	78.78
2. Endpoint security	25.34	15.03	28.28	11.63	30.62	9.13
3. Network performance & monitoring	13.51	8.01	7.27	2.99	15.39	4.59
4. others	0.70	0.42	7.29	3.00	25.20	7.51
Revenue from sales	168.59	100.00	243.19	100.00	335.50	100.00

For the three-month Period Ended 31 March 2024, the Company's revenue from sales amounted to Baht 355.50 million, increased by Baht 92.30 million or 37.95% from the same period of the previous year. The main source of income is revenue from the sale of network security products, which has increased by Baht 63.94 million, representing 31.91%; compared to the same period of the previous year.

In addition, if considering the sources of revenue from sales classified by type of users (End user), can be divided into 5 groups of users as follows:

1. Banking, Financial services and Insurance (BFSI) in the banking, securities, and insurance industries
2. Industry group (Enterprise), which is in the manufacturing industry
3. Government & State enterprise

4. Telecom & Internet service provider (ISP) in the information and communication technology industry
5. Others, which are in the private sector business that focuses on providing services such as movie theaters, hotels, hospitals, schools, nursing homes, and trading, etc.

The Company will sell products to system integrator contractors (SI) to assemble a technology solution offered directly to the end user.

Unit: Million Baht	For the three-month period ended 31 March					
	2022		2023		2024	
	Amount	%	Amount	%	Amount	%
1. Banking, financial services and insurance (BFSI)	54.31	32.21	44.56	18.32	85.04	25.35
2. Industry (Enterprise)	39.97	23.71	55.15	22.68	81.84	24.39
3. Government and State Enterprises (Government)	40.50	24.02	78.24	32.17	47.14	14.05
4. Telecommunication (Telecom & ISP)	12.33	7.32	39.36	16.18	84.48	25.18
5. Others (Others)	21.48	12.74	25.88	10.64	37.00	11.03
Revenue from sales	168.59	100.00	243.19	100.00	335.5	100.00

For the three-month period Ended 31 March 2024, the main end user group is the Banking, financial services and Insurance group, followed by the Telecommunication group.

Revenue from services

Unit: Million Baht	For the three-month period ended 31 March					
	2022		2023		2024	
	Amount	%	Amount	%	Amount	%
1. System maintenance service	3.26	56.14	4.21	52.98	4.88	51.55
2. Installation service	2.32	40.06	3.33	41.85	4.22	44.50
3. Training service	0.22	3.80	0.41	5.17	0.37	3.95
Revenue from services	5.80	100.00	7.95	100.00	9.47	100.00

Service revenue is divided into 3 main categories: Maintenance Service, Installation Service, and Training Service

For the three-month period Ended 31 March 2024, the Company's revenue from services amounted to Baht 9.47 million, increased of Baht 1.53 million or 19.20% compared to the same period of previous year in line with revenue from sales.

In addition, if considering the sources of revenue from sales and services, which are divided into 3 types as follows:

1. Revenue from software sales in the first year
2. Revenues from maintenance service agreement (MA) which were recurring income
3. Revenues from sales of other products and services

Unit: Million Baht	For the three-month period ended 31 March					
	2022		2023		2024	
	Amount	%	Amount	%	Amount	%
1. Revenue from sales of software	48.48	27.80	114.58	35.83	168.09	48.73
2. Maintenance agreement: MA	94.36	54.11	90.00	45.62	120.02	34.79
3. Revenue from others	31.54	18.09	46.57	18.54	56.86	16.48
Total revenue from sales and services	174.38	100.00	251.14	100.00	344.97	100.00

Other revenue

Other revenue consists of interest income, rental income, profit from disposal of assets, and operating expenses from activities etc. For the three-month period ended 31 March 2024, had other income of Baht 2.73 million or 0.79% of total revenue which slightly increased when compared to the same period of previous year mainly from interest income.

Cost of sales and services, and gross profit

Unit: Million Baht	For the three-month period ended 31 March					
	2022		2023		2024	
	Amount	%	Amount	%	Amount	%
Revenue from sales and	174.38	100.00	251.14	100.00	344.97	100.00
Cost of sales and services	(149.15)	(85.53)	(194.54)	77.46	(274.19)	(79.48)
Gross profit	25.23	14.47	56.60	22.54	70.78	20.52

For the three-month Period Ended 31 March 2024, the Company's gross profit margin was 20.52%, due to the price competition in the market and the difference in the proportion of products sold during the period.

Selling expenses

Selling expenses	For the three-month period ended 31 March					
	2022		2023		2024	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Employee expense	6.50	63.98	7.16	62.21	7.26	54.63
Advertising and promotional costs	0.71	6.99	0.72	6.26	1.84	13.84
Commission	0.95	9.35	2.33	20.24	2.90	21.82
Other selling expenses	2.00	19.68	1.30	11.29	1.29	9.71
Total	10.16	100.00	11.51	100.00	13.29	100.00

For the three-month period ended 31 March 2024, the Company had selling expenses in the amount of Baht 13.29 million, or 3.82% of total revenue; whereas selling expenses for the three-month period ended 31 March 2023 increased compared to the same period of previous year in the amount of Baht 1.77 million or 15.41%. mainly due to an increase in advertising and promotional costs and increased in commission in line with the increase in sales during the period.

Administrative expenses

Administrative expenses	For the three-month period ended 31 March					
	2022		2023		2024	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Employee expense	7.19	60.78	6.77	58.41	8.75	59.48
Professional fee	1.66	14.03	1.22	10.53	0.97	6.60
Depreciation and amortization	1.50	12.68	2.52	21.74	2.86	19.44
Employee's benefit expense	0.59	4.99	0.32	2.76	0.36	2.45
Administrative expenses	0.89	7.52	0.76	6.56	1.77	12.03
Total	11.83	100.00	11.59	100.00	14.71	100.00

The main administrative expenses are employee expenses, depreciation and amortization and professional fees. For the three-month Period Ended 31 March 2024, the Company had administrative expenses in the amount of Baht 14.71 million, increased compared to the same period of previous year Baht 3.13 million or 26.98% mainly from increased in employee expense from annual salary increases and greater headcount.

Net profit and net profit margin

For the three-month period ended 31 March 2024, the Company had a net profit of Baht 41.77 million, increasing from the same period of the previous year by the amount of Baht 14.55 million or 53.48%. Net profit margin for the three-month period ended 31 March 2024 was 11.76%, increased compared to the same period of previous year due to increased in revenue from sales and services, as well as the Company's ability to better control selling and administrative expenses.

Statement of financial position

Total assets overview

As at 31 March 2024 and 31 December 2023, the Company had total assets of Baht 912.48 million and Baht 909.75 million, respectively. The details of each item can be described as follows:

Current assets

As at 31 March 2024 and 31 December 2023, the Company had current assets of Baht 788.82 million and Baht 792.26 million, representing 86.45 percent and 87.02 percent of total assets in each year, respectively. The main current assets were cash and cash equivalents, account receivables and other receivables and inventories each of which can be described as follows:

Cash and cash equivalents

As at 31 March 2024 and 31 December 2023, the Company had cash and cash equivalents amounting to Baht 408.43 million and Baht 450.12 million, respectively. Cash and cash equivalents decreased mainly due to the payment of goods to vendors during the period, as well as the slower receipt from account receivable and other receivables due to the longer credit term.

Account receivables and other receivables

Items	As at 31 December				As at 31 March	
	2022		2023		2024	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Account Receivable	236.52	95.03	258.47	98.13	294.56	97.19
Accounts receivable - related party	8.97	3.60	0.40	0.15	2.54	0.84
Accrued income	1.94	0.78	3.40	1.29	3.69	1.22
<u>Less</u> Loss allowance	(2.70)	(1.08)	(1.28)	(0.48)	(1.67)	(0.55)
Total accounts receivables - net	244.73	98.32	260.99	99.09	299.12	98.69
Prepaid expenses	3.98	1.60	2.03	0.77	2.43	0.80
Other Receivable – related party	-	-	-	-	0.05	0.02
Employee account receivable	0.17	0.07	0.05	0.02	0.19	0.06
Accrued interest - related party	0.02	0.01	0.33	0.12	1.30	0.43
Total other receivables	4.17	1.68	2.41	0.91	3.97	1.31
Total account and other receivables - net	248.90	100.00	263.40	100.00	303.09	100.00

As at 31 March 2024 and 31 December 2023, the Company had account and other receivables amounting to Baht 303.09 million and Baht 263.40 million, or accounted for 33.22% and 28.95% of total assets, respectively. As at 31 March 2024, the Company's account receivables and other receivables increased in the amount of Baht 39.69 million, due to the delivery of products near the end of period, thus most account receivables are still not due.

The Company has accounts receivable classified by overdue period, counting from the date the payment is due as follows;

Items	For the three-month period ended 31 March					
	2022		2023		2024	
	Million Baht	Percent (%)	Million Baht	Percent (%)	Million Baht	Percent (%)
Not yet due	21.98	8.88	43.46	16.57	206.63	68.69
Less than 3 months overdue	224.47	90.72	212.96	81.20	86.85	28.87
Overdue more than 3 months but not over 6 months	-	-	-	-	1.46	0.49
Overdue 6 months but not over 12 months	-	-	5.20	1.98	5.20	1.73
Over 12 months overdue	0.99	0.40	0.65	0.25	0.65	0.22
Total account receivables	247.43	100.00	262.27	100.00	300.79	100.00

Allowance for expected credit losses / doubtful accounts	(2.70)	(1.09)	(1.67)	(0.49)	(1.67)	(0.56)
Total account receivables - net	244.73	98.91	260.99	99.51	299.12	99.44

Inventory

As at 31 March 2024 and 31 December 2023, the Company had net inventories of Baht 33.07 million and Baht 41.05 million, respectively. Most inventories included the ordered devices, equipment, and computer software, pending delivery as per customers' purchase orders for which the Company has no policy of storing inventory for sale. As at 31 March 2024, the Company's inventories decreased compared to 31 December 2023, due to the delivery of products to customers during the period.

Non-current assets

As at 31 March 2024 and 31 December 2023, the Company had non-current assets of Baht 123.65 million and Baht 117.49 million, accounting for 13.55% and 12.91% of total assets, respectively. The majority of non-current assets are restricted deposits, property, plant and equipment, and right-of-use assets, details as follow:

Property, plant and equipment

The Company's property, plant and equipment which comprise the main items such as computers and equipment, and leasehold improvements, as at 31 March 2024 and 31 December 2023, amounted to Baht 18.63 million and Baht 20.54 million, respectively, decreased of Baht 1.91 million or 9.31% compared to as at 31 December 2023 from depreciation during period.

Right-of-use assets

The Company recorded the office rental fee as a right-to-use asset according to the Thai Financial Reporting Standards No. 16 (TFRS16). The Company's right-of-use assets as at 31 March 2024 and 31 December 2023, amounted to Baht 19.99 million and Baht 21.53 million, respectively, decreased of Baht 1.54 million or 7.13% compared to as at 31 December 2023, mainly due to amortization during period.

Liability overview

Liability structure

As at 31 March 2024 and 31 December 2023, the Company had total liabilities of Baht 197.90 million and Baht 237.06 million, respectively. Total liabilities as at 31 March 2024 increased from as at 31 December 2023 amounting to Baht 39.15 million or 16.52%. The details of each item can be described as follows.

Current Liability

As at 31 March 2024 and 31 December 2023, the Company has current liabilities of Baht 158.47 million and Baht 195.50 million, accounting for 80.07% and 82.47% of total liabilities, respectively. The main items are trade and other payables and deferred revenue.

Trade and other payable

Most of the trade payable are the owners of the products, the developers of hardware and software systems that the Company purchases to sell to the customers. As at 31 March 2024, the Company has trade and other payables amounting to Baht 121.02 million, decrease from as at 31 December 2023 Baht 35.88 million or 22.87% due to the payment to vendors during period.

Non-current liability

As at 31 March 2024 and 31 December 2023, the Company has non-current liabilities of Baht 39.44 million and Baht 41.56 million, respectively. The main non-current liabilities are deferred revenue, liabilities under finance lease agreements and employee benefit obligations.

Lease liabilities

As at 31 March 2024 and 31 December 2023, the Company has financial lease liabilities of Baht 14.88 million and Baht 16.47 million, respectively, has recorded office rental items as financial lease liabilities in accordance with the Notification of Financial Reporting Standard No. 16 (TFRS16). During the period, lease liabilities decreased from amortization.

Overview of Shareholders' Equity

As at 31 March 2024 and 31 December 2023, the Company had shareholders' equity of Baht 714.57 million and Baht 672.69 million, respectively. The Company's shareholders' equity as at 31 March 2024 increased by Baht 41.8 million from the Company's Q1 2024 performance.

Analysis of key financial ratios

Items	As at/ For the year ended 31 December	As at/ For the three-month ended 31 March	
	2023	2023	2024
Liquidity ratio (times)	4.05	4.48	4.98
Quick ratio (times)	3.64	3.72	4.46
D/E ratio (times)	0.35	0.31	0.28
Cash cycle			
Average collection period (days)	87.26	89.44	94.77
Average sale period (days)	11.70	13.57	14.45
Average payment period (days)	52.66	41.09	31.37
Cash cycle (days)	46.31	61.93	77.85

Liquidity Ratio, quick Ratio and D/E Ratio

As at 31 March 2024, the liquidity and quick ratio were 4.98 times and 4.46 times, respectively, slightly increased from as at 31 December 2023, However, the Company's operating profit has provided the Company with good liquidity, while its D/E Ratio was 0.31 times, a slightly decrease compared to 31 December 2023.

Cash cycle

As at 31 March 2024, the Company's cash cycle was at 77.85 days, increased from the same period of previous year by the amount of 15.92 days, mainly due to 1) the average debt collection period increasing 5.33 days due to the credit term to customers 2) The average selling period has slightly increased 3) the average repayment period has decreased by 9.72 days because the Company having good liquidity from the Company's operating results in 2023, the Company therefore repays debts to the product owners (Vendor) faster.