



## **KCG Corporation Public Company Limited**



## **Management Discussion and Analysis (MD&A)**

**For the First Quarter Ended 31 March 2024**

## Business Overview

- ✦ KCG Corporation Plc (the "Company" or "KCG") operates business in manufacturing and distributing products for consumption covering activities from research and development process to create production formula, procurement of raw materials, product manufacturing, distribution, and transportation to customers domestically, as well as exporting products to other countries. The Company is also an importer and distributor of leading products from overseas to Thailand. The Company's products can be categorized into three main groups:
  - (1) Dairy products, consisting of butter, cheese, and other dairy products.
  - (2) Food and Bakery Ingredients and other products (FBI), consisting of food ingredient, packaged food, frozen food, bakery ingredients, food additives, concentrated fruit juice, and bakery and cooking equipment.
  - (3) Biscuits, consisting of cookies, crackers, and wafers.
- ✦ The Company is the market leader in both butter and cheese products, with the No.1 market share of 55.0% for butter, and the No. 1 market share of 31.6% for cheese. The Company is also ranked in the top 5 market share for FBI and biscuits. The Company's brands include "Allowrie", "Imperial", "DAIRYGOLD", "Violet", "Premio", "SUNQUICK", etc.
- ✦ The Company was listed and started trading on the Stock Exchange of Thailand (SET) in the Agro & Food Industry group, Food & Beverage sector, under the ticker symbol "KCG" on 3 August 2023.

## Summary of the Operating Results Q1/2024 and Outlook

Operating Results (Unit: THB Million, %)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
<b>Sales</b>	<b>1,707.9</b>	<b>2,207.0</b>	<b>1,785.5</b>	+4.5%	-19.1%
Other income	15.4	10.0	12.2	-20.5%	+21.9%
<b>Total revenue</b>	<b>1,723.3</b>	<b>2,217.0</b>	<b>1,797.7</b>	+4.3%	-18.9%
Cost of sales	1,247.0	1,485.8	1,240.4	-0.5%	-16.5%
<b>Gross profit</b>	<b>460.9</b>	<b>721.2</b>	<b>545.0</b>	+18.2%	-24.4%
Selling and distribution expenses	244.8	377.8	273.6	+11.8%	-27.6%
Administrative expenses	134.5	164.7	157.2	+16.9%	-4.6%
<b>SG&amp;A</b>	<b>379.3</b>	<b>542.6</b>	<b>430.8</b>	+13.6%	-20.6%
Impairment loss on machinery and equipment	0.0	0.0	21.1	-	-
Finance costs	22.8	15.8	14.3	-37.5%	-9.6%
Profit before income tax expenses	74.2	172.8	91.1	+22.8%	-47.3%
Tax expenses	15.8	31.4	19.5	+23.7%	-38.0%
<b>Net profit</b>	<b>58.4</b>	<b>141.4</b>	<b>71.6</b>	+22.5%	-49.3%
<b>EBITDA</b>	<b>141.0</b>	<b>235.5</b>	<b>156.7</b>	+11.1%	-33.5%
Gross profit margin (%)	27.0%	32.7%	30.5%	+3.5%	-2.2%
SG&A to sales (%)	22.2%	24.6%	24.1%	+1.9%	-0.5%
Net profit margin (%)	3.4%	6.4%	4.0%	+0.6%	-2.4%
EBITDA margin (%)	8.2%	10.6%	8.7%	+0.5%	-1.9%

### Q1/2024 vs Q1/2023 (YoY)

- ✦ In Q1/2024, the Company recorded net profit of THB 71.6 million, increased by 22.5% YoY, with the following key matters:
  - ✦ Sales increased by 4.5% YoY, supported by sales expansion of dairy products and biscuits.
  - ✦ Gross profit margin improved by 3.5% YoY, supported by decreased overall cost of raw materials, improved production efficiency, and effective production cost management.
  - ✦ SG&A increased by 13.6% YoY, following the higher sales. Increased expenditures mainly came from advertising and promotion (A&P), transportation, and employee expenses from a merit increase. %SG&A to sales in Q1/2024 was 24.1%, increased from 22.2% in Q1/2023, but maintained at the same level as 2023.
  - ✦ Finance costs decreased by 37.5% YoY, supported by decreased loans from financial institutions. At the end of Q1/2024, loans from financial institutions were THB 1,248.5 million, decreased by THB 1,448.3 million from THB 2,696.9 million at the end of Q1/2023.
  - ✦ Income tax expenses increased by 23.7% YoY due to a higher profit before income tax. Effective tax rate rose YoY resulting from lower actual payment of long-term employee benefits in Q1/2024 compared to Q1/2023.
  - ✦ The Company recorded a one-time expense impairment loss on machinery and equipment of THB 21.1 million, as the Company is in the process of improving machinery, production process, and factory re-layout, which will increase production capacity, enhance production efficiency, and reduce production cost in the future. If excluding this one-time expense, net profit in Q1/2024 will rise from THB 71.6 million to THB 92.7 million, increased by THB 34.3 million or 58.7% YoY.

### Q1/2024 vs Q4/2023 (QoQ)

- ✦ In Q1/2024, the Company recorded net profit of THB 71.6 million, decreased by 49.3% QoQ, with the following key matters:
  - ✦ Sales decreased by 19.1% QoQ after passing the highest quarterly sales of the year in Q4.
  - ✦ Gross profit margin decreased by 2.2% QoQ mainly due to lower production capacity utilization rate after passing the highest quarterly sales of the year in Q4.
  - ✦ SG&A decreased by 20.6% QoQ, following lower sales. Decreased expenditures were mainly due to lower A&P, transportation, warehouse rental, and utilities, except employee expenses, which increased QoQ from a merit increase. %SG&A to sales in Q1/2024 was 24.1%, decreased from 24.6% in Q4/2024.
  - ✦ Finance costs decreased by 9.6% QoQ, supported by decreased loans from financial institutions. At the end of Q1/2024, loans from financial institutions were THB 1,248.5 million, decreased by THB 589.3 million from THB 1,837.8 million at the end of 2023.
  - ✦ Income tax expenses decreased by 38.0% QoQ due to lower profit before income tax. Effective tax rate rose QoQ resulting from lower actual payment of long-term employee benefits in Q1/2024 compared to Q4/2023.

### Major Development and Outlook

The Thai economy outlook in 2024 tends to increase from the previous year, supported by continuous expansion in private consumption and the tourism sector. Government spending during the rest of the year should also reinforce economic growth. However, global geopolitical conflicts have been getting more tense and could be more prolonged and severe than expected, which could be a risk to the Thai and world economies.

Even though the Company's sales growth in Q1/2024 was lower than the full-year target, sales will accelerate more in the upcoming quarters of the year, supported by new products which will gradually be later launched into the market, plus replacement sales will increasingly recover the lost sales from the discontinued products under the SKU rationalization scheme.

The overall cost of raw materials in Q1/2024 decreased YoY compared to Q1/2023 but was almost unchanged QoQ compared to Q4/2023. The overall cost of raw materials in Q2/2024 also tends to decrease YoY compared to Q2/2023 but increase QoQ compared to Q1/2024. In summary, the average overall cost of raw materials in 2024 tends to be relatively stable compared to 2023. However, the Company's gross profit margin in 2024 should be reinforced by the improvement of machinery and production processes, which will continuously enhance production efficiency. Also, despite the lost sales from SKU Rationalization, sales will later be recovered by NPDs and replacement products with improved gross profit margins compared to the discontinued products. Production capacity utilization that is likely to increase in 2024 will also help support the total gross profit margin in 2024.

The Company already started the operation of the first 2 buildings at the new distribution center and warehouse, KCG Logistics Park in early April 2024. Progress of the other 4 buildings is going as planned and will be ready for operation by the first half of this year. All 6 buildings thus will be fully in use in the second half of the year, which will increase storage space, improve inventory management efficiency from technology adoption in warehouse management and consolidation of multiple warehouses into one, and gradually reduce warehouse rental costs from external warehouse rental termination within 2024. Improved efficiency and cost reductions from KCG Logistics Park will gradually decrease the percentage of selling and administrative expenses to sales (%SG&A to Sales) in 2024 and also in the future sustainably.

## Sales Structure

Sales by Product Category (Unit: THB Million)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
Dairy products	1,008.9	1,135.0	1,085.7	+7.6%	-4.3%
Foods & Bakery Ingredients and others (FBI)	522.3	578.5	515.7	-1.3%	-10.9%
Biscuits	176.7	493.5	184.0	+4.1%	-62.7%
<b>Total Sales</b>	<b>1,707.9</b>	<b>2,207.0</b>	<b>1,785.5</b>	<b>+4.5%</b>	<b>-19.1%</b>
%Sales by Product Category (Unit: %)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
Dairy products	59.1%	51.4%	60.8%	+1.7%	+9.4%
Foods & Bakery Ingredients and others (FBI)	30.6%	26.2%	28.9%	-1.7%	+2.7%
Biscuits	10.3%	22.4%	10.3%	-0.0%	-12.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		

Sales by Channel (Unit: THB Million)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
B2B	681.5	802.2	729.1	+7.0%	-9.1%
B2C	958.9	1,302.5	991.8	+3.4%	-23.9%
Export	67.5	102.3	64.5	-4.4%	-36.9%
<b>Total Sales</b>	<b>1,707.9</b>	<b>2,207.0</b>	<b>1,785.5</b>	<b>+4.5%</b>	<b>-19.1%</b>
%Sales by Channel (Unit: %)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
B2B	39.9%	36.3%	40.8%	+0.9%	+4.5%
B2C	56.1%	59.0%	55.5%	-0.6%	-3.5%
Export	4.0%	4.6%	3.6%	-0.3%	-1.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		

Sales by Operation (Unit: THB Million)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
Own-manufacturing products	1,245.7	1,699.1	1,301.3	+4.5%	-23.4%
Trading products	462.2	507.9	484.2	+4.7%	-4.7%
<b>Total Sales</b>	<b>1,707.9</b>	<b>2,207.0</b>	<b>1,785.5</b>	<b>+4.5%</b>	<b>-19.1%</b>
%Sales by Operation (Unit: %)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
Own-manufacturing products	72.9%	77.0%	72.9%	-0.0%	-4.1%
Trading products	27.1%	23.0%	27.1%	+0.0%	+4.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		

## Operating Results

### 1. Revenue from sales

Operating Results  (Unit: THB Million)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
Revenue from sales	1,707.9	2,207.0	1,785.5	+4.5%	-19.1%

#### Q1/2024 vs Q1/2023 (YoY)

- In Q1/2024, the Company recorded total sales of THB 1,785.5 million, increased by THB 77.6 million or 4.5% YoY, supported by sales growth from dairy products and biscuits.
- Sales growth in Q1/2024 was lower than the full-year sales target growth, while FBI sales dropped 1.8% YoY, mainly due to the Company's process of SKU Rationalization, causing lost sales in the beginning, However, sales will be recovered by NPDs, which will be launched more later into the market and sales from replacement products, which will be gradually higher in the upcoming quarters to cover the discontinued products.

#### Q1/2024 vs Q4/2023 (QoQ)

- In Q1/2024, the Company recorded total sales of THB 1,785.5 million, decreased by THB 421.5 million or 19.1% QoQ after passing the highest quarterly sales of the year in Q4.

## 2. Cost of Sales and Gross Profit

Operating Results (Unit: THB Million, %)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
Sales	1,707.9	2,207.0	1,785.5	+4.5%	-19.1%
Cost of sales	1,247.0	1,485.8	1,240.4	-0.5%	-16.5%
Gross profit	460.9	721.2	545.0	+18.2%	-24.4%
Gross profit margin (%)	27.0%	32.7%	30.5%	+3.5%	-2.2%

### Q1/2024 vs Q1/2023 (YoY)

- In Q1/2024, the Company recorded cost of sales of 1,240.4 million, decreased by THB 6.5 million or 0.5% YoY despite the higher sales, mainly supported by the decreased overall cost of raw materials.
- Gross profit in Q1/2024 was THB 545.0 million, increased by THB 84.1 million or 18.2% YoY, following the higher sales. Gross profit margin in Q1/2024 was 30.5%, improved from 27.0% in Q1/2023, supported by the decreased overall cost of raw materials, improved production efficiency, and effective production cost management.

### Q1/2024 vs Q4/2023 (QoQ)

- In Q1/2024, the Company recorded cost of sales of THB 1,240.4 million, decreased by THB 245.4 million or 16.5% QoQ following the lower sales after passing the highest quarterly sales of the year in Q4.
- Gross profit in Q1/2024 was THB 545.0 million, decreased by THB 176.1 million or 24.4% QoQ. Gross profit margin in Q1/2024 was 30.5%, decreased from 32.7% in Q4/2023, mainly due to lower capacity utilization rate after passing the highest quarterly sales of the year in Q4.

### 3. Selling, General and Administrative Expenses (SG&A)

Operating Results (Unit: THB Million, %)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
Sales	1,707.9	2,207.0	1,785.5	+4.5%	-19.1%
Selling and distribution expenses	244.8	377.8	273.6	+11.8%	-27.6%
Administrative expenses	134.5	164.7	157.2	+16.9%	-4.6%
SG&A	379.3	542.6	430.8	+13.6%	-20.6%
SG&A to sales (%)	22.2%	24.6%	24.1%	+1.9%	-0.5%

#### Q1/2024 vs Q1/2023 (YoY)

- In Q1/2024, the Company recorded selling, general and administrative expenses (SG&A) of THB 430.8 million, increased by THB 51.5 million or 13.6% YoY, following the higher sales. Increased expenditures mainly came from advertising and promotion, transportation, and employee expenses from a merit increase.
- %SG&A to sales in Q1/2024 was 24.1%, increased from 22.2% in Q1/2023, mainly due to increased expenses. However, %SG&A to sales in Q1/2024 still maintained at the same level as 2023.

#### Q1/2024 vs Q4/2023 (QoQ)

- In Q1/2024, the Company recorded SG&A of THB 430.8 million, decreased by THB 111.8 million or 20.6% QoQ, following the lower sales. Decreased expenditures were mainly due to lower advertising and promotion, transportation, warehouse rental, and utilities, except employee expenses, which increased QoQ from a merit increase.
- %SG&A in Q1/2024 was 24.1%, decreased from 24.6% in Q4/2024, supported by effective cost management.

#### 4. Finance Costs

Operating Results (Unit: THB Million)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
Finance costs	22.8	15.8	14.3	-37.5%	-9.6%
Total loans from financial institutions	2,696.9	1,837.8	1,248.5	-53.7%	-32.1%
Total interest-bearing debts	2,827.3	1,946.8	1,355.6	-52.1%	-30.4%

##### Q1/2024 vs Q1/2023 (YoY)

- In Q1/2024, the Company recorded finance costs of THB 14.3 million, decreased by THB 8.5 million or 37.5% YoY, supported by decreased loans from financial institutions. At the end of Q1/2024, loans from financial institutions were THB 1,248.5 million, decreased by THB 1,448.3 million from THB 2,696.9 million at the end of Q1/2023.

##### Q1/2024 vs Q4/2023 (QoQ)

- In Q1/2024, the Company recorded finance costs of THB 14.3 million, decreased by THB 1.5 million or 9.6% QoQ, supported by decreased loans from financial institutions. At the end of Q1/2024, loans from financial institutions were THB 1,248.5 million, decreased by THB 589.3 million from THB 1,837.8 million at the end of 2023.



## 5. Income Tax Expenses

Operating Results (Unit: THB Million, %)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
Profit before income tax expenses	74.2	172.8	91.1	+22.8%	-47.3%
Tax expenses	15.8	31.4	19.5	+23.7%	-38.0%
Effective tax rate (%)	21.2%	18.2%	21.4%	+0.2%	+3.2%

### Q1/2024 vs Q1/2023 (YoY)

- In Q1/2024, the Company recorded tax expenses of THB 19.5 million, increased by THB 3.7 million or 23.7% YoY, mainly due to higher profit before income tax.
- Effective tax rate increased YoY, resulting from lower actual payment of long-term employee benefits in Q1/2024 compared to Q1/2023.

### Q1/2024 vs Q4/2023 (QoQ)

- In Q1/2024, the Company recorded tax expenses of THB 19.5 million, decreased by THB 12.0 million or 38.0% QoQ, mainly due to lower profit before income tax expenses.
- Effective tax rate decreased QoQ, resulting from lower actual payment of long-term employee benefits in Q1/2024 compared to Q4/2023.

## 6. Net Profit

Operating Results (Unit: THB Million)	Q1/2023	Q4/2023	Q1/2024	Change	
				%YoY	%QoQ
Total revenue	1,723.3	2,217.0	1,797.7	+4.3%	-18.9%
Net profit	58.4	141.4	71.6	+22.5%	-49.3%
Net profit margin (%)	3.4%	6.4%	4.0%	+0.6%	-2.4%

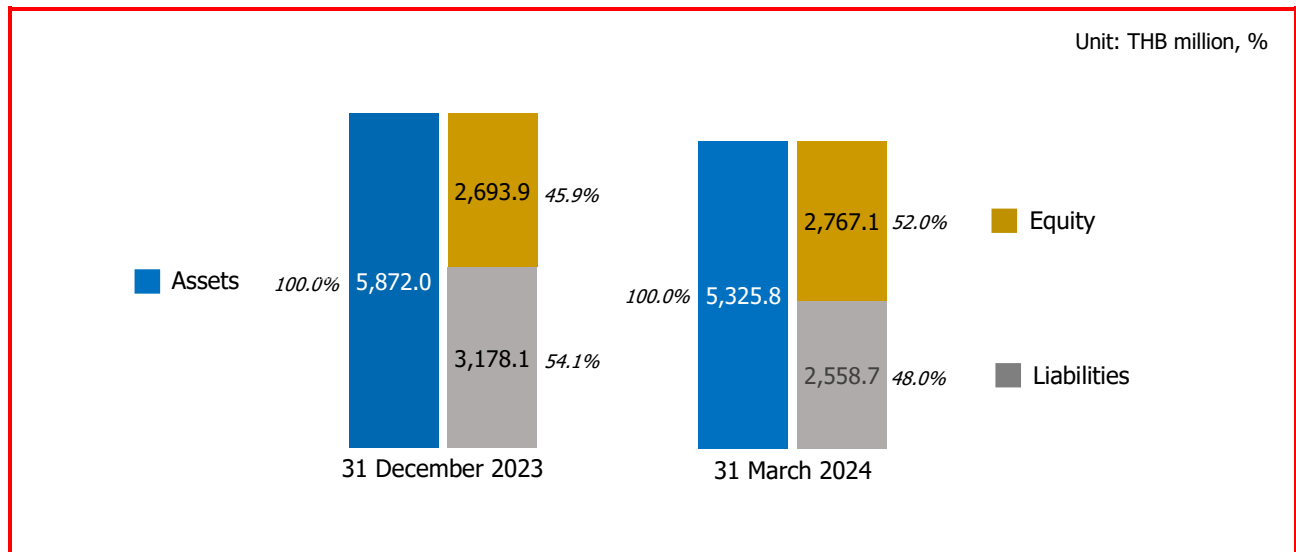
### Q1/2024 vs Q1/2023 (YoY)

- ✦ In Q1/2024, the Company recorded net profit of THB 71.6 million, increased by THB 13.2 million or 22.5% YoY, supported by the following reasons:
  - ✦ Total revenue increased by 4.3% YoY, mainly from sales growth of 4.5% YoY.
  - ✦ Gross profit margin improved by 3.5% YoY, supported by the decreased overall cost of raw materials, improved production efficiency, and effective production cost management.
  - ✦ Finance costs decreased by 37.5% YoY, supported by the decreased loans from financial institutions.
  - ✦ The Company recorded a one-time expense impairment loss on machinery and equipment of THB 21.1 million, as the Company is in the process of improving machinery, production process, and factory re-layout, which will increase production capacity, enhance production efficiency, and reduce production cost in the future. If excluding this one-time expense, net profit in Q1/2024 will rise from THB 71.6 million to THB 92.7 million, increased by THB 34.3 million or 58.7% YoY.

### Q1/2024 vs Q4/2023 (QoQ)

- ✦ In Q1/2024, the Company recorded net profit of THB 71.6 million, decreased by THB 69.8 million or 49.3% QoQ, mainly due to the following reasons:
  - ✦ Total revenue decreased by 18.9% QoQ, mainly due to sales dropped of 19.1% QoQ after passing the highest quarterly sales of the year in Q4.
  - ✦ Gross profit margin decreased by 2.2% QoQ, mainly due to lower production capacity utilization rate.
  - ✦ Effective tax rate increased by 3.2% QoQ, mainly due to lower actual payment of long-term employee benefits in Q1/2024 compared to Q4/2023.

## Statement of Financial Position



### Assets

- As at 31 March 2024, the Company had total assets of THB 5,325.8 million, decreased by THB 546.2 million or 9.3% from THB 5,872.0 million at the end of 2023. The decrease mainly resulted from 1) the increase in trade and other receivables; 2) the decrease in inventories; and 3) the decrease in cash and cash equivalents.
- The Company had inventories as at 31 March 2024 of THB 1,196.2 million, decreased by THB 92.0 million or 7.1% from THB 1,288.2 million at the end of 2023, supported by effective inventory management and stable overall cost of raw materials compared to at the end of 2023.

### Liabilities

- As at 31 March 2024, the Company had total liabilities of THB 2,558.7 million, decreased by THB 619.4 million or 19.5% from THB 3,178.1 million at the end of 2023. The decrease was mainly due to 1) the decrease in loans from financial institutions; 2) reduced trade and other payables; and 3) lower lease liabilities.
- At the end of Q1/2024, loans from financial institutions were THB 1,248.5 million, decreased by THB 589.3 million from THB 1,837.8 million at the end of 2023.

### Equity

- As at 31 March 2024, the Company had equity attributable to owners of the parent of THB 2,767.1 million, increased by THB 73.2 million or 2.7% from THB 2,693.9 million at the end of 2023, mainly resulting from the Company's net profit in Q1/2024 of THB 71.6 million.