

CBG 022/2019

8 November 2019

Subject Management discussions and analysis for the 3-month and 9-month period ended 30 September 2019

To President  
The Stock Exchange of Thailand

We, Carabao Group Public Company Limited (the “Company” or “CBG”), are pleased to submit management discussions and analysis regarding consolidated financial performance and position of the Company and subsidiaries (the “Company”) for the 3-month and 9-month period ended 30 September 2019 in comparison with the corresponding period last year as follows:

**Consolidated financial performance of the Group for the 3-month and 9-month period ended 30 September 2019 in comparison with the corresponding period last year ended 30 September 2018**

**1 Revenue from sales**

In the 3<sup>rd</sup> quarter of 2019 (3Q/2019), total revenue from sales amounted to THB 3,862 million, an increase of THB 235 million or 6.5%, driven by higher sales of the energy drinks for export markets and revenue growth in distribution of 3<sup>rd</sup> party products.

Revenue from sales by product group Unit: THB million	For the 3-month period ended		Change		For the 9-month period ended		Change	
	30-Sep-18	30-Sep-19	Amount	Percent	30-Sep-18	30-Sep-19	Amount	Percent
Branded products by our own manufacture 1/	3,195	3,371	176	5.5	9,156	9,565	409	4.5
Branded products by 3rd party's manufacture 2/	175	122	(53)	(30.5)	640	411	(229)	(35.8)
3rd party's products for distribution	234	351	118	50.4	749	957	208	27.8
Others	23	18	(5)	(21.8)	38	43	5	14.3
<b>Total</b>	<b>3,627</b>	<b>3,862</b>	<b>235</b>	<b>6.5</b>	<b>10,582</b>	<b>10,976</b>	<b>394</b>	<b>3.7</b>

Note: 1/ Energy Drinks and Sport Drinks  
2/ Drinking Water, 3-in-1 Coffee and RTD Coffee

Sales of branded products by own manufacture were THB 3,371 million, up by THB 176 million or 5.5%. The amount consisted of both domestic and overseas sales at the ratio of approximately 47:53, respectively. The overseas sales of branded products by own manufacture grew by 11.6% offsetting the drop of 0.5% in domestic business. However, the domestic operation still showed a recovery quarter-on-quarter, with a growth of 4.7% from the 2Q/2019.

Overseas sales were THB 1,780 million, increased by THB 184 Million or 11.6%. The amount included the export sales of energy drinks to CLMV market of THB 1,473 million, China of THB 170 million, sales in the UK under the operation of Intercarabao Limited (“ICUK”) of THB 11 million, and the rest to many other countries both in Asia and Outside Asia totaling of THB 126 million, rose by THB 39 million or 44.8% driven mainly by sales orders of Yemen and Afghanistan.

In 3Q/2019 export sales to CLMV countries, the original export market and a large international business base, increased by THB 118 million or 8.7% mainly due to higher demand from Myanmar, of which quarterly sales hit the record high in this quarter. Moreover, the Company still put an emphasize on repeating the success of Carabao energy drinks in other countries and expanding the international business base by tapping into new export markets, for example, Gambia and Tonga in 3Q/2019.

Meanwhile, ICUK is on-process on the budgeting control schemes in parallel with the focus on sales to large modern trade chains particularly in the network that could generate acceptable return on sales.

Considering only sales in the UK, ICUK could manage 60% of their sales from large grocery chains while the remaining 40% from others including Cash & Carry.

Sales of 3<sup>rd</sup> party products for distribution were THB 351 million, increased by THB 118 million or 50.4%, showing a consecutive growth quarterly over the past two years driven by the variety and quality of the products distributed as well as the effectiveness of cash van distribution system that having access to over 180,000 retail stores nationwide. Meanwhile, sales of branded product by 3<sup>rd</sup> party's manufacture decreased by THB 53 million or 30.5% since these are non-core products but tools to expand the Company's brand awareness.

The new product, carbonated Carabao Green Apple flavor in a 180-ml can ("**Carabao Green Apple**"), received a warm welcome from domestic market after a pre-launch in March 2019 via cash van distribution system thanks to its well acknowledged product quality and its attractive lower retailing price as compared to the previous packaging size of a 330 ml. The new energy drink is not only expanding the customer base to younger generations, being a constructive factor to refresh the brand image of Carabao in the country aligning to the vision of "World Class Product, World Class Brand", but also providing higher gross profit margin for domestic energy drink as compared to the traditional energy drink.

For the 9-month period of 2019 (9M/2019), total revenue from sales amounted to THB 10,976 million, up by THB 394 million or 3.7%. Out of the amount, sales of branded products by own manufacture were THB 9,565 million, up by THB 409 million or 4.5%, contributing from both domestic and overseas markets at the ratio of approximately 46:54, respectively. This was driven by the overseas business, of which sales amounted to THB 5,182 million, an increase of THB 407 million or 8.5%, comprising of exports sales to CLMV countries of THB 4,192 million, increased by THB 248 million or 6.3%, China of THB 409 million, UK under the operation of ICUK of THB 39 million, and other countries totaling of THB 541 million, up by THB 331 million or 157.4 due to higher purchase orders from Afghanistan, Yemen, and United Arab Emirates, and orders from new export markets. Meanwhile, domestic sales of branded products by own manufacture were THB 4,384 million, increased by THB 2 million or 0.05%, mainly due to sales of the new product, Carabao Green Apple.

Sales of branded products by 3<sup>rd</sup> party's manufacture decreased by THB 229 million or 35.8 which was partially offset by an increase in sales of 3<sup>rd</sup> party products for distribution of THB 208 million or 27.8%.

## **2 Gross profits and gross profits margin**

Gross profits were THB 1,594 million, an increase of THB 397 million or 33.2%, representing gross profit margin of 41.3%, an increase from 33.0% gross profit margin in the corresponding period last year, mainly due to the improving margins for the branded products by the Company's production.

Branded products by the Company's manufacture, particularly energy drinks in both bottle and can formats, delivered an improving gross margin both year-on-year and quarter-on-quarter basis as a result of lower costs of key raw material and packaging items, as well as improving efficiency from modern production technology ranging from glass bottle, aluminum can to bottling and canning plants which enabled the economies of scales. Management still foresee the trend to continue in the rest of the year.

In 9M/2019, gross profits were THB 4,193 million, up by THB 859 million or 25.8%, representing a gross profit margin of 38.2% increased from 31.5% in the corresponding period last year. the rise in gross profits were achieved by both sale growth and improved gross profit margins mentioned above.

The improvement in gross profit margins were due to reduction in several key raw material and packaging costs, and better efficiency from modern production technology that allows economies of scales. Moreover, Asia Can Manufacturing Co., Ltd. ("**ACM**") the new aluminum can production facilities, produced approximately 215 million cans or equivalent to 86% utilization rate in 3Q/2019, up from 68% and 50% utilization rates in 2Q/2019 and 1Q/2019, respectively. The ramping up in utilization rate is believed to be an instructive factor to further cost savings of the non-carbonated canned energy drink under Carabao brand throughout the rest of year.

### 3 Selling, general and administrative (SG&A) expenses

Total selling and administrative expenses were THB 669 million, a decrease of THB 223 million or 25.0%, representing 17.3% of total sales, a decrease from the ratio of 24.6% in the corresponding period last year mainly due to a significant decrease in advertising and promotional expenses in the UK market under the operation of ICUK aligning to the spending control scheme in order to achieve an acceptable return on sales, and a reduction in sponsorship fees to support an international football club in parallel to the terms and economic conditions in the contract.

Selling expenses were THB 488 million, a decrease of THB 204 million or 29.5%, representing 12.6% of total sales, down from 19.1%. The details of key expenses were as follows:

#### (1) Club and international football match sponsorship fees:

Club and international football match sponsorship fees, recognized as expenses in accordance with payment terms, economic benefits and the period in which the company should receive in accordance with the terms of the current contract, comprising of Chelsea Football Club Limited (CFC) and English Football League (EFL), were amounted to THB 85 million, decreased by THB 74 million or 46.6%, mainly due to the reduction in sponsorship fees of CFC by one third, coupled with the depreciation on Great British Pound Sterling against Thai Baht currency.

Under the current terms, sponsorship contracts with CFC and EFL are ended in June 2021 and May 2022, respectively. The sponsorships are aimed to envision the image of “World Class Brand, World Class Product” and to inherit the success in expanding the awareness of Carabao brand internationally.

(2) Marketing and selling expenses (excluding the sponsorship fees for international football) in the areas operated under Carabao Tawandang Co., Ltd. (“**CBD**”) for domestic businesses and in the areas operated under ICUK for the UK market:

a. Marketing and selling expenses in exclusion of the international football sponsorships under the operation of CBD for domestic business were THB 371 million, increased by THB 19 million or 5.4% mainly varied in according to promotional activities held in the period.

b. Marketing and selling expenses in exclusion of the international football sponsorships in respect of ICUK for the UK market was THB 33 million, a decrease of THB 149 million or 82.1%, mainly due to the Company’s budgeting control scheme by emphasizing on the communication via football formats and only activities in which were believed to bring the sustainable rate on sales.

Administrative expenses were THB 181 million, decreased by THB 19 million or 9.5%, representing 4.7% of total sales down from 5.5% of sales in the corresponding period last year mainly due to a decrease in one-off item expenses.

For 9M/2019, total selling and administrative expenses were THB 2,066 million, a decrease of THB 532 million or 20.5% representing 18.8% of total sales, a decrease from the ratio of 24.6% in the corresponding period last year.

Selling expenses were THB 1,499 million, a decrease of THB 512 million or 25.5%, representing 13.7% of total sales, down from 19.0% in the corresponding period last year. This was mainly because the marketing and selling expenses, excluding the international football sponsorship fees, in respect of ICUK for the UK market amounted to THB 97 million, decreased by THB 373 million or 79.3% aligning to the spending control scheme in order to achieve an appropriate return on sales, and also the international football sponsorship fees amounted to THB 383 million, decreased by THB 93 million or 19.5% due to the reduction in sponsorship fees of CFC to one third and the favorable depreciation of Great British Pound against Thai Baht currency.

Administrative expenses were THB 567 million, decreased by THB 20 million or 3.4%, representing the ratio to sales of 5.2%, down from 5.5% in the corresponding period last year, mainly due to a decrease in one-off item expenses.

#### **4 Financial expenses**

Financial expenses were THB 34 million, an increase of THB 9 million or 37.3%. This amount consists of interest paid by ACM of THB 13 million, recognized through the income statement after commencing commercial operation, interest on debentures of approximately THB 16 million, and, most of the remaining amount, interest related to liquidity management.

For 9M/2019, financial expenses were THB 102 million, an increase of THB 26 million or 34.2%. The amount included interest expenses of ACM amounted to THB 37 million recognized after ACM's commencement commercial operation, interest on debentures of THB 49 million, and, most of the remaining amount, interest related to liquidity management.

#### **5 Corporate income tax expenses**

Corporate income tax expenses amounted to THB 167 million, an increase of THB 83 million or 99.0%, representing the effective corporate income tax rate of 18.7%, a decrease from 29.1% rate, mainly due to the higher income tax expenses from better operational performance coupled with the less loss from the overseas operations.

On another hand, if only considering the domestic subsidiaries of the Company, the effective corporate income tax rate was 16.5%, an increase from 14.6% in the corresponding period last year.

For 9M/2019, corporate income tax expenses were THB 403 million, an increase of THB 158 million or 64.3%, representing the effective corporate income tax rates at 19.4% down from 33.2% in the corresponding period last year, due to the same reasons mentioned above. If only performance of domestic subsidiaries to be considered, the effective corporate income tax rate was 16.0%, rose from 15.0% in the corresponding period last year.

#### **6 Net profits and net profits margin**

Net profits were THB 726 million, an increase of THB 521 million or 253.9%, representing a ratio to sales of 18.8%, an increase from the ratio of 5.7% in the corresponding period last year, mainly due to the increase in sales and overall gross profit margin, the declining selling and admin expenses as a results of budgeting control scheme for ICUK's operation coupled and lower international football sponsorship fees, which compensating the higher financial expenses and corporate income tax expenses as mentioned above.

For 9M/2019, net profits were THB 1,673 million, an increase of THB 1,179 million or 239.0%, representing a ratio to sales of 15.2%, an increase from the ratio of 4.7% in the corresponding period last year, due to the same reasons mentioned above. Also, the Company had recognized an additional expense of THB 9 million regarding the new labour protection law to increase severance pay from 300 days to 400 days for workers serving over 20 years, in 1Q/2019.

Net profits attributed to the Company's shareholders were THB 732 million, an increase of THB 447 million or 186.8%, representing a ratio to sales of 19.0%, an increase from 7.0% ratio, mainly driven by overall improving gross profit margin and significantly less loss recognized from the ICUK operation.

For 9M/2019, net profits attributed to the Company's shareholders were THB 1,704 million, an increase of THB 1,058 million or 163.8%, representing a ratio to sales of 15.5%, an increase from the ratio of 6.1% in the corresponding period last year due to the same reasons mentioned above.

**Consolidated financial position of the Company as of 31 September 2019 in comparison with that as of 31 December 2018**

**Assets**

Total assets were THB 14,729 million, an increase of THB 409 million or 2.9% as compared to THB 14,320 million as of 31 December 2018 driven by an increase in trade and other receivables of THB 506 million mainly due to varied credit terms given to each individual customer and an increase in inventory of THB 88 million to support sales according to the business plan offsetting a decrease in property, plants and equipment of THB 199 million since all the capacity expansion investment were completed while the depreciation expenses rose for the period.

**Liabilities**

Liabilities were THB 6,801 million, a decrease of THB 154 million or 2.2% from THB 6,955 million as of 31 December 2018 mainly due to a decrease in trade and other payables of THB 213 million aligning to the decrease in prices of several raw materials, the fact that the Company was partially use the aluminum cans from the ACM's productions therefore less rely on other external suppliers, and the repayment of other payables to major suppliers of machine. Total interest-bearing debt was amounted to THB 4,863 million, an increase of THB 122 million, representing an interest-bearing debt to equity ratio of 0.61 time, a decrease from 0.64 time as of 31 December 2018 and a debt to equity ratio of 0.86 time, a decrease from 0.94 time as of 31 December 2018.

Yours sincerely,

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(Pongsarn Klongwathanakith)

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