

CBG 006/2020

20 February 2020

Subject Management discussions and analysis for the fiscal year ended 31 December 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 fiscal year ended 31 December 2019 in comparison with the corresponding period last year as follows:

Consolidated financial performance of the Group for the fiscal year ended 31 December 2019 in comparison with the corresponding period last year ended 31 December 2018

1 Revenue from sales

Total revenue from sales were THB 14,933 million, an increase of THB 511 million or 3.5% driven by higher sales of the energy drinks especially for export markets and greater sales growth from distribution of 3rd party’s products.

Revenue from sales by product group Unit: THB million	For the year ended 31 Dec				Change	
	2018	%	2019	%	Amount	Percent
Branded products by our own manufacture 1/	12,538	87%	12,881	86%	343	2.7
Branded products by 3rd party's manufacture 2/	806	6%	532	4%	(275)	(34.1)
3rd party's products for distribution	1,020	7%	1,409	9%	389	38.2
Others	59	0%	111	1%	53	90.0
Total	14,422	100%	14,933	100%	511	3.5

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 12,881 million, up by THB 343 million or 2.7%. The amount consisted of domestic and overseas sales at the proportion of approximately 45:55, respectively. The overseas sales of branded products by own manufacture grew by 9.0% offsetting the drop of 4.0% in the domestics. For the year, Carabao Dang energy drink possessed 22.6% volume share, ranked the 2nd largest among energy drink brands in Thailand according to the Nielsen’s final sales data to consumers.

For the domestics, nonetheless, the Company still places emphasize on growing market share to become the leading brand in Thailand by stressing importance on effectiveness of corporate communication on both media advertising and promotional spending, as well as close management and monitor of performance of over 1,500 personnel in on-ground marketing teams and cash van sales force to promptly action on any changing circumstances in order to bond good relations with the network of retailers, retain trust among consumers, bring in new target and develop into a tool for any new product launch in the future.

Overseas sales of energy drinks were THB 7,058 million, an increase of THB 584 Million or 9.0%, comprising of export sales to CLMV market of THB 5,901 million, China of THB 494 million, sales in the UK under the operation of Intercarabao Limited (“ICUK”) of THB 30 million, and the rest of THB

633 million to other countries both in Asia and Outside Asia, an increase of THB 318 million or 101.3% driven mainly by orders from Yemen and Afghanistan and additionally from new export destinations.

Export sales to CLMV countries, an existing and large international business base for the Company, increased by THB 403 million or 7.3% mainly due to higher demand from Cambodia and Myanmar. The Company's sales to Myanmar and Cambodia hit a record high in 3Q19 and 4Q19 respectively. As to leverage the leading position in Cambodia, carbonated Carabao Green Apple in 250ml can were already introduced into the country.

Sales of 3rd party products for distribution were THB 1,409 million, increased by THB 389 million or 38.2%, showing a consecutive growth quarterly over the past two years driven by the variety and quality of the products distributed as well as cash van distribution system covering direct access to over 180,000 retail stores nationwide. Meanwhile, sales of branded product by 3rd party's manufacture decreased by THB 275 million or 34.1% 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 but also a constructive factor to refresh the brand image of Carabao in the country aligning to the vision of "World Class Product, World Class Brand".

Other sales were THB 111 million, an increase of THB 53 million or 90.0%, most of which are sales of bottles to 3rd party under the operation of Asia Pacific Glass Company Limited, which not only generate incremental revenue to the Company but also reduce the production costs of the Company's energy drinks in bottle formats.

2 Gross profits and gross profits margin

Gross profits were THB 5,810 million, increased by THB 1,202 million or 26.1%, representing gross profit margin of 38.9%, an increase from 32.0% 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 quarter by quarter 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. Moreover, Asia Can Manufacturing Co., Ltd. ("**ACM**") the new aluminum can production facilities, rapidly increase its utilization rate quarter by quarter from 50%, 68%, 86%, to hit 100% from 1Q/2019 to 4Q/2019, respectively. The ramping up in utilization rate had been an instructive factor to cost savings of the non-carbonated canned energy drink under Carabao brand throughout the year. As a part of systematic management of supply chain, the Company is currently under the studying process to establish a new factory to produce other packaging items mainly for captive consumption and may consider to supply such items for others if the capacity is available at any point of times to maximize the benefits and lower production costs in the long run. The new factory is expected to commence the operation in 4Q/2020 or 1Q/2021 at the latest.

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

Total selling and administrative expenses were THB 2,753 million, a decrease of THB 540 million or 16.4%, representing 18.4% of total sales, a decrease from the ratio of 22.8% in the corresponding period last year. This was mainly due to a significant decrease in selling 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 an international football club in parallel to the status and benefits in the contractual terms.

Selling expenses were THB 1,968 million, a decrease of THB 552 million or 21.9%, representing 13.2% of total sales, down from 17.5%. 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 THB 471 million, decreased by THB 162 million or 25.6%, mainly due to the downgrading status of CFC sponsorship which resulting in a reduction in the fees to 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. Yet, the Company has rights to extend contracts with EFL for another 2 years at the current rate of fees. 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) Selling expenses (excluding the sponsorship fees for international footballs) were THEB 1,497 million, a decrease of THB 390 million or 20.7%, comprised of both expenses for domestic businesses under the operation of Carabao Tawandang Co., Ltd. (“CBD”) and for the UK market under the ICUK’s:

a. Selling expenses in exclusion of the international football sponsorships under CBD for domestic business were THB 1,390 million, increased by THB 31 million or 2.3% mainly varied in according to promotional activities in the period.

b. Selling expenses in exclusion of the international football sponsorships in respect of ICUK for the UK market was THB 108 million, decreased by THB 422 million or 79.7%, mainly due to the Company’s budgeting control policy and focuses on only communications via the football platforms and activities in which believed to bring in a sustainable return on sales.

Administrative expenses were THB 785 million, increased by THB 13 million or 1.6%, representing 5.3% of total sales down from the ratio of 5.4% in the corresponding period last year.

4 Financial expenses

Financial expenses were THB 133 million, an increase of THB 26 million or 24.2%. This amount consists of interest paid by ACM of THB 49 million, recognized through the income statement after commencing commercial operation, interest on debentures of approximately THB 64 million, and, most of the remaining amount, interest payment related to liquidity management.

5 Corporate income tax expenses

Corporate income tax expenses amounted to THB 564 million, increased by THB 196 million or 53.1%, representing the effective corporate income tax rate of 18.6% down from the ratio of 27.7% mainly due to the higher income tax expenses from better operational performance whereas less loss from the overseas subsidiaries.

6 Net profits and net profits margin

Net profits were THB 2,468 million, an increase of THB 1,508 million or 157.0%, representing a ratio to sales of 16.5%, an increase from the ratio of 6.7%, mainly due to the increase in sales and overall gross profit margin and the decline in selling and admin expenses as a results of strict budgeting control for ICUK’s operation and lower international football sponsorship fees, which compensating the higher financial expenses and corporate income tax expenses as mentioned above.

Net profits attributed to the Company’s shareholders were THB 2,506 million, an increase of THB 1,348 million or 116.3%, representing a proportion to sales at 16.8%, an increase from the ratio of 8.0% in the corresponding period last year, mainly driven by improving sales and overall gross profit margin and significantly less losses from the ICUK operation.

Not to mention, the Company recorded the allowance for impairment of investment in an overseas subsidiary amounting to THB 1,499 million in 4Q/2019, of which the amount was represented as other expenses in the Company’s separate financial statements according to financial reporting standards. Yet

the impairment loss of assets is a non-cash item therefore there is no impact on the Company's cashflow management. Also, the transaction is not an impairment on goodwill and, consequently, has no impact on the Company's consolidated financial statements. The amount was a result of the previous losses on ICUK operations owing to large amount of marketing and promotional expenses for the UK market. With consideration on possible impacts of ICUK performance on CBG, the Company has placed an emphasizes on ICUK's revenue generation from large grocery in the UK and strict budgeting control on the marketing and promotional spending to achieve improving return on sales. The procedures were in place in early 2019, resulting in shallower losses of ICUK from GBP 27.1 million in 2018 to GBP 12.6 million in 2019, also a part of long-term business plan which reflected in the valuation for impairment test.

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

Assets

Total assets as of December 31, 2019 and 2018 were THB 14,780 million and THB 14,320 million, respectively, an increase of THB 460 million or 3.2%. The main reasons are as follows:

1. Cash and cash equivalents

Cash and cash equivalents and current investments as of December 31, 2019 and 2018 were THB 962 million and THB 138 million, respectively, an increase of THB 824 million or 599.1%. For the year, the Company had cash received from operating activities of THB 2,957 million and cash outflow in financing activities and investing activities of THB 1,714 million and THB 432 million, respectively, making a total cash outflow of THB 2,147 million.

2. Trade and other receivables

Trade and other receivables as of December 31, 2019 and 2018 were THB 1,140 million and THB 907 million, an increase of THB 234 million or 25.8% driven by both domestic and overseas businesses.

3. Inventories

Inventories as of December 31, 2019 and 2018 were THB 992 million and THB 887 million, respectively, increased by THB 234 million or 25.8% mainly due to higher orders.

4. Property, plant and equipment

Property, plant and equipment as of December 31, 2019 and 2018 were THB 10,872 million and THB 11,090 million, respectively, a decrease of THB 218 million or 2.0%, mainly due to higher recognition of depreciation.

5. Goodwill

Goodwill arises from the difference between the fair value of net assets acquired and the cost of acquiring ICUK by CVHLUX, a subsidiary, in 2017. As of December 31, 2019 and 2018 goodwill amounted to THB 481 million and THB 500 million, respectively, a decrease of THB 19 million or 3.8% was wholly due to the difference of the exchange rates on the reporting date.

Liabilities

Total liabilities as of December 31, 2019 and 2018, were THB 6,062 and THB 6,955 million, respectively, a decrease of THB 894 million or 12.8%, consisting of current liabilities of THB 3,777 million, an increase of THB 1,013 million or 36.6%, and non-current liabilities of THB 2,284 million, a decrease of THB 1,906 million or 45.5%.

1. Short-term loans from financial institutions

Short-term loans from institutions as of December 31, 2019 and 2018 were THB 7 million and THB 275 million, respectively, a decrease of THB 268 million or 97.5% led by the restructuring of funding sources according to liquidity management plan in order to balance of sources and uses of funds as well as any related financial costs and expenses.

2. Trade and other payables

Trade and other payables as of December 31, 2019 and 2018 were THB 1,447 million and THB 1,810 million, respectively, a decrease of THB 363 million or 20.1% mainly due to the cheaper prices of several key materials, particularly the aluminum cans owing to the internalization strategy to ACM's production; thus reduce purchasing cost from suppliers, and repayment made to the suppliers of machinery.

3. Long-term loans from financial institutions

Long-term loans from financial institutions as of December 31, 2019 and 2018 were THB 1,334 million and THB 1,680 million, respectively, a decrease of THB 346 million or 20.6%, comprising of the portion due within 1 year of THB 291 million, a decrease of THB 110 million and the remaining amount of THB 1,043 million, a decrease of THB 236 million. The reduction was mainly due to the whole repayment of loans in related to the capacity expansion project and partial repayment of loans regarding to the new aluminum can facilities.

4. Debentures

Net value of debentures as of December 31, 2019 and 2018 were THB 2,788 million and 2,786 million, an increase of THB 2 million or 0.1%, comprised of the portion due within one year of THB 1,699 million and the rest of THB 1,089 million due in 2021.

Shareholders' equity

Total shareholders' equity as of December 31, 2019 and 2018 were THB 8,718 million and THB 7,365 million, respectively, an increase of THB 1,354 million or 18.4%, reflecting the total comprehensive income for the year of THB 2,454 million and dividend payment of THB 1,100 million.

Key financial ratios

1. Liquidity ratio

Liquidity ratios as of December 31, 2019 and 2018 were 0.8 times and 0.9 times, respectively, led by higher increases in current liabilities than in current assets which was mainly due to the reclassification of a portion of debentures due within a year, amounting to THB 1,699 million, to be current liabilities.

2. Cash cycle

The cash cycle for the year ended December 31, 2019 and 2018 was 6.9 days and -3.3 days, respectively, driven by longer average collection period from 19.2 days to 22.0 days, higher inventory day sales from 13.5 days to 16.1 days, and shorter average payment period from 35.9 days to 31.2 days.

3. Return on shareholders' equity

Return on shareholders' equity for the year ended December 31, 2019 and 2018 were 31.8% and 16.2%, respectively, mainly due to the improved overall performance as mentioned above.

4. Return on assets

Return on assets as of December 31, 2019 and 2018 were 17.0% and 7.2%, respectively, mainly due to the improved overall performance as mentioned above

5. Debt to equity ratio

Debt to equity ratio as of December 31, 2019 and 2018 were 0.7 times and 0.9 times, respectively, driven by loans repayment to financial institutions and higher retained earnings due to the improving overall performance as mentioned above.

Yours sincerely,

Pongsarn Klongwathanakith

(Pongsarn Klongwathanakith)

Chief Financial Officer