

CBG 013/2020

8 May 2020

Subject Management discussions and analysis for the 3-month period ended 31 March 2020
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 period ended 31 March 2020 in comparison with the corresponding period last year as follows:

Consolidated financial performance of the Group for the 3-month period ended 31 March 2020 in comparison with the corresponding period last year ended 31 March 2019

1 Revenue from sales

Total revenue from sales were THB 4,061 million, an increase of THB 700 million or 20.8% 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 3 month ended 31 Mar				Change	
	2019	%	2020	%	Amount	Percentage
Branded products by our own manufacture 1/	2,927	87%	3,414	84%	487	16.6
Branded products by 3rd party's manufacture 2/	139	4%	119	3%	(21)	(14.8)
3rd party's products for distribution	290	9%	475	12%	185	63.5
Others	4	0%	53	1%	49	1,189.7
Total	3,361	100%	4,061	100%	700	20.8

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

Sales of branded products by own manufacture were THB 3,414 million, up by THB 487 million or 16.6%. The amount consisted of domestic and overseas sales at the proportion of approximately 37:63, respectively. The overseas sales of branded products by own manufacture grew by 30.0% offsetting the drop of 1.0% in the domestics. According to the Nielsen’s final sales data to consumers, the market volume of energy drink industry in Thailand showed a sluggish growth at 0.7% while Carabao Dang energy drink remained the 2nd largest brand, commanding 21.4% volume share,

During the period, the Company produced and launched a new sku in functional drink segment i.e. Woody C+ Lock, a vitamin C drink in 140 ml. emerald bottle (“**Woody C Lock**”) in March 2020. Woody C Lock is a new product under the operation of A Woody Drink company limited (“**AWD**”), a joint venture between the Company and Mr.Vuthithorn Milintachinda, one of the well-known figures in Thailand and a content owner bolstering in online platform, at the proportion of 85% and 15% respectively. The Company believes that not only Woody C Lock shall curtail a certain growth amid more health concerned consumers and boost up utilization rate over the existing capacity, but also leverage the Company distribution networks of over 180,000 retailers nationwide.

Overseas sales of energy drinks were THB 2,156 million, an increase of THB 502 Million or 30.3%, comprising of export sales to CLMV market of THB 1,969 million, China of THB 66 million, and the rest to other countries of which the majority were orders from Yemen and Afghanistan.

Export sales to CLMV countries, an existing and large international business base for the Company, increased by THB 526 million or 36.4% mainly due to higher demand from Cambodia and Myanmar. The Company's sales to Myanmar and Cambodia hit a record high in the quarter.

Sales of 3rd party products for distribution were THB 475 million, increased by THB 185 million or 63.5%, 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 21 million or 14.8% since these are non-core products but tools to expand the Company's brand awareness.

Other sales were THB 53 million, an increase of THB 49 million, most of which are sales of bottles to 3rd party under the operation of Asia Pacific Glass Company Limited ("APG"), 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 1,722 million, increased by THB 532 million or 44.8%, representing gross profit margin of 42.4%, an increase from 35.4% 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. In additions, Asia Can Manufacturing Co., Ltd. ("ACM"), the aluminum can production facilities as a part of supply chain management plan, which had reached 100% utilization rate since 4Q/2019 after its first commercial run in November 2018, were an instructive factor to cost savings of the Company's non-carbonated canned energy drink.

Having considered the rising order for the Company's energy drink from overseas market up until now and more product variety requirement, the Company decided to invest in capacity expansion for both bottling and canning lines including machines and other supporting systems and anticipated to start commercial operation in 4Q/2020. Such expansion will drive the production capacity at Bangpakong plant in Chachoengsao district to 4.2 million bottles/day and 5.7 million cans/day, an increase of 40% and 30% respectively. In additions, the Company has several projects in pipeline for further efficiency improvement including the manufacture of packaging materials under Asia Packaging Manufacturing company limited ("APM") to have control over the supply chain and sustain cost competitive position.

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

Total selling and administrative expenses were THB 727 million, an increase of THB 52 million or 7.6%, representing 17.9% of total sales, a decrease from the ratio of 20.1% in the corresponding period last year. This was largely due to a rise in administrative expenses and, partially, an increase in the selling expenses of the domestic business aligning to the activities' timeline. Whereas the selling expenses in the UK market under the operation of ICUK remained under control to achieve the rate of 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 499 million, an increase of THB 19 million or 3.9%, representing 12.3% of total sales, down from 14.3%. The key expenses were as follows:

(1) Club and international football match sponsorship fees:

The sponsorship fees were 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. This comprised of Chelsea Football Club Limited (CFC) and English Football League (EFL), in total of THB 99 million, decreased by THB 52 million or 34.2%, mainly due to the downgrading status of CFC sponsorship from Principal partner to Global partner in July 2019, resulting in a reduction in the CFC fee by one third.

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 THB 400 million, an increase of THB 71 million or 21.4%, of which largely varied to the promotional activities in domestic business under the operation of Carabao Tawandang Co., Ltd. (“**CBD**”), whereas the selling expenses for the UK market under the ICUK’s were effectively controlled with focuses on maximum benefits over football platforms and selective activities in which believed to bring in a sustainable return on sales.

Administrative expenses were THB 228 million, increased by THB 33 million or 16.8%, representing 5.6% of total sales down from the ratio of 5.8% in the corresponding period last year.

4 Financial expenses

Financial expenses were THB 31 million, a decrease of THB 4 million or 10.3% due to the loans repayment by ACM.

5 Corporate income tax expenses

Corporate income tax expenses amounted to THB 166 million, increased by THB 65 million or 64.1%, representing the effective corporate income tax rate of 16.8% down from the ratio of 20.2% 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 823 million, an increase of THB 425 million or 106.5%, representing a ratio to sales of 20.3%, an increase from the ratio of 11.9%, mainly due to the increase in sales and overall gross profit margin and effective management over selling and admin expenses, which compensated higher financial expenses and corporate income tax expenses as mentioned above.

Net profits attributed to the Company’s shareholders were THB 801 million, an increase of THB 382 million or 91.0%, representing a proportion to sales at 19.7%, an increase from the ratio of 12.5% in the corresponding period last year, largely driven by improving sales and overall gross profit margin and significantly decreases in losses from the ICUK operation.

Consolidated financial position of the Company as of 31 March 2020 in comparison with that as of 31 December 2019

Assets

Total assets as of March 31, 2020 and December 31, 2019 were THB 18,231 million and THB 14,780 million, respectively, an increase of THB 3,451 million or 23.3%, mainly due to an increase in cash and equivalents by THB 3,036 million in relation to the cash received from operations and financing activities and also the first time recognition of right-of-use asset of THB 318 million, according to the adoption of IFRS 16 Leases standard.

Liabilities

Total liabilities as of March 31, 2020 and December 31, 2019 were THB 9,867 and THB 6,062 million, respectively, an increase of THB 3,805 million or 62.8%, mainly due to (1) an increase in short-term loans from financial institutions of THB 1,993 million, (2) the accrued dividend of THB 1,200 million, which was already paid to shareholders in April 2020, and (3) leases liabilities of THB 319 million, according to the adoption of IFRS 16 Leases standard. The Company's interest-bearing debt, in exclusion of leases liabilities, were THB 6,050 million, up by THB 1,921 million, representing the interest-bearing debt to equity ratio at 0.7 time, up from 0.5 time as of December 31, 2019. Debt to equity ratio also increased to 1.2 from 0.7 times as of December 31, 2019, accordingly.

Yours sincerely,

Pongsarn Klongwathanakith

(Pongsarn Klongwathanakith)

Chief Financial Officer