

CBG 019/2018

11 May 2018

Subject Management discussions and analysis for the 3-month period ending 31 March 2018

To President  
The Stock Exchange of Thailand

We, Carabao Group Public Company Limited (the “**Company**” or “**CBG**”), are pleased to submit management discussion and analysis regarding consolidated financial performance and position of the Company and subsidiaries (the “**Group**”) for the 3-month period ending 31 March 2018 as follows:

**Consolidated financial performance of the Group for the 3-month period ending 31 March 2018 in comparison with the corresponding period last year ending 31 March 2017**

**1 Revenue from sales**

Total revenue from sales amounted to THB 3,350 million, up by THB 666 million or 24.8% divided into the proportion of revenue from domestic sales and revenue from overseas sales at 54:46 respectively changed from the ratio of 67:33 in the same period last year. Sales of energy drink product alone was THB 2,830 million, increased by THB 535 million or 23.3%. The amount of which contributed from both domestic and export at the ratio of 46:54 respectively change from the proportion of 62:38 of the corresponding period last year on the back of the accelerating growth both in terms of value and percentage change of sales of energy drink in overseas.

Revenue from sales by business Unit: THB million	For the 3-month period ending		Change	
	31 Mar 17	31 Mar 18	Amount	Percent
Branded products by our own manufacture 1/	1,431	1,290	(141)	(9.9)
Branded products by 3 <sup>rd</sup> party's manufacture 2/	202	237	35	17.3
3 <sup>rd</sup> party's products for distribution	146	269	123	84.7
<b>Domestic sales</b>	<b>1,778</b>	<b>1,795</b>	<b>17</b>	<b>1.0</b>
<b>Overseas sales</b>	<b>881</b>	<b>1,541</b>	<b>660</b>	<b>75.0</b>
Others	24	13	(11)	(46.4)
<b>Total sales</b>	<b>2,683</b>	<b>3,350</b>	<b>666</b>	<b>24.8</b>

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

Domestic sales were THB 1,795 million, up by THB 17 million or 1.0% contributed from the more variety of 3<sup>rd</sup> party products for distribution, and the rising sales of ready-to-drink (RTD) coffee - a part of the branded products by 3<sup>rd</sup> party's manufacture – due to more brand awareness perceived by target consumers. Meanwhile, sales of branded products by our own manufacture decreased due to the unfavorable economic and industry conditions i.e. Thai energy drink market, according to Nielsen data, reduced by 2.8% in 2017 and shrank by another 3.6% in the 1Q/2018 as compared to the corresponding period last year.

Overseas sales amounted to THB 1,541 million, rose by THB 660 million or 75.0% driven by both existing and new export markets: (i) sales of exports to CLMV were THB 1,276 million, up by THB 572 million or 81.1% on the back of the rising individual sales in each of CLMV country, particularly by the record high of monthly sales to Cambodia in March 2018 and the all-time-high quarterly sales to Myanmar in 1Q/2018 as the local trade partners expanded their distribution coverage as well as adopted effective promotion campaigns in relation to the Group's official football sponsorship status

in their own responsible areas (ii) the People’s Republic of China, one of the Group’s new export markets, is playing an important role on the Group’s overseas sales and the Group exported to the trade partner in China amounted to THB 209 million, increased by THB 165 million or 379%. (iii) sales to other export countries was THB 13 million, up by THB 9 million or 270%, part of which contributed from the successful deals with new partners in new export markets including Australia and Libya. Under these circumstances, the Group’s aggressive marketing policy to expand overseas sales not only will diversify country portfolio but also raise brand awareness of the Carabao energy drink both in Asia and outside Asia aligning with the Group’s vision of “World Class Product, World Class Brand”. Meanwhile, there were no sales to Afghanistan and Yemen in 1Q/2018; however, the Group is expecting the trade partner in Afghanistan to resume business dealing in 2Q/2018.

Apart from overseas sales under the operation of (Carabao Tawandang or “CBD”), the Group’s overseas sales under the Intercarabao Limited (“ICUK”)’s operation amounted to THB 43 million, increased by THB 14 million or 49.4%. ICUK is consistently and successfully listed the energy drink products under Carabao trademark in new modern trades including ASDA in 1Q/2018, as well as Sainsbury’s in April 2018 together with new flavors under Carabao Energy Drink Mandarin Orange.

## 2 Gross profits and gross profits margin

Gross profits amounted to THB 1,003 million, rose by THB 125 million or 14.2%, representing gross profit margin of 29.9%, down from 32.7% posted in the corresponding period last year.

Gross profits by business Unit: THB million	For the 3-month period ending		Change	
	31 Mar 17	31 Mar 18	Amount	Percent
Branded products by our own manufacture 1/	548	454	(94)	(17.2)
Branded products by 3 <sup>rd</sup> party's manufacture 2/	26	22	(4)	(14.2)
3 <sup>rd</sup> party's products for distribution	21	29	8	38.5
<b>Domestic sales</b>	<b>595</b>	<b>505</b>	<b>(90)</b>	<b>(15.1)</b>
<b>Overseas sales</b>	<b>282</b>	<b>495</b>	<b>212</b>	<b>75.2</b>
Others	1	3	2	n/m
<b>Total sales</b>	<b>878</b>	<b>1,003</b>	<b>125</b>	<b>14.2</b>

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

Branded products by 3<sup>rd</sup> party’s manufacture and 3<sup>rd</sup> party’s products for distribution prove their successfulness in generating incremental sales and gross profits to the Group, creating stable income sources with growth potential and compensating the lacking in sales and gross profit of other business which might affected by unfavorable economic and industry conditions. Combining two business, gross profits of the branded products by 3<sup>rd</sup> party’s manufacture and 3<sup>rd</sup> party’s products for distribution were THB 51 million, increased by THB 4 million or 9.6%. On top of this, the growth in sales of this two categories will affect product mix significantly and result in the decrease in gross profit margin of revenue from domestic sales i.e. gross profit of domestic sales was amounted to THB 505 million decreased by THB 90 million or 15.1%, representing gross profit margin of 28.1% down from the ratio of 33.5% in the corresponding period last year.

- Translation -

Gross profit margin by business Unit: Percentage	For the 3-month period ending	
	31 Mar 17	31 Mar 18
Branded products by our own manufacture 1/	38.3	35.2
Branded products by 3 <sup>rd</sup> party's manufacture 2/	12.7	9.3
3 <sup>rd</sup> party's products for distribution	14.5	10.9
<b>Domestic sales</b>	<b>33.5</b>	<b>28.1</b>
<b>Overseas sales</b>	<b>32.1</b>	<b>32.1</b>
Others	4.3	23.9
<b>Total sales</b>	<b>32.7</b>	<b>29.9</b>

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

The capacity expansion projects to support the growth in accordance with business plan for over the next 2-3 years, yet not being fully utilized nor gaining benefit from the economies of scale particularly in the glass-bottle manufacture and canning plants, and pressure from the rising cullet price over the past year i.e. in 2017 had caused the rising in cost per unit of branded products by our own manufacture. Part of which was compensated by the reduction in sugar price and related excise tax as well as costs relating to outsource of non-carbonated energy drink production since August 2017.

As mentioned above, gross profit margin of domestic energy drink and sport drink products was at 35.2% decreased from the ratio of 38.3% in the corresponding period last year whereas the gross profit margin of overseas sales of energy drinks in formats of bottles, non-carbonated and carbonated under the CBD's operation was at 33.6%, increased from the ratio of 31.6% in the corresponding period last year.

Cost of goods sold of the Group for the period ending 31 March 2018 could be divided in to two key components as follows:

1. Variable cost component which shall be varied in accordance with the volume sold consist of (1) raw materials and packaging for productions, and (2) purchase costs of 3<sup>rd</sup> party products for distribution. The variable cost components accounted for 85% of the total cost of goods sold.
  - 1.1 Raw materials and packaging used in production of energy drink and sport drink include (1) concentrate, sugar, caffeine, taurine, vitamin, and others, and (2) glass bottles, bottle caps, aluminum cans, can lids, other packaging and product-related taxes. Whereas, key raw materials for production of amber glass bottle include cullet, soda ash, sand, and other raw materials. The two components combined make up to 63% of total cost of goods sold.
  - 1.2 Purchasing cost of 3<sup>rd</sup> party products for distribution accounted for 22% of the total cost of goods sold.
2. Conversion cost component comprising of staff costs, energy costs, electricity costs, tap-water bills, depreciation and amortization, maintenance, and other costs constitute to 15% of cost of goods sold. This includes depreciation and amortization which is a part of production cost of the branded products by our own manufacture amounted to THB 90 million, up by THB 48 million or 113.7% from the corresponding period last year due to the incremental depreciation costs arising from investments in capacity expansion of canning and amber glass bottle facilities which started to commercialize in July 2017 and December 2017, respectively, as well as capacity expansion of bottling capacities which started the commercial run in March 2018.

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

SG&A expenses amounted to THB 822 million, up by THB 89 million or 12.1%, and represented 24.5% of total revenue from sales, decreasing from the proportion of 27.3% in the corresponding period last year mainly due to the realization of the English Football League (EFL) sponsorship fee.

Selling expenses were THB 627 million up by THB 64 million or 11.3%, representing 18.7% of total revenue, reducing from 21.0% in the corresponding period last year. These expenses comprised of (1) sponsorship fee for international football club (2) marketing and promotional expenses operated by CBD for domestic business and by ICUK for the UK operations, and (3) selling expenses of which include both fixed and variable expenses in related to total revenue from sales in according to business plan.

Sponsorship fees for international football clubs including Chelsea Football Club Limited (CFC), English Football League (EFL) and Reading Football Club (RFC) amounted to THB 159 million up by THB 45 million due to realizing the EFL sponsorship fee for the first time in June 2017. Given by the current contract terms of football sponsorship schemes, the Group believed these official football sponsorship fees, which were amortized in straight line in relation to payment terms and economic benefits the Group shall receive under the contract terms, will reach the peak in 2018 and then decline gradually from 2019 onwards.

Marketing and promotional expenses paid by CBD amounted THB 157 million, reduced by THB 10 million or 5.8%. Such expenses comprised of (1) nationwide on-ground operational marketing expenses of Bao Dang Ladies amounted to THB 63 million, up by THB 3 million or 4.9% (2) advertising expenses in other formats amounted to THB 19 million, decreased by THB 18 million or 47.9% since there were advertising expenses relating to the initial launch of new products i.e. instant coffee and RTD coffee in the corresponding period last year, and (3) the rest amounted to THB 75 million, risen by THB 10 million or 15.3% as a result of the marketing activities to stimulus the domestic demand of the branded products under Carabao trademark in all channels.

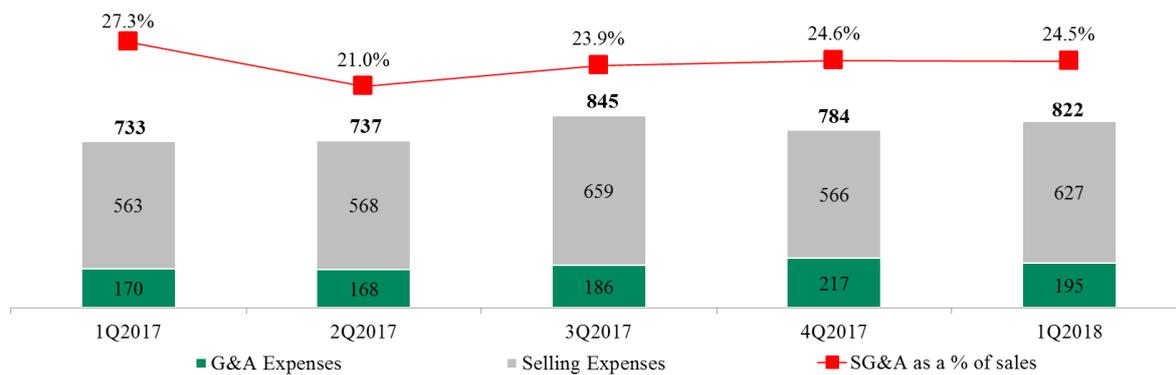
Whereas, marketing and promotional expenses paid by ICUK for the operation in UK amounted to THB 116 million could be divided as follows: (1) field sales amounted to THB 21 million (2) listing fees in modern trades amounted to THB 11 million (3) sampling expenses amounted to THB 14 million, and (4) the rest amounted to THB 70 million were spent for advertising expenses in several formats and promotional activities at point of sales to raise brand awareness, create product experience, and demand for the product.

Selling expenses were at THB 194 million, decreased by THB 21 million or 9.8%, mainly in aligning to the decrease in domestic sales of energy drinks.

Administrative expenses amounted to THB 195 million, increased by THB 25 million or 14.8%, of which the amount included expenses related to Asia Can Manufacturing (“ACM”) which is currently under the construction, machine installation and system preparation process before the commercial plan in 4Q/2018 amounting to THB 8 million. Administrative expenses comprises of key expenses as follows: (1) staff cost amounted to THB 133 million, up by THB 27 million or 25.7% in correlation to the rising full-time employment to support the growth of business and in the increase of salary in according to the Group’s human resources policy, and (2) other administrative expenses ranging from office expenses, travelling expenses, service & fees and others amounted to THB 62 million, reduced by THB 2 million or 3.1%, of which the amount incurred non-recurring expenses arising from the moving of production lines from the previous factory to the new factory complex located on Bang Pakong district, Chacheongsao province amounted to THB 6 million and consulting fees in related to the overseas businesses amounted to THB 2 million.

To sum up, the quarterly Group’s selling and administrative expenses as a percentage of total revenue from sales could be elaborated as detailed below:

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The situation that could have an effect on the Group's SG&A expenses is being a sponsorship of the domestic broadcast for the World Cup football during the final round which incur related expenses amounting to THB 47 million, of which the amount will be realized 50/50 in June and July 2018 respectively, with the purpose to raise brand image among the new generations in alignment to the Group's vision of "World Class Product, World Class Brand". The Group's trademark will be the only player in local energy drink that sponsor this broadcast.

#### 4 Financial expenses

Financial expenses amounted to THB 26 million, up by THB 20 million from the corresponding period last year. Such a significant increase was due to our higher requirements for funding from financial institutions for the purpose of liquidity and vertical integrated business expansions. The Group ended up having interest-bearing debts of THB 4,547 million as of 31 March 2018, up from THB 3,393 million as of 31 December 2017, or equivalent to the interest-bearing debts to shareholders' equity ratio of 0.6 time, up from 0.5 time, respectively.

However, the Group is currently under the bond approval and issue process, should the entire process have been completed, overall financial expenses are expected to soften in the second half of 2018.

#### 5 Corporate income tax expenses

Corporate income tax expenses amounted to THB 79 million, increased by THB 26 million, in line with domestic subsidiaries delivering improved operating performance. Coupled with overseas subsidiaries making higher loss from operations, the effective corporate income tax rate as reported on the consolidated financial statements was therefore 37.8%, up from 30%.

#### 6 Net profits and net profits margin

Net profits amounted to THB 130 million, up by THB 7 million or 5.9%, which was equivalent to the ratio to total sales of 3.9%, down from 4.6%. Such decline was mainly due not only to deterioration in gross profits margin overall and considerable increase in SG&A expenses i.e. mostly arising from overseas subsidiaries but also financial expenses on uptrend throughout the quarter.

Net profits attributed to the Group's shareholders amounted to THB 181 million, down by THB 41 million or 18.5%, resulting from overseas subsidiaries' higher loss from operations i.e. ICUK in particular and higher shareholding percentage that increased from 51.0% to 84.3% since January 2018.

**Consolidated financial position of the Group as of 31 March 2018 in comparison with that as of 31 December 2017**

**Assets**

Total assets as of 31 March 2018 and 31 December 2017 were THB 14,050 million and THB 12,520 million, respectively, increasing by THB 1,530 million or 12.2%. The main contribution for this increase was due to the following:

**1. Cash & cash equivalents and current investments**

Cash & cash equivalents and current investments as of 31 March 2018 and 31 December 2017 were THB 561 million and THB 154 million, respectively, increasing by THB 407 million. The main contribution for this increase was due to short and long term borrowing from financial institutions amounted THB 1,212 million and cash outflow from investment amounted THB 696 million which was used for construction of aluminum can factory and machine installation amounted THB 704 million.

**2. Trade and other receivables**

Trade and other receivables as of 31 March 2018 and 31 December 2017 were THB 1,100 million and THB 960 million, respectively, increasing by THB 140 million or 14.6%. The main contribution for this increase due to increase in trade receivables from international sales where credit term is traditionally offered to customers, and due to an increase in prepaid expense amounted THB 123 million resulting from sponsorship payment to an English football club as dictated in the contract.

**3. Inventories**

Inventories as of 31 March 2018 and 31 December 2017 was THB 802 million and THB 656 million, respectively, increasing by THB 145 million or 22.2%. The main contribution was due to the THB 155 million increase in finished goods to meet higher demand from customers and production of bottle from our bottle manufacturing factory that started in December 2017.

**4. Property, plant and equipment**

Property, plant and equipment as of 31 March 2018 and 31 December 2017 were THB 10,397 million and THB 9,609 million, respectively, increasing by THB 788 million or 8.2%. The main contribution was the payment for construction and machine installation of can manufacturing and bottling factories.

**Liabilities**

Liabilities as of 31 March 2018 and 31 December 2017 was THB 6,844 million and THB 5,515 million, respectively, increasing by THB 1,329 million or 24.1 %. Consist of the current liabilities THB 4,128 million, increasing by THB 921 million, and non-current liabilities THB 2,716 million, increasing by THB 408 million. The main contribution for this increase was due to the following:

**1. Short-term loan from financial institutions**

As of 31 March 2018, the company's short-term loan from financial institutions increased by THB 709 million.

**2. Trade and other payables**

Trade and other payables as of 31 March 2018 and 31 December 2017 were THB 1,993 million and THB 1,897 million, respectively, increasing by THB 96 million or 5%. The main contribution for this increase was due to the increase in advance payment from foreign customers due to increased sales order.

### **3. Long-term loan from financial institutions**

The company's loan from financial institutions increased by THB 503 million which was use for expansion of bottling and aluminum can factory's production capacity.

#### **Shareholders' equity**

Shareholders' equity as of 31 March 2018 and 31 December 2017 was THB 7,207 million and THB 7,005 million, respectively, increasing by THB 201 million or 2.9%.

#### **Financial ratio**

1. Current ratio for the financial year ended 31 March 2018 and as of 31 December 2017 was stable at 0.7 because the increase in current liabilities was matched by the increase in current assets. The main contribution of an increase in current liabilities were increases in short term loan from financial institutions, trade and other payables and portion of long-term debt due in 1 year to fund the investment in aluminum can and bottling factories' production capacity which was continued from last year resulting in an increase in loan from financial institutions and payables to suppliers of factory construction and machine installation. The increase in current assets was due to increases in cash & cash equivalent, trade and other receivables and inventories as mentioned above.

2. Cash cycle for the 3-month period ended 31 March 2018 and for the year ended 31 December 2017 was -1.9 days and -7.4 days respectively. This increase was due to slower collection period from 16.6 days to 20.4 because of credit term traditionally offered to foreign customers in some countries, an increase in inventory days from 12 to 16.4 and longer collection period.

3. Return on equity (ROE) for the 3-month period ended 31 March 2018 and for the year ended 31 December 2017 was 7.4% and 11.3%, respectively, decreasing by 4% due a drop in net operating profit resulting from realization of ICUK's financial performance with ownership increased to 84.3%( since January 2018) from 51.0%.

4. Return on assets (ROA) for the 3-month period ended 31 March 2018 and for the year ended 31 December 2017 was 3.9% and 7.2%, respectively, decreasing by 3.3% due an increase in the company's assets resulting from investment in projects for growth in the next 2-3 years.

5. Debt to Equity ratio for the 3-month period ended 31 March 2018 and for the year ended 31 December 2017 was 0.9 time and 0.8 time, respectively due to an increase in loan from financial institutions.

Yours sincerely,

Pongsarn Klongwathanakith

(Pongsarn Klongwathanakith)

Chief Financial Officer