

CBG 044/2018

9 November 2018

Subject Management discussions and analysis for the 3-month and 9-month period ending 30 September 2018

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 “**Group**”) for the 3-month and 9-month period ending 30 September 2018 as follows:

**Consolidated financial performance of the Group for the 3-month and 9-month period ending 30 September 2018 in comparison with the corresponding period last year ending 30 September 2017**

**1 Revenue from sales**

Total revenue from sales amounted to THB 3,638 million, up by THB 116 million or 3.3%, divided into the proportion of domestic and overseas sales at the ratio of 55:45, respectively. Sales of energy drink product alone were THB 3,199 million, up by THB 54 million or 1.7%. The amount of which contributed from both domestic and export markets at the ratio of 50:50.

Revenue from sales by business Unit: THB million	For the 3-month period ending		Change		For the 9-month period ending		Change	
	30 Sep 17	30 Sep 18	Amount	Percent	30 Sep 17	30 Sep 18	Amount	Percent
Branded products by our own manufacture 1/	1,605	1,609	4	0.2	4,511	4,410	(101)	(2.2)
Branded products by 3 <sup>rd</sup> party's manufacture 2/	241	176	(65)	(26.9)	673	643	(30)	(4.4)
3 <sup>rd</sup> party's products for distribution	205	234	29	14.0	544	749	204	37.5
<b>Domestic sales</b>	<b>2,051</b>	<b>2,019</b>	<b>(33)</b>	<b>(1.6)</b>	<b>5,728</b>	<b>5,802</b>	<b>74</b>	<b>1.3</b>
<b>Overseas sales</b>	<b>1,471</b>	<b>1,597</b>	<b>126</b>	<b>8.5</b>	<b>3,927</b>	<b>4,776</b>	<b>849</b>	<b>21.6</b>
Others	0	23	22	n/m	52	38	(15)	(27.8)
<b>Total sales</b>	<b>3,523</b>	<b>3,638</b>	<b>116</b>	<b>3.3</b>	<b>9,707</b>	<b>10,615</b>	<b>909</b>	<b>9.4</b>

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

Domestic sales were THB 2,019million, drop by THB 33 million or 1.6% due to drop in sales of branded product by 3<sup>rd</sup> party's manufacture, especially RTD coffee which is the highest contributor in this product group drop by THB 53 million or 28.2% due to increase selling price in Traditional trade and Cash van channel starting from July 2018. The increase in price reflect the increase excise tax and management's policy to get competitive rate of return and suitable for the industry, while 3<sup>rd</sup> party product for distribution amount to THB 234 million, up by THB 29 million or 14% due to greater variety of products.

The Group modernize the “Carabao” trademark domestically to expand its customer base to younger generation through offline and online media together with sales and marketing promotion in many channels, which lead to the recovery of the group's domestic energy drink business in 2Q2018, indicated by 2.8% growth rate in 2Q/2018 which reflect the recovery from 8.9% shrink in 1Q/2018. However, the recovery of the Group's domestic energy drink business is still under pressure from overall market in 3Q/2018. According to Nielsen, as of 30 September 2018, comparing to the same period of last year, domestic energy drink market grew by 0.4% in 2Q/2018 which recover from 3.6% shrink in 1Q/2018 and however, shrink by 2.5% in September which make the market remain stable in 3Q/2018. This

challenge is one of the main reasons why the energy drink business which represent a large portion of Branded product by our own manufacture sales grew only 0.4%.

Overseas sales amounted to THB 1,597 million increased by THB 126 Million or 8.5 % driven by existing market especially CLMV.

Sales to CLMV amount to THB 1,355 million, rose by THB 533 million, or 64.9%, supported by (i) Cambodia sales up by THB 572 million or 94.5% (ii) Myanmar sales up by THB 63 million or 91.8%, while export sales to China amount to THB 115 million or equivalent to 17 million units, combining both bottle and can formats. Sales from Afghanistan and Yemen amounted to THB 58 million and sales from other countries amounted to THB 23 million which may seem small but has high growth potential in the long run.

Apart from overseas sales under the operation of Carabao Tawandang Company Limited (“**CBD**”), the Group’s overseas sales under the Intercarabao Limited (“**ICUK**”)’s operation amounted to THB 45 million, decreased by THB 51 million or 53.1%, mainly as a result of a drop of sales outside UK. ICUK’s sales from inside UK amount to THB 39 million, drop by THB 4 million or 10.2%, because ICUK focused on “Grocery Chain Store” which has large customer base and higher average selling price compared to other type of store. Although this change in sales and marketing strategy instantly cause an adverse effect in ICUK’s volume sold in UK (cans sold per month drop to 0.74 million from 0.87 million in the same period of last year, but increase from 0.58 million of 2Q2018) but the Group believe that management’s policy to get competitive rate of return and suitable for the industry combined with specific skill in business development in growth potential such as Grocery Chain Store will benefit ICUK going forwards.

For the first 9 months in 2018, revenue from sales amounted to THB 10,615 million increased by THB 909 million or 9.4% driven by overseas sales amounted to THB 4,776 million increased by THB 849 million or 21.6%. The main contributor was sales from CLMV amounted to THB 1,597 million or 68.1% of which can offset the impact of reduction in export sales to some countries which are affected by the unfavorable industry environment and in early stage of brand awareness building. Domestic sales amounted to THB 5,802 million increased by THB 74 million or 1.3% supported by revenue from 3<sup>rd</sup> party products for distribution amount to THB 749 million which increased by THB 204 million or 37.5% due to more product variety especially with higher average selling price per unit which can offset a drop in sales of other product groups.

## 2 Gross profits and gross profits margin

In the third quarter of 2018, Gross profits amounted to THB 1,208 million, rose by THB 59 million or 5.1%, representing gross profit margin of 33.2%, down from 32.6%.The increase in gross profit was mainly due to the development in domestic and international business.

Gross profits by business Unit: THB million	For the 3-month period ending		Change		For the 6-month period ending		Change	
	30 Sep 17	30 Sep 18	Amount	Percent	30 Sep 17	30 Sep 18	Amount	Percent
Branded products by our own manufacture 1/	589	596	7	1.2	1,674	1,602	(73)	(4.3)
Branded products by 3 <sup>rd</sup> party's manufacture 2/	30	25	(5)	(15.4)	86	69	(17)	(19.2)
3 <sup>rd</sup> party's products for distribution	23	24	2	7.6	67	80	13	19.4
<b>Gross profits from Domestic sales</b>	<b>642</b>	<b>646</b>	<b>4</b>	<b>0.7</b>	<b>1,827</b>	<b>1,751</b>	<b>(76)</b>	<b>(4.2)</b>
<b>Gross profits from Overseas sales</b>	<b>508</b>	<b>553</b>	<b>45</b>	<b>8.8</b>	<b>1,322</b>	<b>1,603</b>	<b>281</b>	<b>21.3</b>
Others	-	9	9	n/m	4	13	9	n/m
<b>Total gross profits</b>	<b>1,150</b>	<b>1,208</b>	<b>59</b>	<b>5.1</b>	<b>3,153</b>	<b>3,367</b>	<b>214</b>	<b>6.8</b>

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

Gross profit from domestic business amounted to THB 646 million, increased by THB 4 million or 0.7% representing 32% gross profit margin, up from 31.3% gross profit margin in the corresponding period last year. The increase in gross profit margin was due to higher production efficiency in Branded product by our own manufacture combined with an increase in selling price of RTD coffee in traditional trade and cash van.

- Translation -

Gross profit of overseas business amount to THB 553 million, up by THB 45 million or 8.8% which represent 34.6% gross profit margin, remain quite stable comparing to 34.5% of the same period in last year. Sales of energy drinks in formats of bottles, non-carbonated and carbonated under the CBD's operation was at 34.8%, increased from the 34.3% gross profit margin in the corresponding period last year.

Gross profit margin(GPM) by business Unit: Percentage	For the 3-month period ending		For the 9-month period ending	
	30 Sep 17	30 Sep 18	30 Sep 17	30 Sep 18
Branded products by our own manufacture 1/	36.7	37.1	37.1	36.3
Branded products by 3 <sup>rd</sup> party's manufacture 2/	12.5	14.4	12.8	10.8
3 <sup>rd</sup> party's products for distribution	11.1	10.5	12.3	10.7
<b>GPM of Domestic sales</b>	31.3	32.0	31.9	30.2
<b>GPM of Overseas sales</b>	34.5	34.6	33.7	33.6
Others	-	41.6	7.1	34.1
<b>GPM of Total sales</b>	32.6	33.2	32.5	31.7

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

The increase in gross profit of Branded product by our own manufacture which includes energy drinks in formats of bottles and cans reflect efficiency in management in our new factories from the amber glass bottle factory which is the beginning of the process to canning and bottling factories resulting in better economy of scale due to higher capacity utilization rate, combined with a drop in material and packaging prices. Asia Can Manufacturing Company Limited (“ACM”) which is a joint venture company between the Group and SHOWA DENKO has successfully passed the Test Run and enter commercial production phase in early November 2018. Our management believe that under expertise and Japanese team’s management will allow the group to rely less on external source of aluminum can and at lower cost.

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

SG&A expenses amounted to THB 914 million, up by THB 69 million or 8.1%, and represented 25.1% of total revenue from sales, increasing from the proportion of 24.0% in the corresponding period last year mainly due to the realization of the English Football League (EFL) sponsorship fee since June 2017 and realization of half of World Cup broadcasting sponsorship fee amounted to THB 24 million and marketing campaign to promote carabao brand awareness and expand product sampling activity in UK.

Selling expenses were THB 703 million up by THB 44 million or 6.7%, representing 19.3% of total revenue from sales, up from 18.7% in the corresponding period last year. These expenses comprised:

(1) Sponsorship fees for international football clubs

Sponsorship fees for international football clubs including Chelsea Football Club Limited (CFC), English Football League (EFL) and Reading Football Club (RFC) amounted to THB 158 million. 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.

(2) Marketing and promotional expenses including the portion paid by CBD and the portion paid by ICUK for UK operation.

(a) Marketing and promotional expenses paid by CBD amounted THB 162 million, drop by THB 19 million or 10.3%. Such expenses comprised of (1) nationwide on-ground operational marketing expenses of Bao Dang Ladies amounted to THB 62 million, drop by THB 1 million or 1.0% (2) advertising expenses in other formats amounted to THB 61 million, increased by THB 22 million due to realization of half of 2018 World Cup broadcasting sponsorship amounted to THB 24 million in this

quarter (3) the rest amounted to THB 39 million, drop by THB 40 million or 50.7% as a result of the marketing activities to stimulate the domestic demand of the branded products under Carabao trademark in all channels which vary by activity level in the period.

(b) marketing and promotional expenses paid by ICUK for the operation in UK amounted to THB 178 million could be divided as follows: (1) field sales amounted to THB 24 million (2) sampling expenses amounted to THB 15 million, and (3) the rest amounted to THB 139 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.

(3) Selling expenses composed of fixed portion and variable based on sales portion amount to THB 205 million, decreased by THB 21 million or 9.3%, mainly due to reduction of transportation and logistics cost which drop by THB 23 million which aligning to the decrease in export sales of energy drinks to China Afghanistan and Yemen.

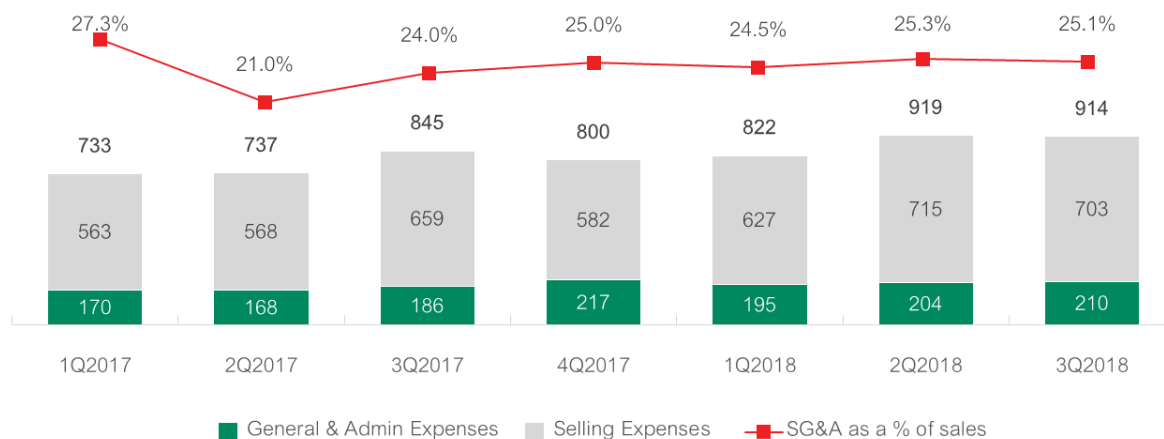
Administrative expenses amounted to THB 210 million, increased by THB 24 million or 13.2%, of which the amount included expenses related to ACM which is currently under the construction, machine installation and system preparation process before the commercial plan in 4Q/2018 amounting to THB 18 million. Our management believe that the efficiency of can production under Japanese team supervision will reduce packaging cost in long run. Administrative expenses comprises of key expenses as follows: (1) staff cost amounted to THB 136 million, up by THB 20 million or 17.5% in correlation to the rising full-time employment to support ACM’s operation 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 75 million, up by THB 4 million or 6.2%.

For the 9M/2018, the Group’s selling and administrative amounted to THB 2,654 million, increased by THB 340 million or 14.7% which represented 24.8% of revenue from sales, which increased from 23.8% from the same period of last year.

Group’s selling expense amounted to THB 2,045 million, up by THB 254 or 14.2% due to (1) realization of English Football League (EFL) sponsorship fee start from June 2017 (2) 2018 World Cup broadcasting sponsorship fee during June and July 2018 amounted to THB 47 million (3) increase in marketing expense especially in ICUK to increase Carabao brand awareness and sampling to create product experience.

Group’s administrative expense amounted to THB 609 million, increased by THB 85 million or 16.3% due to (1) administrative expense of Asia Can Manufacturing (“ACM”) which is currently under the construction, machine installation and system preparation process before the commercial plan amounted to THB 39 million (2) salary expense which align with increase in headcount and growth in salary.

On the quarter basis, the Group’s selling and administrative expenses as a percentage of total revenue from sales could be elaborated as detailed below:

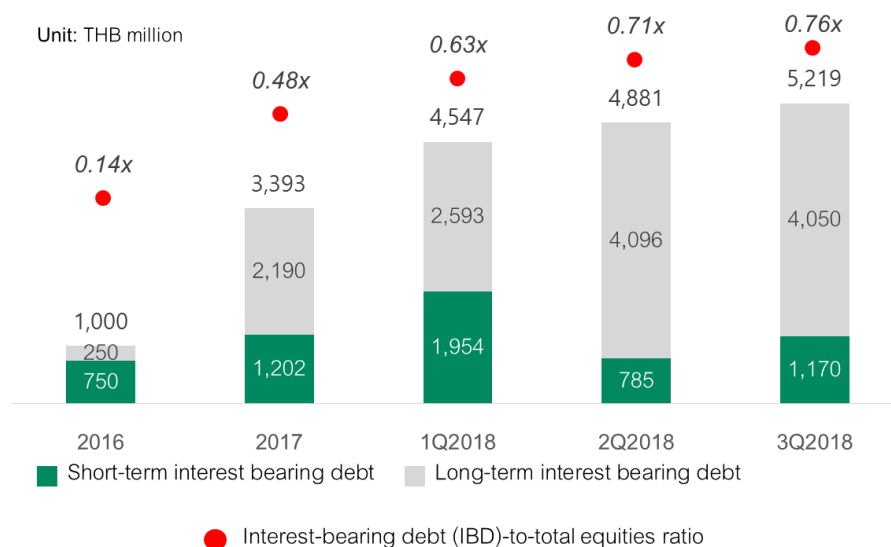


However, the company's policy emphasizes on increase in return on sales by focusing on efficiency in cost and expense management in the future.

#### 4 Financial expenses

Financial expenses amounted to THB 25 million, up by THB 6 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. For 9M/2018, financial expense amounted to THB 76 million, up by THB 47 million, due to drawing d

own loan from financial institution to support production capacity expansion. The Group ended up having interest-bearing debts of THB 5,219 million as of 30 September 2018, up from THB 3,393 million as of 31 December 2017, or equivalent to the interest-bearing debts to shareholders' equity ratio of 0.76 time, up from 0.48 time, respectively and could be elaborated as detailed below:



However, the Group will start to realize the whole amount of interest associated with construction of can manufacturing factory as expense in ACM's income statement when ACM enter commercial phase in November 2018 which ACM's debts associated with the project was THB 1,326 million as of 31 October 2018.

#### 5 Corporate income tax expenses

Corporate income tax expenses amounted to THB 84 million, decreased by THB 24 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 29.1%, up from 18.2%.

For 9M/2018 corporate income tax expense amounted to THB 245 million, up by THB 27 million as reported on the consolidated financial statements was therefore 33.2%, up from 23.2% because of the reasons mentioned above.

#### 6 Net profits and net profits margin

Net profits amounted to THB 205 million, decreased by THB 67 million or 24.5%, which was equivalent to 5.6% of total sales, down from 7.7%. Such decline was mainly due to a considerable increase in SG&A expenses i.e. mostly arising from overseas subsidiary's operation, ACM's THB 13 million loss resulting from pre-commercial phase expenses and increase in financial cost.

Net profits attributed to the Group's shareholders amounted to THB 255 million, down by THB 134 million or 34.4%, resulting from overseas subsidiaries' higher loss from operations especially ICUK and higher shareholding percentage that increased from 51.0% to 84.3% since January 2018 and ACM's THB 10 million loss from pre-commercial phase.

For 9M/2018, Group's net profit amounted to THB 493 million, decreased by THB 228 million or 31.6% which represent 4.6% of total revenue from sales, decreased from 7.3% which ACM's THB 27 million loss from pre-commercial phase was included and net profit attributed to the Group's shareholders amounted to THB 646 million, decreased by THB 391 million or 37.7% as mentioned above.

**Consolidated financial position of the Group as of 30 September 2018 in comparison with that as of 31 December 2017**

**Assets**

Total assets as of 30 September 2018 and 31 December 2017 were THB 14,602 million, and THB 12,520 million, respectively, increasing by THB 1,822 million or 16.6%. The main contribution for this increase was due to the increase of properties, plant and equipment by THB 1,430 million or 14.9% resulting from payment of the construction, machine installation and system preparation process of aluminum can production factory and bottling factory in the period.

**Liabilities**

Liabilities as of 30 September 2018 and 31 December 2017 were THB 7,704 million and THB 5,515 million, respectively, increasing by THB 2,189 million or 39.7%. The Group issued bond in June-July 2018 amount to THB 2,785 million and partially repaid long-term debt from financial institution. Interest-bearing debt was amounted to THB 5,219 million or interest-bearing debt to equity was at 0.76 time, increased from 0.48 time as of 31 December 2017 while debt to equity ratio was at 1.12 time, increased from 0.79 time as of 31 December 2017.

Yours sincerely,

Pongsarn Klongwathanakith

(Pongsarn Klongwathanakith)

Chief Financial Officer