

CBG 014/2019

10 May 2019

Subject Management discussions and analysis for the 3-month period ending 31 March 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 period ending 31 March 2019 as follows:

Consolidated financial performance of the Company for the 3-month period ending 31 March 2019 in comparison with the corresponding period last year

1 Revenue from sales

Total revenue from sales amounted to THB 3,361 million, up by THB 20 million 0.6%, divided into the proportion of domestic and overseas sales at the ratio of 51:49, respectively. Out of the amount, sales from energy drink product alone were THB 2,923 million, up by THB 100 million or 3.5%, contributing from both domestic and overseas markets at the ratio of approximately 43:57.

Revenue from sales by product group Unit: THB million	for the 3-month period ending 31 Mar		Change	
	2018	2019	Amount	%
Branded products by our own manufacture 1/	1,282	1,272	(10)	(0.8)
Branded products by 3rd party's manufacture 2/	236	139	(97)	(40.9)
3rd party's products for distribution	269	290	22	8.0
Total domestic product group	1,787	1,702	(85)	(4.7)
Total overseas product group	1,541	1,654	113	7.3
Others	13	4	(9)	(67.9)
Total	3,341	3,361	20	0.6

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

Domestic sales were THB 1,702 million, drop by THB 85 million or 4.7% due to a decrease in sales of branded product by 3rd party's manufacture of THB 97 million or 40.9% and a decrease in sales of branded product by own manufacture of THB 10 million or 0.8%, whereas sales of 3rd party product for distribution increased by THB 22 million or 8.0%, 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 covering major commercial areas nationwide.

Domestic energy drink market posted a growth of 5.3% in 1Q/2019 according to the final volume sold to consumer data by Nielsen. However, the Company's sales of bottled domestic energy drink under Carabao Dang trademark decreased by 1.4% as the Company rearranged the marketing plan causing the on-ground marketing activities, media communications and promotions delayed to other quarter(s) and, consequently, lower the advertising and promotional expenses under the operation of CBD for the period.

The Company made a pre-launch of the carbonated canned Carabao Green Apple flavor, domestically, in a new size of 180 ml.- smaller than the previous of 330 ml.- via cash van distribution system in March

2019 for the first time. The product received a warm welcome thanks to product quality being well acknowledged and its lower retailing price attractive to consumers. The Company, consequently, plan to replace the prior launch of 330 ml. size with the new 180 ml. one and also to extend the distribution channel to further cover the whole traditional trade as well as modern trade systems, wider distribution than in only a modern trade as when the 330ml. version being launched. The new energy drink is not only expanding the customer base to younger generations but also a constructive factor to refresh the image of the Carabao brand in the country aligning to the vision of “World Class Product, World Class Brand”.

Overseas sales were THB 1,654 million, increased by THB 113 Million or 7.3%. The amount included the export sales of energy drinks to CLMV market at THB 1,444 million, China at THB 52 million, sales in the UK under the operation of Intercarabao Limited (“**ICUK**”) at THB 15 million, and the rest to many other countries totaling of THB 144 million.

The CLMV countries are the original export market which is a large international business base and has demonstrated a continuous growth. In 1Q/2019, export sales to CLMV countries increased by THB 167 million or 13.1%, mainly driven by Cambodia and Vietnam which rose by THB 217 or 21.1% and THB 6 million or 8.1%, respectively, thanks to the extensive distribution coverage and wider consumer base. Moreover, the Company put an emphasize on enlarging the success of energy drinks under the Carabao brand in other countries and expanding the international business base by tapping into new export markets, for example, United Arab Emirates.

ICUK, on another hand, still has a positive progress as the firm continued to received extension in listing its products from large grocery chain store in the UK, including ASDA which agreed to list the Group’s products in 300 branches in 1Q/2019 as well as ALDI - one of the top five grocery store in term of market share in the UK, having over 700 stores in the UK - and Sainsbury’s which also confirmed additional listings in 2Q/2019.

2 Gross profits and gross profits margin

Gross profit were THB 1,189 million, an increase of THB 195 million or 19.6%, representing gross profit margin of 35.4%, an increase from 29.8% gross profit margin in the corresponding period last year. The increase in gross profit was mainly due to improving margins for the branded products by the Company’s production, under the operation of Carabao Tawandang (“**CBD**”).

Gross profits by product group Unit: THB million	for the 3-month period ending 31 Mar		Change	
	2018	2019	Amount	%
Branded products by our own manufacture 1/	446	483	37	8.2
Branded products by 3rd party's manufacture 2/	21	18	(3)	(15.9)
3rd party's products for distribution	29	27	(2)	(8.4)
Total domestic product group	497	528	31	6.2
Total overseas product group	495	660	165	33.4
Others	3	2	(1)	(36.8)
Total	994	1,189	195	19.6

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

Branded products by the Company’s manufacture generated an improving gross margin as a result of lower prices of key raw material and packaging items, as well as better cost management at new factories, which the Company has invested in many capacity expansion of vertical integrated projects to serve the business as in the growth phase ranging from canning, bottling, glass bottle plant to new aluminum can factory. All of these new factories were completed and entered commercial operations within December 31, 2018.

Gross profit margins for the branded products under own manufacture for domestic business were 37.9% in 1Q/2019, an increase from 34.8% margin in 1/2018, mainly of which were driven by the margin of the bottled energy drink under Carabao Dang trademark.

Gross profit margin from branded products that the company outsourced production was 12.9%, an increase from 9.0%, mainly due to ready-to-drink coffee, contributed approximately 75% of this product group, experiencing higher costs in relation to new excise taxes in effective since 16 September 2017. However, the Company does not adjust the selling price to reflect the higher cost immediately. Instead, the selling price of ready-to-drink coffee were gradually adjusted in each distribution channels taking into account the competitive conditions, sales and marketing strategies, coupled with other factors related to the product.

Gross profit margin for the distribution of 3rd party products was 9.2%, a decrease from 10.9%. The margin variation mainly due to the product variety among this group as a usual of the trading business conduction under market price of each product. In other words, the variation in gross margin is a result of changes in product mix.

Gross profits margin by product group Unit: %	for the 3-month period ending 31 Mar	
	2018	2019
Branded products by our own manufacture 1/	34.8	37.9
Branded products by 3rd party's manufacture 2/	9.0	12.9
3rd party's products for distribution	10.9	9.2
Total domestic product group	27.8	31.0
Total overseas product group	32.1	39.9
Others	22.4	44.0
Total	29.8	35.4

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

For overseas business, gross profit margin of branded products under the Company's production was significantly improved to approximately 40.3% in 1Q/2019, an increase from the 36.4% and 33.6% margins in 4Q/2018 and 1Q/2018, respectively, mainly driven by non-carbonated canned energy drinks under the Carabao trademark.

Modern machinery, equipment and support systems altogether within a single site to operate a vertically-integrated supply chain ranging from upstream manufacturing activities, i.e. production of amber-glass bottles and aluminum cans, to downstream manufacturing activities, i.e. bottling and canning finished goods, enable reduction in production cost as well as benefits from economies of scale. Asia Can Manufacturing Co., Ltd. ("ACM"), a joint venture between the Group and SHOWA DENKO under the leading of skilled and professional management of Japanese team, entered into real commercial production in November 2018. ACM produced approximately 127 million cans or equivalent to 50% utilization rate, resulting in a cost saving of over THB 0.50 for every cans ACM managed to sell to CBD in 1Q/2019 which was a key constructive factor to better gross profit margin of overall oversea business mentioned above. On top of this, the ramping up in utilization rate would be an instructive factor for further cost savings of the non-carbonated canned energy drink for over the rest of this year.

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

Total selling and administrative expenses were THB 675 million, a decrease of THB 138 million or 17.0%, representing 20.1% of total sales, a decrease from the ratio of 24.3% in the corresponding period last year. The main reasons are 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 appropriate return on sales.

Selling expenses were THB 480 million, a decrease of THB 138 million or 22.3%, representing 14.3% of total sales, down from 18.5%. The details of key expenses were as follows:

(1) Club and international football match sponsorship fees:

Club and international football match sponsorship fees are 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 Chelsea Football Club Limited (CFC), English Football League (EFL) and Reading Football Club (RFC) in the amount of THB 151 million, a decrease of THB 8 million or 5.2%, mainly due to the depreciation on Great British Pound Sterling against Thai Baht currency.

In order to envision the image of “World Class Brand, World Class Product” and to inherit the success in expanding the awareness of Carabao brand internationally, the Company extended the sponsorship contract with EFL for a further two years at the same rate as the average annual payment of the current contract; therefore, the partnership deal ends in May 2022 instead of May 2020.

Nevertheless, the overall sponsorship fees to be recognized through the profit and loss statement will start to decline since 3Q/2019 onwards due to a decrease in CFC fees, in line with the adjustment of sponsor status from Principal partner to Global partner;

(2) Marketing and promotion fees in the areas operated under the CBD for domestic businesses and in the areas operated under ICUK for the UK market:

a. Marketing and promotion expenses under the operation of CBD for domestic business were THB 105 million, a decrease of THB 43 million or 29.1%, divided into important expenses; (1) operating expenses of the field activity team “Sao Bao Dang” in the major trade area of THB 56 million, a decrease of THB 6 million or 10.2%, (2) media advertising costs in various forms of THB 18 million, down by THB 2 million or 8.9%, and (3) the remaining expenses of THB 32 million, a decrease of THB 35 million, used with promotional activities to drive sales of products under the Company's trademarks.

b. Marketing and promotion expenses in respect of ICUK for the UK market was THB 27 million, a decrease of THB 88 million or 76.4%, divided into major expenses; (1) cost of field sales to support distribution of products directly to the point of sales of THB 2 million, a decrease of THB 9 million, (2) the listing fee for modern stores was THB 2 million, a decrease of THB 9 million, and (3) the remaining cost of THB 24 million, a decrease of THB 60 million, spent on media advertising and sales promotion activities at the selling points to create brand awareness, product experience and purchase intention by focusing on selective activities the Company believed to drive sales growth in the long term.

(3) Expenses related to sales which has a mixture of fixed cost and variable cost that is varied to the revenue from sales subject to the business plan. The expenses related to the sales were THB 197 million, an increase of THB 2 million or 0.9%, mainly due to a rise in employee expenses in relation to cash vans team and distribution centers.

Administrative expenses were THB 195 million, stable from corresponding period last year. The major expenses were (1) Personnel expenses of THB 132 million, a decrease of THB 1 million or 0.5%, mainly due to a decrease in number of employees under the employment of ICUK of THB 7 million which offsets a rise in those of current operation of THB 6 million in line with the number of employees increasing according to manpower and salary adjustment policy under human resource management, and (2) other administrative expenses include office expenses, travel expenses, service fees, consulting fees and others, THB 63 million, an increase of THB 1 million or 1.2%.

4 Financial expenses

Financial expenses were THB 35 million, an increase of THB 10 million. This amount consists of interest paid by ACM of THB 12 million, recognized through the income statement after commencing commercial operation, interest on debentures of approximately THB 16 million, and the remaining amount of which the majority are the interest related to liquidity management.

5 Corporate income tax expenses

Corporate income tax expenses amounted to THB 101 million, an increase of THB 22 million or 27.8%, representing the effective corporate income tax rate of 20.2%, a decrease from 37.8% 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 15.2%, a decrease from 15.9% from the corresponding period last year.

6 Net profits and net profits margin

Net profits was THB 399 million, an increase of THB 268 million or 205.9%, representing a ratio to sales of 11.9%, an increase from 3.9% ratio, mainly due to the improving overall gross profit margin, the declining selling and admin expenses which compensating the higher financial expenses and corporate income tax expenses as mentioned above. Also, the Company had recognized an additional expenses 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 419 million, an increase of THB 239 million or 132.4%, representing a ratio to sales of 12.5%, an increase from 5.4% ratio, mainly driven by overall gross profit margin being improved and loss recognized from the ICUK operation that became significantly less.

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

Assets

Total assets were THB 14,463 million, an increase of THB 143 million or 1.0% as compared to THB 14,320 million as of 31 December 2018. This mainly driven by the improved cash flow from operation netting off the cash flow from investing and the cash flow from financing, as well as an increase in inventory of THB 81 million to support the business plan offsetting a decrease of trade receivables and other receivables of THB 100 million according to the decrease of domestic sales and a decrease in property, plants and equipment of THB 72 million due to all the capacity expansion investment were completed coupled with the depreciation expenses rose for the period.

Liabilities

Liabilities were THB 6,676 million, a decrease of THB 279 million or 4.0% from THB 6,955 million as of 31 December 2018. The decrease was mainly due to a decrease in trade payables and other payables of THB 272 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. Moreover, the Company partially repaid loans from financial institution, therefore, total interest-bearing debt was amounted to THB 4,630 million, a decrease of THB 110 million, representing an interest-bearing debt to equity ratio of 0.59 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,

Pongsarn Klongwathanakith

(Pongsarn Klongwathanakith)

Chief Financial Officer