

CBG 027/2020

9 November 2020

Subject Management discussions and analysis the 3-month and 9-month period ended 30 September 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 and 9-month period ended 30 September 2020 in comparison with the corresponding period last year as follows:

**Consolidated financial performance of the Company for the 3-month and 9-month period ended 30 September 2020 in comparison with the corresponding period last year ended 30 September 2019**

**1 Revenue from sales**

In the 3<sup>rd</sup> quarter of 2020, total revenue from sales were THB 4,405 million, an increase of THB 543 million or 14.1% driven by higher sales of every product segments, particularly the increasing sales orders of the energy drinks for export markets and the greater sales from distribution of 3<sup>rd</sup> party’s products.

Revenue from sales by product group Unit: THB million	For the 3-month period ended 30 Sep				Change	
	2019	%	2020	%	Amount	Percent
Branded products by our own manufacture 1/	3,371	87%	3,617	82%	246	7.3
Branded products by 3rd party's manufacture 2/	122	3%	135	3%	13	10.9
3rd party's products for distribution	351	9%	613	14%	262	74.4
Others	18	0%	40	1%	22	126.4
<b>Total</b>	<b>3,862</b>	<b>100%</b>	<b>4,405</b>	<b>100%</b>	<b>543</b>	<b>14.1</b>

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

1.1) Sales of branded products by own manufacture were THB 3,617 million, up by THB 246 million or 7.3%. The amount consisted of domestic and overseas sales at the proportion of approximately 43:57, respectively. The overseas sales of branded products by own manufacture grew by 15.1% offsetting the drop of 1.4% in the domestic. However, domestic sales improved quarter-on-quarter by 5.0% as Thailand’s lockdown during Covid-19 easing particularly when the night curfew lifted on 15 June 2020 and most businesses allowed to resume.

(1.1.1) The domestic sales were THB 1,569 million, a decrease of THB 22 million or 1.4% mainly due to the economic contraction and higher unemployment rates compared to the year prior, according to Bank of Thailand.

In 3Q/2020, the market volume of energy drink industry in Thailand contracted by 7.0% while Carabao Dang energy drink remained the 2<sup>nd</sup> largest brand, commanding 21% volume share. Meanwhile, the

market volume of Thai's vitamin C shot drink enjoyed a healthy growth rate. The Company's Woody C+ Lock possessed a higher volume share at 9% and, was ranking the third among the vitamin C shot players since July 2020, according to the Nielsen's final sales data to consumers, as a results of the Company's attempt in expanding the points of sales and holding promotional activities to support sales of the vitamin C drink Woody C+ Lock Lemon and Orange flavoured. Such improving market share represents the positive feedback from target consumers as well as growth opportunity for the Company's local business.

(1.1.2) Overseas sales of energy drinks were THB 2,048 million, an increase of THB 269 Million or 15.1%, of which 81% was from CLMV market, 6% from China, and the rest 18% from 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 yet growth potential lying in each individual country, increased by THB 184 million or 12.5% largely driven by higher demand from Myanmar, though export to CLMV decreased by 8.0% quarter-on-quarter basis.

Sales in the UK market via Intercarabao Company Limited ("ICUK"), a Company's overseas subsidiary, showed a modest improvement as the average sales volume reached 560,000 cans per month, increased by more than one time from the corresponding period last year, mainly due to recent strategy to focus on increasing rates of sales in selective, large groceries chains and more online channel during the Covid-19 outbreak in the UK.

1.2) Sales of 3<sup>rd</sup> party products for distribution were THB 613 million, increased by THB 262 million or 74.4%, consecutively grew quarter-on-quarter for over 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.

1.3) Sales of branded product by 3<sup>rd</sup> party's manufacture were THB 135 million, an increase of THB 13 million or 10.9% mainly due to the Company's new pricing strategy on Carabao RTD coffee starting in the July 2020 which drove sales of Carabao RTD increased by THB 15 million or 18.0%.

1.4) Other sales were THB 40 million, an increase of THB 22 million or 126.4%, most of which are sales of bottles to 3<sup>rd</sup> 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 bottles for the Company's energy drinks and the vitamin C drink owing to economies of scales .

Revenue from sales by product group Unit: THB million	For the 9-month period ended 30 Sep				Change	
	2019	%	2020	%	Amount	Percent
Branded products by our own manufacture 1/	9,565	87%	10,744	83%	1,179	12.3
Branded products by 3rd party's manufacture 2/	411	4%	341	3%	(69)	(16.9)
3rd party's products for distribution	957	9%	1,686	13%	729	76.1
Others	43	0%	203	2%	160	370.0
<b>Total</b>	<b>10,976</b>	<b>100%</b>	<b>12,974</b>	<b>100%</b>	<b>1,998</b>	<b>18.2</b>

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

For the 9-month of 2020 (9M/2020), total revenue from sales were THB 12,974 million, an increase of THB 1,998 million or 18.2% mainly driven by higher export sales of the energy drinks and sales of new product Woody C+ Lock launched in March 2020, and partially by greater sales from distribution of 3rd party's products and others from sales of bottles to the 3<sup>rd</sup> party.

Sales of branded products by own manufacture were THB 10,744 million, up by THB 1,179 million or 12.3%. The amount consisted of domestic and overseas sales at the proportion of approximately 40:60,

respectively. The overseas sales of branded products by own manufacture increased by 24.0% mainly due to higher sales growth from CLMV market.

## **2 Gross profits and gross profits margin**

Gross profits were THB 1,831 million, increased by THB 237 million or 14.9%, representing gross profit margin of 41.6%, an increase from 41.3% gross profit margin in the corresponding period last year, mainly due to the higher sales and improving margins of the branded products by the Company's production, which is the core business contributing 82% of total sales.

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.

For 9M/2020, gross profits were THB 5,386 million, an increase of THB 1,193 million or 28.5%, representing a gross profit margin of 41.5%, an increase from 38.2% margin. The higher overall gross profit margin was mainly driven by higher gross profit margin of the core business, the branded products by the Company's manufacture which contributed 83% of total sales, due to its profitability improvement with the same reason as mentioned above. The increases in gross profits were also due to the sales growth in the branded products by the Company's manufacture, the 3<sup>rd</sup> party products for distribution and others i.e. sales of bottles to the 3<sup>rd</sup> party.

Taking into account the continual demand growth of the Company's energy drink from overseas market up until now and more product variety requirement, the Company decided to invest to expand the capacity of both bottling and canning lines including machines and other supporting systems with anticipation of those commercial operation in 4Q/2020. In order to retain control though out the supply chain and to sustain the Company's cost competitive position, several projects are in pipeline for further efficiency improvement including the manufacture of some packaging materials under a newly established subsidiary Asia Packaging Manufacturing company limited ("APM") which is also expected to start operation in 4Q/2020.

The relevant authorities have launched a stimulus package as part of the overall finance policies to accelerate private sector's investment and so have the effect of spurring the Thai economy in 2020. Eligible enterprises are allowed to take certain capital expenditures as incurred into calculation of taxable income for corporate income tax purpose under terms and conditions. The Company in this connection is studying and planning capital expenditures in detail for a pursuance of responding to the Thai government policies, benefiting from tax savings at an extra rate and at the same time leveraging such investments in assets for the Company's future growth going forwards.

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

Total selling and administrative expenses were THB 719 million, an increase of THB 50 million or 7.5%, representing 16.3% of total sales, a decrease from the ratio of 17.3% in the corresponding period last year, largely due to a rise in administrative expenses.

Selling expenses were THB 479 million, a decrease of THB 8 million or 1.7%, representing 10.9% of total sales, down from 12.6%. The key expenses were (1) sponsorship fees to Chelsea Football Club Limited (CFC) and English Football League (EFL) totaling THB 95 million, and (2) selling expenses in exclusion of the sponsorship fees to international footballs – most of which or approximately 60% were fixed expenses regarding the on-ground event teams and the distributional fleets to support domestic business, and the rest were variable expenses varied to the marketing and promotional plans in both Thailand and the UK operated by ICUK - were THB 385 million, a decrease of THB 18 million or 4.6%. The lower selling expenses as a percentage to sales was mainly due to that overseas sales

incurred very low selling and marketing expenses to the Company's, thus, the higher sales growth from exports, the lower the ratio of selling expenses to total sales should be.

In relation to this, sponsorship fees for international footballs were recognized as expenses regarding on the payment terms, economic benefits, and beneficial period in which the company shall receive as stated in the contractual terms and conditions. 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 rates of fee. In addition, EFL has granted a special discount of GBP 1.5 million for the 2020/21 season sponsorship fee in view of that the Coronavirus pandemic caused football matches to run socially distanced and no attendance at matches allowed for the health safety. Such discounts will be gradually recognized from 4Q/2020 to the end of seasons in 2Q/2021

Administrative expenses were THB 239 million, increased by THB 58 million or 32.2%, representing 5.4% of total sales up from the ratio of 4.7% in the corresponding period last year mainly due to the increasing staff as per the human resources development plan. Nevertheless, the expenses decreased by THB 55 million when compared to 2Q/2020 largely due to a one-off item, a donation of THB 50 million to Chaipattana Foundation to aid fight against Covid-19, in 2Q/2020.

For 9M/2020, total selling and administrative expenses were THB 2,210 million, an increase of THB 144 million or 7.0%, representing 17.0% of total sales, a decrease from the ratio of 18.8% in the corresponding period last year.

Selling expenses were THB 1,449 million, a decrease of THB 50 million or 3.3%, representing 11.2% of total sales, down from 13.7% mainly due to the reduction in sponsorship fee to CFC as the partnership status downgrading from Principal to Global partner in July 2019.

Administrative expenses were THB 761 million, increased by THB 194 million or 34.2%, representing 5.9% of total sales down from the ratio of 5.2% in the corresponding period last year due to employee related expenses and a one-off item - a donation of THB 50 million to Chaipattana Foundation to aid fight against Covid-19 - in 2Q/2020.

#### **4 Financial expenses**

Financial expenses were THB 21 million, a decrease of THB 13 million or 37.7% largely due to the retirement of THB 1,700 million par value of bond in June 2020 and, partially due to the loan repayment by ACM.

For 9M/2020, financial expenses were THB 84 million, a decrease of THB 18 million or 17.6% due to the same reason as mentioned above.

#### **5 Corporate income tax expenses**

Corporate income tax expenses amounted to THB 191 million, increased by THB 23 million or 14.0%, representing the effective corporate income tax rate of 16.4% down from the ratio of 18.7% mainly due to the higher income tax expenses from better operational performance whereas less loss from the overseas subsidiaries.

For 9M/2020, corporate income tax expenses were THB 535 million, an increase of THB 133 million or 33.0%, representing the effective corporate income tax rate of 16.6% down from the rate of 19.4% due to the same reason as mentioned above.

#### **6 Net profits and net profits margin**

Net profits were THB 972 million, an increase of THB 246 million or 33.9%, representing a ratio to sales of 22.1%, an increase from the ratio of 18.8%, mainly due to the increase in sales of every product segments and improving overall gross profit margin particularly higher gross profit margins of the branded product by the Company's own manufacture, and the effective management over selling and admin expenses, which compensated higher corporate income tax expenses.

Net profits attributed to the Company's shareholders were THB 970 million, an increase of THB 238 million or 32.5%, representing a proportion to sales at 22.0%, an increase from the ratio of 19.0% in the corresponding period last year, largely driven by the improving sales and gross profit margin of the branded products by the Company's own manufacture, a reduction in sponsorship fee to CFC, and a significantly decreases in losses from the ICUK operation as ICUK's spending were in effective control by focusing on selective activities in which the Company believe to justify higher rates of sales in the longer term.

For 9M/2020, net profits were THB 2,686 million, an increase of THB 1,013 million or 60.6%, representing a ratio to sales of 20.7% up from a rate of 15.2% in the corresponding period last year due to the same reasons as mentioned above.

For 9M/2020, net profits attributed to the Company's shareholders were THB 2,652 million, an increase of THB 948 million or 55.7%, representing a ratio to sales of 20.4% up from 15.5% in the corresponding period last year due to the same reasons mentioned above.

### **Consolidated financial position of the Company as of 30 September 2020 in comparison with that as of 31 December 2019**

#### **Assets**

Total assets as of September 30, 2020 and December 31, 2019 were THB 16,063 million and THB 14,780 million, respectively, an increase of THB 1,334 million or 9.1%, mainly due to (1) an increase in inventory of THB 381 million in relation to raw materials and packaging materials to support sales, (2) the recognition of right-of-use asset of THB 271 million due to the adoption of IFRS 16 Leases standard, and (3) an increase in cash of THB 747 million as a results of net cash flow from operations, investing, and financing.

#### **Liabilities**

Total liabilities as of September 30, 2020 and December 31, 2019 were THB 6,766 and THB 6,062 million, respectively, an increase of THB 704 million or 11.6%, mainly due to an increase in account payables of THB 360 aligning to the growing business size, and interest-bearing debt, in exclusion of leases liabilities, were THB 4,258 million, increased by THB 129 million or 3.1% due to partial drawdown of short term loans for working capital, resulting in the interest-bearing debt to equity ratio remaining at 0.5 times and debt to equity ratio also stable at 0.7 times compared to those as of December 31, 2019.

Yours sincerely,

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(Pongsarn Klongwathanakith)

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