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CBG 034/2017

12 May 2017

Subject Management discussions and analysis for the 3-month period ending 31 March 2017

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 2017 as follows:

<u>Consolidated financial performance of the Group for the 3-month period ending 31 March 2017 in comparison with the corresponding period last year ending 31 March 2016</u>

We have deployed a series of marketing strategies including a variety of advertising media and promotional activities in both above- and below-the-line programs, coupled with extensive distribution channels, in attempts to promote our product visibility to the target consumers. We also leverage our Carabao brand to develop and launch new products i.e. Drinking Water, 3-in-1 Coffee and RTD Coffee for the best interest of our domestic business expansions. Furthermore, we pushed forward the frontier of our domestic market reach with our completion of cash van strategies in October 2016, providing us with direct access to approximately 320,000 retailers at the present as well as sustained source of extra revenue from the 3rd party products for distribution. We had 31 distribution centers and a sizable fleet of 338 cash vans as of 31 March 2017. Revenue from sales through our cash van route to market amounted to THB 474 million or 26.3% of revenue from domestic sales, comprising sales of our branded products and 3rd party products for distribution of THB 329 million and THB 145 million, respectively.

A new chapter of our energy drinks under Carabao trademark orchestrated to the global stage was unfolded since we managed to enter a 3-season principal partnership agreement with Chelsea Football Club in November 2015, made investments for a shareholding of 51% in Intercarabao Limited ("**ICUK**") in October 2016 to conduct marketing, sales and distributions of our energy drinks under Carabao trademark in the United Kingdom and soft landed in November 2016 a landmark 3-season sponsorship agreement with English Football League. We are in deeply understanding that those football sponsorships and joint venture into overseas business operations may put the Group's financial performance and position at risks during the start-up phase. However, we believe that our feat of endeavors as mentioned shall be considered an investment from strategic perspective to substantiate a solid platform instrumental in driving business expansions outside Thailand in the long run. Due to our equity investments in ICUK, its financial performance and position have been reflected in our consolidated financial statements from the 4th quarter of 2016 onwards.

**1 Revenue from sales**

Our revenue from sales amounted to THB 2,688 million, up by THB 586 million or 27.9% on the back of both domestic and overseas sales.

| Revenue from sales | 3-month period ending | | Change | |
|---|---|---|---|---|
| Unit: THB million | 31 Mar 16 | 31 Mar 17 | Amount | % |
| Branded products by our own manufacture [1/] | 1,364 | 1,436 | 72 | 5.3% |
| Branded products by 3rd party manufacture [2/] | 19 | 202 | 183 | n/m |
| 3rd party products for distribution | 3 | 145 | 142 | n/m |
| Others | - | 18 | 18 | n/m |
| Revenue from domestic sales | 1,386 | 1,801 | 415 | 29.9% |
| Branded products | 716 | 881 | 165 | 23.1% |
| Others | - | 6 | 6 | n/m |
| Revenue from overseas sales | 716 | 887 | 171 | 23.9% |
| Total revenue from sales | 2,102 | 2,688 | 586 | 27.9% |

Note: 1/ Energy Drinks and Sport Drinks

2/ Drinking Water, 3-in-1 Coffee and RTD Coffee

Revenue from domestic sales amounted to THB 1,801 million, up by THB 415 million or 29.9% as driven by all individual product groups. Revenue from sales of branded products by our own manufacture increased by THB 72 million due to sales of energy drinks that we managed for an increase of THB 102 million. Revenue from sales of branded products by 3rd party manufacture increased by THB 183 million since we made the first commercial launch of 3-in-1 Coffee and RTD Coffee by the second half of 2016 and derived a total of THB 176 million in sales during the period. Revenue from 3rd party products for distribution increased by THB 160 million due to growing number of 3rd party products we distribute for i.e. up from 1 product as of 31 March 2016 to 14 products as of 31 March 2017.

For overseas businesses, revenue from sales of branded products amounted to THB 881 million, up by THB 171 million or 23.9% due to surging demands for our bottled and canned energy drinks in the CLMV region. Nonetheless, we did not fully utilize our canning production capacities and in this connection did not satisfy all the purchase orders placed to us. It was due to our redesign of can lids and bodies to be used as packaging materials for energy drinks. Such a new look of our energy drinks in can format helps allow for variable cost reductions in the long run. The process consumed time and effort for planning and modifying our machines to suit the new packaging materials, which occurred in February 2017.

Note that we have installed our 2 new machines and managed towards test run since late March 2017. The extra capacities are expected to increase our volume produced such that we will be in a more proper position to satisfy demands for our energy drinks in the CLMV region, Afghanistan and Yemen as well as our new potential export destination i.e. the People's Republic of China that has potential in terms of both market size and growth prospect.

2 Gross profits and gross profits margin

Our gross profits amounted to THB 883 million, up by THB 99 million or 12.6%, and represented gross profits margin of 32.9%, down from 37.3% posted during the corresponding period last year. Such decline resulted from change in product mix as well as increasing production costs during the period.

| Gross profits | 3-month period ending | | Change | |
|---|---|---|---|---|
| Unit: THB million | 31 Mar 16 | 31 Mar 17 | Amount | % |
| Branded products by our own manufacture 1/ | 539 | 554 | 15 | 2.8% |
| Branded products by 3rd party manufacture 2/ | 2 | 26 | 23 | n/m |
| 3rd party products for distribution | 1 | 21 | 20 | n/m |
| Others | - | 0.1 | 0.1 | n/m |
| **Gross profits from domestic sales** | **542** | **601** | **59** | **10.9%** |
| Branded products | 242 | 281 | 39 | 16.0% |
| Others | - | 1 | 1 | n/m |
| **Gross profits from overseas sales** | **242** | **282** | **40** | **16.4%** |
| **Total gross profits** | **784** | **883** | **99** | **12.6%** |

Note: 1/ Energy Drinks and Sport Drinks

2/ Drinking Water, 3-in-1 Coffee and RTD Coffee

Average selling prices of our branded products by our own manufacture in the domestic businesses increased to the extent we derived higher proportion of our revenue from sales through cash van route to market. However, due to the facts that our branded products by 3rd party manufacture and 3rd party products for distribution commanded lower profitability, the significant increase in revenue from sales of these two product groups caused a reduction to gross profits from domestic sales, down to 33.4% from 39.1%. On top of product mix consideration, we had higher production costs i.e. sugar, packaging materials and energy as well as the employees' remuneration packages that increased as a result of our growing headcounts and upward adjustment of based compensations in accordance with our human resources policies.

| Gross profits margin | 3-month period ending | |
|---|---|---|
| | 31 Mar 16 | 31 Mar 17 |
| Branded products by our own manufacture 1/ | 39.5% | 38.6% |
| Branded products by 3rd party manufacture 2/ | 13.2% | 12.8% |
| 3rd party products for distribution | 22.7% | 14.5% |
| Others | - | 0.8% |
| **Gross profits margin from domestic sales** | **39.1%** | **33.4%** |
| Branded products | 33.8% | 31.9% |
| Others | - | 13.6% |
| **Gross profits margin from overseas sales** | **33.8%** | **31.7%** |
| **Total gross profits margin** | **37.3%** | **32.9%** |

Note: 1/ Energy Drinks and Sport Drinks

2/ Drinking Water, 3-in-1 Coffee and RTD Coffee

Revenue from overseas sales delivered lower gross profits margin i.e. down to 31.7% from 33.8% due to increasing production costs and the one-off expenses we incurred from the entire process of our packaging materials redesign during the period. Lower profitability was also due to the 3rd parties we outsourced a portion of our canned energy drinks productions at higher costs relative to our in-house productions.

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

Our SG&A expenses amounted to THB 738 million, up by THB 365 million or 97.7%, and represented 27.4% of total revenue from sales, up from 17.8% during the corresponding period last year. Such significant increase resulted mainly from consolidations of ICUK's financial performance and position since the 4th quarter of 2016.

| SG&A expenses | 3-month period ending | | Change | |
|---|---|---|---|---|
| Unit: THB million | 31 Mar 16 | 31 Mar 17 | Amount | % |
| Selling expenses (Non-ICUK) | 262 | 409 | 147 | 56.1% |
| Selling expenses (ICUK) | - | 159 | 159 | n/m |
| **Selling expenses** | **262** | **568** | **306** | **116.5%** |
| **General and administrative expense** | **111** | **170** | **59** | **53.3%** |
| **Total SG&A expenses** | **373** | **738** | **365** | **97.7%** |

Our selling expenses amounted to THB 568 million, up by THB 306 million or 116.5% due to increase in major expense including (1) employee's remuneration package and rental payments in respect of distribution centers and fleet of cash vans (2) marketing and promotional expenses in association with promoting and distributing 3-in-1 Coffee and RTD Coffee through key channels nationwide, especially the modern trade ones, and (3) sponsorship fees payable to Chelsea Football Club Limited as well as one-off expenses incurred from the event for official launch of Carabao Cup held in the United Kingdom.

Our administrative expenses amounted to THB 170 million, up by THB 59 million or 53.3% due to consolidations of ICUK's financial performance and position. It also resulted from the employees' remuneration packages that increased as a result of our growing headcounts and upward adjustment of based compensations in accordance with our human resources policies.

Our SG&A expenses increased by THB 3 million or 0.5% from THB 735 million during the 4th quarter of 2016 on a quarter-on-quarter basis. This slight quarter-on-quarter increase indicated that our SG&A expenses have become normalized after taking consolidations of ICUK's financial performance and position. We believe our overall cost control measures are well implemented and serve as a tailwind factor to our ability to effectively manage SG&A expenses such that we are in a position to drive revenue growths and appropriate profitability from our scale of businesses, both domestically and internationally.

Note that a significant factor that may impact our SG&A expenses in the following periods is due to the recognition of sponsorship expenses for English Football League based on terms and conditions as agreed among the parties. In this regard, we will start recognizing the EFL sponsorship fees through our consolidated statement of comprehensive income from June 2017 onwards for a total of 36 months in effect.

4 Financial expenses

Our financial expenses amounted to THB 5 million, up from THB 1 million posted during the corresponding period last year. It was due to our multiple drawdowns of loans from financial institutions in order to support our production capacity expansion projects at at Bangpakong, Chacheungsao province.

5 Net profits and net profits margin

Our net profits amounted to THB 123 million and represented net profits margin of 4.5%, down from net profits of THB 376 million and net profits margin of 17.6% during the corresponding period last year. Such decline was mainly due to deterioration in gross profits margin as well as consolidations of ICUK's financial performance and position from the 4$^{th}$ quarter of 2016.

Our net profits attributed to shareholders of the Company amounted to THB 221 million, down from THB 155 million or 41.1% for the same reasons.

<u>Consolidated financial position of the Group as of 31 March 2017 in comparison with that as of 31 December 2016</u>

Total assets were THB 10,398 million, up by THB 620 million or 6.3% from THB 9,778 million as of 31 December 2016 due mainly to trade receivables and inventories set to move in response to our growth in business operations. In addition, such increase in total asset also resulted from our investments in expanding production capacities at Bangpakong, Chacheungsao province.

Total liabilities were THB 3,126 million, up by THB 447 million or 16.7% from THB 2,679 million as of 31 December 2016 due mainly to trade payables. We also made additional utilization of THB 250 million based on loans from financial institutions. Our interest-bearing therefore amounted to THB 1,250 million or equivalent to the ratio of interest-bearing debts to total equity of 0.17 times, up from 0.14 times as of 31 December 2016. Our ratio of debts to total equity was 0.43 times, up from 0.38 times as of 31 December 2016.

Yours sincerely,

*Pongsarn Klongwathanakith*

(Pongsarn Klongwathanakith)

Chief Financial Officer