

CBG 023/2020

7 August 2020

Subject Management discussions and analysis the 3-month and 6-month period ended 30 June 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 6-month period ended 30 June 2020 in comparison with the corresponding period last year as follows:

**Consolidated financial performance of the Company for the 3-month and 6-month period ended 30 June 2020 in comparison with the corresponding period last year ended 30 June 2019**

**1 Revenue from sales**

In the 2<sup>nd</sup> quarter of 2020, total revenue from sales were THB 4,508 million, an increase of THB 754 million or 20.1% driven by higher sales of the energy drinks especially for export markets and greater sales growth 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 Jun				Change	
	2019	%	2020	%	Amount	Percent
Branded products by our own manufacture 1/	3,268	87%	3,713	82%	446	13.6
Branded products by 3rd party's manufacture 2/	149	4%	87	2%	(62)	(41.6)
3rd party's products for distribution	315	8%	598	13%	282	89.6
Others	21	1%	109	2%	88	414.0
<b>Total</b>	<b>3,754</b>	<b>100%</b>	<b>4,508</b>	<b>100%</b>	<b>754</b>	<b>20.1</b>

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

Sales of branded products by own manufacture were THB 3,713 million, up by THB 446 million or 13.6%. 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 grew by 27.0% offsetting the drop of 1.7% in the domestic.

A slight drop in the domestic was due to the sluggish demand as major business activities interrupted and curfew measures implemented during late March to June in Thailand to confine the Covid-19 outbreaks. However, most of the drop was compensated by sales of Woody C+ Lock Lemon Flavoured, the new vitamin C drink launched in March 2020 under the Company’s production and the joint venture - A Woody Drink company limited (“AWD”)’s management. In June 2020, the Company released Woody C+ Lock Orange Flavoured while began to export to neighboring countries in CLMV in a non-significant amount.

For the quarter, the market volume of energy drink industry in Thailand contracted by 13.4% while Carabao Dang energy drink remained the 2<sup>nd</sup> largest brand, commanding 21.4% volume share. Notwithstanding, the market volume of Thai vitamin C drink appeared to enjoy a pleasant growth rate

and our Woody C+ Lock had a 6.4% volume share in the market which ranked the fourth, according to the Nielsen's final sales data to consumers.

Overseas sales of energy drinks were THB 2,219 million, an increase of THB 472 Million or 27.0%, of which 81% was sales to CLMV market, 7% to China, and the rest 12% to 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, increased by THB 524 million or 41.0% mainly due to higher demand from each individual country in CLMV. The Company's sales to Myanmar continued to hit a record high in the quarter.

Sales of 3<sup>rd</sup> party products for distribution were THB 598 million, increased by THB 282 million or 89.6%, 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.

Sales of branded product by 3<sup>rd</sup> party's manufacture decreased by THB 62 million or 41.6% since these are non-core products but tools to expand the Company's brand awareness. However, the Company plans to implement pricing strategy on Carabao RTD coffee in the 2<sup>nd</sup> half this year onwards to boost demand for the product. Carabao RTD Coffee contributed over 60% sales of this segment.

Other sales were THB 109 million, an increase of THB 88 million, 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 the Company's energy drinks in bottle formats.

Revenue from sales by product group Unit: THB million	For the 6-month period ended				Change	
	2019	%	2020	%	Amount	Percent
Branded products by our own manufacture 1/	6,194	87%	7,127	83%	933	15.1
Branded products by 3rd party's manufacture 2/	289	4%	206	2%	(83)	(28.6)
3rd party's products for distribution	606	9%	1,073	13%	467	77.1
Others	25	0%	163	2%	137	540.0
<b>Total</b>	<b>7,114</b>	<b>100%</b>	<b>8,568</b>	<b>100%</b>	<b>1,454</b>	<b>20.4</b>

In the 1H/2020, total revenue from sales were THB 8,568 million, an increase of THB 1,454 million or 20.4% driven by higher sales of the energy drinks especially for export markets, greater sales growth from distribution of 3<sup>rd</sup> party's products and increases in other sales due to sales of bottles to 3<sup>rd</sup> party.

Sales of branded products by own manufacture were THB 7,127 million, up by THB 933 million or 15.1%. The amount consisted of domestic and overseas sales at the proportion of approximately 39:61, respectively. The overseas sales of branded products by own manufacture grew by 28.6% offsetting the drop of 1.5% in the domestics.

## 2 Gross profits and gross profits margin

Gross profits were THB 1,834 million, increased by THB 424 million or 30.1%, representing gross profit margin of 40.7%, an increase from 37.6% gross profit margin in the corresponding period last year, mainly due to the improving margins for the branded products by the Company's production.

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.

In the 1H/2020, gross profits were THB 3,556 million, an increase of THB 956 million or 36.8%, representing a gross profit margin of 41.5%, an increase from 36.5% margin mainly driven by the higher gross profit margin for branded products by the Company's manufacture as mentioned above.

Having considered the rising order for the Company's energy drink from overseas market up until now and more product variety requirement, the Company decided to invest in capacity expansion for both bottling and canning lines including machines and other supporting systems and anticipated to start commercial operation in 4Q/2020. Such expansion will drive the production capacity at Bangpakong plant in Chachoengsao district to 4.2 million bottles/day and 5.7 million cans/day, an increase of 40% and 30% respectively. In additions, the Company has several projects in pipeline for further efficiency improvement including the manufacture of packaging materials under Asia Packaging Manufacturing company limited ("**APM**") which is also expected to start operation in 4Q/2020, to have control over the supply chain and sustain cost competitive position.

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

Total selling and administrative expenses were THB 765 million, an increase of THB 42 million or 5.9%, representing 17.0% of total sales, a decrease from the ratio of 19.2% in the corresponding period last year. Such increases in expenses was largely due to a rise in administrative expenses while the selling expenses decreased aligning to the reduction in CFC sponsorship fee.

Selling expenses were THB 470 million, a decrease of THB 61 million or 11.4%, representing 10.4% of total sales, down from 14.1%. The key expenses were as follows:

(1) Club and international football match sponsorship fees:

The sponsorship fees were 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. This comprised of Chelsea Football Club Limited (CFC) and English Football League (EFL), in total of THB 92 million, decreased by THB 56 million or 37.6%, mainly due to the downgrading status of CFC sponsorship from Principal partner to Global partner in July 2019, resulting in a reduction in the CFC fee.

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 rate of fees. The sponsorships are aimed to envision the image of "World Class Brand, World Class Product" and to inherit the success in expanding the awareness of Carabao brand internationally.

(2) Selling expenses (excluding the sponsorship fees for international footballs) were THB 378 million, a decrease of THB 5 million or 1.3%, of which largely varied to the promotional activities in domestic business under the operation of Carabao Tawandang Co., Ltd. ("**CBD**"), whereas the selling expenses for the UK market under the ICUK's were effectively controlled with focuses on maximum benefits over football platforms and selective activities in which believed to bring in a sustainable return on sales.

Administrative expenses were THB 294 million, increased by THB 103 million or 53.9%, representing 6.5% of total sales up from the ratio of 5.1% in the corresponding period last year due to employee related expenses and one-off item which is a donation of THB 50 million to Chaipattana Foundation to aid fight against COVID-19.

In 1H/2020, total selling and administrative expenses were THB 1,492 million, an increase of THB 94 million or 6.7%, representing 17.4% of total sales, a decrease from the ratio of 19.6% in the corresponding period last year.

Selling expenses were THB 970 million, a decrease of THB 42 million or 4.1%, representing 11.3% of total sales, down from 14.2% mainly due to the reduction in sponsorship to CFC.

Administrative expenses were THB 522 million, increased by THB 136 million or 35.1%, representing 6.1% of total sales down from the ratio of 5.4% in the corresponding period last year due to employee related expenses and one-off item which is 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 32 million, a decrease of THB 1 million or 4.5% due to the loan repayment by ACM.

In 1H/2020, financial expenses were THB 63 million, a decrease of THB 5 million or 7.4% due to the same reason as mentioned above.

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

Corporate income tax expenses amounted to THB 179 million, increased by THB 44 million or 33.2%, representing the effective corporate income tax rate of 16.7% down from the ratio of 19.7% mainly due to the higher income tax expenses from better operational performance whereas less loss from the overseas subsidiaries.

In 1H/2020, Corporate income tax were THB 345 million, an increase of THB 109 million or 46.5%, representing the effective corporate income tax rate of 16.7% down from the rate of 19.9% due to the same reason as mentioned above.

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

Net profits were THB 891 million, an increase of THB 342 million or 62.5%, representing a ratio to sales of 19.8%, an increase from the ratio of 14.6%, mainly due to the increase in sales and overall gross profit margin, the reduction in sponsorship fees to CFC and the effective management over selling and admin expenses, which compensated higher financial expenses and corporate income tax expenses.

Net profits attributed to the Company's shareholders were THB 881 million, an increase of THB 329 million or 59.6%, representing a proportion to sales at 19.6%, an increase from the ratio of 14.7% in the corresponding period last year, largely driven by the improving sales and overall gross profit margin, 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.

In 1H/2020, net profits were THB 1,714 million, an increase of THB 767 million or 81.0%, representing a ratio to sales of 20% up from a rate of 13.3% in the corresponding period last year due to the same reasons as mentioned above.

In 1H/2020, net profits attributed to the Company's shareholders were THB 1,682 million, an increase of THB 711 million or 73.1%, representing a ratio to sales of 19.6% up from 13.7% in the corresponding period last year due to the same reasons as mentioned above.

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

**Assets**

Total assets as of June 30, 2020 and December 31, 2019 were THB 15,363 million and THB 14,780 million, respectively, an increase of THB 583 million or 3.9%, mainly due to an increase in inventory of THB 248 million in relation to raw materials and packaging materials to support sales and also the recognition of right-of-use asset of THB 274 million, according to the adoption of IFRS 16 Leases standard.

**Liabilities**

Total liabilities as of June 30, 2020 and December 31, 2019 were THB 6,131 and THB 6,062 million, respectively, an increase of THB 70 million or 1.2%, mainly due to (1) an increase in account payables of THB 217, (2) an increase in deferred tax assets of THB 352 million, and (3) leases liabilities of THB 275 million, according to the adoption of IFRS 16 Leases standard. The Company's interest-bearing debt, in exclusion of leases liabilities, were THB 3,372 million, decreased by THB 756 million due to some of debentures retired, resulting in the interest-bearing debt to equity ratio at 0.4 time, down from 0.5 time as of December 31, 2019 and debt to equity ratio also stable at 0.7 times.

Yours sincerely,

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