

CBG 006/2021

19 February 2021

Subject Management discussions and analysis the fiscal year ended 31 December 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 fiscal year ended 31 December 2020 in comparison with the corresponding period last year as follows:

Consolidated financial performance of the Company for the fiscal year ended 31 December 2020 in comparison with the corresponding period last year ended 31 December 2019

1 Revenue from sales

In 2020, total revenue from sales hit the record high at THB 17,231 million, an increase of THB 2,298 million or 15.4% driven by higher sales of branded products by own manufacture and sales of 3rd party products for distribution, particularly due to greater demands of the energy drinks for export markets and sales of Woody C+ Lock, the new vitamin C drink first launched in March 2020.

Revenue from sales by product group Unit: THB million	For the year ended 31 Dec				Change	
	2019	%	2020	%	Amount	Percent
Branded products by own manufacture 1/	12,881	86%	14,082	82%	1,202	9.3
Branded products by 3rd party's manufacture 2/	532	4%	443	3%	(89)	(16.7)
3rd party's products for distribution	1,409	9%	2,413	14%	1,004	71.3
Others	111	1%	292	2%	181	162.2
Total	14,933	100%	17,231	100%	2,298	15.4

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 14,082 million, up by THB 1,202 million or 9.3%. The amount consisted of domestic and overseas sales were at the proportion of approximately 42:58, of which the growth rates were 2.8% and 14.7%, respectively.

(1.1.1) The domestic sales were THB 5,985 million, an increase of THB 162 million or 2.8% driven by sales of Woody C+ Lock which contributed approximately 4.2% of the amount. Sales of the new product helped diversify the business from product concentration risk and offset a slight drop in Carabao Dang energy drink sales of 1.0% although the energy drink market contracted by 6.8% in volume. Carabao Dang energy drink remained the 2nd largest brand, commanding 21% volume share.

On the contrary, the market volume of Thai's vitamin C shot drink spiked by 28.0% and volume share of Woody C+ Lock climbed to 10% and became the second ranked among the vitamin C shot players in December 2020, according to the Nielsen's final sales data to consumers. Such improvement represents the positive feedback from target consumers as well as growth opportunity for the Company's local business. In December 2020, Woody C+ Lock both lemon and orange flavours were ranked the top two beverages with high vitamin C contained when drink, respectively, out of the 47

product SKUs available in the market tested by Foundation for Consumers. This recognizes emphasized the Company's strategy focusing on product quality by filling the Woody C+ Lock drink in emerald green bottles, filled with Nitrogen gas, and securely locked with special caps. The Company plans to hold regular promotional activities and communication to further drive growth of the vitamin C drink Woody C+ Lock Lemon and Orange flavoured.

(1.1.2) Overseas sales of energy drinks were THB 8,098 million, an increase of THB 1,040 Million or 14.7%, of which 85% was from CLMV market, 5% from China, and the rest 10% from other countries of which the majority were orders from Yemen and Afghanistan, where orders from Yemen also hit a record high in 2020.

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 974 million or 16.5% largely driven by higher demand from Myanmar.

Sales in the UK market via Intercarabao Company Limited ("ICUK"), a Company's overseas subsidiary, showed a positive development from the strategy to increase rates of sales in selective grocery chains and expand into online channels during the COVID-19 outbreak, as seen from a continuous increase in the average sales volume from 240,000 cans per month in 1Q/2020, to 550,000 cans per month in 4Q/2020 representing an improving carabao brand awareness in the country.

If only 4Q/2020 considered, sales of branded products by own manufacture were THB 3,338 million, up by THB 23 million or 0.7%. The amount consisted of domestic sales at THB 1,664 million, an increase of THB 225 million or 15.6% picked up due to effective implementation of consumer marketing campaign and communication to Carabao Dang energy drink consumers amidst the market contraction of 7.7% in the corresponding period last year and covered the drop in overseas sales amounting to THB 1,674 million, a decrease of THB 202 million or 10.8%.

In 4Q/2020, the export sales to CLMV fell by 15.2% from the corresponding period last year and soften by 12.5% from 3Q/2563 mainly due to lower demands from Cambodia during the flood from the heavy rainfall nationwide in October 2020. Meanwhile, Myanmar sales order still made a record high in the quarter.

1.2) Sales of 3rd party products for distribution were THB 2,413 million, increased by THB 1,004 million or 71.3%, 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 3rd party's manufacture were THB 443 million, a decrease of THB 89 million or 16.7% mainly due to a reduction in sales of Carabao RTD and 3-in-1 coffees by THB 93 million or 20.0% in corresponding to the domestic consumption and economic slowdown hit by the spread out of COVID-19.

1.4) Other sales were THB 292 million, an increase of THB 181 million or 162.2%, most of which are sales of bottles to 3rd 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.

2 Gross profits and gross profits margin

Gross profits were THB 7,058 million, increased by THB 1,247 million or 21.5%, representing gross profit margin of 41.0%, an increase from 38.9% 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 from the corresponding period last year 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 4Q/2020, gross profits were THB 1,671 million, an increase of THB 54 million or 3.3% representing gross profit margin of 39.3%, a decrease from 40.9% margin in the corresponding period last year, and from 41,6% margin in the prior quarter mainly due to variation in sales mix i.e. sales contribution of higher-margin product category were at 78% in 4Q/2020, down from 84% in the corresponding period last year and from 82% of the prior quarter as mentioned in the previous section.

In order to retain efficiency throughout 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 currently in test-run process and is expected to start commercial operation in 2Q/2021 which will slightly improve gross profit margins of the branded products by own manufacture.

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

Total selling and administrative expenses were THB 2,880 million, an increase of THB 127 million or 4,6%, representing 16.7% of total sales, a decrease from the ratio of 18,4% in the corresponding period last year, largely due to a rise in administrative expenses.

Selling expenses were THB 1,915 million, a decrease of THB 53 million or 2.7%, representing 11.1% of total sales, down from 13.2%. The key expenses were (1) sponsorship fees to Chelsea Football Club Limited (CFC) and English Football League (EFL) totaling THB 337 million, a decrease of THB 134 million due to the reduction in sponsorship fee to CFC as the partnership status downgrading from Principal to Global partner in July 2019 and a special discount of GBP 1.5 million granted by EFL for the 2020/21 season sponsorship fee which was first recognized in 4Q/2020 and shall continue to the end of seasons in 2Q/2021 in view of that the Coronavirus pandemic caused football matches to run socially distanced and no attendance at matches allowed for the health safety, 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 488 million, an increase of THB 55 million or 12.6%. 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.

Administrative expenses were THB 965 million, increased by THB 180 million or 23.0%, representing 5.6% of total sales up from the ratio of 5.3% in the corresponding period last year mainly due to the increasing staff as per the human resources development plan and a one-off item which is a THB 50 million donation made to to Chaipattana Foundation to aid fight against Covid-19 in 2Q/2020.

4 Financial expenses

Financial expenses were THB 107 million, a decrease of THB 26 million or 19.5% largely due to the retirement of THB 1,700 million par value of bond in June 2020 and the loan repayment schedule of ACM.

5 Corporate income tax expenses

Corporate income tax expenses amounted to THB 667 million, increased by THB 103 million or 18.3%, representing the effective corporate income tax rate of 15.8% down from the ratio of 18.6% mainly due to the higher income tax expenses from better operational performance whereas less loss from the overseas subsidiaries.

The amount included benefits from tax exemption from investment in assets necessary for the future business needs to support growth of the Company in correspondence to the Decree No. 695 B.E. 2020 of the Revenue Code department, resulting in a savings in tax expenses of THB 48 million for 5 years from 2020 to 2024, Therefore, excluding this tax benefits the Company's effective corporate income tax rate was at 16.9% in 2020

6 Net profits and net profits margin

Net profits were hit a record high at THB 3,559 million, an increase of THB 1,091 million or 44.2%, representing a ratio to sales of 20.7%, an increase from the ratio of 16.5%, mainly due to the increase in sales and improving overall gross profit margin particularly in relation to the branded product by the Company's own manufacture, the effective management over selling and admin expenses, and FX gain of THB 55 million, which compensated higher corporate income tax expenses.

Net profits attributed to the Company's shareholders were THB 3,525 million, an increase of THB 1,019 million or 40.6%, representing a proportion to sales at 20.5%, an increase from the ratio of 16.8% in the corresponding period last year and represent the earnings per share of THB 3.53 increased from THB 2.51 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 i.e. from £12.6 million losses in 2019 to £3.7 million in 2020 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.

Material event after December 31, 2020

The meeting of the Company's Board of Directors passed a resolution to approve an acquisition of the 26% stake in the issued and paid-up share capital of Asia Can Manufacturing Company Limited ("ACM") from Showa Denko Group. The payment and shares transfer are expected to be completed within 1Q/2021. Consequently, in the post transaction, the Company's shareholding in ACM shall increase to 100% and the management team estimates that profit attributable to equity holders of the Company will be increased by THB 60-70 million, compared to 2020.

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

Assets

Total assets as of December 31, 2020 and 2019 were THB 17,087 million and THB 14,780 million, respectively, an increase of THB 2,307 million or 15.6%. The main reasons are as follows:

1. Cash and cash equivalents

Cash and cash equivalents and current investments as of December 31, 2020 and 2019 were THB 947 million and THB 962 million, respectively, a decrease of THB 15 million or 1.6%. For the year, the Company had cash received from operating activities of THB 3,636 million and cash outflow in financing activities and investing activities of THB 1,670 million and THB 1,933 million, respectively, making a total cash inflow of THB 33 million.

2. Trade and other receivables

Trade and other receivables as of December 31, 2020 and 2019 were THB 1,420 million and THB 1,140 million, an increase of THB 280 million or 24.6% driven by both domestic and overseas businesses.

3. Inventories

Inventories as of December 31, 2020 and 2019 were THB 1,489 million and THB 992 million, respectively, increased by THB 498 million or 50.2% mainly due to higher orders.

4. Property, plant and equipment

Property, plant and equipment as of December 31, 2020 and 2019 were THB 12,032 million and THB 10,872 million, respectively, an increase of THB 1,160 million or 10.7%, mainly due to the investment project to establish APM factory and the expansion of new bottling and canning production capacities.

5. Goodwill

Goodwill arises from the difference between the fair value of net assets acquired and the cost of acquiring ICUK by CVHLUX, a subsidiary, in 2017. As of December 31, 2020 and 2019 goodwill amounted to THB 495 million and THB 481 million, respectively, an increase of THB 14 million or 2.8% was wholly due to the difference of the exchange rates on the reporting date.

Liabilities

Total liabilities as of December 31, 2020 and 2019, were THB 6,929 and THB 6,062 million, respectively, an increase of THB 868 million or 14.3%, consisting of current liabilities of THB 5,655 million, an increase of THB 1,878 million or 49.7%, and non-current liabilities of THB 1,274 million, a decrease of THB 1,010 million or 44.2%.

1. Short-term loans from financial institutions

Short-term loans from institutions as of December 31, 2020 and 2019 were THB 2,335 million and THB 7 million, respectively, an increase of THB 2,328 million, mainly due to capital structure management with consideration of bond market situation, financing cost, and other related expense.

2. Trade and other payables

Trade and other payables as of December 31, 2020 and 2019 were THB 1,573 million and THB 1,447 million, respectively, an increase of THB 126 million or 8.7%, mainly due to increase in other payables regarding to the construction of APM factory.

3. Long-term loans from financial institutions

Long-term loans from financial institutions as of December 31, 2020 and 2019 were THB 1,063 million and THB 1,334 million, respectively, a decrease of THB 271 million or 20.3%, comprising of the portion due within 1 year of THB 169 million, a decrease of THB 122 million or 41.9% and the remaining amount of THB 894 million, a decrease of THB 149 million or 14.3%. The reduction was mainly due to the repayment of loans regarding to the new aluminum can facilities.

4. Debentures

Net value of debentures as of December 31, 2020 and 2019 were THB 1,090 million and 2,788 million, a decrease of THB 1,698 million or 60.9%, due to repayment of bond which reaches maturity in June 2020. The remaining portion due within one year of THB 1,090 million will reach maturity in June 2021. In addition, credit ratings on CBG's senior unsecured debentures were upgraded to "A" from "A-" in October 2020.

Shareholders' equity

Total shareholders' equity as of December 31, 2020 and 2019 were THB 10,157 million and THB 8,718 million, respectively, an increase of THB 1,439 million or 16.5%, reflecting the total comprehensive income for the year of THB 3,509 million and dividend payment of THB 2,100 million.

Key financial ratios

1. Liquidity ratio

Liquidity ratios as of December 31, 2020 and 2019 were 0.7 times and 0.8 times, respectively, led by higher increases in current liabilities than in current assets which was mainly due to an increase of THB 2,328 million in short-term loan with the same reason mentioned above.

2. Cash cycle

The cash cycle for the year ended December 31, 2020 and 2019 was 19.9 days and 6.9 days, respectively, driven by longer average inventory period from 16.1 days to 17.2 days, and shorter average payment period from 31.2 days to 21.7 days due to the cheaper prices of several key materials particularly a dramatic decrease in purchase value of aluminum can as the production was internalized by affiliated firm, ACM, while the average collection period was longer from 22.0 days to 24.3 days.

3. Return on shareholders' equity

Return on shareholders' equity for the year ended December 31, 2020 and 2019 were 37.7% and 30.7%, respectively, mainly due to the improved overall profitability as mentioned above.

4. Return on assets

Return on assets as of December 31, 2020 and 2019 were 22.3% and 11.0%, respectively, mainly due to the improved overall performance as mentioned above

5. Debt to equity ratio

Debt to equity ratio as of December 31, 2020 and 2019 were 0.7 times.

6. Interest bearing debt to equity ratio

Interest bearing debt to equity ratio as of December 31, 2020 and 2019 were 0.4 times and 0.5 times, respectively, mainly due to the increase in shareholders' equity was higher than the increase in interest bearing debt. Shareholders' equity increased by THB 1,439 million or 16.5% while interest bearing debt up by THB 359 million or 8.7%.

Yours sincerely,

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(Pongsarn Klongwathanakith)

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