

KERRY EXPRESS (THAILAND) PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS Q1/2021

STRONG ENTRANCE INTO 2021

- **KEX KICKED OFF AN AGGRESSIVE SALES APPROACH:** Started early in the year, KEX launched an attractive sales strategy to serve economy segment and supported up to 30 kgs (XXL) in respond to rising demand in the economy segment and to step into broader territories.
- Q1/2021 closed with continuous **GROWTH IN DELIVERY VOLUME, NET PROFIT** of THB 303 million and **NET PROFIT MARGIN** of 7.2%, marginally declined YoY.
- Starting Q1/2021, KEX is **UPGRADING ITS DELIVERY PLATFORM AND SYSTEMS**. At completion, KEX's **SERVICE QUALITY** will be further improved, and its **NETWORK EFFICIENCY** will be incomparable.
- KEX JOINED TOGETHER WITH DEPARTMENT OF AGRICULTURAL EXTENSION to develop and support the logistics system for the agricultural sector. The collaboration under the Memorandum of Understanding aimed to assist and support the development of agricultural practitioners in the delivering process.
- KEX JOINED FORCES WITH BBL PLC. AS EXCLUSIVE FINANCIAL PARTNER in launching Be My ID, enabling customers to verify their identity for the opening of e-saving account at Kerry Express Parcel Shop nationwide.



SERVICE EXCELLENCE UPHOLDS AMIDST COVID-19 SITUATION

As the nation continues to battle against COVID-19, KEX keeps on our guard and elevate our hygiene and safety protocol. We have developed contingency plan to ensure smoothness in operation. KEX is committed to being an arm to deliver happiness to all areas nationwide in an efficient and safe manner.



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Q1/2021 FINANCIAL PERFORMANCE

Table 1: Selected Indicators for Operational Results

(Unit: Million THB)	Q1/2020	Q1/2021	YoY % +/ (-)
Parcel volume			12.9%
Sales and services income	4,813.8	4,187.7	-13.0%
Cost of sales and services	-3,973.1	-3,491.3	-12.1%
Gross profit	840.8	696.4	-17.2%
EBITDA	1,073.8	979.4	-8.8%
EBIT	490.6	408.9	-16.7%
Net profit for the period	372.6	302.8	-18.7%
EPS (Baht/Share)*	0.62	0.17	
Gross Profit Margin (%)	17.5%	16.6%	
EBITDA Margin (%)	22.3%	23.4%	
EBIT Margin (%)	10.2%	9.8%	
Net Profit Margin (%)	7.7%	7.2%	

Remark: As shown in financial statement, excluding minority interests

*Weighted average number of shares post-IPO is greater than during pre-IPO, and this number is used as the denominators.

Figure 1: Revenue by Segment



PROACTIVE PRICING STRATEGY KICKING IN WHILE COVID-19 SITUATION IS ON CLOSE WATCH

- Amidst the prolonged COVID-19 situation, which led to economic deterioration, KEX moved forward with a more aggressive pricing strategy to respond to rising demand in the economy segment and step into broader territories. In Q1/2021, KEX achieved continuous volume growth, an increase of 13% YoY, albeit fewer operating days in Q1/2021 compared with Q1/2020. With respect to revenue by segments, the revenue contribution from each segment does not change significantly.
- For the first quarter of 2021, KEX generated THB 4,188 million in revenue, a decrease of 13% YoY. The decrease in revenue was associated with i) proactive reduction in price per parcel and ii) a strong entrance to economy segment.
- An ongoing COVID-19 pandemic has posed negative impacts on consumers' sentiment and purchasing power, causing a shift towards smaller packages which is a relatively lower in yield and the customers also spend less on the value-added services. This partially results in lower composite yields than KEX's typical array of volumes.
- Although growth in e-commerce and social commerce has been steadily promising, the consumers' sentiment, showing no sign of improvement, has yet remained weak due to the pandemic impact mid-quarter.

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- Advertising income grew substantially by 794.4% YoY due to available value-added service options co-implemented by our business partners. Business diversification approaches are currently being actively planned and carried out and KEX is welcoming additional revenue streams in coming quarters.
- Cost of sales and services decreased further by approximately 12.1% YoY, with contribution from economies of scale and continuous operational efficiency improvement. KEX continues to plan for further process re-engineering and platform upgrade to optimize resource utilisation and further drive down cost curve. Whilst KEX is aggressive at driving down costs, KEX does not bargain over the hygiene and safety measures.
- KEX continues to drive down overall administrative expenses in 1Q/2021 despite the first full quarter recognition of share-based payment expense, in the amount of THB 12.5 million, resulting from ESOP warrant allocation during late December 2020.
- With the price reduction strategy and smaller basket size mentioned, the decrease in revenue, EBIT and net profit are within our expectations. Despite the fall in revenues and profit, KEX was able to improve its EBITDA margin to 23.4% while maintain EBIT and net profit margins in appropriate ranges at 9.8% and 7.2%, respectively.

Financial Position and Liquidity

Figure 2: Financial Position

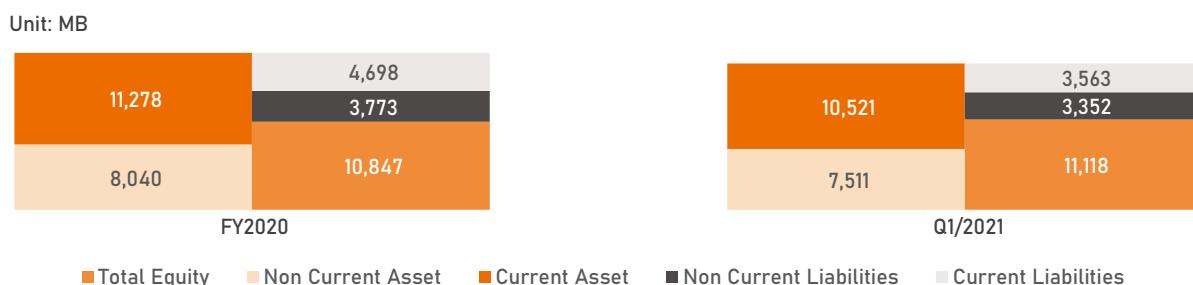


Table 5: Assets Breakdown

(Unit: Million THB)	FY2020	Q1/2021	YoY % +/ (-)
Cash and cash equivalents	9,696.8	9,019.6	-7.0%
Trade and other receivables	1,466.8	1,401.8	-4.4%
Plant and equipment	2,258.5	2,094.3	-7.3%
Right-of-use assets	5,320.6	4,974.6	-6.5%
Other Assets	575.6	542.1	-5.8%
Total Assets	19,318.2	18,032.3	-6.7%

Table 6: Liabilities and Shareholders' Equity

(Unit: Million THB)	FY2020	Q1/2021	YoY % +/ (-)
Trade and other payables	1,347.0	1,085.2	-19.4%
Cash on delivery payable	615.1	484.1	-21.3%
Current portion of lease liabilities	1,760.6	1,793.9	1.9%
Lease liabilities	3,593.1	3,163.1	-12.0%
Other Liabilities	1,155.1	388.1	-66.4%
Total Shareholders' Equity	10,847.5	11,117.8	2.5%
Total Liabilities and Equity	10,847.5	18,032.3	-6.7%

BALANCE SHEET AND LIQUIDITY POSITION REMAIN STRONG

- Compared to FY2020, cash and cash equivalents decreased slightly by 7.0% with main contribution from cash flow used in financing activities. In January 2021, KEX repaid all existing bank loan debts, resulted in a debt-free balance sheet.

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- Net cash used in investing activities declined by 62.4% as KEX continued to cautiously plan its investing activities as certainties from COVID-19 situation and economic conditions are yet to be seen.
- Following KEX's management objectives, we have prioritised healthy profit margin, ensuring medium to long term growth. We will continuously widen our market dominance and further capture business opportunities to strengthen KEX's business ecosystem.

Key Financial Ratios

		Q1/2020	Q1/2021
Liquidity ratios			
Current ratio ⁽¹⁾	(times)	0.73	2.95
Quick ratio ⁽²⁾	(times)	0.69	2.93
Cash flow liquidity ratio ⁽³⁾	(times)	0.32	0.16
Accounts receivable turnover ⁽⁴⁾	(times)	20.50	19.20
Average collection period ⁽⁵⁾	(days)	17.81	19.01
Accounts payable turnover ⁽⁶⁾	(times)	41.65	30.87
Average payment period ⁽⁷⁾	(days)	8.76	11.82
Cash cycle (days) ⁽⁸⁾	(days)	9.05	7.19
Profitability ratios			
Gross profit margin (%) ⁽⁹⁾	(%)	17.47	16.63
Net profit margin (%) ⁽¹⁰⁾	(%)	7.74	7.23
Return on equity (%) ⁽¹¹⁾	(%)	69.82	19.54
Efficiency ratios			
Return to total assets (%) ⁽¹¹⁾	(%)	18.18	9.50
Total assets turnover ⁽¹³⁾	(times)	2.59	1.30
Financial policy ratios			
Total liabilities to equity ratio ⁽¹⁴⁾	(times)	2.96	0.62
Interest-bearing debt to equity ratio ⁽¹⁵⁾	(times)	38.60	31.28
Interest coverage ratio ⁽¹⁶⁾	(times)	1.60	1.21
Debt service coverage ratio ⁽¹⁷⁾	(times)	1.81	2.29

Remarks:

- (1) Current ratio = total current assets divided by total current liabilities.
- (2) Quick ratio = sum of cash and cash equivalents, short-term investments and trade and other receivables, divided by total current liabilities.
- (3) Cash flow liquidity ratio = net cash generated from operating activities divided by average total current liabilities.
- (4) Accounts receivable turnover = sales and services income divided by average gross trade accounts receivable
- (5) Average collection period = 365 divided by accounts receivable turnover.
- (6) Account payable turnover = cost of sales and service divided by average trade account payable
- (7) Average payment period = 365 divided by accounts payable turnover.
- (8) Cash cycle = the difference between the average collection period and the average payment period.
- (9) Gross profit margin = gross profit divided by sales and services income.
- (10) Net profit margin = profit (loss) for the period divided by sales and services income.
- (11) Return on equity = profit (loss) for the period divided by average total equity.
- (12) Return to total assets = profit (loss) for the period divided by average total assets.
- (13) Total assets turnover = sales and services income divided by average total assets.
- (14) Total liabilities to equity ratio = total liabilities divided by total equity.
- (15) Interest-bearing debt to equity ratio = total interest-bearing debt and lease liabilities divided by total equity.
- (16) Interest coverage ratio = EBITDA divided by interest expense.
- (17) Debt service coverage ratio = EBITDA divided by the sum of the current portion of short-term loan obligation, lease liabilities due within one year and finance cost.

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MARKET LEADERSHIP GAME STRONG

Nationwide vaccine rollouts are in progress, signaling economic recovery and further growth to come. KEX will continue to remain resilient and agile through all business scenarios and stand ready to capture business opportunities. As we gradually penetrate and further acquire market shares in the economy segment, we have also engaged in yearly volume commitments with our corporate customers which will result in secured volume base for the year 2021. KEX will continue to upgrade the parcel delivery platform to support broader range of services such as door-to-door service and economy services and the expected incoming volume, by leveraging our existing network with a nationwide presence of customer touchpoints and distribution centres. Moreover, KEX continues to widen the Kerry Express Everywhere network, engaging synergistic partnerships, enhancing operational efficiency, and diversifying to new business stream which strengthen KEX's competitiveness towards the sustainable growth.

Issarin Patramai
(Chief Investment Officer)
Kerry Express (Thailand) Public Company Limited