

# KERRY EXPRESS (THAILAND) PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS FY2020

### 2020: OUR YEAR OF TRANSFORMATION

- **KERRY EXPRESS (THAILAND) PCL. ("KEX" or the "Company") DEBUTED ON THE STOCK EXCHANGE OF THAILAND** on 24 December 2020. Share price surged 132% at the opening to THB 65.00 per share from the IPO price of THB 28.00 per share and closed at THB 51.25 per share on the first trading day.
- **KERRY EXPRESS OPERATES 365 DAYS:** We are ready to deliver parcels every day for the convenience of our customers and to support the growth of e-commerce and social commerce businesses.
- Incepted **"GROW GREEN PROGRAM"**, which aimed to reduce carbon emission by using EV motorcycles for parcel deliveries in Bangkok City, with hope to build social and environmental benefits.
- In response to a significantly increased demand in fruit shipping, KEX officially **LAUNCHED FRUIT & PERISHABLE GOODS DELIVERY SERVICE** nationwide. The parcels are handled in a timely and safe manner with high priority. Compatible branded-fruit parcel packaging is also available and recommended.
- FY2020 closed with **NET PROFIT MARGIN INCREASED** to 7.4% from 6.7% in 2019.



### KEX STANDS ALONGSIDE THAI PEOPLE THROUGH THE COVID-19 PANDEMIC

COVID-19 has had significant impact on all lives globally. Everyone must take special precautions to protect and reduce the chances of being infected. KEX, as a leading parcel express delivery company, stands together with Thai people and is taking extensive focus on infection preventions. In this challenging time, our top priority is the health and well-being of our staffs and customers. We continue to deliver our services during this crisis with highest safeguard, where we are also offering "Door-to-Door" service to mitigate any potential risks and to increase safety measures among our stakeholders. KEX has implemented hygiene protocol to control and exterminate the virus under all our service operations. All parcel boxes must be disinfected and sprayed with alcohol before loading for delivery, and all delivery staffs must remain 1 meter away from the customers with a preferred option of QR payment on delivery to minimize personal contact.

### KEX'S ACTIONS AND SOCIAL RESPONSIBILITIES

KEX has applied work-from-home policy for employees whose jobs allow them to work outside of the office and production facilities. Employees required to station onsite must have their temperatures screened before entering the workplaces. Social distancing has been strictly applied and employees at all levels are required to wear face masks. Further, we asked for the cooperation from our staffs not to travel between provinces, unless necessary. Staffs who travelled between provinces are required to take 14 days self-quarantine before coming back to work. KEX is constantly working closely with Department of Disease Control and Ministry of Public Health to monitor and ensure that we are taking appropriate preventive protocols.

Standing with Thai society, KEX has utilised our business operations to support the COVID-19 relief donation to support our warriors in white gowns. Masks & medical supplies were donated to 29 hospitals, while food and essential supplies to 8,614 vulnerable and affected households nationwide. Several celebrities and online influencers have engaged in this COVID-19 relief donation, namely Nine Naphat, Baifern Pimchanok, and Kingdom of Tigers, who shared the contributions with their fans through their immensely popular social media platforms while encouraging fans to create positive impact during these difficult times.

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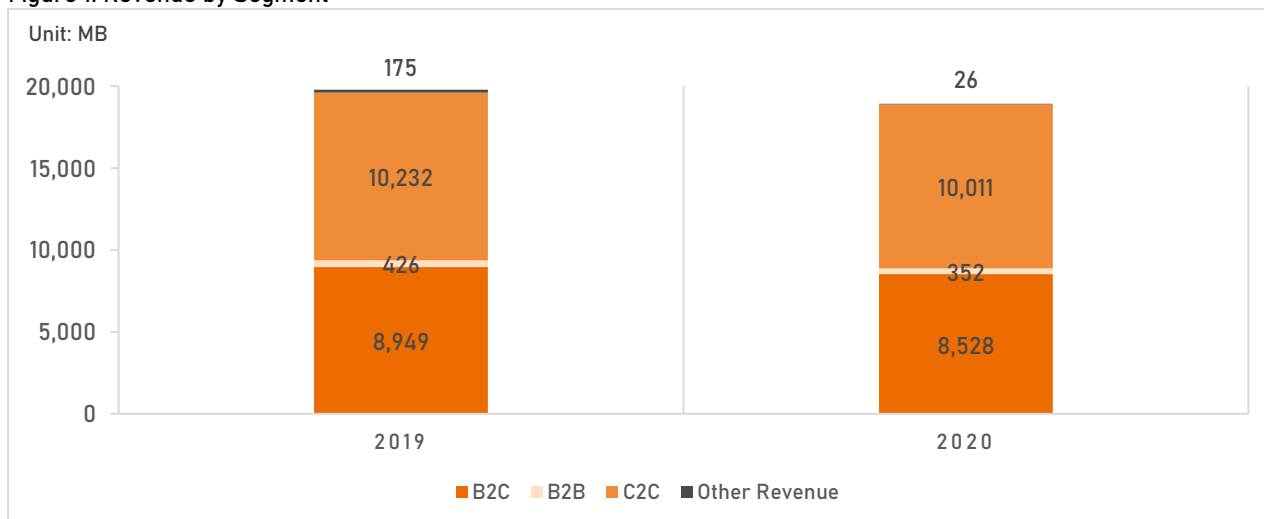
### FY2020 SNAPSHOTS AND ANALYSIS

Table 1: Selected Indicators for Operational Results

(Unit: Million THB)	2019	2020	YoY % +/-
Sales and services income	19,782	18,917	-4.4%
Cost of sales and services	16,704	15,850	-5.1%
Gross profit	3,078	3,067	-0.3%
EBIT	1,676	1,846	10.1%
<b>Net profit for the period</b>	<b>1,329</b>	<b>1,405</b>	<b>5.8%</b>
<b>EPS (Baht/Share)</b>	<b>5.54</b>	<b>1.11</b>	
Gross Profit Margin (%)	15.6%	16.2%	
EBIT Margin (%)	8.5%	9.8%	
Net Profit Margin (%)	6.7%	7.4%	

\*As shown in financial statement, excluding minority interests

Figure 1: Revenue by Segment



### Financial Performance

- KEX recorded revenue for YE2020 at THB 18,917 million, slightly dipped by 4.4% from 2019 figure of THB 19,782 due to the prolonged pandemic situation together with the Company's strategy to proactively reduce price, which enabled KEX to penetrate into the segment of other low-cost carriers.
- Amidst the fall in revenue, EBIT and net profit remained positive, with an increase of 10.1% and 5.8% from prior year, respectively, thanks to the decline in costs led by enhanced operating efficiencies.
- KEX was able to preserve a strong financial position and cash flows, generating THB 3,457 million in net operating cash flows during the year and recorded THB 19,318 million in total assets.
- KEX adopted the new Accounting Standard TFRS 16, *Leases*, which resulted in the Company recognizing Lease Liabilities and Right-of-Use Assets in relation to previously classified as Operating Lease expense.

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### Performance Analysis

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Table 2: Revenue Breakdown

(Unit: Million THB)	2019	2020	YoY % +/(-)
<b>Sales and Parcel Delivery Service Income</b>	<b>19,607</b>	<b>18,891</b>	<b>-3.6%</b>
B2B	426	352	-17.4%
B2C	8,949	8,528	-4.7%
C2C	10,232	10,011	-2.2%
<b>Advertising Income</b>	<b>175</b>	<b>26</b>	<b>-85.4%</b>
<b>Total Sales and Service Income</b>	<b>19,782</b>	<b>18,917</b>	<b>-4.4%</b>

### REVENUE IMPACTED FROM COVID-19 OUTBREAK AND PROACTIVE PRICE REDUCTION

- Revenue for YE2020 was recorded at THB 18,917 million, dropped slightly by 4.4% from 2019 figure. KEX may have experienced a sharp rise in sales and services income during certain periods of 2020 primarily due to the outbreak of COVID-19 and government-imposed lockdown, which resulted in growth in online transactions and increased demand for delivery during that time. However, as the situation prolonged, it created an adverse impact as Thailand's overall economy suffered, with a negative GDP growth of -7.8%, according to the Bank of Thailand, followed by decrease in consumer sentiment and purchasing power.
- It is the Company's objective to proactively reduce the price per parcel while maintaining the service quality and customers' satisfactions. With this strategy, KEX has managed to maintain being a dominant carrier for the B2C customers as well as able to penetrate into the low delivery charges segments with online sellers who can only afford very cheap delivery fees.
- Although throughout 2020, B2C and C2C sectors have driven the majority part of the revenue because e-commerce and social commerce growth continued to accelerate, consumers sentiment and purchasing power deteriorated particularly in the second half of the year, which offset the growth seen in the first half of 2020. Our traditional B2B segment, who are KEX's corporate customers, was more harshly impacted as the pandemic immensely slowed down their business activities.

### COSTS DRIVEN DOWN FROM GREATER OPERATION EFFICIENCIES

- Cost of sales and services curtailed by approximately 5.1%, owing mainly to economies of scale achieved as volume rose. This, coupled with the operating efficiency improvements in various areas, including fleet management, fuel usage and several other initiatives, as well as the decline in fuel price during the year.
- Facility and fleet rental reduced by 72.6% in 2020 mainly as a result of the adoption of the new TFRS 16. With the TFRS 16 implementation, certain facility and fleet rental costs were no longer recorded as operating lease expenses. Instead, Rights-of-Use Assets are recognized and depreciated over the lease terms. On the other hand, given better fleet management, KEX was able to increase the number

# KERRY EXPRESS (THAILAND) PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS FY2020

of routes between the sorting and distribution centers, resulted in improved operational efficiency and cost reduction.

### PROFITS ABOVE PREVIOUS YEAR

- FY2020 ended with a strong EBIT of +10.1% and Net Profit of +5.8% from previous year, thanks to the increase in cost efficiency stemmed from the aforementioned initiatives, better fuel usage management, and the optimization of delivery routes and fleet management.
- Gross profit margin remained positive despite the fall in revenue given that the reduction in costs of sales and services counterbalance the reduction in revenue.
- EBIT margin and net profit margin rose to 9.8% and 7.4%, respectively, by virtue of increase in economies of scales, volume, as well as operation efficiencies.

## OPERATIONAL PERFORMANCES



**99.99%**

next-day delivery service coverage within Thailand



**23,000+**

fleet of vehicles under our management



**Payment-on-Delivery**

**6.4 bn+ (THB)**

average monthly transaction value



**99%**

of parcels delivered on time

### OPERATIONAL PERFORMANCES HEIGHTENED

- Total sorting capacity reached 2.0 million parcels per day, with approximately 1.2 million parcels sorted on average and total volume delivered increased by approximately 7.3% from prior year in the wake of the pandemic situation. During H1/2020 when the outbreak of COVID-19 hit Thailand, the government imposed a lockdown measure to contain the spread. Consumers behaviors and habits changed and shifted from physical shopping to online shopping. This translated to the increase in demand for express deliveries, hence increased in the volume delivered.
- Total Payment-on-Delivery amount rose by 1.2%, with the total amount of approximately THB 77,000 million and an average of approximately THB 6,400 million monthly transaction value. In 2020, Payment-on-Delivery remained a decent contributor to the Company's revenue, despite a drop in the basket size.
- Number of facilities and fleets changed slightly in 2020 with approximately 16,000 Service Locations, 1,200 Distribution Centers and 23,000 fleets under management, with a continual focus on operational optimisation and increased cost efficiency.
- Throughout 2020, despite increase in volume, KEX succeeded to uphold the Service Level at 99%. Service Level indicator portrayed that 99% of all parcels were delivered on time.

## Financial Positions

Figure 2: Financial Position

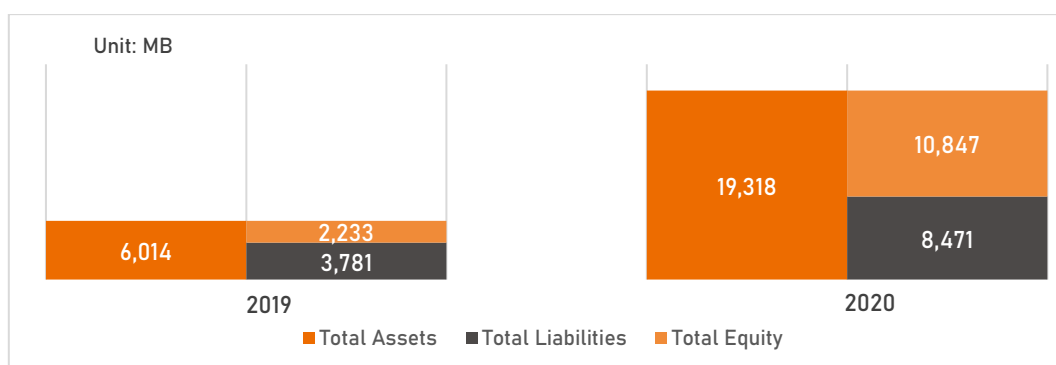


Table 5: Assets Breakdown

(Unit: Million THB)	2019	2020	YoY % +/- (-)
Cash and cash equivalents	910	9,697	965.8%
Trade and other receivables	1,722	1,467	-14.8%
Plant and equipment	2,706	2,259	-16.5%
Right-of-use assets	—	5,321	N/A
Other Assets	676	575	-14.9%
<b>Total Assets</b>	<b>6,014</b>	<b>19,318</b>	<b>221.2%</b>

Table 6: Liabilities and Shareholders' Equity

(Unit: Million THB)	2019	2020	YoY % +/- (-)
Trade and other payables	1,800	1,347	-25.2%
Cash on delivery payable	884	615	-30.4%
Current portion of lease liabilities	—	1,761	N/A
Lease liabilities	—	3,593	N/A
Other Liabilities	1,096	1,155	5.4%
Total Shareholders' Equity	2,233	10,847	385.7%
<b>Total Liabilities and Equity</b>	<b>6,014</b>	<b>19,318</b>	<b>221.2%</b>

### BALANCE SHEET AND LIQUIDITY POSITION REMAIN STRONG

- Cash and cash equivalents, which took up 51% of total assets, spiked up by 965.8% from previous year mainly from the increase in cash flows from operation and proceeds from IPO. Net cash used in investing activities declined significantly from previous year as uncertainties from COVID-19 situation and economic conditions heightened. The prior-year figure included higher payments for purchases of computers, leasehold improvements to upgrade our facilities, operating equipment, furniture, fixtures, and office equipment.
- TFRS 16 'Lease' was activated during the reporting period, resulted in THB 5,321 million boost in Rights of Use Assets and Lease Liabilities, which consisted mostly of leases of properties, plants and equipment such as warehouse leases, office leases and vehicle leases.
- 385.7% increase in Shareholders Equity was from premium on ordinary shares (IPO) and retained earnings.

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### Key Financial Ratios

		2019	2020
<b>Liquidity ratios</b>			
Current ratio <sup>(1)</sup>	(times)	0.99	2.40
Quick ratio <sup>(2)</sup>	(times)	0.92	2.38
Cash flow liquidity ratio <sup>(3)</sup>	(times)	0.61	0.92
Accounts receivable turnover <sup>(4)</sup>	(times)	17.89	16.75
Average collection period <sup>(5)</sup>	(days)	20.12	21.49
Accounts payable turnover <sup>(6)</sup>	(times)	39.00	33.64
Average payment period <sup>(7)</sup>	(days)	9.23	10.70
Cash cycle (days) <sup>(8)</sup>	(days)	10.89	10.79
<b>Profitability ratios</b>			
Gross profit margin (%) <sup>(9)</sup>	(%)	15.56	16.21
Net profit margin (%) <sup>(10)</sup>	(%)	6.72	7.43
Return on equity (%) <sup>(11)</sup>	(%)	71.37	21.48
<b>Efficiency ratios</b>			
Return to total assets (%) <sup>(12)</sup>	(%)	24.64	11.09
Total assets turnover <sup>(13)</sup>	(times)	3.67	1.49
<b>Financial policy ratios</b>			
Total liabilities to equity ratio <sup>(14)</sup>	(times)	1.69	0.78
Interest-bearing debt to equity ratio <sup>(15)</sup>	(times)	0.36	0.57
Interest coverage ratio <sup>(16)</sup>	(times)	98.47	35.85
Debt service coverage ratio <sup>(17)</sup>	(times)	97.86	1.57

#### 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 = 360 divided by accounts receivable turnover.
- (6) Account payable turnover = cost of sales and service divided by average trade account payable
- (7) Average payment period = 360 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 = sum of net cash generated from operating activities, interest paid and tax paid, divided by interest paid from operating activities.
- (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.

### GOING INTO 2021

In 2020, as the COVID-19 spread on an unprecedented scale, Thailand's government imposed a lockdown measure in March. Uncertainties rose, not only for individuals but also for businesses. People were adapting to the "new normal" ways of living. Work-from-home has been applied in many workplaces to avoid the spread of the virus. However, consumption remains a necessity, hence people have transformed their shopping habits from physical to online. With this transformation, the Company expects to see continuous growth in online transactions.

The Company anticipates that economic recovery in 2021 may be slower than originally expected as the new wave of COVID-19 hit Thailand just before new year. Given such, KEX expects that there will be a continuing upward trend in Thailand express delivery market. The remarkable spike of e-commerce and social commerce transactions over the year were profitable growth drivers for the express businesses. In addition, the Company expects that there will be significant growth in parcel volume as growth in e-commerce and social commerce continues together with monthly campaign from e-commerce platforms such as 11.11 and 12.12 have been arranged more regularly. Furthermore, as things are being digitalised, it is anticipated that consumers would seek for faster with higher quality home delivery services.

Going forward, it is the intention of KEX to pursue the following:

#### **1 | Grow leadership in Thailand to realize "Kerry Express Everywhere"**

Continue to expand our network steadily while being guided by our proprietary data that enables us to anticipate growth in customer traffic

#### **2 | Grow within the C2C sector in Thailand**

Continue to adapt to local habits and preferences while further penetrating the markets. Investing in mass marketing and solidify our position as a household brand

#### **3 | Investment in Technology & IT Systems**

Continue investing in in-house developed proprietary technologies, IT systems, R&D capabilities to improve our efficiency and drive growth through new initiatives. Expansion of our existing data center & disaster recovery systems

#### **4 | Continue seeking synergistic partnerships & acquisitions and leveraging strategic shareholders**

Continue to maintain a "carrier neutral" concept. Strategically invest & seek synergistic partnerships that sustainably support our growth & assurance for our shareholders

#### **5 | Diversify for sustainable growth**

Revenue stream enhancement through existing network & new initiatives. Selectively pursue horizontal expansion & vertical integration to further strengthen our competitiveness & profit growth and grow inorganically

#### **6 | Environmental, Social & Corporate Governance**

Strive to integrate ESG approach into our business operations, product & service development, employee welfares and stakeholders' engagement. Sustainably establish relationships with the communities we serve

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