

# THAI PLASPAC PUBLIC COMPANY LIMITED “TPAC”

## Management Discussion and Analysis for Q1 ‘19

### Consolidated

THB Million	Q1'19	Q4'18	% Δ	Q1'19	Q1'18	%Δ
Sales	996.6	968.1	2.9%	996.6	418.3	138.2%
Cost of sales	819.4	810.6	1.1%	819.4	353.3	131.9%
<b>Gross Profit</b>	<b>177.2</b>	<b>157.5</b>	<b>12.5%</b>	<b>177.2</b>	<b>65.0</b>	<b>172.6%</b>
<b>Gross Profit Margin %</b>	<b>17.8%</b>	<b>16.3%</b>	<b>1.5%</b>	<b>17.8%</b>	<b>15.5%</b>	<b>2.2%</b>
SG&A	95.0	130.6	-27.2%	95.0	48.2	97.2%
Other income	12.1	5.1	134.8%	12.1	2.9	319.0%
<b>EBITDA</b>	<b>161.4</b>	<b>102.9</b>	<b>56.9%</b>	<b>161.4</b>	<b>54.4</b>	<b>196.7%</b>
<b>EBITDA Margin %</b>	<b>16.2%</b>	<b>10.6%</b>	<b>5.6%</b>	<b>16.2%</b>	<b>13.0%</b>	<b>3.2%</b>
<b>Core EBITDA</b>	<b>162.3</b>	<b>146.0</b>	<b>11.2%</b>	<b>162.3</b>	<b>57.9</b>	<b>180.3%</b>
<b>Core EBITDA Margin %</b>	<b>16.3%</b>	<b>15.1%</b>	<b>1.2%</b>	<b>16.3%</b>	<b>13.8%</b>	<b>2.4%</b>
Depreciation and amortization	67.2	70.8	-5.1%	67.2	34.6	94.2%
<b>EBIT</b>	<b>94.2</b>	<b>32.1</b>	<b>193.7%</b>	<b>94.2</b>	<b>19.7</b>	<b>378.3%</b>
<b>Core EBIT</b>	<b>95.1</b>	<b>75.2</b>	<b>26.5%</b>	<b>95.1</b>	<b>23.3</b>	<b>308.2%</b>
<b>Core EBIT Margin %</b>	<b>9.5%</b>	<b>7.8%</b>	<b>1.8%</b>	<b>9.5%</b>	<b>5.6%</b>	<b>4.0%</b>
Interest expense	37.8	39.1	-3.1%	37.8	0.1	53963.3%
<b>Profit Before Tax</b>	<b>56.4</b>	<b>-7.0</b>	<b>909.3%</b>	<b>56.4</b>	<b>19.6</b>	<b>187.7%</b>
<b>Core Profit Before Tax</b>	<b>57.3</b>	<b>36.1</b>	<b>58.6%</b>	<b>57.3</b>	<b>23.2</b>	<b>146.5%</b>
<b>Core Profit Before Tax Margin %</b>	<b>5.7%</b>	<b>3.7%</b>	<b>2.0%</b>	<b>5.7%</b>	<b>5.6%</b>	<b>0.2%</b>
Income tax expense	-25.0	14.6	-270.7%	-25.0	3.2	-883.9%
<b>Net Profit</b>	<b>81.3</b>	<b>-21.6</b>	<b>476.7%</b>	<b>81.3</b>	<b>16.5</b>	<b>391.7%</b>
<b>Net Profit Margin %</b>	<b>8.2%</b>	<b>-2.2%</b>	<b>10.4%</b>	<b>8.2%</b>	<b>4.0%</b>	<b>4.2%</b>
<b>TPAC Net Profit</b>	<b>68.6</b>	<b>-17.2</b>	<b>498.4%</b>	<b>68.6</b>	<b>16.5</b>	<b>316.4%</b>

Note: SG&A is selling, general and administrative expense. EBIT is earnings before interest and tax. EBITDA is earning before interest, tax, depreciation and amortization.

Non-Recurring income/(expenses) (THB Million)	Q1'19	Q4'18	Q1'18
India/Other Extraordinary 1 time expenses	-0.9	-43.1	-2.9
Thailand Extraordinary 1 time expenses	0.0	0.0	-0.6
<b>Total</b>	<b>-0.9</b>	<b>-43.1</b>	<b>-3.5</b>

### Earnings Commentary

- TPACs earnings revolution has now begun.
- TPAC Q1'19 EBITDA record high at 161MB, 197% up versus same period last year, and 57% up versus previous quarter.
- Net Profit also a record high at 69MB<sup>1</sup>, 316% up versus same period last year, and 498% up versus the previous quarter.
- ROE (annualising for Q1'19) at 25% - our equity is now beginning to sweat !

<sup>1</sup> TPAC Net Profit does not included 20% of TPAC India's Net Profit

## Thailand

THB Million	Q1'19	Q4'18	% Δ	Q1'19	Q1'18	%Δ
Sales	480.6	454.9	5.7%	480.6	418.3	14.9%
Cost of sales	399.5	391.9	1.9%	399.5	353.3	13.1%
<b>Gross Profit</b>	<b>81.1</b>	<b>63.0</b>	<b>28.7%</b>	<b>81.1</b>	<b>65.0</b>	<b>24.7%</b>
<b>Gross Profit Margin %</b>	<b>16.9%</b>	<b>13.8%</b>	<b>3.0%</b>	<b>16.9%</b>	<b>15.5%</b>	<b>1.3%</b>
SG&A	49.4	44.8	10.3%	49.4	44.9	10.2%
Other income	2.6	4.9	-47.7%	2.6	2.9	-11.2%
<b>EBITDA</b>	<b>65.9</b>	<b>55.2</b>	<b>19.4%</b>	<b>65.9</b>	<b>57.0</b>	<b>15.7%</b>
<b>EBITDA Margin %</b>	<b>13.7%</b>	<b>12.1%</b>	<b>1.6%</b>	<b>13.7%</b>	<b>13.6%</b>	<b>0.1%</b>
<b>Core EBITDA</b>	<b>66.8</b>	<b>55.5</b>	<b>20.2%</b>	<b>66.8</b>	<b>60.5</b>	<b>10.4%</b>
<b>Core EBITDA Margin %</b>	<b>13.9%</b>	<b>12.2%</b>	<b>1.7%</b>	<b>13.9%</b>	<b>14.5%</b>	<b>-0.6%</b>
Depreciation and amortization	31.7	32.1	-1.3%	31.7	33.9	-6.6%
<b>EBIT</b>	<b>34.2</b>	<b>23.1</b>	<b>48.3%</b>	<b>34.2</b>	<b>23.0</b>	<b>48.7%</b>
<b>Core EBIT</b>	<b>35.1</b>	<b>23.4</b>	<b>49.7%</b>	<b>35.1</b>	<b>26.5</b>	<b>32.3%</b>
<b>Core EBIT Margin %</b>	<b>7.3%</b>	<b>5.2%</b>	<b>2.1%</b>	<b>7.3%</b>	<b>6.3%</b>	<b>1.0%</b>
Interest expense	14.8	14.9	-0.9%	14.8	0.1	21146.7%
<b>Profit Before Tax</b>	<b>19.4</b>	<b>8.1</b>	<b>139.0%</b>	<b>19.4</b>	<b>22.9</b>	<b>-15.5%</b>
<b>Core Profit Before Tax</b>	<b>20.3</b>	<b>8.5</b>	<b>138.9%</b>	<b>20.3</b>	<b>26.4</b>	<b>-23.4%</b>
<b>Core Profit Before Tax Margin %</b>	<b>4.2%</b>	<b>1.9%</b>	<b>2.4%</b>	<b>4.2%</b>	<b>6.3%</b>	<b>-2.1%</b>
Income tax expense	2.0	2.0	-0.1%	2.0	3.2	-36.0%
<b>Net Profit</b>	<b>17.4</b>	<b>6.1</b>	<b>185.7%</b>	<b>17.4</b>	<b>19.8</b>	<b>-12.1%</b>
<b>Net Profit Margin %</b>	<b>3.6%</b>	<b>1.3%</b>	<b>2.3%</b>	<b>3.6%</b>	<b>4.7%</b>	<b>-1.1%</b>

## India

THB Million	Q1'19	Q4'18	% Δ
Sales	527.0	525.5	0.3%
Cost of sales	430.9	431.0	0.0%
<b>Gross Profit</b>	<b>96.1</b>	<b>94.5</b>	<b>1.7%</b>
<b>Gross Profit Margin %</b>	<b>18.2%</b>	<b>18.0%</b>	<b>0.2%</b>
SG&A	45.6	86.1	-47.0%
Other income	9.5	0.6	1501.5%
<b>EBITDA</b>	<b>95.5</b>	<b>47.7</b>	<b>100.2%</b>
<b>EBITDA Margin %</b>	<b>18.1%</b>	<b>9.1%</b>	<b>9.0%</b>
<b>Core EBITDA</b>	<b>95.5</b>	<b>90.4</b>	<b>5.6%</b>
<b>Core EBITDA Margin %</b>	<b>18.1%</b>	<b>17.2%</b>	<b>0.9%</b>
Depreciation and amortization	35.5	38.7	-8.3%
<b>EBIT</b>	<b>60.0</b>	<b>9.0</b>	<b>564.9%</b>
<b>Core EBIT</b>	<b>60.0</b>	<b>51.7</b>	<b>16.0%</b>
<b>Core EBIT Margin %</b>	<b>11.4%</b>	<b>9.8%</b>	<b>1.5%</b>
Interest expense	23.0	24.1	-4.5%
<b>Profit Before Tax</b>	<b>37.0</b>	<b>-15.1</b>	<b>345.3%</b>
<b>Core Profit Before Tax</b>	<b>37.0</b>	<b>27.6</b>	<b>33.9%</b>
<b>Core Profit Before Tax Margin %</b>	<b>7.0%</b>	<b>5.3%</b>	<b>1.8%</b>
Income tax expense	-27.0	12.6	-314.5%
<b>Net Profit</b>	<b>64.0</b>	<b>-27.7</b>	<b>331.3%</b>
<b>Net Profit Margin %</b>	<b>12.1%</b>	<b>-5.3%</b>	<b>17.4%</b>

## Consolidated Balance Sheet

THB Million	As at 31 Mar'19	As at 31 Dec'18	% Δ
Cash and cash equivalents	78.9	64.0	23.4%
Trade and other receivables	777.1	833.6	-6.8%
Inventories	284.3	293.3	-3.1%
Other current assets	27.5	23.0	19.6%
<b>Total current assets</b>	<b>1,167.9</b>	<b>1,213.8</b>	<b>-3.8%</b>
Restricted bank deposits	50.6	51.6	-2.1%
Investment in subsidiaries	-	(0.0)	-100.0%
Property, plant and equipment	1,465.2	1,483.1	-1.2%
Goodwill	937.0	937.0	0.0%
Intangible asset	378.5	395.2	-4.2%
Deferred tax assets	5.2	4.9	5.1%
Withholding tax deducted at source	66.1	58.4	13.1%
Advance for purchase of molds	31.3	17.4	79.9%
Other non-current assets	24.5	23.7	3.0%
<b>Total assets</b>	<b>4,126.1</b>	<b>4,185.2</b>	<b>-1.4%</b>
Bank overdraft and short-term loans from banks	308.5	286.4	7.7%
Trade and other payables	254.2	303.9	-16.3%
Current portion of long-term debentures	29.2	-	n/a
Current portion of long-term loans from banks	211.5	208.5	1.5%
Other current liabilities	17.8	15.2	17.3%
<b>Total current liabilities</b>	<b>821.2</b>	<b>813.9</b>	<b>0.9%</b>
Long-term debentures - net of current portion	528.3	567.8	-7.0%
Long-term loans from banks - net of current portion	1,114.4	1,170.2	-4.8%
Non-controlling interest put options	475.2	463.2	2.6%
Deferred tax liabilities	31.3	61.6	-49.1%
Provision for long-term employee benefits	38.2	35.9	6.3%
<b>Total liabilities</b>	<b>3,008.6</b>	<b>3,112.6</b>	<b>-3.3%</b>
Registered share capital	253.8	253.8	0.0%
Issued and paid-up capital	302.9	302.9	0.0%
Premium on ordinary shares	25.5	25.5	0.0%
Retained earnings	574.1	506.7	13.3%
Other components of shareholders' equity	(79.2)	(56.3)	40.8%
Equity attributable to owners of the Company	1,077.1	1,032.7	4.3%
Non-controlling interests of the subsidiaries	40.4	39.9	1.2%
<b>Total shareholders' equity</b>	<b>1,117.5</b>	<b>1,072.6</b>	<b>4.2%</b>
<b>Total liabilities and shareholders' equity</b>	<b>4,126.1</b>	<b>4,185.2</b>	<b>-1.4%</b>

- Debt to Equity ratio as of Q1'9 at 1.89x below our covenant threshold of 2.5x

## **Earnings Commentary (Continued)**

Providing context to our numbers:

- TPACs highest ever recorded annual Net Profit was in 2013, Net Profit of 123MB and EBITDA was 254MB
- From 2014 – 2017 our Net Profits were relatively steady, fluctuating between 93MB and 107MB Baht and EBITDA between 234MB and 269MB
- 2018 Net Profits were much below at 32MB<sup>2</sup>, EBITDA at 280MB, but this year should be ignored as there were significant 1-off expenses relating to the M&A.

For those that are just joining us at this point in our journey, let us step back a little to understand the ingredients to our story so far.

- In the first quarter of 2016, TPACs newly installed leadership outlined a 5-year vision for our company.
- We aspired to be a truly world class packaging company with a specialised focus on rigid plastic solutions for the hygienic consumer sectors (Food, Pharmaceuticals & Personal Care).
- In order to be truly world class, increased scale was required.
- We dreamed of growth beyond the shores of Thailand as we saw (and continue to see) this as an important step to better serving our customers.
- We wanted to work with our customers not just in Thailand, but also in other markets around the world which they are most excited about.

---

<sup>2</sup> TPAC Net Profit does not include 20% of TPAC India's Net Profit

- 12 quarters have gone by since we set those targets and we are now at the beginning of year 4 of our plan.

For the first 6 quarters we spent our time:

- 1) Talking to our customers (a lot). Learning and understanding about what would make us a better partner for them. With this, it became clear that further development to our core specialised technical skill set of rigid plastic for hygienic consumer applications should be the focused way forward.
  - Put another way, the more depth to our R&D capabilities, the greater our innovation capability.
  - Also, TPAC makes millions of pieces a day for the world's leading brands and quality and hygiene are something we need to obsess about.
  - In order to obsess consistently 24 hours a day 7 days a week (our plants never stop), it is only possible with a strong culture – processes alone are not enough.
  - Today our teams across all our plants talk extensively to each other sharing and rubbing off on each other a culture of obsessiveness.
  - This has only been possible because we have stuck and built on our core competence.
- 2) Improving our people & processes. We now have assembled a team keen to take on more responsibility with capability to manage and integrate a larger business. Most importantly, we have a team that dreams and believes we will outperform.
- 3) Understanding our industry and setting our eyes on synergistic fits, businesses which would have the potential to radically transform us a company.

The next six quarters were then about executing on our vision.

This is still very much a work in progress but now on this 13<sup>th</sup> quarter we are beginning to see the first signs of a revolution to our earnings. And this makes sense to us.

The seeds we plant and nurture today are designed to show results over the coming years. This could take 8,9 or perhaps many more quarters to bear fruit, but what we know for sure is that we are management team that dreams in years, and certainly not quarters.

So, let us take stock of where we are today and some of the milestones over the past 3 years.

- 1) **Thailand.** We have attained leadership in Thailand. With our acquisition of Custompack (now renamed 'TPAC BangNa') in Q2 2018, we have been able to logistically optimize our production taking advantage of having factories on either side of Bangkok. Encouragingly, we are seeing early signs of a positive turnaround of TPAC BangNa which was a lossmaking business at time of acquisition. Infrastructure and most importantly the right team are now in place to capture the next wave of organic growth in Thailand.
- 2) **India.** We now have with a firm foothold in the world's most exciting consumer packaging market of India. We believe we will look back in history and see entry into India as a pivotal point in the history of TPAC. We have big dream for TPAC India, let's see where TPAC India goes over the next 10 years.
- 3) **UAE.** We have also signed a deal that (conditional upon Shareholder approval on the 4<sup>th</sup> of July) will give us a presence in the United Arab Emirates. Again, we are super excited about entry into this market and have strong belief in the potential of this management team and the synergies to TPAC (but let us for now park this discussion for a later date post shareholder approval).

4) **Quality of Earnings:** We have many more varied revenue streams today and we are a significantly more diverse company. We are not overly reliant on any one specific piece of business. Also, an extremely attractive is the defensive nature of our earnings.

In a world that is looking less and less certain and prone to economic shocks, we can take comfort in the nature of our earnings.

Our products are everyday consumables, the type of products that one picks up as part of their weekly supermarket or convenience store run (food, shampoo, etc).

Therefore, we believe we can deliver the best of both worlds for our stakeholders... that of outsized returns in line with doubling our size every 5 years whilst maintaining our defensive earnings profile.

5) **Scale:** We have gone from 3 factories to 10 factories (11 post-closing of UAE transaction). We all know that the advantages of scale to a company are immense ranging from attracting talent, to procurement, innovation capability and many many more. Key point is that we have significantly more scale today than we did 3 years ago. And we are going to make this count.

6) **ERP:** We are about halfway through revamping the IT backbone of our company. This is important as our business is much more complex today. With this will come better business controls and management analytics. An important step in our journey to world class.

7) **Compliance:** Additional layers of compliance standards has been rolled out across our plants, in particular for Food Safety. We will keep striving to get better every day and world class shop floor audits and stringent certification standards make us better and allow us to showcase these capabilities to our customers.

8) **Governance:** Over the past 3 years we have also gone from 2 stars corporate governance rating to 4 stars as awarded by the Thai Institute of Directors. There is still much more we can do here in terms of engagement with stakeholders, investors, the analyst

community etc and we will as we keep building our infrastructure to help us get better here.

- 9) **Team:** We spoke about this before but it is worth mentioning again. With many new faces over the past 3 years, we now have a team with passion on our shop floors and in our corporate offices. We are also a much more experienced team now, that is finding our rhythm in working with each other.

One piece of advice shared with me by a mentor 3 years ago was to ‘focus on developing your A-Team’ – this is being done.

No doubt we have made mistakes over the past 3 years, but we most definitely have learnt a lot which is invaluable. We are a wiser, more exposed, more seasoned management team today.

Remember that we were a business that for 33 years had only grown organically with 3 factories in Thailand. Over the past ~ 12 months we have closed 2 never before done M&As, one of which in a jurisdiction with significant level of complexity (and signed another), which has by default transformed our office from that of a domestic factory management operation to an International Headquarters of a much larger more complex manufacturing business.

Let me summarise by saying that our management team feels energized and encouraged to see early signs of our 5 year vision begin to come to reality.

We must keep going.

**Chok Dee**

**Kevin Qumar Sharma,**

**Chairman & CEO**