

TOA Paint (Thailand) Public Company Limited

Management Discussion & Analysis

For the 3rd quarter ended September 30th, 2024





- Translation -

No. TOA 21/2024

November 14, 2024

Subject: Management Discussion and Analysis for the three months and nine months ended September 30, 2024

To: The President
The Stock Exchange of Thailand

TOA Paint (Thailand) Public Company Limited (the "Company" or "we" or "our" or "us") would like to inform management discussion and analysis for its results of operations from the financial statements for the three months ("Q3/2024") and nine months ("9M/2024") ended September 30, 2024 as follows:

1. Overview of Business Operation, Industry and Economic Trends

The Thai economy in 9M/2024 has faced numerous challenges, particularly in the real estate and home renovation sectors, which have shown clear signs of slowing down. This slowdown is driven by a decline in consumer purchasing power due to rising household debt and interest rates. Additionally, tighter lending policies by financial institutions have further impacted consumers' and real estate businesses' access to capital.

In Q3/2024, major floods and landslides occurred in several provinces in northern Thailand, as well as flooding in central and northern Vietnam. These events have affected people's lives and property, and have also slowed down economic activities in the affected region. However, this natural disaster is considered a temporary external factor affecting the company's operations.

Despite the overall slowdown in the construction and real estate industry, the company's sales have been less impacted. This is due to a business strategy shift towards non-decorative products such as construction chemicals and gypsum boards, which have high market value due to their product diversity and demand for both new home construction and renovations. This strategic shift has contributed to sales growth and long-term business resilience.

2. Key Events and Developments

In Q3/2024, the company introduced an innovative eco-friendly product: **'TOA Shield Expert'**. This 2-in-1 water-based paint is a ready-to-use solution that combines primer and topcoat, making it easy for homeowners to apply in a single step. Offering a 10-year durability, the product is safe for occupants and environmentally friendly, reducing resource consumption and contributing to carbon reduction. The Company partnered with leading green-certified real estate developers to research and develop this product, which is now available in major modern trade channel nationwide. This launch aligns with the growing demand for health-safe products and supports the creation of a sustainable, low-carbon society.



In addition, the company has received awards from participating in various projects to promote a safety culture and environmental sustainability. These include: (1) The Bronze Award for the "Zero Accident Campaign" in 2024, the first year of participation. (2) The "Green Industry Level 4" award for Green Culture in 2024. (3) The "Outstanding Model Enterprise Award for Occupational Safety, Health, and Environment" for 11 consecutive years.

3. Operational Results

3.1 Operational results for the 3rd quarter of 2024 (3 months) compared with the same period last year

Income statement (THB million)	For the three months ended September 30,	
	Q3/2024	Q3/2023
Sales revenue	5,071.7	5,396.6
Total revenues	5,124.0	5,454.4
Cost of sales	3,348.9	3,575.7
Selling and administrative expenses	1,108.8	1,066.3
Gains (Losses) on exchange rates and fair value of financial assets measured at fair value through profit or loss	(361.9)	57.4
Profit before finance cost and income tax	304.4	869.8
Profit for the period	187.9	651.2
Net Profit (Excluding Gains & Losses on exchange rates and fair value of financial assets measured at fair value through profit or loss)	549.8	593.7

Sales Revenue

Our sales revenue for Q3/2024 was THB 5,071.7 million, a decrease of THB 324.9 million, or 6.0%, compared to Q3/2023, which was THB 5,396.6 million. This decline was primarily attributable to a decrease in domestic sales of paint products, particularly in the retail channel. This was due to a slowdown in the real estate sector caused by weakened consumer purchasing power and tighter lending policies from financial institutions as previously mentioned, as well as flooding in the northern region. These factors were partially offset by increased sales of gypsum boards and ceiling metal line (C-Line), which experienced strong growth driven by real estate project sales channels.

Additionally, overall overseas sales declined compared to the same period last year. This was primarily driven by a decrease in sales in Vietnam, attributed to the continued sluggishness of the real estate sector and the impact of flooding.

Gross Profit

Gross profit for Q3/2024 was THB 1,722.8 million, representing a gross profit margin of 34.0%. This compared to Q3/2023, when gross profit was THB 1,820.8 million with a gross profit margin 33.7%. The increase in gross profit margin was primarily attributable to the adjustment of raw material procurement strategies, improved efficiency, and the increased implementation of automation systems.

Selling Expenses

Selling expenses for Q3/2024 was THB 693.0 million, an increase of THB 7.8 million, or 1.1%, compared to Q3/2023, which was THB 685.1 million. The increase was primarily attributable to higher transportation costs, sales promotion expenses, and sales and marketing employee costs. These increases were partially offset by reductions in advertising costs and sales commissions.

Consequently, the ratio of selling expenses to sales revenue in Q3/2024 was 13.7%, an increase compared to 12.7% in Q3/2023.

Administrative Expenses

Total administrative expenses for Q3/2024 was THB 415.8 million, an increase of THB 34.7 million, or 9.1%, compared to Q3/2023, which was THB 381.2 million. The increase was primarily attributable to an increase in higher employee costs and expenses on public charities and sports encouragement.

Consequently, the ratio of administrative expenses to sales revenue in Q3/2024 was 8.2%, an increase compared to 7.1% in Q3/2023.

Profit for the period

Our profit attributable to equity holders of the company for Q3/2024 was THB 187.9 million, a decrease of THB 463.3 million, or 71.1%, compared to Q3/2023, which was THB 651.2 million.

The fair value adjustments of financial assets and foreign exchange differences in Q3/2024 resulted in a total loss of THB 361.9 million while in Q3/2023, it was a gain of THB 57.4 million. The majority

of this loss was unrealized and was the result of the translation of assets and liabilities in foreign currencies due to the rapid appreciation of Thai Baht during Q3/2024

However, our core net profit (excluding fair value adjustments of financial assets and foreign exchange differences) for Q3/2024 was THB 549.8 million, a decrease of THB 43.9 million, or 7.4%, compared to Q3/2023, which was THB 593.7 million. The decrease was primarily attributable to lower sales and increased selling and administrative expenses, as explained above.

Our core net profit margin for Q3/2024 was 10.7%, a slight decrease compared to 10.9% in Q3/2023.

3.2 Operational results for 9M/2024

Income statement (THB million)	For the nine months ended September 30,	
	9M/2024	9M/2023
Sales revenue	15,907.8	16,517.6
Total revenues	16,065.3	16,666.5
Cost of sales	10,383.0	10,957.1
Selling and administrative expenses	3,306.8	3,118.3
Gains (Losses) on exchange rates and fair value of financial assets measured at fair value through profit or loss	(329.2)	86.2
Profit before finance cost and income tax	2,046.4	2,677.2
Profit for the period	1,468.9	2,024.5
Net Profit (Excluding Gains & Losses on exchange rates and fair value of financial assets measured at fair value through profit or loss)	1,798.1	1,938.3

Sales Revenue

Our sales revenue for 9M/2024 was THB 15,907.8 million, a decrease of THB 609.9 million, or 3.7%, compared to 9M/2023, which was THB 16,517.6 million. The decrease was primarily attributable to the slowdown in the real estate sector, as mentioned previously. Additionally, sales revenue in 9M/2023 benefited from a surge in renovation activities for hotels, resorts, and tourist attractions following the easing of COVID-19 restrictions.

Gross Profit

Gross profit for 9M/2024 was THB 5,524.8 million, representing a gross profit margin of 34.7%. This compared to 9M/2023, when gross profit was THB 5,560.6 million with a gross profit margin 33.7%. The increase in gross profit margin was primarily attributable to efficiency improvement in raw materials management and production costs, and the appreciation of the Thai Baht, which led to lower overall average costs.

Selling Expenses

Total selling expenses for 9M/2024 was THB 2,070.5 million, an increase of THB 47.6 million, or 2.4%, compared to 9M/2023, which was THB 2,022.9 million. The increase was primarily attributable to higher sales

and marketing employee costs, advertising expenses, and promotional expenses, partially offset by a decrease in employee commissions due to lower sales.

Consequently, the ratio of selling expenses to sales revenue in 9M/2024 was 13.0% an increase compared to 12.2% in 9M/2023.

Administrative Expenses

Total administrative expenses for 9M/2024 was THB 1,236.3 million, an increase of THB 140.8 million, or 12.9%, compared to 9M/2023, which was THB 1,095.4 million. The increase was primarily attributable to higher employee costs and depreciation, and fixed asset write-off from the relocation of the factory in Malaysia during the 2nd quarter of this year.

Consequently, the ratio of administrative expenses to sales in 9M/2024 was 7.8%, an increase compared to 6.6% in 9M/2023.

Profit for the period

Our profit attributable to equity holders of the company for 9M/2024 was THB 1,468.9 million, a decrease of THB 555.6 million, or 27.4%, compared to 9M/2023, which was THB 2,024.5 million.

The fair value adjustments of financial assets and foreign exchange differences in 9M/2024 resulted in a loss of THB 329.2 million while in 9M/2023, it was a gain of THB 86.2 million, respectively. The majority of this loss was unrealized and was the result of the translation of assets and liabilities in foreign currencies as explained in the Q3/2024 above.

However, our core net profit (excluding fair value adjustments of financial assets and foreign exchange differences) for 9M/2024 was THB 1,798.1 million, a decrease of THB 140.2 million, or 7.2%, compared to 9M/2023, which was THB 1,938.3 million. The decrease was primarily attributable to lower sales and increased selling and administrative expenses, partially offset by an improved gross profit margin.

Our core net profit margin for 9M/2024 was 11.2%, a decrease compared to 11.6% in 9M/2023.

3.3 Financial Position

Statement of financial position (THB million)	As of September 30, 2024	As of December 31, 2023
Total assets	20,179.0	21,278.7
Total liabilities	6,126.4	6,460.6
Total shareholders' equity	14,052.6	14,818.1
Total liabilities and shareholders' equity	20,179.0	21,278.7

Total Assets

As of September 30, 2024, total assets was THB 20,179.0 million, a decrease of THB 1,099.7 million from December 31, 2023, which was THB 21,278.7 million. The reasons were as follows:

- Cash and cash equivalents and other current financial assets decreased by THB 995.7 million to fund share repurchases and dividend payments.
- Trade and other receivables decreased by THB 614.6 million, which is in line with the decrease in sales and the faster collection of accounts receivable.
- Inventories increased by THB 559.4 million, primarily due to increased stockpiling of raw materials during a period of declining prices of raw material.

Total Liabilities

As of September 30, 2024, total liabilities was THB 6,126.4 million, a decrease of THB 334.2 million from December 31, 2023, which was THB 6,460.6 million. The decrease was mainly consisted from lower income tax payable, and lease liabilities.

Key Financial Policy Ratios

Ratio	As of September 30, 2024	As of December 30, 2023
Interest-bearing Debt to Equity Ratio (times)	0.09	0.10
Interest Coverage Ratio (times)	58.20	108.62
Total Liability to Equity Ratio (times)	0.44	0.44

Total Shareholders' Equity

As of September 30, 2024, total shareholders' equity was THB 14,052.6 million, a decrease THB 765.5 million from December 31, 2023, which was THB 14,818.1 million. The decrease in total shareholders' equity was primarily attributable to a decrease in unappropriated retained earnings due to dividend payments.

4. Factors that Could Impact Future Performance

Changes in the business environment both domestically and internationally such as overall economic conditions, government budgets and policies, and interest rate policies, can significantly impact the company's revenues. Meanwhile, trade wars, geopolitical conflicts, and exchange rate fluctuations may affect the company's raw material costs and production expenses. The company is aware of these potential challenges and has implemented appropriate risk management and strategic plans to effectively navigate these uncertainties.

Looking ahead to the Q4/2024, the company anticipates a gradual improvement in business conditions. This optimism is supported by government stimulus packages, interest rate reductions aimed at supporting the public and businesses, additionally, construction and decoration activities accelerate during Q4 of every year. Moreover, the ongoing recovery efforts in the aftermath of the severe floods in the northern region are expected to create additional demand for construction materials as people rebuild and repair their properties.

5. Key Developments in Sustainability

The company has received the **"Carbon Footprint Label" certificate for all 3 categories in 2024 from the Thailand Greenhouse Gas Management Organization (TGO)**. This includes the 5th consecutive year of certification for Carbon Footprint for Organization: CFO, Carbon Footprint of Product: CFP, and the Carbon Footprint Reduction label: CFR, or "Green Label." The company has the highest number of certified products in the decorative market, with 40 products certified, such as SuperShield, TOA Shield-1 Nano, 4SEASONS, SUPER MATEX, Expert series (Shield, Pro, Flex), and TOA 7in1, etc.



Moreover, the company is committed to developing low-carbon products for the market. This aims to raise consumer awareness of the importance of choosing eco-friendly paints with the Green Label, which will contribute to a more sustainable future for our world and environment. This aligns with the company's sustainable green business direction under the "Green Mission" with 7 strategies that have been continuously implemented, such as the use of renewable energy, environmentally friendly production processes, waste management (Zero Waste Management), transportation, and the development of innovative products that are safe for consumers and environmentally friendly (Greenovation), to achieve the goal of Net zero greenhouse gas emissions by 2050 concretely.

In addition, on September 30, 2024, the company received the **"Climate Action Leading Organization (CALO)" award for 2024** at the excellent level in the real estate and construction category. This reflects the commitment of both public and private organizations in Thailand to achieve carbon neutrality and Net zero greenhouse gas emissions. Furthermore, the company has been certified for its greenhouse gas emissions

measurement and reduction activities at the gold level, making it one of the 23 organizations **certified as a CALO excellent level member in 2024** by the Thailand Carbon Neutral Network (TCNN) committee.



The company recognizes the importance of sustainable social contributions. The company has therefore initiated a project to support flood victims, aiming to share assistance and alleviate the suffering of those affected. This includes distributing relief packages to the people and helping to rebuild homes for people in Chiang Rai province.

Please be informed accordingly,

Yours Sincerely,

(Acting Sub Lt. Surasak Mandaeng)
Chief Financial Officer