CLARIFICATIONS ON EXPOLANKA HOLDINGS PLC

1. **In the EXPO Earnings Update Report released on the 2nd of March 2021, Capital Trust Research issued a Target price of LKR 64.60 and a Fair Value of LKR 80.60 but in the Investor Presentation Webinar conducted on the 17th July 2021, a Fair Value of LKR 125.10 was issued. What is the reason to upgrade the Fair Value by such a margin in such a short period?**

- In the report released on the 2nd of March'2021, Capital Trust Research issued a Fair Value of LKR 80.60, based on the Market PER of 12.84x at that time.

- While EXPO's US Subsidiary accounted for **63%** of EXPO's total Revenue in FY21, the US Trade Lane presently accounts for **c. 75%** of total Revenue across all its subsidiaries. Given EXPO's considerable exposure to the US Economy and the notable contribution of its US subsidiary, we can classify EXPO as an **US Centric Multi National Company**, and a true **Global brand.**

Since the 2nd of March 2021, EXPO's Operating environment has changed significantly due to the following changes in its key market US;

- Significant recovery witnessed in US Trade Volumes. US Import trade has increased by **36.4% above that** of 2020 figures and by **4.7%** above the pre-pandemic levels in 2019.

- Consumer Confidence in the US in June 2021 reached a post pandemic high. The IMF even revised US GDP forecasts upwards from **6.4%** to **7.0%** in June 2021. For 2022, growth was revised up from **3.5%** to **4.9%.**

- **48.8%** of the population has now been fully vaccinated. This has resulted in a relaxation of pandemic related restrictions.

- Unemployment is forecasted to reach **3.5%** in 2022, this together with **increased disposable income** is expected to result in strong economic performance in FY22-23.

- Owing to the above, the V-shaped recovery in the US market is expected to boost trade volumes for EXPO. Due to the reasons stated above **Air Freight and Sea Freight Volumes** handled by EXPO was forecasted to **increase** in FY22 and FY23.

- Ocean and Air Freight Rates are expected to remain high. Air Freight Rates elevated to recent **Highs** and Sea Freight rates touched an **All Time High** in June/July 2021. This is expected to increase EXPO's **Yields** significantly in FY22.

- Due to both **Volume growth and Price driven** increases we revised the forecasted Revenue for FY22 from **LKR233.7bn** to **LKR306.5Bn**. PAT for Equity Holders for FY22E was revised from **LKR15.1Bn** to **22.7Bn**.

- As mentioned in page 5 in the Research Report, the Company is looking out for **acquisitions** and we strongly expect them to materialize .

- Our Valuation Methodology remains **unchanged.** When calculating the revised Fair value for EXPO, once again the Broader Market PER has been used. On 18th July'2021, the Market PER had decreased to **10.76x**.

- Using a Market PER of 10.76x and a revised EPS forecasted at LKR 11.63, we derived a revised **Fair Value of LKR 125.10.**

- Please note that in our latest report, Capital Trust Research only published a **Fair Value** for the counter and **not** a **Target Price** as many local investors tend to sell their stocks too early and realize capital gains, as soon as they make a small profit.

2. Why has Trade Receivables increased to LKR 50 Bn in FY21, does this result in a Negative Cashflow Position for the Company?
How much of these Trade Receivables are due over 3-months?
Will the Company need to make large Provisions or Write-offs?

- Trade Receivables increased from **LKR18.3 bn** in FY20 to **LKR49.9 bn** in FY21. The LKR30bn increase in Trade Receivables does cause a strain on EXPO's cash flows. However, it must be noted that even after accounting for such an increase in Trade Receivables, the Company's cash flow was **Positive** at **LKR6 bn as at** end FY21.

- Through its Parent SG Holdings, EXPO has access to cheap source of funding. Accordingly, the Company is able to provide c.**30-60 Day** Credit to Tier-1 strategic Multi National Customers.

- The Days Sales Outstanding (DSO) as at the end of 4QFY21 was **78 days** which is slightly higher than its global **peers.** The global peers record DSO between **60-70** Days. EXPO offers slightly longer credit terms to win over key strategic accounts.

- The Company is experiencing **Exponential** growth in **Volumes** and **Revenue**. Therefore, it is expected that the Total **Trade Receivables** will **increase**, as it did over FY21.

- EXPO extends these credit terms after careful evaluation and a stringent Credit Appraisal process. EXPO can offer extended Credit to its Credit worthy Strategic Customers and win new business without incurring high Interest Costs. Credit is **not provided** to **smaller** clients.

- Looking at EXPO's Customer profile, it is important to note that the key strategic clients are mainly leading **Global Brands Listed in the US Stock Exchange**.

- Even during the Pandemic period **no client has defaulted.** Given its presence in the US and key relationships, the Company is confident of recovering all of the total outstanding Trade Receivables.

- The **Provisions and Write-offs** listed in the FY21 Annual Report, did **not** relate to **Trade Receivables**. **Provisioning** was mainly related to the **divestiture** of EXPO-Freight Ltd. Bangladesh. The purchase consideration for the sale was provided for, given the delays associated with finalizing the transaction during the Pandemic. Once the sale is concluded, this amount will be **written back** as per the accounting standards. The Company has also made one-off impairment for other admin/operational costs.

- Majority of its LKR 50bn Trade Receivables falls within the **90-day** age analysis bucket.

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