

TRANSCRIPT OF THE INTERVIEW WITH

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UNITED WORLD: Osotspa is diversified group specializing in Pharmaceuticals, Beverages, Food Products, and Personal Care-, Health- and Hygiene-Products. What can you tell us about the company's history, and how it became a Thai success story?

MR. SOONTHORN KENGVIBUL: Our company has been in existence for about 120 years. It started out in 1891 as a small pharmaceutical company called Teck Heng Yoo with a small shop in Yaowarat, China Town. It prospered and was eventually called Osothsapha (which later on became Osotspa).

After some years since its inception, the company gradually diversified into medicine and other products. Our pharmaceutical line includes Tamjai (analgesic), Paracet (analgesic), Nuta (cold remedy), Mag 77 (antacid), Demac (pain-relieving preparation), Botan (herbal preparation for oral comfort), One-One (breath freshener), Banner Protein (food supplement), Provita (food supplement), Slimma (artificial sweetener), Utaitip (thirst-quenching herbal medicine), Yatard4 (herbal stomachic mixture), Krisnaklan (anti-diarrhea herbal medicine), Skina (anti-psoriasis), and Kae Wad Kilen (cold and fever remedy).

In terms of beverages, we began to import energy drink, Lipovitan-D (Ripobitan) from Japan's Taisho Pharmaceutical Co., Ltd. in 1965. As you know, Taisho Pharmaceutical Co., Ltd. is the world's leader in energy drinks. They invented the entire line. We began to manufacture Lipovitan in Thailand under license of Taisho Pharmaceutical Co., Ltd. in 1969. 11 years later, we came up with Magnum energy drink.

1985 marked the year we first introduced M-150 to the market. It is our most successful product by far. We launched electrolyte drink M-Sport in 1990. In 1998, we introduced non carbonated energy drink Magnum 357 and launched Shark carbonated energy drink in Australia. Shark is positioned to compete against Red Bull (another Thai brand) in the line of carbonated energy drinks. In Asia, we have been used to drinking non-carbonated energy drinks for the past 43 to 45 years. Hang, a specialty drink that helps relieve hangovers, was introduced in 2003. We came up with M-Max, the energy drink for people in their 20s, in 2004. M-Max targets consumers younger than the core drinkers of energy-drink products

After Japan, Osotspa falls second in terms of the world market for energy drinks. In Thailand, however, we remain the leader, holding about 67% of the market share with our flagship brands, M-150 and Shark, while Red Bull has 19%.

Osotspa entered the personal care, health and hygiene products market in 1984, handling brands such as Hula Hula (talcum powder), 12 Plus (teenager toiletries), Babi Mild (baby care products), Mamy Poko (diapers), and Sofy (Female Hygiene Products).

Babi Mild is developed by Osotspa and is one of the company's more successful brands in terms of the personal care, health and hygiene products market. It remains one of the top 3 in

Thailand. It can compete against Johnson & Johnson, Unilever and Avon. In fact, we have been recording better growth than Johnson & Johnson. I have been handling the company's personal care, health and hygiene products for the last 24 years (we started from zero to about THB 7 billion or over \$212 million) and our line of beverages for the last 42 years.

The company's total turnover is THB 18 billion (or roughly over \$545 million). Our products (especially our line of energy drinks) are among the leading ones in the country.

UNITED WORLD: Over the years, Osotspa has expanded its business to become a leading manufacturer and distributor of beverages and consumer products. The company expanded its international business operations to cover Europe, U.S.A. and most Asian countries. Can you tell us more about your line of energy drinks? We understand it is one of your most successful products.

MR. SOONTHORN KENG VIBUL: For beverages, in terms of units, the total market in Thailand is around 2 billion per year; worldwide, it is around 20 billion units annually. Thailand makes up approximately 20% of the world's total consumption of energy drinks. Red Bull entered the European (specifically, Austrian) market in 1987. The US market started to consume energy drinks in 1997, 10 years after the Europeans have.

Osotspa is bigger and better when it comes to energy drinks because we have many years of experience. The reason why we weren't successful in our foray into Europe via the Austrian market was because Red Bull had already established a presence in there. It was the wrong decision but that's all water under the bridge now. We're still quite big in Asian countries. In European countries, we sell our products in very small bottles. The same can be said of the US market.

In the international market, we are going into brand building. We are one of the leading companies in Thailand that really invests in branding. Most of the products in Thailand (mainly in exports) don't invest that much in branding.

Right now, the US market is the biggest with nearly 4 billion units per year. In Japan, the consumption is around 3.8 billion units annually. In Indonesia, the consumption of the liquid drink is around 1 billion units per annum while their consumption of the powdered sachet version is 2.5 billion units, making a total of 3.5 billion units per year.

There are 3 main kinds of energy drink products in the world today: non-carbonated (mainly consumed by Asians; is 70% of the world's consumption of energy drinks), carbonated (makes up 30% of the world's consumption of energy drinks) and powdered (sachet). In Asia, 55% prefer non-carbonated, and 45% consume the carbonated form. This is because the selling price of the carbonated drinks is very expensive (especially in the Western market). For instance, here, a product could cost THB10, which is around 35¢ in the US. In the US,

however, 1 can is \$2.29. In Europe, it would cost €1.50 to €1.60. You can see the big difference.

UNITED WORLD: Can you tell us about your target market?

MR. SOONTHORN KENGVIBUL: The target group for energy drinks in Asian countries are the blue-collar workers (those who work in the field, drive trucks, manual laborers, etc.). In the US, however, they target the younger people. There is a big difference. We use energy drinks in Asia in a functional manner, while they package the very same in the US as a fun drink that boosts energy so young people can party longer.

UNITED WORLD: Do you handle the entire line of energy drinks for Osotspa?

MR. SOONTHORN KENGVIBUL: Many years ago, the scope of what I handled covered our entire line, including personal care. However, I had to shift to focusing on the international operations for energy drinks. We focus on this segment because we are quite strong in terms of production.

We have an office in Austria and Africa. I am responsible for North and Central America, and Asia.

UNITED WORLD: We understand that cost is a bit of a challenge for you.

MR. SOONTHORN KENGVIBUL: Since we are in Thailand, we are using Thai Baht (THB) to fight against the Euro (€). It has been quite a challenge. In the Asian platform, we can compete against Red Bull, despite the fact that they have more money than we do (they get profits from Austria, which has a 50% share of their market). Cost-wise, however, we do have more ground to cover.

UNITED WORLD: The Osotspa Group of Companies is one of the leading and well-established Thai manufacturers and distributors comprised of more than 20 subsidiaries within the group. What is the company's vision?

MR. SOONTHORN KENGVIBUL: Our vision is to be a global player in the energy drink business. Our mission is to create value for those who consume our products. We develop, manufacture, and market superior specialty drinks that refresh the mind and body.

UNITED WORLD: What percent are you targeting?

MR. SOONTHORN KENGVIBUL: For beverages, we would like to derive at least 50% income from our overseas ventures. Right now, we have around THB1.8 billion. We are looking to getting THB9 billion in the next 5 years. Right now, we are bigger in terms of units (nearly 200 million units for export).

In terms of the local market, we are looking to getting more than 65%. We are pretty much set in the domestic market. We have to go abroad to increase our market share.

UNITED WORLD: According to you, the most important asset of any corporation is its people. Osotspa believes that the diversity and quality of its employees is key to its competitive advantage. How are you doing in terms of human capital?

MR. SOONTHORN KENGVIBUL: It remains a challenge for us. To go into the international market, on top of having a strong background and high level of skills, you also have to be adept in the English language. This is so you can communicate your ideas to the overseas market. This language barrier continues to be a challenge for us. It is difficult to find suitable people.

UNITED WORLD: You mentioned that Thai people have the best sense of taste in the world and this gives you the edge in terms of your food and beverage products. Can you elaborate on this?

MR. SOONTHORN KENGVIBUL: We have good products. I can say that ours are among the best in the world. This is strongly due to the fact that Thai food is highly varied. Our diversified cuisine gives us more trained palates. Thai people are among the few who can fully appreciate the different tastes in food (i.e., sourness, sweetness, saltiness, etc.). This gives us an edge when it comes to producing food products and beverages.

Our country is a testament to the kind of taste its people has. The soil is fertile and produces various fruits in abundance. This makes a whole gamut of flavors available to the Thai people. Sadly, these fruits cannot be exported because they are perishable and would not do well in transit.

All these elements combined are the reasons why we can come up with really tasty energy drinks. We are even better than the Japanese, who invented the product in the first place.

In the US, their product will not compare to what we have here. What they have there is energy drink/soda, not the real energy drink. Over there, I can say that our local brands can do better than Red Bull (whose performance declined after 2001, leaving them with a 35% market share). Monster Energy Drink has managed to come close to Red Bull. In some areas, Monster has done better than Red Bull. Las Vegas-based Rockstar Energy Drink is similar to Monster Energy Drink.

UNITED WORLD: You mentioned that you only exported small sized in Europe and the US. Is there a maximum limit to consuming energy drinks?

MR. SOONTHORN KENGVIBUL: Normally, the ideal serving for an energy drink is 8oz. or 250 cc. This is no longer being observed globally. American people love big sizes. They market 16oz. or 500 cc. for the same price. This is what they call super-sized value promotion. They even sell as much as 1 liter per serving for energy drinks. They consume energy drinks the way they would soda. They don't treat it like the specialty drink that it is. American marketing people do this because they know their people. The US is the only country that Red Bull failed to dominate. In 2008, it has been forecasted that Red Bull will only hold less than 35% of the market. Of course, in European countries, Red Bull still retains its leading position.

I don't think the American concept of the energy drink will be the same as this part of the world. They love big things. Asians, however, drink it for its functionality and so we treat it like the specialty drink that it is and consume it in significantly small portions as compared to the US.

UNITED WORLD: What challenges have you met in the US market?

MR. SOONTHORN KENGVIBUL: The most difficult thing in the US market is the Center for Institution. We've been going there for 10 years. Being Thai and without US connections, it was not easy. Even though we have an office there (it has been in existence for 5 years), we have a very small market share.

UNITED WORLD: What are your plans for the US market?

MR. SOONTHORN KENGVIBUL: We are changing our strategy and launching our non-carbonated line of energy drinks there, using a label design suitable for American people. We don't want to get into the carbonated market as it is already saturated.

We'll package our non-carbonated energy drinks in bottles because it carries a perception of premium quality there. This is different from what is believed in Asian countries that prefer the canned packaging because it looks smart.

We launched our product last year, in Los Angeles. We are quite sure that if we follow the new strategy, we can be one of the leading energy drinks there. More recently, we entered into the mainstream. It has been two months so far. We've done some sampling in the US. People have tried our product and loved it.

To cover the mainstream market in the US is not that easy. It takes a lot of marketing and promotions to convince the market that ours is a good product. We must be able to sell a certain volume to prove that. How can that be done without penetrating the mainstream first?

UNITED WORLD: In terms of your line of energy drinks, what do you see in the future?

MR. SOONTHORN KENGVIBUL: I see stronger promotional and marketing efforts put into our non-carbonated line of energy drinks. M-150 is our future. Our strategy is to focus on our non-carbonated line for markets that are saturated with carbonated energy drinks. This is how we will achieve product differentiation. This is precisely the strategy that we are using in the US. If this is successful, we will use the same action plan for the European market.

UNITED WORLD: How has it been so far?

MR. SOONTHORN KENGVIBUL: So far, so good. People have been open to trying our products and have found that they like it. While the youth makes up the majority of the market for energy drinks, the Hispanic market posts the biggest consumption for energy drinks. That is what we are targeting. In the US, there are about 40 million Hispanics, half of which are from México. The Mexicans enjoy life and drink a lot of liquor.

UNITED WORLD: What is the next step for the American market?

MR. SOONTHORN KENGVIBUL: Our income mainly comes from M-150 original. It is exactly the same thing that we sell in Thailand, but this market is focused on the Asian supermarkets. That means, the number of consumers is not so big. However, we are number one in that category.

We also introduced Shark to the US market, but it hasn't quite picked up yet. We have to set-up our non-carbonated line then try to make that shift. This means, we have to change our product as well. Like I said, in the US, they drink energy drinks the same way they do soda. We are even going to produce a product to go against it. To be more cost-efficient, we intend to produce there. We also plan to have it in big bottles (235cc to 250cc). These are all carbonated.

After we have successfully set up operations in Los Angeles, we plan to go nationwide. Even though we have less money, we are willing to spend it for branding. It is a worthy investment. That helps us see the light at the end of the tunnel.

We give this 6 months to a year (maximum). We are looking to penetrate the different branches of 7-11 as well as the other convenience stores, as they are the main outlets for our energy drink over there. Unlike the other energy drinks that have taken on a different image, we are looking to be the true energy drink that keeps you going. We are taking on a functional angle.

We don't want to go in unless we lock the area first. That is why we are willing to invest money in it. We want to make sure that we own our niche.

UNITED WORLD: What particular products are you focused on?

MR. SOONTHORN KENGVIBUL: Right now, we are focused on energy drinks. We have the electrolyte beverage, M-Sport. This is the second product that we are looking to launch overseas. I will bring this product to Asian countries first, in places where we have strong networks (i.e., Indonesia, Yemen, Laos, Cambodia, etc.).

UNITED WORLD: Thank you very much for your comments.
