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BUSINESS REVIEW BY CEO



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LIM YEW HOE
 Chief Executive Officer

Dear Shareholders and Stakeholders,

2018 was another year of global and regional uncertainties, as well as a dynamic policy environment locally. Nonetheless, with our commitment to long-term sustainability, we continued to invest in our future, continuing the transformation within our organisation, empowering our people, re-engineering our processes, and rethinking the way we do business.



▼ Group Revenue:
RM4.1 billion

Launched **13 new products** in FY2018

Exports on track to surpass **RM800 million sales target** by 2020



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>RM500 million
invested over a
3-year period to
increase capacity
and build our
capabilities

We focused on strengthening our operational capability through capacity building, cost optimisation, portfolio rationalisation in addition to delivering new and unique product offerings and expanding the reach of our export business. Our disciplined focus on initiatives that create long-term value has helped us achieve some positive results in FY2018.

During the year, we began to reap the fruits of our transformation programme which we embarked on in 2015, capturing cost synergies for our Malaysian operations, especially in times when the margin of our business was not optimum.

The completion of some earmarked capital expenditure (CAPEX) projects this year expanded our production capacity, which enhanced our export capability to meet growing demand from overseas markets. Exports continued to grow at double-digit rate for the fourth consecutive year, putting us on track to surpass the Group's RM800 million export sales target by 2020.

Our investments in new production technologies yielded positive results in producing high quality and healthier options packed with functional goodness. During the year, we introduced 13 new products, with healthier options and differentiated packaging to meet the discerning taste of modern consumers. The new entrants received positive market response, which in turn contributed to the increase in our overall market share.

Overall, Food & Beverages Malaysia (F&B Malaysia) recorded revenue growth for three consecutive quarters since Q2 2018, signalling regained stabilisation post restructuring. Similarly, Food & Beverages Thailand (F&B Thailand) also continued to deliver positive results in both top and bottom-line despite general market contraction in Thailand.

OPERATIONAL HIGHLIGHTS

As a market leader, we need to constantly find new opportunities and formulate strategies to sustain profitable growth, even under challenging market conditions.

Consequently, all our efforts are primed into making the right decisions and taking appropriate strategies to drive our long-term growth objectives rather than taking short-term actions. The core idea is that, we must be prepared to meet all future challenges and ride the wave with our robust strategies when the tipping point comes. In short, we will be future ready.

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Some of our key deliberations in 2018 are:

• **Consumer-centric Innovations:**

It is perhaps more imperative now than ever in our 135 years' journey to respond positively to consumers' changing taste preference and shifting lifestyles.

The encouraging response to 100PLUS Reduced Sugar, which gained three per cent share of the Isotonic category within just three months of its introduction in April 2018, reaffirmed our ability to formulate healthier options of our winning brands. This has boosted our confidence to launch more innovative and healthier alternatives for consumers in the near future.

We are committed to live up to our promise of "Pure Enjoyment, Pure Goodness", and will continue to offer more healthier choices and drive product innovation while advocating active lifestyles among our consumers.

Beyond meeting end-consumer expectations, we have also leveraged our inherent strengths to provide innovative solutions to our partners in the business and industrial segment. For example, our portfolio of Sweetened Condensed Milk and Evaporated Milk are now available in a wide range of packaging formats from single serve stick and squeezable tube to 20kg packs to meet industrial and specific buyers' needs.

• **Re-engineering Go-to-market Strategies:**

We started the journey to realise the power of 'one' when we harmonised our distribution network last year. In 2018, we witnessed greater operational efficiencies in our route-to-market as well as improved ease of doing business with our retailers.

However, significant sales volume growth from the merging of our beverage and dairies businesses require paradigm shifts in our sales strategies. During the year, we armed our sales teams with cross-selling skillsets through the Sales Excellence Programme. The 44-week programme established a sustainable and methodological approach to drive operational excellence and efficiency in our Sales Force by maximising portfolio sales in each outlet.



The changing dynamics in retail landscape and consumer purchasing behaviour also means our go-to-market strategies need to be adapted accordingly, including greater focus on e-commerce.

• **Fuelling Exports:**

Exports has played an increasingly important role for the Group. Volume growth from international markets has to some extent, helped neutralise the top and bottom-line pressures and balance our foreign currency exposure.

From a geographical perspective, more than 15 per cent of our sales are now generated outside of Malaysia and Thailand. Our Exports business has grown by 38 per cent from FY2015 in just three years of added focus.

We recognise the immense potential of our Exports business and plan to accelerate our venture into high-potential markets, particularly in ASEAN, the Middle East and African countries as well as Greater China region.

The RM25 million debottlenecking initiative at our dairy plant in Pulau Indah will significantly increase our annual capacity to fuel and accelerate exports from Malaysia.

• **Extracting Value from Portfolio Rationalisation:**

Fraser & Neave Holdings Bhd ("F&NHB" or "The Group") currently has 20 brands that compete in different categories in the market. As such, we took a comprehensive approach to fully extract the value of our portfolio. This involves assessing the strategic fit of each brand to maximise return on investment and enable us to prioritise high value opportunities.



In this respect, we have consolidated F&N SEASONS, F&N NutriSoy and F&N NutriWell under the F&N SEASONS master brand and revitalised it with a packaging facelift this year. F&N SEASONS is today another power brand in our portfolio with annual revenue of over RM200 million.

We undertook a similar exercise in our sweetened condensed and evaporated milk products which has resulted in clearer positioning and differentiated objectives for every brand that we offer in this category.

• **Catalysing Growth from Within:**

We recognise that the full value of our transformation programme can only be achieved when our people are harmonised to work towards a common goal. Global Values were rolled out this year to cultivate a unifying culture of Collaboration, Creating Values, and Caring for Stakeholders in each of our employee.

Through our Human Capital Roadmap to 2020, F&NHB has a clear strategic plan to continue positioning ourselves as a preferred employer. 'Beverest', a total performance management system for the ThaiBev/F&N Group was implemented in 2018 to better manage our talents, key performance indicators and individual development plans.

Since 2017, F&NHB has incorporated talent management as a shared corporate Key Performance Indicator (KPI) for all Executives to reinforce that people development is the responsibility of every executive.

To encourage a strong feedback culture in the workplace, we have introduced F&N VOICE - an easy and quick feedback channel for employees to share whatever view they have on any matter, directly with senior management via WhatsApp mobile messaging platform.

To further accelerate the process from product development to commercialisation, our R&D and manufacturing functions come under the same management team with effect from 1 October 2018.

PERFORMANCE IN 2018

Our FY2018 performance reflects the strength of our strong and diverse portfolio of trusted brands, our ability in formulating healthier options that taste good, and the solid execution of strategy and priorities for each of our strategic pillars, namely F&B Malaysia, F&B Thailand and Exports.

We recognise the immense potential of our Exports business and plan to accelerate our venture into high-potential markets, particularly in ASEAN, the Middle East and African countries as well as Greater China region.



Despite cautious consumer spending, our key brands such as 100PLUS, F&N SEASONS, OYOSHI and F&N Fun Flavours maintained leading positions in their respective categories in FY2018. Similarly, F&N's stable of Sweetened Condensed and Evaporated Milk maintained their market leadership. New introductions have also helped 100PLUS to further expand on its already prominent market share in the isotonic category.

In Thailand, F&N reinforced its number one position in both value and volume share in the total condensed milk market, thanks to successful marketing and branding initiatives. This year also saw the launch of TEAPOT Squeeze Tube flavoured variants and expansion of hawker coverage to about 13,000 outlets in Cambodia and Laos, solidifying F&N as the region's market leader in condensed milk products.

Exports continued its growth trajectory and we expanded the reach of F&N products to 68 countries this year. Strategies are in place to further grow existing and new markets and to build Exports as a significant contributor for the Group. In FY2018, our export business contributed more than 14 per cent of the Group's operating profit.

F&NHB concluded the financial year ended 30 September 2018 with a marginally higher revenue at RM4.11 billion compared to RM4.10 billion last year underpinned by effective festive promotions and higher exports sales which mitigated the impacts from portfolio rationalisation.

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Group profit before tax grew by 19.5 per cent for the financial year ended 30 September 2018. Excluding restructuring costs and other one-off items incurred last year, profit before tax for the Group grew by 3.2 per cent.

Our profit performance during the year is a positive effect of cost initiatives, favourable input cost for sugar, favourable foreign currency impact and restructuring costs incurred last year, which was offset by higher costs for some dairy-based material, packaging costs and higher marketing spend.

Segmentally, F&B Malaysia recorded a marginally higher revenue of RM2.322 billion for the financial year ended 30 September 2018, compared to RM2.319 billion last year while operating profit increased by 38.1 per cent to RM166.7 million from RM120.7 million last year. Excluding restructuring costs and other one-off items, operating profit of F&B Malaysia eased by 4.5 per cent.

F&B Thailand sustained its growth and market leadership during the year through successful new product introductions, supported by effective branding and consumer trade campaigns. Despite a difficult domestic market environment, revenue for F&B Thailand grew 2.2 per cent in local currency terms but gained marginally by 0.3 per cent to RM1.787 billion due to the strengthening of the Ringgit against Thai Baht.

F&B Thailand's operating profit for the financial year ended 30 September 2018 rose 13.1 per cent to RM258.0 million compared to last year on the back of higher export revenue, favourable input costs and lower overheads. The gains were partly offset by higher marketing spend for new product introductions and brand building activities.

See Business Review and Segmental Analysis sections for more financial information on F&B Malaysia and F&B Thailand.

BUILDING A FUTURE-READY BUSINESS: SOCIAL AND ENVIRONMENTAL EQUITY

Sustaining a business requires a balance approach to long-term social, environmental and economic objectives. This in essence, drives our strategic decisions to innovate and deliver healthier options, and more sustainably produced products.

We have taken on board consumers' lifestyle shift and the Government's call for healthier beverages. In 2018, the entire 100PLUS range and F&N SEASONS Chrysanthemum Tea have been reformulated with reduced sugar and certified with Healthier Choice Logo by Malaysia Ministry of Health (MOH), along with OYOSHI Green Tea and F&N Ice Mountain Mineral & Drinking Water. Our goal is to offer a healthier option in every product category that we are in by 2020.

While we focus on building a sustainable business, we will continue to fulfil our responsibility towards sustainable development of the communities, the environmental and the economy where we operations.

We are continuously exploring ideas and leveraging technologies to reduce and review the composition of our packaging materials. For instance, the new Cold-Aseptic Filling Polyethylene Terephthalate (PET) line at the Shah Alam plant uses 40 per cent less PET resin packaging.

The Group's CAPEX for the past three years helped facilitate insourcing production capabilities. By increasing our production and warehousing capacity and shortening our route to the different markets we serve, we aim to further minimise the environmental impact of our operations.

“While our results in 2018 illustrated our capability to derive better cost synergies, our priority going forward will be on revenue growth.”



WAY FORWARD: THE GROWTH ENABLERS

Moving forward, our future growth will be supported by three key drivers, namely innovations, excellence in execution, and cost competitiveness. While our results in 2018 illustrated our capability to derive better cost synergies, our priority going forward will be on revenue growth.

Our inclusive growth strategy will encompass:

- Creating value for our people, consumers, business partners, shareholders and the society we operate in;
- Growing our brands and portfolio of products to win in more markets;
- Growing the breadth and depth of our market reach including e-commerce, exports, B2B segment.



• Innovations:

Innovations no longer merely refer to new product developments, notwithstanding that a steady pipeline of new consumer-centric products would augur well for the company's future.

We want our people to find new ways to operate more efficiently and effectively while providing positive experiences to all our stakeholders. In other words, innovations that support the growth of our people, our brands and our markets.

We will embed innovation into our strategies to drive both incremental and step change in whatever we do, by harnessing talent and technology, optimising our resources, and foster meaningful engagements with our stakeholders.

On products, our strategy is to go beyond organic growth, by expanding usage beyond traditional occasions, as well as moving into adjacent categories and one-step dairy-based ingredients for F&B applications. We will continue to cater to consumers' emerging lifestyles by offering healthier choices, convenience and flexibility.



• Excellence in Execution:

As we strive to be a high performing and sustainable organisation, every function in F&N must strive for excellence in execution and every employee must be empowered to perform their best.

This requires good talents with the right job fit, powered by updated systems and simplified processes. Towards this, we have dedicated more resources to improve and simplify our business processes through resource optimisation and technology.

In continuation of the Sales Excellence Programme in 2018, we will introduce initiatives to instil excellence in execution in all functions and equip our people with the right skillset to be future-ready.

We will also tap the potential of big data analytics and artificial intelligence to be more scientific in our methodologies and drive meaningful business decisions.



• Cost Competitiveness:

We will continue our disciplined approach in cost management and employ the best operating model with optimal cost to gain cost competitiveness in the market.

As more of our CAPEX projects come to fruition, the added capability to expand our product offerings as well as capacity to fuel export business will improve our economies of scale. We will be increasingly looking at insourcing our products to lower our production and operating cost.

In manufacturing, we will also continue to enhance our productivity and cost efficiency through employee-driven innovation programmes such as 'Excel as One' and 'Winning as One' in Malaysia and Thailand respectively. Ideas from these programmes have delivered cost savings/avoidance of approximately RM10 million per annum for the Group.

OUTLOOK

The domestic market in Malaysia and Thailand will remain challenging amidst intensifying competition as well as the volatility in forex movements and commodity prices. The Group has, nevertheless, partially hedged our core commodity requirements for the coming financial year with the corresponding foreign currency exposure wherever possible.

While sugar prices are expected to remain stable, in Malaysia we will assess and closely monitor the impact of the imposition of excise duty on sugar sweetened beverages starting 1 April 2019, as announced in Budget 2019, including taking appropriate actions on a timely basis.

We will accelerate our R&D to launch more innovative and healthier alternatives in 2019. Our recent investment in technology also provided the flexibility in packaging options aside from extending our new product pipeline.

In Thailand, we have begun to pay corporate taxes following the full utilisation of promotional incentives granted by the Board of Investment. We will sharpen our competitive edge through continued efforts in brand building and leverage on the synergy with ThaiBev to further extend the reach of our products into the F&B retail channels.

Moving into 2019, our teams are more nimble and agile, with our people across departments and product categories operating as 'one' focused team, and the initiatives in strengthening our sales execution this year will help us optimise our portfolio cross-selling.

I would like to take this opportunity to thank all our shareholders and stakeholders for believing in our brand, our leadership, and our efforts to create value as we continue to forge ahead and generate profitable and sustainable growth for many years to come.

Lim Yew Hoe
 Chief Executive Officer