

# CEO BUSINESS REVIEW

## FOOD & BEVERAGE

I am pleased to report that despite a still-difficult macroeconomic environment, our F&B division made good progress this year.

**MR LEE MENG TAT**  
Chief Executive Officer,  
Non-Alcoholic Beverages



### FOOD & BEVERAGE OVERVIEW

Our Vision 2020 is to be the leading Food & Beverage (“F&B”) player in ASEAN. In pursuing this vision, F&N is continually faced with the twin challenges of performing in the near-term while making longer term transformative moves to realise future growth opportunities and sustain long-term shareholder value amid a rapidly changing market environment. Last year, we embarked on our first regionalisation plan and started to strategically invest beyond our core markets of Singapore, Malaysia and Thailand. This year, we continued on our journey of transformation. In our core markets, we stepped up investments in our power brands, capabilities and infrastructure, and solidified our leadership positions, in order to achieve the goals of Vision 2020. We focused on strategic initiatives to make our business more efficient, particularly in Malaysia where we began to align the operating structure to fully leverage the scale of our soft drinks and dairy businesses in that market. We continued to develop new pillars of growth by putting significant investment in new markets of Myanmar, Vietnam and Thailand (soft drinks). We also

boosted our investment in research and development (“R&D”) to build a stronger platform for future growth. We have also beefed up our management bench strength and talent pool.

I am pleased to report that despite a still-difficult macroeconomic environment, our F&B division made good progress this year.

- F&B FY2016 PBIT was up 32% to \$142m, from \$107m
- F&B FY2016 PBIT margin improved 2pp, from 6% to 8%
- Dairies powered F&B earnings growth; its FY2016 earnings jumped 72% to \$119m
- F&N retained leadership positions in core markets
  - Dairies Thailand maintained its No. 1 position in canned milk segment with market share improvement; and continued to gain market share in the ready-to-drink (“RTD”) milk segment
  - Dairies Malaysia maintained its No. 1 position in canned milk segment; its market share gain

in liquid milk was ahead of industry growth

- Beverages Malaysia maintained leadership position with *100PLUS*, the No. 1 RTD soft drinks brand in Malaysia
- We extended our product offerings and deepened our presence in new markets
  - *100PLUS* is now the leading isotonic drink in Myanmar; we launched additional *100PLUS* variants and *TEAPOT* Sweetened Beverage Creamer and Evaporated Milk
  - Vietnam recorded significant volume growth of *100PLUS*; its growth outpaced the projected 19% market growth rate of Vietnam’s isotonic segment in 2016
- Capital expenditure amounting to about S\$100m (RM300m) has been planned in Malaysia to cater to increasing demand in core markets, as well as to support our regional expansion plans
- F&N is now the No. 2 vending player in Singapore, following the acquisition of Warburg

**In This Section**

Food & Beverage Overview	34
Beverages • Core Market • Malaysia	38
Beverages • Core Market • Singapore	42
Dairies • Core Market • Malaysia	46
Dairies • Core Market • Thailand	49
Dairies • Core Market • Singapore	52
Dairies • Ice Cream	54
New Market • Myanmar	56
New Market • Vietnam	58
New Market • Thailand	60

**F&B REVENUE**

Despite recording volume gains, F&B FY2016 revenue fell 6%, to \$1,671m. The fall in revenue was mainly due to negative translation effect from our operations in Malaysia, adverse impact from competitive pricing and the loss of *RED BULL* sales. F&N, in September 2015, ceased to be the *RED BULL* distributor in Malaysia. Excluding *RED BULL* and translation impact, in constant currency, F&B revenue would have grown 3%.

This year, the core brands of *100PLUS*, *F&N SEASONS*, *OISHI* and *F&N MAGNOLIA* each recorded volume gains, on effective execution of consumer and trade marketing programmes over the festive periods and a strengthened route-to-market. In particular, *100PLUS* continued to grow from strength to strength, registering a 5% increase in volume from FY2015. As a result of our focus on execution, we were able to retain our leading positions for Soft Drinks in Malaysia and Singapore, as well as Canned Milk in Malaysia and Thailand, and Chilled Juices in Singapore.

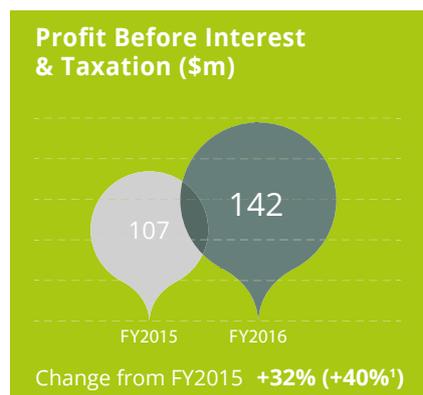
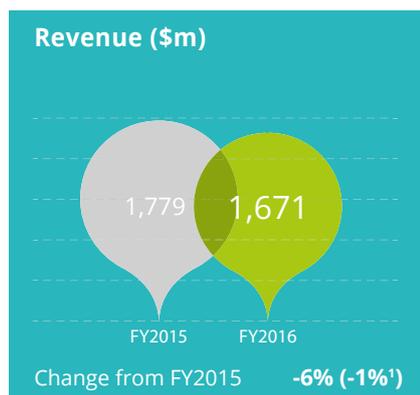


**F&B PROFIT**

Despite the fall in revenue, F&B FY2016 profit before interest and taxation ("PBIT") jumped 32%, to \$142m.

Strong growth in Dairies bolstered our full-year earnings, marking Dairies' third consecutive year of profit growth.

Despite translation losses, Dairies FY2016 PBIT jumped 72% (+81% in constant currency) to \$119m, as a result



<sup>1</sup> In constant currency

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of strong canned milk volumes across key brands, lower input costs and improved operational efficiencies. Consequently, Dairies PBIT margin improved significantly, to 11% from 6% in FY2015.

Beverages recorded a weaker performance in FY2016 compared to FY2015. Despite successful execution of consumer and trade promotions, earnings were adversely impacted by intense pricing pressures, loss of contribution from *RED BULL*, weaker Malaysian Ringgit, continued brand investments and operating expenses associated with new product launches and regional expansion in new markets. As a result, Beverages FY2016 PBIT declined 40% to \$23m. In constant currency, earnings of Beverages would have fallen 33%.

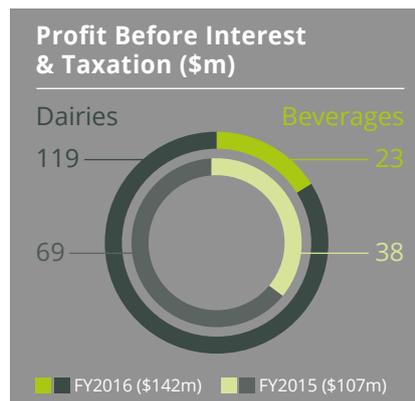
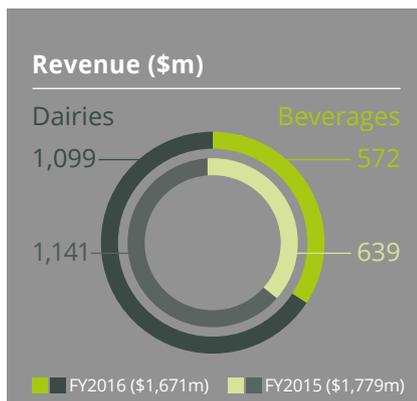
### CORPORATE DEVELOPMENT

In July 2016, the Group acquired Warburg Vending Pte Ltd, Warburg Engineering Pte. Ltd. and Warburg Vending Services Pte. Ltd. (collectively, "Warburg") for approximately \$29m in cash. Warburg is a leading vending player in Singapore with over 18 years of operational experience, and has been our partner since 2011.

The acquisition of Warburg was a strategic fit with F&N's food and beverage business. Together with Warburg, we increased our total number of active vending machines by almost threefold. We expanded our vending network and increased our brand visibility in both public and private segments, across educational, industrial and commercial sectors in Singapore.

### REACH

This year, we undertook a major restructuring exercise to integrate our soft drinks and dairies operations in Malaysia. The result was a stronger and more efficient operation. We were able to apply the combined assets, operating resources and capabilities of soft drinks and dairies to derive more efficient logistics and distribution through scale, and ultimately better satisfy customer needs. This restructuring of our operations in Malaysia will continue into FY2017. We will further integrate functions and extract synergies to reap maximum benefits for the Group.



**INNOVATION**

We have had one of the strongest line-up of new products last year. We launched flavour extensions for *100PLUS* and *OISHI*; rejuvenated packaging for *100PLUS* and *F&N Sparkling Drinks*; introduced limited edition *F&N Sparkling Drinks Pink Grapefruit*; entered new categories with *COCO LIFE* and *F&N MAGNOLIA Ginkgo Plus*. This year, while we nurture the products that were introduced last year, we continued to delight our growing consumer base with even more launches. We rolled out close to 20 new products/flavours, including *F&N ICE MOUNTAIN Sparkling Water*, *F&N MAGNOLIA UHT Kids*, *F&N NUTRIWELL Snow Fungus* with Wolfberry and introduced limited edition *KING'S Potong Teh Tarik* and *Mao Shan Wang ice cream*, in Malaysia, Singapore and Thailand.

Going forward, we will intensify our R&D and marketing efforts on our portfolio of healthier products, in particular the isotonic, soya, RTD tea and milk categories, in anticipation of the increased government and consumer focus on health and wellness.

**FY2017 AND BEYOND: OUR TRANSFORMATION JOURNEY CONTINUES**

With good progress made and strong foundations laid, we are confident in forging ahead, fully cognizant that there will be challenges along the way. The weaker global economy and volatile financial markets may weigh on consumer confidence and demand. In addition, we are also contending with,

amongst other factors, the ever intensifying competition, ongoing pricing pressures, changing regulatory environment and rising input and operating costs.

We have clear strategies in place to continue to shape the F&B business while delivering results. We will continue to drive growth in our

existing markets by leveraging our brand strength, channels of distribution and manufacturing capabilities. To ensure sustainable revenue and profit growth, the Group will continually evaluate investment opportunities while keeping our focus on deepening our presence in the new markets of Myanmar, Thailand and Vietnam.

