

# CEO BUSINESS REVIEW

DAIRIES • CORE MARKET

## MALAYSIA

### DAIRIES MALAYSIA: RESULTS

On the back of effective brand building programmes, Dairies Malaysia maintained its No. 1 canned milk position with *F&N*, *TEAPOT* and *CARNATION* brands amid a slowdown in retail and consumer spending and rising cost of living. Impacted mainly by the depreciation of the Malaysian Ringgit against Singapore Dollar, revenue fell 9%, to \$325m, on a 1% decline in volume. While domestic volume recorded marginal decline, the strong performance of its Export business cushioned the fall. In constant currency, revenue would have fallen 1%.

Aided by lower input costs and ongoing productivity improvements, Dairies Malaysia PBIT jumped 34% against the previous year, to \$48m,

#### Volume (%)

▼ 1%

#### Revenue (%)

▼ 9% (▼ 1%<sup>1</sup>)

#### Profit Before Interest & Taxation (%)

▲ 34% (▲ 46%<sup>1</sup>)

#### Profit Before Interest & Taxation Margin (%)

▲ 5pp

1 In constant currency

despite negative translation effects. In constant currency, its profit would have risen 46%. On the back of strong profit growth, PBIT margin improved 5 percentage points, to 15%.

Leveraging its strengthened distribution network – more than 63 distributors, 37 modern trade retailers and 76,560 stores nationwide – and marketing campaigns focusing on the application of its canned milk products in food and beverage, Dairies Malaysia was able to maintain its leadership positions in the condensed milk and evaporated milk segments in Malaysia.

Like its canned milk brands, Dairies Malaysia saw double-digit volume growth in its liquid milk brands, *F&N MAGNOLIA* and *FARMHOUSE*, in FY2016. *FARMHOUSE*, in particular, remained the leading premium pasteurised milk in Malaysia. This year, Dairies Malaysia continued to focus its efforts on growing its presence in the RTD liquid milk segment in Malaysia. Riding on the very successful launch of *FARMHOUSE* UHT milk and reintroduction of *F&N MAGNOLIA* Lo-Fat Hi-Cal pasteurised milk in FY2015, the Group started offering *F&N MAGNOLIA* UHT milk, in different flavours and pack sizes, to milk lovers in Malaysia.

In addition to reinforcing its market leading position in the canned milk category in Malaysia, Dairies Malaysia will also move forward with a focus on growing its presence in the RTD milk category. Building on our tagline 'PURE ENJOYMENT. PURE GOODNESS', Dairies Malaysia will continue with its targeted marketing activities to drive the growth of this segment in the years ahead. The Group believes that *F&N MAGNOLIA* and *FARMHOUSE* are well-positioned to leverage the Group's in-house expertise, product offering and trusted relationships with consumers

to support the growth of Dairies Malaysia in the future.

The Group started a restructuring exercise to integrate its soft drinks and dairies operations in Malaysia. This exercise seeks to combine the strengths of both Soft Drinks Malaysia and Dairies Malaysia brands and streamline their procurement, distribution, logistics and services to better serve their customers and improve the scalability of Malaysia F&B's operations. The integration of the Malaysian operations will continue into FY2017.





**CANNED MILK: GETTING CREATIVE WITH CONDENSED AND EVAPORATED MILK**

**F&N**

F&N Canned Milk reinforced its No. 1 Condensed and Evaporated Milk position by focusing its marketing campaign on the application of canned milk in food and beverage. This year, a major marketing highlight was the “Aroma Kasih Sayang” campaign – a key campaign launched with one of Malaysia’s celebrity couples aimed at strengthening bonding moments for friends and family. In addition to trade promotions, the campaign also offered eight deliciously

easy-to-make F&N recipes, to highlight the theme of togetherness.

Another key initiative was the launch of “F&N Bake Off Challenge” campaign. The challenge saw 24 students demonstrating their ability to create amazing multi-layered mousse-based cake using F&N Full Cream Sweetened Condensed Milk and Evaporated Creamer, for the coveted title of “Entremet Maestro”.

**CARNATION**

CARNATION, Nestle’s brand licenced to F&N, has become the leading evaporated creamer brand in Malaysia. In collaboration with, for the second consecutive year, international recording artiste and MasterChef Soo Wincci, the “Go Gourmet” campaign introduced her signature dishes using CARNATION Evaporated Creamer, positioning the brand as a reliable cooking helpmate that allows one to create consistently delicious meals.

To further drive in-home consumption, Dairies Malaysia organised a series of live cooking demonstrations nationwide. At the demonstrations, CARNATION Evaporated Creamer was used to showcase the ease of incorporating the product into everyday dishes and beverages.



**TEAPOT**

In FY2016, TEAPOT refreshed its brand imagery and rolled out a nationwide consumer promotion, “Tradition in a TEAPOT”, to communicate its brand heritage and consistent quality. To maintain brand visibility and strengthen its brand positioning, the campaign employed above-the-line advertisements, sampling opportunities and in-store displays.

**LIQUID MILK: NEW GROWTH PILLAR**

**F&N MAGNOLIA**

Having established a foothold in the pasteurised and sterilised milk segments, F&N MAGNOLIA further entrenched its presence in the local



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## DAIRIES • CORE MARKET MALAYSIA

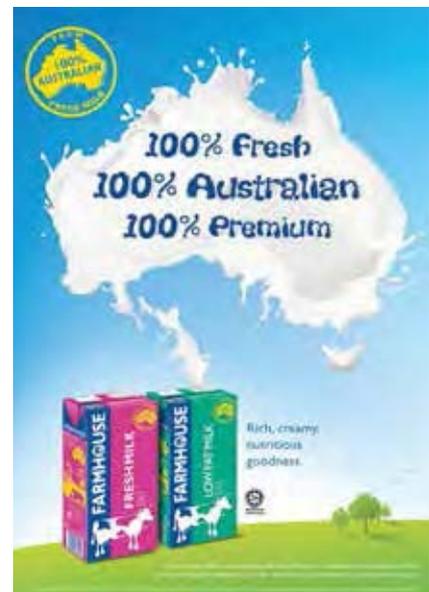
UHT milk segment – the largest in terms of market size in the RTD milk segment – with *F&N MAGNOLIA* UHT Milk. Available in full-cream, low-fat and chocolate milk variations, in 1L and 200ml packs, the new product offers Malaysians a wider choice and convenience when it comes to RTD milk.

As part of its integrated campaign which included television, radio and print advertisements, as well as roadshows, *F&N MAGNOLIA* also partnered brand ambassador Farah Ann in educating consumers about the importance of drinking milk daily for a healthy body and mind. Farah Ann is Malaysia’s national youth gymnast, a medallist and a role model for youths. To create further awareness and trials for *F&N MAGNOLIA* UHT Milk, product sampling was carried out in schools, retail outlets and shopping malls nationwide.

In the food service industry, or Hotels, Restaurants and Cafés (“HORECA”) segment, *F&N MAGNOLIA* introduced the trade to its Barista Fresh Milk. Through sponsorship and participation in barista competitions, latte art workshops and coffee expos, *F&N MAGNOLIA* aimed to encourage conversion of HORECA customers to its specially formulated Barista Fresh Milk.

### FARMHOUSE

*FARMHOUSE* continued to focus communication of freshness and creamy texture of its Australia-sourced milk in its above- and below-the-line advertisements for its pasteurised and UHT milk. To drive higher brand awareness and acceptance of *FARMHOUSE* UHT Milk, which was launched last year, samplings were conducted in stores and at offices. A cross promotion with breakfast cereals was also conducted to drive breakfast consumption, the main consumption occasion of milk.



## DAIRIES • CORE MARKET

## THAILAND

## Volume (%)

▲3%

## Revenue (%)

▲0% (▲2%<sup>1</sup>)Profit Before Interest  
& Taxation (%)▲65% (▲68%<sup>1</sup>)Profit Before Interest  
& Taxation Margin (%)

▲5pp

<sup>1</sup> In constant currency

## DAIRIES THAILAND: RESULTS

Growth of the Group's best performing operation, Dairies Thailand, continued unabated in FY2016. Volume grew 3%, despite lost sales from Nestle's *BEAR BRAND* and *MILO* UHT milk products, due to strong demand for its RTD milk and canned milk brands. The strong demand was supported by effective consumer and trade marketing activities, contribution from new launches of *F&N MAGNOLIA* UHT milk products and increased distribution coverage. Revenue increased marginally year-on-year, to \$539m, due to adverse foreign exchange translation effects. In constant currency, Dairies Thailand would have recorded a 2% revenue growth. In spite of flat revenue, its PBIT jumped 65% year-on-year, to \$67m, mainly due to favourable input costs,

improved operational efficiencies and more cost-effective trade distribution. Consequently, PBIT margin improved 5 percentage points, to 12%.

One of Dairies Thailand's success factors is its ability to harness its extensive distribution network, which is supported by 18 distributors, 350 retailers and 137,000 stores. In FY2016, Dairies Thailand continued to expand its distribution coverage, mainly in the convenience channel, in line with the shift in consumer buying behaviour from planned purchase to frequent and spontaneous purchase based on convenience, promotions and product range. Dairies Thailand's effective distribution strategy has allowed it to reap positive sales growth particularly in the convenience channel.

While the canned milk market in Thailand recorded single-digit growth rate, Dairies Thailand saw a double-digit volume growth in its canned milk business, supported by *TEAPOT* and *CARNATION* brands. The strong performance was due to focused marketing campaigns and initiatives, as well as effective distribution strategy. Consequently, as at FY2016, F&N's market share improved to retain its No. 1 total canned milk position in Thailand.

Dairies Thailand's first functional UHT milk, *F&N MAGNOLIA* Ginkgo Plus, continued to perform strongly in this fiscal year. Targeted marketing investment behind the brand resulted in double-digit volume growth and a 3% market share in the UHT Milk (All Family) segment in Thailand. This year, to maintain the growth momentum and to tap the rapidly growing UHT Milk (Kids) segment, Dairies Thailand extended its offering of UHT milk products by introducing the new *F&N MAGNOLIA* Kids Milk for young children. Within three months of its launch, *F&N MAGNOLIA* Kids Milk gained credible market share,



a testament to the strength of *F&N MAGNOLIA* brand and Dairies Thailand's route-to-market abilities.

In the coming year, Dairies Thailand will continue to fortify its market leading position in the canned milk category in Thailand. It will continue with its targeted marketing activities to drive the growth of this segment in the year ahead. As a reflection of our commitment and confidence in the canned milk segment, Dairies Thailand invested in a new filling and packaging line for evaporated milk, which was ready in February 2016, following the renewal of the Nestle's trademark licence agreement in 2015. The Nestle's licence was renewed for 22 years, until 2037, for the manufacturing and distribution of Nestle's products in Singapore, Thailand, Malaysia, Brunei and Laos.

In addition to canned milk, Dairies Thailand will continue to build market shares in the RTD milk segment with *F&N MAGNOLIA* (UHT milk segment) and *BEAR BRAND* (sterilised milk segment). It looks to build on its growing market positions of these brands in their respective segments to gain a leadership position in the growing RTD milk segment.

# CEO BUSINESS REVIEW

## DAIRIES • CORE MARKET THAILAND



### CANNED MILK: INSPIRING GOURMET CREATIONS

#### CARNATION

CARNATION, one of Nestlé’s brands licenced to F&N, maintained its No. 1 canned milk position in Thailand with double-digit volume growth by reinforcing its image as the premium and preferred choice in food and beverage applications. This year, to drive in-home consumption, Dairies Thailand rolled out a new thematic television commercial “Perfect Harmony” to promote the dual usage of CARNATION Sweetened Beverage Creamer and CARNATION Evaporated Milk to ensure a better taste in food and beverages.

Coupled with its efforts in the trade through loyalty campaigns in key channels, premium promotions and point-of-sale materials, CARNATION retained its No. 1 Premium Evaporated Milk brand with two-thirds of the market share.

#### TEAPOT

TEAPOT launched a new campaign this year to lift its brand image and increase on-premise and in-home consumption. It worked with a celebrity chef, who is known for his simple cooking style, to use TEAPOT in his creations to demonstrate and inspire all to use TEAPOT Sweetened Beverage Creamer in their beverages and dishes.



- *F&N MAGNOLIA Kids Milk*. The UHT Milk (Kids) segment, a fast-growing category, recorded a 10% and 13% year-on-year growth in 2016 in value and volume, respectively. Catered specifically for young children in today's digital world, the new *F&N MAGNOLIA Kids Milk* is a functional beverage with goji berry and lutein added to promote eye health.

The launch of *F&N MAGNOLIA Kids Milk* was supported by an integrated marketing campaign that included broadcast, outdoor and online advertisements, as well as roadshows and samplings in schools and retail outlets. Three months after the launch, as at FY2016, *F&N MAGNOLIA Kids Milk* recorded gains in market share from positive consumer demand.

*F&N MAGNOLIA Ginkgo Plus*, which was launched last year, has continued to perform well, gaining 2.8% market share in the UHT Milk (All Family) segment as at FY2016. Fortified with ginkgo extract, vitamin B12 and calcium, *F&N MAGNOLIA Ginkgo Plus* promotes cognitive function. In the brand's television and online commercials, its newly appointed brand ambassador, May Ratchanok Intanon, World No. 1 in Women's Singles and Thailand's top badminton player, conveyed the brand's key message of boosting one's brain health to support the pursuit of goals. Large-scale in-store sampling carried out in convenience stores further boosted brand visibility and encouraged product trials of *F&N MAGNOLIA Ginkgo Plus*.

As part of Dairies Thailand's strategy to continuously improve and innovate its products, this year, it rolled out a new packaging for *TEAPOT* Sweetened Beverage Creamer in the form of a squeezable tube. Introduced in all channels nationwide to cater to customers' busy lifestyles, this portable 180ml tube packaging offers both affordability and convenience to consumers.

Besides creating consumption opportunities throughout the day in its consumer sampling activities using popular food applications, *TEAPOT* also strengthened its online engagement with young adults and young families. It successfully garnered 40,000 fans on its Facebook page, "*TEAPOT Happy Society*", within three months of its launch.

**LIQUID MILK:  
NEW GROWTH PILLAR**

**F&N MAGNOLIA**

To tap into the rapidly growing UHT Milk (Kids) segment, Dairies Thailand extended *F&N MAGNOLIA's* offering of UHT milk to include a children's range



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DAIRIES • CORE MARKET

## SINGAPORE

### DAIRIES SINGAPORE: RESULTS

A rise in Dairies Singapore's export business due to the Group's increased distribution in newly-added markets cushioned the drop in domestic sales. As a result, Dairies Singapore FY2016 revenue fell 4%. Coupled with higher marketing spend in new markets, its FY2016 earnings fell 15%.

Aided by effective brand building activities and new product launches, Dairies Singapore maintained its No.1 and No. 2 positions in the Chilled Juices and Liquid Milk categories, respectively. New product launches of the improved *F&N MAGNOLIA* Plus Oats Lo-Fat Hi-Cal Milk and *F&N FRUIT TREE FRESH* Apple, Beetroot & Carrot ("ABC") No Sugar Added Mixed Juice Drink, in addressing consumers' growing demand for healthier drinks with nutritional benefits, generated positive response and lifted sales.

Volume (%)

▲ 2%

Revenue (%)

▼ 4%

Profit Before Interest  
& Taxation (%)

▼ 15%

Profit Before Interest  
& Taxation Margin (%)

▼ 0pp



### LIQUID MILK AND YOGHURT DRINK: F&N MAGNOLIA

Started in 2014 and extended to 2015, *F&N MAGNOLIA* brought back its successful "Drink Milk Fresh" campaign in 2016 to continue advocating the importance of drinking milk at its freshest, within three days of opening. This is in line with the recommendation of Singapore's Agri-Food and Veterinary Authority. *F&N MAGNOLIA* encouraged consumers to drink from 1L-pack, instead of 2L-pack, to enjoy milk at its freshest. Besides consumer promotion, *F&N MAGNOLIA* encouraged the exchange of empty 2L milk bottles for a free *F&N MAGNOLIA* 1L-pack, via in-store roadshows and its

roving milk truck, to boost trials and consumption. The campaign, which was further supported by above-the-line advertising, resulted in a sales uplift and volume share increase within the Liquid Chilled Milk segment during the month of execution.

To generate consumer interest, *F&N MAGNOLIA* collaborated with a popular Hollywood animated movie in a joint promotion supported by a 360-degree campaign. The movie characters were featured on the packaging of *F&N MAGNOLIA*'s pasteurised and UHT milk products, as well as its yoghurt drink range. Consumer response was very positive; *F&N MAGNOLIA* recorded sales and



volume growth, and market share increase across the liquid milk and yoghurt drink segments.

Back by popular demand, the *F&N MAGNOLIA Plus Oats Lo-Fat Hi-Cal Milk* was reintroduced in Singapore this year. Reformulated with added beta glucan to boost the body's immune system, *F&N MAGNOLIA Plus Oats Lo-Fat Hi-Cal Milk* is the only pasteurised milk in Singapore to be fortified with oats for more nutritional benefits. Above-the-line communications, in conjunction with in-store roadshows resulted in successful conversions to consumer purchases. The huge success of *F&N MAGNOLIA Plus Oats Lo-Fat Hi-Cal Milk* doubled *F&N MAGNOLIA's* volume compared to the previous year and contributed to the brand's highest volume share in three years.



**JUICE: F&N FRUIT TREE FRESH**

For the year in review, new flavour *F&N FRUIT TREE FRESH ABC No Sugar Added Mixed Juice Drink* was introduced to inject excitement in Dairies Singapore's juices portfolio. Out-of-home, print and social media advertising, product trials executed in the form of roving bicycles distributing samples, eye-catching in-store displays and in-store roadshows helped boost its sales. Within two months of its launch, *F&N FRUIT TREE FRESH ABC No Sugar Added Mixed Juice Drink* has become one of the most popular flavours within the *F&N FRUIT TREE FRESH* juice portfolio.

*F&N FRUIT TREE FRESH* will continue to innovate to excite consumers with healthier, more refreshing flavours of fruit juices.

# CEO BUSINESS REVIEW

## DAIRIES

### ICE CREAM

#### DAIRIES ICE CREAM: OVERVIEW

F&N's Ice Cream division has commercial operations in about 10 countries (primarily in Malaysia, Singapore and Thailand), with well-established and trusted brands like *F&N MAGNOLIA*, *KING'S* and *MEADOW GOLD*. The commercial operations are supported by two manufacturing plants in Malaysia and Thailand. This year, through continuous product innovation, Dairies Ice Cream continued to excite its consumers by introducing new variants in the various markets.

#### MALAYSIA

Despite subdued consumer sentiment amid a softened economic environment in Malaysia, the ice cream market remained stable and has been forecast to grow at a steady rate in the medium term. This is due to growth in discretionary income, as well as ice cream being regarded as a treat amid consumers' busy schedules.

This year, the Group introduced several new products in Malaysia. In particular, three new innovative flavours of *KING'S* Potong have seen strong consumer acceptance. *KING'S* Potong Teh Tarik was launched in December 2015 to offer Malaysians the convenience of enjoying their favourite local tea



As part of *KING'S* continuous efforts to generate excitement, it updated the look of *KING'S* Sundae-licious to give it a more fresh and premium look. In addition, a new flavour, *KING'S* Sundae-licious Mixed Berries, a vanilla ice cream topped with mixed berries swirls, was also introduced this year.

*MEADOW GOLD* was launched in four new flavours in October 2015 to offer Malaysia's discerning ice cream lovers more variety in the tub ice cream segment. Roadshows were conducted to encourage trials and social media interactions with consumers helped boost awareness and consumer engagement.

beverage in an ice cream stick form. Developed based on F&N's original recipe using *F&N* Sweetened Beverage Creamer, *KING'S* Potong Teh Tarik was also extended to Singapore in limited quantities. In April 2016, *KING'S* Potong Gold Mao Shan Wang, made with 100% Mao Shan Wang puree, was launched as a limited edition flavour. Also launched in April 2016, *KING'S* Potong Coconut used 100% fresh Thai coconut milk and coconut flesh to create a refreshing creamy treat.

In the coming years, multi-pack and take-home ice cream are expected to register the fastest growth as consumers remain price sensitive amid a rising cost of living and deem these ice cream formats as better value-for-money. Impulse, or single portion ice cream, will continue to register growth in the convenience stores and smaller independent grocers due to accessibility. F&N is poised to seize these growth opportunities as we have well established multi-packs, value tubs and single portion ice cream brands to cater to various consumer needs.



#### SINGAPORE

This year, *F&N MAGNOLIA* Gotcha, catered for children, underwent a packaging revamp, to reflect its 'Healthier Choice Snack' status endorsed by Singapore's Health Promotion Board. Recognising the increasing importance Singaporeans place on their health, all newly developed ice cream products by F&N for the Singapore market in the future will go through a strict R&D process to ensure that they satisfy the criteria of a 'Healthier Choice Snack'.

*KING'S* Potong remains Singapore's No. 1 Potong brand. With the purpose of extending its product offering and delighting consumers with new flavours, *KING'S* Potong Gold Mao Shan Wang was launched as a limited edition variant, to favourable consumer reception. Even though it was distributed exclusively through one retailer, *KING'S* Potong Gold Mao Shan Wang performed beyond management's expectations and was sold out within a few weeks of its launch.

In its efforts to build brand engagement, drive trials and convey its brand essence of positivity and energy, *F&N MAGNOLIA* Mag-A-Cone organised a Lip Sync Battle Competition in April 2016. Supported by radio, print and social media communication, the competition generated significant buzz, both on- and offline. Extending its reach to more families and children, *F&N* secured the title of Exclusive Ice Cream Partner for the POSB Passion Run 2016 and supported the event with 8,000 sticks of *F&N MAGNOLIA* Mag-A-Cone and *F&N MAGNOLIA* Gotcha.

**THAILAND**

Capitalising on consumers' growing demand for impulse ice cream in Thailand, Ice Cream division focused its new launches this year on single portion stick ice cream. Riding on

the popularity of durian, new flavour *F&N MAGNOLIA* Sawasdee Durian, made with durian puree, was launched as a limited edition product during

the durian harvest season. This flavour was so well received that it sold out quickly, and the Group has plans to bring it back in 2017. Another one of Ice Cream division's innovations was *F&N MAGNOLIA* Gotcha Space Captain, where jelly was added to ice confection, and was met with good response from its target audience of children aged six to nine.

Thailand's ice cream market, projected to grow between 12% to 15% in the coming year, will continue to be driven mainly by impulse single portion ice cream. As one of the top three players in this market, *F&N* will continue to invest in brand building activities and product innovation to drive demand and grow market share.

