

CEO Business Review

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Beverages

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Food &

Beverage



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CEO Business Review

Food & Beverage

From left to right:

Mr Lee Meng Tat

Chief Executive Officer,
Non-Alcoholic Beverages

Mr Edmond Neo

Chief Executive Officer,
Beer

YEAR IN REVIEW

Year 2020 was a year like no other. The COVID-19 pandemic has tested all assumptions and has challenged the way we operate. In an age of globalisation and interdependency, it has disrupted our supply chain and our markets, and how we deliver value for customers, consumers and communities. This pandemic has not only posed short-term economic disruption to our operating environment, but has prompted profound societal changes influencing consumer behaviour. Whatever the outcome, we remain anchored to our core strengths – our people, brands and processes. We will draw on our resilience and from our experiences to help us overcome this health crisis and emerge stronger.

COVID-19

As the pandemic bore down on us, the Group took swift action to temporarily close our offices, operating units and branches where necessary, and recalibrate operations where feasible. Everyone,

where logistically possible, switched to a new paradigm of work-from-home and adopted digital technology. This was made possible due to the adaptability and commitment of our employees, discipline of the leadership, strong processes, and past investment in digital technologies. Our culture of learning and effective business continuity planning hugely supported this quick switch over. Our employees responded well to these pandemic lockdowns and various alert level restrictions. They adapted quickly to operating protocols to protect the safety of our employees and customers.

The pandemic has also accelerated our shift to digitalisation, with a clear focus on serving and getting closer to our customers and value chain partners. We successfully launched our e-commerce website in January 2020, allowing customers to transact online, and we're seeing increased customer interest and appetite for this channel. Over the last few months, business models have also



been reassessed, to identify strategic and tactical opportunities to improve effectiveness, prune avoidable costs as well as prepare for the new normal.

The strategy of the F&N Group – which is to grow regionally from our strengths in our core markets of Singapore, Malaysia and Thailand – has proven to be successful. Our F&B division provides diversification by product lines, geographies and customer types. This enhances our financial resilience and helps to deliver consistent returns through various business cycles. The delivery of our strategy, however, is underpinned by the commitment and passion of our people, and we are clear on our common purpose: to help people achieve their ambitions, as they help the Group achieve ours.

2020 FINANCIAL PERFORMANCE

Despite delivering a strong first half performance, F&B FY2020 results were adversely impacted by the COVID-19 pandemic. Lockdowns, in varying degrees, were introduced across Southeast Asia (“**SEA**”) in the second half of this fiscal year. The regulations set during the mandatory movement control order (“**MCO**”) in Malaysia, state of emergency declared in Thailand, as well as circuit breaker (“**CB**”) in Singapore have had a drastic impact on our on-trade sales and consumer sentiment. We experienced good growth in our modern off-trade and e-commerce as home consumption remained high. As restrictions began to ease, we saw improvements in our businesses, from a double-digit decline in the peak of April to a single-digit decline in September. Combined with cost saving measures we took at the onset of the pandemic, we were able to mitigate the negative impact of the pandemic on our profitability and cash flow. Although the results of this financial year was not what we had targeted at the start of the fiscal year, it nevertheless reflects well on the resilience of our Food & Beverage (“**F&B**”) business, our people and the support from our customers in what has been an extraordinary year.

FY2020 sales for the F&B division totalled \$1,603.1m, a marginal decline of 1.3% over the last fiscal year, by and large due to impacts from the COVID-19 pandemic. Owing largely to lower sales and higher commodity and manufacturing costs,

F&B FY2020 PBIT fell marginally by 0.5%, to \$280.8m from \$282.2m in the prior year.

Beverages (comprising Soft Drinks and Beer) has been impacted harder by this unprecedented crisis than Dairies. It recorded revenue of \$439.4m, a drop of 6.8% year-on-year (“**yoy**”). In particular, Soft Drinks Malaysia, our largest soft drinks market, in spite of successful execution of festive campaigns and new product launches, it faced the dual challenges of flooding in East Malaysia in December 2019 and adverse impact of lockdowns in the second half of fiscal year. Closures of coffee shops and eateries during the MCO in Malaysia grossly affected on-trade consumption and consumer sentiment. This in turn dragged down both soft drinks and canned milk consumption. Despite lower soft drinks volume, we continue to broadly hold, and in some categories, grow our market shares. The growth was driven by successful festive execution and introduction of new products that underscored our ability to adapt our brands to shifting consumers preferences. We continued to roll out numerous innovations across our markets in Singapore, Malaysia, Thailand and Myanmar.

In October 2019, brewed-in-Myanmar *CHANG* was tapped from our newly commissioned brewery of Emerald Brewery Myanmar Limited (“**EBML**”), a 80-20 joint venture between F&N and Sun Ace Company Corporation Limited from Myanmar. Through consumer engagement activities and growing our distribution network in key cities, EBML’s stronger-than-expected beer sales helped boost Beverages overall performance.

On account of reduced gestation losses in EBML as a result of strong beer sales, Beverages FY2020 PBIT increased 0.8% to \$17.3m, from \$17.2m in the last fiscal year.

Dairies has shown more resilience against the adverse effects of this pandemic. Its FY2020 revenue grew 0.9% to \$1,163.8m, from \$1,153.3m in the prior year. Sales was bolstered by higher off-trade consumption, improved route-to-market, strong export sales, successful launches of new products, as well as favourable currency translation.

\$1,603 million
Revenue for FY2020

\$1,625 million in FY2019

\$281 million
Profit Before Interest
& Taxation for FY2020

\$282 million in FY2019

Summary of Message

- ▶ F&B FY2020 results were adversely impacted by the COVID-19 pandemic. FY2020 sales for the F&B division totalled \$1,603.1m, a marginal decline of 1.3% yoy. PBIT fell by 0.5% to \$280.8m
- ▶ Maintained market leading positions in our key categories – isotonic, tea, liquid milk, soya, water and canned milk – in Singapore, Malaysia and Thailand
- ▶ Beverages recorded revenue of \$439.4m, a drop of 6.8% yoy, impacted by lower on-premise consumption and poor consumer sentiment as a result of MCO in Malaysia. PBIT improved 0.8% to \$17.3m on reduced gestation losses in EBML as a result of stronger sales
- ▶ Dairies Thailand and Vinamilk continued to drive Dairies profitability. Dairies Malaysia was impacted by lockdowns and higher dairy-based commodity prices. Consequently, despite recording topline growth of 0.9%, Dairies PBIT fell 0.6%
- ▶ We continue to look for ways to use technology to fuel growth opportunities and create efficiencies. In FY2020, we aggressively pursued not only omni-channel retailing with the launch of F&N Life, our direct-to-customer e-commerce website, the Group also fast-tracked its adaptation of omni-channel communication where we unified messaging across all available channels

CEO Business Review

Food & Beverage

Despite savings from cost mitigating measures, higher share of profits from our associated company, Vietnam Dairy Products Joint Stock Company (“**Vinamilk**”) and improved earnings in Dairies Thailand, Dairies FY2020 PBIT fell 0.6% to \$263.5m, from \$265.0m in the previous year, largely impacted by higher input costs.

Dairies Thailand and Vinamilk continued to drive Dairies profitability. Considering the challenging market conditions, Dairies Thailand recorded credible top-and bottom-line growth. Its growth was fuelled by successful execution of marketing and branding initiatives for domestic and Indochina markets, along with capacity expansion and favourable input costs. Similarly, the Group’s higher share of profit of \$120.7m from Vinamilk also supported Dairies earnings. On the other hand, Dairies Malaysia FY2020 revenue and earnings fell in the wake of COVID-19 lockdowns, like Soft Drinks Malaysia. Although take-home channel has proven resilient, it was not enough to compensate for the closures of on-premise outlets and higher input costs in Malaysia.

Whether the impact of COVID-19 on our business is short- or long-term, the key elements of F&N’s growth strategy – business expansion, geographical diversification, innovation and brand-focus – remain sound. In other words, our long-term strategic thinking is as it was before COVID-19. We recognise the need to remain agile and constantly adapt to the changing environment to protect the business in the short-term, and simultaneously mindful to protect the long-term health of our brands and businesses.

STRATEGIC PILLARS TO BUILDING A PROFITABLE AND SUSTAINABLE BUSINESS

We evaluated the possible long-term impact of the virus: on channels, our on-trade universe, the growth of e-commerce, as well as in consumer

behaviour and brand preferences. Against that, we reviewed and refined our strategy to realise our vision of becoming a dynamic and sustainable player in the ASEAN countries.

Over the years, we have successfully developed a portfolio of health-focused and purpose-led brands, that ride on our supply chain scale and our expertise in reaching consumers. Our innovations are market-led. We concentrate on brands that we know have the *right-to-win*, and we evolve the portfolio and develop channels accordingly. We also continue to make our organisational model more efficient by empowering our people and fostering engagement. Our strategic priorities remain to accelerate growth and maximise efficiencies. We strive to allocate capital with discipline and objectivity. Our progress to date gives us every confidence in our ability to navigate increasing global volatility and deliver superior sustainable profitable growth.

WINNING WITH BRANDS AND INNOVATIONS

Looking at our results, in the context of current operating environment, I am encouraged by the progress we are making. We maintained our market leading positions in our key categories – isotonic, tea, liquid milk, soya, water and canned milk – in our traditional stronghold markets, Singapore, Malaysia and Thailand.

F&N achieved this by seeking to meet consumer demands and health trends by maintaining a focus on product innovation. We expanded our range of reduced- and zero-calorie beverages and reduced the calorie content of our products. We promoted active lifestyles and provided clear labelling on packaging. These initiatives were supported by broad community engagement programmes focused on health and wellness.

We also applied our market knowledge gained over many years to guide our product mix. To that end, we have steered our portfolio in the direction of the faster-growing segments in our markets — *100PLUS* in isotonic, *F&N SEASONS* and *OYOSHI* for tea, *F&N MAGNOLIA* for milk and drinking yoghurt, and *F&N ICE MOUNTAIN* for water. In Malaysia, we introduced *100PLUS* Zero, following a successful launch in Singapore last year,

and updated the packaging for chilled milk and chilled juice range with a new and improved TetraEdge packaging. In Singapore, we rolled out a slew of new products in health and nutrition segments — *F&N MAGNOLIA* Brown Sugar & Sea Salt Milk, *F&N NUTRISOY* Pandan Flavoured Soya Milk, *F&N NUTRIWELL* Herbal Tea, and *F&N FRUIT TREE* Fresh Soursop in Reduced Sugar; and in Thailand, our first double-layered milk tablets were launched under the *F&N MAGNOLIA* brand.

While we forge ahead with our diversified portfolio, we also make sure that each brand has a distinct positioning and its go-to-market messages are all consistent. For instance, we continued with our advocacy of sport development and active lifestyles, through sponsorships and activations for *100PLUS*. We continued to support sporting events like mass runs, cycling, swimming, badminton, and even walking. Our brands collaborated with sporting bodies like Swimming Association, Singapore Badminton Association and Singapore Table Tennis Association, and sponsored school sports events in Singapore, Malaysia, Thailand, Vietnam and Myanmar.

We have also put a lot of work to ensure excellence in retail execution – both in-store and online. Our expertise in channel management ensured the optimum store coverage, product presence, price points, shelf space and merchandising. Online, we continue to invest heavily in digital marketing to drive sales and consumer engagement with our brands. This year, we sought to unify and upscale our e-commerce and digital strategy in Malaysia with the launch of our very own e-commerce store, *F&N Life*. As part of the Group’s strategy to pursue omni-channel retailing, *F&N Life* looks to complement traditional physical assets with the information-rich experience of online shopping, offering greater convenience, accessibility and value to Malaysian consumers. The rollout of *F&N Life* was timely as consumers increasingly turned to e-commerce as an alternate channel to purchase their favourite F&N products during this pandemic.

We supported our innovation programs with integrated marketing campaigns, using television, radio, print and digital



100PLUS
was launched in 1983
to commemorate F&N's
centennial anniversary

**Did
you
know?**

100PLUS hydrates
43%
better than
water

More than
850,000
Singaporeans hydrated
through 100PLUS
sponsored events
in 2019

100PLUS ORIGINAL
ISOTONIC DRINK
F&N

**ENDURING
BRANDS**

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Did you know?

F&N Life is F&N's flagship online store

It also offers product details, nutrition values, recipes and loyalty programmes

There are close to **250** products available on F&N Life

ENDURING BRANDS

assets, across a range of channels that reflect the diversity of our consumers. As social media and mobile technology continue to change the F&B retail landscape and challenge old ways of doing business, opportunities have opened up for us to interact with retailers, shoppers and consumers. F&N embraces this shift and continues to invest in digital capabilities to maximise our relevance, complemented by existing channel and marketing activities. During this unprecedented time, in addition to traditional marketing media, we have also moved some of our marketing campaign online. *100PLUS*, for instance, rolled out its STAY FIT campaign with live, virtual workout sessions with professional trainers. These home workouts served to encourage consumers to stay fit and lead active lifestyles even at home, and remind them the importance of staying hydrated during the CB and MCO period. Our Malaysian team brought the spirit of Ramadan to life by launching the GERAJ RASA RAYA (Taste of Raya) campaign on F&N Life, our e-commerce store. The campaign brought families together by providing recipes for Ramadan delights, such as Ayam Rendang, Tau Fu Fah and Ais Bandung Tarik, typically found at neighbourhood bazaars that anyone can re-create at home, while also providing a platform for people to purchase their favourite F&N beverages.

Our diversified brand portfolio allows the Group to craft opportunities for these brands to be introduced in new markets, further sharpening our competitive edge. Through innovation and renovation, constant support and investment in our brands, we have been able to continue to maintain, and in cases, grow our market shares. Our success has also been, in part, due to our ability to constantly rejuvenate our brands, often successfully migrating brands into adjacent categories, evidenced by *100PLUS*. Our portfolio strategy to nurture our secondary brands has also been valuable in growing market share and managing a strategic portfolio of brands.

INFRASTRUCTURE OPTIMISATION

Today, F&N's F&B business is supported by 12 factories operating across Singapore, Malaysia, Myanmar and Thailand, placing us in good position as a leading F&B player in SEA. In this dynamic

business environment, we are constantly searching for opportunities to optimise our infrastructure. Our upgrading and expansion plans are subjected to an integrated Group review where we take into account the number of plants and production lines, to the number of distribution centres and warehouses and their locations. The ultimate objective is to better serve our consumers.

Over the years, we were able to diversify our portfolio in part due to our New Product Development Transformation programme, where we invested in new production lines to facilitate our extension into new product offerings and provide for differentiated packaging. In Malaysia and Thailand, our investments included a cold-aseptic polyethylene terephthalate filling line, a 600-bottle per minute water line and combination blow moulding and filling machine in our Shah Alam soft drinks plant; a ultra-high temperature processing line in our Kuching soft drinks plant; a new Tetra Pak Pasteuriser Line and a new evaporated line in Pulau Indah dairy plant in Malaysia; a sweetened condensed milk pouch and tube filling line and gable top filling machine in Thailand dairy plants; and a new ice cream plant in Thailand. In the coming year, upgrades to our Singapore soft drinks and dairy plant, as well as a new

integrated warehouse in Shah Alam, Malaysia will be completed. These developments have not only given us additional capacity and capabilities, it has also minimised our capability redundancies and improved efficiency, equipping our operations for future growth.

Last year, we announced that our listed entity in Malaysia, Fraser & Neave Holdings Bhd, entered into a conditional agreement to acquire a 4,454-hectare of agricultural land in Perlis, Malaysia for a cash consideration of RM156m. In April 2020, the seller rescinded the sale. We will continue to seek out and evaluate other opportunities for an integrated crop and dairy farming project whenever they arise.

OUTLOOK

In this time of global uncertainty, we are keeping a very close watch on any signs of change and are prepared to meet the challenges they bring. We stand ready to respond appropriately and quickly. Our financial approach through the years has served us well and will continue to do so. We are confident that F&N is well positioned for long-term, sustainable growth due to our financial strength, our market leadership in our focused categories and our strong belief that we have the right strategies in place to succeed.

