

CEO Business Review



Dairies

CORE MARKETS

- Malaysia • Thailand
- Singapore • Vietnam





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Dairies Malaysia

FY2020 PERFORMANCE

It was a challenging time for many businesses in Malaysia as the COVID-19 pandemic hit hard, further adding pressure onto an economy already challenged by a difficult macro environment and weak consumer sentiment. Our dairy business in Malaysia has not been spared. This year, Dairies Malaysia FY2020 revenue fell 1.2%, to \$302.7m, as varying levels of lockdown have muted on-premise consumption and impacted canned milk sales. PBIT was also adversely impacted, by 19.4% to \$22.3m, due to lower sales and higher dairy-based commodity prices.

Despite challenging market conditions, Dairies Malaysia maintained its undisputed leadership of the condensed and evaporated canned milk segment with *F&N*, *TEAPOT*, *GOLD COIN* and *CARNATION* brands. To solidify our canned milk leadership position in Malaysia, the Group continued to innovate. We believe there is scope to further deepen Dairies Malaysia's distribution coverage by tapping on unmet needs. Following our hugely successful introduction of squeezable tube for sweetened condensed milk ("*SCM*"), the Group continues to look at applying new packaging formats to launch more innovative products.

Dairies Malaysia has also been focused on growing its presence in the ready-to-drink milk category. Building on the tagline, "*PURE ENJOYMENT. PURE GOODNESS*", it continued with its targeted marketing activities to drive the growth of this segment. *F&N MAGNOLIA* and *FARMHOUSE* continue to leverage the Group's in-house technical expertise, product offerings and trusted relationships with consumers to support

Dairies Malaysia

No. 1 canned milk player in Malaysia

Thailand's **No. 1** flavoured SCM in squeezable tubes

TEAPOT

CARNATION

No. 1 evaporated milk brand in Thailand

No. 1 liquid milk brand in Thailand

BEAR BRAND

Dairies Malaysia's ambition of building its new growth pillar.

CANNED MILK: F&N/TEAPOT/GOLD COIN/CARNATION

On the back of effective brand building programmes and successful roll out of new products, Dairies Malaysia maintained its No. 1 canned milk position with *F&N*, *TEAPOT* and *CARNATION* brands. The stellar performance was achieved despite a slowdown in retail and consumer spending caused by the outbreak of COVID-19 pandemic.

To maintain our focus on in-home consumption, Dairies Malaysia widened its choice of condensed milk with the introduction of *TEAPOT* in two new local flavours – Gula Melaka and Pandan – in the convenient squeeze tube pack. Consumers can now enjoy the sweetness and goodness of *F&N*'s famous milky and creamy condensed milk, anytime and anywhere, especially in the safety of home, at this time of public health crisis.

This year, to give consumers the ease of drinking their favourite beverage, Dairies Malaysia rolled out a ready-to-drink teh tarik beverage. Made from freshly brewed premium black tea and *F&N*'s signature sweetened condensed and evaporated milk, *F&N* Teh Tarik brings the perfect balance of smooth

and creamy tasting milk tea that Malaysians love. Conveniently packed in 270ml PET bottle, *F&N* Teh Tarik comes in two variants – *F&N* Teh Tarik Ori and *F&N* Teh Tarik Less Sweet. To support the launch during the pandemic outbreak, Dairies Malaysia went beyond the traditional marketing outlets by utilising digital platforms to drive consumption and awareness. Emphasising the brand message that this beverage can be enjoyed at any time with friends and family, it rolled out the MAMAK VIRTUAL TERBESAR TEH TARIK ORI F&N campaign. The campaign presented Malaysians the opportunity to hang out with their friends at their favourite mamak stall and enjoy their favourite teh tarik during the MCO, albeit virtually in the safety and comfort of their own homes. This campaign successfully brought together, virtually, some 667 Malaysians to chill out together as they endured the MCO and celebrated the camaraderie associated with the iconic brew at their favourite mamak stall. The MAMAK VIRTUAL TERBESAR TEH TARIK ORI F&N virtual video conference zoomed into the Malaysia Book of Records for attracting the "Most Number of Participants in a Virtual 'Teh Tarik' Mamak Session".

LIQUID MILK: F&N MAGNOLIA/FARMHOUSE

One of the key events this year was the packaging renewal of *F&N*'s popular pasteurised milk and juice brands.

F&N MAGNOLIA, FARMHOUSE, F&N FRUIT TREE FRESH and SUNKIST are now packaged in a new and improved Tetra Edge packaging. Produced only in one-litre pack, the new packaging comes with larger resealable screwcap to allow for easier pour and closure. Its comfortable and easy grip provides added convenience for consumers of all ages.

Dairies Thailand

FY2020 PERFORMANCE

Our dairy business in Thailand remained one of our top PBIT contributors. Like our other business units, growth of Dairies Thailand has also been impeded by the COVID-19 pandemic. We lost volume as Thailand's nationwide COVID-19 curfew impacted on-premise consumption. The Group was able to mitigate the impact by launching new products, driving export and distribution by widening hawker and outlet coverage nationwide. Consequently, revenue increased marginally by 1.0%, to \$627.3m. In spite of higher input costs, Dairies Thailand PBIT improved 4.8% to \$124.0m, mainly due to cost-saving initiatives and favourable forex translation.

Dairies Thailand was able to maintain its No.1 canned milk position with *TEAPOT* and *CARNATION* brands. Its better-than-market performance was due to the successful rollout of innovative products that consumers love, well-executed trade programmes, as well as its unrelenting distribution expansion across the country.

Export markets of Cambodia and Laos continued to perform strongly. Despite the devastating effects of COVID-19, Dairies Thailand was able to grow export volumes, driven by higher orders for sterilised and evaporated milk. As a result of unfavourable forex translation, revenue fell. On the back of lower advertising spend, earnings from our export markets improved, despite lower revenue and higher input costs.

Dairies Thailand will continue to invest for the long-term growth in our brands, assets and people. We will continue

to focus on the execution of marketing activities and innovate to find the best solutions for our customers. Leveraging our brand strength and established distribution network, we aim to grow our position in the ready-to-drink milk segment in Thailand. We will also reinforce our leading positions in canned and sterilised milk segments through product innovation and brand renovation. In addition to driving domestic volume, we will also continue to look to increase our exports by expanding our sales and distribution networks and increasing product offerings.

CANNED MILK: CARNATION

CARNATION, one of Nestle's brands licenced to F&N, remains the biggest brand in the canned milk sector in Thailand. Since we secured the manufacturing, marketing and distribution rights of *CARNATION* in 2007, the brand has grown from strength to strength. Through targeted brand marketing initiatives and expansion of hawker coverage, *CARNATION* was able to grow volume and reinforce its image as the premium and preferred choice in food and beverage applications. Today, *CARNATION* is the No.1 Premium Evaporated Milk brand in Thailand.

In 2007, the Group acquired relevant Nestle's production facilities and equipment in Thailand, along with the licensing rights to some of Nestle's canned and sterilised milk brands. Nestle's trademark licence agreement was subsequently renewed in 2015 for 22 years, until 2037, for the manufacturing and distribution of Nestle's products – *CARNATION* and *BEAR BRAND* in Singapore, Thailand, Malaysia, Brunei and Laos.

Capitalising on the convenience, health and wellness trend, this year *CARNATION* introduced a reduced sugar variant of SCM, *CARNATION* Plus 0% Fat, in squeeze tube. Specially formulated to meet the needs of working adults, the *CARNATION* Plus 0% Fat SCM has 25% less sugar, is made with quality milk from New Zealand and has 65% more milk content than other SCMs in the market. The rollout of *CARNATION* Plus in January 2020 was

supported by a 360-degree campaign that included television commercials, outdoor and online advertisements, as well as roadshows, various point-of-sales activations and sampling activities.

This year, for the second consecutive year, *CARNATION* ran a four-month long lucky draw campaign, *CARNATION* AROI THUENG JAI, AROI GRAI KAB NADECH, using digital and various point-of-sales activations to reach consumers and drive top-of-mind awareness.

TEAPOT

Already Thailand's No. 1 flavoured SCM in squeezable tubes, *TEAPOT* added another two limited edition flavours to its range of convenience on-the-go squeezable tubes – *TEAPOT* Matcha and *TEAPOT* Mango. Supporting the launch was a series of marketing activities, including television commercials, digital and mobile campaigns, extensive nationwide sampling and various point-of-sales initiatives.

TEAPOT continued to build its brand equity with a new television commercial this year. Focused on its unique selling point – the only brand that contains fresh milk in its SCM squeezable tube products – this new campaign lifted its brand image and increased on-premise and in-home consumption.

In addition to traditional marketing media, *TEAPOT* also engages consumers on multiple digital channels – leveraging Facebook, Twitter, Instagram, etc – in innovative ways to produce compelling content, drive engagement and build brand equity. In its efforts to increase brand visibility and drive conversion, Dairies Thailand also continued to engage street hawkers to decorate their hawker stalls and mobile carts in *TEAPOT* livery.

This September, we have also modernised the packaging of *TEAPOT*'s range with a new logo and design so as to maximise consumer interest, attracting both existing and new customers.

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LIQUID MILK:

F&N MAGNOLIA AND BEAR BRAND

Our increasing product offering in the UHT milk segment continues to allow us to meet the diverse and changing needs of our consumers. This year, consumers in Thailand were treated to several exciting new products under the *F&N MAGNOLIA* range. The first new addition was launched under the *F&N MAGNOLIA* Plus Ginkgo range – the *F&N MAGNOLIA* Plus Ginkgo Salted Caramel. This new caramel flavoured milk is a welcome addition to its existing flavours of chocolate and plain.

The launch of the new *F&N MAGNOLIA* Plus Ginkgo range was supported by a digital campaign as well as nationwide sampling activities. These campaigns drove home the health benefits of *F&N MAGNOLIA* Plus Ginkgo, which is fortified with ginkgo extract, vitamin B12 and calcium. In line with *F&N MAGNOLIA* Plus Ginkgo message of nourishing our customers, it also rolled out its first *MAGNOLIA X TUTOR ACTIVITY* campaign, a tutorial activity for high school students preparing for entrance examinations.

In June, Dairies Thailand launched the first ever *F&N MAGNOLIA* Milkies (milk tablets) in Thailand. These milk tablets are made from 100% New Zealand milk and are available in three flavours – Classic Malt, Strawberry Yogurt and Hokkaido Milk.

F&N MAGNOLIA

Milkies is made from 100% New Zealand milk

Dairies Singapore

FY2020 PERFORMANCE

As a major dairy manufacturer, F&N's F&B operation in Singapore plays an integral part in the food industry supply chain. During the CB lockdown, Dairies Singapore was among companies granted approval to continue operation. Throughout that time, we worked closely with authorities and business partners to ensure adequate and timely supply of F&N products to the local community. Our supply chain team worked closely with our suppliers and retailers to ensure shelves and warehouses were adequately stocked. During the CB, while on-trade consumption took a hit, we saw demand for dairy products from modern trade soar.

LIQUID MILK:

F&N MAGNOLIA AND FARMHOUSE

F&N MAGNOLIA, Singapore's trusted brand of milk for over 80 years, continues to delight consumers with great tasting milk and innovative products. This May, *F&N MAGNOLIA* introduced its new, limited-edition brown sugar & sea salt flavoured milk. Blended with brown sugar and a tinge of sea salt, *F&N MAGNOLIA* has concocted a perfect balance of flavours like no other. Amazingly delightful and nourishing, *F&N MAGNOLIA* Brown Sugar & Sea Salt Flavoured Milk is high in calcium, low in fat and sugar. The timely launch of *F&N MAGNOLIA* limited-edition Brown Sugar & Sea Salt Flavoured Milk was a hit among the millennials in Singapore who sought the comfort of indulgent beverages during this CB period. Endorsed as a healthier choice product by the Health Promotion Board, this new beverage was also an instant hit with health-conscious consumers. Focusing on market-led innovations, *F&N MAGNOLIA* continues to reinforce its position as the trusted milk brand in Singapore.

FARMHOUSE brought back the limited-edition *FARMHOUSE* Peppermint Chocolate Flavoured Milk this Christmas. Available only during the festive season,

TEAPOT

modernised its packaging with a new logo and design

Number of new dairy-related products launched in Singapore
9

As at 30 September 2020, F&N owns
20.4% of Vinamilk

this rich and creamy milk beverage featured a perfect combination of peppermint, chocolate, with fresh milk from Australia.

Dairies Vietnam

F&N operates in Vietnam through its 20.4% investment in Vinamilk and its wholly owned subsidiary, F&N Vietnam Limited Company (please refer to New Markets).

Vietnam Dairy Products Joint Stock Company

F&N's investments in Vietnam date back to February 2005, when it first took an approximately 5% stake in Vinamilk. In December 2016, the Group completed its acquisition of additional shares representing approximately 5.4% interest

through a competitive bid process. Thereafter, through further purchases from the market, the Group continued to increase its stake in Vinamilk, to 20.4% as at 30 September 2020. On account of the Group's shareholding and its appointment of a second representative to its board, the Group was deemed to have a significant influence over Vinamilk for accounting purposes in accordance with the Singapore Financial Reporting Standards (International). Consequently, effective 16 April 2017, the Group started to equity account for its share of Vinamilk's profit under the equity accounting method.

In FY2020, Vinamilk contributed \$120.7m to F&N's bottom line, accounting for 45.1% of the Group's \$267.4m profit.

Vinamilk, the largest F&B company listed on the Ho Chi Minh Stock Exchange, is primarily involved in the production, supply and distribution of dairy products including powdered, liquid and condensed milk and yoghurt, as well as beverages including soy milk, fruit juice and tea. It is present in over 50 countries around the world, and is supported by 15 dairy factories in Vietnam, Cambodia and the USA, and 12 dairy farms in Vietnam.

Dairies Ice Cream

MALAYSIA

Despite tough market conditions in FY2020, F&N continued to reinforce its position in the ice cream segment. Effective marketing campaigns, successful marketplace executions and key collaboration initiatives fuelled *F&N KING'S* and *F&N MAGNOLIA*'s popularity in Malaysia.

In January, *F&N MAGNOLIA* rolled out the limited-edition Doraemon ice cream range. In collaboration with Animation International, the popular Japanese manga inspired ice cream was launched in three new flavours – Chocolate Chip,

Vanilla and Chocolate, and Grape and Strawberry – in stick and cup formats.

In addition to introducing new products to Malaysians, F&N has made new inroads into the frozen pizza category; effectively expanding and building scale in the frozen category. Since January, F&N has collaborated with a strategic partner to distribute frozen pizzas in major supermarkets and hypermarkets in Malaysia. With the increased reliance on e-commerce expected to persist during this pandemic, F&N has leveraged *F&N Life* – F&N's e-commerce platform – to provide an alternative digital platform for consumers to purchase F&N products conveniently.

F&N has also teamed up with a regional food service customer to make available *F&N MAGNOLIA* Cups ice cream to our customers in Malaysia. Looking ahead to fiscal 2021, F&N will continue to focus on creating new opportunities and explore new channels to drive sales and increase shares.

SINGAPORE

Despite difficult market conditions, F&N has actively sought out opportunities to expand our product offerings as we continue to work to strengthen our position as a major ice cream player in Singapore.

This year, F&N continued to build upon our core ice cream brands of *F&N MAGNOLIA* and *F&N KING'S*. *F&N MAGNOLIA* Mag-A-Cone expanded its offerings with the introduction of the new *F&N MAGNOLIA* Mag-A-Cone Cookies & Cream. Bursting with an exciting combination of flavours, this new variant is generously sprinkled with crunchy cookie toppings and is served on a crispy cone for a complete taste sensation.

F&N MAGNOLIA Wafer continues to be a favourite for consumers of all ages. In July, *F&N MAGNOLIA* expanded its range of flavours with the introduction of Raspberry Ripple. Fans of *F&N MAGNOLIA* Wafer love this delectable sweet treat that comes in creamy vanilla ice cream swirled with tangy raspberry flavoured sauce.

In response to the growing popularity of grab-and-go convenience for consumers, *F&N MAGNOLIA* further expanded

its on-the-go ice cream range with the introduction of six new flavours – Strawberry, Chocolate, Vanilla, Choc Chip, Durian and Taro – to the *F&N MAGNOLIA* cup family. Conveniently packed in 70ml cup, consumers now have a wider selection of their favourite ice cream flavours to enjoy anytime, anywhere.

THAILAND

This year, *F&N MAGNOLIA* continued to roll out popular flavours in its stick and cup ice cream range. Targeting the kids' segment, *F&N MAGNOLIA* Cups extended its offerings by introducing four new flavours – Chocolate, Chocolate Chip, Vanilla and Strawberry. Conveniently packed in 70ml cups, *F&N MAGNOLIA* intends to penetrate the on-the-go market with smaller portioned ice cream at affordable prices.

F&N MAGNOLIA also added a slew of flavours to its Mag-A-Cone range. Flavours such as Blueberry, Chocolate Malt and Cotton Candy are now available in the convenient size of 70ml. *F&N MAGNOLIA* Mag-A-Cone Cookies & Cream and Mint Chocolate Chip were also added to the regular range, delighting consumers of all ages.

On the back of successful launch of Doraemon ice cream series last year, *F&N MAGNOLIA* Gotcha introduced the new Pokemon range to capture the hearts and minds of kids. Launched during the summer months, *F&N MAGNOLIA* Gotcha Pikachu, a strawberry and blueberry flavoured ice cream and *F&N MAGNOLIA* Gotcha Pokeball, a Japanese Hokkaido milk with chocolate and strawberry flavoured ice cream, both inspired by the popular Japanese anime, Pokemon, created much excitement in the market.

To further strengthen its presence in the kids' segment, *F&N MAGNOLIA* Gotcha expanded its offerings with the introduction of *F&N MAGNOLIA* Gotcha Chocolate Banana and *F&N MAGNOLIA* Gotcha Jelly Double Chocolate ice cream. These new flavours also met with good response.

CEO Business Review

F&N
MAGNOLIA
was founded in
1937

**Did
you
know?**

Nourishing
generations of
families and children
for more than
80 YEARS

It is one of
Singapore's most
**well-loved
and trusted**
brands



ENDURING
BRANDS

ENDURING BRANDS

Did you know?

It has achieved several **innovation firsts**

– the first to introduce functional soya milk, and launch a high calcium variant

F&N NUTRISOY

was first launched as F&N SEASONS Fresh Soya Milk over 20 years ago, bringing soya milk goodness to Singaporeans

It is made of top-quality soya beans, giving a great taste coupled with nutritious goodness

