



# Farm Fresh Berhad

## Q3 FY23 Results Briefing

24 February 2023



01

Financial  
Results

02

Outlook and  
Prospects



# Key Highlights: Individual Quarter (Q3'23 vs Q3'22)

## Revenue:



**RM162.2 million**

39%

RM116.7 million

## Profit before tax:



**RM20.3 million**

42%

RM14.4 million

## Gross profit:



**RM39.5 million**

15%

RM34.2 million

## PATAMI:



**RM18.8 million**

64%

RM11.5million



## Key narratives

- Strong sales growth of 25% driven by higher sales under School Milk Program, accompanied by increasing Australia's external sales from GVC, and launching of new SKUs i.e. Strawberry milk, Growing up milk (GUM) and etc.
- Reversal of ESOS expenses in the current quarter.
- Strong contribution from the Malaysia operations, with operating profits increasing by 40.0% as compared to Q3FYE2022

# Key Highlights: Individual Quarter (Q3'23 vs Q2'23)

## Revenue:



**RM162.2 million**

0.1%

RM162.1 million

## Profit before tax:



**RM20.3 million**

55%

RM13.1 million

## Operating profit:



**RM23.7 million**

48%

RM16.0 million

## PATAMI:



**RM18.8 million**

68%

RM11.1million



## Key narratives

- Higher Malaysian gross profit margin of 27.7% compared to the 27.0% recorded in the previous quarter
- Reversal of ESOS expenses in the current quarter.
- Lower selling and distribution expenses as well as and higher fair value gain on valuation of biological assets as compared to the preceding quarter.

# Key Highlights: YTD 9 months (Q3'23 vs Q3'22)

## Revenue:



**RM468.3 million**

25%

RM373.9 million

## Profit before tax:



**RM47.7 million**

4%

RM49.6 million

## Gross profit:



**RM116.9 million**

17%

RM99.7 million

## Normalized PATAMI:



**RM49.0 million**

1%

RM48.4 million



## Key narratives

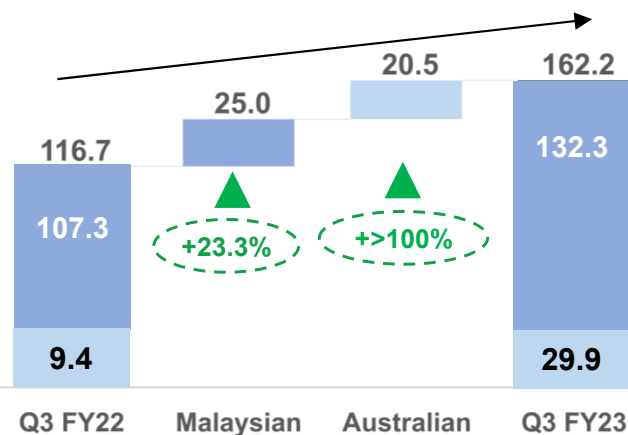
- Strong sales growth of 25% driven by higher sales under School Milk Program, accompanied by increasing Australia's external sales from GVC, and launching of new SKUs i.e. Strawberry milk, Growing up milk (GUM) and etc.
- Despite escalating input costs in the FY2023, especially on raw milk and whole milk powder prices, gross profit margin has dropped slightly from 26.7% in the corresponding financial period to 25.0%.

# Key Financial Highlights

## Revenue (RM mil)

### Corresponding Quarter

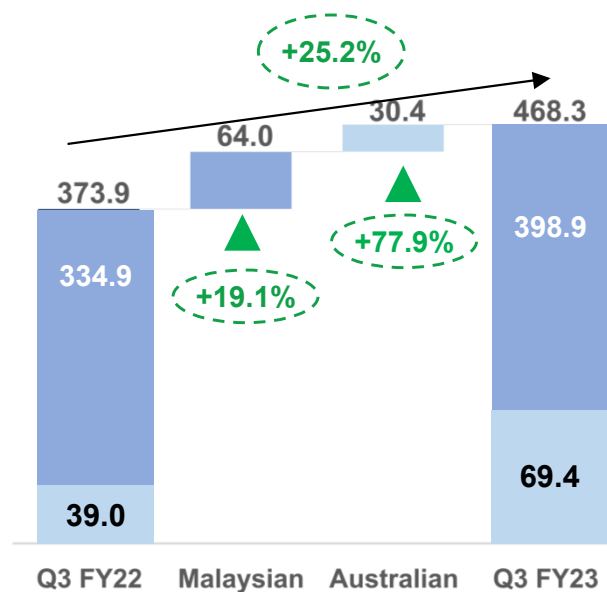
+39.0%



Q3 FY22    Malaysian    Australian    Q3 FY23

### 9 months ended

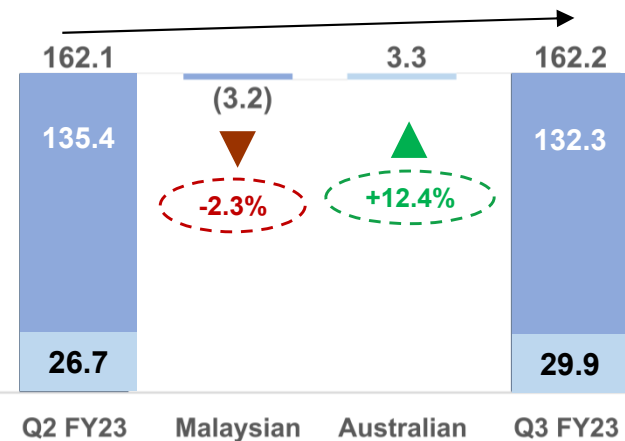
+25.2%



Q3 FY22    Malaysian    Australian    Q3 FY23

### Preceding Quarter

+0.1%



Q2 FY23    Malaysian    Australian    Q3 FY23

Revenue (RM'mil)			Total
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Q3 FY2023	132.3	29.9	<b>162.2</b>
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Q3 FY2022	107.3	9.4	<b>116.7</b>
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Revenue (RM'mil)			Total
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Q3 FY2023	398.9	69.4	<b>468.3</b>
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Q3 FY2022	334.9	39.0	<b>373.9</b>
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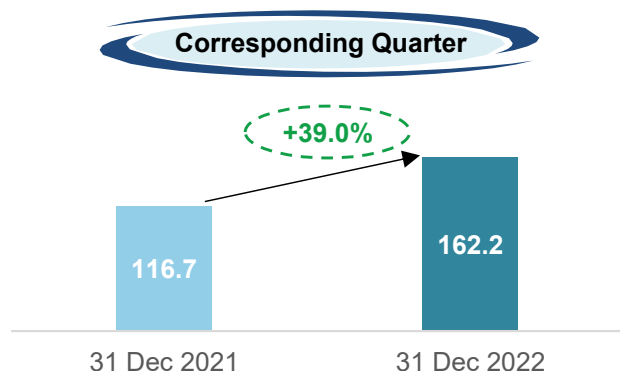
Revenue (RM'mil)			Total
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Q3 FY2023	132.3	29.9	<b>162.2</b>
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Q2 FY2023	135.4	26.7	<b>162.1</b>
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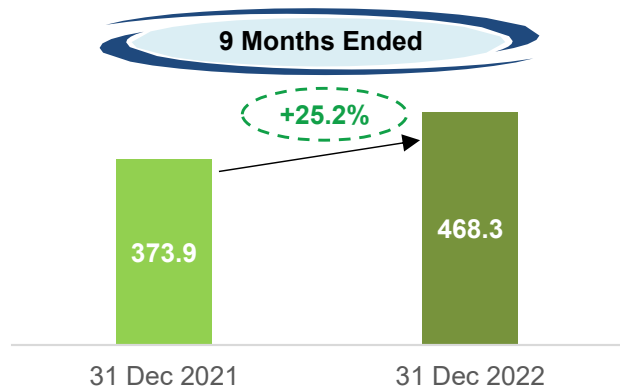
# Key Financial Highlights (*cont'd*)

## Revenue(RM mil)



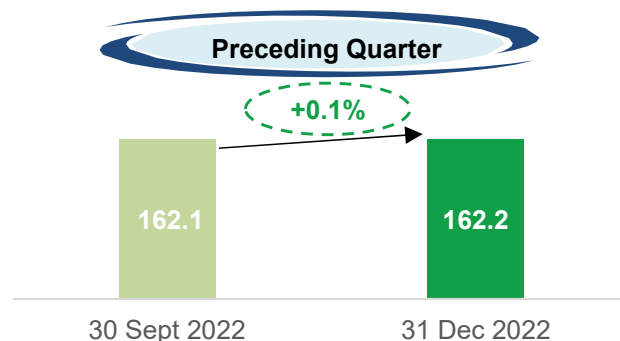
Revenue growth due to :

- increase in Malaysian revenue by 23.3% or RM25.0 million driven by higher sales under school milk program accompanied by launching of new SKUs i.e. Growing up milk (GUM);
- increase in Australian revenue from RM9.4 million to RM29.9 million underpinned by higher external sales from GVC.



Revenue growth due to :

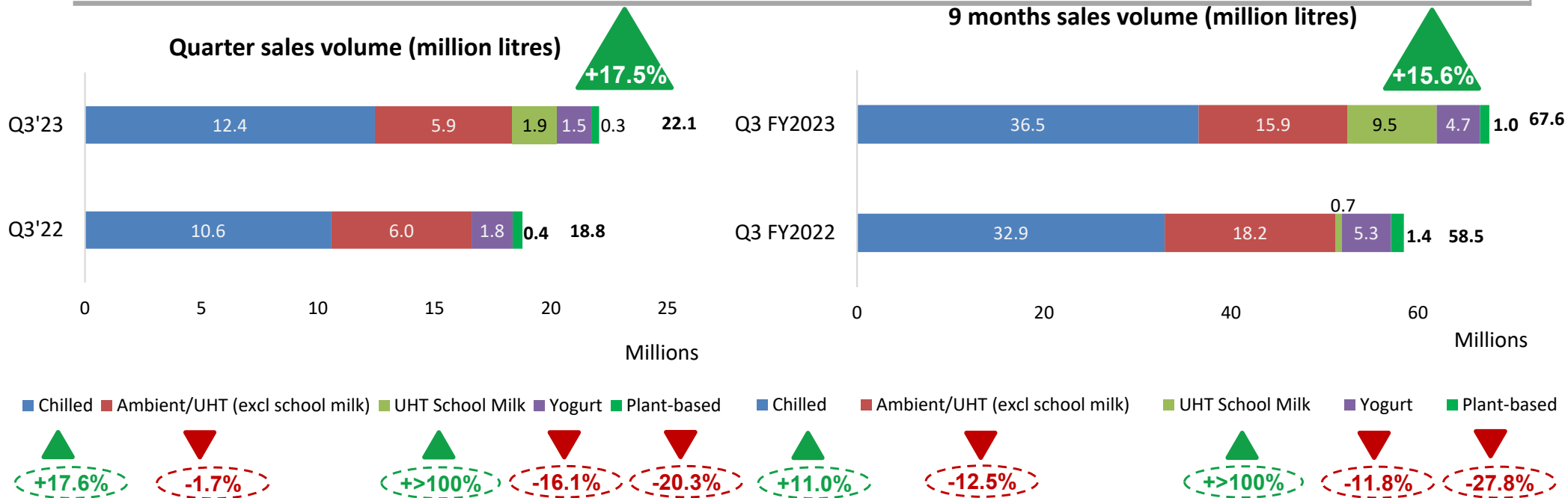
- increase in Malaysian revenue by 19.1% or RM64.0 million driven by higher sales under school milk program, coupled with launching of new SKUs i.e. Strawberry milk, Growing up milk (GUM) and etc;
- Increase in Australian revenue by 77.9% or RM30.4 million driven by higher external sales from GVC.



- Malaysian revenue decreased by 2.3% or RM3.1 million which in line with lower school milk sales in current quarter due to school holiday.
- The decrease was offset by the higher Australia sales underpinned by higher external sales from GVC with new recruitment of customers.
- As a result, the Group's revenue remained constant.

# Key Financial Highlights (cont'd)

## Sales Volume



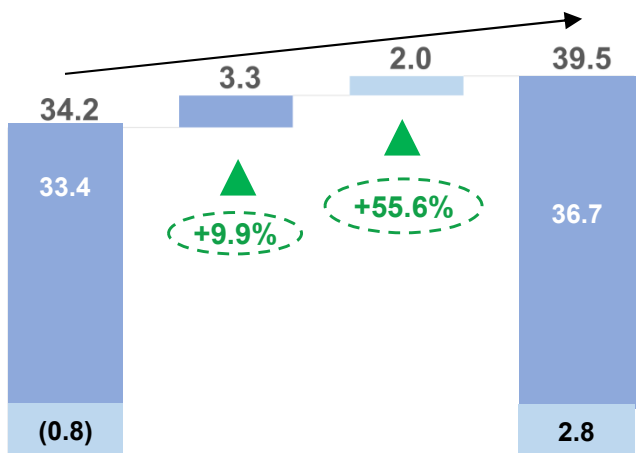
- Overall volume growth in the current quarter and 9 months period of FY23 of 18% and 16% compared to preceding quarter and 9 months ended 31 Dec 2021 respectively.
- Sales volume for chilled category has shown an increase of 17.6% from the corresponding quarter and an increase 11.0% from the 9 months ended 31 Dec 2021, driven by higher HORECA sales.
- Sales volume in ambient/UHT category (excluding school milk) has decreased by 1.7% from the corresponding quarter and decreased by 12.5% from the 9 months ended 31 Dec 2021 due to 200ml portion pack capacity constraints resulting from the school milk delivery commitments. Similar decreases for Yogurt and Plant-based due to the same reason.
- Including the school milk, ambient/UHT volume in the current quarter and 9 month ended 31 Dec 2022 has increased 30% and 34% compared to preceding quarter and 9 months ended 31 Dec 2021 respectively.

# Key Financial Highlights (cont'd)

## Gross profit (RM mil)

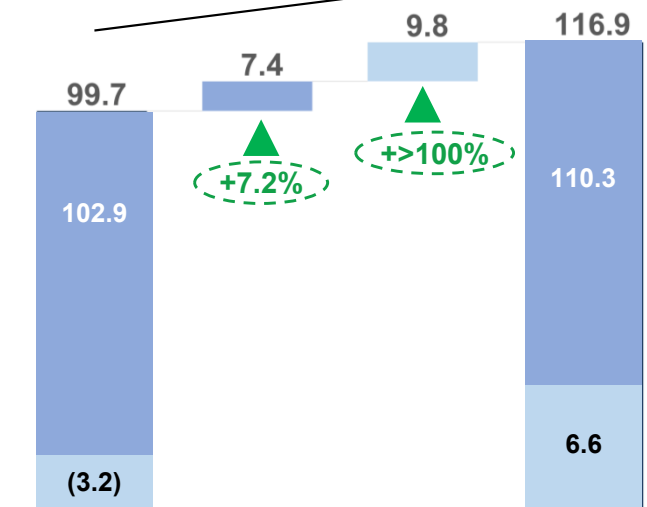
Corresponding Quarter

+15.5%



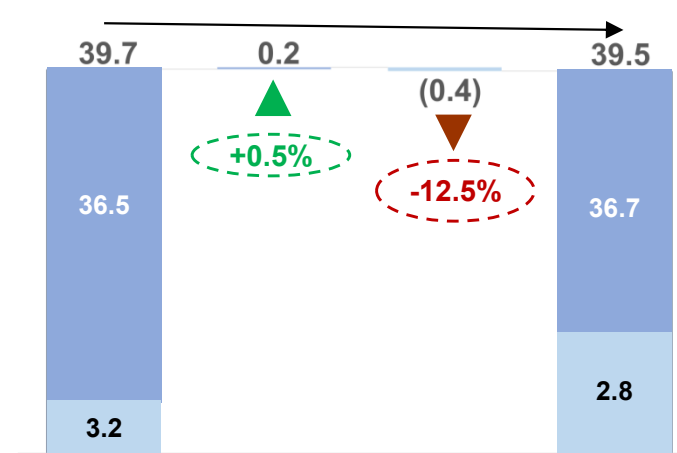
9 months ended



+17.3%







Preceding Quarter

-0.5%



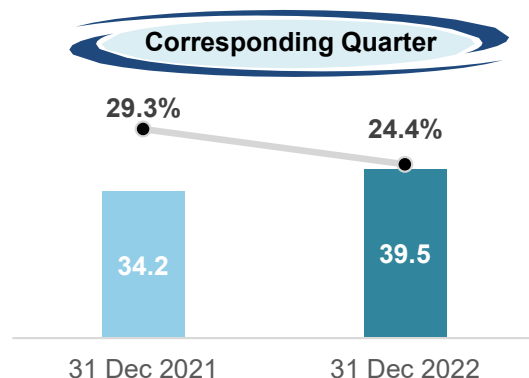
Gross Profit Margin (%)			Total
Q3 FY2023	27.7	9.4	24.4
Q3 FY2022	31.2	8.4	29.3

Gross Profit Margin (%)			Total
Q3 FY2023	27.6	9.5	25.0
Q3 FY2022	30.7	(8.2)	26.7

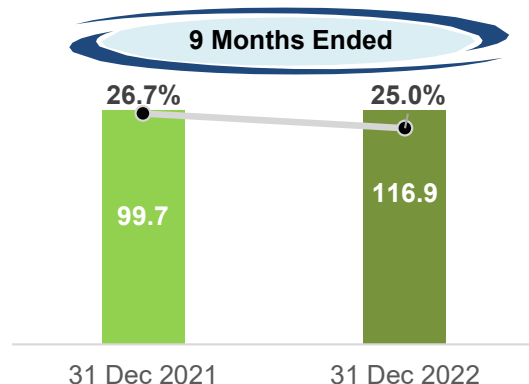
Gross Profit Margin (%)			Total
Q3 FY2023	27.7	9.4	24.4
Q2 FY2023	27.0	11.8	24.5

# Key Financial Highlights (*cont'd*)

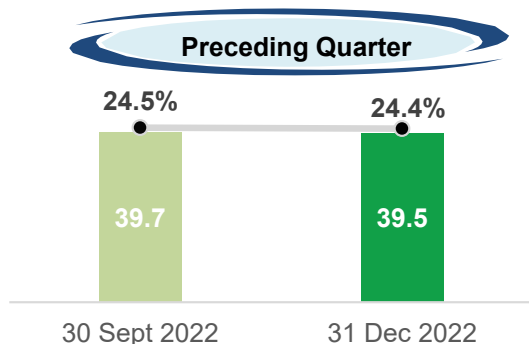
## Gross Profit (RM mil) & Margins



- Malaysian GP margin declined from 31.2% in the corresponding quarter to 27.7% in the current quarter due to change in sales mix whereby higher sales were from lower margins products such as School Milk Program and HORECA channel, accompanied with high input costs i.e. dairy raw materials, animal feeds and freight.
- The group GP margin declined from 29.3% to 24.4% due to the reasons set out above as well as higher contribution from the Australian operations (RM29.9 million in current quarter vs RM9.4 million in corresponding quarter) which recorded lower margins.



- Similar to the aforementioned, the Malaysian GP margin declined from 30.7% in Q3 FY2022 to 27.7% in Q3 FY2023, mainly attributable to the change in sales mix and higher input costs suffered.
- This was partially offset by turnaround in Australian entities (FY23'Q3 : Gross profit: RM6.6mil ; FY22'Q3 : Gross loss: -RM3.2mil)
- As a result, the group GP margin declined from 26.7% in the corresponding financial period to 25.0% in the current financial period.

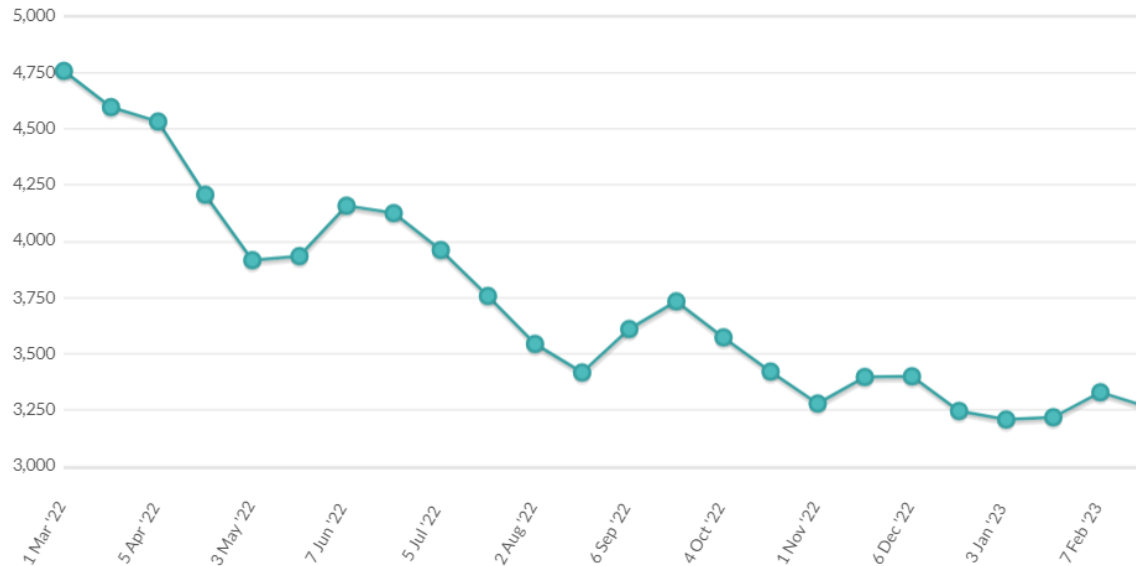


- Malaysian GP margin improved slightly from 27.0% in the preceding quarter to 27.7% in the current quarter which in line with the current trend of lower whole milk powder prices.
- This was partially offset by decline in Australian GP margin from 11.8% in the preceding quarter to 9.4% in the current quarter due to low products margin as well as low-volume production which resulted in a higher overhead cost.
- As a result, the group GP margin remained constant.

# Key Financial Highlight (*cont'd*)

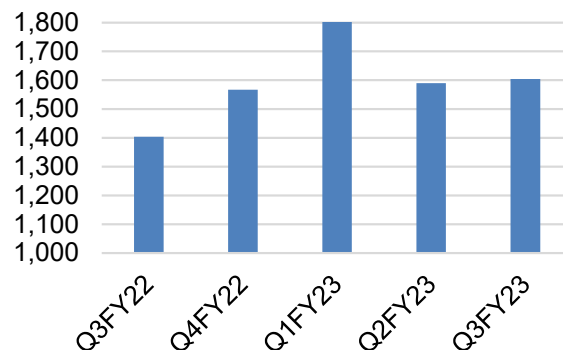
## Input cost pressures persists causing margin compression

### Global Dairy Trade (GDT) Whole milk powder (WMP) prices (USD per MT)

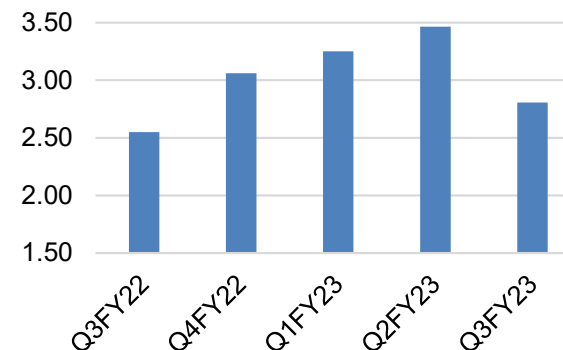


- WMP used for our School Milk Project, OEM products and certain Yarra products. GDT prices surged in Feb and March 2022 (Ukraine invasion)
- Affected prices for delivery in Q1 and Q2 FY23
- Price trending lower, down to USD3,264 per MT on 21 Feb 2023

### Maize (Quarterly average RM per MT)



### Diesel (Quarterly average RM per litre)

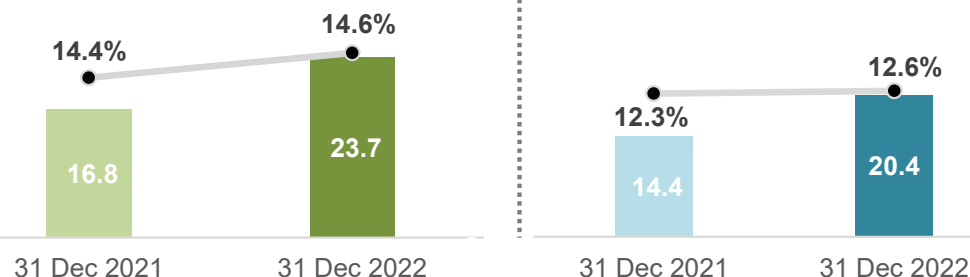


# Key Financial Highlights (*cont'd*)

## Operating Profit (RM mil)

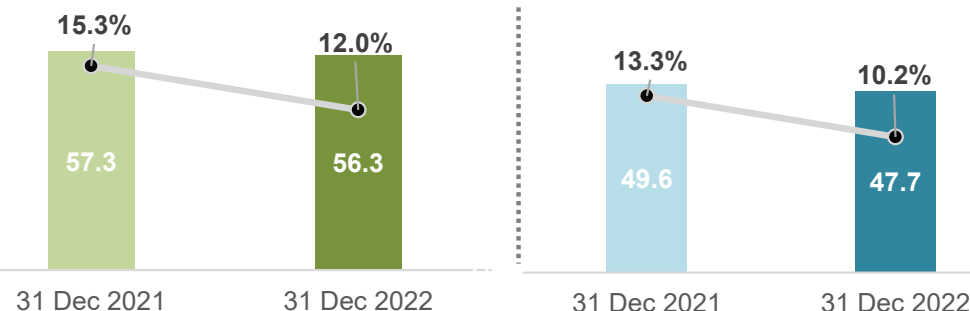
## Profit Before Tax (RM mil)

### Corresponding Quarter



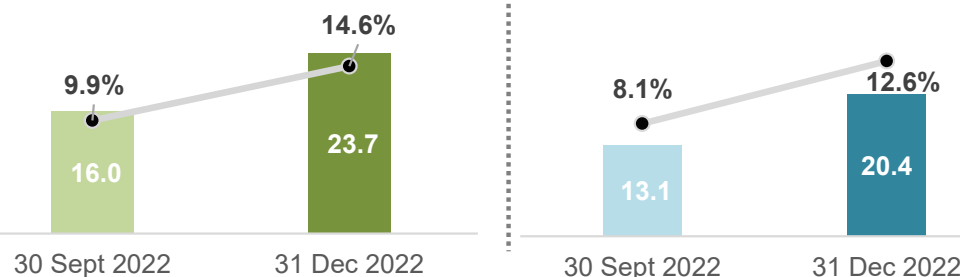
- The increase was primarily due to the reversal of the Employees' Share Option Scheme ("ESOS") expenses of RM1.5m in current period. The reversal is done based on the latest number of acceptances of the ESOS offer and finalization of fair value of the option subsequent to a review done, as advised by the ESOS consultant.
- The increase was also due to a higher fair value gain on valuation of biological assets as opposed to fair value loss in the corresponding quarter (Q3 FY2023 : RM1.0m; Q3 FY2022: Loss: -RM0.4m);

### 9 Months Ended



- The decrease was primarily due to ESOS expenses of RM2.7 million which was recognized during the current period upon the grant of share options to employees of the Group.
- The decrease was also contributed by the unrealized derivative loss of RM2.3 million arising from currency (AUD) forward exchange contract due to lower period end closing rate as compared to the average forward contracted rate.

### Preceding Quarter



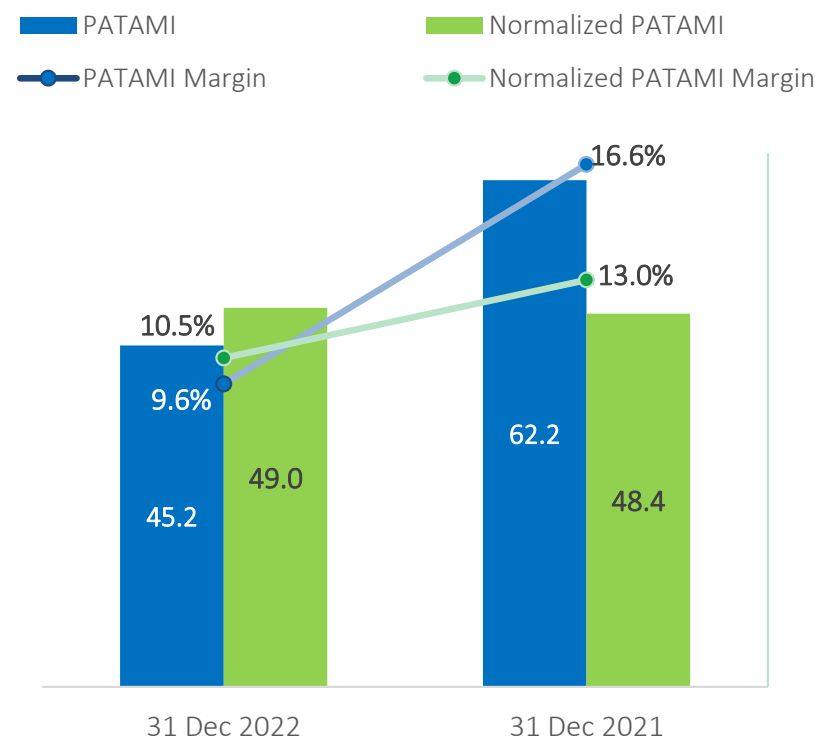
- The increase was primarily due to a reversal of RM1.5 million ESOS expenses in current quarter as opposed to a provision of RM2.1 million ESOS expenses in the preceding quarter;
- The Group also recorded a lower selling and distribution expenses of RM1.0 million in current quarter which in line with the lower school milk sales due to school holiday;
- In addition, the Group also recorded a higher fair value gain on valuation of biological assets of RM1.0 million as compared to RM0.2 million in the preceding quarter.

# Statement of profit or loss and other comprehensive income

	Current quarter vs corresponding quarter Q3'23 vs Q3'22					Current quarter vs immediate preceding quarter Q3'23 vs Q2'23				
	31-Dec-22		31-Dec-21		Variance	31-Dec-22		30-Sep-22		Variance
	RM'000	% of Revenue	RM'000	% of Revenue		RM'000	% of Revenue	RM'000	% of Revenue	
Revenue	162,165		116,667			162,165		162,140		
Cost of goods sold	(122,673)		(82,448)			(122,673)		(122,447)		
<b>Gross profit</b>	<b>39,492</b>	<b>24.4%</b>	<b>34,219</b>	<b>29.3%</b>	<b>15.4%</b>	<b>39,492</b>	<b>24.4%</b>	<b>39,692</b>	<b>24.5%</b>	<b>-0.5%</b>
Other income	3,959	2.4%	369	0.3%	>100%	3,959	2.4%	1,982	1.2%	99.8%
Other income	2,959	1.8%	724	0.6%	308.6%	2,959	1.8%	1,533	0.9%	93.0%
FV gain - Biological assets	1,000	0.6%	(355)	-0.3%	-381.4%	1,000	0.6%	224	0.1%	>100%
Distribution expenses	(12,131)	-7.5%	(8,049)	-6.9%	50.7%	(12,131)	-7.5%	(14,329)	-8.8%	-15.3%
Administrative expenses	(8,459)	-5.2%	(9,475)	-8.1%	-10.7%	(8,459)	-5.2%	(8,699)	-5.4%	-2.8%
Other expenses	847	0.5%	(156)	-0.1%	>100%	847	0.5%	(2,615)	-1.6%	>100%
Other expenses	(692)	-0.4%	(156)	-0.1%	344.2%	(692)	-0.4%	(471)	-0.3%	47.0%
ESOS expenses	1,539	0.9%	-			1,539	0.9%	(2,144)	-1.3%	>100%
<b>Result from operating activities</b>	<b>23,709</b>	<b>14.6%</b>	<b>16,908</b>	<b>14.5%</b>	<b>▲ 40.2%</b>	<b>23,709</b>	<b>14.6%</b>	<b>16,030</b>	<b>9.9%</b>	<b>▲ 47.9%</b>
<b>Net finance costs</b>	<b>(3,355)</b>	<b>-2.1%</b>	<b>(2,432)</b>	<b>-2.1%</b>	<b>38.0%</b>	<b>(3,355)</b>	<b>-2.1%</b>	<b>(2,904)</b>	<b>-1.8%</b>	<b>15.5%</b>
<b>Profit before tax</b>	<b>20,354</b>	<b>12.6%</b>	<b>14,476</b>	<b>12.4%</b>	<b>▲ 40.6%</b>	<b>20,354</b>	<b>12.6%</b>	<b>13,126</b>	<b>8.1%</b>	<b>▲ 55.1%</b>
Tax (expense)/ income	(1,592)	-1.0%	(2,606)	-2.2%	-38.9%	(1,592)	-1.0%	(1,754)	-1.1%	-9.3%
Current tax (expense)	(316)	-0.2%	2,042	1.8%	>100%	(316)	-0.2%	(280)	-0.2%	>100%
Deferred tax (expense)/ income	(1,276)	-0.8%	(4,648)	-4.0%	-72.6%	(1,276)	-0.8%	(1,474)	-0.9%	-13.5%
<b>Profit for the period</b>	<b>18,762</b>	<b>11.6%</b>	<b>11,871</b>	<b>10.2%</b>	<b>▲ 58.1%</b>	<b>18,762</b>	<b>11.6%</b>	<b>11,372</b>	<b>7.0%</b>	<b>▲ 65.0%</b>

# Normalized PATAMI

	Cumulative quarter		
	9 months ended		
	31.12.2022	31.12.2021	Change
	RM	RM	%
<b>Reconciliation of PATAMI to Normalized PATAMI</b>			
<b>As reported PATAMI</b>	<b>45,190,269</b>	<b>62,202,925</b>	<b>(27.4)</b>
Add/(Less):			
Gross losses from Henry Jones Foods	171,513	3,728,247	
Redundancy costs – IXL fruit jam business	--	3,918,274	
IPO expenses	--	3,938,472	
Fair value gain on valuation of biological assets	(1,218,751)	(9,207,763)	
Fair value loss on derivatives	2,290,188	--	
Share option scheme expenses (ESOS)	2,614,707	--	
Reallocation of tax reversal	--	(10,490,033)	
Deferred tax income arising from business losses by Australian subsidiaries	--	(5,646,934)	
<b>Normalized PATAMI</b>	<b>49,047,926</b>	<b>48,443,188</b>	<b>1.2</b>



# Statement of financial position

	31 Dec 2022	31 March 2022	% change
	RM	RM	
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	396,292,250	339,570,028	16.7
Right-of-use assets	14,811,171	14,820,525	(0.1)
Biological assets	107,313,587	95,709,674	12.1
Intangible assets	19,490,304	20,001,224	(2.6)
Trade and other receivables	817,383	740,429	10.4
Deferred tax assets	7,942,623	9,469,156	(16.1)
<b>CURRENT ASSETS</b>			
Inventories	206,703,605	118,844,819	<b>73.9</b>
Trade and other receivables	120,656,604	100,248,170	20.4
Derivative financial assets	816,525	1,518,875	(46.2)
Current tax assets	1,309,645	393,813	>200
Cash and cash equivalents	27,398,028	28,103,066	<b>(2.5)</b>
Other investments	181,213,592	280,594,613	<b>(35.4)</b>
<b>TOTAL ASSETS</b>	<b>1,084,765,317</b>	<b>1,010,014,392</b>	<b>7.4</b>
<b>NON-CURRENT LIABILITIES</b>			
Loans and borrowings	246,228,044	232,316,928	<b>6.0</b>
Lease liabilities	5,671,555	5,919,368	(4.2)
Deferred income	6,293,707	6,496,730	(3.1)
Deferred tax liabilities	8,124,483	7,711,483	5.4
<b>CURRENT LIABILITIES</b>			
Loans and borrowings	105,290,539	52,300,841	<b>101.3</b>
Trade and other payables	79,756,237	93,075,548	(14.3)
Lease liabilities	270,282	959,930	(71.8)
Deferred income	270,697	270,697	-
Derivative financial liabilities	1,507,366	-	-
<b>TOTAL LIABILITIES</b>	<b>453,412,910</b>	<b>399,051,525</b>	<b>13.6</b>
<b>TOTAL EQUITY</b>	<b>631,352,407</b>	<b>610,962,867</b>	<b>3.3</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,084,765,317</b>	<b>1,010,041,392</b>	<b>7.4</b>

- Increase in inventories is primarily due to (i) higher proportion of ingredients kept as a buffer for School Milk Project and upcoming Ramadhan; (ii) higher level of finished goods to cope with the increasing demand.

- Major utilization as follows:-
- Purchase of property, plant & equipment : RM65.9m
- Acquisition of industrial land at Enstek : RM18.2m
- Purchase of biological assets : RM7.9m
- IPO expenses : RM7.3m

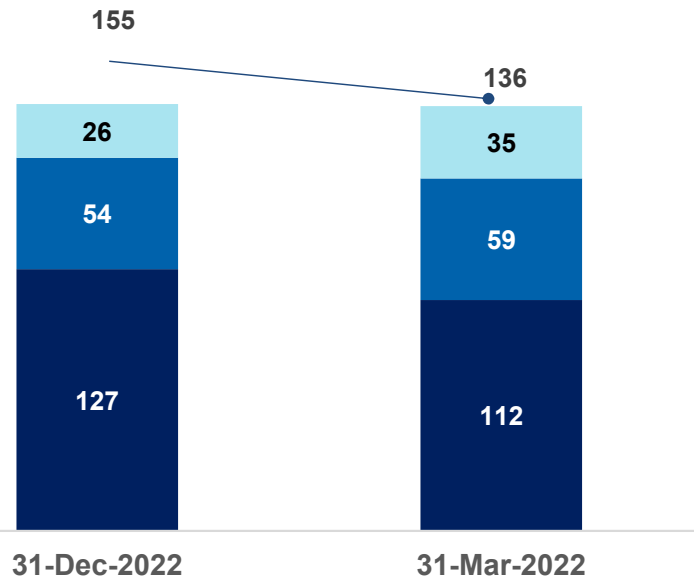
- Increase is primarily due to drawdown of new term loan of AUD4.5mil to finance the acquisition of a farm property in Kyabram, Australia and the acquisition of plant & equipment.

- Increase is primarily due to increase utilization of trade financing and revolving credit for working capital.

- Increase in retained earning arising from the profitability of the Group during the period, partially offset by equity-settled ESOS expenses and dividend paid of RM19.9million.

# Balance sheet ratios

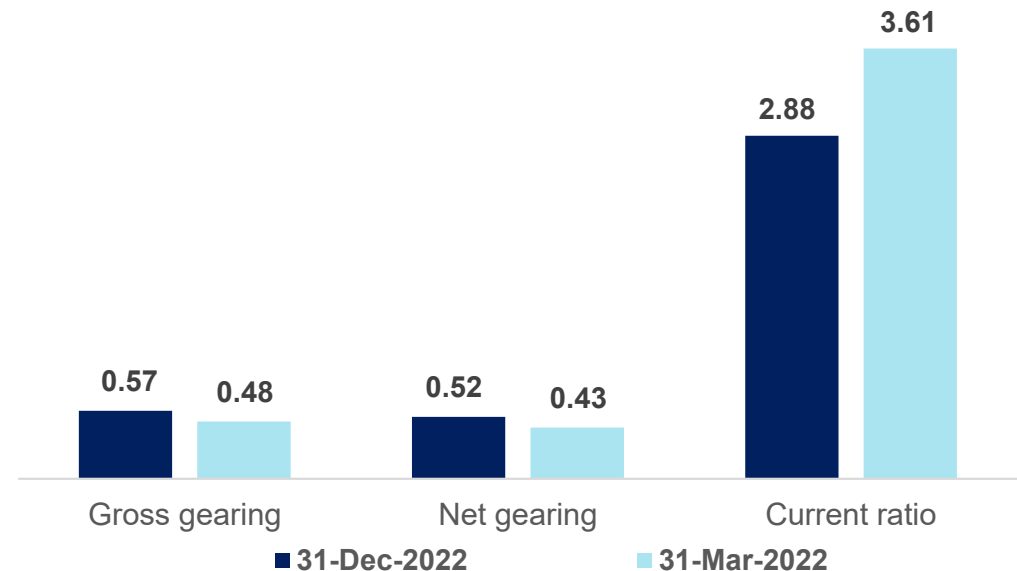
Cash Conversion Cycle (Days)



- Cash conversion cycle
- Average trade payables turnover
- Average trade receivables turnover
- Average inventories turnover

- Average inventories turnover days increased to 127 days due to higher proportion of ingredients kept as buffer for School Milk Project and upcoming Ramadhan.
- Average trade receivables days remained constant.
- Average trade payables days decreased from 35 days to 25 days due to higher repayment of current trade payables during the period.

Key Ratios (Times)



- Current ratio decreased from 3.61 times to 2.88 times due to higher utilization of short-term financing i.e. banker acceptance, revolving credit and hire purchase facilities during the period (As at Dec'22 : RM104.2m; Dec'21 : RM47.7m).
- Gross and net gearing ratio increased due to (i) drawdown of AUD4.5mil term loan by an Australian subsidiary, (ii) higher utilization of trade financing and revolving credit for working capital and (iii) distribution of RM19.9m dividend during the period.

01

Financial  
Results

02

Outlook and  
Prospects

# Outlook & Prospects

**1 Margin improvement** expected in coming quarters, contributed by increase commercial UHT products with new processing line to be installed in Muadzam Shah in March 2023. Continuing current trend of lower whole milk powder prices also expected to improve results.

**2 Stronger Malaysia revenue growth** expected with new product launches

**3 School Milk Program – continue to June** as the Malaysian Government has asked to supply another 30 million packs from March to June 2023, while waiting for new tender to be floated

**4 Launch of the growing up milk based on a fortified fresh milk formula** in October 2022. Encouraging numbers from focus study with children and initial sales. Focusing now on penetration within pre-schools and multiple distribution channels, including 99Speedmart, Jaya Grocer and home dealers

**8 Pursuit of ESG agenda** underway with recently signed contract to develop a **biogas plant** in the Muadzam Shah farm, expected to be operational by end of 2023 and to contribute to an estimated reduction of 9,800 total carbon dioxide (tCO<sub>2</sub>) per annum and an estimated displacement or reduction of diesel usage of 670,000 litres per annum.

Also pioneered fresh milk sold in reusable glass bottles beginning in September 2022 with our **Milk on Tap** initiative in collaboration with Jaya Grocer – rolling out to another 6 more Jaya Grocer outlets by March 2023

**7 Philippines expansion underway** with securing of site located one hour from Manila. Slated to be operational in the second quarter of 2023.

**6 Capacity expansion plans** Taiping to be operational in April 2023, will further improve our upstream and mid-stream capacity and reduce logistics costs to supply chilled milk products to the northern states of Peninsular Malaysia, freeing up capacity at our Larkin to focus on exports to Singapore.

Manufacturing hub at Enstek – planning works underway



**5 Immediate line capacity expansion in Muadzam & Larkin** will alleviate current capacity constraints. New UHT processing line operational in March 2023 to improve throughput. Also increasing our capacity for spoonable yogurt in Larkin

# Outlook & Prospects – Enstek Plant



# Product launches



# Acquisition of The Inside Scoop

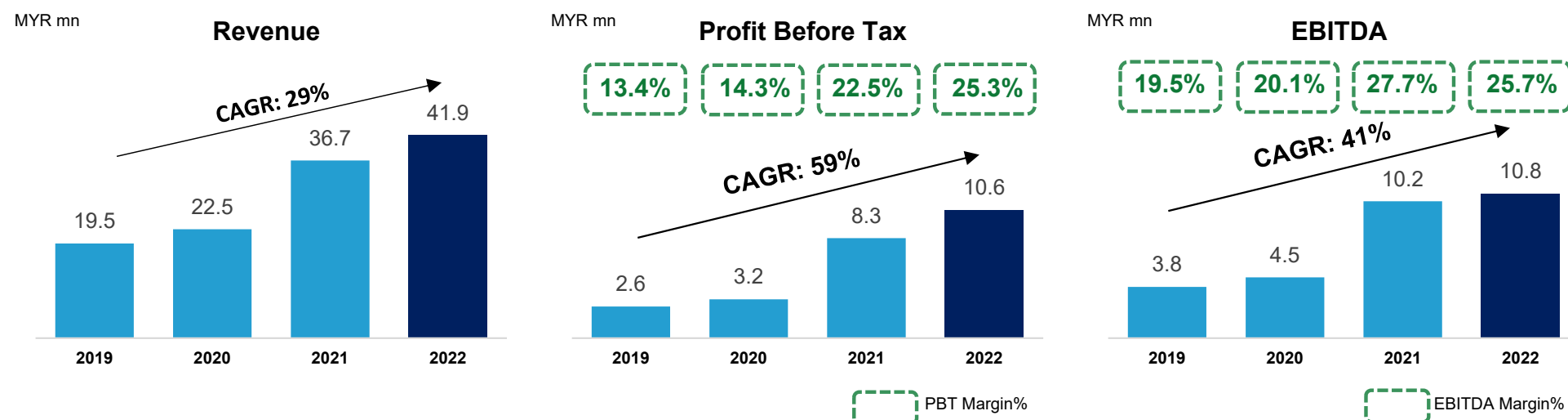
Recent **proposed 65% acquisition of The Inside Scoop Sdn Bhd (“TISSB”)**, established in 2013, one of the fastest growing artisanal ice-creameries and the largest home-grown ice-cream chain in Malaysia. To date, TISSB operates over 36 outlets (including 5 licensee outlets and 2 concession outlets) scattered across Malaysia.

## WHY?



We intend to leverage on the competency and experience of the founders of TISSB who will spearhead FFB’s ice cream division and lead our foray into the lucrative consumer package goods ice cream market.

TISSB recorded an impressive rate of sales growth and good profit margin over the years. The sales growth continued through FY20 and FY21 despite the negative impact of COVID lockdown and dine-in restriction. The summary financial information of the TISSB is as follows:



Note:  
FY2022 result - based on its management accounts (unaudited).

## Acquisition of The Inside Scoop (cont'd)

The equity value of the TISSB Group which was derived from the agreed enterprise value of the TISSB Group of RM102.2 million, as follows:

	<u>RM million</u>
Agreed enterprise value <i>(Based on an EV / EBITDA of 9.5 times)</i>	102.2
Add            Net cash of the TISSB Group as at 31 December 2022	6.9
Add            Incremental cash arising from the repayment of intercompany balances	4.5
Add            Subscription Consideration	15.5
<b>Equity value</b>	<b>129.1</b>
<b>Equity value represented by 65.0% of the enlarged issued TISSB Shares comprises the following:</b>	<b>83.9</b>
- Purchase Consideration (to be satisfied in cash and issuance of new share)	68.4
- Subscription Consideration (to be satisfied in cash)	15.5

# Acquisition of The Inside Scoop (cont'd)

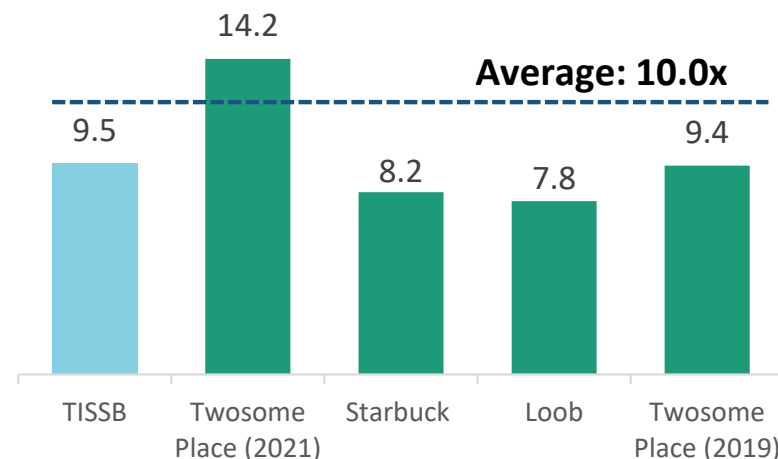
Using the following common valuation methodologies: -

## 1) Comparable transaction analysis

Comparable companies in the F&B industry with the specialised product lines such as coffee and/or tea in Asia Pacific.

The agreed EV/EBITDA multiple of 9.5 falls within the range of EV/EBITDA multiples of comparable transactions of between 7.8 times and 14.2 times and is also below the average EV/EBITDA multiples of comparable transactions of 10.0 times.

### EV/EBITDA (Times)

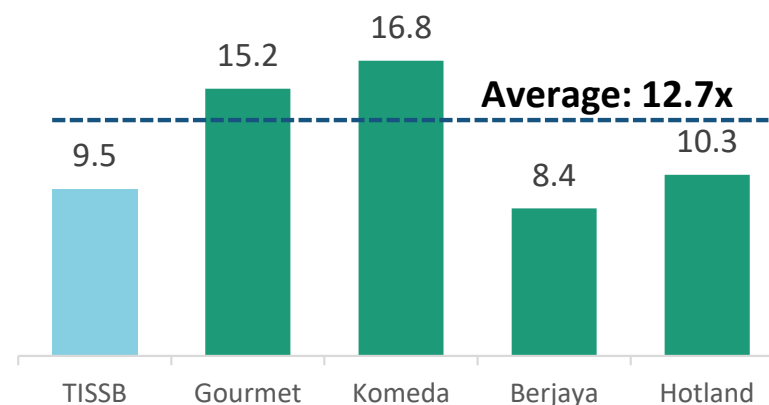


## 2) Comparable trading multiple analysis

Comparable companies were selected based on their respective principal activities in the specialised F&B business.

The Agreed EV/EBITDA multiple of 9.5 falls within the range of EV/EBITDA multiples of companies comparable to the TISSB Group of between 8.4 times and 16.8 times and is also below the average EV/EBITDA multiples of Comparable Companies of 12.7 times.

### EV/EBITDA (Times)



# Future Plans

The acquisition is expected to be **completed in May 2023**.

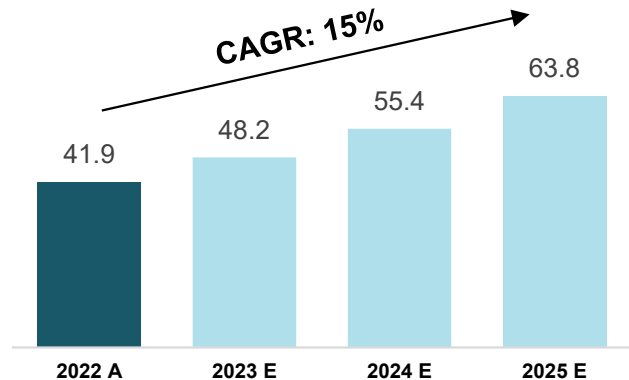
## **WHAT'S NEXT?**

### **Retail**

- Target plans to open 1 store a month (Total 50 stores by 2023.)

Aim for revenue growth of 15% every year.

MYR mn



### **Consumer Packaged Goods Ice Cream**

- Leveraging on artisanal experience and strong brand recognition of Inside Scoop,

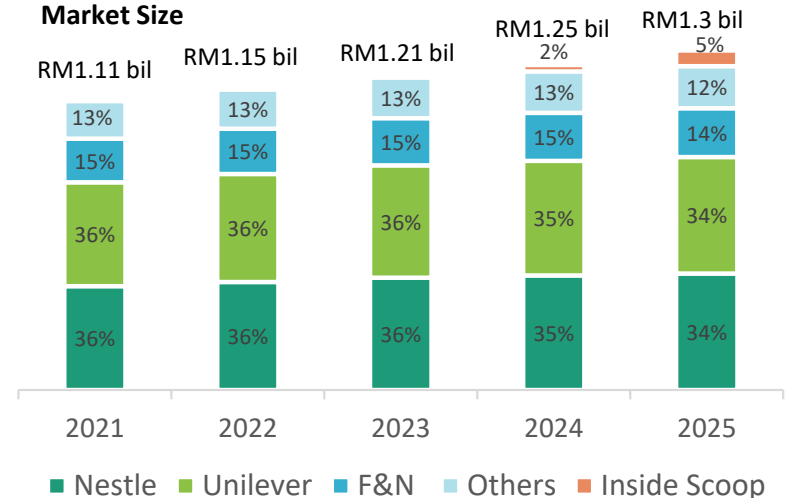
+

Farm Fresh's ready manufacturing facility and distribution channel,

Target to roll out CPG ice cream **by end of December 2023**.

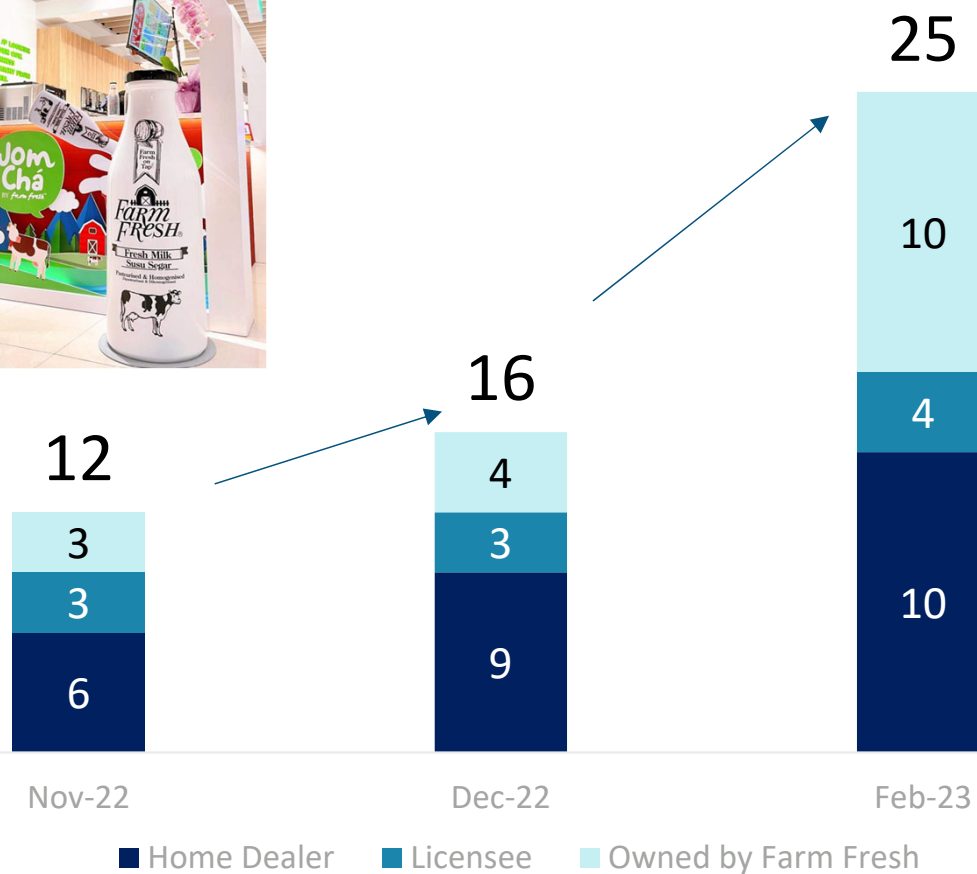
- Target to achieve 5% market share in 2 years, and it is expected to contribute approx. RM55mil – RM65mil sales to the Company

### **Market Size**



# Jom Cha by Farm Fresh Progress Update

## Growth in number of outlets



### Own outlet performance: -

- Capex of RM250k-350k per outlet
- Average revenue of outlets more than one-month operations RM45k.
- Highest revenue in malls (RM60k) and UPM (RM80k)
- Average 70% GP margin (product cost)
- Highest performing outlet doing 50% operating profit

# Q&A

*Thank You*