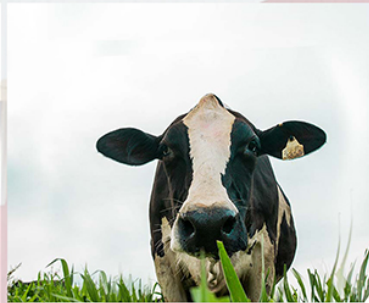




Farm Fresh Berhad

Q1 FY24 Results Briefing

30 August 2023



01

Financial
Results

02

Outlook and
Prospects



Key Highlights:



In RM' mil	<u>Corresponding Quarter</u>			<u>Preceding Quarter</u>	
	Q1FY24	Q1FY23	% Change	Q4FY23	% Change
Revenue	185.5	144.0	↑ 29%	161.4	↑ 15%
Gross Profit	32.9	37.7	↓ 13%	32.8	↑ 0.3%
Profit before Tax	5.9	14.2	↓ 59%	4.5	↑ 30%
PATAMI	6.4	15.2	↓ 58%	4.9	↑ 30%

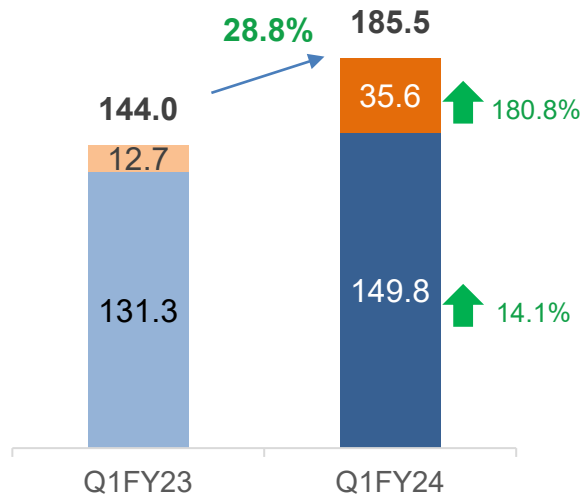
Key narratives

- Sales growth driven by higher external sales from both MY and AU, in particular higher HORECA sales, commercial UHT products, and new products contribution in MY and higher sales in AU driven by GVC and St David Dairy.
- GP Margin stabilized from last quarter, with better profitability.
- Deteriorating margins compared to corresponding quarter due to higher cost of dairy raw materials and lower AU margins.

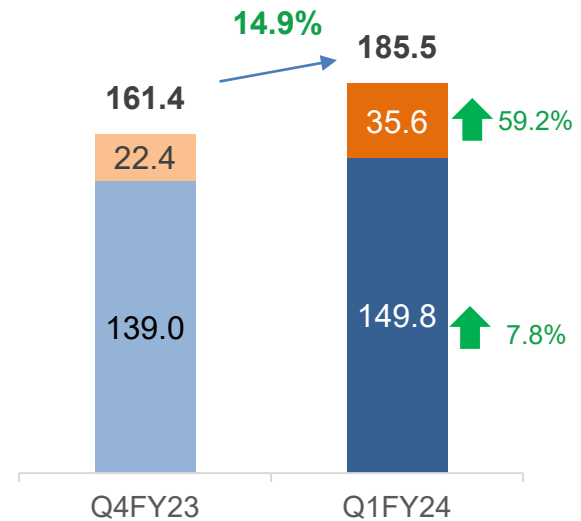
Financial Highlights

Revenue (RM mil)

Against corresponding quarter
(Q1FY24 vs Q1FY23)



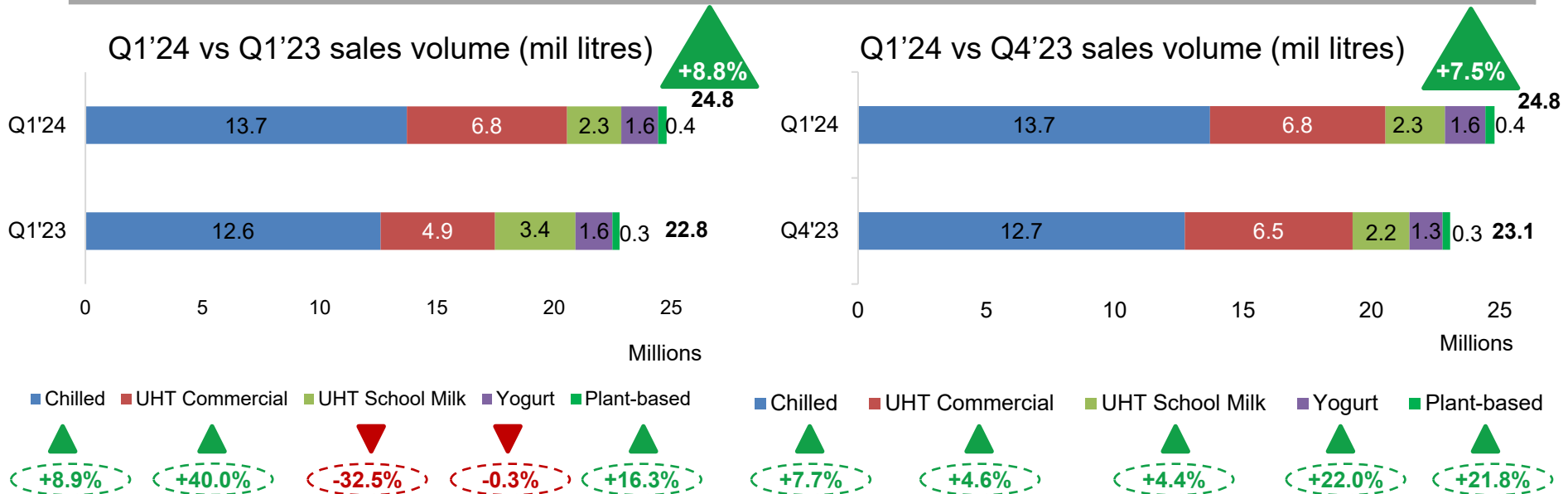
Against preceding quarter
(Q1FY24 vs Q4FY23)



■ Malaysia ■ Australia

Financial Highlights

RTD Sales Volume



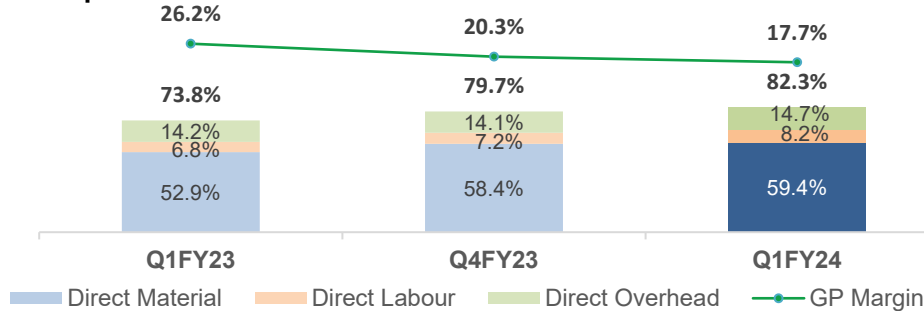
- Overall volume growth in the current quarter of 8.8% and 7.5% compared to the corresponding quarter and preceding quarter respectively.
- Sales volume for chilled category has shown an increase of 8.9% and 7.7% from the corresponding quarter and preceding quarter respectively, driven by higher HORECA sales.
- Sales volume for UHT commercial category has increased by 40.0% and 4.6% from the corresponding quarter and preceding quarter respectively due to the capacity constraints for 200ml portion pack has been relieved by installing an additional UHT processing line at Muadzam Shah facility in April 2023, combined with the lower delivery requirements of school milk during Q1'24.
- Total UHT volume in the current quarter has increased 10.1% and 4.5% compared to the corresponding quarter and preceding quarter respectively.

Financial Highlights

Gross Profit (RM mil)

Quarterly Performance

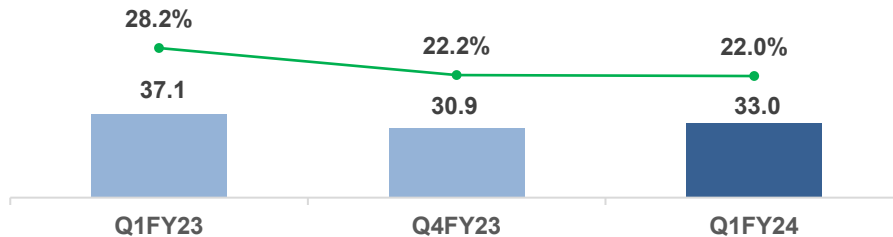
Group - Cost of Goods Sold %



Lower Group GP margin due to:

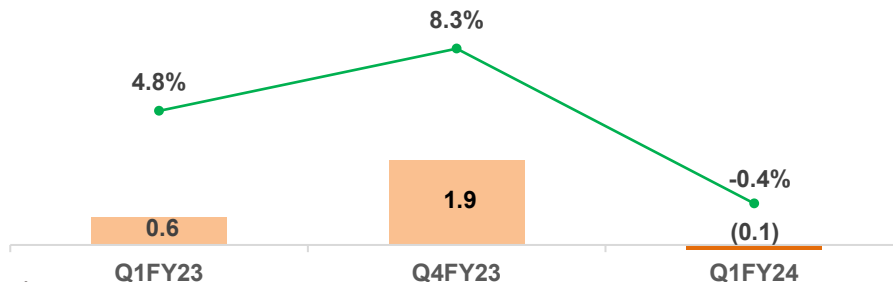
- **Escalating costs of dairy raw materials** - higher Australia farmgate milk and whole milk powder prices; and
- **Lower Australia GP** – due to lower production volume during the quarter (explained below) vis-à-vis higher revenue contribution by Australia

Malaysia - Gross Profit (RM mil) & Margin (%)



- GP has stabilized from preceding quarter. Expected to improve further with the lowering of cost of whole milk powder and slightly lower farmgate milk prices.
- As compared to corresponding quarter, **gross profit has been adversely affected** mainly attributable to the higher input costs, especially AU farmgate milk and whole milk powder prices.

Australia - Gross Profit (RM mil) & Margin (%)

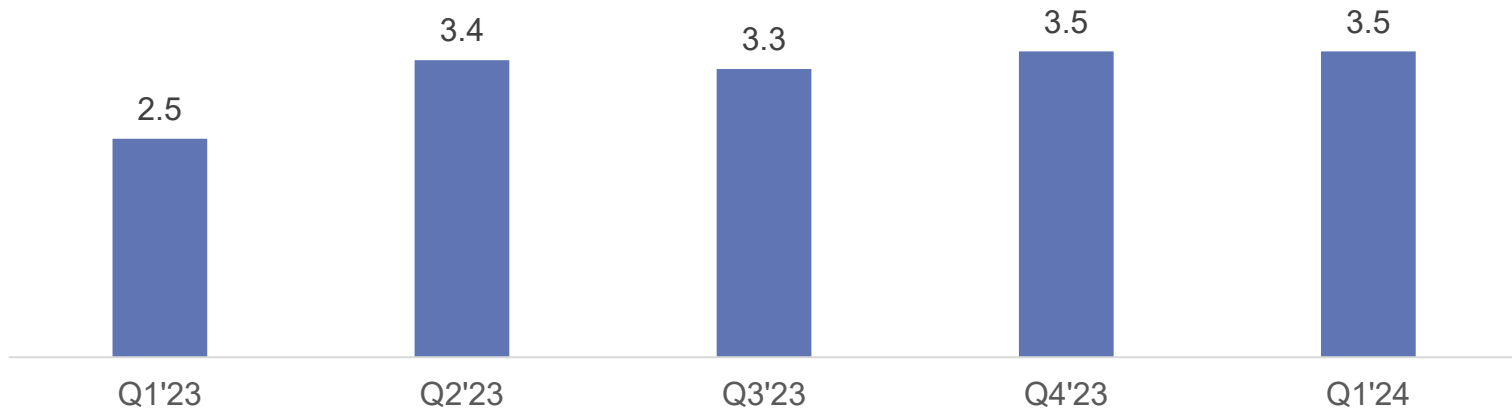


- Gross margin decreased in Q1'24 compared to Q4'23 due to **low production volume** during the quarter to **deliberately deplete levels of inventories with higher milk cost** with the expectation of a drop in the Australian average farmgate raw milk price for the new season beginning July 2023 to June 2024 due to an expected reduction in export prices and stabilization in raw milk production.

Financial Highlights

Escalating costs of key dairy raw materials

Average **cost of Australia milk** (RM/litres)

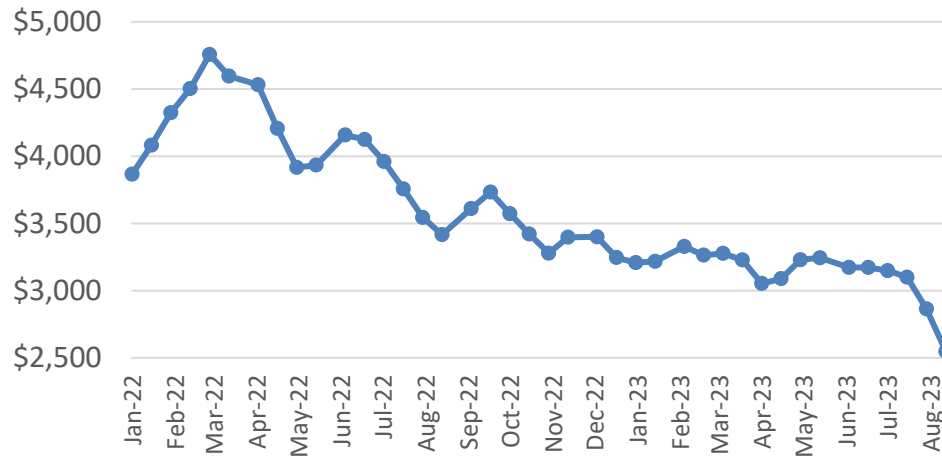


- Increase in GVC's ex-farmgate milk prices from AUD7.40/kg of milk solids to AUD7.85/kg which applied from April 2022 to June 2022. The prices further increased to AUD9.85/kg of milk solids effective from 1 July 2022 and it climbed even further to AUD10.12/kg in January 2023, buoyed by high global dairy prices at the start of the season and low levels of domestic milk production resulting in intense competition between processors who were looking to secure their raw milk supply for 2022–23.
- However, we have seen a reduction in our average Australian farmgate milk prices by 3.8% to AUD9.74/kg in July 2023.

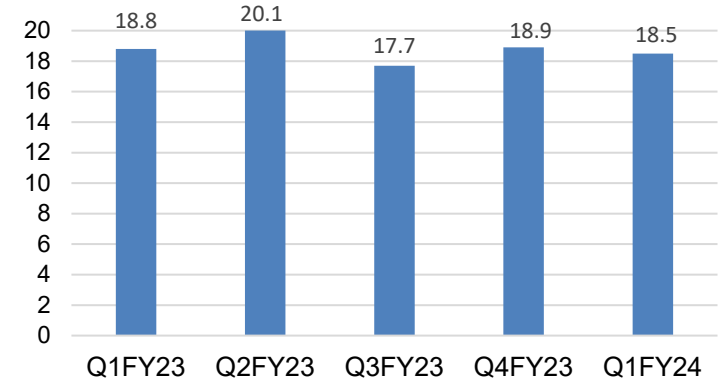
Financial Highlights

Milk powder and other key cost items easing from record high prices

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

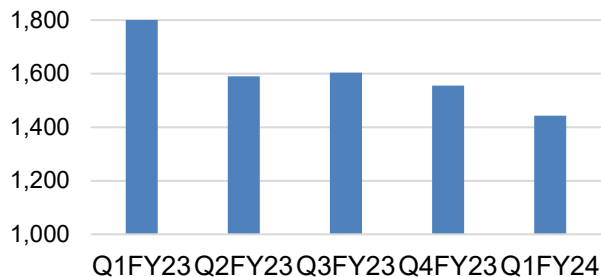


Average whole milk powder consumption unit cost (RM/kg)



- WMP used for our School Milk Project, Yarra by Farm Fresh as well as OEM and HORECA products. GDT prices surged in Feb and March 2022 (Ukraine war) affecting margins in FY23.
- Price trending lower, down to USD2,548 per MT on 15 August 2023. Continuing purchases at lower prices to reduce our average cost in the next few quarters.

Maize (Quarterly average RM per MT)



- Corn prices has tapered off from 10-year highs of 2022
- Hedging two-thirds (2/3) of our requirements with fixed-price delivery of between RM1,100 – RM1,200 from Oct'22 – Mar'23

Operating Profit & Net Profit (RM'000) – Q1'24 vs Q1'23

	Current Quarter	Q1FY23	Changes
Gross profit	32,873	37,707	-4,834
Add: Other income	5,020	2,997	+2,023
<i>FV gain – Derivatives</i>	2,236	69	2,167
<i>FV gain – Biological assets</i>	338	226	112
<i>Other income</i>	2,446	2,702	-256
Less: Distribution expenses	(13,971)	(12,382)	-1,589
<i>Transportation & logistics</i>	(9,875)	(9,930)	55
<i>Advertisement & promotion</i>	(4,096)	(2,452)	-1,644
Less: Administrative expenses	(13,662)	(7,988)	-5,674
<i>Salary expenses</i>	(7,129)	(3,947)	-3,182
<i>Office expenses</i>	(1,759)	(687)	-1,072
<i>Depreciation and amortisation</i>	(1,418)	(474)	-944
<i>Others</i>	(3,356)	(2,880)	-476
Less: Other expenses	(985)	(3,802)	+2,817
<i>FV loss – Derivatives</i>	--	(1,552)	1,552
<i>ESOS expenses</i>	(534)	(2,125)	1,591
<i>Other expenses</i>	(451)	(125)	-326
Operating Profit	9,275	16,532	-7,257
Net finance costs	(3,406)	(2,349)	-1,057
Profit before tax	5,869	14,183	-8,314
Tax (expense)/credit	(260)	1,130	-1,390
Net Profit	5,609	15,313	-9,704

Operating profit and profit before tax decreased by RM7.3 million and RM8.3 million respectively, due to:

- Aforementioned lower gross profit;
- **Higher advertisement and promotion expenses** incurred as continuous brand-building investment and marketing spend on new product launching (growing up milk (GUM), Yarra by Farm Fresh, etc.)
- **Higher admin expense** due to the increase in salary expenses (increase in headcount and inclusion of Inside Scoop headcount), office expenses and depreciation and amortisation incurred post-acquisition and incorporation of subsidiaries;
- **Higher finance cost** as a result of the higher borrowings from RM298.6 million in Q1FY23 to RM400.8 million in Q1FY24.

However, it was mitigated by:

- the increase in other income where **fair value gain on derivatives** of RM2.2m as opposed to fair value loss of RM1.5m in the corresponding quarter due to higher current quarter end closing rate as compared to the average forward contracted rate;
- **Lower ESOS expenses**, the monthly provision for ESOS expense was being revised in Q3'23, based on the latest number of acceptances of the ESOS offer and finalization of fair value of the option upon a review done and as advised by the ESOS consultant.

Operating Profit & Net Profit (RM'000) – Q1'24 vs Q4'23

	Current Quarter	Q4FY23	Changes
Gross profit	32,873	32,761	+112
Add: Other income	5,020	224	+4,796
<i>FV gain – Derivatives</i>	2,236	-	2,236
<i>FV gain/(loss) – Biological assets</i>	338	(1,340)	1,678
<i>Forex gain/(loss)</i>	442	(672)	1,114
<i>Other income</i>	2,004	2,236	-232
Less: Distribution expenses	(13,971)	(12,870)	-1,101
<i>Transportation & logistics</i>	(9,875)	(9,365)	-510
<i>Advertisement & promotion</i>	(4,096)	(3,505)	-591
Less: Administrative expenses	(13,662)	(10,725)	-2,937
<i>Salary expenses</i>	(7,129)	(6,421)	-708
<i>Office expenses</i>	(1,759)	(966)	-793
<i>Depreciation and amortisation</i>	(1,418)	(658)	-760
<i>Others</i>	(3,356)	(2,680)	-676
Less: Other expenses	(985)	(2,021)	+1,036
<i>Annual fee to UPM</i>	(294)	(1,112)	818
<i>FV loss – Derivatives</i>	--	(187)	187
<i>Other expenses</i>	(691)	(722)	31
Operating Profit	9,275	7,369	+1,906
Net finance costs	(3,406)	(2,858)	-548
Profit before tax	5,869	4,511	+1,358
Tax expense	(260)	(23)	-237
Net Profit	5,609	4,488	+1,121

Operating profit and profit before tax increased by RM1.9 million and RM1.4 million respectively, mainly due to:

- Increase in **fair value gain on derivatives** of RM2.2m as opposed to fair value loss of RM187k in the preceding quarter due to higher current quarter AUD end closing rate as compared to the average AUD forward contracted rate;
- **Fair value gain on valuation of biological assets** of RM338k in the current quarter as opposed to the fair value loss of RM1.3 million in the preceding quarter;
- **Higher forex gain** of RM0.4m in current quarter as opposed to RM0.7m forex loss in the preceding quarter due to the strengthening of MYR against AUD;
- **Annual fee** of RM1.1m pursuant to Collaboration Agreement with **Universiti Putra Malaysia (“UPM”)** for the use of UPM site for the period from August 2022 to March 2023, has been recognised in Q4FY23; whereas the fee of RM294k in the current quarter reflected the actual quarter revenues from UPM.

However, the profit was offset with the following:

- **Higher distribution expenses** incurred due to higher sales.
- **Higher admin expense** due to the increase in salary expenses (increase in headcount, including Inside Scoop headcount), office expenses and depreciation and amortisation incurred post-acquisition and incorporation of subsidiaries.

Statement of financial position

	31 March 2023	30 June 2023	% change
	RM	RM	
NON-CURRENT ASSETS			
Property, plant and equipment	413,860,741	439,486,826	6.2
Right-of-use assets	19,378,412	30,563,495	57.7
Biological assets	115,193,886	118,408,944	2.8
Intangible assets	19,316,783	79,524,964	>100
Trade and other receivables	1,130,046	1,029,563	(8.9)
Deferred tax assets	7,673,816	7,601,475	(0.9)
CURRENT ASSETS			
Inventories	173,674,616	142,854,826	(17.7)
Trade and other receivables	131,421,456	161,114,277	22.6
Derivative financial assets	685,111	1,257,479	>100
Current tax assets	1,541,484	1,923,495	24.8
Cash and cash equivalents	22,969,591	54,301,627	>100
Other investments	155,789,952	163,002,519	4.6
TOTAL ASSETS	1,062,635,894	1,201,069,490	13.0
NON-CURRENT LIABILITIES			
Loans and borrowings	243,317,647	343,868,354	41.3
Lease liabilities	8,124,120	15,791,312	94.4
Deferred income	6,226,033	6,158,358	(1.1)
Deferred tax liabilities	7,731,483	7,855,908	1.6
Put option liability	--	34,509,426	>100
CURRENT LIABILITIES			
Loans and borrowings	92,934,269	56,925,740	(38.7)
Trade and other payables	64,141,913	79,854,319	24.5
Lease liabilities	2,293,178	6,613,124	>100
Deferred income	270,697	270,697	--
Derivative financial liabilities	1,694,958	--	--
TOTAL LIABILITIES	426,734,298	551,847,238	29.3
TOTAL EQUITY	635,901,596	649,222,252	2.1
TOTAL EQUITY AND LIABILITIES	1,062,635,894	1,201,069,490	13.0

- Increase in **ROU and lease liabilities** is due to recognition of ROU and lease liabilities of The Inside Scoop in line with MFRS 16.
- Increase in **intangible asset** is due to goodwill of RM60m arising from the acquisition of The Inside Scoop.
- Decrease in **inventories** is due to lesser purchases due to the expectation of a drop in the Australian average farmgate raw milk prices and whole milk powder prices.
- Increase is **cash and cash equivalents, and other investment** is due to the drawdown of 2nd tranche of Sukuk of RM100m which is partly offset with the cash payment consideration of RM64.0m for the acquisition of Inside Scoop.
- Increase in **non-current loans and borrowings** is primarily due to the drawdown of 2nd tranche of Sukuk of RM100m on 27 June 2023.
- Decrease in **current loans and borrowings** primarily due to repayment of revolving credit for working capital.
- **Put option liability** is due to MFRS132.25 recognition of the liability arising from the put option granted to pursuant to the acquisition of The Inside Scoop.

Statement of financial position – Put option (cont'd)

Background - Put Option granted to Edmund Tan, pursuant to the acquisition of The Inside Scoop Sdn Bhd (“TISSB”)

- Upon the **3rd anniversary** of the Completion date of acquisition, Edmund Tan may exercise his put option to require **Farm Fresh Berhad to purchase the Put Options Shares** from him, where the exercise must be in **multiples of 5%** of the total TISSB Shares, unless the remaining Put Option Shares are less than 5% of the total TISSB Shares.

Accounting Standards for the Put Option

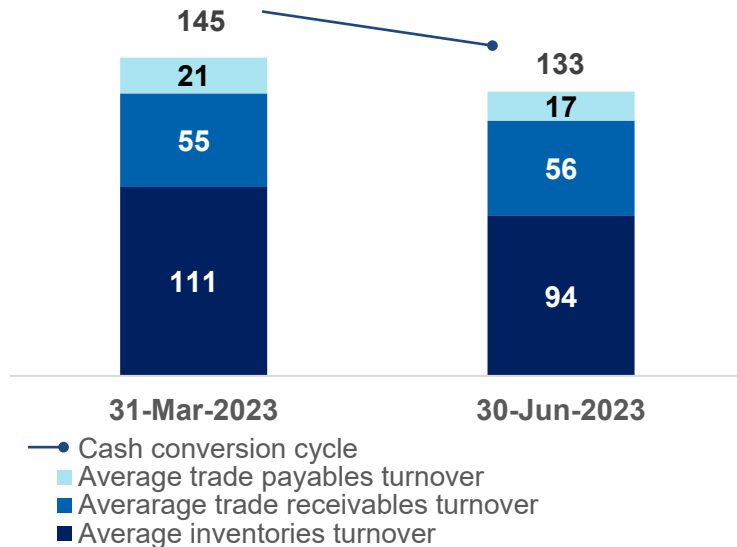
- According to IAS 32.23, an entity may write a put option with the non controlling shareholders (NCI) in an existing subsidiary on their equity interests in that subsidiary. If the put option granted to the NCI provides for settlement in cash, then **the entity is required to recognize a liability for the present value** of the exercise price of the option.
- Recognition of a liability is required because the entity has an obligation to deliver cash if the NCI exercise the option (even in the occurrence or non-occurrence of uncertain future events).

Recognition of the liability for the Put Option

- The **present value of the exercise price** of the put option granted to Edmund Tan has been accounted for under **put option liability**, with the corresponding amount as **other non-distributable reverse**.
- An annual **accretion of interest** will be recognized **over 3 years** until FY2027.
- Once the put option is exercised, both the **put option liability** and **non-distributable reserve** will be **reversed** accordingly.

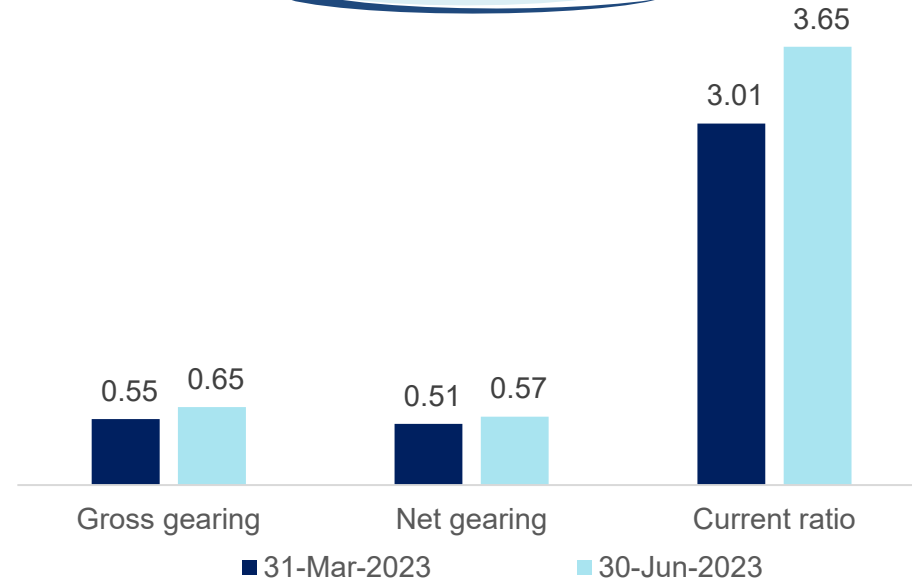
Balance sheet ratios

Cash Conversion Cycle (Days)



- Average inventories turnover days decreased from 111 days to 94 days due to lesser purchases due to the expectation of a drop in the Australian average farmgate raw milk prices and whole milk powder prices.
- Average trade receivables remained constant.
- Average trade payables days decreased from 21 days to 17 days due to higher repayment of trade payables during the quarter.

Key Ratios (Times)



- Current ratio increased from 3.01 times to 3.65 times due to lower utilization of short-term financing i.e. banker acceptance, hire purchase facilities and fully settlement of revolving credit during the quarter (As at Mar'23 : RM93m; Jun'23 : RM57m) as a result of drawdown of Sukuk.
- Gross and net gearing ratio increased due to (i) recognition of put option where it reduces the equity significantly, (ii) drawdown of RM100m Sukuk, (iii) recognition of lease liabilities of The Inside Scoop Sdn Bhd following the transition of accounting framework from MPERS to MFRS during the quarter.
- Gross and net gearing ratio were 0.62 times and 0.54 times respectively before the recognition of put option.

01

Financial
Results

02

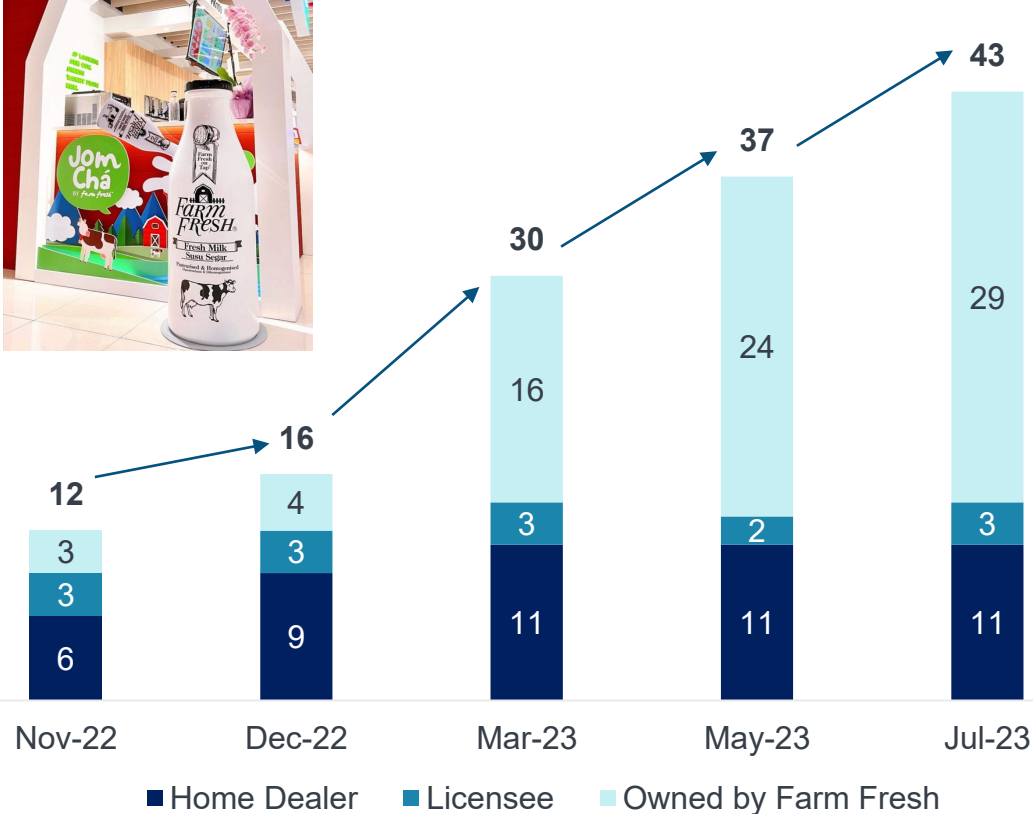
Outlook and
Prospects

RTD Product launches



Jom Cha by Farm Fresh Progress Update

Growth in number of outlets



Own outlet performance: -

- Capex of RM250k-350k per outlet
- Average revenue of RM71k per outlet.
- Recorded RM248k profit during the quarter excluding HQ cost.

Key takeaways

1

Continued strong top-line growth. Stabilizing margins, with unprecedented cost pressures impacting GP margin, esp. key dairy raw materials easing.

2

Net profits down compared to corresponding quarter, but improvement recorded Q-o-Q

3

UHT production constraints alleviated – improved throughput with additional UHT processing line in Apr '23 + new UHT processing line in mid-Aug '23.

4

Additional production capacity with Taiping factory operational in June '23 + new UHT 1-litre line targeted end-Sep'23

5

Philippines & Growing up milk power (by end-2023) + CPG Ice cream (1Q 2024)



Q&A

Thank You