



Farm Fresh Berhad

Q2 FY24 Results Briefing

28 November 2023



01

**Financial
Results**

02

**Outlook and
Prospects**



Q2 FY24 key highlights:

In RM' mil	<u>Corresponding Quarter</u>			<u>Preceding Quarter</u>	
	Q2FY24	Q2FY23	% Change	Q1FY24	% Change
Revenue	198.3	162.1	↑ 22%	185.5	↑ 7%
Gross Profit	52.2	39.7	↑ 32%	32.9	↑ 59%
Profit before Tax	14.3	13.1	↑ 9%	5.9	↑ 144%
PATAMI	12.8	11.2	↑ 14%	6.4	↑ 101%

Key narratives

- Sales growth driven by higher school milk, HORECA and commercial UHT sales and revenue contribution from Inside Scoop which was partly offset by the decrease in Australian revenue.
- Improved gross profit due to lower cost of dairy raw materials, contribution from Inside Scoop and improving margins from Australian operations.



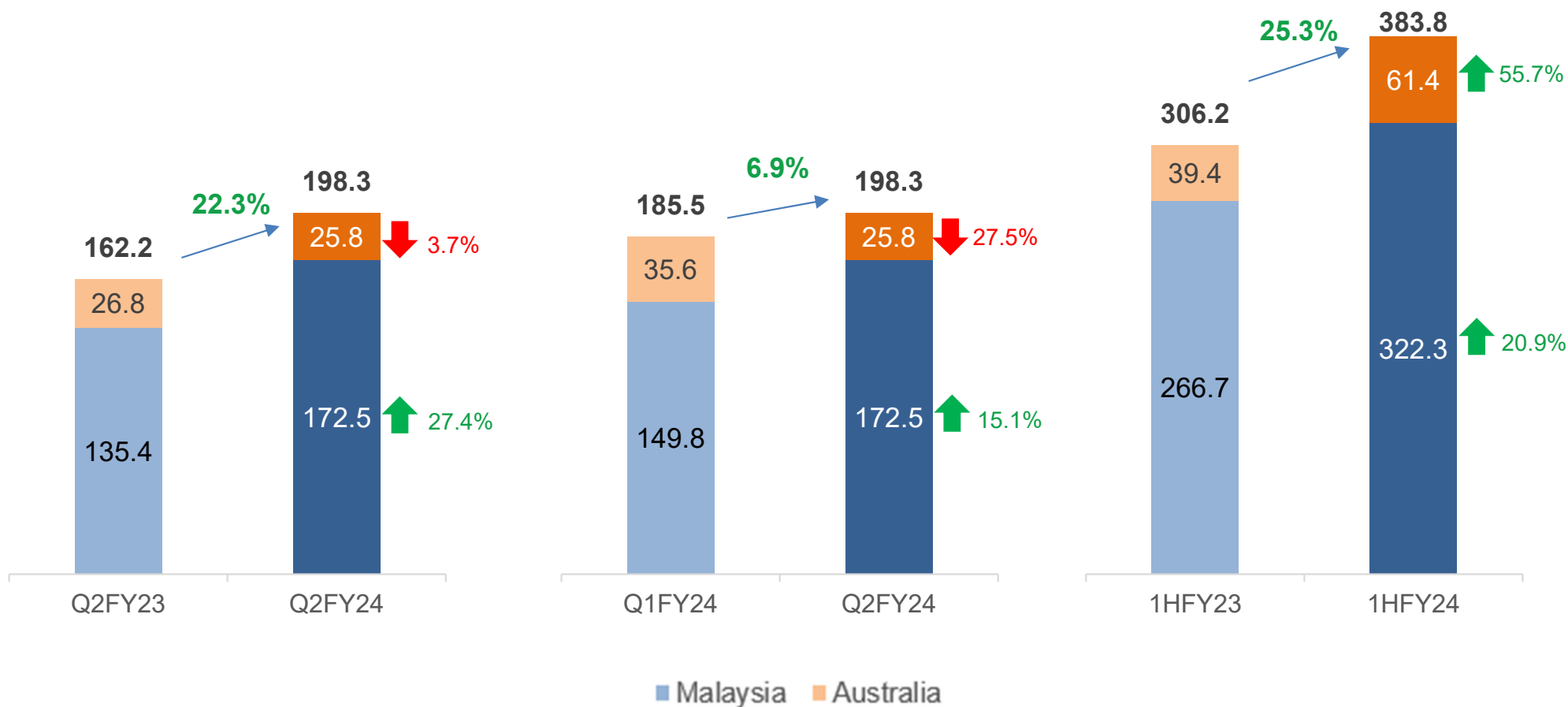
Financial Highlights

Revenue (RM mil)

Against corresponding quarter
(Q2FY24 vs Q2FY23)

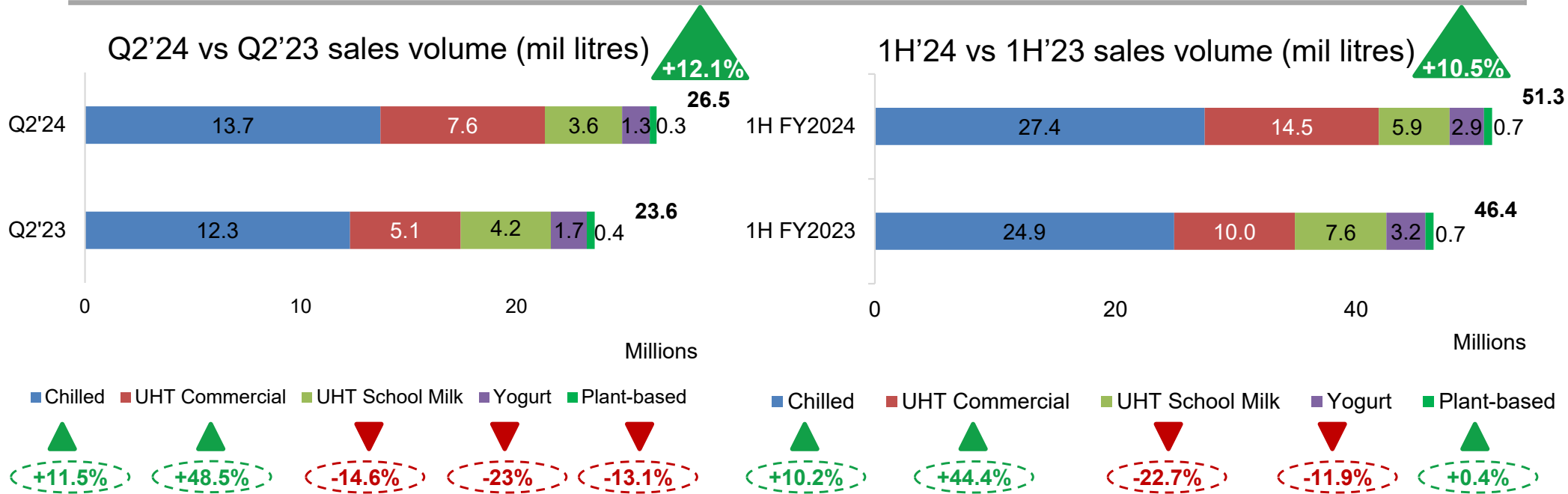
Against preceding quarter
(Q2FY24 vs Q1FY24)

Against corresponding half
(1HFY24 vs 1HFY23)



Financial Highlights

RTD Sales Volume

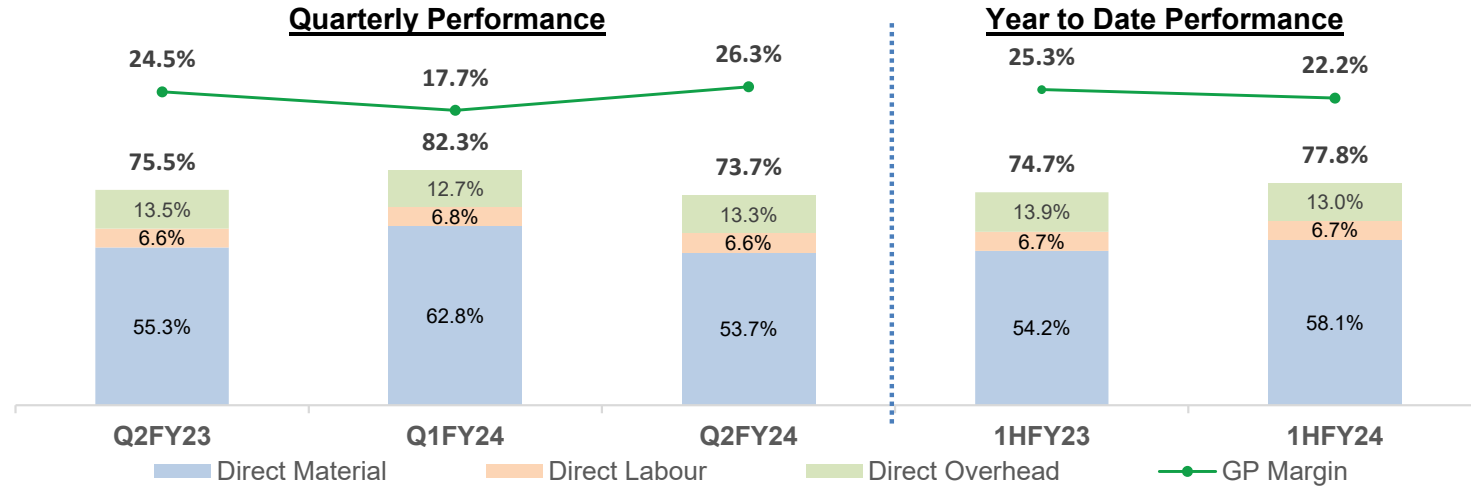


- Overall volume growth in the current quarter of 12.1% and 10.5% compared to the corresponding quarter and period respectively.
- Sales volume for chilled category has shown an increase of 11.5% and 10.2% from the corresponding quarter and period respectively, driven by higher HORECA sales.
- Sales volume for UHT commercial category has increased by 48.5% and 44.4% from the corresponding quarter and period 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.
- Total UHT volume in the current quarter has increased 20.2% and 15.4% compared to the corresponding quarter and period respectively.

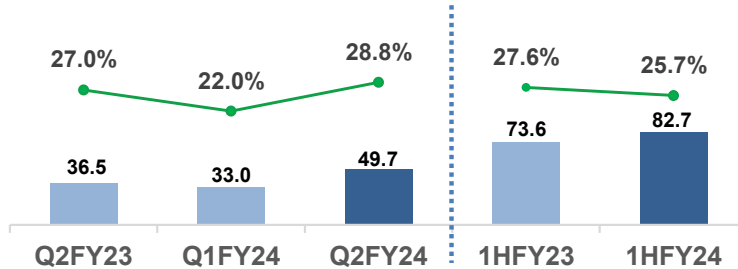
Financial Highlights

Gross Profit (RM mil)

Group - Cost of Goods Sold %



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

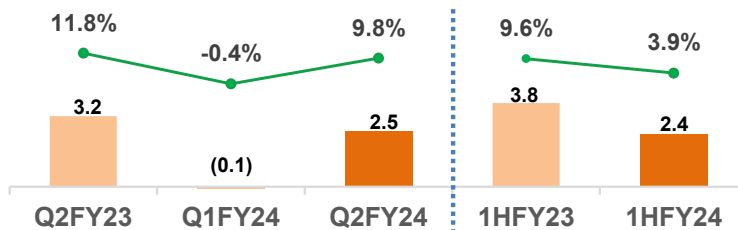


Higher GP margin during the quarter due to:

- **Lower cost** of whole milk powder and slightly lower farmgate milk prices.
- **Increase in prices** for chilled RTD products in Malaysia effective mid-July 2023
- Gross profit contribution from **Inside Scoop**

Slight decrease in YTD GP margin, mainly attributable to the higher input costs in Q1 2024.

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

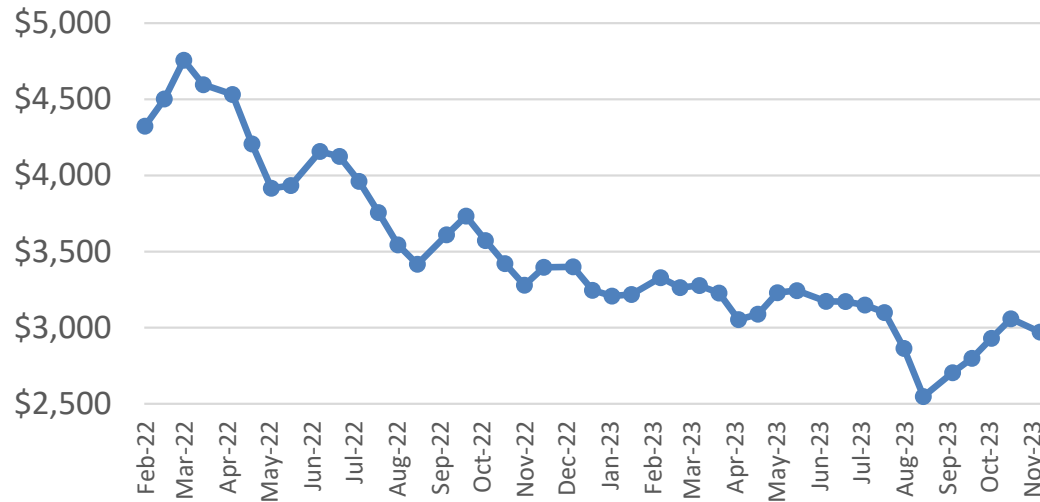


- **Gross margin increased** in Q2'24 compared to Q1'24 due to **higher production volume at Kyabram plant** during the quarter, as opposed to the preceding quarter where production volumes were deliberately lowered in anticipation of lower milk prices.

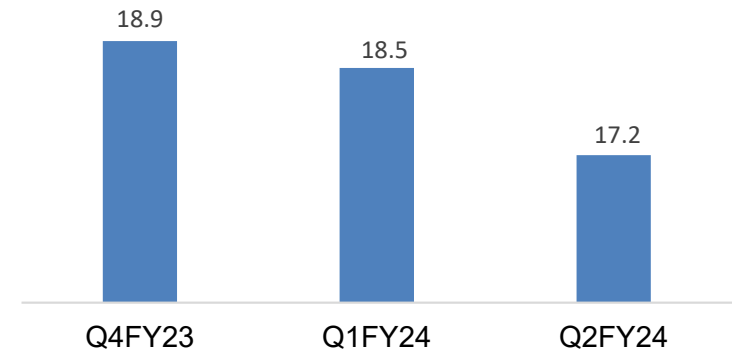
Financial Highlights

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

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

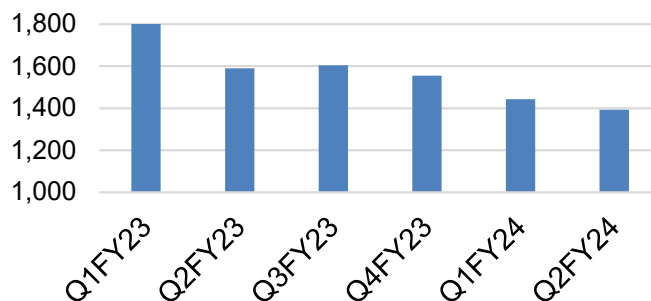


Average whole milk powder consumption unit cost (RM/kg)



- WMP used for our School Milk Project, Yarra by Farm Fresh as well as certain HORECA and OEM products. GDT prices surged in Feb and March 2022 (Ukraine war) affecting margins in FY23 but has since reduced, resulting in improved GP margin.
- We have secured from GDT purchases at an average price of ~USD3,000 per MT for deliveries until May 2024.

Maize (Quarterly average RM per MT)

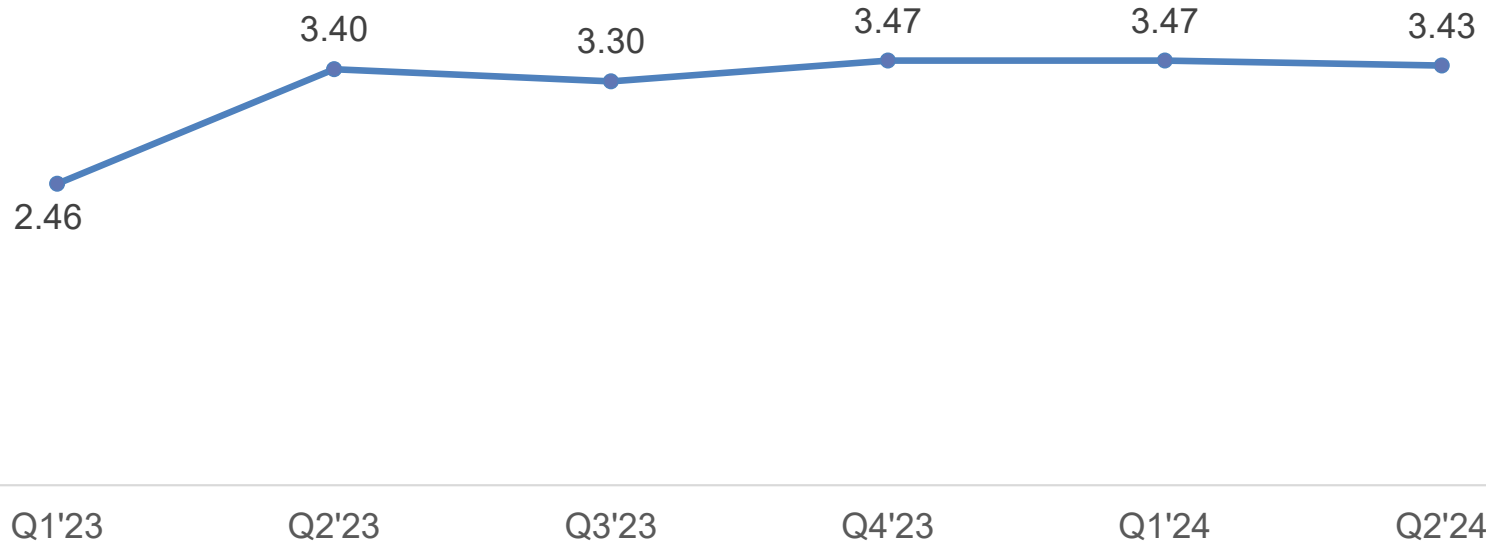


- Corn prices has tapered off from 10-year highs of 2022.
- Hedging two-thirds (2/3) of our requirements with fixed-price delivery until July 2024

Financial Highlights

Reduction in costs of key dairy raw materials

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



- Australia farmgate milk prices 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, thus we have benefited slightly from the decrease in price in Q2 FY24.

Operating Profit & Net Profit (RM'000) – Q2'24 vs Q1'24

	Current Quarter	Q1FY24	Changes
Gross profit	52,206	32,873	+19,333
Add: Other income	1,663	5,020	-3,357
<i>FV gain – Derivatives</i>	<i>254</i>	<i>2,236</i>	<i>-1,982</i>
<i>FV (loss)/gain – Biological assets</i>	<i>(1,203)</i>	<i>338</i>	<i>-1,541</i>
<i>Forex (loss)/gain</i>	<i>(167)</i>	<i>442</i>	<i>-609</i>
<i>Other income</i>	<i>2,779</i>	<i>2,004</i>	<i>775</i>
Less: Distribution expenses	(16,537)	(13,971)	-2,566
<i>Transportation & logistics</i>	<i>(11,458)</i>	<i>(9,875)</i>	<i>-1,583</i>
<i>Advertisement & promotion</i>	<i>(5,079)</i>	<i>(4,096)</i>	<i>-983</i>
Less: Administrative expenses	(17,563)	(13,662)	-3,901
<i>Salary expenses</i>	<i>(9,212)</i>	<i>(7,129)</i>	<i>-2,083</i>
<i>Office expenses</i>	<i>(3,021)</i>	<i>(1,759)</i>	<i>-1,262</i>
<i>Depreciation and amortisation</i>	<i>(2,189)</i>	<i>(1,418)</i>	<i>-771</i>
<i>Others</i>	<i>(3,141)</i>	<i>(3,356)</i>	<i>215</i>
Less: Other expenses	(1,151)	(985)	-166
Operating Profit	18,618	9,275	+9,343
Net finance costs	(4,299)	(3,406)	-893
Profit before tax	14,319	5,869	+8,450
Tax expense	(1,225)	(260)	-965
Net Profit	13,094	5,609	+7,485

Operating profit and profit before tax increased by RM9.3 million and RM8.5 million respectively, mainly due to:

- Aforementioned higher gross profit;

However, the profit was offset with the following:

- **Lower fair value gain on derivatives** of RM0.3m as compared to RM2.2m in the preceding quarter. Higher current quarter fair value gain in USD forward contract was partially offset by the fair value loss in AUD forward contract during the quarter;
- **Fair value loss on valuation of biological assets** of RM1.2m in the current quarter as opposed to the fair value gain of RM0.3 million in the preceding quarter;
- **Forex loss** of RM0.2m in current quarter as opposed to RM0.4m forex gain in the preceding quarter due to the weakening of MYR against AUD;
- **Higher distribution expenses** incurred due to higher sales;
- **Higher admin expense** due to the increase in salary expenses, office expenses and depreciation incurred post-acquisition of Inside Scoop in end-May 2023;
- **Higher finance cost** primarily due to issuance of 2nd tranche of Sukuk of RM100m on 27 June 2023.

Operating Profit & Net Profit (RM'000) – Q2'24 vs Q2'23

	Current Quarter	Q2FY23	Changes
Gross profit	52,206	39,692	+12,514
Add: Other income	1,663	1,982	-319
<i>FV (loss)/gain – Biological assets</i>	<i>(1,203)</i>	<i>224</i>	<i>-1,427</i>
<i>FV gain – Derivatives</i>	<i>254</i>	<i>(69)</i>	<i>323</i>
<i>Other income</i>	<i>2,612</i>	<i>1,827</i>	<i>785</i>
Less: Distribution expenses	(16,537)	(14,329)	-2,208
<i>Transportation & logistics</i>	<i>(11,458)</i>	<i>(9,809)</i>	<i>-1,649</i>
<i>Advertisement & promotion</i>	<i>(5,079)</i>	<i>(4,520)</i>	<i>-559</i>
Less: Administrative expenses	(17,563)	(8,700)	-8,863
<i>Salary expenses</i>	<i>(9,212)</i>	<i>(4,630)</i>	<i>-4,582</i>
<i>Office expenses</i>	<i>(3,021)</i>	<i>(790)</i>	<i>-2,231</i>
<i>Depreciation and amortisation</i>	<i>(2,189)</i>	<i>(539)</i>	<i>-1,650</i>
<i>Others</i>	<i>(3,141)</i>	<i>(2,741)</i>	<i>-400</i>
Less: Other expenses	(1,151)	(2,615)	+1,464
<i>ESOS expenses</i>	<i>(486)</i>	<i>(2,144)</i>	<i>1,658</i>
<i>Other expenses</i>	<i>(665)</i>	<i>(471)</i>	<i>-194</i>
Operating Profit	18,618	16,030	+2,588
Net finance costs	(4,299)	(2,904)	-1,395
Profit before tax	14,319	13,126	+1,193
Tax expense	(1,225)	(1,754)	529
Net Profit	13,094	11,372	+1,722

Operating profit and profit before tax increased by RM2.6 million and RM1.2 million respectively, mainly due to:

- Aforementioned higher gross profit;
- **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.

However, the profit was offset with the following:

- **Fair value loss on valuation of biological assets** of RM1.2m in the current quarter as opposed to the fair value gain of RM0.2 million in the corresponding quarter;
- **Higher distribution expenses** incurred due to higher sales and higher marketing spend;
- **Higher admin expense** due to the increase in salary expenses, office expenses and depreciation expenditure from new subsidiaries (Inside Scoop, Jom Cha and St David Dairy);
- **Higher finance cost** primarily due to issuance of 2nd tranche of Sukuk of RM100m on 27 June 2023.

Operating Profit & Net Profit (RM'000) – 1H'24 vs 1H'23

	1H FY24	1H FY23	Changes
Gross profit	85,079	77,400	+7,679
Add: Other income	6,683	4,978	+1,705
<i>FV (loss)/gain – Biological assets</i>	<i>(865)</i>	<i>450</i>	<i>-1,315</i>
<i>FV gain – Derivatives</i>	<i>2,491</i>	<i>--</i>	<i>2,491</i>
<i>Other income</i>	<i>5,057</i>	<i>4,528</i>	<i>529</i>
Less: Distribution expenses	(30,508)	(26,711)	-3,797
<i>Transportation & logistics</i>	<i>(21,333)</i>	<i>(19,739)</i>	<i>-1,594</i>
<i>Advertisement & promotion</i>	<i>(9,175)</i>	<i>(6,972)</i>	<i>-2,203</i>
Less: Administrative expenses	(31,225)	(16,688)	-14,537
<i>Salary expenses</i>	<i>(16,342)</i>	<i>(8,577)</i>	<i>-7,765</i>
<i>Office expenses</i>	<i>(4,780)</i>	<i>(1,477)</i>	<i>-3,303</i>
<i>Depreciation and amortisation</i>	<i>(3,607)</i>	<i>(1,014)</i>	<i>-2,593</i>
<i>Others</i>	<i>(6,496)</i>	<i>(5,620)</i>	<i>-876</i>
Less: Other expenses	(2,136)	(6,417)	+4,281
<i>ESOS expenses</i>	<i>(1,020)</i>	<i>(4,270)</i>	<i>3,250</i>
<i>FV loss – Derivatives</i>	<i>--</i>	<i>(1,828)</i>	<i>1,828</i>
<i>Other expenses</i>	<i>(1,116)</i>	<i>(319)</i>	<i>-797</i>
Operating Profit	27,893	32,562	-4,669
Net finance costs	(7,704)	(5,253)	-2,451
Profit before tax	20,189	27,309	-7,120
Tax expense	(1,485)	(625)	-860
Net Profit	18,704	26,684	-7,980

An improvement in gross profit from Q1 to Q2 2024, but the profit was counteracted by a simultaneous increase in both distribution and administrative expenses.

Operating profit and profit before tax decreased by RM4.7 million and RM7.1 million respectively, mainly due to:

- **Fair value loss on valuation of biological assets** of RM0.9m in the current period as opposed to the fair value gain of RM0.5 million in the corresponding period;
- **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, office expenses and depreciation expenditure from new subsidiaries (Inside Scoop, Jom Cha and St David Dairy);
- **Higher finance cost** as a result of the higher borrowings from RM285 million in 1HFY23 to RM405 million in 1HFY24.

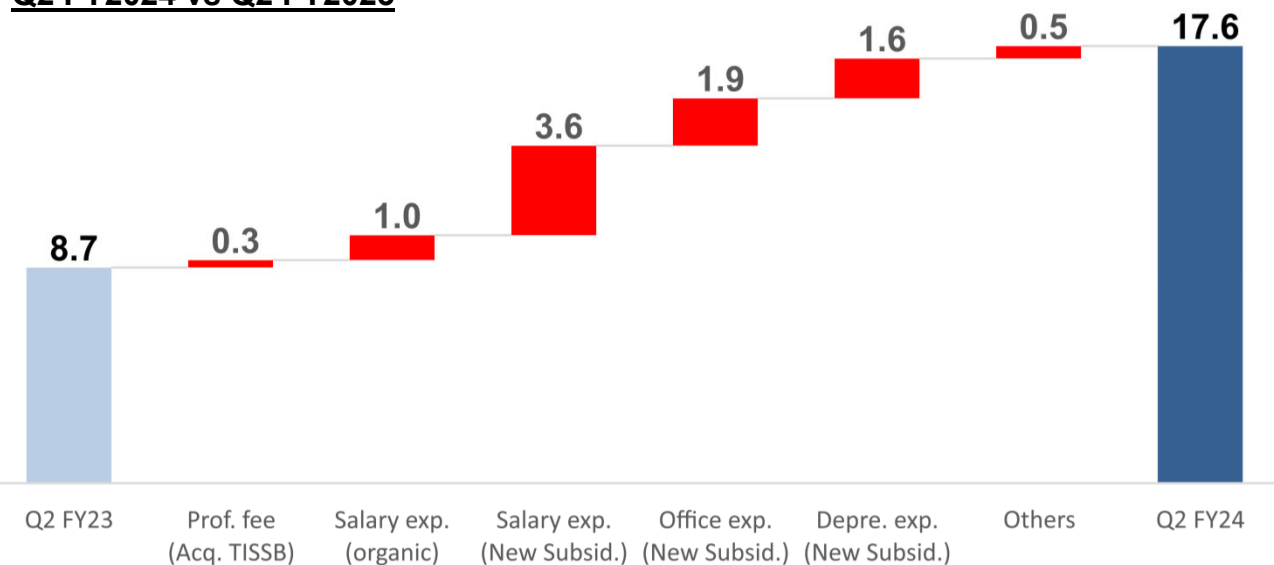
However, it was mitigated by:

- Aforementioned higher gross profit;
- **Fair value gain on derivatives** of RM2.5m as opposed to fair value loss of RM1.8m in the corresponding period due to higher current period fair value gain in USD forward contract was partially offset by the fair value loss in AUD forward contract during the period;
- **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.

Financial Highlights

Administrative expenses analysis (RM mil)

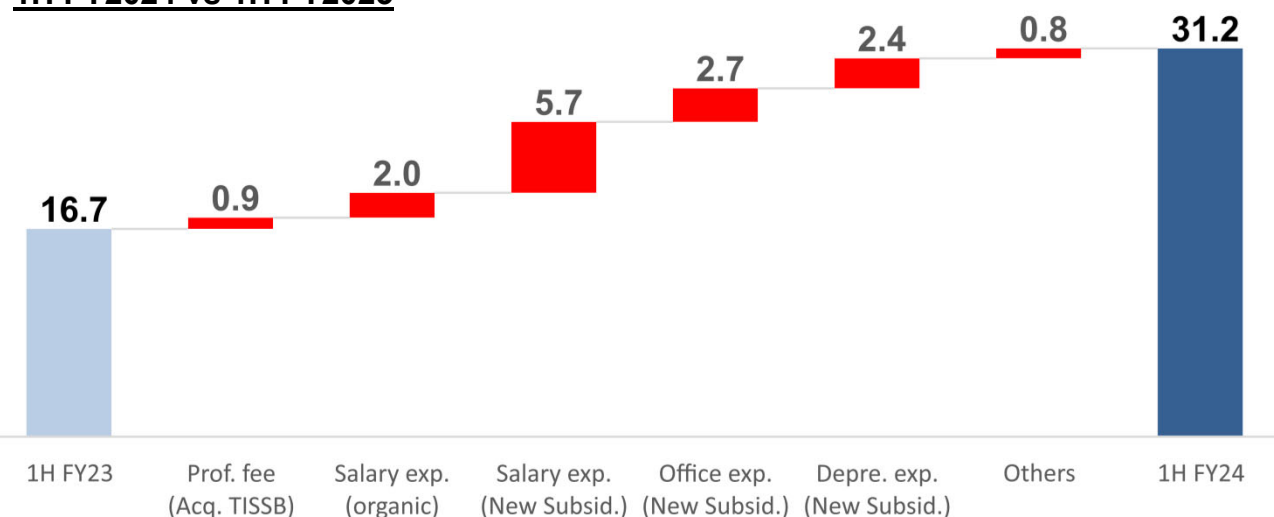
Q2 FY2024 vs Q2 FY2023



Higher admin expense due to the:

- Professional fees incurred due to the acquisition of The Inside Scoop (TISSB).
- Increase in salary expenses for Malaysia operations due to increase in headcount
- New subsidiaries (such as The Inside Scoop, Jom Cha and St David Dairy), which has contributed to the overall admin expenses inclusive of the salary expenses, office expenses and depreciation expenditure;

1H FY2024 vs 1H FY2023



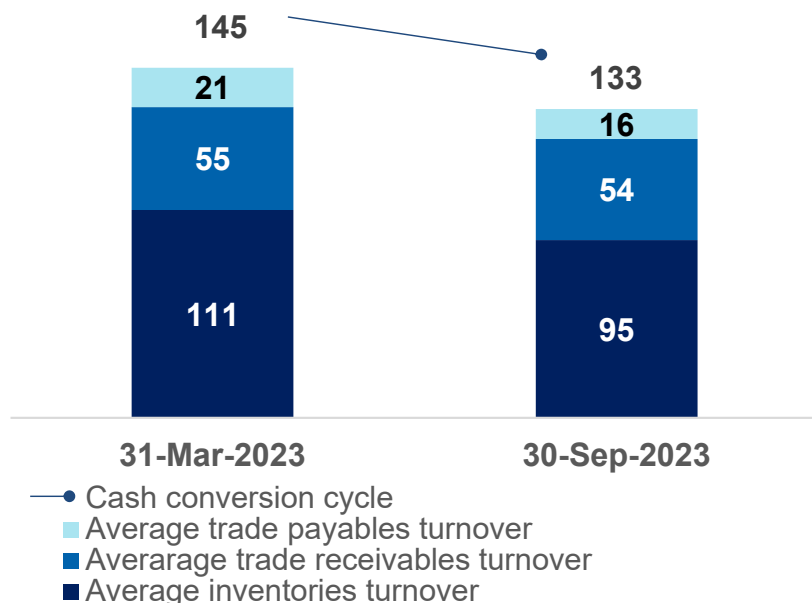
Statement of financial position

	31 Mar 2023	30 Sept 2023	% change
	RM	RM	
NON-CURRENT ASSETS			
Property, plant and equipment	413,860,741	458,377,276	10.8
Right-of-use assets	19,378,412	33,006,798	70.3
Biological assets	115,193,886	118,164,219	2.6
Intangible assets	19,316,783	79,053,862	>100
Trade and other receivables	1,130,046	786,421	(30.4)
Deferred tax assets	7,673,816	8,329,434	8.5
CURRENT ASSETS			
Inventories	173,674,616	135,597,821	(21.9)
Trade and other receivables	131,421,456	162,746,717	23.8
Derivative financial assets	685,111	1,418,681	>100
Current tax assets	1,541,484	2,290,543	48.6
Cash and cash equivalents	22,969,591	66,201,278	>100
Other investments	155,789,952	167,600,740	7.6
TOTAL ASSETS	1,062,635,894	1,233,573,790	16.1
NON-CURRENT LIABILITIES			
Loans and borrowings	243,317,647	341,037,235	40.2
Lease liabilities	8,124,120	16,675,338	>100
Deferred income	6,226,033	6,090,684	(2.2)
Deferred tax liabilities	7,731,483	9,527,078	23.2
Put option liability	--	35,324,711	>100
CURRENT LIABILITIES			
Loans and borrowings	92,934,269	64,365,255	(30.7)
Trade and other payables	64,141,913	113,865,998	77.5
Lease liabilities	2,293,178	7,385,996	>100
Deferred income	270,697	270,697	--
Derivative financial liabilities	1,694,958	--	--
TOTAL LIABILITIES	426,734,298	594,542,992	39.3
TOTAL EQUITY	635,901,596	639,030,798	0.5
TOTAL EQUITY AND LIABILITIES	1,062,635,894	1,233,573,790	16.1

- Increase in **ROU and lease liabilities** due to recognition of ROU and lease liabilities of The Inside Scoop in line with MFRS 16.
- Increase in **intangible asset** due to goodwill of RM60m arising from the acquisition of The Inside Scoop.
- Decrease in **inventories** 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 in **cash and cash equivalents, and other investment** 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 The Inside Scoop.
- Increase in **non-current loans and borrowings** 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.
- Increase in **trade and other payables** mainly due to dividend payable on 10 Oct of RM18.7m.
- **Put option liability** due to MFRS132.25 recognition of the liability arising from the put option granted to pursuant to the acquisition of The Inside Scoop.

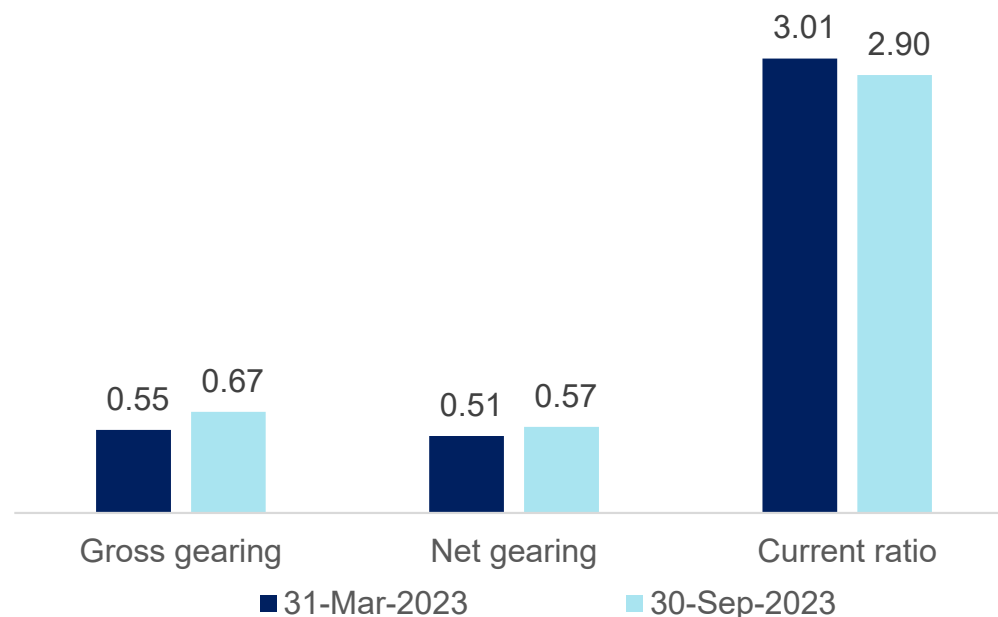
Balance sheet ratios

Cash Conversion Cycle (Days)



- Average inventories turnover days decreased from 111 days to 95 days due to lesser purchases due to the expectation of a drop in the Australian average farmgate raw milk price and whole milk powder price.
- Average trade receivables remained constant.
- Average trade payables days decreased from 21 days to 16 days due to higher repayment of trade payables during the period.

Key Ratios (Times)



- Current ratio decreased from 3.01 times to 2.90 times due to dividend payable on 10 Oct of RM18.7m.
- 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 0.64 times and 0.54 times respectively before the recognition of put option.

01

Financial
Results

02

Outlook and
Prospects

New product launches



Farm Fresh 100% Australia Organic Milk



Growing up milk (whole milk powder format)



Farm Fresh Chocolate Mint Milk



- 1) Consumer package goods ice cream (early 2024)
- 2) Juniors Cultured Milk (1H 2024)
- 3) Plant-based yoghurt (1Q 2024)
- 4) Butter - Butter (9g and 200g) (2H 2024)



September



November



Upcoming
2024



Source: Company information.

Acquisition of Sin Wah Ice Cream

Completion acquisition of 70% stake in Sin Wah Ice Cream Sdn Bhd (“Sin Wah”) in October 2023. Sin Wah is established in 1995, and has grown from a small local manufacturer of Ice Cream Potong in Kuala Lumpur to a large business with operations across Peninsular Malaysia.

To date, Sin Wah has a production capacity of 120,000 pieces of Ice Cream Potong a day 9 distribution warehouses and 22 distribution teams, serving over 2,000 outlets of 99 Speed Mart and 30 outlets of Hero Mart nationwide.

WHY ACQUIRED?



> 6,000 drop points

Sin Wah owns ~2,300 units freezers in 99 Speed Mart; and its products are also distributed to ~4,000 units freezers by distributors across Peninsular Malaysia.



Extensive logistics capability with > 15 trucks *and 45 trucks owned by distributors*



GP margin of **~35%**, net profit margin of **~15.0%**

Key takeaways

1

Continued strong top-line growth. Improving margins, with key dairy raw materials easing + contribution from Inside Scoop.

2

Outlook looking better + preservation of margin by hedging major costs and currencies

3

New 1-litre UHT family pack line in November 2023, in addition to the additional UHT processing lines installed in April and August 2023 → cater to the increasing demand for both commercial and HORECA market.

4

Foundations being laid for future growth – FF GUM powder format by end-2023, Philippines by early 2024, and CPG Ice Cream in early 2024

5

Acquisition of Sin Wah - distribution drop points and logistics capabilities to facilitate the Group's planned launch of CPG ice cream



Q&A

Thank You