Food Empire Holdings Limited
31 Harrison Road, #08-01, Food Empire Building, Singapore 369649
Phone: (65) 6622 6900 · Fax: (65) 6744 8977
Company Registration No.: 200001282G
Incorporated in the Republic of Singapore

Food Empire's 1Q2020 revenue increased 5.0% yoy to US$74.2 million

- Increase in revenue was largely driven by higher sales in the Group's Kazakhstan and CIS markets
- Net profit after tax was lower at US$6.6 million, largely due to foreign exchange loss partly offset by higher sales
- Group to continue its efforts to rationalise and optimise sales processes and to work on new product additions to its range

Singapore, 11 May 2020 – Food Empire Holdings Limited ("**Food Empire**", together with its subsidiaries, the "**Group**"), provided quarterly business updates for the three months ended 31 March 2020 ("**1Q2020**").

Financial Highlights

US$'000	1Q2020	1Q2019	Change (%)
Revenue	74,249	70,684	5.0
Gross profit	30,007	28,433	5.5
Selling and marketing expenses	(10,260)	(10,131)	1.3
General and administrative expenses	(9,156)	(9,170)	(0.2)
Foreign exchange (loss) / gain	(2,925)	416	N.M
Net profit after tax	6,571	7,577	(13.3)
Gross profit margin (%)	40.4	40.2	0.2 pp
Net profit margin (%)	8.8	10.7	(1.9pp)

Revenue by Markets

US$'000	1Q2020	1Q2019	Change (%)
Russia	28,646	29,240	(2.0)
Ukraine, Kazakhstan and CIS	19,465	15,737	23.7
South-East Asia	19,678	20,023	(1.7)
South Asia	2,096	2,011	4.2
Other Markets	4,364	3,673	18.8
Total Revenue	**74,249**	**70,684**	**5.0**

Revenue for 1Q2020 was US$74.2 million, a year-on-year ("**yoy**") increase of 5.0% as compared to US$70.7 million revenue recorded in 1Q2019. This was mainly due to higher sales in the Group's Kazakhstan, CIS markets partly offset by lower sales contribution from the Group's South-East Asia market mainly due to rationalisation of underperforming markets and lower translated revenue resulting from depreciation of the Russian Ruble against the US dollar.

Gross profit was US$30.0 million, up 5.5% as compared to prior corresponding period, with gross profit margin of 40.4%.

Selling and marketing expenses increased marginally by US$0.2 million from US$10.1 million in 1Q2019 to US$10.3 million while general and administrative expenses remained relatively stable at US$9.2 million.

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Foreign exchange loss was US$2.9 million in 1Q2020 as compared to a foreign exchange gain of US$0.4 million in 1Q2019. This exchange loss recorded in 1Q2020 was mainly due to the depreciation of the Russian Ruble against the USD towards the end of Mar 2020.

Pursuant to the above, the Group's net profit after tax for 1Q2020 was US$6.6 million, a yoy decrease of 13.3%. Net profit margin was 1.9 percentage points ("**pp**") lower, at 8.8% for 1Q2020.

For 1Q2020, the Group generated net operating cash flows of US$5.4 million in 1Q2020 as compared to US$8.3 million in 1Q2019 mainly due to lower profitability, bringing its cash and cash equivalents to US$49.7 million.

Impact of Covid-19 on business

The Group started FY2020 well, continuing the momentum achieved through its corporate transformation initiatives that began some years back. In March 2020, with the declaration of Covid-19 by World Health Organisation as a pandemic, many governments started to implement widespread lockdown measures to curb the spread of the virus. As most of these restrictions are still in place and not expected to be fully lifted anytime soon, it has affected many businesses, directly and indirectly. While the Group ended 1Q2020 on a positive note, some of the negative effects have begun to manifest toward the end of 1Q2020.

Impact on Businesses

Due to the various lockdowns, the Group's Key Production, Sales and Distribution activities are still continuing but with some disruptions. The Group is also experiencing weaker offtake from stores in most markets, which is attributable to reduced customer footfall resulting from various forms of movement controls and/or safe distancing measures in these markets.

Our second Instant Coffee plant project in India, which was initially scheduled for completion and commercial production in middle of FY2020, will experience delays until international travel restrictions are lifted as we require OEM suppliers to test and commission the plant. The first Instant Coffee plant has also experienced temporary disruption to production and faced intermittent logistics challenges due to the fact that the district where the plant is located was recently designated as Covid-19 red zone. The Group's Non-Dairy Creamer, Snacks and Coffee packing facilities in Malaysia continue to operate with some supply chain delays being noted.

The Group does not expect any material impact on any of the Group's current contractual obligations. As part of the Group's Business Continuity Plans, we have set aside separate warehouses in key markets to act as backup storage locations to avoid any disruption in sales in the event factories are required to shut. We are also temporarily increasing stock levels at various factories and markets to meet uncertainties in supply chain and logistics.

In response to the Covid-19 outbreak, the Group formed a management committee on 31 January 2020 to gather, co-ordinate and disseminate information and issue advisories relating to safe governance and practices for employees worldwide. This committee, together with a network of representatives in different countries, also ensures regular updates on any business operational impact due to local government policies announced. The Group will continue to take health and safety precautions to protect its employees and conduct its operations in line with the directives from governments in various markets. To date, the Group has not been in breach of any Covid-19 restrictions which may lead to penalties by the relevant authorities in all our key markets and no cases of infection has been reported within the Group.

Impact on Financials

The Group ended 1Q2020 with unaudited net profit after tax of US$6.6 million. In March 2020, the financial performance of the Group was affected by a sharp and unexpected depreciation of the Russian Ruble against the US dollar as a result of the sudden drop in oil prices to historic low due to disagreement between Russia and the Organisation of Petroleum Exporting Countries over oil production cuts in response to declining global oil demand brought about by the Covid-19 pandemic. Consequently, Russian Ruble dropped from 61.9 to US$1 as at 31 December 2019, to 77.8 to US$1 as at 31 March 2020. As at today, Russian Ruble stand at around 73.0 to US$1. The Group expects Russian Ruble to remain extremely volatile in line with oil prices volatility.

We expect our financial results for Russia, Ukraine and the CIS markets to be negatively impacted in 2Q2020 due to lower sales volumes linked to the pandemic containment efforts and currency depreciation. To mitigate the foreign exchange impact, the Group has initiated a series of gradual price increases of its products in certain key markets with effect from April 2020. However it will take approximately 2-3 months' time for new prices to be implemented across various retail and distribution channels. The Group will assess the situation closely and take further steps if the situation warrants.

The Group's cash position remains strong. The Group generated positive net cash flow from operations in 1Q2020, and as at 31 March 2020, its cash and cash equivalents stood at US$49.7 million (including approximately US$7.6 million earmarked for dividends to be paid in May 2020). With an eye on the uncertain operating environment, the Group is intensifying working capital monitoring to ensure we maintain a sufficient level of working capital to support existing businesses. Although there is no urgent need to raise additional funds, the Group is working with banks to secure additional standby banking facilities in case the need arises.

The Group does not foresee any significant or abnormal issues in collections of outstanding trade receivables at this point in time. However, the Group will continue to closely monitor its trade receivables and cash flows amid the evolving Covid-19 situation. The Group's Business heads in all major markets are also keeping a close watch on changes in consumer behaviour during this period and will make adjustments to inventory level where necessary.

Summary

Against the backdrop of the Covid-19 pandemic, the Group has managed to perform satisfactorily for 1Q2020. Going forward, the Group expects to experience near-term challenges, which is likely to negatively affect FY2020 as the full fallout of Covid-19 pandemic stemming from national lockdowns and extreme oil and commodity prices volatility will result in a recessionary environment for most countries in 2020. We believe that any impact would be limited to the extent of the lockdown. Hence, the Group's performance might be adversely affected in 2Q2020 due to lower sales volume linked to the current lockdowns in key markets and volatile currencies environment. We expect businesses to recover in the 2nd half of FY2020 provided our markets do not face similar extreme lockdown conditions that we are currently facing in 2Q2020.

The Group is helmed by an experienced Management team with a proven record of crisis management and business backup with strong brands. It is confident that its businesses will remain resilient, backed by a healthy Group's Balance Sheet and we expect that the Group will be able to fulfil its near-term obligations, meet its debt covenants and service its debt obligations.

As the Covid-19 situation remains fluid we will keep shareholders informed of any material developments as they unfold.

Cautionary Statement

Shareholders are advised to read this press release and any further announcements by the Company carefully. Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions that they should take.

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About Food Empire Holdings Limited (Bloomberg Code: FEH SP)

SGX Mainboard-listed Food Empire Holdings (Food Empire) is a global branding and manufacturing company in the food and beverage sector. Its products include instant beverage products, frozen convenience food and snack food.

Food Empire's products are exported to over 50 countries, in markets such as Russia, Vietnam, Ukraine, Kazakhstan, Central Asia, the Middle East, China, Mongolia and North America. The Group has 23 offices worldwide and operates 7 manufacturing facilities in Malaysia, India, Vietnam, Russia and Ukraine.

Food Empire's products include a wide variety of beverages, such as regular and flavoured coffee mixes and cappuccinos, chocolate drinks and flavoured fruit teas. It also markets instant cereal mixes and assorted frozen convenience foods, as well as produces and markets potato crisps.

Food Empire's strength lies in its proprietary brands – including MacCoffee, Café PHO, Petrovskaya Sloboda, Klassno, Kracks and OrienBites. MacCoffee – the Group's flagship brand – has been consistently ranked as the leading 3-in-1 instant coffee brand in the Group's core market of Russia, Ukraine and Vietnam. The Group employs sophisticated brand building activities, localised to match the flavour of the local markets in which its products are sold.

Since its public listing in 2000, Food Empire has won numerous accolades and awards including being recognised as one of the "Most Valuable Singapore Brands" by IE Singapore (now known as Enterprise Singapore), while MacCoffee has been ranked as one of "The Strongest Singapore Brands". Forbes Magazine has twice named Food Empire as one of the "Best under a Billion" companies in Asia and the company has also been awarded one of Asia's "Top Brand" by Influential Brands. Food Empire was also presented with the Sustainability Award at the SIAS 20th Investors' Choice Award in Singapore.

For more information, please refer to: http://www.foodempire.com

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