TEHMAG FOODS CORPORATION
Operation Report 2019 H1

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2019/08/27

Agenda

1. Chinese Bakery Industry update
2. Operation Report 2019H1
3. China Operation Report 2019H1

Outlines

■產業趨勢(Trend) : Nibbling the market in a stable consumer industry

➢Bakery industry Growth comes from **Population, Income and Urbanization development**.

➢Development Trend of Baking Products, **Delicious , Healthy, Convenient.**

➢Taiwan market is strained by cross-strait relations, and tourists from mainland reduced,

➢China market has growing space benefited from consumption upgrading, urbanization, diversification of baking products and formats.

➢The mode of economic growth has been transformed into consumption-base, which will be of great growth in the future

■商業模式(Model) : Creating value for customers by promoting commodities driven sale raw materials.

➢Tehmag Bakery Team continues to introduce popular products with good taste, low cost, high profit and easy operation. To help all region customers to promote performance by combining internet popular products from cross-strait.

➢Tehmag focus on the food safety not only have the import inspection report and the third part inspection report.

■成長機會(Growth) : The mainland adjustment reach a conclusion, and the operation has entered a growth period.

➢After three adjustments of mainland China, starting revenue to drive profit growth mode from 2018.

■營運表現 (Performance): The goal is long-term stable profits and high interest rates.

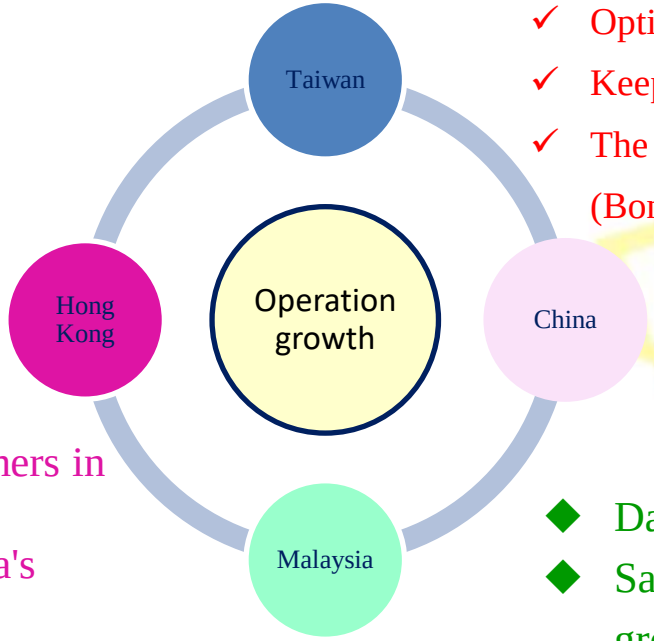
➢ 2012-2018, EPS>NTD10, net profit CAGR is about 14.12%

➢2014-2018, cash dividend>NTD10; The future dividend policy will be based on long-term stability.

Major business highlights update

- The impact on the butter is not over yet
- Internet celebrity economy(dirty chocolate bread、Burst milk cake、ancient taste cake .....)
- Improvement of product penetration (From top 200 high profit products)
- Focus on the OEM of the 4 big convenient stores and the 3 big hypermarkets
- Deepening cooperation with the よつ叶

- ✓ Revenue recovery stable growth.
- ✓ Strength the channel structure of the three major customers.
- ✓ Optimize mixproduct and hold GM
- ✓ Keep to manage expenses rate.
- ✓ The sales management strategy (Bonus/Promotion/Elimination/Tracking)



- Developing the significant customers in Hong Kong and Macao market
- Benifit from the growing of China's market
- Upgrading efficeint management and increase the profit.

- Dawn of Malaysia operation
- Sales stability, sales performance keep growthing
- Setup warehouse in east Malaysia to improve logistics efficiency

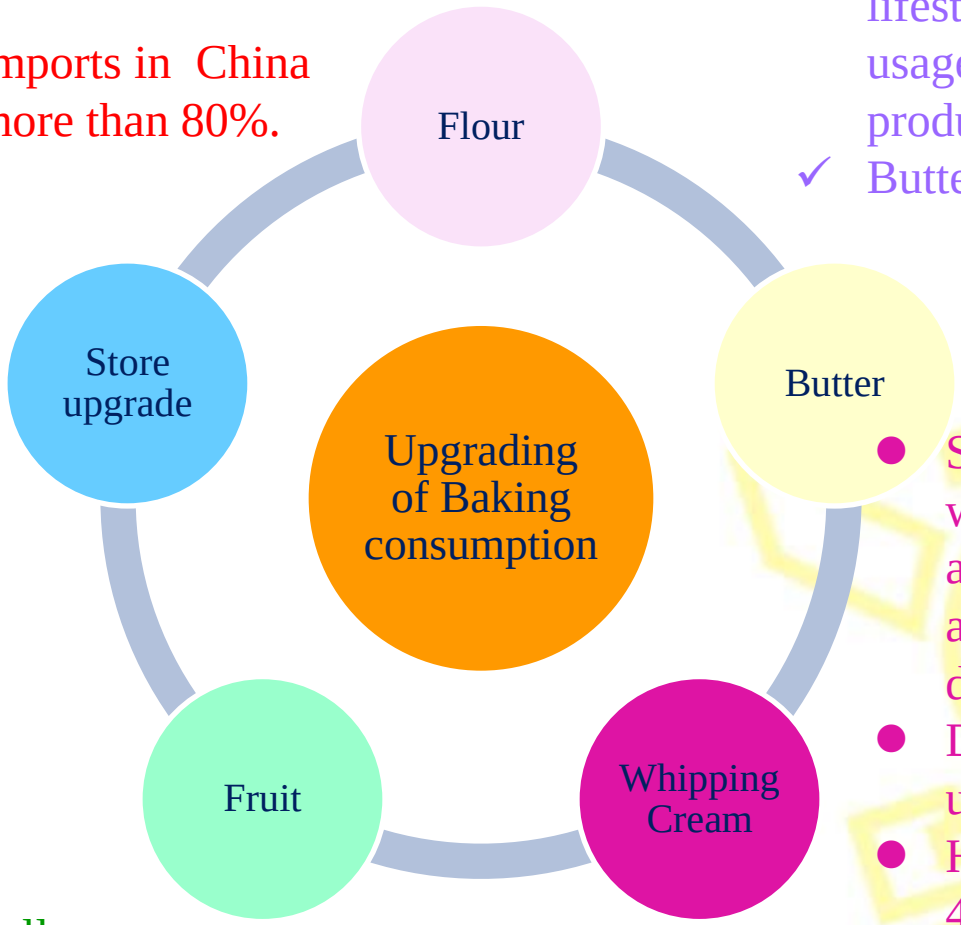
1. Chinese Bakery Industry update

Chinese Bakery Industry update

- Imported Flour Permeability Increase Rapidly
- Japanese powder imports in China increased CAGR more than 80%.

- The concept of healthier lifestyle leads to the less of usage on the non-dairy product
- Butter usage ratio increased

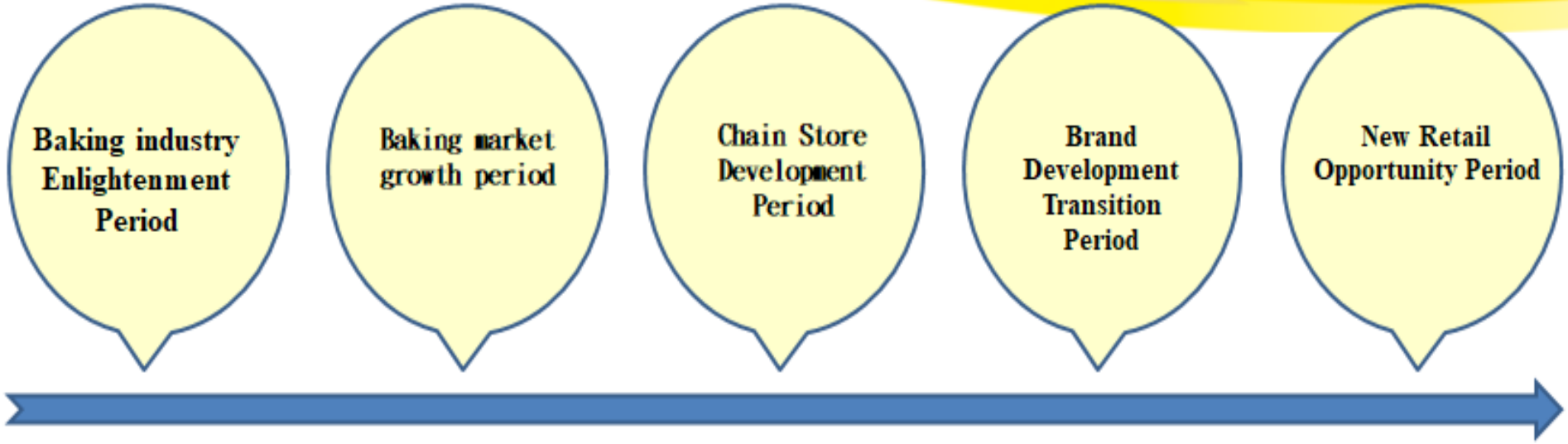
- Upgrade trend of shop decoration is obvious
- Decoration costs of bakery stores are gradually increasing



- Several years ago ,China's whipped cream market is about 1 million tons per year, and the market share of non-dairy cream is over 90%
- Dairy whipped cream make up about 360 k tons
- Hybrid whipped cream about 40,000 tons.
- Non-dairy wipping cream reduced to 500~600 k tons

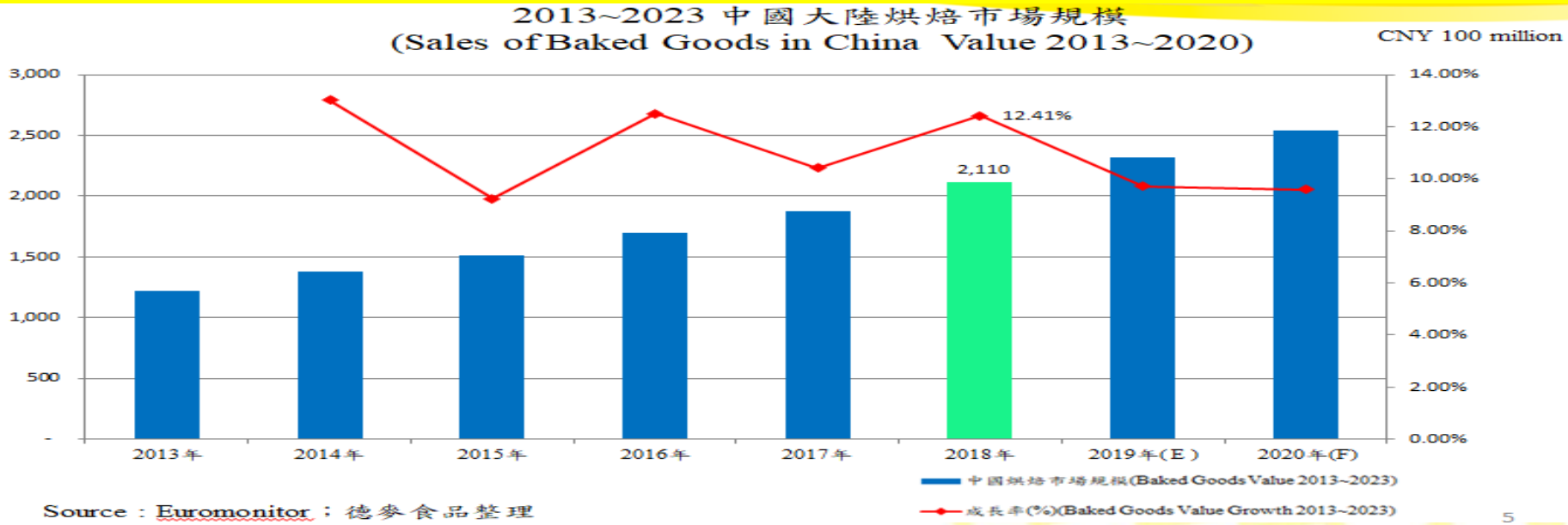
- Fruit can are gradually replaced by fresh fruits

Chinese Bakery Industry update



1995-2000	2001-2005	2006-2010	2011-2015	2016~
Baking industry Single shop Single dough	small chain secondary fermentation Subdividing dough	Central Factory Development Chain Brand Danish bread	Industrialization speed up International Brand Entry frozen dough	Consumption escalation Bakery O2O Capital operation New Retail generation

Chinese Bakery Industry update



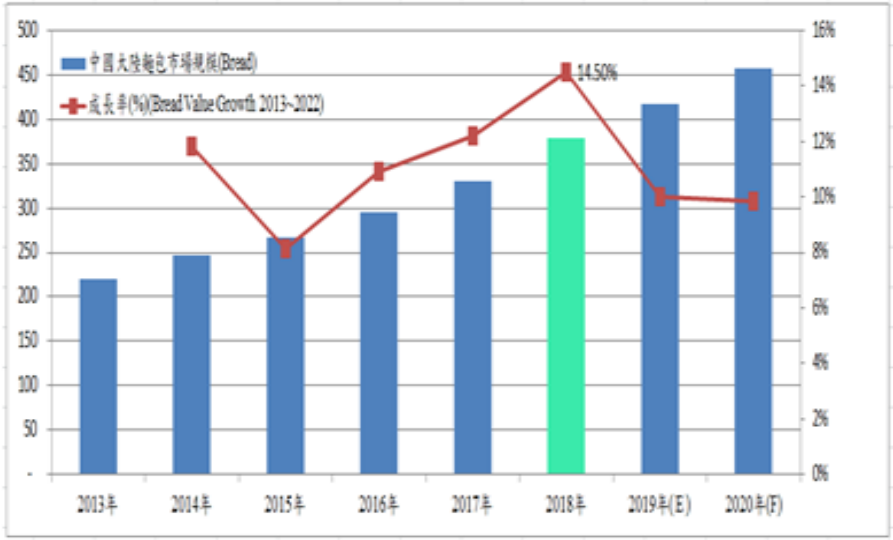
HEADLINES

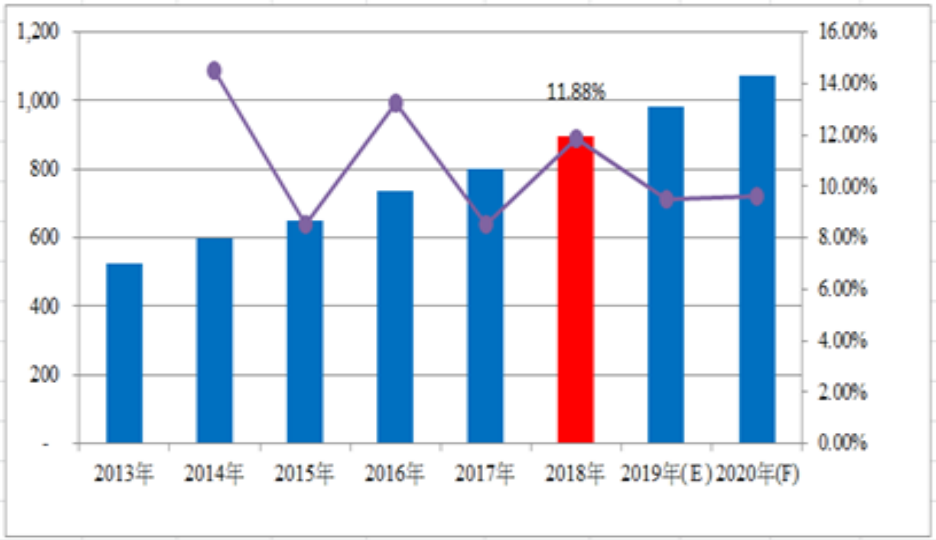
- China's baking market is in a high-speed development stage. From 2013 to 2018, the baking market size of CAGR reached 11.51%. It is expected that CAGR will still show a double-digit growth trend in the next few years.
- Baked goods in China records 6% volume growth and 12.41% retail value growth to reach 9,900k tonnes and CNY211.0 billion in 2018. The average unit price increased.
- China's baking market is undergoing a "consumption upgrading".
- In 2017, the per capita consumption of baked food in China was 6.9 kg/person, which was much lower than that in western developed countries. Compared with Japan, Hong Kong and Singapore, China's per capita consumption still has doubled or even tripled growth and will grow in the future.
- Baked goods is set to see a 10% value CAGR at constant 2018 prices over the forecast period, reaching CNY333.5 billion in 2023

Chinese Bakery Industry update

2013~2020 中國大陸麵包市場規模
(Sales of Bread and Cakes in China Value 2013~2020)

人民幣:億元





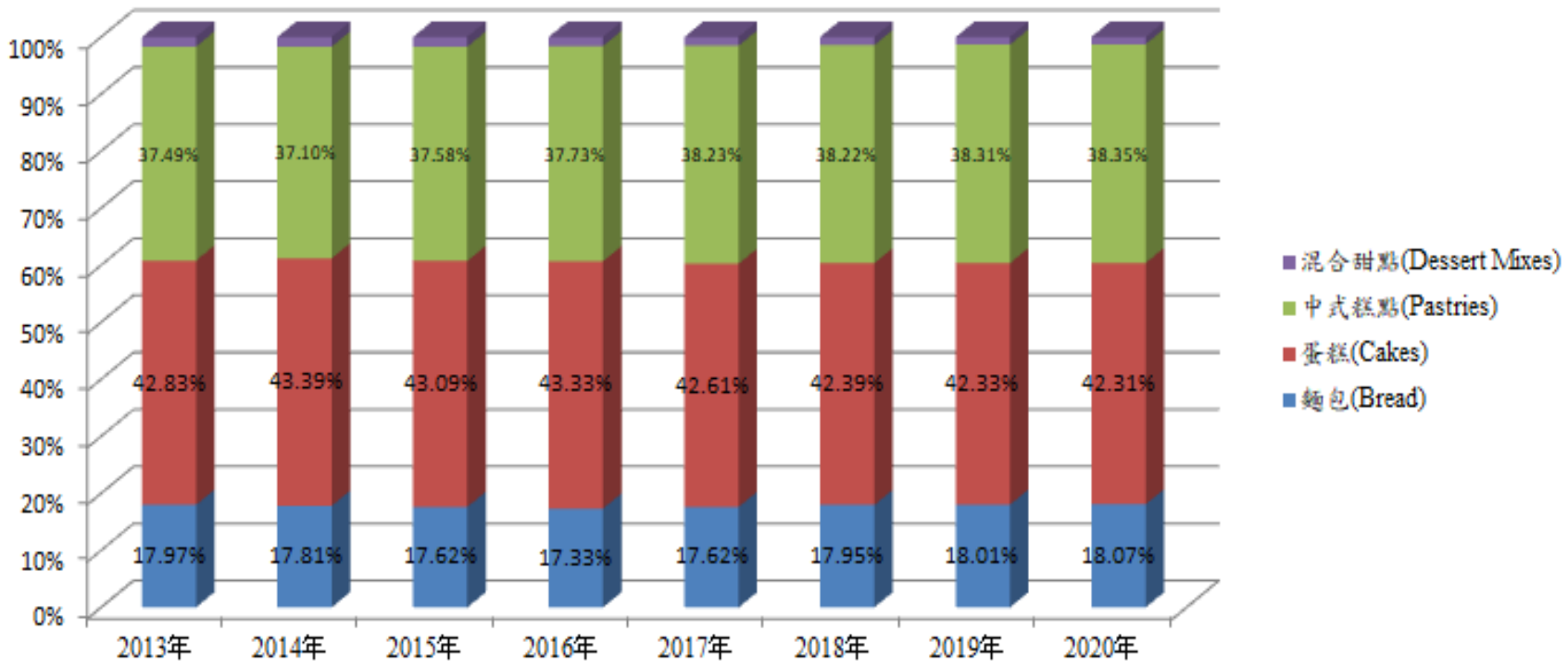
Source：Euromonitor；德麥食品整理

中國蛋糕市場規模(Cakes)
成長率(%)(Cakes Value Growth 2013~2020)

- China's bread market grew by 14.5% in 2018, the biggest growth. Bread is gradually replaced to breakfast in the remote cities, force for the Growth of Bread Market in Mainland China
- Short-term products are healthier and have lower entry threshold, which is expected to accelerate the replacement of long-term products.
- The cake market grows steadily with the scale of baking market. Cakes grew by 11.88% in 2018.

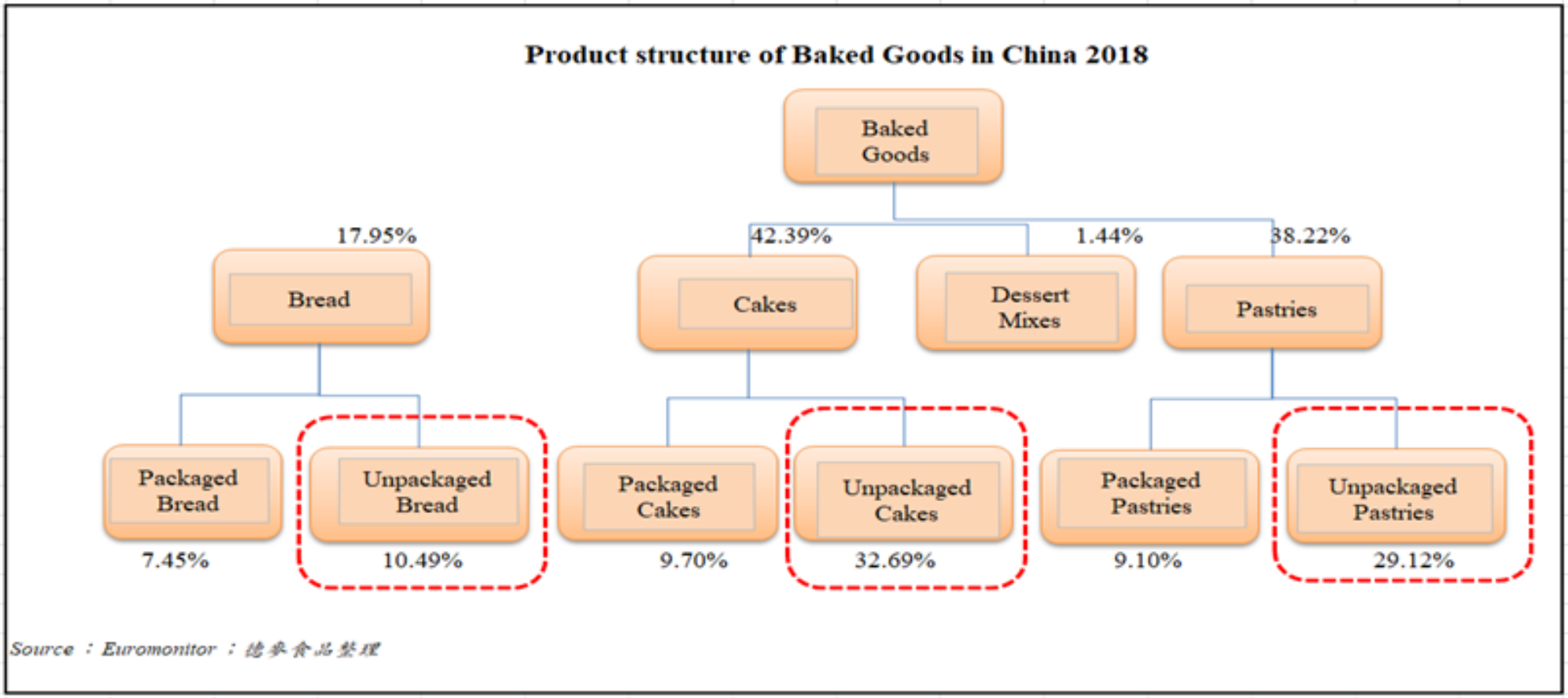
Chinese Bakery Industry update

中國大陸烘焙市場產品結構(2013~2020年)



- Increase the proportion of bread
- Since 2015, the structure of pastries in baking market has been increasing，Rising demand for Japanese flour, anhydrous butter and fillings

Chinese Bakery Industry update



Product structure：

- The largest type is cake, accounting for 42.39% of the market.
- Unpackage bakery product are accounting for 72.3% of the market.

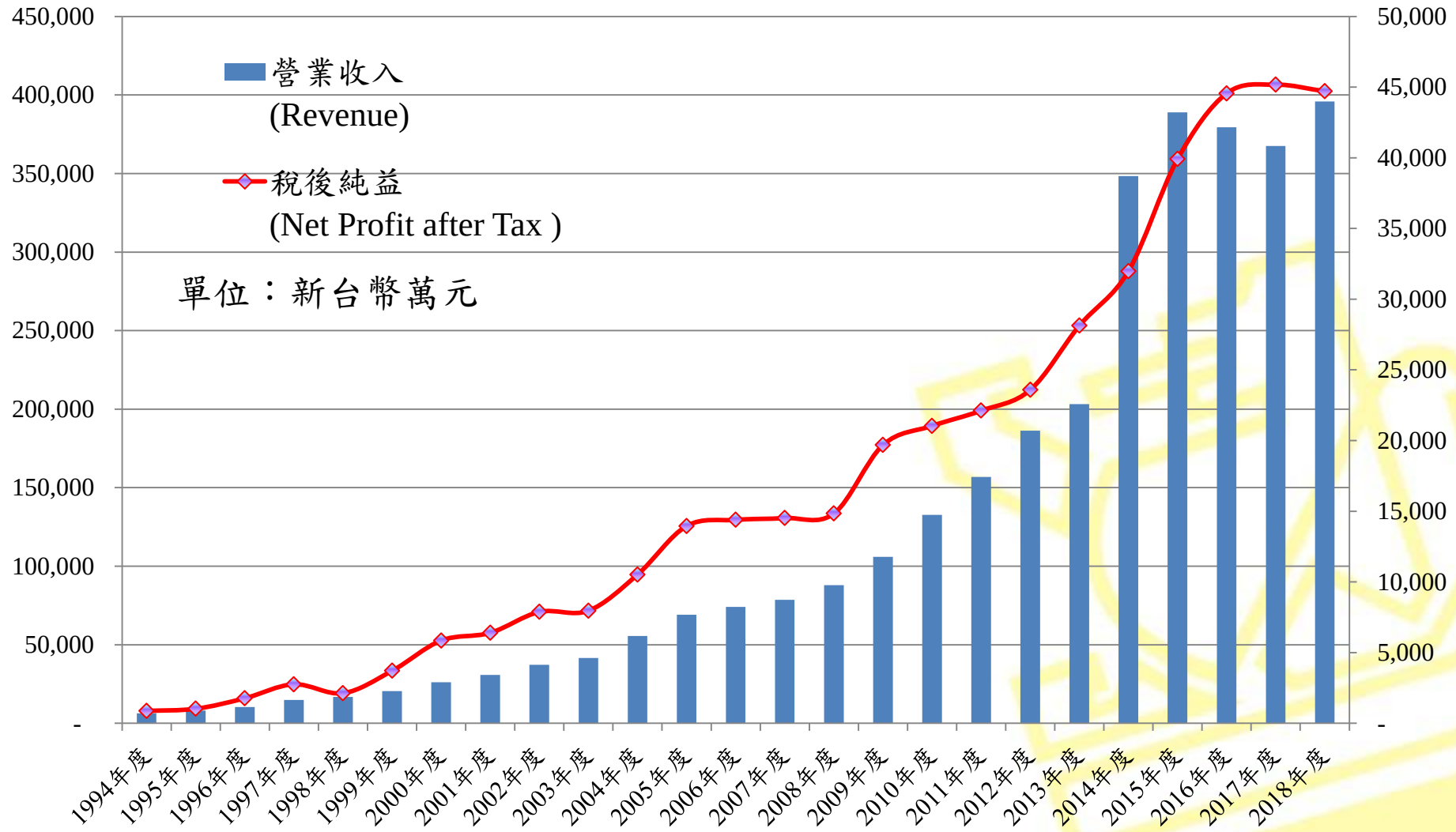
Chinese Bakery Industry update

- Driven by the upgrade of consumption, China enters the novel baverage era, Such as the iconic conbination of ‘’tea + European soft bread‘’ which representive by ‘‘Heytea’’ and ‘‘Naixue’’, gathering the great amount of investments,and spreading stores all over China. In 2017, the sales of the beverage industry has hit 47.2 billion, it was 14.29% of growing, and in 2019, the estimate saying that the sales will top 60 billion.

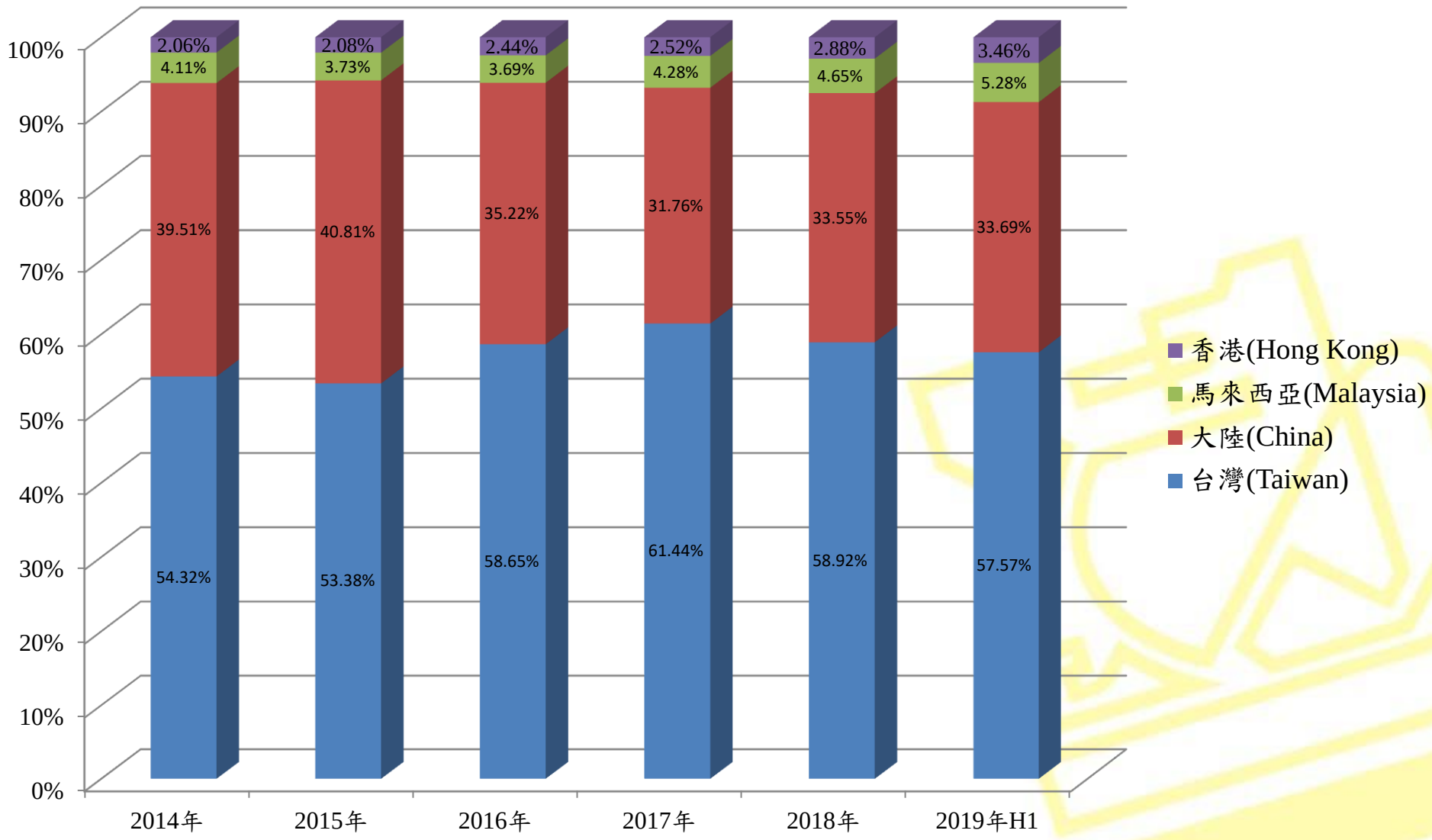
- Drinks (Tea, Coffee) and Bread Rise Strongly ,Naixue , Heytea ,Happylemon

2. Operation Analysis 2019H1

Sales and Profit Trend Chart(Group)



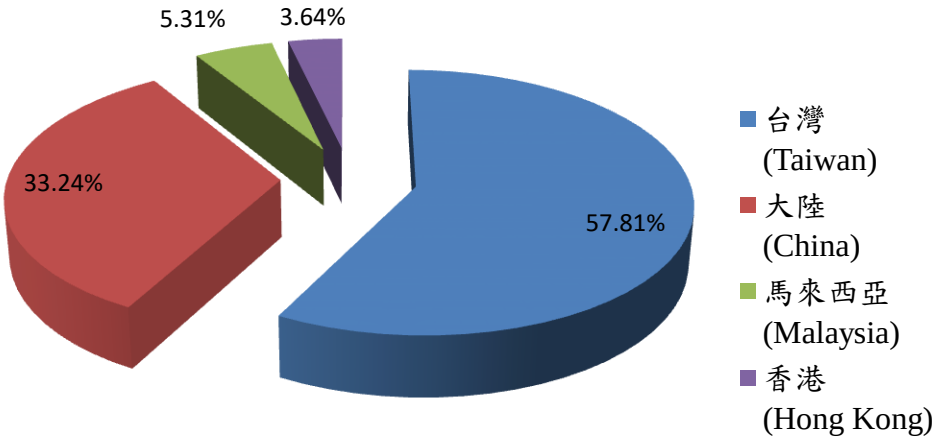
Proportion of Revenue and Profit (2014~2019H1)



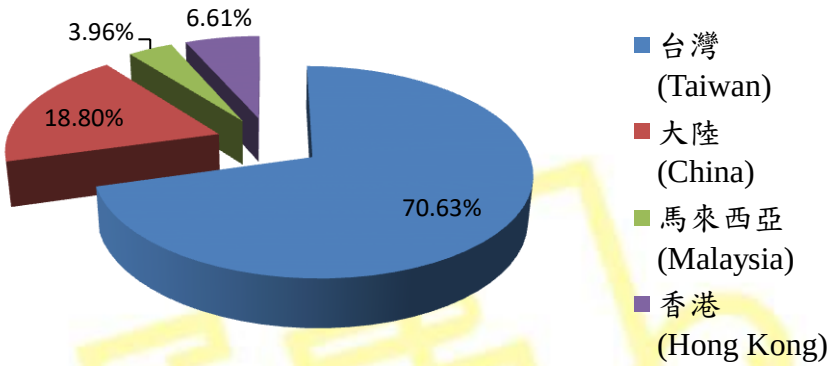
Proportion of Revenue and Profit

單位：新台幣仟元

2019年前6月營收比重
(Proportion of revenue YTD June 2019)



2019年前6月利潤比重
(Proportion of net profit YTD June 2019)



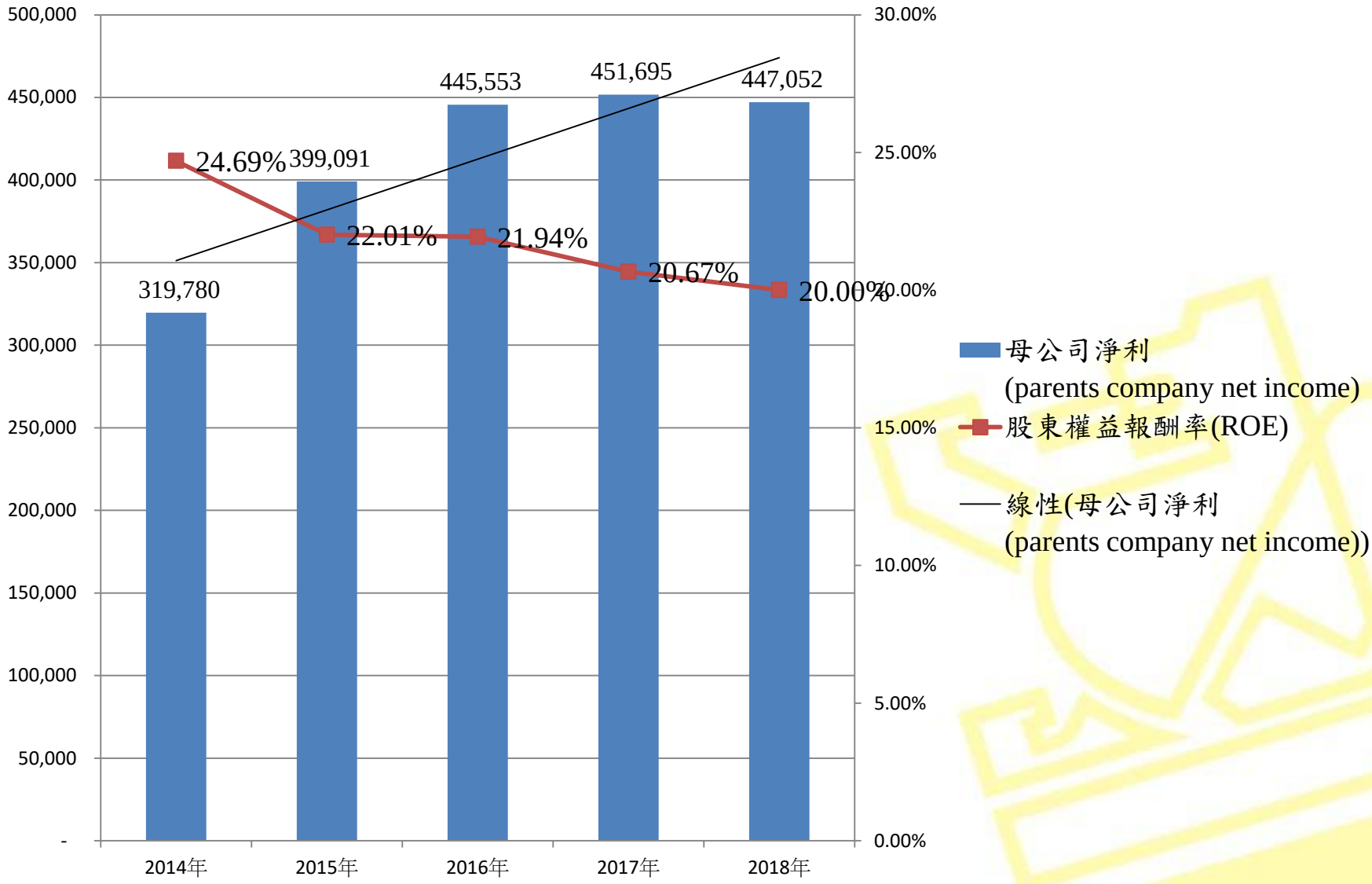
	德麥 (Tehmag)	無錫芝蘭雅 (ZBIW)	馬來西亞 (Malaysia)	香港 (Hong Kong)	天滿 (TMIW)	合併 (Group)
2019年前6月營收成長率(原幣) 【Revenue growth rate YTD June 2019 (original currency)】	-2.30%	6.00%	13.44%	22.84%	13.10%	2.23%
匯率影響 【Influence of exchange rate 】	-	-1.72%	0.11%	4.83%	-1.72%	-0.42%
2019年前6月營收成長率 【Revenue growth rate YTD June 2019 】	-2.30%	4.17%	13.57%	28.77%	11.15%	1.81%

Operating Performance(Group)

單位：新台幣仟元

合併(Group)	YTD June 2019		YTD June 2018		Increase or decrease	%
	Amount	%	Amount	%		
營業收入 (Net sales)	1,953,591	100.00	1,918,781	100.00	34,810	1.81
營業毛利 (Gross margin)	725,285	37.13	713,224	37.17	12,061	1.69
營業費用 (Operating expense)	385,474	19.73	387,372	20.19	(1,898)	(0.49)
營業利益 (Operating profit)	339,811	17.40	325,852	16.98	13,959	4.28
稅前純益(Net profit before tax)	354,756	18.16	330,267	17.21	24,489	7.41
所得稅費用(Income tax)	77,404	3.96	81,579	4.25	(4,175)	(5.12)
稅後純益 (Net profit after tax)	277,352	14.20	248,688	12.96	28,664	11.53
歸屬於母公司淨利	231,547	11.85	213,060	11.10	18,487	8.68
每股稅後盈餘(EPS)(元)	6.87		6.32		0.55	
毛利率(Gross margin rate)	37.13%		37.17%		(0.04%)	
費用率(Operating expense rate)	19.73%		20.19%		(0.46%)	
營業利益率(Operating profit)	17.40%		16.98%		0.42%	
淨利率(Net profit rate)	11.85%		11.10%		0.75%	

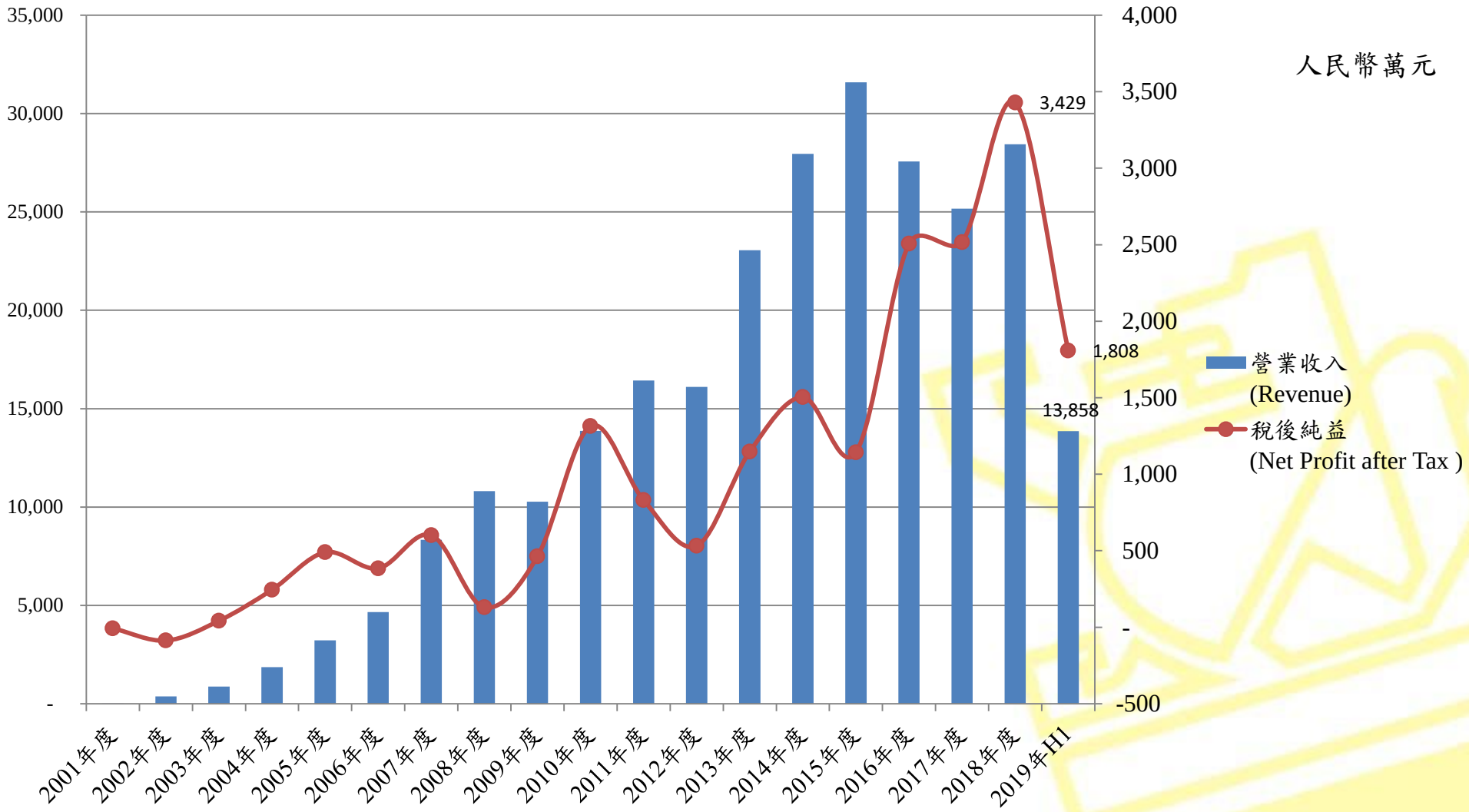
Return on Equity TEHMAG(ROE)



Cash Dividend Policy

3.China Operation Analysis 2018H1

Sales and Profit Trend Chart (2001~2019H1)(ZBIW)

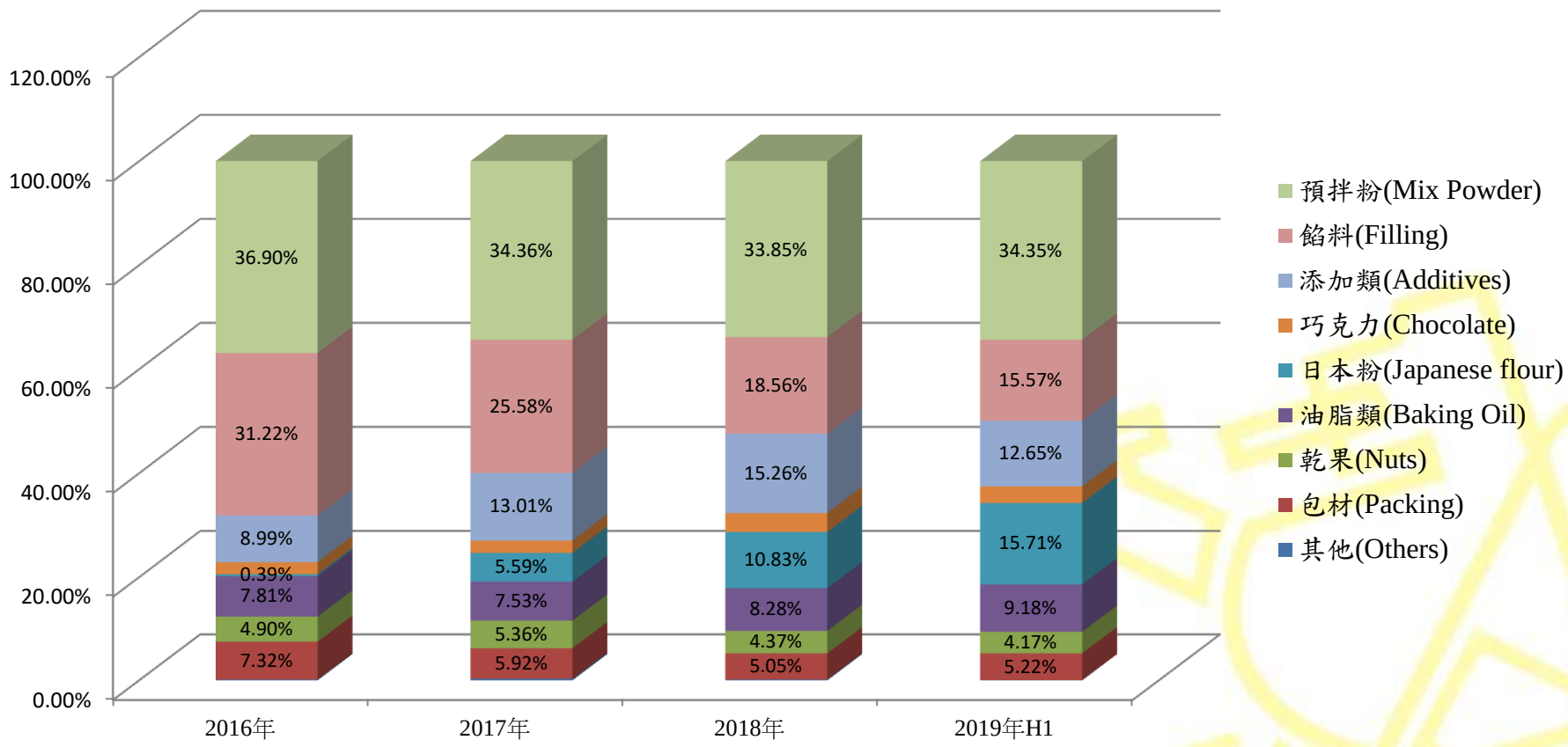


Financial results YTD June 2019(ZBIW)

RMB Thousand

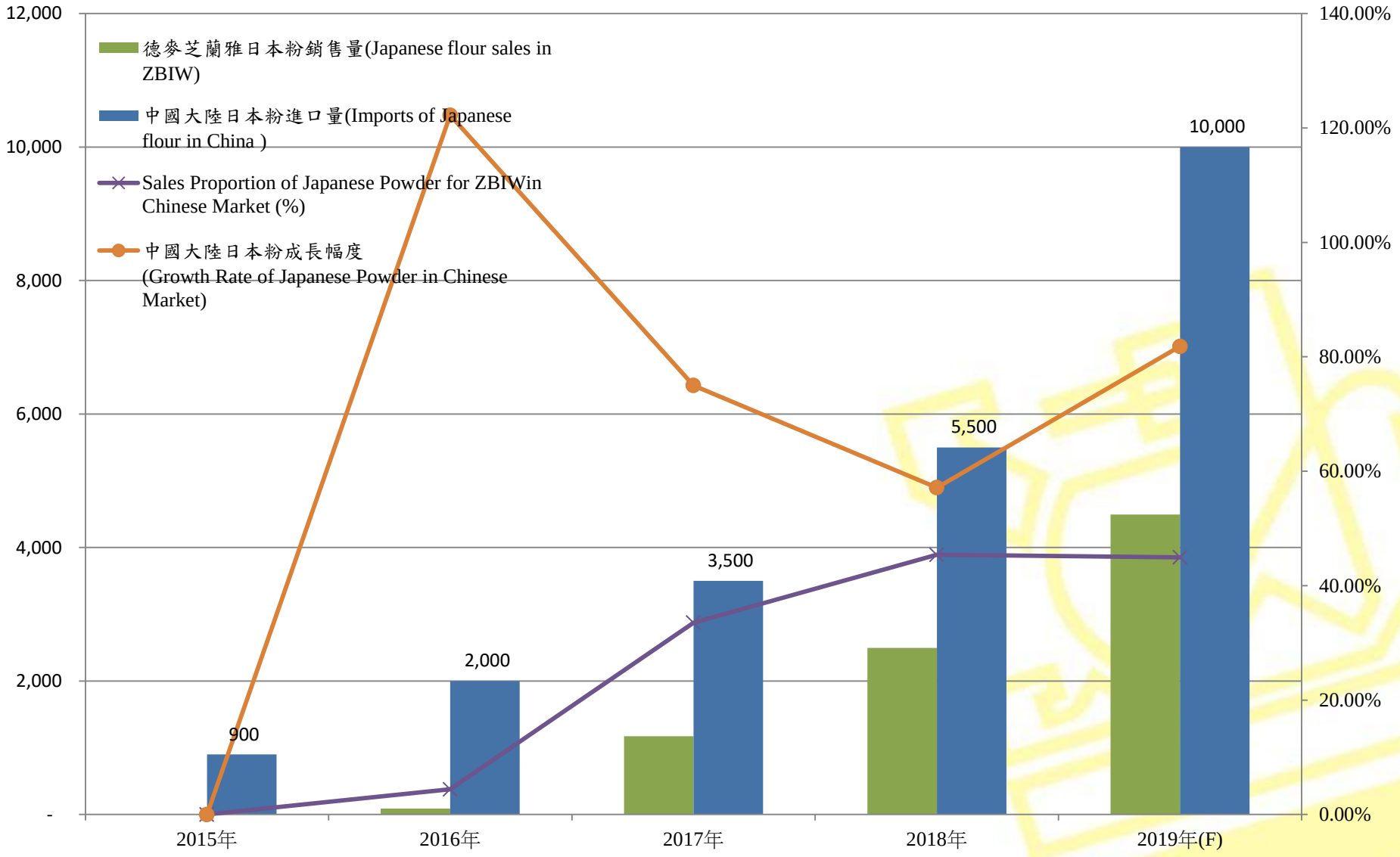
ZBIW	YTD June 2019		YTD June 2018		Increase or decrease	
	Amount	%	Amount	%	Amount	%
營業收入 (Net sales)	138,577	100.00	130,742	100.00	7,835	5.99
營業毛利 (Gross margin)	54,849	39.58	50,914	38.94	3,935	7.73
營業費用 (Operating expense)	33,752	24.36	32,986	25.23	766	2.32
營業利益 (Operating profit)	21,097	15.22	17,928	13.71	3,169	17.68
營業外收支 (Non-operating items)	2,796	2.02	882	0.68	1,914	217.01
稅前純益(Net profit before tax)	23,893	17.24	18,810	14.39	5,083	27.02
所得稅費用(Income tax)	5,816	4.20	4,669	3.57	1,147	24.57
稅後純益 (Net profit after tax)	18,077	13.04	14,141	10.82	3,936	27.83
毛利率(Gross margin rate)	39.58%		38.94%		0.64%	
費用率(Operating expense rate)	24.36%		25.23%		(0.87%)	
營業利益率(Operating profit)	15.22%		13.71%		1.51%	
淨利率(Net profit rate)	13.04%		10.82%		2.22%	

Products Breakdown ZBIW 2019H1

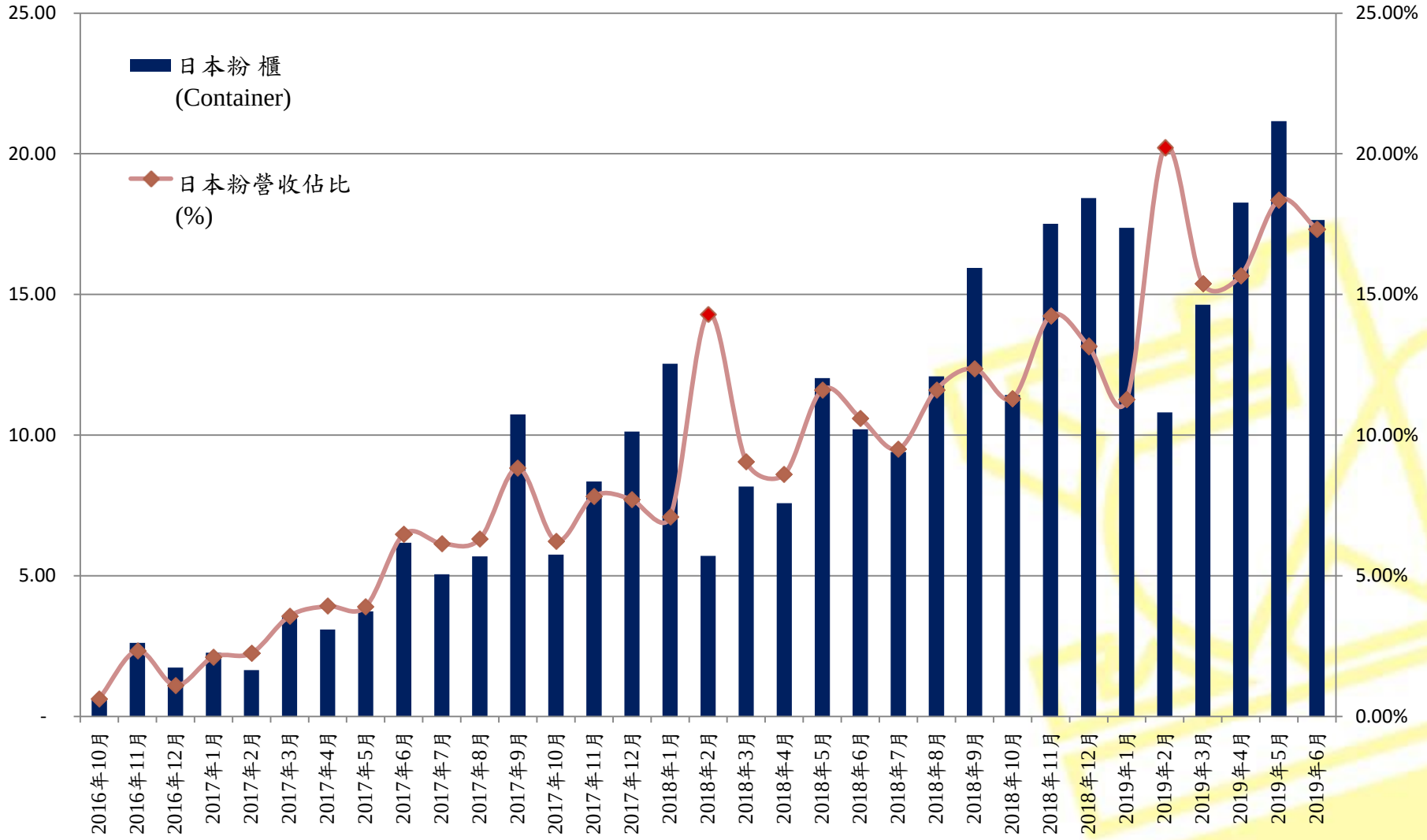


- Canned fruit products market share declined, gradually replaced by fresh fruit
- The proportion of Japanese flour which is driven by the upgrade of consumption in the bakery industry is gradually growing.

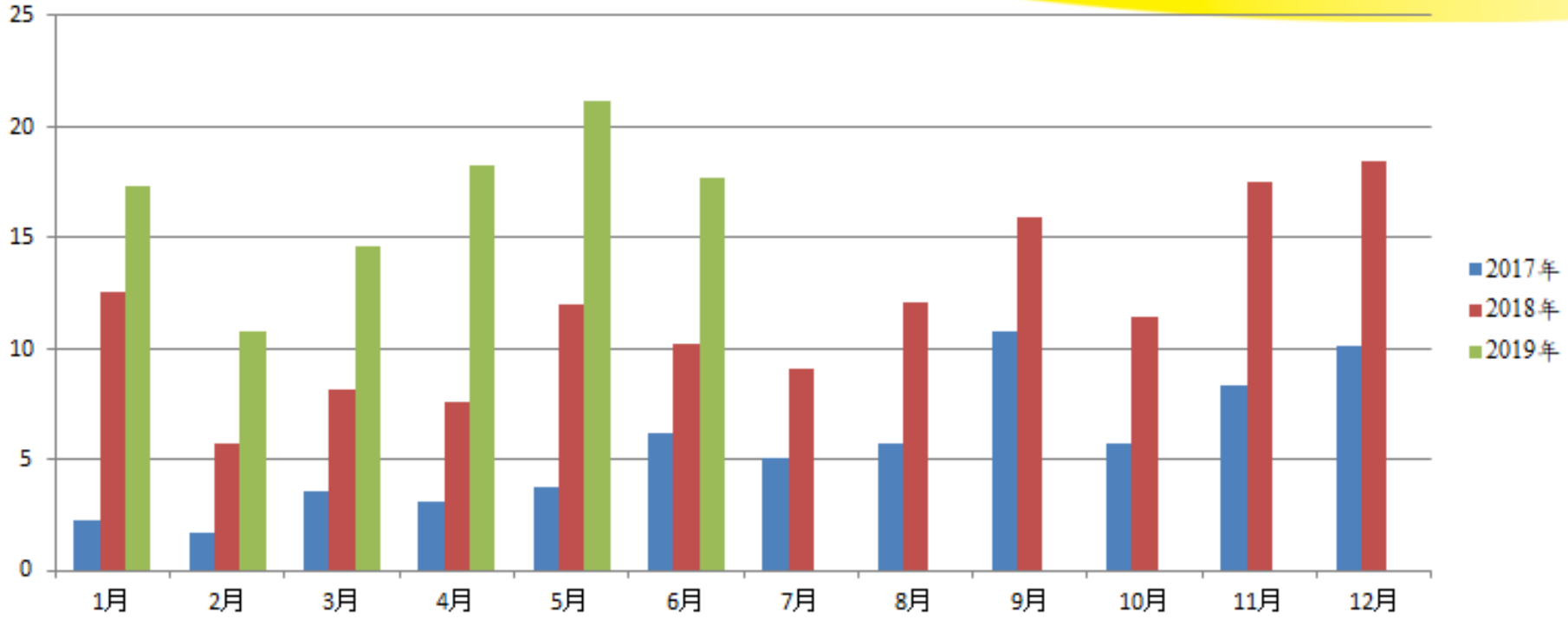
Japanese flour sales situation in China(2016~2019H1)(ZBIW)



Japanese flour sales situation(2016~2019H1)(ZBIW)

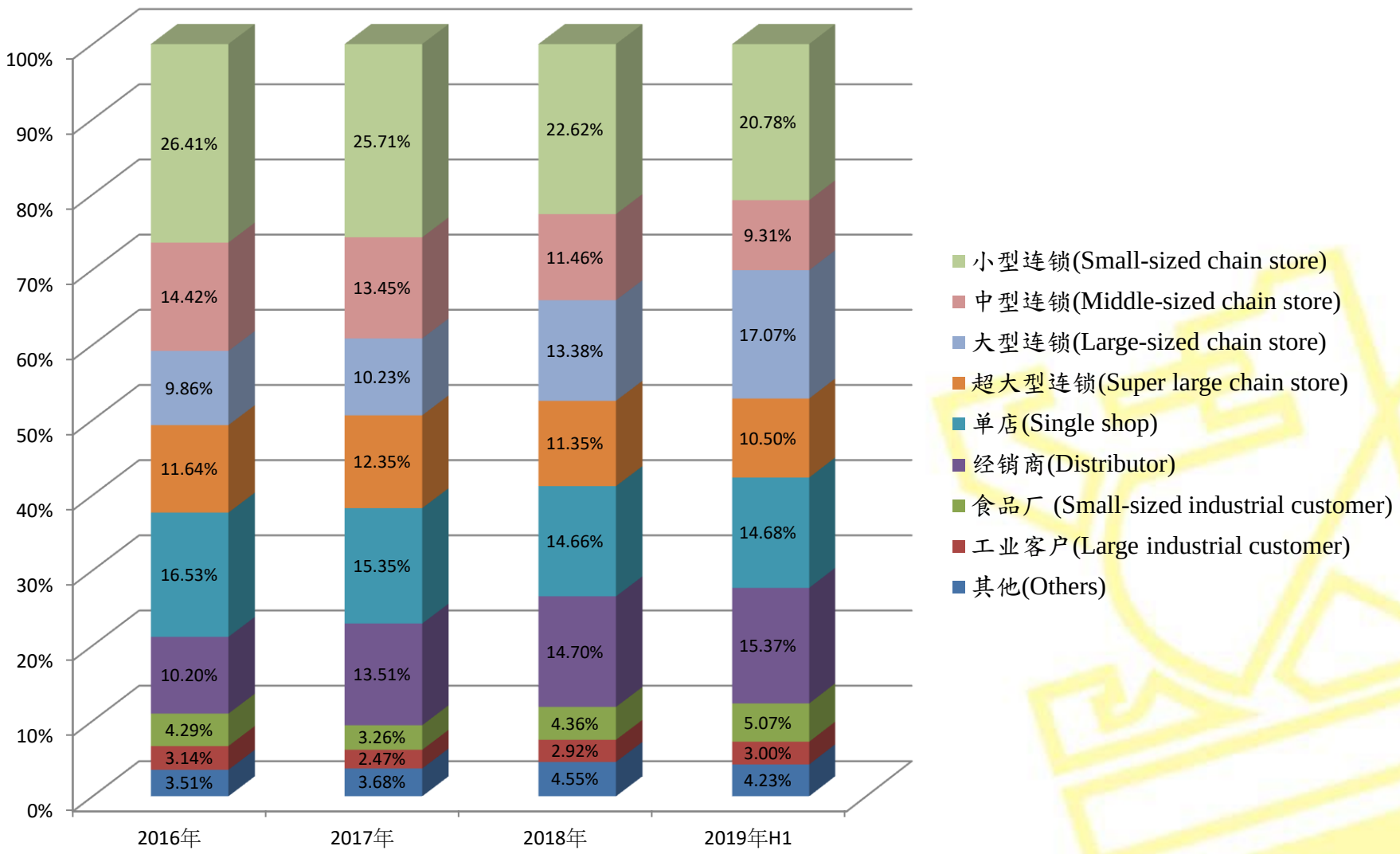


Japanese flour sales situation(2016~2019H1)(ZBIW)



	1月	2月	3月	4月	5月	6月	7月	8月	9月	10月	11月	12月	合計(Total)
2017年	2.27	1.64	3.53	3.09	3.74	6.17	5.06	5.69	10.74	5.75	8.35	10.13	66.16
2018年	12.54	5.71	8.17	7.58	12.03	10.21	9.04	12.09	15.94	11.43	17.51	18.42	140.67
增減金額(Increase/Decrease)	10.27	4.07	4.64	4.49	8.29	4.04	3.98	6.4	5.2	5.68	9.16	8.29	74.51
成長幅度(Growth range)	452.42%	248.17%	131.44%	145.31%	221.66%	65.48%	78.66%	112.48%	48.42%	98.78%	109.70%	81.84%	112.62%
2019年	17.36	10.8	14.63	18.26	21.16	17.65							99.86
增減金額(Increase/Decrease)	4.82	5.09	6.46	10.68	9.13	7.44							43.62
成長幅度(Growth range)	38.44%	89.14%	79.07%	140.90%	75.89%	72.87%							77.56%

customer analysis(2016~2019年H1)(ZBIW)



2019 Growth Strategy(ZBIW)

Customer Number × Product Unit Price = Net Sales

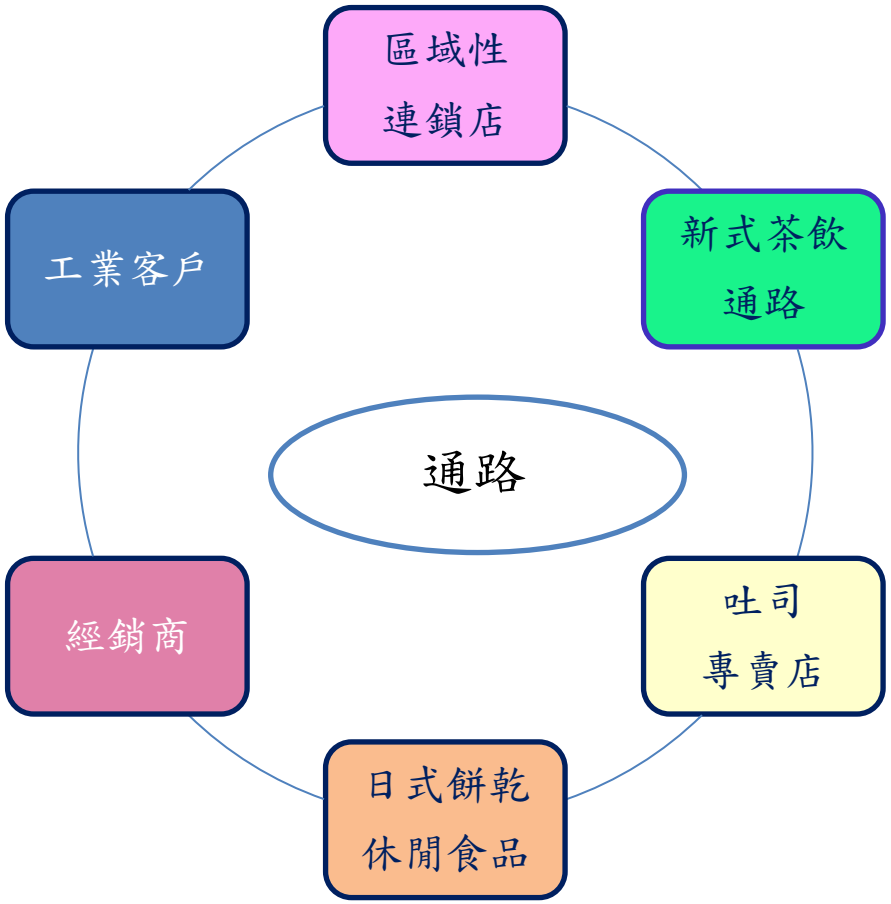
- Sales Dept Incharge
- New Customer Number
- Reorder Customer Number
- Whole Seller Customer Number
- Loyalty Customer Number
- Industry Customer Number
- Top 30 Products Customer Number

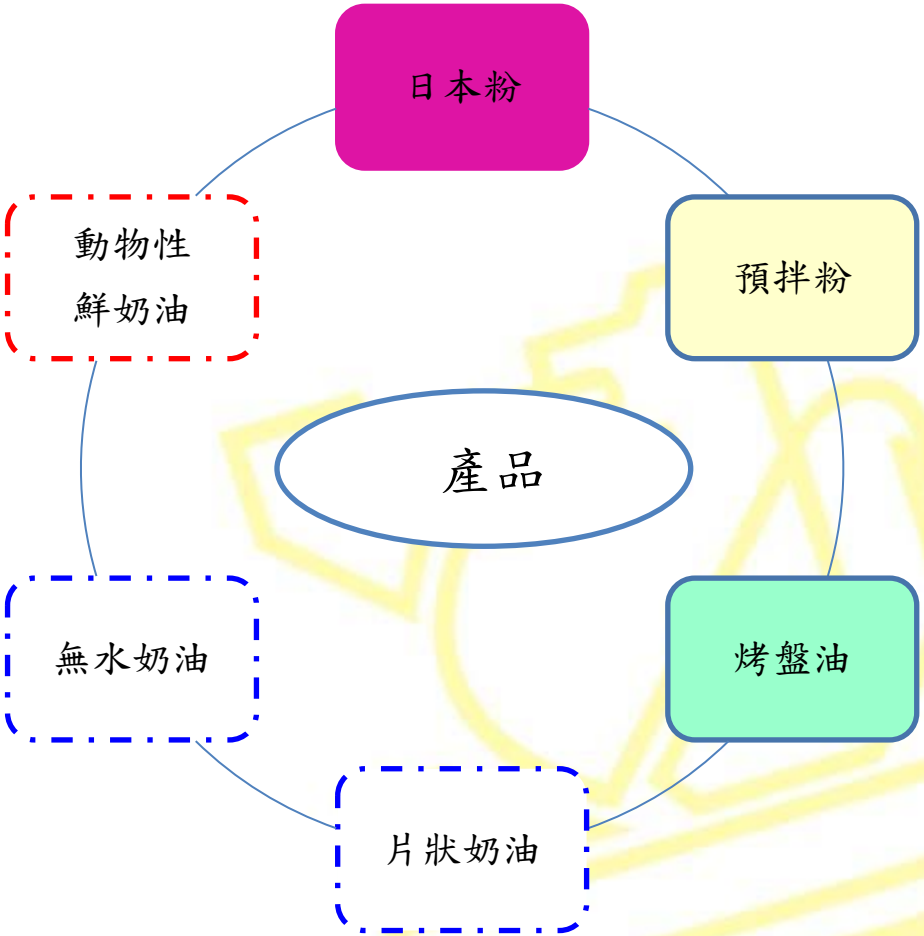
STAFF, CHANNEL

- PGM Leader Marketing Incharge
- Competitive Edge Products

PRODUCT

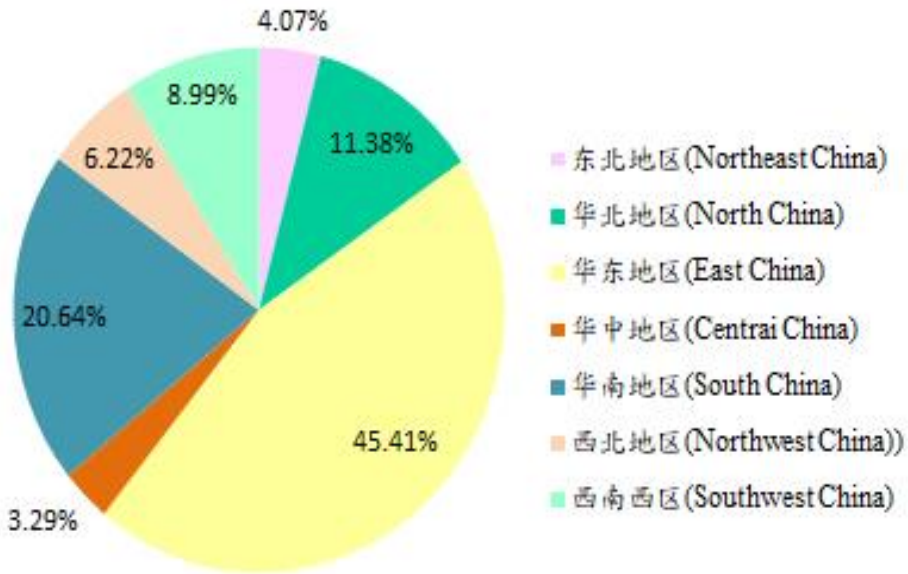
2019 Growth Strategy(ZBIW)





office performance analysis(ZBIW)

2019年前7月無錫芝蘭雅區域銷售業績占比
(Breakdown of Regional Performance YTD July 2019(ZBIW)



Thank You