



**FrieslandCampina Engro Pakistan Limited
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FrieslandCampina Engro Pakistan Limited

Financial Results – Quarter 1, 2020

Business Performance

FrieslandCampina Engro Pakistan Limited (FCEPL) announced its results to the Pakistan Stock Exchange on April 22nd, 2020. The Company recorded a **6th consecutive quarter of strong double-digit topline** growth and registered a **14% growth over the same period last year**.

Despite local milk pricing pressure, the Company increased **prices** across its portfolio, over the **last 6 months**, to offset the impact of currency devaluation and inflation. Subsequently, the **gross margin improved significantly by more than 200 bps over Quarter 4, 2019**.

The **business climate remained challenging** in Pakistan with record breaking **inflationary levels** (14.6% in January) that has led to a steep increase in commodity costs.

Finance costs rose by **more than 60%** due to a **sharp increase in interest rates** which stood at an average of ~14% for the quarter. This increase had a negative impact of approximately 146 Million on profitability.

The month of March has seen sales being significantly affected by the closure of the retail & leisure sector, especially for the high-margin Ice cream business. The country has been in a state of lockdown for most of March, which has **affected the** route-to-market. **Despite logistical challenges** and volatility in the operating environment, the Company has managed to **maintain its supply chain operations and ensure** consistent supply to its customers. FCEPL also continues to support its farmer community (of over 50,000 farmers) and their livelihood during these difficult times.

The projected growth and profitability for the quarter experienced a steep decline due to the **unexpected and rapid rise** of COVID19, as it affected the retail landscape all across Pakistan. Subsequently, FCEPL has registered a loss of Rs 131 million, after tax, versus a profit of Rs 83 million in the same period last year.

Despite this, FCEPL's largest brand **Olpers** continued to register **strong volumetric growth** (including highest-ever volumes in February) and consolidated its market share leadership by 415bps vs. its largest competitor. **FCEPL also launched Tarang Tea Whitening Powder (TWP)** during the quarter, which promises to deliver a creamier cup of tea at an affordable Rs. 10 price point. This launch will further strengthen Tarang's credentials as the tea creaming expert of choice. The company's other recent launches - **Olpers full cream milk powder (FCMP)**, Olpers Cream, Olpers Pro-Cal and Tarang Elaichi, continue to receive a highly positive response from both consumers and trade and have gained a healthy market share in a short span of time despite strong competition from established players. The Ice cream business also focused on creating excitement by introducing 7 new products whilst expanding the trade universe by inducting more than 2000 assets in market.

[Amounts in thousand except for (loss) / earnings per share]

| | Quarter ended March 31, | |
|--|--------------------------------|----------------------|
| | 2020 | 2019 |
| | -----Rupees----- | |
| Revenue from contracts with customers - net | 9,805,871 | 8,617,850 |
| Cost of sales | <u>(8,325,423)</u> | <u>(7,127,409)</u> |
| Gross profit | 1,480,448 | 1,490,441 |
| Distribution and marketing expenses | (1,000,184) | (921,963) |
| Administrative expenses | (302,685) | (299,694) |
| Other operating expenses | (10,781) | (18,256) |
| Other income | <u>29,730</u> | <u>85,013</u> |
| Operating profit | 196,528 | 335,541 |
| Finance cost | <u>(378,885)</u> | <u>(232,601)</u> |
| (Loss) / Profit before taxation | (182,357) | 102,940 |
| Taxation reversal / (charge) | <u>51,728</u> | <u>(19,488)</u> |
| (Loss) / Profit for the year | <u><u>(130,629)</u></u> | <u><u>83,452</u></u> |
| (Loss) / Earnings per share - basic and diluted | <u><u>(0.17)</u></u> | <u><u>0.11</u></u> |

Future Outlook

The impact of COVID-19, which encompasses the entire world, will much more pronounced in developing countries like Pakistan. The IMF projected the Country's economy will contract by **1.5% this fiscal year**. The Fund foresees the impact of continued business closures and trade activities, is likely to result in **unemployment affecting more than 10 million people**, and pose a food security risk for an additional 45 million people. The decline in exports and remittances is also expected to weaken the Pakistani Rupee in the coming months.

As a dairy company, **FCEPL expects a challenging operating environment** in the short term, especially for the Ice cream business. In the medium term, decline in consumer purchasing power **may affect the business adversely**.

FCEPL's priority in the short term will be to ensure a **consistent supply** of nutritious and safe products to our consumers, while safeguarding the safety and health of all our employees and partners. **The Company's** purpose is to transform the health and well-being of Pakistani's now and for generations to come, by nourishing them through unlocking the goodness of milk from grass to glass, as well as by **enhancing the livelihood of farmers**.

FrieslandCampina Engro Pakistan Ltd is also actively supporting the Government of Pakistan's efforts to ensure food security across the country during this crisis through **affordable and immunity boosting nutritional products** and ensuring availability across Pakistan. FCEPL is also providing Olpers FCMP at special discounted prices to utility stores, and donating products for the requirement of district governments.

FCEPL remains committed to the highest standards of **hygiene, food safety and sustainability** to provide affordable, safe and **nourishing dairy products to millions of Pakistani's, every day**.


Muneeza Iftikar
Company Secretary