



VIP GLOVES LIMITED

Operational Update Q3 FY2021

3 May 2021



 **VIP GLOVE SDN. BHD.**
(1179802-T)

NO. 17, JALAN PERUSAHAAN 1, KAWASAN PERUSAHAAN BERANANG,
43700 BERANANG, SELANGOR DARUL EHSAN, MALAYSIA

VIP GLOVES LIMITED

ABN 83 057 884 876 (ASX Code : VIP)

Level 26, 360 Collins Street, Melbourne, VIC 3000, **AUSTRALIA.**

Tel: +61 3 9867 7199

Email: CorplR@vipglove.com.my **Website:** www.vipglove.com.my

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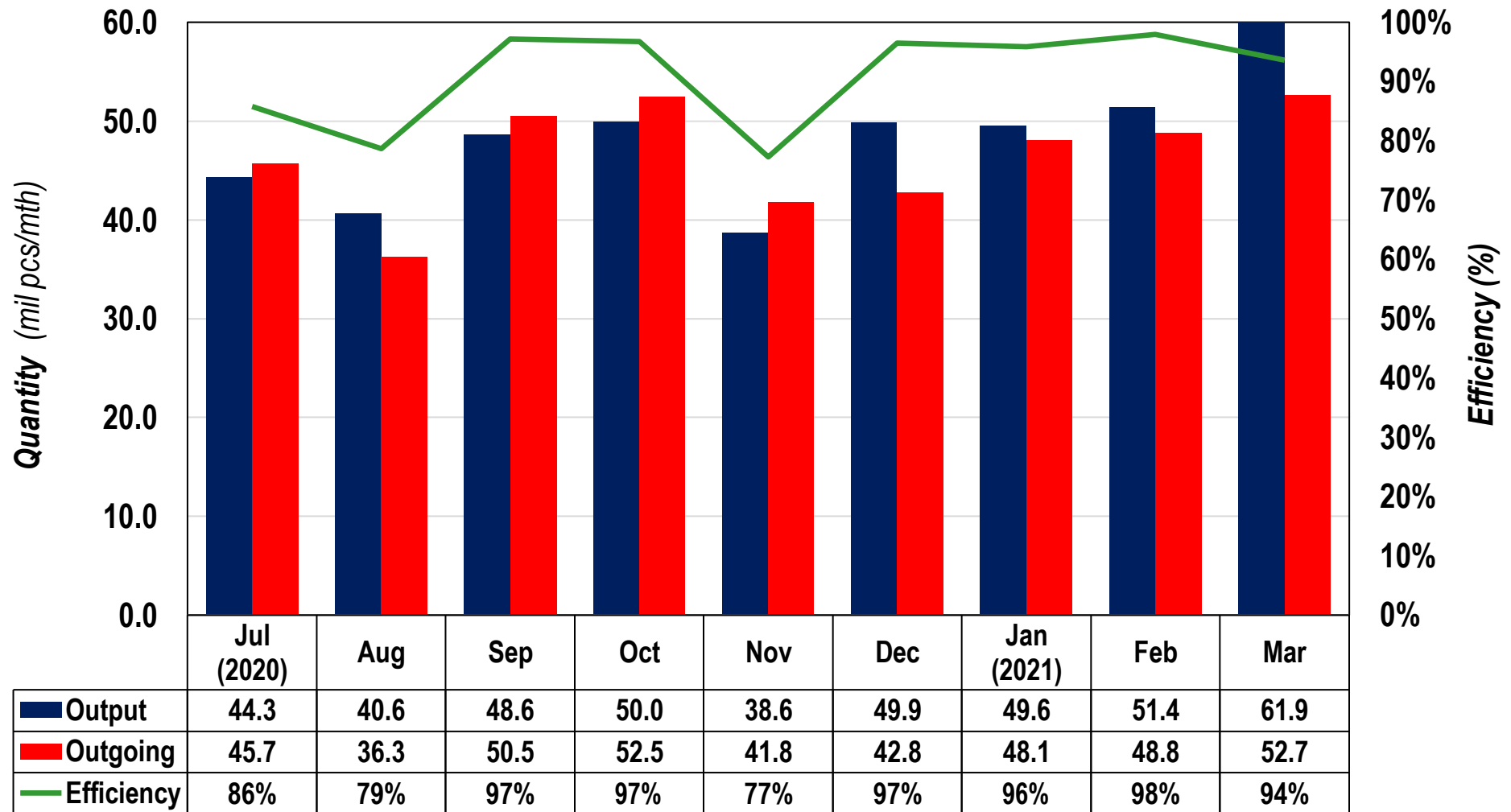
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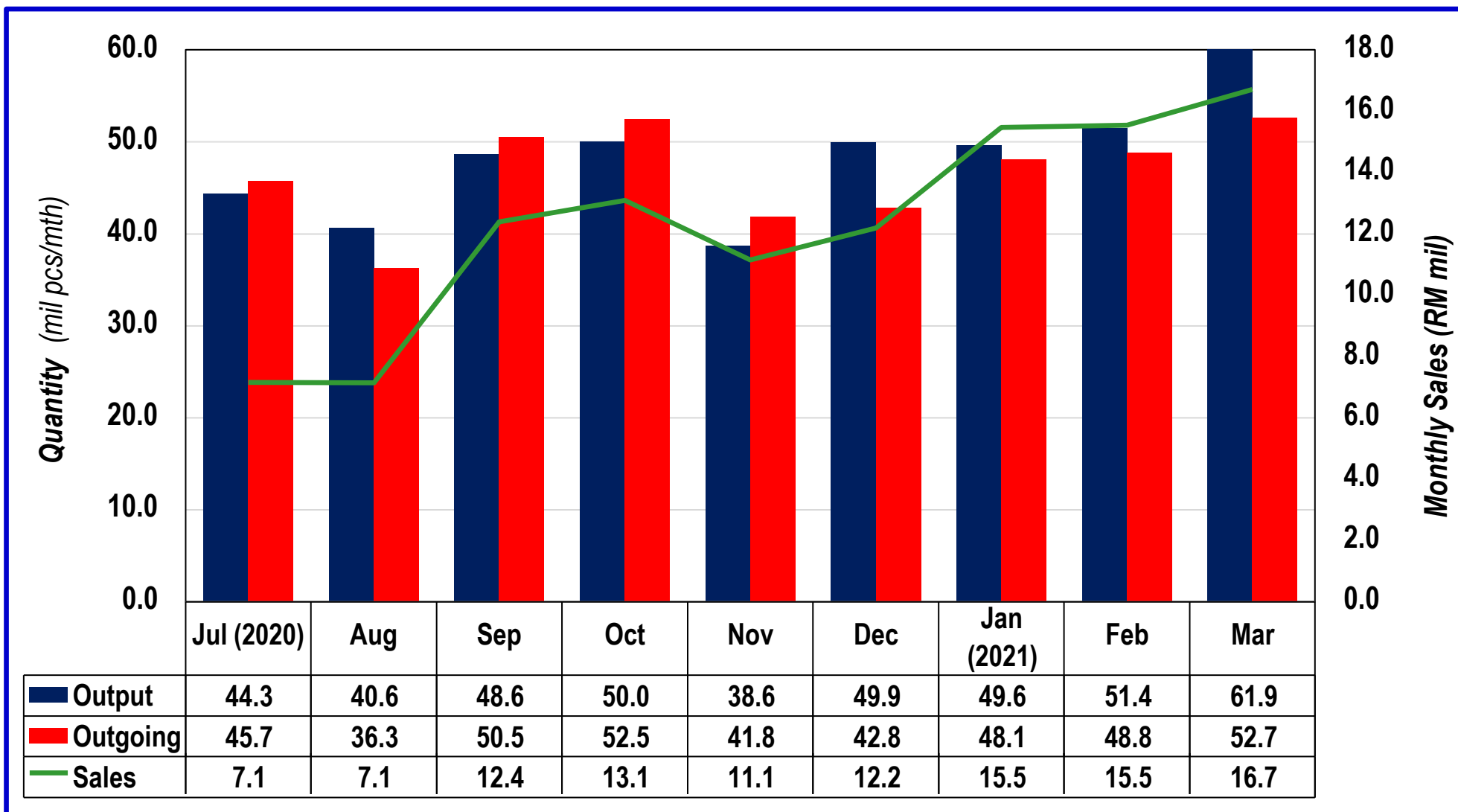
Q3 2021 Performance Review

- **Revenue** - Experienced strong growth trend in Q3 thanks to rising ASP for gloves as well as additional capacity coming onstream. Total volume sales (“outgoing”): Q1 - 133m pieces; Q2 - 137m pieces; Q3 - 150m pieces; while ASP during the corresponding quarters were US\$50 (per 1,000 pcs), US\$67 and US\$80 respectively.
- **COGS** - Increased in tandem with rise in production volume. Unit costs for most components remained stable during the period with increase in nitrile latex raw material prices due to shortage of supplies.
- **EBITDA** - With continued rise in revenue stream and well-controlled COGS, EBITDA remained healthy. This resulted in strong cashflow for VIP to fund its aggressive capex initiatives and ensuring dividend payout in the future.
- **EBITDA Margin** - Despite the rise in nitrile latex prices, bullish ASP provided comfortable cushion at maintaining EBITDA margin at about 40% during Q3, similar to that achieved during 1H 2021 (July – Dec 2020 financial period).

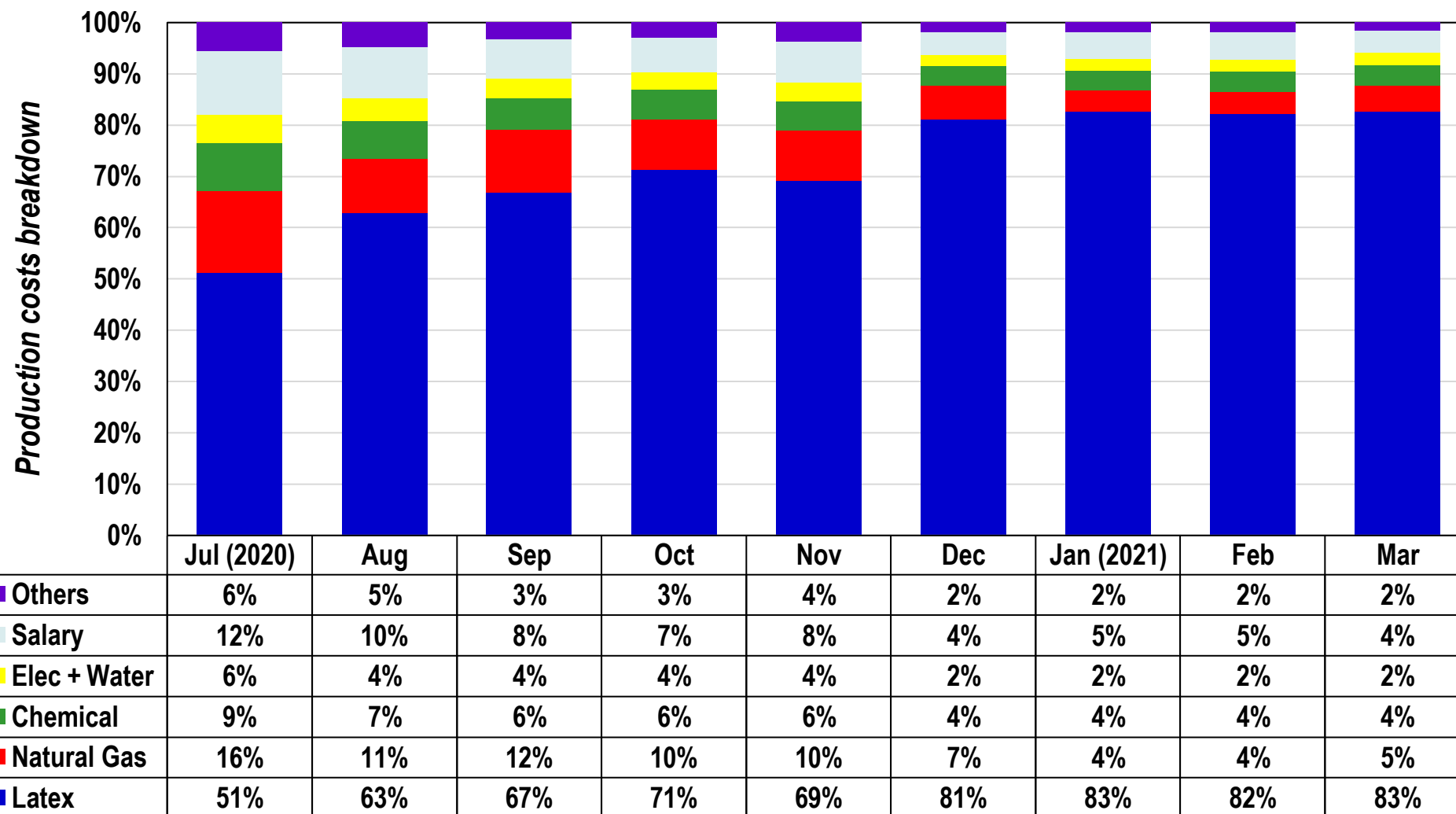
Production Output, Outgoing & Efficiency



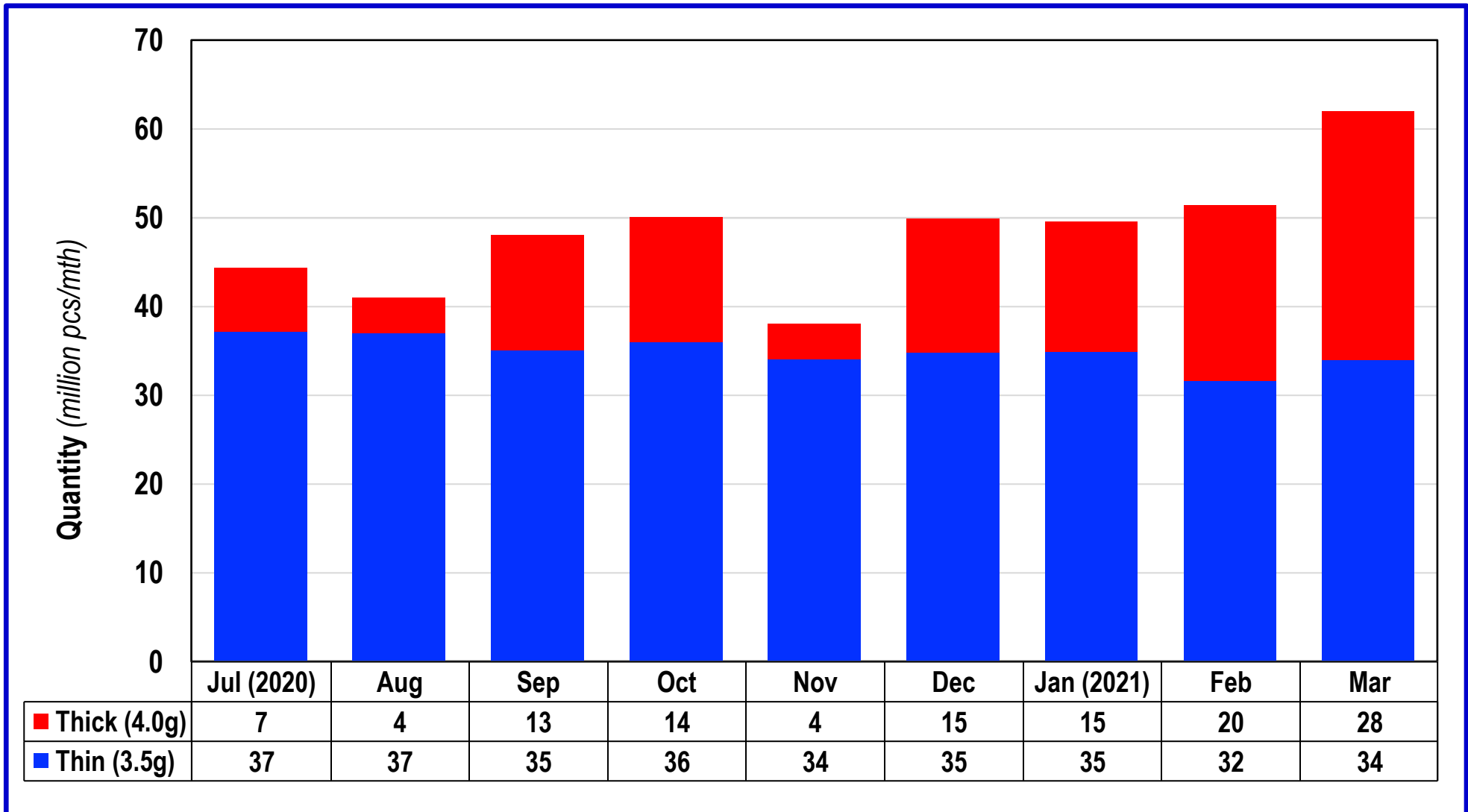
Output, Outgoing & Sales



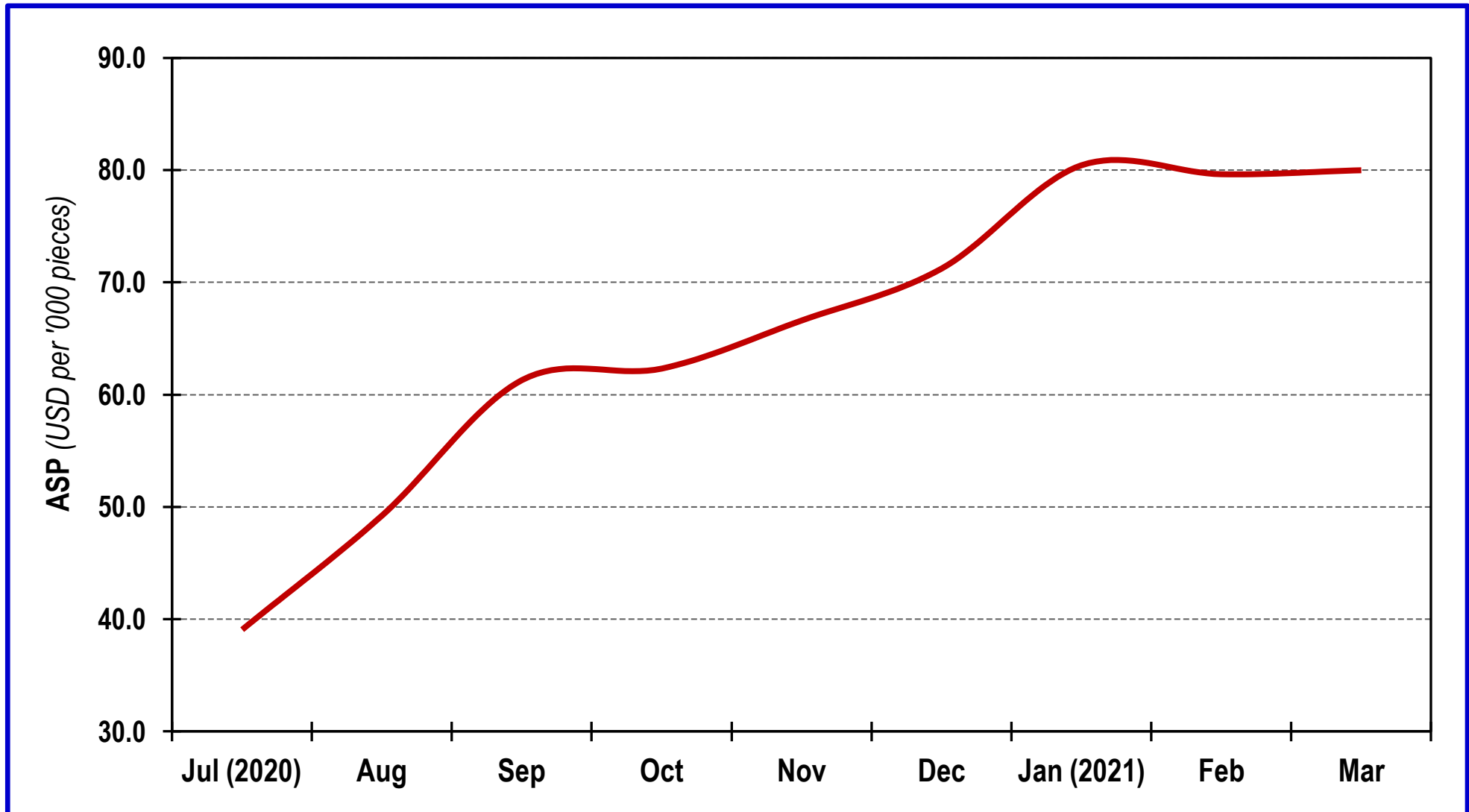
Major Costs Comparison (*% of total production costs*)



Glove Production (“Output”)



Average Selling Prices (ASP)



Production Capacity

LINES	Type	pcs/line p.m. ¹	pcs p.m. ¹	pcs p.a. ¹
Existing : Line 1 - 2 (2 lines)	DF	18m	36m	432m
Line 3 - 6 (4 lines)	SF	7m	28m	336m
Existing Capacity			64m	768m
In-progress ² : Line 7 - 8 (2 lines)	SF	7m	14m	168m
Factory-1 capacity by Sept 2021			78m	936m
Factory-2 ³ : Line 1-8 (8 lines)	DF	18m	144m	1,728m
Total capacity by end-2022 (est.)			222m	2,664m

Notes ¹ Based on rated capacity assuming 100% utilisation rate

² Additional lines currently being installed at Factory-1

³ New lines to be installed at Factory-2

Line 7 : Installation works



Line 7:

*Erecting main
frame of the
production line*

Line 7 : Final touches



Line 7 :

Workers putting in final touches, getting ready for trial run in a month or two

Line 8 : Installation work in progress



Line 8 :

Fabrication and installation of internal frame and tracks

New Factory - 2

- Soil test, structural design and factory architecture work **(completed)**
- Submitted detailed plans to Majlis Perbandaran Kajang (MPKJ - Kajang Municipal Council) and Jabatan Bomba (Fire Department) **(awaiting approvals – est. Jun/July 2021)**
- Start of earthwork **(after receiving consent from MPKJ & Fire Dept) (2 mths)**
- Erection of factory building **(6 mths construction period)**
- Estimate completion of factory building **(early-2022)**
- Installation of eight (8) Double Former Lines **(in stages after factory building is completed)**
 - ❑ Each line will be commissioned and operational individually, hence will see partial contribution starting 2H FY2022
- All 8 lines fully installed and commissioned by **end-2022**
- Expect earnings to increase gradually in **FY2022** and **FY2023** from additional capacity, with full earnings impact in **FY2024**.

Revenue & Earnings Trend Going Forward

➤ Additional Capacity coming onstream

- ❑ L3-4 (operational since Q1 2021) and L5-6 (since Q3 2021) will contribute to FY2021's revenue stream.
- ❑ L7-8 (by Q2 2022) and full impact for L5-6 will support revenue and earnings growth for FY2022.
- ❑ New capacities from Factory-2 will cater for growth in FY2022 and FY2023, while realising the full impact in FY2024.
- ❑ Committed sales through to end-2021. Enquiries and expressions of interest in sales for FY2022 and beyond on existing as well as new capacities.

➤ Buoyant ASP

- ❑ The Malaysian Rubber Glove Manufacturers Association (MARGMA) projects global deficit of 80 bn pcs of gloves in 2021 (500 bn pcs in demand vs 420 bn in supply); with longer term demand growth of 12-15% p.a. vs 8-10% p.a. recorded during pre-Pandemic. New capacities coming onstream will be well-absorbed by market demand, hence keeping ASP high.
- ❑ In the unfortunate scenario that a “third wave” of Covid spread takes place, we may see a prolonged global pandemic, which will see more demand for PPE, including nitrile gloves.
- ❑ With CE (and FDA in the near future), VIP is positioning to expand geographically into the lucrative EU and North American markets.
- ❑ Long term plan is to introduce house brand to end-customers directly that will widen profit margins.

Cost Pressures

➤ Nitrile latex (“NBR”)

- ❑ Single largest cost item in the production of nitrile gloves. Currently accounts for over 80% of production costs. Previously less than 50% pre-Pandemic.
- ❑ Rise in NBR prices was a “consequential effect”, (i.e. after the rise in ASP for gloves), hence the resulting impact is a “decelerating in margin expansion”, and not “margin squeeze” scenario.
- ❑ NBR prices have subsided after peaking at US\$4,500/tonne, now around US\$3,000-3,500/tonne price levels with decreasing trend, while ASP maintains high at the US\$80/1,000 pcs.

➤ Depreciation & Interest costs

- ❑ As more investments are put into expanding production capacity, it is inevitable to see rising Depreciation and Interest expenses (VIP will consider external loans to finance Factory-2)

➤ Other Costs under control

- ❑ Natural Gas price has reduced by 51% Q-o-Q during Q3 2021 (from RM33.65/MMBtu to RM22.14/MMBtu), but will rise by 21% in Q4 to RM26.85/MMBtu, albeit still lower than Q2.
- ❑ Operational efficiency has improved with rise in capacity and output. As we have passed the threshold for critical mass, profit margin poised to remain high in the next few years.

Accreditation

➤ CE Mark Examination Certificate

- ❑ Obtained CE Mark Examination Certificate in early 2021. VIP is gearing up to expand our network into the EU market.
- ❑ Target at distribution to European distributors and wholesalers, and later to sell directly to end buyers in the region.

➤ US FDA Application

- ❑ Application lodged, however the process is somewhat slower than usual due to the pandemic; but our team has been liaising with FDA authority constantly.
- ❑ Estimated approval by mid-2021. Also commenced obtaining other mandatory compliances to ensure VIP conforms to the US importers' regulations and requirements.
- ❑ Target to expand footprint into the lucrative North American market in the later part of 2021.

Thank you



This Presentation has been approved by the Board of **VIP GLOVES LIMITED**

Yours sincerely,

Andrew Metcalfe, *Company Secretary*

Level 26, 360 Collins Street, Melbourne, VIC 3000, **AUSTRALIA**.

Tel: +61 3 9867 7199

Email : andrew@accosec.com