

Investment Opportunities in the Food and Beverage (F&B) Industry in Taiwan

I Reasons to Invest in Taiwan F&B Industry

- A. Food and beverage industry in Taiwan grows rapidly. **The overall market scale reached NT\$391.5 billion in 2011.**
- B. The tourist numbers significantly increases in Taiwan, especially after the cross straits direct transportation and the open-door policy to Chinese tourists. Chinese tourists have become the main source of tourism.
- C. Taiwan food and beverage industry has made great accomplishment by entering Chinese market, which increases its international competitiveness.
- D. Taiwan food and beverage industry is expanding its size and scale, and thus has the capacity for long-term competition and growth
- E. Taiwan food and beverage industry has high gross profit and EPS unaffected by economic climates.
- F. Taiwan capital market enables food and beverage industry to have higher PER, thus raising the return on investment of the stockholders.
- G. Taiwan government initiates “Gourmet TAIWAN” and has put in abundant resources, trying to continually create the competitiveness of food and beverage industry.
- H. Aims to accelerate the operation performance of Taiwan food and beverage industry by cooperating with strategic partnership, so as to achieve a win-win result

II. Analysis of Taiwan F&B Industry

- A. F&B industry output value has grown rapidly in the past two years.

Taiwan F&B industry output value has grown considerably in the past two years—**up to 391.5 billion in 2013.** The main contribution comes from restaurant industry, whereas two other reasons account for rapid growth: domestic demands and inbound travel.

- B. **Dine-out population increases, the market scale expands**

According to the [statistics of Ministry of the Interior in 2012](#), single population above 19 years old (including unmarried, divorced and widowed) has [reached 8.06 million](#). If the DINK (double income, no kids) group is also taken into account, **this group of population has reached more than 10 million**, and they are the major group that dines out. Most of these populations are used to dining out, which gives rise to the rapid growth of F&B market scale in Taiwan. According to “2011 F&B for Out-Eaters in Taiwan” survey conducted by Unilever for people eating out, In terms of weekdays, they eat out for lunch 4.2 times on average, dinner 3.3 times, and the number is still climbing. As showed in the report, **the dine-out budget of Taiwanese people takes up one-third of its annual income.**

C. Inbound Visitors Greatly Increases

Tourism Bureau continuously promoted projects such as “Travelling in Taiwan Enriches your Life” and “Project Vanguard for Excellence in Tourism,” and both achieve fruitful results. [The overall inbound visitors were 8.01 million in 2013, which was the highest in the past.](#)

[The top four visitor’s country origins are Mainland China, Japan, South-east Asia and Hong Kong and Macau area. The daily spending, on average, of each visitor is \\$234.31 USD, among which 36.66% is for shopping, 31.68% is hotel and 13.12% is for dining out according to the survey of the Tourism Bureau in 2012. If multiplying the daily cost of dining out per person—\\$30.74 USD--by the total inbound visitors, the total amount would reach almost \\$250 million USD, contributing \\$7.5 billion NTD for Taiwan F&B market. This amount is still increasing along with the prosperity of Taiwan tourism.](#)

III. The growth of Taiwan F&B industry mainly comes from China market.

A. Mainland China has Large F&B Market

1. According to the National Bureau of Statistics of China, the income of food and beverage industry reached [2.56 trillion RMB in 2013](#), which

increased 9.0% and took up 10.8% of the total retail sales of consumer goods.

2. The “12th Five Year Economic Plan” proposed by Ministry of Commerce, PRC, aims to promote the development of food and beverage industry, and strives to maintain the annual growth rate at 16%, with the retail sales amount reaching more than 3.7 trillion RMB by 2015.

B. Taiwan F&B industry Prospers in China market.

The similarities in cultural, taste and consumption habits between Taiwan and China bring Taiwan F&B industry a great success in China market, and the cultivation, service and innovation is even a better plus. Based on “2011 100 Franchised Chain Stores in China” released by China Chain Store and Franchise Association, there are six Taiwan companies including Yong-He Soy Milk, Liang-An Café, Happy Lemon, Ueshima Coffee Lounge, Dicos (Ting-Hsin Group) and Dio Coffee, along with KFC and Quan Ju De. 85°C and Wang Steak have delivered good revenues in China market-- 85°C even became a listed company in a few years and the paradigm for many Taiwan F&B companies.

IV. Taiwan Food and Beverage Industry Expands its Size and Scale

A. **Taiwan Food and Beverage Industry is Expanding its Size and Scale.**

Since Taiwan F&B companies are small- or medium-sized, brand management and building is not an easy task. The business scale is less likely to be expanded, and the controls over share and organization are also chaotic, thus degrading its cooperation investment value. Based on a 2011 survey by China Credit Information Service (see Table 1), the revenue ratio of the top 10 companies have risen during 2006 to 2010. By 2011, Gourmet Master’s revenues (including those in China market) have reached 11.456 billion NTD; Wang Steak’s have reached 9.6 billion; An-Hsin Food’s (MOS Burger) 3.983 billion; and the newly listed TTFB’s have reached 3.983 billion NTD in 2011. Taiwan F&B industry currently is moving to large size and chain operation, dramatically increasing its appeal for corporation investment.

Table 1. The percentage of top 10 business within the entire F&B Industry

	2006	2007	2008	2009	2010
Top 10 Companies Total Revenue (100 million dollars)	167	209	226	232	284
Taiwan F&B Industry Operating Scale (100 million dollars)	3027	3159	3217	3218	3448
Percentage of Top 10 Companies in Taiwan F&B Industry	5.52%	6.62%	7.03%	7.21%	8.24%

Source: Directorate-General of Budget, Accounting and Statistics (Executive Yuan)

- B. Large size and chain operation benefit the integration of supply chain.
1. As the food and beverage industry is growing rapidly and expanding its size and scale, it consequently motivates the growth of the upstream vendors. In recent years, many suppliers gradually become the listed companies/OTC—take ISCO and Sinmag Equipment Corporation for example:
 - (1) ISCO Holdings: Targeting processed product such as juice, pulp and granule in China market, Fresh Juice (1256-F) has been approved by Listing Qualification Committee of GreTai Securities Market (GTSM) in June 2012, and listed in Taiwan in September 2012. Producing and selling high-quality concentrated juice, pulp and granule in China, ISCO provides F&B companies and take-out beverage companies with freshly made juice. Viewed as upstream ingredient supplier, Fresh Juice has planned a comprehensive deployment through diversified product lines. With the help of huge domestic demand in China market, it delivers remarkable performance in the past two years. **Its revenue in 2011 achieved \$969 million NTD, with EPS of \$5.25 NTD; its revenue in 2012 achieved \$1.3 billion NTD, with EPS of \$5.66 NTD.**
 - (2) SINMAG Equipment Corporation: With a 90% market share in top 10 supermarkets' bakeries in China, SINMAG increased its revenue 16 times in ten years. In addition to the plants in Taiwan

and China, it plans to set up the third one in India. In Asia, every baking machine (such as stirrers, ovens, pasta machine, and dough proofing machines) out of five is made by SINMAG, which is the largest manufacturer for baking machines. In Taiwan, 85°C, Sunmerry, Mr. Mark and Yamazaki all use XINMAG's products. Benefited from some chain bakeries' strong demand of expansion in China, SINMAG managed to achieve 300-million-NTD consolidated revenue from April to June in the year of decline 2012, reaching the peak of consolidated revenue in Q2 in spite of the lower number in January and February. According to Investment Corporation, SINMAG is able to increase its revenue in China as the distribution baking is replaced with on-site baking, small-sized central kitchens are expanded into large ones, and the demand for automatic central kitchens are emerging gradually.

V. Taiwan large-sized F&B companies are characterized with high gross profits and high EPS.

Table 2. Operation of Taiwan Listed/OTC F&B Companies, 2012

Company	2012		2011		2010		2009	
	Revenue (million)	Net profit margin (%)	Revenue (million)	Net profit margin (%)	Revenue (million)	Net profit margin (%)	Revenue (million)	Net profit margin (%)
Gourmet Master	13485.504	9.65	11456.414	9.79	8347.168	9.91	6283.364	11.8
Wang Steak	12306.392	11.92	7698.544	13	NA	NA	NA	NA
An-Shin Food	4170.716	3.32	4019.134	4.33	3409.484	5.11	2933.187	3.76
New Palace	1009.151	11.5	1708.605	8.11	1273.728	5.06	843.387	0.92
TTFB	1909.388	11.47	1530.997	10.86	1100.039	10.43	NA	NA

Source: Compiled by This Survey

Since business cycle fluctuates dramatically, high gross profit margins could help to decrease risks of business operation; business and companies with high market growth certainly becomes the favorite target for investment—Taiwan F&B industry carries all of these features. Table 2 shows the revenue of newly listed/OTC F&B companies in 2012. With the acceleration from China market, their scales and profits

have considerably increased.

VI. Capital market in Taiwan provides higher P/E ratio (PER) to Taiwan F&B industry.

The capital market gives higher evaluation to Taiwan listed/OTC F&B companies in contrast to other industries. As shown in Table 3, PERs are high, and Wang Steak's PER is even up to 34 times. TTFB, a recent OTC company, delivers high revenues and is thus widely recognized in Taiwan although it has not expanded to China market yet. Based on its stock price of 273 NTD in July 2012, the PER has increased 29 times.

Table 3. PER of Listed/OTC Companies

	Wang Steak	Gourmet Master	An-Shin Food
Price (2012.6.15)	437.5	222	136
Highest Historical Price	538	400	210
PER (converted with 2011 EPS)	34.4	26.6	19.1

Source: Compile by This Survey

VII. Taiwan government invests rich resources into “Gourmet TAIWAN”.

Considering the potential of Taiwanese delicacy, Taiwan government includes “Gourmet TAIWAN” as one of top 10 key service sectors and proposed “Taiwanese Food Internationalization Plan.” To promote Taiwanese food overseas, 1.1 billion NTD is invested from 2010 to 2013.

VIII. Strategic partnership strengthens the competitiveness of Taiwan Food and Beverage industry.

Base on the industry analysis above, Taiwan F&B companies are attractive to investors; many people want to be the second Wu Cheng-hsueh (CEO of 85°C). 85°C (Gourmet Master)'s operating mode has become an industrial paradigm because of its “speed.” Established in 2004, 85°C spent less than ten years to be listed based on the

easy-to-reproduce feature and cooperation among venture capital companies.

A. Reproducing Ability in Food and Beverage Industry

Compared with manufacturing industry, F&B industry has less complicated manufacturing process. Since its potential is undervalued in the past, F&B industry became a quasi-handicraft industry. Many traditional companies also misunderstood that it's difficult to reproduce the productivity of F&B industry. With the engagement of next-generation companies, F&B formulas and processes are further developed, enabling mass reproduction. Besides, central factory or logistic center can even help to expand into chain operation. Such an operating mode has been practiced for years in Europe and US, especially for fast food industry. Taiwan's baking and beverage companies have gradually stood out with the control over the sense of taste in Taiwan & China, creating the prosperity today. For cuisine of complicated process, such as Oriental cuisine, some companies have started developing reproduction methods. TTFB, for example, designed and creates world's first "Stove Frying Kitchen Chaining" system. Such a system covers the cooking techniques of oriental cuisine, R&D capability and talent cultivation, establishing a modern cooking knowledgebase to pass down the sustainable traditional oriental delicacy. With the strict control over quality, it helps to develop the core competitiveness to reproduce successful experiences corresponding to oriental F&B chain industry.

B. Assistance from Venture Capital

Although modes, formulas and features are reproducible, Taiwan F&B companies' remarkable achievement in capital market results from "scale" and "speed." Entering F&B market is rather easy and its process would be copied easily. As a result, a healthy operating mode must be able to reproduce rapidly; increase brand visibility with vast and fast expansion; and gain competitive edges in terms of cost and efficiency through sizable central kitchen, centralized purchase and logistics equipments. However, these investments have to be fully supported with adequate capitals. In the past, F&B companies were mostly small sized, making the capital financing rather difficult. Sensing the opportunities within, some venture capital companies engages and accelerates the growth of Taiwan F&B industry. Well-known Taiwan F&B companies in China market like 85°C (Gourmet Master), Chamate,

Liang-An Café, RBT and Yong-He Soy Milk are invested by venture capitals. In addition, My Warm Day (a famous breakfast chain store in Taiwan), Coco (the largest beverage chain store so far), How Sweet (the newly-established bakery with 60 chain stores in a short time), and TriPod King (the leading brand of spicy hotpot) all follow a similar pattern and are expected to apply for listed companies/OTC by 2014 or 2015.

C. Strategic Partnership

1. Management, talents, internationalization experiences are key strategic assets: since there are a number of successful cases of Taiwan F&B companies, most venture capital companies or private equity foundations have seen this opportunity. Still for Taiwan F&B companies, what need to be introduced the most are not capitals but strategic partnership, which will bring about the resource they die for. In the process of size and scale expansion, the bottleneck is the shortage of management capability and intermediate/high class talents. Although some Taiwan F&B companies are successful in China and a few oversea areas (for instance, Ding Tai Fung in Japan, US and Southeast Asia), most are still at a starting stage, just like 85°C's slow expansion in Australia and Wang Steak's initial entry to Thailand. Though Pearl milk has a great sales performance in UK and Germany, F&B industry in general still needs experienced partners to help with the internationalization process.

2. There are still many potential companies in Taiwan market that needs to be explored: although some of them already have investing partners, most of their investment opportunities haven't been fully made use of. Chien-yen Hotpot, for example, has around 40 chain stores and 2-billion revenue in 2011. Controlling over ingredient cost and offers the best ingredients, Chien-yen expanded into 40 chain stores in a relatively short time, with a total store area over 39,668.4 square meters. Kanpai, a Japanese barbecue chain store noted for lively atmosphere, shows lots of potentials too. Undoubtedly a new star, Kanpai has different store series ("Kanpai," "Kanpai Classic," "Kanpai Bar" and "Wine de Kanpai") customized for different segments of customers. With its numbers and revenues rapidly growing, Kanpai still insists on the quality of ingredients & service and on the one-of-a-kind Kanpai

personality. Although there were chances for fast expansion, Kanpai only keeps up with its calm pace typical of Japanese daintiness. After the foundation is well secured, Kanpai is now ready for expansion. Cases like Chien-yen and Kanpai are everywhere in Taiwan F&B industry. In a global environment of economic decline, Taiwan F&B industry provides investors with the ideal opportunity to maximize their investment.