

# SunMoon repositions business; aims for high sales volume, staying asset light

| BY CHAN CHAO PEH |

Gary Loh, executive chairman of fruit seller SunMoon Food, is relishing the idea of having all manner of financial and operational data at his fingertips once the company installs new enterprise resource planning (ERP) software at its six offices in about four months. "I will be like Captain Kirk at the helm of *USS Enterprise*," he tells *The Edge Singapore*.

With the ERP software in place, Loh says he will have immediate access to up-to-date data on sales, costs, revenue from each customer and payments due to each supplier. The system will also be able to generate an income statement and balance sheet along with various financial ratios at any time. SunMoon currently relies on Excel spreadsheets and lots of manual processes. For instance, Loh still personally approves all purchasing orders. Once the new software is installed, he expects things to run more smoothly. "No more 'Gary says', but 'This is what the data says'."

SunMoon is purchasing the software from NetSuite, a company that is being acquired by Nasdaq-listed Oracle Corp, as part of its move to a new business model. Back in 2009, SunMoon offloaded more than \$30 million worth of plants, equipment and plantations and became much more asset light. It has also put its garlic processing plant in China on the block and is talking to prospective buyers, according to Loh. This asset is carried on SunMoon's books at \$3.5 million.

At the same time, SunMoon has been securing suppliers and widening its range of fruit products. It now has 157 suppliers and sells 100 fruit products. The company has also steadily expanded its sales channels and inked deals to enter new markets. It currently sells its products in nine countries through some 11,000 points of sales, including convenience stores, supermarkets and SunMoon franchised outlets.

This shift in strategy has made a robust ERP system a necessity, says Loh. The former UOB Kay Hian stockbroker likens SunMoon's new business model to that of a clearing house, where buyers and sellers are matched in growing volumes. "You don't need to own a taxi to sell transportation. You don't need to own hotels to sell accommodation," says Loh, referring to Uber and Airbnb, which are famous for shaking up their respective industries.

## Safety in diversity

Not having capital invested in upstream assets could well be advantageous amid growing tensions in the region. In the past year, Indonesia has made it tough for apples to be imported from China by insisting that the products be certified by a laboratory that it did not name. For its part, China has banned the import of bananas from the Philippines. China has been in conflict with the two countries over territorial rights.

"These fruit wars are kind of hazardous," quips Loh. SunMoon was badly affected by the suspension of Indonesia's import of Chinese apples, which was lifted in July. In 1HFY2015, the company reported revenue of \$6.1 million, most of which was related to the sale of apples to Indonesia. However, in 1HFY2016, sales of apples to Indonesia contributed nothing to its revenue. Fortunately, with its adoption of the asset-light strategy, coupled with a broadening of its products and markets, SunMoon managed to report revenue of \$7.9 million in 1HFY2016.

The company has to ensure that it has a steady supply of fruits to meet the demands of



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its customers. And that can prove to be challenging too. For instance, weather conditions might curb the production of a particular crop or there may be competition for the supply of fruits from a particular country. Interestingly, cherries from Chile are now hard to find in local supermarkets because China is buying up almost the entire supply.

Loh says SunMoon has to ensure that it has alternative sources of supply to which it can turn when things like this happen. "If Chile cannot, [it] means Peru. If not, then Argentina. And, if not, then you must go to Mexico," he says, referring to the cherry shortage created by China. "You must be able to create diversity in the offerings."

Loh realises that making SunMoon asset light is something of a gamble. Traditionally, food companies that manage to grow their revenue and earnings begin to accumulate assets and develop a supply chain of their own. This would include buying upstream plantation and processing plants as well as warehousing and logistics facilities. The motive is to circumvent the layers of middlemen — positioned between producers and end-consumers — who mark up prices in an opaque manner.

Yet, Loh figures SunMoon will thrive with its new business model. Firstly, the company is based in Singapore, which is a relatively transparent place to trade. "Singapore produces nothing but sells everything," he says. Secondly, the logistics industry has developed and become more sophisticated, making it possible for a company like SunMoon to outsource these services and remain competitive. "To-

day, all these third-party logistics services are available. The world has changed; the infrastructure has changed, and therefore, this asset-light model can work," says Loh.

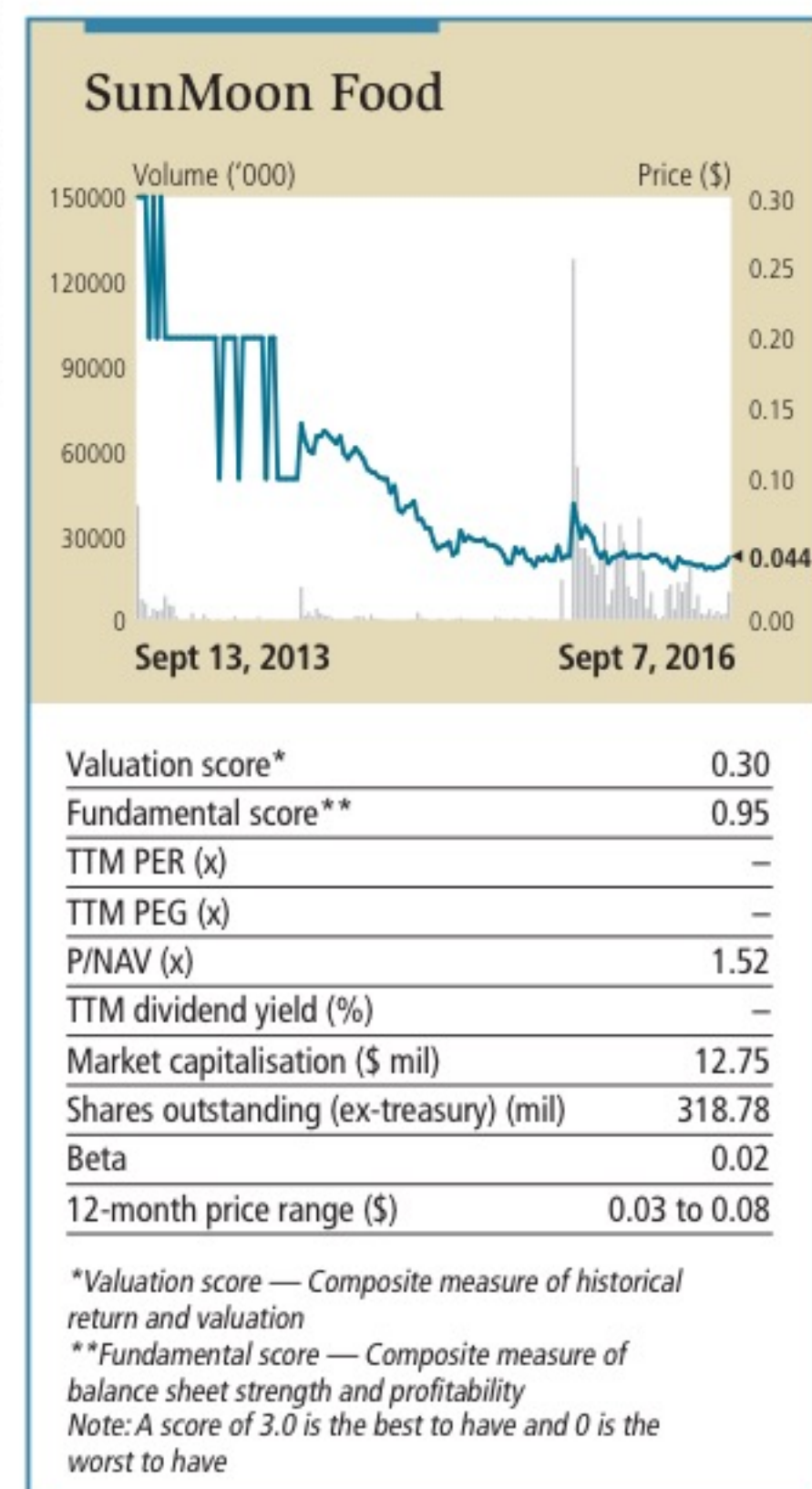
## Troubled history

Loh became involved with SunMoon almost a decade ago. In 2007, he was appointed vice-chairman after he began investing in the company through his private equity firm, First Alverstone Partners. He says he has invested some \$34 million in SunMoon so far, though he has also monetised some of his holdings over the years. He currently owns 25.3% of the company.

He readily admits that he has little to show for all the effort and money he has poured into SunMoon. He estimates that his shares in SunMoon costs him 10 cents on average, more than twice the Sept 7 closing price of 4.4 cents, giving the company a market value of \$14 million. He says that when he first invested in the company, it had a market value of about \$80 million and debt of some \$100 million.

As at June 30, the company no longer had any long-term debt, although there were still secured loans of around \$2 million. It held cash of nearly \$4.9 million and its net asset value (NAV) was 2.63 cents per share, or some \$8.4 million.

Loh suggests one reason for SunMoon's depressed market value is that investors are not according any value to its brand. But another reason might simply be that investors are turned off by its persistent losses. In 1HFY2016, the company reported a net loss of \$2.4 million



versus a tiny profit of \$140,000 in 1HFY2015. For FY2015, it reported a loss of \$1.5 million. There were also shareholder disputes as the company tried to manage its crippling debts.

Another distraction was an April 2014 claim for \$2.06 million in unpaid fees filed by nTan Corporate Advisory. SunMoon engaged the firm headed by Nicky Tan in 2007 to help it look for investors. Last October, SunMoon chose to pay up. Loh explains it was cheaper than waging a potentially costly and time-consuming legal battle.

Even as he dealt with these thorny issues, however, Loh was steadily building strong ties with fruit suppliers and testing their products. He also checked that the products could be easily shipped from where they were produced to markets where they were to be consumed. That involved engaging with customs and regulatory bodies. There are also trademark issues to sort out, according to Loh. "The middleman role is not so straightforward anymore."

## 'Worst is over'

Now, Loh is convinced that the "worst is over" for SunMoon, though he stops short of saying when the company will return to profitability. He says SunMoon's main priority now is to build scale based on its new business model and suggests that investors might need to be patient when it comes to the company generating large profits. "In the first ten years of Amazon, no one asked Jeff Bezos about profits," he reasons.

Whatever the case may be, he hopes that SunMoon's new business model will help the company recover and grow, and perhaps become a global brand. He points out that German sports gear maker Puma languished for years before becoming hip and cool and appealing to a new generation of consumers. While it involved huge investments, it proved to be worthwhile for Puma in the end.

"I've thrown in my kitchen sink," he says, referring to his commitment to turn SunMoon around. "I believe this is achievable."

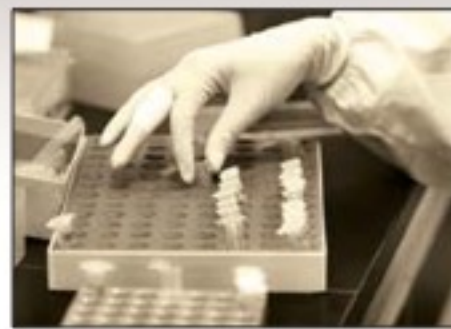
Shares in SunMoon are down 29% this year. They are currently trading at around 1.7 times the company's NAV.





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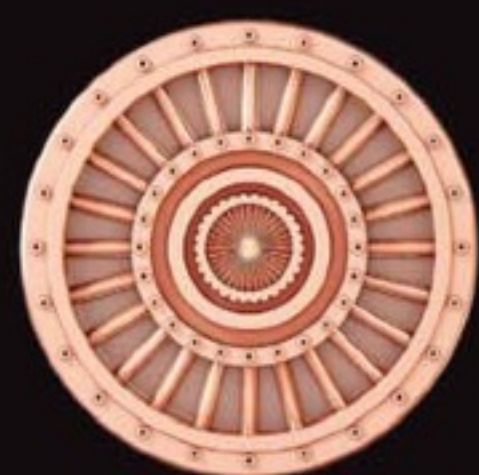


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