



A member of **UEM Group**

UEM EDGENTA BERHAD
196301000166 (5067-M)

58TH ANNUAL GENERAL MEETING

17 JUNE 2021

EDGENTA OF THE FUTURE
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Response to MSWG Questions

MSWG: Question # 1

For FY2020, UEM Edgenta's revenue declined by 15.86% to RM2.03 billion from RM2.41 billion in the preceding year. Meanwhile, net profit was lower at RM14.4 million (included a one-off write-down of RM50 million) as compared to RM188 million in FY2019.

Save for Healthcare Support – Commercial, almost all business divisions of UEM Edgenta recorded poorer financial performance in FY2020 with lower revenue and profit, due to the deferment of works and projects by clients and lack of new projects amid current challenging economic environment.

With the prolonged cautious spending sentiment and economic slowdown, does the Group expect better performance and earnings in FY2021?

MSWG: Question # 1 (continued)

Response:

The pandemic has brought about various financial stresses on our clients which consequently caused work in hand to be deferred. In tandem, the Movement Control Order further exacerbated the situation where we were not able to deploy our resources. These are the two main elements that have impacted our Infrastructure Solutions business. The deferment of non-routine annual work plan (Civil and Pavement work orders) from our key asset owners which resulted in a 70% reduction in work volume for the year had caused a YoY drop in revenue of RM330 million or -70%, consequently, PBT fell by RM100 million or -72% YoY.

We entered FY2021 with a cautious optimism cognisant of the vaccination programme picking up and the Government's aim to achieve herd immunity by the end of the year. Only then will we see the interstate travel and cross-border restrictions being lifted and traffic volumes returning to some normalcy. Consequently, we expect non-routine periodic road works to resume with our existing clients as they resuscitate budget and commitments to road maintenance programme. At the same time, the improved situation will allow us to redeploy resources for our Asset Consultancy work.

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MSWG: Question # 1 (continued)

Response:

Similarly, for the Healthcare Support business, the pandemic has resulted in additional expenses incurred such as PPE, manhours, etc. in delivering our commitment to our clients. Our stringent cost controls and support from grant received from Singapore has helped defray the escalating COVID costs for the business. These savings, coupled with a reduction of COVID-related costs from a successful nationwide vaccination will result in the gradual improvement of margins for the division in FY2021.

Despite the short-term headwinds, the Company's long-term fundamentals remain intact, with a robust order book of RM12.2 billion (as of 31 December 2020) which will keep us busy until 2038.

MSWG: Question # 2

Under the Healthcare Support segment, the concession business recorded pre-tax profit of RM1.9 million as compared to RM48.1 million in FY2019, despite a marginal decline in revenue to RM485.8 million (FY2019: RM490.3 million).

The substantially lower bottom-line was due to margin compression and escalating cost of sales due to COVID-19 related cost for personal protective equipment, staff overtime and sanitization cost. The Company will take proactive measures in managing cost.

- a) Under the Concession Agreement with the government, can UEM Edgenta transfer the rising operating cost to asset owners?

MSWG: Question # 2 (continued)

Response:

The Healthcare Support Services domestic concession agreement is an all-encompassing (comprehensive) contract which requires the concessionaire to fulfil its obligations as stipulated in the agreement. In the current situation, the additional expenses incurred such as PPE, manhours, etc is as a result of increased oprtional demands during the pandemic. Discussions with our clients are on-going. More importantly, we continue to focus on delivering our best to ensure smooth daily operations at our healthcare facilities as the nation battles the on-going pandemic.

MSWG: Question # 2 (continued)

b) What are the potential areas for cost optimisation initiatives? What are the initiatives implemented to contain the escalating operating cost? What is the expected cost saving from the implementation of these initiatives?

Response:

For 2020, the Healthcare Support Services concession division reported a RM9.2 million in cost savings through streamlining efforts in procurement, operational efficiencies and optimization of consumables and resource deployment.

We will continue our cost optimisation efforts in 2021. Some of the areas we have identified include strategic procurement initiatives, restructuring our operating entities for a more leaner operating structure as well as the implementation of technology and mechanisation to deliver on further operational efficiencies. We have identified approximately RM22 million of cost savings for the division from these initiatives as part of our EoTF2025 strategy.

MSWG: Question # 3

Under the Edgenta of the Future 2025 (EoTF25) transformation strategy, UEM Edgenta will gradually move away from the concession-based business model to commercial businesses that will bring longer-term returns and enable it to further compete in the international market (page 41 of Integrated Annual Report 2020).

Despite the broad rules and regulations to comply, the concession business is widely seen as a stable income provider to concessionaires.

- a) Why did UEM Edgenta decide to move away from this business model? Will UEM Edgenta completely exit the concession business once the existing concessions expire?

MSWG: Question # 3 (continued)

Response:

UEM Edgenta is not looking to exit the concession businesses which it currently undertakes as part of its healthcare concession and toll-road maintenance businesses. These concession businesses provide a good recurring income base for the company. Over the years, we have developed strong relationships with our long-term clients and established ourselves as a trusted partner to the Government.

EoTF2025 is a strategy anchored on growth opportunities that arises from commercial markets, private clients as well as the international front. The pandemic has taught us the importance of having a diversified income base in driving sustainable performance over business cycles. This is evidenced by our financial performance in FY2020 which was largely supported by our foreign operations (40% of FY2020 revenue) and with 60% of new contract won in the year from our international portfolio.

MSWG: Question # 3 (continued)

b) What is the current financial contribution (topline and bottom-line) of concession business to UEM Edgenta?

Response:

The Company's Healthcare Support Services and highway concession business contributed approximately 50% of total Group revenue, and about 20% of total group net profit for FY2020 (before elimination and corporate cost).

MSWG: Question # 4

Under the EoTF25 transformation strategy, UEM Edgenta will spearhead technological adoption across all businesses to be a technology-enabled solutions company with a focus on healthcare by 2025.

a) What is the expected expenditure to implement this transformation strategy?

Response:

The Company currently has over 20 technology-enabled solutions ready for productisation that will be rolled over the next 12 months including QuickMed – a digital healthcare platform and RAMS – an infrastructure asset management technology platform that will be enabled through our own Edgenta Cloud infrastructure.

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MSWG: Question # 4 (continued)

Response:

We have set aside an initial amount of seed money to jumpstart various tech-enabled solutions emerging from our EoTF2025 strategy. This will be spearheaded by our dedicated technology business unit, Edgenta NXT, which will serve to not only productise our existing solutions, but to also to develop new technology-enabled solutions.

The approach we are taking is to accelerate the launch of products and services as soon as they become viable to enable us to reap the benefits of early or first mover advantage. While at the same time, we expect to reinvest the savings to be realised as part of our 5 year target (approximately RM100 million) back into realising our technology aspirations.

MSWG: Question # 4 (continued)

b) How does being a technology-driven solution company drive future growth of UEM Edgenta as compared to the current business model?

Response:

Our technology strategy will enable UEM Edgenta to leverage on the next phase of growth as a Technology-Enabled Solutions company and to remain market relevant. This will be achieved through:

(1) Increase competitiveness from enhanced productivity and efficiencies – the use of mechanisation & automation, artificial intelligence (AI) and Internet of Things (IoT) in the way we bid and execute our services;

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MSWG: Question # 4 (continued)

Response:

(2) Faster time to market – technology as the anchor to expand our solutions using cloud-based infrastructure which allows for rapid deployment of our core competencies and greater flexibility in scaling our businesses especially in international markets; and

(3) New revenue streams – the deployment of new products and solutions to our clients through new engagement models including Software as a Service (“SaaS”) & Platform as Service (“PaaS”).

Essentially, our technology strategy will enable us to operate under a learner cost structure which in-turn reinforces our competitiveness to drive top-line growth with the aim of creating sustainable shareholder value.

MSWG: Question # 5

UEM Edgenta plans to expand its presence in Singapore by venturing into the Facilities Engineering Maintenance Services (FEMS) and Biomedical Engineering Maintenance Services (BEMS) segment. At the same time, it intends to acquire an ME-15 license in Singapore to enable itself to compete in government tenders.

a) What is the estimated market size for the FEMS and BEMS segments in Singapore?

Response:

As part of our expansion strategy in the Singapore market, we are exploring opportunities to extend our capabilities to provide Integrated Building Services (“IBS”) under the ME-15 work head, which includes Facility Engineering and Maintenance Services (“FEMS”) with an estimated market size of about USD 2 billion per annum across all facilities.

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MSWG: Question # 5 (continued)

Response:

Beyond FEMS, various other opportunities including Smart Facilities Management (integration of systems, processes, technologies and personnel to enhance the management of a building's facilities) and Biomedical Engineering Maintenance Services (“BEMS”) will be considered as part of our future growth in the market.

MSWG: Question # 5 (continued)

b) Why were the FEMS and BEMS not offered to Singaporean clients previously?

Response:

Our existing healthcare business in Singapore today focuses on housekeeping and portering services where we currently hold a dominant market position, serving 11 out of 15 public hospitals. While we do provide FEMS services to our existing clients, the ability to scale these solutions is predicated on the need to acquire relevant licenses (L6) under the ME-15 work head as defined by the Singapore Building and Construction Authority.

MSWG: Question # 5 (continued)

c) What is the expected cost to acquire the ME-15 license?

Response:

The investments to be made in acquiring the ME-15 license will be anchored on our investment criteria which includes reputation, track record, order book and synergies that it will bring to our current business in Singapore.

MSWG: Question # 6

As of 31 December 2020, UEM Edgenta's properties held for sale amounted to RM63.35 million of properties (page 253, Note 19 – Inventories, IAR2020).

a) What are the types of properties categorized as held for sale? What is the plan for these properties?

Response:

The properties categorised as held for sale are unsold properties that are owned by our subsidiary, Faber Development Holdings Sdn Bhd, which consist of about 120 mixed residential units. We aim to continue monetising the remaining units of the unsold properties through our various available sales channels.

MSWG: Question # 6 (continued)

b) What was the reason for the RM50 million write-down of properties held for sale in FY2020?

Response:

Impairment assessment is an ongoing exercise in accordance to the accounting standards. We assess the value of unsold properties based on the guidance of MFRS 102 Inventories.

As part of the management's decision in accordance to best practice, a provision was made in view of the slow-down in Malaysia's property market amid the pandemic. In addition, this is also in-line with our streamlining efforts to shed off non-core businesses while prioritising resources on growing key businesses such as healthcare and infrastructure.



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Questions from Shareholders

Question 1

There is no dividend payout in FY2020 due to low PATANCI. This is the 1st time in recent years that there is no dividend payout. Please enlight shareholders further on this decision as the 50m impairment on properties is a non-cash item. Had there been no impairment, shareholders could have enjoyed some dividend

Response:

Impairment of these unsold properties is a prudent measure and ongoing exercise for the Company in accordance with the accounting standards (MFRS 102), as well as an ongoing streamlining effort to shed off non-core businesses while prioritising resources in growing key businesses such as healthcare and infrastructure.

The management has made a conscious decision to write-off the properties in-line with the slow property market conditions. Although we have high level of cash, the management has elected not to declare dividend as we took a cautious stance on potential impact of COVID-19 to our business. This is to better prepare us for any potential downside risks. This year we would be able to make a better judgement in terms of the COVID-19 impact to business and plan for our dividend payout. We are still committed to our dividend policy of 50%-80% of PATANCI.

Question 2

What is the current status of these properties. How many units have been sold and what is the value?

Response:

Since the start of FY2020 up till 31st May 2021 we have sold 25 units of Chymes and 3 units of Prima Villa with a total value of RM22 million.

The remaining units for Chymes and Prima Villa are 89 units and 4 units, respectively.

Question 3

In page 41 of the report (MD/CEO statement), new revenue streams have mentioned. This includes COVID testing and sanitation/disinfection services. How much does it contribute to profit and revenue in FY2020 and moving forward? Could the company comment on the report of being shortlisted for COVID testing services in airports

Response:

UEM Edgenta's new revenue streams for COVID-19 business solutions generated c.RM30 million in revenue for FY2020. These services included RTK-PCR Testing, Sanitization and Disinfection services and Supplementary services to the government.

For FY2021, we will look to expand on our existing solutions in Healthcare and COVID-19 Business Solutions into services such as Digital Healthcare, COVID-19 Screening Management systems, Mobile lab testing as Infrastructure and Home Quarantine Monitoring Systems, among others. The Company will not be able to comment on COVID-19 testing services at airports as the evaluation process is still ongoing.

Question 4

The CEO joined the company in July 2020 and noted that he visited numerous locations to better understand Edgenta's operations. After almost 1 year, what are the key learnings that he obtained?

Response:

Employee engagement remains high on our agenda and even more so in difficult times. I am pleased to share my observations from my engagements over the last 11 months.

Since I joined, I have visited our Mediserve and Propel teams located in the North and South. I have had employee-wide virtual engagements when travel restrictions curtailed our movements as well as small group conversations. These engagements will continue – whether physically or virtually – as they enable us to know where we are and where we are heading collectively as a team.

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Response:

More importantly, it gives us a good sense of the challenges at hand and allows us to assess how our people are doing especially during this time, amid the pandemic. What I found to be most inspiring from these engagements was the relentless can-do attitude of our people. I am truly honoured to be able to work with a talented and dedicated team.

Being on the ground reinforced my belief that our people possess the right mindset and spirit as we rallied together to support the government's fight against the pandemic. With a good infrastructure in place and being battle-ready enabled us to be at the front lines immediately, contributing to the nation's well-being.

From an operational perspective, we are continuously meeting our service levels. We are in good shape from a delivery point of view. Although there has been a slowdown in our maintenance work on the expressways because of the pandemic, our work at the hospitals has doubled. Today, our frontliners continue to work tirelessly to strengthen the nation's line of defence against the virus.

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Response:

In addition, having the right experience and know-how to complete the supply chain for both infrastructure solutions and healthcare services is a reflection of the strength and competitiveness of our people. This helps position the Company on the right growth trajectory.

Over the years, we have developed strong long-term relationships with our clients and established ourselves as a trusted partner to the government. Leveraging on our international presence - currently across six countries - is our key to building further inroads as part of our growth strategy.

Our core values represent the fabric of the culture we intend to build within the Company. We will continue to embed these values in all our engagements. We believe that when our core values are rooted and aligned with our employees, it achieves a common understanding and shared sense of purpose that drives the organisation forward in achieving its mission.

Question 5

Would the board be considering to provide a small token to shareholders in view of there is no dividend in FY2020 to thank their support and trust in UEM Edgenta?

Response:

UEM Edgenta has issued the Administrative Notes on 27 April 2021. We regret to inform that there will be no distribution of door gifts or vouchers for the 58th Annual General Meeting (“AGM”).

Since 2018, the Company has discontinued the distribution of door gifts at AGM.

We believe that our shareholders should be rewarded meaningfully and equally. Although UEM Edgenta did not declare any dividends for FY2020 in view of the current economic condition, it is the Company’s priority to channel all available funds to be able to declare and reward shareholders in terms of dividends.



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Thank You

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