



Date: May 4, 2020
Vietnam Fortress Tools JSC

2020 Outlook

Thai Binh, Vietnam – The management of FTV hopes this letter finds you and your family are doing well. We will give an outlook for 2020 in regards to the impact of the coronavirus, business opportunities, challenges and solutions, expected sales, and our listing status.

I. Coronavirus

Overall situation: In regards to the coronavirus, we are fortunate that there have been no cases in Thai Binh as the government had implemented the social distancing policy from April 1 to April 15. Provinces north of Thai Binh – Hanoi, Bac Ninh, and Vinh Phuc were affected, but they are two to three hours away from Thai Binh.

Our employees: 99% of our Vietnamese employees returned to work after Tet. We had one employee who while was not sick, was still quarantined. Everyone else is in good health. As of today, all foreign employees have followed quarantine policy and returned except for 3 Chinese nationals. Out of the 3, one will leave on April 30 and the other 2 will return next month.

Our supply chain: In terms of our supply chain, the interruptions in China has had minor impact on our production, as our raw materials mainly come from Taiwan. Less than \$500k of orders out of \$10mn open orders in Q1 and Q2 will be delayed due to the lack of raw material from China.

Our production: Thanks to our strong Vietnamese management, production was not interrupted during the absence of our foreign employees. We will continue to take extra precautions to ensure everyone's safety.

Our customer: Most of our products - garden tools - are sold to hardware and mass retailers, which are considered essential businesses (not forced to close) in our main markets (US and Europe). As most people have been staying home, they tend to spend more time gardening. Our main customers such as Walmart, Aldi, and Lidl have benefited from this trend during the lockdown. Our products are sold in February to early April at Aldi and Lidl and have had very high sell through. In regards to Aldi and Lidl, we have received repeat orders for this year. While the amount is 15% less compared to 2019, this is still a positive sign compared to other retailers that have cancelled most repeat orders. Depending on the situation, repeat order quantities could return to normal levels. In conclusion, we have avoided the disruptions by the coronavirus.

II. Opportunities

Tariffs: More US buyers continue to switch their supply chain from China to Vietnam as the US-China tariffs show no sign of easing. The same goes for European buyers as the EU-Vietnam FTA is effective starting June 1.

Competition: Our main competitor has major issues as they committed patent infringement on one of Gardena's (leading garden tools brand in Germany) products. This has jeopardized their relationship with Lidl (Germany) and Lidl Hong Kong. The product in question is worth about \$4mn FOB.

III. Challenges

Cash Flow: In response to the virus, banks have tightened access to credit for small and medium businesses. Our banks have postponed approval of new loans and canceled disbursement of all new loans that were approved since February. The banks are not targeting us in particular but are doing so as part of their strategy to reduce overall exposure. For loans, everything is effectively on hold. Similarly, credit lines have been reduced or canceled and so far, we have lost around \$10mn of credit lines for working capital. Additionally, we have had our AR factoring credit limits reduced, effectively losing about \$2mn. Due to this, we had to suspend working with select US customers to minimize our risks as we do not have sufficient AR credit lines. For our other customers, some have paid late and some have asked to extend shipping dates by 1 month. As a result, cash flow will tighten in May and June.

Solutions: We will seek government relief including delaying corporate tax and social insurance payments. In terms of our banks, we have requested to extend the repayment of loans, we expect the suspended loan process to resume in May and that the disbursement of new loans will begin by June. We will apply to reactivate our reduced credit lines in May. We are also working with a private lender for accounts receivable factoring to help improve our cash conversion cycle. Finally, we will focus on customers with favorable payment terms such as letter of credit or cash deposit.

Competition: Chinese manufacturers are in survival mode due to the US-China tariffs, compounded by the coronavirus interruptions. As such, they are willing to take orders at a loss in order to keep financing and their people at work. While this might make it more difficult to get new customers in the short term, this is not sustainable in the long run. Our customers realize this and we are not at risk of losing orders to competitors in China.

IV. Sales

2019 fiscal year revenue was \$35mn with net profit of \$4mn.

2020 Q1: January was strong, February was weak due to our factory closing for 2 weeks during Tet, March was normal but around \$2mn of orders was postponed to Q2 per customer requests.

Q2: April is normal and we expect stronger performance in May and June. New orders will come in May and June for delivery in Q3 and Q4.

Q3 and Q4: We expect to outperform 2019.

As of today, we have around \$15mn in open orders. We expect more orders this year as we gain more SKUs from existing customers and pick up new customers. Overall, for 2020 we expect an increase in revenue of 15% to 20% from \$35mn to \$40mn, and net profit to increase from \$4mn to \$4.5mn.

V. Listing

The SSC and HoSE have pre-approved our listing but are waiting for the PM's office to issue the FDI listing protocol. This FDI listing protocol has been in the works and has been put on hold since late February (when the MoF submitted to the PM) as the deputy PM was promoted to the party's secretary general of Hanoi in February 7. The PM has been focusing their efforts on the coronavirus, so we expect the protocol to be issued earliest in May. After its issuance, we can apply for listing on HoSE officially. In terms of timing, the Vietnamese market is not doing well like the rest of the world, so we expect listing in July in time for the market to rebound (subject to market conditions).

About Vietnam Fortress Tools JSC.

Vietnam Fortress Tools JSC (FTV) was established in 2006 and is the world's leading manufacturer of gardening tools with over 90% of our products exported to the North American and European markets. FTV is a member of Formosa Tools Co., a Taiwanese company founded in 1974 by the Hsu family. FTV currently has two factories located in Thai Binh province (north of Vietnam).