

CORPORATE WATCH

Fu Yu Corp retools itself; eyes biomedical sector

BY DOUGLAS TOH
douglas.toh@bizedge.com

Precision plastics manufacturer Fu Yu Corporation is in the midst of a business transformation and the first fruits of its labour will begin to show next year, says CEO David Seow, who was given the task of revamping a company that a trio had co-founded before he was born.

In 2021, Ching Heng Yang, Tam Wai and Ho Nee Kit, having co-founded the company in 1978, chose to retire after selling a controlling stake of 29.8% stake for \$58.3 million to local fund management firm Pilgrim Partners Asia.

Seow describes the time he and his new management team first joined Fu Yu as "very interesting". "We were very young compared to the people that we took over and a lot of us came from very diverse backgrounds," says Seow, who was 36 years' old then and whose working experience up till then was mainly with French bank Societe-Generale in structured trading and commodity finance.

Having inherited an ageing business in what he deems a sunset industry, Seow quickly looked to identify new business segments to diversify into and gain a competitive edge. "We're not just taking over the business and running it as is, growing based on its core values. We're disrupting and doing everything a little bit differently but smartly. We're looking abroad, identifying where the business is, where our best opportunities are, where the gap in the market is that our competitors are not capturing," says Seow.

New processes, new equipment

With this direction in mind, Fu Yu, under Seow, embarked on several initiatives across different levels. First and foremost, it began to upgrade its lineup of manufacturing and moulding machines to ensure it met modern-day standards in precision and materials — a moving "back to the basics" for the business.

According to Seow, the company started as a tool shop, but in the preceding decade before Pilgrim Asia assumed control, tooling was no longer the priority. "Within the industry, we see that tooling is at the heart of moulding; if you make a great tool, your moulding is very easy because all your parts come out great, and you don't have to spend additional money and time to amend any defects."

It is costly to deploy new tooling technologies but given that Fu Yu was lagging behind some of the competition, the decision to invest in new technology was necessary. Knowing that the best equipment is of little use without engineering talent, Seow expanded the precision engineering team from just over 20 to 35, spending considerable time and effort searching and poaching engineers he unabashedly calls "best in class" in the market. "With them, we can now do scientific modelling and reverse engineering, which we couldn't do before," says the CEO.

Getting the house in order is but half the job done. Seow is focused on raising what he calls "client stickiness" as well, reaching out to customers early and helping to develop prototypes together among other things. "Instead of waiting for customers to come to us with a design in mind for metal printing, we now can approach customers and offer them help with design besides reverse engineering."

In December 2022, Fu Yu completed the construction of its smart factory in Singapore, which it claims is one of Asia's most advanced in precision manufacturing. Using a high level of automation across its different processes via the \$22 million factory, Fu Yu can now manufacture parts with a precision of down to just two to five microns, from 10 to 20 microns previously. As of September, Fu Yu can increase



Seow: Fu Yu can't be a sitting duck and wait for the market to recover

its in-house moulding from 70% to 90% y-o-y.

According to Seow, the manufacturing process is monitored "live". On top of detecting kinks, the software can help identify where hiccups might occur, alerting the preventive maintenance crew to swoop in.

Pivoting to new areas

Fu Yu's new factory is ready at the right time as its capabilities meet the precise manufacturing specifications required by potential customers of the biomedical and sciences sector, which the company is eyeing.

In February, Fu Yu Biomedical was set up to produce biomedical devices such as endoscopes, valves, syringes and in-vitro diagnostics devices in what Fu Yu says is a market worth US\$750 billion (\$999 billion). "We see a lot of biomedical companies coming to Asia and Singapore, where they are shifting their attention towards high-precision medical devices in three main areas: therapeutics, procedural and general devices," explains Seow.

Fu Yu is adding more cleanroom facilities by the end of the coming FY2024 to better serve these customers. As part of its focus on this sector, the company has also signed strategic partnerships with Japanese-based industrial rubber product manufacturer Fujikura Composites and Chinese-based smart manufacturer JLK Technologies. Seow aims to generate at least half of Fu Yu's turnover from this sector in three years, from less than 10%.

As part of the wider push by countries and companies to be more sustainable, Fu Yu is doing its part too by laying down a target to reduce its scope two emissions by 30% by 2030. The company is installing solar panels across its facilities in Singapore and Malaysia, which Seow says has helped reduce electricity consumption by 20% to 22%.

The company is also replacing its hydraulically-powered machines with electric ones to reduce oil consumption and making use of resin powder from recycled materials and sugar cane bio resin to produce disposables, consumables and packaging caps. It is also exploring ways to convert traditional polymer resins from hydrocarbons or oil to eco-friendly resins in the products that we manufacture for our customers. Additionally, Fu Yu's recently built smart factory will allow customers to track the carbon footprint of the fabrication of their products, says Seow.

Difficulties of transformation

Despite Seow's positive outlook on Fu Yu's evolution, he recognises the difficulties of inheriting an old business. In its 3QFY2023 ended September business update, Fu Yu's revenue dropped by 7.5% y-o-y to \$33.1 million, down 34% y-o-y.

No thanks to an unfavourable sales mix, Fu Yu's gross profit margin for 9MFY2023 was just 1.1%, down from 4.8% in 9MFY2022. As a result, the company bled \$5.8 million in 9MFY2023,



versus earnings of \$15.6 million in 9MFY2022.

Seow explains: "I think that the main issue has been the lack of business. From existing customers, volumes have dropped, and the company couldn't gain new customers or new projects in the last few years. The good thing is that we don't have much debt and our net cash position remains strong."

The company's share price movement has somewhat reflected the poorer results. As at Nov 29, Fu Yu shares closed at 14 cents, down 36.8% year to date. Back in Jan 2021, Pilgrim Partners paid 26 cents per share to buy over the controlling stake in Fu Yu from the three co-founders. As at Sept 30, Fu Yu's net asset value was 18.5 cents per share, which included net cash of 7.5 cents or \$56.7 million.

Still, turning around the company won't be a smooth sailing task. Even as Fu Yu eyes the biomedical segment as a new growth area, the company reported lower revenue from this segment in its 9MFY2023 update as the end of the pandemic lowered demand for certain medical products. According to Seow, Fu Yu's customers had been dialling back their demand forecasts, as they face uncertainty in their own demand. Seow anticipates a bottoming out and subsequent upward trend next year.

However, the CEO is forward-looking and untroubled. "We can't control their business decisions, but what we can control is getting the new business into these sub-segments, and that's really the focus. If we didn't have this overall revamp strategy, I would say that we are sitting ducks, waiting for the market to recover. But we've identified new customers, and with the team that we have, we have good inroads into the new phase."

Fu Yu is also looking into acquiring other businesses as part of its strategy to solidify its position as a manufacturing "one-stop shop" for its clients. For example, in 2021, it acquired Avantgarde Enterprise to form Fu Yu Supply Chain Solutions, to centralise the procurement of resins and eke out cost savings. "In future, the kind of M&A we will be looking at are those in the value chain and supply chain. Looking at the parts we manufacture, if there are things that we can house under one roof and do it ourselves, within the group, that will be key," says Seow.

Although his vision for Fu Yu's complete transformation is poised to be completed in the next three to five years, the CEO is sure that the company will already start seeing small wins in FY2024, driven by its higher revenue from its smart factory, recovery from pandemic-related stockpiling issues and higher margins in from its favoured biomedical and science segment.

Despite the company's focus on tangible strategies, Seow says that he believes open communication and a healthy culture will help achieve the goals set. "You can have a strategy, but culture eats strategy for breakfast. So at the management level, my team and I make sure to drive culture," he says. ■