Monde Nissin

Transcript of Monde Nissin Corporation
1H 2021 Earnings Call
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Participants

Michael Paska - Investor Relations Director, Monde Nissin Corporation
Henry Soesanto - Chief Executive Officer, Monde Nissin Corporation
Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
Marco Bertacca - Chief Executive Officer, Quorn Foods

Presentation

Michael Paska - Investor Relations Director, Monde Nissin Corporation
Good afternoon and welcome to Monde Nissin's First Half Earnings Call. I am Mike Paska, Director of Corporate Business Development and Investor Relations.

On today's call, are Henry Soesanto, Chief Executive Officer; Jesse Teo, Chief Financial Officer; David Nicol, Chief Strategy Officer; and Marco Bertacca, Chief Executive Officer of Quorn Foods.

By now, everyone should have access to the earnings release, today's presentation, and earnings report. All are on the PSE EDGE website posted earlier today. These documents are also available on Monde Nissin's website. And just as a reminder, before we begin, please note that the financial information presented is unaudited and during the course of the call management may make forward-looking statements based upon current expectations and assumptions.

These are not guarantees of future performance. I encourage everyone to read the legal disclaimer at the beginning of today's presentation.

Now, I'd like to turn the call over to Henry for introductory remarks. Thank you.

Henry Soesanto - Chief Executive Officer, Monde Nissin Corporation
Thank you, Mike, and good day, everyone. We appreciate you joining us on this first-ever earnings call as a public company.

It was great to have opportunity to meet many of you during the course of our IPO marketing earlier this year. So many thanks again for your support. Despite of this challenging time, we were able to proceed with Monde Nissin's IPO in June.

It was the largest ever on the Philippine Stock Exchange and could be the largest in Southeast Asia, in the space of food and beverages. Without your support, it is not possible.

The capital we raised from the IPO, will provide the resources for midterm growth as we build and scale up our business globally. This is towards the achievement of our aspiration of improving the wellbeing of people and the planet, and create sustainable solutions for food security.

We believe that we can help address the challenges in food security by continuing to innovate, as we have been doing it for decades. We have been executing ahead of our time and this sets us apart.

This year, so far, we have achieved significant progress on several long-term growth initiatives laying the foundation to provide growth in both Asia-Pacific Branded Food & Beverage and Meat Alternative businesses, which will be discussed later on this call.

Now, I would like to turn the call over to Jesse, our CFO, to review the first half financial results for our APAC BFB business. Jesse, please.

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
Thank you, Henry, and good afternoon, everyone. Welcome to our maiden earnings call. I would like to start with the consolidated financials. I hope you have it on your screen now.

And by first declaring that we are pleased with our revenue results, where we eked out 1.2% growth, a modest growth, despite the very tough trading environment and very high base of last year. For APAC BFB, we managed almost 2% growth, led by 68% growth in our international businesses.

So international business, as we define it, would be exports from our Philippine entities, and our Thailand subsidiary. In our Thailand subsidiary, this growth is underpinned by significant share growth.

We also have star categories that continue to grow strong, despite the pandemic. Culinary is a star category, having grown 13.3% in the first half of 2021. This is after a very strong almost 20% growth in 2020 versus 2019. Noodles is a particular category that we're proud of. This is the core of our business, comprising 38% of consolidated revenue and 49% of revenue in APAC BFB, after a very high base last year.

And many of you would recall that all relief goods were our products, our group of products are figured prominently in the first quarter. And in the second quarter where relief goods for the initial quarantine period, were given out, raised the base period to an all-time high. But despite that, we managed a modest growth over this very high base.

This is at the heels of our successful initiatives which we will be talking about later on. We are also pleased that we had good share growth, 150 basis points for the past 12 weeks compared to the same period a year ago, led by share growth in our most important Pancit Canton dry pouch business.

For beverage and biscuits, we managed share growth in both these categories. But we were not able to defy gravity, as this category suffered from huge category declines. The category decline is from reduced usage occasion, because of reduced mobility. We'll talk more about that later on.

For the Meat Alternative segment, we report flat revenue at the backdrop of a very difficult trading environment, both in the U.S. and in the UK. But the bright spot here is Q2 over Q1 sequentially, we grew 3%.

Going to gross profit, we have different story for each of the segment. For APAC BFB, our business is more vulnerable to soft commodity increases. Our soft commodities are wheat and palm oil. And we will talk more about what has happened there and what we have done and we'll be doing.

In Quorn, in Meat Alternative, we improved gross margin by almost 3 percentage points. This is on the heels of successful price increases both in the U.S. and in the UK. For core EBITDA and core net income, these were depressed versus last year, because of our investments in SG&A. In APAC BFB, the increased SG&A is primarily marketing, because of a very low spending base last year. Because of the quarantine period and because we were struggling to keep up with the demand, strong demand, we shut down most of the advertising and promotions last year. We are just now reinstating them. And therefore, it shows a negative comparison.

For the Meat Alternative segment, we as we have said, continue to invest in marketing and development to enable us to grow in line with exciting growth of this sector. Our core net income at ownership, some of you may be more familiar with, core net income attributable to equity holders is down slightly less. This is due to the fact that as of January 2021, we increased our stake in one of our major subsidiaries. This is Monde M.Y. Sun Corporation subsidiaries where we previously held a 60% share. And we increased our stake by 40% to be 100% in that entity, that decreased the non-controlling interest and should be a sustainable improvement in our core net income at ownership.

We have 5 months of benefit from that increased stake in Monde M.Y. San for this half. We will have a full 6 months in the latter half. This core net income at ownership is what we believe our recurring and sustainable growth levels so we will guide everyone towards this number as our sustainable and recurring profit level.

Depressing that reported net income will be non-core items, which I must emphasize has been highlighted both in our roadshows and in our prospectus. Now, just to drill down a bit, on the non-core items, let's go to the next slide.

So the key non-core item, the core non-core items is all related to the initial public offering. With the initial public offering, we redeemed the note that we had from Arran. Most of you would know that Arran is the Philippine entity of GIC. They had a convertible note and we had to book a profit and loss for accounting standards for the difference between the redeem price, which is the IPO price of Php 13.50 multiplied with the equivalent shares and the face value of the bond. We also had to accrual and interest that was due to them. And since Arran has exited with IPO and with the redemption, this should no longer be recurring.

The next item that that cost the non-core difference would be unrealized ForEx gain in the base period. This is again related to the Arran note. The Arran note is actually a U.S. dollar denominated note, the peso appreciated significantly in the first half last year in the base period. Thus, necessitating for us to book an unrealized ForEx gain. Compared to this year, this half, the peso was more stable versus the U.S. dollar, and therefore it created the Delta.

Lastly, we had IPO-related expenses of almost Php 600 million. Most of the IPO-related friction costs were booked as a reduction to APAC, but there's a significant portion of Php 600 million as we mentioned, that was booked as a P&L item. Offsetting these one-off items, losses in our P&L would be a net benefit impact from a tax standpoint, because of the losses, we'll be booking some tax benefit both on the convertible note and on the interest of redemption.

We are also booking the 2020 retroactive benefit of the CREATE law reduction in corporate income tax. We closed our books early in line with IPO and will not able to book the retroactive benefit of the CREATE law which reduced corporate income tax rates in the Philippines from 30% to 25%. Thus, the benefit was reflected in 2020 and 2021, because this is a retroactive tax adjustment, we did into classify this benefit as non-core.

This, however, was partially offset by deferred tax liability in the UK. Now, just explain to the folks, the UK announced that there will be an increase in headline tax rate from 19% to 25% tax rate. There are some items though in our balance sheet that are perpetual in nature, the key of which is the brand value, and since that is perpetual in nature, though, the tax rate decrease will be in April 2023. We had to book a deferred tax liability adjustment corresponding to the tax rate decrease in the UK.

Next slide, please. Now talking about our performance in APAC BFB. So, as I mentioned, we grew 1.7% primarily through our international businesses. The international business again grew 68.1% on a reported basis, nearly 73% on an organic basis. This is on the heels of some recovery from a soft base year period, but also our initiative to go mainstream in our export markets. We are pleased with our share gains in noodles, and we were able to gain to have a modest growth despite the very top base.

Market share in biscuits increase, but we were not able to overcome the overall softness of the category. Because of the decrease in some of our biscuits products, which represent one of the highest gross margins in our business, we also had some mixed hurt. The mix hurt together with commodity price inflation brought about a lower gross margin than a year ago. We have implemented price increases in June 2021 for noodles with some biscuits and cakes in order to partially offset some of the soft commodity price increases that we have seen. We are also using our strong supply chain cost reduction and cost containment programs to manage the herd in our P&L.

Next slide, please. This is what I mentioned earlier on how we have been able to keep growing despite a very high base. You will see in the chart that 2020 represented a step change in our noodles volume. If you look at the smoothing graph, the dark green line, you will see 2020 was a significant increase versus any historical base. And yet, in 2021, we managed to top that high growth.

We have previously mentioned during the perspectives that Philippines has one of the lower consumption per capita for noodles. With the increase in 2020, we actually caught up quite substantially versus our Asian and ASEAN peers. Fortunately for us, because of our strong initiatives, we were able to maintain that, we will talk more on the initiatives later on.

Culinary was another star category, it had a step change in volume and sales as well. You will see that posts during the pandemic and even after we continue to experience double-digit growth. We have slight dip in the first half versus the second half of last year is due to seasonality in the culinary segment. This case is where we are struggling in terms of volume. But we are happy that even during the crisis, we are strengthening our share position, and this should put as well to be able to leverage on the growth that we expect later on when the crisis over.

Next slide, please. This is just a summary of our shares. We are delighted that in 4 of the 5 key categories that we track, we have shared gains. As I mentioned, we have 150 bps improvements in noodles market share, led by 110 bps of improvement in our dry pouch. We have 80 basis points improvement in our biscuit market share led by 50 basis points improvement in our cracker segment, where our most important brand SkyFlakes and Fita player.

We are delighted with the progress of culinary brands. It is not only with the growing market, but we are gaining ground versus competition with over 500 basis points share increase. And yogurt despite the difficult trends in the market, we have reached 80% share.

Next slide, please. We alluded to talking about the key commodity costs that affected our results. As you can see prior to 2021, wheat and palm oil were in a general declining trend. Starting in 2021 – mid 2020 towards 2021, we saw an unprecedented rise in soft commodity costs, particularly wheat and palm oil. These data's are based on Bloomberg and Bursa Malaysia for palm oil, you will see that palm oil increase by up to 70% and wheat by 24%.

You will see that the uptrend, the prices generally are increasing through the months. Hence, our profitability in the cost up-charge due to this commodity is more pronounced in the second quarter versus the first quarter. The good news is despite the general trend on increasing prices for these commodities. There were dips along the way and we were able to lock in during those dips. So we are fully covered for our wheat and our palm oil prices that are much lower than the current trends.

Moreover, with the recent depreciation of the peso relative to the U.S. dollar, we believe we have sufficient protection. As we have engaged we have embarked on a program to stockpile U.S. dollars and we now have enough U.S. dollars to cover almost 90% of our USD/Php short exposure.

Next slide please. Now, to discuss the exciting new initiatives that we had. I mentioned earlier that we had share gains, particularly in the dry pouch segment. We are happy to report that we have now launched a bigger pack for our Pancit Canton. This is called the Kasalo Pack. And this addresses a key sizing and pricing portfolio gap.

With this, we will now be able to gain back share from competitors who were trading alone in this sizing and pricing. We were also – we also responded to our consumers' clamor, bring back the thinner noodles. Through active social listening, we learn about what our loyal consumer fanbase have been yearning for and we have reintroduced, re-innovated our entire Pancit Canton line to the thinner noodles, which address the needs and requests of our loyal consumer base.

In Thailand, we have introduced a low-sodium noodle, which is very much aligned to our aspiration for healthier products. In cups, we have renovated our popular Bulalo and La Paz Batchoy variants, and have also introduced them in new packaging. We have introduced new products for bread, cakes and biscuits as well.

Next slide please. Just a quick update on our growth drivers. For the ongoing capacity expansion, we are on track for our highspeed airflow lines. We already have 1 fully working, producing actual products that we sell in the market. We will have more noodle lines on stream by the second half of this year.

There will be one noodle line up by Q3 and another noodle line in Q4 in our new Malvar site. We also talked about leveraging momentum in our international. So far, so good. We plan to accelerate the growth further by bringing in a high-speed airflow line in Thailand in early 2022.

We have also active discussion to leverage the high-speed airflow technology and expand our noodles in various other countries, including Middle East, Australia and other countries in Asia.

Next slide. With this, I turn it over to Marco, who will be talking about the Meat Alternative performance in the first half.

Marco Bertacca - Chief Executive Officer, Quorn Foods

Thank you very much, Jesse, and good day, good afternoon to everyone. Good evening to everyone around the call.

Well, I had the opportunity to see you or to kind of virtually see you, all of you just a couple of months ago. And I think before I start to go through the slides, I just want to take a little bit of a step back and share with you in a couple of minutes what is my executive summary of what happened in the last 2 months, I would say.

So maybe let's start from what I said to you, just 2 months ago. I said, look, we are in the middle of a company transformation that I would now add is also happening right in the middle of a big transforming market environment. Okay, so, there's always something happening every day and every week in the current environment. And what I said at that time was that we have some important steps to take, fixing the supply chain, stabilizing our capacity and building for that, focusing on the UK, QSR and the U.S.

And, in particular, putting more focus on customer recovery, relationship with the customers in particular in the UK, re-increase our distribution, focus on the NPD and rejuvenate our brand. And I'm trying to give you a bit of an update on this today, also what we're doing now and what we're doing towards the future.

Now, what I also did, I closed, when everybody was asking, "Okay, Marco, how are you going to close the first half?" Yeah, I said, "Look, guys, I expect us to be flat during the first half." And now, if I can start to refer to the slide, so let me call it out. I think Slide number 14, because I cannot see it just in front of me. You can see from the slide that this is broadly in line with where we landed.

So we were seeing that, overall, our first half would be very, very linked to what has happened in the first half of 2020. So our progression there is really influenced by the stockpile that happened during the start of the pandemic. So we are flat overall in sales. I can give you a bit of color on that, in terms of the, the UK has been a bit of a tough environment, in particular going into the summer.

We had a challenging start of the year, which I shared with you at that time. When we went into the summer, we saw a bit of an exit from the retail people wanted to go outside. They started to enter the out-of-home market. You know that a good part of our UK portfolio is in frozen, is in ingredients.

So people started to go out, wanted to drink more, cook less. And we've seen a kind of a tougher trading environment, in particular, in the second part of the first half of the year.

When I refer also to the food service on the other side, so that is a little bit retail, you could also see the similar pattern in the U.S. retail, which is mainly where I know the vast majority of our market is in retail. Exiting from the pandemic is really cool as people wanted to go out and we've seen a clearly a decline in the retail. You've also heard from other company news around us.

Now, we've seen on the other hand that we've seen a growth in food service and QSR, seen about 14% growth, but this could not be compensated, could not fully, let's say, drive the total company into growing the first half, because of the challenges in the retail.

And I told you about the effect of the stock-buying of the pandemic. And this move to the out-of-home, some of that to key factors. Now, despite that, one of the things that we also said a couple of months ago is we want to have a very solid business. We want to have a business where our margins are strong. So you've seen an increase of the gross profit and the gross margins throughout the first half.

This is very important for us, because that one of our intention of what we are doing, what I'm going to share in the next few slides is also that we want to continue to invest. And in fact, you have seen, you will see later that we have invested more in A&P and R&D.

If I go to the next Slide number 15, I just want to give you a bit of a macro picture of the environment around us, in particular. So you can see here, it's focused on the UK, you see a little bit the trend of the total grocery and a focus on chilled and frozen. So you can see that, let's say, the past 2 weeks – sorry, the past 12 weeks, I've seen a clear reduction on the retail channel.

And you can see that, while chilled is doing a little bit better than frozen, we are predominantly in frozen. And that has been driving a bit of a challenging situation around the summer. If you can turn to the next Slide number 16, please.

Here, I want to tackle or at least start to tackle the question on our market share. Now, you know that when I talk about the company transformation, I always said already in the last few conversations that we had that we were leaving behind us in 2020 and even before some challenging decision that we have taken to leave some of the product groups that we were in, because they were not – it was not possible for us to sustain them through supply chain.

So we had to leave some of the segments. And at the same time, some of the challenging customer environment that – customer relationship that we had, that they drove an element of loss of distribution. This is what we are working during our transformation, so you can still see in the first half of this year some of the consequences of that.

So you can see that we have, while we are recovering some of the distribution, you can see on the on the right part of the slide, in particular, good news around Tesco. We have really increased 34,000 points of distribution in Tesco. It is part of the transformation that we will do. And I think you would see in the next few quarters that this will start to pay off.

So we are acting on our, let's say, key issue of physical availability through distribution. As I said, Tesco is really important, is one of the number one action that we're taking. We're also working on what I call the mental availability. So in order to be able to accelerate our growth, and therefore, as a result that also improved our share. We are also rejuvenating our market company. You see what has happened here in the first half of the year, we have clearly increased our effort in marketing. So that's why you're seeing flat sales, improved gross profit, but we are started to really increase the spending in marketing and R&D.

So here we have launched a new campaign, we just recently had some assessment of the campaign. The campaign was a good campaign, it has been recognized that as you can see here from a number of external parties as a very first important step. What I also want to share with you, we need to do better is, what we did in the first half in terms of increased awareness hasn't yet follow through with increase that, says, an additional penetration, a little bit because we are starting now to invest a little bit of time on that.

But also, because some of the things that we could have done better, for example, ensuring that what we spend in the top line is then follow through on a 360 campaign, in terms of promotional activities, in terms of in-shop and in-store activity. And during the period of the pandemic, this has been particularly difficult. So you will see us doing get much more of that continuing in our transformation on the mental availability through our brands. But we will follow through all of that in, let's say, throughout our campaign, from not just on the top-line – in above-the-line, but also throughout the rest of the in-store and the rest of the retailers.

One thing that I would like to add also on the U.S., it's important that we also start to talk a little bit about the kind of consumer behavior, you will see, that's why I'm talking about a market that is continually transforming. The consumers are, they're really keen and I know many of you are the same. They're really keen in leaving the pandemic behind. And this is driving some I would call it change in some of the behavior and some of the consumption patterns. For example, as soon as people can go out, there's a lot of focus on treating themselves on drinking.

But also a little bit of reduced focus on health, so that the attention is very much on reconnecting with the people and less looking after yourself. So that is something that we really believe is a temporary. And that's why for the remaining part of the year and for the beginning of next year. We really believe that the focus on health, the focus on looking after yourself in the planet, will come back very, very strong.

So I'd like to move to Page #17 now. I was referring to the list of the actions that we've taken in terms of increasing our spending and maybe just a couple of points here. The first one is that we have increased our spending. Our spending was, the previous year around 7% A&P. We've now increased it to 14%. And the same as happen with a very strong increase in the R&D spend. So we had about 2.4% of our revenue and now we are 3.2% this year. We're planning to go even further. But this is, what this slide is trying to say we are really in the action that we have highlighted, which is capacity availability, distribution regain, relationship with the customer and NPD. This is really about the combination of NPD and customer relationship.

So we have launched a number of new products, you can see that that we have the top 3 products in the market in the UK in retail, that's very important for us and you can see orange around the chart. And at the same time we have be recognized by KFC as the winner in NPD as a supplier of the year for them. And that is really an important step of recognition of all the actions that were put in place that I really believe will take us through even strengthen our relevance for the future both with the retail and also with a to QSR space.

Next, Slide 18, please. So we have identified a number of growth drivers and I just want to spend a little bit of time on the capacity expansion, you already seen some of the new product development that we are putting on the market, I have to say we are really doing a very strong progress on the frozen area, we have some new launches in chilled. This is an area where we have to continue to focus simply, because we've seen a number of new entrants in the market that were capitalizing on the fact that we were not on the shelf, then you're interesting to be on chilled. And chilled tends to be in particular during some of the category where people go to that is also why you've seen some reflection in the market share.

On the capacity, one important thing that I want to highlight, I told you, we were planning to commission a new fermenter. This started about 4 weeks ago and we are extremely happy and proud to say that everything is working according to plan. The fermenter is up and running is giving very, very good yields. And when it will be completely up to production with all the needed equipment also further down the line, which will happen, that was the beginning of next year. We will really be able to double the total capacity that we have in Quorn, so very, very good progress on that and excellent progress also in the NPD.

If we move to Slide #19, just a couple of references to the U.S., I told you that we were working on this. Judd is our new CEO for the U.S. business, and we have opened up, despite that the pandemic challenges that as well, the new innovation center. We had the team coming there, we have new customers coming there. What is very important, so we are working on some exciting news that our focus for the U.S. is an increased awareness and we expect to be able to share some exciting news very soon.

If we go to Page 20, I just want to reference to the progress on the food service channel. That our food service channel, I told you we have about 14% but from a smaller base compared to retail. So what is going to happen is that what you see the progress we really building on KFC, you will hear more about this, I'll tell you more in the next slide, big recognition, big working together and expansion abroad and oversee, and we also building on further new product expansion in the QSR customer that we have in particular in the UK with Greggs.

Next slide, I'm trying to summarize here, the progress in food service. What do you need to see, of course, that the out of home and the food service channel, The QSR channel is reopening. But this is reopening progressively, and is very hesitating. So you can see still around the world, some countries that are opening that are closing down. And so there's a bit of a slow speed on that. But despite that, this slide is showing you how we are moving internationally with some of our QSR partners. KFC is clearly one of them. And you can see that the level of development is in different stages of evolution. So we have some pretrial. So what we call a product approval. And some of our products have been approve that, and not just regionally or globally. And that's a very, very important step.

Then, we move to pretrial activities, then trials in the countries, then launcher and an expansion. So I intend to continue to keep you updated on this progress, and I also looking forward to do some further announcement in the next few weeks about our partnerships in the QSR. So this is a little bit to where we are on Quorn, if I step back and look at what we've done, I knew that the first half of this year would be flat, I told you if not where we want to be for the future.

The good news is that we have strengthened our margin, we started to invest in the market, we're still suffering from the measurement of market share decline, coming from the decision that we've taken, and the relationship that we have with the customers. We really start to build that and start to be recognized for the customer relationships. And I would continue to mention, Tesco at the spearhead of that as we're being recognized by them as the category captain.

So our Tesco relationship is improving day by day. And that's why our distribution gains are improving day by day, and more to come to the second part of the year. This is driving guys in further distribution. We are putting more NPD products out there of excellent quality not to be forgotten, taste is at the center of everything we're doing. We are driving market awareness in the U.S., and more to come and more to be announced soon.

And therefore, we believe that despite a challenging environment during our summer period ahead of us in the third, and in particular, in the fourth quarter of this year, we believe that we will come back with much stronger growth performance in the Meat Alternative business. Much more work to be done. But again, in the middle of a transformation, and over to Jesse for the summary of the financials.

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Thank you, Marco. Now, I will be going through the guidance and outlook. So, first, on CapEx on Slide 23. We are reiterating our CapEx guidance that we continue to have the same plan for CapEx expansion, of spending Php 26.5 billion over 3 years, that's Php 8 billion in 2021, Php 9 billion in 2022, and Php 10 billion in 2023.

The allocation is still the same with close to 60% of the CapEx allocated to Meat Alternative business, and the 40% the APAC BFB business. So far, in the first half, we've spent Php 2.6 billion, that's 32%. Obviously, we were waiting for the IPO to happen before we really turn on the spending.

Next slide, on guidance, just for taking into context, as we put our guidance, we want to emphasize that our key emphasis is on long-term consumer loyalty and fair treatment. We realized it's a tough year and tough environment. But we want to grow responsibly, and be fair with the consumers who have allowed us to grow to where we are.

With this in mind, our expectation is that we will grow mid-single-digits for the year in APAC BFB. We should benefit from the June 2021 and August 2021 price increases that we have already took. We should also be able to leverage on our strength in share positions and the successful noodle initiatives that we have launched.

In Meat Alternative, we expect a better second half. Already food service is up double digits. We hope that this will be stronger with recoveries in the UK. And the new product winners that Marco articulated earlier will be supported with campaigns and promotions in order to drive us to low-double-digit to mid-teens type of growth in the second half for Meat Alternative business.

Obviously, there is a big disclaimer or caveat that this depends on what happens with COVID. All of us, I think are hoping that we get out of this crisis sooner rather than later. We will see what happens. But we hope to be able to have a much improved trading environment by the end of the year.

On bottom line, gains in top-line will be achieved with margin dilution in 2020. I already mentioned the high commodity costs earlier. Though we have good programs to contain and stop the bleeding, we will not be able to fully offset all the increases with our price increases. This is in line with earlier statement I made.

We will plan to also put an offset through our continuous cost savings and cost containment, which we have delivered over the years, which we think we will continue to deliver. Okay. We have a strong FX hedging program. We have created a natural hedge against the U.S. dollar, which is our key short position. And so, this effect should not put a major damper into our bottom line.

I think that ends our prepared remarks. I'll turn it over now to Mike for Q&A.

Michael Paska - Investor Relations Director, Monde Nissin Corporation

Thank you, Jesse. Everyone can submit questions for Q&A in the chat-box. We actually have quite a few in the queue already.

Q: And, Jesse, I'll start off with you. The first question is, "If you could elaborate on one-offs, and specifically, how much was the one-off loss due to Arran?"

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Okay, so the Arran convertible note loss actually is bifurcated into 2 accounts. If you look at our financial statements, there will be an account called loss on redemption of convertible notes. That's Php 1.6 billion and a derivative loss of Php 2.5 billion – sorry, let me repeat that. Php 1.6 billion for loss on redemption of convertible notes, and Php 2.3 billion for derivative loss. So it's bifurcated in 2 accounts. The total of that is Php 3.8 billion.

But as I mentioned earlier, there are other things associated with Arran note. We have that interest that we had accrued, which is worth Php 588 million, close to Php 600 million, and the foreign exchange gain, a typical again to that note, in the base period in 2020, which is worth Php 325 million. So those are the big ticket items that we classified as non-core.

Q: Thank you, Jesse. The next question is regarding Quorn. It's a multipart question. Marco, I'll start with the first part. Could you please help us understand the drivers of Quorn's market share trends in the U.S. and the UK, and the market share outlook going forward?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Thanks. Thanks, Mike. So I've already highlighted a couple of elements. And I just want to, to some extent re-underline some of those in the UK in particular. We know that we have, I continue to refer to our transformation in place, we know that we've actually done a number of product groups.

That space on the shelf has been taken by some of our – of the new brands that came in. We've lost an element of distribution and an element of relationship to customer there. I now also want to focus a little bit on some of the recent actions and results.

One thing that I would like to mention, for example, I told you that we are regaining confidence through the customer, then regaining distribution points. One initial result of that is, for example, that our frozen market share has improved from quarter 1 to quarter 2. Quarter 1 was 33.9 and quarter 2 was 34.2. So we expect to be in market share growth going forward in frozen. You know that we are very reliant on frozen.

And you also know that we have more to be done on the chilled area, where a big part of our investment and our focus is, not just in the short-term, but also in the long-term, because we see that chilled is one of the sizable growth areas for the future. In the U.S., I also want to mention something that, it's not exactly easy to understand from our perspective. But that we have done price increase last year with effect this year, in both the UK and the U.S.

In hindsight, it was exactly the right thing to do at the right time, because it's strengthening the solidity of our business going forward in particular, given the current commodity pressure that also Jesse has highlighted. But, of course, for some of the customer, this has created a bit of tension, because they decided not to pass our cost increases through.

And that has driven, for example in the U.S., an initial reduction of the distribution towards the beginning of the year. That's why there's a little bit of a loss of market share. One of the big things that we are planning to do, I didn't spend a lot of time on that, I told you about the increased awareness. But in particular, starting in the second half of the year, we have a number of new products that are going in the U.S. market.

We have a number of new listings that are going in. And this will give us an increased distribution in retail, as well as in food service, because of some of these products are food service driven. And that on top of with our awareness, increased awareness, increased brand awareness and investment in awareness, we believe that we will be able to, let's say, to turn this market share trend.

So in summary also on the way forward, frozen will go back to growth of market share. Chilled, I believe will slow down our declining market share. And in the U.S., we will come back to growth as soon as we're able to combine this new product physical availability with increased awareness.

Q: Thank you, Marco. The second part of this question is, have you managed to resolve any of the fermenter yield issues and given recent price hikes? How do you think about the timeline when Quorn can reach price parity versus conventional meat?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Yeah. So by large, we have almost 100% resolved our yield issues on the existing fermenters. The new fermenters are coming on stream perfectly, as I mentioned. So really our capacity issue, there's a big tick behind it, that's important on the cost price. Look, you can look around that, you're doing this comparison yourself, right? So we are one of the few companies out there that is able to produce a mycoprotein at scale. And that is able to have a price point that is affordable to everyone out there, while producing bottom line and very, very good healthy margin.

So our cost structure is the right cost structure, winning cost structure for the future. Everything as it is, actually trying to grow or trying to, you will see where the – it's up to you to check the amount of losses that are currently piling up. So we don't have any problems there. And we believe that progressively, we will be able to approach the costs that are needed to actually drive this category. I think, I told you in the past, when we talk to a customer like KFC, we are between 15% to 20% more expensive than meat. But that is because it's a category that is just in the growth.

So they don't have a problem of cost or price, it's more about they're looking for partners that can provide capacity, they are reliable, and they can have a critical mass to give them a support around the world. And that's why they're working with Quorn on there.

Q: Okay. And then the final part of this question is, if you could talk a bit about the new competitors in the mycoprotein space, and whether they are a threat?

Marco Bertacca - Chief Executive Officer, Quorn Foods
Yeah, look, I have a very, very clear opinion. And we talk about Nature Fynd in the U.S., we talk about Macarena, we talk about the Boonda. The fact that they are investing, they are collecting so much money, and intention to follow us in the area of mycoprotein. It's just a wonderful certification that we are in the right business with the right technology. And we are ahead of them in a number of years. Now will they catch up, of course, they will continue to invest and we count on the fact that they will drive forward. They are very, very exploring scale, while we're much further than that.

We have decided to, I actually was out there kind of grandfathering the overall idea of mycoprotein in the world. I believe that we can really team up to do things together for the future. So I would never call about being worried, I would always call about teaming up before to ensure that mycoprotein is becoming the key protein for its success story. And by being close to them, we also see what they're doing better than us, what they're not doing as good as we are doing. So it's always good to keep your competitors very close and that's where we are. So I actually see it as a confirmation that we are on the right path on the technology in particular.

Q: Thank you. New question, and this is also regarding Quorn. Are there any new food service customers, Quorn has secured in the UK and U.S. year-to-date and any progress in food service chain types especially in the U.S.?

Marco Bertacca - Chief Executive Officer, Quorn Foods
Yeah. So, I think, you heard me saying that we have a growth of about 14% in food service, QSR, but from a small base. The big news is our expansion partnership with KFC. We are really moving into from the UK to other regions and countries. As I said, we'll share more as soon as we finalize that some of the projects there. We're working with other global customers. But as I was telling you before, the QSR and the food service through the reopening there, currently very, they are in testing mode, so while we are working with a number of them both in the UK and globally, and in the U.S. I would not like to give you names that simply because that we are testing the products with them, et cetera. So no yet any big additional news compared to what I've already given.

Q: Okay. Thank you. Also another question on Quorn, and this is – do we have any survey or study on how consumers rank the tastes of Quorn in the U.S. market? Given that the taste is the number one driver for higher adoption?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Yeah, it's a very good question. So we have some consumer – very, very clear consumer evidence that we're running as we speak some studies. In the space of chicken, our chicken nuggets are considered the best out there in the market, not in the eyes of ours, but in the eyes of consumer. We can circulate some of the study that represented that in blind tasting over there. There's a lot of new products that are coming on the market, that is why this category is so hot.

But from the chicken perspective, and that's why also when we look at the total category market share is one thing, but we play in a very specific path. So maybe for the future, we will also highlight apart from the total market share, so the market share of the key categories that are considered for our future growth. We really score in terms of pure taste perspective, extremely high, if not the best of the consumer preference.

Q: One more question, Marco, and this is Meat Alternative outlook. The outlook on A&P spending, almost all the other leading alternative meat players are not making money, because they invest a lot of money in A&P and R&D in order to drive top-line growth, the growth of Quorn has been slow since 2019. Is it really possible for Quorn to deliver high growth without hurting the margin?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Yeah, look, this is a very, very important question, which I think is also comparing our model compared to the models out there. What we have said very clearly is our number one priority now is going to go after growth. And in doing so, we will not – we will over invest in the areas like A&P, like awareness, like R&D in particular in the U.S. This is where you will see us certainly sacrificing the margin in order to accelerate the growth, because it's a market share gain in particular in the U.S.

While we are in other markets like the UK, for example, it is very important that we continue to keep, in particular, given what is happening around us, the market of commodity, the fact that everyone is really finding attention in their P&Ls, as we speak, finding a solid P&L, we continue to increase from a solid base. So we will not go into right figures overall as a business. That is not our intention. We want to be a good business, a sustainable business for the future.

But we will clearly dial-up for growth, and I said, growth is our number one priority everywhere. So that's why I believe you will see growth coming from us in the second half of the year without necessarily jeopardizing, therefore, our food profitability, but certainly over investing in some specific areas, U.S. and QSR, in particular.

Q: Okay. Next question is for Jesse. And this is regarding a little bit more color on price increases that were undertaken in June of this year?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Yeah. So, in June, actually we had 2 rounds of price increases already. In June with the price increases in noodles and some of our biscuits in sweet biscuits and in cakes, and average price increase would be 3%. In August, we've already implemented and announced price increase for our M.Y. San Biscuit businesses. So that's overall these price increases will, I mean, help about 3% to the gross margins for the second half compared with the first half.

Q: Okay. Jesse, question number 7, Can you expound on the EBIT margin erosion of branded food and beverage from 20%-plus to 17% in the second quarter? What were the drivers apart from higher A&P? On your margin compression guidance, can you share the quantum of the erosion for full year? Or can we expect branded food and beverage gross profit margin 17% in the second quarter to be sustained?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
In 2Q 2021, as you saw, the chart of the key commodities, actually it is on a rising trend. So you naturally expect that the costs, the input costs in Q2 to be higher than Q1, that lead to – that's actually the major. And the price increases that we just undertook in June, in August, okay, we're not yet there. So that's the major, I guess, of the margin.

From that point on, we have taken pricing, and we should have some recovery. Of course, we have stopped the bleeding. So we have capped it. It's still higher than a year ago. But we have stopped the bleeding with locked-in prices. So if the commodity trends go further up, at least we're protected for that.

So as to what is outlook, obviously with the pricing, we should have better gross margin in the second half compared especially with Q2 and better gross margins, especially versus first half. We will have a bit more, I think, a bit of upcharge in SG&A, particularly marketing spend. Last year, as I mentioned earlier, was a low A&P spend year, because of the fact that we were – our demand exceeded our supply.

Q: For the next question, "How much will be the tax adjustment from the CREATE bill? Are these all booked in first-half 2021?"

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
Yes. So the benefit, the retroactive benefit from 2020 that we booked in the first half of 2021 was Php 250 million.

Q: For the next question, "In meat alternative business, how much more distribution points can you expand within the Tesco network? How much did Tesco contribute to Quorn revenues?"

Marco Bertacca - Chief Executive Officer, Quorn Foods
So Tesco is our biggest customer, is about 20% of our total business. That is why I very often talk about it. That is why what happened in the last couple of years has a big impact. You may remember, when we did the price increase in 2019, 2020, the loss of distribution in Tesco was what gave us the biggest consequences, even if it was the right strategic decision forward to reset our business.

So we have – and in fact, Tesco was a drag on the first part of this year, was in a decline, simply because we were comparing with a lower distribution in the first half compared to the previous year. One thing that I can tell you is that in the second quarter of the year, we already regained 14% of the total Tesco distribution, more to come in the second half.

So that's why for us it's a big swing in terms of our recovery of overall distribution. By the way, the 14% is also the total number of increased distribution, plus 14%, with all the other retailers as well. So we are now – capacity is available. The products are out there and we are regaining the distribution. That's why we expect to see growth going forward.

Q: And next question is actually a mixture of questions relating to APAC BFB and Meat Alternative. "So it seems like EBITDA margins should continue to be at this level, short-term to medium-term. Given higher A&P investment, how long will it stay at this level? And then, for the Meat Alternative, what percentage is off-site versus QSR, and onsite sale?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
Is this, Sarah, is this for Meat Alternative?

Q: This is for – I think the first one is for meat, yes, I think for Meat Alternative. And then, I think the first question is, that is both on Meat Alternative and APAC BFB.

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
Yeah.

Marco Bertacca - Chief Executive Officer, Quorn Foods
Let's say, the one that I understood was a little bit split from, I guess, retail and out of home. Our total business is 92% retail and 8% in out-of-home and QSR. And as I said earlier that we are growing QSR and food service year-to-date now 14%.

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
And I think on the margin, so one we guided, EBITDA margin, what we have guided towards is that we will maintain the absolute amount of EBITDA. But we are aspiring torwards high growth in top-line. Just from the mathematics of it, that would mean a diluted margin, but keeping the absolute amount of EBITDA. That continues to be the plan. And that lower margin is consistent with what Marco was saying that we need to invest growth for SG&A in order to develop more products and promote and advertise as well.

Q: Okay, for the next question, "With the debt paid down, can you talk about the source of funding for CapEx and target leverage ratio?"

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
Yeah, so with the funding, so thank you for that. So we have a very healthy cash flow. So we have close to Php 8 billion of operating cash flow in a year. Our CapEx plan is Php 7 billion, Php 8 billion, Php 9 billion, Php 10 billion. So substantially, our operating cash flow, even if it does

not grow, can cover most of the CapEx. And on top of that, we have outstanding credit lines of about Php 27 billion from our 4 key banks, just on our 4 key banks alone.

So we think we have sufficient funding for the Php 26.5 billion CapEx plan that we have. On leverage, I said for now, since we have excess cash, we don't want to unnecessarily borrow. But later on, when our plans exceed our expectation and we need to invest in more CapEx, we would look to improving our ROE by borrowing. I think we are comfortable of debt level of up to 30% of our equity market cap.

Q: Okay, another question for Jesse. "Any one-offs in second half to be expected? Impact on balance sheet, given CapEx going to be partly financed outside IPO proceeds, according to latest disclosure?"

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
So we are not expecting any major one-off items in the second half at this point. What was the second question again, Sarah, could you repeat that?

Q: "Impact on balance sheet, given CapEx going to be partly financed outside IPO proceeds, so any impact on the balance sheet?"

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
Well, we will have, obviously, in our fixed assets, the PPE account will grow with all the CapEx investments that we are making. So that would be, so it will be funded, as I said, by primarily by operating cash.

Q: Okay. Next question for Jesse again. "Can you elaborate on the unfavorable mix change in noodles? And could this structural due to the lower income?"

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
Oh, actually, let me refine my comments there. Actually, noodles have a favorable mix within it. The business that grew strongly, that grew share, the 110 basis points is the dry pouch Pancit Canton business. This has a higher gross margin and a higher price per piece, price per pack, than let's say, our instant noodle business. But the mix hurt is actually in some of our biscuit business. Biscuits, although we have gained share, 80 basis points of share increase, the category has declined double-digits.

So with that some of our more profitable biscuit SKUs have gone down together with the market. And these SKUs, which are much more profitable than noodles caused the mix hurt.

Q: There is some other question on APAC BFB relating to the international business. "Is the growth in the international BFB sustainable or is it due to some base effects?"

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

I think in Thailand, as I said, the growth is underpinned by share growth. So, this gives us confidence that this can be sustained, because we are winning more consumers over to our franchise, to our brands, right?

For international exports, well there is part of it is a low base for the first half of last year. We are embarking on a mainstream program, so not just selling to the Filipino stores, in the Asian stores, in our export markets, but to the local consumers in those export markets. So with that, we should be able to sustain or end up with a strong double-digit growth for international business. Right now, the international business is 7%. But on absolute terms from a growth standpoint, it made up majority of the growth in the first half. So it's indeed exciting progress, and we look forward for more strength from this sub-segment of our APAC BFB business.

Q: Jesse, I am back. Next question is on Asia BFB mid-single-digit top-line growth for fiscal year 2021 seems to imply double-digit second half top-line growth. How large will price increase would be and what is assumed volume gain from this? And how long is Asia BFB locking in the input prices? Is there a time lag before margin hit from rising input costs?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
Yeah. So the pricing effect is 3%, as I mentioned, second half versus first half. The rest will have to come in by volume. And we believe we have the good momentum with our share gains, especially noodles. And we have been able to sustain the high demand from last year. So this gives us a bit of a confidence that this is possible. The lock-ins are until the end of the year, but we are already working on lock-ins for next year. So hopefully we can report when it's done. What's the other question?

Q: Okay. I think the next one, Jesse, is Kasalo Pack. How does this new SKU impact blended margins? How big is the contribution of Kasalo, any cannibalization to existing noodles market?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation
Yeah. So Kasalo Pack is a lower margin product, because it's a sizing pricing play and value play that we have not participated in prior, because of the margin dilution it will cause. So far, so good, as we test it out, we are not doing broad distribution for this. It is targeted distribution where competition is playing. So we are addressing share loss, previous share loss from competition, who were playing against this game. But we don't want to shoot ourselves by broadly distributing it everywhere and cause negative cannibalization. So that's the strategy. So far, so good, in stores and in areas where we sell this Kasalo Pack both our regular Pancit canton business and the Kasalo Pack are growing.

Q: Okay. The next question is for Marco. And this question is how does Tesco reconcile its Meat Alternative private label with Quorn? In your discussion, how are you comfortable with Tesco's plans with their private label?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Yeah, I think, look Tesco has declared their intention to dramatically grow the category. This is why they represent a key partner for us going forward, and with our ability to grow together. So that is why for us was so crucial to rebuild the relationship with Tesco. It was a game changer, not only because it's 20% of our total sales, but also because it's the customer that want to grow. And by growing together in partnership is crucial. Now, we also know that they have a very strong intention in private label. We know that they put a lot of resources in there. And we also know that they are learning from there, but this is also where they came to us and say, guys, you know the category better than we do, can you please help us there?

So not only am I comfortable there, but I'm also convinced that now that the relationship at the category leadership level. We can help them to grow faster in the total category and private label is part of it, so we just dealing with that. So that is a very good place to be now that our relationship is really, really strong with Tesco.

Q: Okay. Another Quorn question. And this is how big is foodservice, right now, as a percentage of Quorn sales? Do you have a medium-term goal for how large you want this contribution to be?

Marco Bertacca - Chief Executive Officer, Quorn Foods

So food service and QSR overall is 8%, 10% of our total business. So our reliance on retail is very strong both in the U.S., the UK and in the rest of the countries where we're present. It is very clear that we want to grow the food service. We are increasing the resources and focus there. This is why we are putting dedicated team to some of the big customers. So our plan is really to radically increase our presence in particular in QSR. It's very difficult to give you a number in particular, because at the moment is the overall out of home market has been turned upside down in the last 2 years.

So every intention and every plan has to be revised or postponed or accelerated depending on what country is closed, and that creates an additional level of complexity. In any case, our intention is really to have a much more balanced business between retail and food service QSR, but given that we are 9%to 10%, it will take some years to grow that one up.

Q: Okay. And another Quorn question here, and it's a multi-part. The first part is, U.S. is absent in the QSR launch progress on Slide 21. Why is this so?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Yeah. So the – our presence in the U.S. has historically been retail only. So our presence in food service has been really also in the area of 10%. And it's mainly been food service, but not the big QSR chains. We are stepping that up. I think I told you actually a month-and-a-half ago that we were recruiting some dedicated resources in particular to the QSR, because we believe that our products are very, very, good for that. What we currently find is that, is not easy to open doors for 2 reasons: first, because of the pandemic; the second, because we needed to increase our awareness at the same time. So as soon as we have the buyers and the people of the NPD, or the innovation people, trying our products, they're hooked. But we need to increase that and we need to increase the pool from the consumer perspective through awareness.

One of the big things that I would also add is you can see, for example, just to say something about the customer like KFC. So, KFC, I had a recent conversation with them, it is clear that a customer of that size will require 2 or 3 global players to support them in their international growth expansion. Now, you already know that KFC and one of our competitors have established a relationship for the U.S. It's up to them to assess the product quality and the rate of, say, creating that, but that's why they are looking at us for the international expansion. We know that the international expansion is very important for them, it's very important for us as well we can help them because of our global presence.

Q: Okay. What is the percentage of QSR sales in the U.S.?

Marco Bertacca - Chief Executive Officer, Quorn Foods
Well, as I said QSR and food service combined is very – is about 10% of the total sales in the U.S.

Q: Okay. And who are our major partners in the U.S.?

Marco Bertacca - Chief Executive Officer, Quorn Foods
In terms of QSR or retail?

Q: It doesn't specify, I am going to assume its consumers.

Marco Bertacca - Chief Executive Officer, Quorn Foods
Well, if we talk about major partners, sorry, Mike, did I answer to your question, there you're talking about major partners or major partners from the customer perspective?

Q: I believe, the question is from the customer perspective. So in the U.S., who would be our major customers?

Marco Bertacca - Chief Executive Officer, Quorn Foods
For example, Kroger is a major customer for us. Whole Foods is a major customer for us. We have Walmart. But just to give you an interesting example on Whole Foods, we are the Meat Alternative brand that is having the fastest growth in Whole Foods in the area where we operate. So I would say we are really playing with some of the big guys from the retail perspective. But there's a lot that we really need to improve on the food service. It is something that we basically started from a very, very low base, I think, that's very transparent about it.

Q: Okay. And the next part is about the competition in the U.S., Beyond is very competitive, and you're entering the chicken space in the U.S. Do you see intense competition from Beyond and Impossible in alternative chicken?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Well, Mike, I think, we seen this competition coming from everywhere, this is the hottest category still out there. And to some extent, I'm actually quite intrigued, because until now some of those players started and entered the market in the easiest possible category, which is assembling a hamburger. And now they're trying to move into space where texture of the product is very, very critical. I prefer not to make any comment about the products, because I leave it to every one of you to try, and so that you can do a proper assessment.

But what I can say is, just to give you a very clear example, a tangible example, the preference for our nuggets, and the chicken style products in the UK is 75%, 25% compared to the closest competitor. So in quality and in performance of our products, we're really second to none over there. And, of course, everyone as is trying to rightly enter the category, because they see we're in the right space.

Q: Okay. Another Quorn question, this is do you think there are any structural challenges to converting the U.S. consumer, given the Quorn's historical brand perception as fungi/mold, hence, have we considered a more aggressive rebrand to combat these challenges?

<u>Marco Bertacca - Chief Executive Officer, Quorn Foods</u>

Actually, first of all, I need to put an element of caveat on this. If I would try to position myself as an expert of the U.S. market, you should challenge me very heavily. I told you that in the last year-and-a-half, I've not even been able to go out there. That's why we have now hired some of the best people that we can find to really win in that market. From everything I hear and everything I see all the evidence that I have is that our brand is absolutely not a limitation. But what is true, is not many consumer or not enough consumer are aware of our brand.

What our brand has is some very, very clear, distinctive assets. For example, our orange is out there, the name is quirky. And we have already ramped up a lot of the marketing influencer driven activities we have learned and we are learning from some of the competitors out there. We have already ramped up a number of activities that are triggering through influencer for them to purchase in the stores and you will see us accelerating in that direction. So really, my answer is, no, I don't see any structural issue there.

But at the same time, there's a lot of work to be done. And as I said, this is really into awareness and into the NPD product, right product for the food service, and as you will see much more in the second half of this year.

Q: Okay. Another Quorn related question. You mentioned the success of the Quorn marketing campaign. How much has the mindshare of Quorn's brand improved in the U.S.? And where is the mindshare versus U.S. alternative meat peers?

<u>Marco Bertacca - Chief Executive Officer, Quorn Foods</u>

I don't know, in fact, I don't have the detail of the U.S. situation. So we would actually have to dig that out. As I said, I see our brand positioning our awareness will grow in the U.S. as relatively low. You know that our awareness in the UK is extremely strong. Our funnel of preference is extremely strong, maybe something that I can share. next time. We track it month by month, from awareness to purchase. Our funnel is very, very large, all the other brands have different. Maybe a good idea for the next session that we'll have in a couple of months would be to show us versus unnamed competitor in terms of brand preference that is something that we can provide next time.

Q: Okay. In which Meat Alternative brands gain share in the UK, in the U.S.?

Marco Bertacca - Chief Executive Officer, Quorn Foods

But mainly, look, we've seen some of the bigger players. So if we focus on the U.S. for one second, the only one that has really been gaining share has been Beyond and Impossible. All the other existing, particular in the frozen sector have been struggling. So our share in the frozen sector has been relatively stable, because of the market move through the reopening after the pandemic, from consumption in home in frozen, in consumption in out of home. So that is what has happened in the U.S.

In terms of the challenge in the UK are certain element of private label, and an element of the smaller brands that are started with one product, they put their product in more distribution points. And that is where you see the market share coming up.

One interesting observation about the smaller brands that are churning into the UK market, I can tell you that out of all the new products that have been launched in 2020 in the chilled shelf, 33% of them disappeared in 2021. So there's a huge churn of product, in particular in the chilled area. And that's why you would see that, there's more brands coming in, coming down, coming up, coming down very well. Depending on, they have maybe one or two successful products.

One of the charts that I tried to share with you today is it is very important that we only sit at the top of the new NPD in terms of overall success across the market. And maybe one of the areas that we should also improve ourselves is to have more, how can I describe them, in-and-out products, so that we keep more space on the shelf, while some more space capturing and emotional desire triggering from the taste perspective for the consumer, even if we know that maybe next year they will be out.

Q: Okay. Just a few last questions before we wrap up. This is another Quorn question. "Will we supply to Tesco private label?"

Marco Bertacca - Chief Executive Officer, Quorn Foods

So I think this is an interesting question. I don't know how much I can say about it, because it's very, very forward strategic looking. Let me put it this way, at the moment, we believe we can drive our brand better than we can help others in the private label. So it is not part of our current intention. That's the right, that's the way to describe it at the moment.

Q: Okay, great. And this is just a clarification on an early earlier question regarding major partners in the U.S. The clarification is, "Who are our major QSR partners in the U.S.?

Marco Bertacca - Chief Executive Officer, Quorn Foods
As I said earlier, Mike, we do not have yet any of the QSR partners that we can say, these are some of that. We are working with a number of them. We are trying to open our play in the U.S. But just to be a little bit black and white, our QSR role in the U.S. is not market, is not yet developed. We are working on it.

And the big partner that we have is clearly, as you have heard a number of times me saying, is KFC. And they are currently reviewing what part of the world would they work with which supplier. And that's why I expect that we will say much more about the international expansion and a little bit while they already have declared some U.S. partnerships already.

Q: Another question for Marco, "Will we supply the Tesco private label?"

Marco Bertacca - Chief Executive Officer, Quorn Foods
I already answered this. The intention is no, it's not in our current plan.

Q: Okay. And last question for Marco again, "How is Quorn's pricing compared to other leading U.S. competitors? And are you pricing at a discount to cannibalize market share from leading players?"

Marco Bertacca - Chief Executive Officer, Quorn Foods
No, so our price is very much in line with the competitors out there. In particular, after the price increase that we have created. We believe that we have the right pricing point at the moment to be able to continue to grow. If you refer to one of the customer that we have a very, very solid and growing partnership is Whole Foods. We're properly priced over there. You will see us entering into some new areas of the US. And I will share more in the next few meetings.

But we are not planning to drive at the discount. And the reason is what we believe we have the best chicken product out there; we believe that by increasing our brand awareness and trial that will drive consumption without the need to go at any discount compared to the leading players.

Unidentified Company Representative
And that concludes our Q&A. I would like now to turn it back to Henry for closing remarks.

Henry Soesanto - Chief Executive Officer, Monde Nissin Corporation
Just wanted to reinforce the statement of Marco. You see the big market potential in U.S., we today just barely scratched the surface only, right, Marco? He said we have the best product out there. Market is big. So just look at the potential for the future. So thank you everyone for your participation and continued interest in our company.

So we fear we are in both very challenging and exciting times in laying the groundwork for current and future growth for the businesses. The current pandemic forces us to rethink what we are doing in our life. We have early on reflected on this in our aspirations, which I think will continue and contribute the sustainable solution to the current problem.

In summary, a significant amount of progress has been accomplished along this line during the first half of the year. And I look forward to updating you again later this year with our Q3 results. So until then, take care, everyone, and have a good day.