



Monde Nissin

Transcript of Monde Nissin Corporation (MONDE)
Fourth Quarter and Full Year 2021 Earnings Call
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Participants

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Henry Soesanto - Executive Vice-President and Chief Executive Officer, Monde Nissin Corporation

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Marco Bertacca - Chief Executive Officer, Quorn Foods

Presentation

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Good day and welcome to Monde Nissin's Fourth Quarter and Full Year 2021 Earnings Call. I'm 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; and Marco Bertacca, Chief Executive Officer of Quorn Foods.

By now, everyone should have access to the earnings press release and today's presentation; all are on the PSE EDGE website posted earlier today. These documents are also available on the Investor section on Monde Nissin's website at www.mondenissin.com.

Just as a reminder, before we begin, please note that the financial information presented is unaudited and during the course of this call, management may make forward-looking

statements based upon current expectations and assumptions. These are not guarantees of future performance, and I encourage everyone to read the legal disclaimer at the beginning of today's presentation.

Now, I would like to turn the call over to Henry for introductory remarks. Henry?

Henry Soesanto - Executive Vice-President and Chief Executive Officer, Monde Nissin Corporation

Thank you, Mike and good day everyone. Today, we are happy to report continued top line growth in the fourth quarter and record full year revenues despite a challenging environment in 2021. This includes a supply chain disruption and inflationary pressure. During the year, our noodle business continued its growth momentum, despite a high base and we were happy to see the resumption of growth of our biscuit business. Our Meat Alternatives business was challenged by a slowdown in the category, in particular, in the retail space, but we have arrested the initial downtrend and stabilized our market shares and saw a significant acceleration in our food service space. And finally, I would like to add that 2021 was a transformative year for Monde Nissin, becoming a public listed company with the largest IPO in the Philippine history. We are very grateful for the strong support by a wide range of domestic and international investors. This has provided us with the funding to continue our growth and strategic initiatives. I'm also very proud of our Monde Nissin teams for their perseverance and execution, positioning us for continued growth in the coming years.

And now I would like to turn the call over to Jesse to provide more details for our APAC BFB businesses. Jesse, please.

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Thank you, Henry and good afternoon and good morning to everyone. Thank you for your participation -- thank you for your participation in this earnings call. I'd like to start with echoing what Henry said. We had modest growth in top line ending the year with 69.3 billion in sales. We grew both APAC Branded Food & Beverage and Meat Alternatives businesses in a full year and also in Q4. Our sales increase was driven by pricing action which we took for both businesses, for both segments, favor the ForEx especially for Meat Alternatives, which is a pound sterling base and balanced categories in a APAC Branded Food & Beverage. We will dissect it further when we talk the segment financials later on.

Our gross profit remained resilient, despite the inflationary pressures. We really felt the impact of spot prices of our key commodities, palm oil, wheat and energy and logistics costs in Q4, thus the significant downturn. Just to remind everyone, our gross margin was 39.4 in Q3, so this represents a huge impact for us in Q4. However, given that we have already implemented pricing in Q1, both for UK and for the Philippines. EBITDA has declined a bit more, about more than gross profit, because of the investments that we have, particularly in advertising and promotions, and in R&D. Advertising and promotions is both in APAC Branded Food &

Beverage, as we normalize our advertising promotional expenses in 2021 relative to 2020 and in Quorn, we are significantly spending in order to create higher penetration and brand awareness, particularly in the US. We are also investing in R&D capability in our Meat Alternatives business.

Core net income, this resulted to a lower EBITDA than gross profit. Net income, however, was cushioned by the lower tax rate, especially in the Philippines. So it declined by 11.3, maintaining a 12.0% margin and at ownership or attributable to shareholders, the decline is further down because of the acquisition of minority shareholders in one of our key subsidiaries Monde M.Y. Sun company back in January 2021. If you recall, we have huge non-core items, in particular, the redemption of the Arran convertible note, which forms majority of the non-core items for the year and the IPO expenses that we had to book. This is obviously non-recurring and therefore we treat it as a non-core item. Reported net income is 3.2 billion, a significant decline because of the non-core items.

Zeroing in on APAC BFB. Next slide, please. Net sales increased by 2.1% for the year and 0.9% for the quarter. Domestically, the Philippines sales increased 2% for the quarter and 1% for the year. The good points here is noodles, despite the high base continued to grow, even the program. Previously we have highlighted the THINdi campaign for Pancit Canton that continue to work hard for us to drive further volume expansion. Biscuits, which had been on steady decline since the pandemic due to reduction in usage occasions, finally grew by 3.2% in Q4. This bodes well and as actually mobility restrictions are being lifted, we see strong recovery not only in biscuits, but also in beverage, as these categories were severely affected by mobility restrictions.

Gross margin, similar to what we mentioned, on the consolidate basis, took a hit because of spot prices. Some of the lock in prices that we have had in the previous quarters ran out for our key commodities and when we had to buy at spot, it was much higher prices. It should also be noted that in Q4, we were affected by that towards the end of December. This has a big impact not only because it led to a plant shutdown -- our plant shutdown in our Cebu plant, but also in our distribution center in that same region. This resulted in some lost sales, which we frankly recovered in Q1. Thus we had a very strong start for Q1 this year.

We have modest increase of A&P as it is just a normalization of what we have spent in the previous year and we kept most other items extremely constant. As a result, our EBITDA is down but core net income was cushioned a bit by the lower tax rate from the CREATE law. We have implemented price increase, a 3% price increase effective in January to mitigate the costs and we'll continue to monitor the commodity costs to ensure that we remain profitable at least on the gross margin level -- gross profit level as we sell our products in this difficult and challenging times.

Next slide please. Happy to report our share that for the year we have either slightly growing to stable share, however in Q4, as you can see for our business key businesses there were some decline. This is attributable first to supply chain hiccup. We have had some issues in the supply

of some of our key products plus the Odette -- the Typhoon Odette that did not help that situation. We're also challenged by value players in the categories that we play in and so one of the key action plans that we are doing is to ensure that we have a much better value play. You are familiar with the Kasalo Pack for our Pancit Canton. We are expanding that effective April. And we are offering a value play in a milk in our new Lucky Me! Milky Me product. This product is premium priced, but it is a very important value play as it offers the creamy rich goodness of milk, which has much more value added in the eyes of consumers. We hope that this value play will enable us to recoup the shares that we've lost to the value players.

We also plan to recap -- to capitalize on the easing mobility restrictions, as we are seeing huge momentum in our biscuit business, in our beverage business. We will be locking in on plans to increase visibility, especially in store and on TV to ensure that people are aware of our brands, are made real aware of our brands and when they go to the stores, they will pick up our products.

With this, I'll turn it over to Marco who will talk about our Meat Alternatives business.

Marco Bertacca - Chief Executive Officer, Quorn Foods

Thank you very much Jesse and good day to everyone. Before I describe our results for Q4 and the full year, I just want to introduce three key messages that I'm sure we will go back to the Q&A, but for me, they're representing a little bit of a summary of our current situation. The first message is that clearly, we have not yet achieved the key growth ambition that we have, I just want to acknowledge that. I'm sure for many of you who have seen this presentation from my side, you know that I always like to go straight to the point and share some of the things that we've done well, but also the things that we can do better, and we have to do better. We have not yet grown in the way we want to. What we have done in 2021 through a very, very challenging year in a number of ways, I would spend more time on that, we have made certainly a much stronger company. So I believe that we would be able to achieve our growth objectives that we have but we're not there yet and we haven't yet done it in 2021.

On top of the COVID storm, the supply chain storm that we had in 2021, and in particular the big increase of the inflationary pressure towards the end of the year. We will see later that we find ourselves in the middle of another challenging time from the overall geopolitical perspective, we'll go back to that. I really believe that despite all of that we at Quorn will come out stronger through that. We have a number of reasons why I'm really a firm believer of that, we'll go back to that. So we will ride the storm stronger, we get on the other side in a much, much better situation. So despite the challenges, I'm extremely optimistic about what I see.

And the last key message I want to share with you is we will -- I'm sure many of you have questions about the category, the long-term direction of the category. I've just come back from two weeks in the US, I'd been spending a lot of time out there with customers and consumers in the last few months since I can move out of the Zoom world again. And I can just reconfirm that I'm a very firm believer that the long-term success of this category is not under discussion

and that's what I want to come back. And I'm sure we'll discuss more about that in the next step -- in the next few minutes of this scope.

Now if we go to the slides, I just want to go back to our results of 2021 and we discussed about the growth, of course here we report the benefit of the ForEx exchange that reports an increase in growth but overall year-on-year we have a slight decline of that. The key element that I also want to share here is what I always say is extremely important for us, which is the gross profit. We want to have a strong company in particular in the Meat Alternatives business. We are the only company out there that has the possibility to really invest through its sole P&L. So you see here that we have really achieved an increase and strengthening year-on-year on overall gross profit percentage that is fundamental for us. What you also see is that the last quarter has been challenging. This is where we started to really see a big inflationary pressure. And that is, in essence, the delta between the full year and the quarter four.

We have taken a very strong approach and continued approach. If you remember, even in 2020, we were increasing our prices, we've done the same at the beginning of this year, I'm sure we'll discuss a little bit more about this later in the Q&A. And as an overall result, you also see that another extremely important element for us is our continuous level of investment in our company. So the delta that you see that delivered lower EBITDA for this year, is related to the fact that we as inflationary pressure captured in GP, and then we have a heavily continuous investment in both marketing and development activity, because we believe not only that the category will be continuing, you know, reverting back into strong growth, but also that the one that continued to invest now in the difficult times will be successful at the end of the challenge days.

Next slide, please. So this is sharing the current situation, when I referred to what started to happen, the first graph on the left you see a bit of a clear slowdown in the grocery market, that started already in the second half of 2021. A number of reasons, of course, related to that; the end of the pandemic, out of home eating as we started, so there is, let's say, the grocery market has a difficult comparison compared to the previous year. As Henry has even mentioned at the beginning of the call, we see an extremely strong increase of our food service segment, in particular, in the UK, we come back to that later.

The other element that I just want to share with you here is not only the grocery market has slowed down, but also we have seen in the UK a slowdown of the growth that the Meat Alternatives business has. So the Meat Alternatives growth has always been ahead of the grocery market growth any still is, here you can see grocery market, it is in decline between 5% and at some moment 10% and the Meat Alternatives has really slowed down for a period of time. And we believe that this is really related to the pandemic effect and the inflationary impact effect and that's why we believe is a shorter term damage.

In the middle graph, you see that we have increased our overall point of distribution that started in particular at the beginning of 2021 towards the last part of the year. The retailers have stabilized the amount of space that they've given to the Meat Alternatives business. That

is also why what is currently happening is that and what happened towards the end of the year, the category stabilized and so there is a fixed space where competition is happening. And we have any way radical increase the in 2021, our number of distribution and our percentage, let's say, our shares distribution overall in the market.

Here at the last graph, it is really highlighting the inflation that we've seen, in particular at the end of 2021. There is a clear -- I just want to be very, very open about the end of last year, we also see at the beginning of this year, there is an impact on families on wallets and that's why we take -- we are taking and we have started to take a very important approach on how do we respond to the recessionary pressure that's initiated at the end of 2021 and that are possibly worsening because of the geopolitical situation.

Next slide please. So this is highlighting some of the key inflationary pressures that we have within Quorn. In essence, I always divide the pressures in two segments. As you can imagine, this is a major topic of conversation with buyers, but also these different impacts affect the strategies that we use in our approach towards the future and that's what we started to see already last year. We are here for the long term and we want to have a solid profitability to be able to invest, as our key strategy. So, the two key areas of increase are in the utilities area, gas that drives energy and in the -- also drives logistic of course, and then in the area of ingredients, and you will see -- we see much more coming out and everyone will have read in the newspaper what is currently happening. So, we actually looking at two elements of risk, the continuity risk and the impact on the cost. We have already done a number of mitigating actions, both to ensure resilience of our business. We are dealing -- we started to deal already at the end of last year with some supply chain disruption and we are also trying to secure contracts to ensure that the continuity of the supply, at times, jeopardizing an element of cost and that is what we're really considering to internal continuous improvement in our cost base but also, we are forced to pass some of our price increases to the retailers.

Next slide please. Why I am a firm believer that Quorn is going to come out of the current challenges that are around us as the strongest player. This is a bigger reference to our UK market, you know that we are the market leader there. And I'm sharing with you some deep dive, I think I need to use numbers to prove my big belief. And you can see that the share, you will see that Quorn has really stabilized our share throughout 2021. That was a very important step after a number of difficult year in our sharing because a lot of newcomers into the category. But what you see is the graph, the two column on the right, they almost represent the funnel that we always look at to reference the proportion of people that are aware of the brand, 88% in the case of Quorn, how many currently purchases the brand, 50% of the people, and how many continuing to repeat purchase of the brand. Now you can see the most important element is the purchase and the repeat and how big is that funnel throughout its size and how much other funnels actually come smaller. So we have a very strong customer base. And that's why the repeat purchases for both the Quorn and Cauldron are very strong throughout it. This is extremely important because in a recessionary pressure environment, people tend to go back to the brands that they know best, and the retailer's go back to the brand that they can count on to the resilient companies and Quorn is one of them.

Next slide please. Here, I wanted to make that reference to the market share. We had an important year, 2021 for us was really a stabilizing year, we have even towards the end of the year some very, very good progress in terms of our market chain. Frozen, for example, we moved from 32.6 to 34.3. We have a bit of a decline in the chilled in the last quarter, mainly because of private label. But we have initiated a stronger big plant towards the last quarter and we'll see later when we will talk next time about the quarter one, some of the impact that that has brought. On the right you see that our UK retail point of distribution, they've really continued to increase in terms of the overall share of the market and the index compared to the past. So we continuously grow in distribution in 2021, in particular in Tesco and we've also increased that the overall chilled distribution but what's the most important thing is our total share of distribution has grown compared to the other brands.

Next slide please. So these are some of the big launches that we are planning, actually that we already done, for 2022 and a new product development. This is really important for us. This is also because, as a strong brand, we need to really create, you know, I always say internally and externally, we are the one that will have to drive the growth of the category. As the market leader, we are there to grow the category, we're not just that to grow market share within it. So, a lot of in-store visibility. What is really important is that every time we launch product, the new product are seven of the top 10 -- top 11 products that have been launched in the year and I'm talking about the Crunchy Fillet Burgers, Brilliant Bangers, Garlic, really, really powerful portfolio that is really very much recognized both by consumer and [Technical Difficulty].

Next slide please. And if we then move on and have a bit of a deep dive on the Meat Alternatives business in the US, I've always highlighted our US strategy as a priority number one driving awareness. Now I'm extremely happy to report, I'm standing -- I was there for two weeks, very happy to report that in terms of awareness, our decision, our investment with Drew Barrymore is starting to show some initial very relevant results. We already have a 1.4% increase in unaided brand awareness that we have new campaigns that are out there and I'm sure if you haven't, you have to take a look at this best friend, ChiQin, from Drew Barrymore. It is bouncing around every social media network in the US. She's really believing in what we're doing, so I'm extremely happy. I really see that this partnership that we have initiated, that Drew is really our great representative of our typical consumer in the US with the younger kids, etc. And she's really putting a lot of weight behind what we're doing for the brand and that's going to be the big bet for us in the future, very good initial results.

In terms of new product development, we have a number of very successful launches there. And this is one of the most important element of why do I believe that Quorn is the right to win for the future. At the very end, this category is still in development, it is a very young category. It will, after a moment of over enthusiasm, there's a little bit of reflection. When you try a product, if the product is good, you go back; if you don't like it, you stop buying it; there's a lot of trial, a lot of people shifting. The quality of the product that we offer, the taste and the texture of the product that we offer is the key to win for the future.

I just want to highlight two or three things that we recently been awarded in the US. Food & Wine Magazine , Best Nuggets and Patties. Kantar best meat free chicken in our new cutlets. This was 40,000 Americans consumer that voted. It is very significant. There's nothing about us behind it. It's just a pure consumer. We are the most awarded brand in the US. This is what will help us to stay while the turmoil of people coming in and people moving out in the category. So the solidity of our brand and the quality of our food out will make us successful in the future.

Now, you can also see a stronger frozen share increase in the last quarter of 2021. And towards the end of last year, I was actually in the market, as I said last week. We start to see that we have listed our products in Costco and BJ. We went to see the stores. That is a very, very big element because we know they drive volume, they drive visibility, they drive the brand and we are actually the only nuggets or meatless chicken in Costco with distribution for now in three regions.

Next slide please. So last, on the different channel and the different priority, always remember that we come from UK, our core market, the US and our QSR and food service. It is a very, very strong growth in the foodservice sector. We have a number of new launches planned with KFC and I am very happy to report that we have samples in Brooksville, Australia and India. We have sent samples to Malaysia, Taiwan, and Philippines that are planning launches over there. We're doing trials. We have limited time offer and see in Europe, and we have launched -- not only launch in the UK, but you will see just in the next couple of weeks, we will have not just limited time offers but move on to maintenance menus there, so there will be menus on a number of countries in Germany, Switzerland, Austria, Denmark and the Netherlands, and you will see announcements -- joint announcement very soon there.

So we have taken a very strong approach with KFC where we only announce what we have achieved, and that is very different than what's happening in the US. Very strong food service sector, extremely happy about the growth that we've been able to achieve towards the end of last year and I can already share, it is continuing not only in the education sector, we are working with more and more University and other groups, but also in the health and public sector.

Next slide please. Very important metric for us. I was having some conversation with the big food service providers, they really still see, despite everything that is happening around the world, the credibility of a sustainable brand, as one of the key reason why they want to work with Quorn. So you can see that our all our metrics, we have increased the percentage of energy, user of green energy use, reduce the carbon emission and reduce the water usage. And our other brand, which is Cauldron is from the beginning of the year, we are completely carbon neutral and this is the first brand in the UK that is able to do that.

So I think with this, if I'm not mistaken, I am passing back to Jesse.

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Thank you, Marco. At this point, normally we talk about -- we will talk about our guidance for the quarter and for the year. However, because of the very volatile situation, we thought that it might not be practical or credible for us to give an outlook since we really don't know what will happen to the world in the next few days or even months. But we will give a glimpse of what we are seeing in Q1 and also, first of all, provide your perspective on our performance over the years. I think it would be very important for us to learn at this point that we actually have been as a picture of stability, even during the COVID, throughout the COVID crisis.

As you can see from this chart, on a top line basis, we have not declined, we have continuously grown even during the COVID crisis. And actually in the first year of the COVID crisis, we actually grew both absolute profit and margin. It is only during this time of unprecedented commodity costs that really margin took a pit stall, and we had a modest decline of 5% in our core net income of ownership.

So with that as perspective, we'll talk about how we are planning or addressing the headwinds that everybody is talking about these days. I think most of the calls -- most of the questions that are going to our IR team relate what are you doing in the face of this crisis? So it will be tone deaf for us not to answer this, so we prepared this section to talk about that transparently on the key actions and thoughts that we have heading into this unprecedented crisis.

Next slide, please. So as you know, our two biggest input costs in APAC Branded Food & Beverage is our wheat and palm oil. In APAC Branded Food & Beverage, for the products that we make, this means that product -- you exclude the products that we sell as a distributor for our partners, 50% of our COGS is raw material and out of this 40% to 45% is palm oil and wheat. So this is a major impact, these two commodities when they're going up, they go -- they have a profound impact on our total costs. The good news is, however, that where we source these two important commodities is far away from the conflicts. For our wheat, most of it is sourced from North America or majority, almost 100% is from North America, obviously palm oil is sourced from Southeast Asia. So, from a supply risk standpoint, unless there's major escalation of the conflict, and there's global disruption and shortage, we project that there should be steady supply albeit at a much higher costs.

Next slide please. We have experienced unprecedented inflation costs as you can see up to 4.2% of GM/weighted by input cost inflation and other costs increases that we have to -- that they have to make. But then we have offset -- we have a history of doing offset programs through productivity programs with our supply chain, with our logistics, offsetting at least 1.7% of the cost increases that we have experienced. We believe that we can continue this trend. And for last year, we offset some of the hurt through pricing. Again, we think we should be able to do a bit of that this year as well. We have already taken concrete steps towards pricing. After our second half 2021 pricing, we have implemented another round of pricing by the end of January and we are evaluating further pricing probably towards the end of Q2. In our Meat Alternatives business, it is the same. We've taken pricing in the UK around 5% and we are evaluating if more is required, if this unprecedented level of costs, and energy costs and logistics costs persists in the coming months.

Next slide please. But I think it's very important to emphasize this that when you are entering new choppy waters, uncharted choppy waters, you have to have the steady as a ship. This is how we look at our business. First of all, our main source of sales and profits and cash would be our Philippine business. We believe that we have a very resilient business given this crisis. Our items are primarily noodles and biscuits and we have correlation studies done during high inflationary periods, noodles is positively correlated with high inflation and at worse biscuits is neutral whenever there's high inflation. And this makes sense, because noodles is one of the most economical food items around so that when people tighten their belt, they default to a more economical food item such as our noodles.

We have very strong cash flow. We've increased cash flow even further in 2021 and actually enter into this crisis, we have a good stockpile of cash, over 14 billion. And this is important because part of mitigating the crisis is stocking up on inventory, making sure you pay your suppliers on time so that they don't have a payment reason to refuse to deliver. Making sure that you have physical stocks so that if there are hiccups, you can still continue to produce and deliver your products to your end consumers. Out of that cash of close to 14 billion, 95.4 million, as of the latest date in March is in US dollars and this is important because a lot of our input costs, major input costs are US dollar denominated. At 95.4 million, this represents seven months of imports for us. Again, while this is not absolute protection, I think this provides a better cushion to us versus probably our peers.

And just as a testament to the kind of products that we sell and the resiliency of our products in the face of crisis, you will see that our day sales outstanding for MNC Philippines has actually improved even during the crisis. Just when everybody was worried about cash flow, cash collections during the pandemic, we were actually improving it. And we were improving it because of systems -- collection processes and systems But also because customers were exactly paying us on time because they wanted our products because our products were moving.

We're also entering into the crisis with a very healthy balance sheet. Our gross leverage has significantly gone down. As you recall, we diverted some of our IPO funds to pay down loan to be able to save on negative carry, but is this -- that move is proving to be a great move in order to lessen our debt obligation. You will see that our gross leverage and our net debt to equity ratios have significantly improved. Lastly, even if there's force majeure, right, the cost split is 70% variable and 30% fixed, so the amount of cost that will remain if there are hiccups in supply is limited.

Next slide. So, what are we taking -- what are we doing in terms of the three important aspects on this crisis? First of all in demand, let me talk about what is happening in demand in APAC Branded Food & Beverage. I alluded to earlier that we have a very strong start in Q1. Domestic posted lower double-digit growth for February year-to-date. So, some of it, frankly, was the Odette Typhoon backlog that we have cleared. But then there's also renewed demand from improving restrictions. That trend is continuing on in March.

In the UK, while the retail market continues to be flat or declining, our shares are actually now up in February. But obviously, it's not going to get easier, as Marco alluded to. There's high consumer inflation, particularly in food, and then there will be added tax burden in the UK. What we are doing in the Philippines to leverage the improving demand and mobility is that we will continue to invest in strategic investment, in advertising and promotion, because people are watching TVs and going to stores, they need to be remembering our brands, so that they when they go to stores, they will pick it up, and they will enjoy it like they used to pre-pandemic. We will drive more consumption moments, both now in home and out of home.

We'll have to improve our visibility, restore the visibility, as people are now going in store. And then we will have to further leverage our GT strength. Recall we alluded to before that during the pandemic, we've actually strengthened our GT business as our GT business outpaced the growth of our modern trade. In the UK, we'll be spending our advertising and promotion resources to drive penetration with new consumers and with our high loyalty rate, enable repeat purchases, we will also be introducing new products. We have positive momentum in food service, not only with QSR, but also with hospitals and universities that we will plan to continue on that strong momentum. And obviously, we have a deepening relationship with KFC.

Next slide please. Next slide. On the supply chain constraints -- sorry, previous slide.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Jesse, I think it's showing on the webinar. I'm having a problem getting it on this slide. Sorry.

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Okay. So let me talk about input costs first, then we can backtrack when the system allows it. There's significant inflation in our key raw materials, wheat flour, edible oils and energy costs. So what we have done is we have locked in our prices for wheat until the end of Q3. For the most important raw material that we have, we have locked in until Q3. Transparently, they are much higher than last year, but much lower than spot. Palm oil as well, we have locked in until the end of Q2, again much higher than year ago, but much lower than spot. For energy costs, we have locked in lower energy costs from a sustainable source for most of our plants by Q3. And I talked about our US dollar stockpile. We are also accelerating our ongoing productivity programs. We have over 900 million of targeted savings from various supply chain and supply network initiatives.

While we are committed to spending on our brands, we will be optimizing them and making sure that because discretionary spending is spent only when it pays out. On pricing, we're committed to retain our gross profit in absolute terms by pricing to ensure that we recover these gross profits. That implies that there will be margin decline but we believe that that is the

right thing to do to help our loyal consumers cope with the crisis. They have been supporting us and we support them during these difficult times.

For the UK, the good news is for our most important material, which are glucose and albumin, we have contracts until the end of the year, and we are looking for ways to bring them, assuming means as to the shelf-life permits in physically to our factories and to our warehouses in order to minimize force majeure risks. We are reviewing investment plans in SG&A. While we are fully committed to invest in this business and have not wavered in our conviction that this is the future, we will make sure that we will be more judicious in spending to make sure that longer payout items are de-prioritized in the short term, as we cope with the crisis. We will reduce the resilience to third-party manufacturing. Labor is scarce and expensive in the UK and if -- and by bringing them some of the third party manufacturing processes in house, we should save on costs and improve resiliency. Like the APAC Branded Food & Beverage, we will also be evaluating all our discretionary spend, including recruitment. We have implemented a price increase in January and further price increases will be evaluated in the coming periods.

Can we go back one slide? Okay, on supply chain constraints, so we do have tight supplies and lead times have increased. We believe that even if there is force majeure risk, it's small, given where we are sourcing it. But our playbook has been even for during the worst parts of the COVID crisis was to make sure that we secured the materials to ensure supply availability. This we're doing by locking in on contracts as we have done for our key materials, as I talked about earlier. We are also ready to prioritize our core skills. Our core skills happen to contribute a huge part of our business and they are most efficiently produced. So in the case of tight supply of material, we will be able to turn the play -- the same playbook that we have successfully implemented during the initial year of the COVID crisis, to prioritize our core SKUs in our domestic business.

For our Meat Alternative business, glucose and sunflower are key risk areas, as some of it are being sourced out of the conflict area. For sunflower oil, in particular, that has been -- we have found replacement of rapeseed oil to replace it and the rapeseed oil is sourced from the UK. We have contracts for glucose and for egg albumin but, of course, there is force majeure risk. So we are looking for ways to make sure those paper contracts become physical stocks in our warehouses.

That ends our prepared remarks. We are now open to Q&A.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Thank you, Jesse. We have a chat box, so if people have questions, please submit your questions via the chat. We have quite a few already, so we'll try to address as many as we can, time permitting. The first question, Jesse, is for you related to APAC and this is in regards to market share for noodles and biscuits and what has led to the decline in market share in the fourth quarter versus Q2 and Q3?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Yeah. So the root cause of that are two. First is supply chain hiccups that we experienced, including that disruption that was caused by Typhoon Odette. So we have substantial volume loss and actually empty shelves in the areas that was ravaged by Odette, so we naturally lost by default. We are slowly recovering on that and as I alluded to earlier, our Q1 bounce back -- strong bounce back in Q1 is a reflection of the recovery that we have made -- been making on the supply chain hiccups towards the end of 2021. There's also value players playing harder and we are addressing this through value initiatives. We have talked about our Kasalo Pack, which has made significant progress, but we until now, we are only shipping a limited supply of that. By April, we will expand this, we have now more capacity and can play harder on our Kasalo Pack. This will cover a sizing pricing gap and should enable us to address the value plays that competition is doing. We're also playing up value with new products like Milky Me, which offers much more value. It is your favorite noodles, coupled with the richness and goodness of milk and we believe that this combination of milk, their favorite noodles, and vegetable garnish will become a significant value -- good value play in the eyes of our loyal consumers.

Henry Soesanto - Executive Vice-President and Chief Executive Officer, Monde Nissin Corporation

Mike, can I add on little bit on the supply chain hiccup that Jesse talked about. Yeah, we have our plant in Cebu. So the Typhoon Odette hit our plant basically, we got some damage of our plant, we had to stop the production. So, the product was coming from Luzon, right, that was we meant by the supply chain hiccup, so we cannot supply the product in Cebu area at that time. So our market share got bit hit by this supply chain issue.

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Thank you, Henry.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Thank you. Jesse, we have another question and this is in regards to bread. And can you talk about the prospects, the total addressable market and strategy and if you can share anything regarding our plans on CapEx, A&P spend, or how we are going to leverage or if we can leverage our existing distribution network, any of those topics you can address?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Yeah. So, first of all, we're making good progress. As many people know, we sunsetted JV brands, Sari Roti and launched our own Wonder Bread and Wonder Bread has been on a very good trajectory, upwards trajectory. It has now exceeded the Sari Roti brand in terms of sales.

And in particular, our wheat variant has been making a lot of inroads. So we are very excited about this. On CapEx, we are investing additional CapEx on this. The bread business now from being below 1% of our sales is now about 1% of our sales. It has a high growth, so it's a top line accretive business. We have to do -- we have improved the returns of bread and with the opening of -- with the mobility restrictions being relaxed, actually, with more people going in store, we see a demand surge for fresh bread. So, we will -- it's still important, it's a very important part of our strategy. We believe in the total addressable market and we're continuing to discuss plans to make sure that we have a bigger part in this very exciting category.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Thank you, Jesse. Marco, the next question is for you. And this is Quorn previously mentioned that the brand building initiatives for Quorn will not lead to losses. Has the strategy changed?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Thanks, Mike. No, the strategy has not changed at all. We always said that we were going to invest in our brand and also in our development activity. It is important that we stay ahead of the competition, particularly in the mycoprotein space. We have clearly seen decline of, let's say, the impact on our bottom line driven by the spike in inflationary pressure. But as Jesse summarized, we have taken very strong action in pricing but also in looking at everything that we can do internally to optimize, continuously to optimize our business in order to generate the fuel for growth that we have.

Now, for the future, we want to continue to invest because we believe it is an important strategy for us but the strength of our GP, the recovery of our GP margin is a key area of attention for us. I also want to share that we are looking into what is happening around us with a lot of serious attention. And we have developing action here with a team for two days to develop specific plans to really see what is the best way to react to the increased inflationary pressure but the strategy overall has now changed. So you will see us with a very strong business, a strong GP, continuous investment, but clearly with re-phase of our investments, because we want to continue to add for the future but the current circumstances require that we keep an eye and continue to optimize what we have.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Thank you. Another question on Quorn is, Beyond has guided that it expects demand for Meat Alternatives to recover in the second half of 2022, are you seeing a similar timeline?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Look, I think, generally speaking, any prediction about what is going to happen in the world, and in the consumer world around us, for the next step, three quarters is going to be -- is going to include an element of high speculation. I want to share that because it's very, very difficult to predict how the consumers will react to the pressure that they see to the impact that they see in their pocket and so I would be very, very careful to express recovery of the category in the second half. Having said that, I really believe that some of the fundamental trends that are behind the category are here to stay and so once we overall see in the food world a shift that is driven by the increased costs of food, we are continuing to work as a company on being able to provide on different occasion affordable product to our consumer and that's why we believe that we will be able to win.

I just want to give a reference also to what is happening. We are not alone in what is happening around us. So this inflation is happening to all our competitors, but also, and even more relevant, to the to the real and meat producers today. There are articles that are coming out that you can read on every media that are talking about very sizable increase in the cost of meat, a recent one was talking about 30%, 40% cost increase in chicken prices. Now we really believe that we will be able to even be providing to our consumer an alternative to the meat products and that's why -- that's what we count on for the recovery of our growth plans.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

And another Quorn question, Marco, is, the dining out trend seems to have been going on since Q3, do you see that changing and retail recovering? Is there any evidence?

Marco Bertacca - Chief Executive Officer, Quorn Foods

So this is why it is an extremely volatile environment. End of the pandemic, people start to go out, less eating in and our -- we've seen a big, big increase in the food service sector. What are some of the possible behavior that we expect from consumer in a recessionary environment? Opposite behavior, so immediate maybe a little bit less of eating out, less of fine dining and more of scratch cooking and canning [Phonetic]. So you can see that there's a fluctuation of the consumer when they go and buy and shop and eat. What is important for us is we have a unique positioning in particular in our core market in the UK, where, number one, we're very strong both in retail and in food service, so we can balance and capture the consumer wherever they go. And the second point is that even in the food service sector, even if we may expect an element of reduction in some segments, the public, the university, the school will continue to be strong. And so we believe that an element of foodservice growth will continue to be there. We have very, very strong growth plans from the food service sector.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Okay. Thank you, Marco. Jesse, the next question is for you, and this is regarding the Kasalo Pack and the impact it may have on margins.

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Yes. So I think the key question here is, what do we think, so Kasalo Pack because it's a cheaper price per gram product, it will be dilutive. But our learning so far in the places we marketed it side by side with our current smaller pack is that there is virtually no cannibalization, so the source of volume is from competition. So, margin will decline but if it's incremental volume that should not hurt us. We are -- as long as there's no cannibalization, and we're watching that closely, it should be accretive for us.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Okay. Another question for you Jesse is, in terms of offsetting the spikes in commodity prices, how much price hikes do you need to offset the commodity increases?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Unfortunately, we will not be able to disclose our pricing plans. What I can tell you is we are evaluating them, nobody can tell whether the current levels will stay on. We are continually watching them every day, and looking at opportunities to increase our stockpile, both paper, physical stocks, in order for us to be able to minimize it -- minimize the pricing burden that we give to consumers. But at the end of the day, we cannot announce because there might be some issues if we signal after price increases in the public forum.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

And then, Marco, the next question is for you. And this question is regarding market shares, so despite an increase in distribution points, market share has not gone up. Does this change how you -- your strategy or what you need to do to protect market share and gain market share?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Well, actually, Mike, this is exactly the opposite from my perspective, because after a number of years of decline of the market share in the UK, which is when we have seen a lot of other brands coming in an explosive market, we really see our market share really strongly stabilizing 2021, which, again, is something that has not happened in the past. Not only that, but as Jesse alluded in the summary that he made, we see an increase in January and February. So we will talk about that when we talk about the quarterly results but our approach to the market share in the UK is, we're extremely happy with that and that is, again, on the back of our continuous distribution and our strong innovation pipeline. So overall, we will continue to invest that, so

we are -- I think this is one of the areas where we believe we're strong now. Having said that, there is a lot of possibility to do better than what we're doing today. As always, we are very, very strong in frozen, we continue to gain there while in chilled we still have to improve, in particular, because of a bit of an increase of shift to brand in private label area. So we need to do better there.

One of the important area is also called the future, now in the current environment where recessionary behavior and more -- I wouldn't call it more limited, but -- and more defined space on the shelf, it is space for -- the retailers will look at the sizeable and credible brands, the consumers are looking at sizable, credible brands. Some of the smaller players are struggling to take prior positioning in the retail market, so that a number of companies will fall off the shelf. So it is actually, I see that as an opportunity for us for further strengthen of our market share.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Do you see consumers reacting differently in terms of willingness to buy given the inflationary environment?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Well, it is a very good question because it's one of the questions that we have at the center of We've invited a number of players we have leveraging on the experience of the past. So in a nutshell, the answer is yes. The consumer is looking at a few fundamental questions is where to buy, so they shift different stores because they're looking for opportunities. But they're looking at what to buy, because they're looking for value more than in normal circumstances. They're looking at how much to buy, a big element of promotional activities is very important there so we have developed very clear strategies that number one focus on our ability to attract with very interesting proposition as an entry in the category trial. We want to continue to drive trial because we want to bring people in, smaller pack with good promotional activity that drives value even comparing that with normal meat.

And then when the customer is, the other big area for us that is very important is provide value. So bigger packs that will help once you've tried the product, you like the product, you stay with the product because it's a bigger pack and that offers value. So, yes, there are consumer changes and, yes, we have tailored strategy to the consumer changes now. Another big advantage that we have compared to our brand is the availability of our products so that is, as I said, not only in retail and foodservice, but is in all the customers out there. So, even when the consumer moves, we're always there and Quorn is always the first point of call.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Thank you, Marco. Jesse, a related question to you regarding inflationary environment and price increases. Do you have any assumptions on the volume impact from doing price increases?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

So far, actually, I can only talk about history, recent history, when we took prices, our pricing up, because a lot of the other food items are also going up, the relative burden that we gave to our customers is less and our products are very good value food item relative to all the other alternatives, volumes have not been affected. So we have -- I think in Q1, the Jan to February trend, which for the domestic business is up double digits, we are up both in value and in volume.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Thank you. Marco, in terms of capacity expansion plans, have those changed, given the current market environment?

Marco Bertacca - Chief Executive Officer, Quorn Foods

No, overall, we continue to invest for the platforms where we want to keep improving our product quality and that is very important for us because we -- as Henry always say, we are here for the long term, so we want to navigate through the difficult circumstances but find ourselves on the other side, much stronger than we were and much stronger than a competitor.

Now having said that, of course, we have taken a very strong look at our investments today, in our effort to recover our gross profit percentages, we are also rebalancing our investments, in particular, in areas where we can do investments to increase our efficiencies so that there is clearly a rebalancing on the activities for growth and the activities for improvement of what we have. So certainly we're looking at that with a lot of attention because of our desire to grow the gross profit and invest that market driven activities.

Capacities is not the problem at the moment. But as soon as we see good platform, future opportunities, you will see that later this year, there is a new platform that we're launching for that is a sizable opportunity, sizable capital investment, but also at the same time investment to continuously improve efficiencies.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Thank you, Marco. Jesse, a question for you. Can you share the competitive landscape in APAC BFB? Are you seeing an increased activity from competitors and how are you dealing with that?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

Yeah, so there is increased competitive activity, especially on the value play. That's why we talk about our way, the way to address it is to make sure that we -- first we don't give a value reason for consumers to leave our franchise, number one, by having our own -- in the case of Kasalo Pack, right, and coming up with higher value products, better value products, like the Milky Me and also in our communication, communicate value in our communication with our consumers. I think when we do it right, we should be able to address the value plays that people who are just playing in price are challenging us with.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Okay. Thank you, Jesse. Here is a question, just wants to clarify an earlier statement regarding striving to retain the absolute gross profit level in 2022. Does this pertain to the consolidated business or APAC BFB?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

That's our general principle for the entire business that we will recover the gross profit with our pricing, price increases. So we will evaluate, we will evaluate the prices of commodities, evaluate the status of our cost savings project and then the balancing act there would be -- the balancing figure would be the pricing that we need to take in order to offset the hurts in gross profit so that we maintain the absolute amount for both businesses for both segments.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Okay. Thank you, Jesse. Marco, this question is for you. And this is in regards to food service business and the potential for food service business in the US and China. What do you view as the potential, is there too much competition there already? How do you view entering those two markets on food service?

Marco Bertacca - Chief Executive Officer, Quorn Foods

No, let's say while China for us is a future objective, the US is very much a current objective as part of the current strategy. As you know, our US business is skewed towards retail but we have, recently, I think already in the second half of last year, recruited or strengthened the team that we have in foodservice. We have met a number of customers; I was there with them last week. So our intention in the US is to balance in a while our retail market still has enormous possibilities. There's a lot of whitespaces, a lot of distribution possibilities that we have. We are also looking at the foodservice business, so we are in a number of conversations. So certainly,

we have plans there but we start from a very low base because our business is skewed towards retail for now.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Okay, thank you. And Marco, another Quorn question. In the UK, retail, Quorn has the strongest awareness and repeat purchase rates. Distribution is improving, strong new launches but why has the market share declined to 30.1, despite these positive impacts or facts?

Marco Bertacca - Chief Executive Officer, Quorn Foods

Yeah, so I think the UK is a market that we need to look at really on a more than a quarter-by-quarter basis. For example, towards the end of last year, there were a number of new launches that in particular in the chilled area. That's why as I said that our frozen market share has increased in the last quarter, our chilled has declined. But that has been completely, as Jesse even alluded, in January and February, our market share strengthened. So, our position is really solidified and our market share is really a much better place than it was. Frozen has grown, chilled not yet, but with better numbers even at the beginning of this year. So we are actually confident that our position there continue to be as strong as it was even stronger than it was.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Thank you, Marco. So Jesse, we have time for one final question. And this is in regards to CapEx and any guidance that you can give for 2022?

Jesse Teo - Chief Finance Officer, Monde Nissin Corporation

So the original, if you recall, our CapEx for 2022 is 9 billion. Original plan approved budget is that amount, almost exactly that amount. However, given the current crisis, we have said that we will be evaluating the pace of our investments and that number might go down. We are evaluating, as we speak, and might slash it a bit or delay it a bit, given the current circumstances.

Michael Paska - Director of Corporate Business Development, Investor Relations, Monde Nissin Corporation

Thank you, Jesse. We're out of time now, so I'd like to hand the call over to Henry for any closing remarks. Henry?

Henry Soesanto - Executive Vice-President and Chief Executive Officer, Monde Nissin Corporation

Thank you again, Mike. So thank you, everyone, for your participation and continued interest in our company. Some amount of progress has been accomplished during 2021, despite challenging conditions, and now amplified also by the ongoing geopolitical development. We are meeting these challenges head on addressing supply chain risks, as well as continuing our initiatives for long-term growth. The first quarter of the year, as you have heard, has so far shown generally strong top line growth. We are hopeful this will continue as the economy reopens. I look forward to updating you more on this in the few weeks time when we report our Q1 results, so, until then, stay safe and healthy. Thank you.