



Monde Nissin

Transcript of Monde Nissin Corporation (MONDE)
First Half 2022 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

Mike Paska:

Good day, and welcome to Monde Nissin's first half, 2022 earnings briefing. 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, and Marco Bertacca, Chief Executive Officer of Quorn Foods.

Mike Paska:

By now, everyone should have access to their earnings press release and today's presentation, all on the PSE Edge website, posted earlier today. These documents are also available on the investor section of Monde Nissin's website at www.mondenissin.com. Just as a reminder, before we begin, please note that the financial information presented, is unaudited. 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. I encourage everyone to read the legal disclaimer in today's presentation. Now, I'd like to turn the call over to Henry for introductory remarks. Henry.

Henry Soesanto:

Thank you, Mike. And good afternoon, everyone. The first half of the year has been strong top line growth. For our APAC business, growth is across all major categories. While our meat alternative business continues to face challenges in retail, it continues its strong momentum in foodservice, making this channel a more significant part of its overall business. Before we discuss our first half performance, I would like to provide an update of a recent issue on Lucky Me.

Henry Soesanto:

This is about ethylene oxide. Ethylene oxide or EtO, is an antimicrobial compound that is used globally, among others in processing of spices, seeds and other agri products. Because EtO exposure has been linked to certain health risks, a number of countries have imposed strict standard on its presence in food. EtO breaks down very, very quickly to other much less harmful compounds, such as 2-Chloroethanol, or 2CE. Monde Nissin doesn't use or add EtO to any of our products or any of our production process. Some of our noodle products sold in the EU were found to have trace amounts of 2CE present, and the regulatory authorities have assumed that our products were exposed to ETO.

Henry Soesanto:

However, 2CE can be present in some foods naturally at very low levels. We do not believe that this levels pose a health risk, but there is a very low tolerance in European Union or EU. Each country has their own specific standards for allowable trace amounts, post processing. So what we did, we immediately had our product tested by independent and reliable laboratories abroad, which found our product met regulations.

Henry Soesanto:

The Philippine FDA subsequently confirmed the safety of our products after their inquiry. While it is not a safety issue, it is apparently a regulatory issue. So this incident has made us immediately aware of the regulatory nuances found in different territory. The standards range quite widely, with the EU being one of the most rigid, while other countries have varying testing protocols and allowable levels. For our region, this is a new or emerging issue. As we said, this is a regulatory issue. I give you an example. In different countries, there is a speed limit on the street. In Germany, for example, there is no limit of speed driving in Autobahn. In the Philippines, the expressway speed limit is 100 kilometers per hour.

Henry Soesanto:

If we drive as if we are at the Autobahn, we will be apprehended here. That's what I mean, the regulatory issue. So moving forward, we need to strengthen our understanding of the regulatory standard in every territory that we want to export to, and we are currently evaluating our process export policy. We are also working with our suppliers to institute testings at key points throughout our supply chains before shipments.

Henry Soesanto:

And for sure, there will be more new regulations in the future. So immediately, we will further invest in the capability to anticipate and put them as part of our quality system. Lucky Me has been providing great products for more than 30 years. We have had long standing relationships with our stakeholders, and we have further put in place various marketing campaign across channels. And we believe this will enable us to reinforce the goodwill with our customers. Finally, it has been, and it will always be our commitment

that we ensure our consumers they will continue to receive only the good quality and safe products. And now, I would like to turn the call over to Jesse, to talk about the financial impact.

Jesse Teo:

Thank you, Henry. And good afternoon to everyone. So while this incident is beyond Q2, we deem it wise to share with everyone in a public forum, the financial results of this incidence. First of all, on an export front, the affected geographies are immaterial. They're less than 0.2% of the turnover of the group of APAC branded food and beverage. Domestically though, because of the noise that was caused by the incident, July had a soft month for instant noodles and it declined 15% versus year ago. However, because we had very strong momentum in our other businesses, which continued to grow double digits, we overall had a flat month in July.

Jesse Teo:

August for instant noodles was a record year last year. And with the continuing effects of this incident, we believe that there would be a dampening effect on our overall Q3 results because of this incident. Because of the marketing and sales interventions that we are making to give assurance and to reinforce goodwill with our consumers, we believe that this issue is transitory, and that we should be able to overcome and restore our path for growth for noodles in all our categories subsequently. We will now focus on Q2. Next slide please. Next slide.

So we had, as Henry said, a very strong quarter and first half for Q2. Our growth accelerated in Q2 to 13.1%, bringing up our first half growth to 10.1%. This was around 7% as of Q1. Leading the charge is our APAC branded food and beverage, which grew at 18.1%, highlighted by the domestic business, which grew at 18.9%. And as Henry mentioned, the growth is broad base. All of our categories grew double digits in value terms. And moreover, except for noodles, which had a very high base because of the pandemic demand for instant noodles, all the other categories grew double digits in the first half in volume terms. This is highlighted punctuated by the strong growth in bread, fresh bread, which we declared as a priority, which grew almost a 100%, and our package cakes, which grew more than 20%.

Jesse Teo:

For meat alternative, we had a soft a quarter where we declined 3.5%. Part of this, organically we declined 2.3% in value terms. However, this is the first quarter since we have been reporting quarterly, that exchange rate has become a headwind for us. Exchange rate brought the sales down by 1.2% as the Sterling weakened relative to the US dollar, even as the peso weakened against the US dollar. The first half though, our meat alternative business is relatively flat at negative 0.8. For gross profit, we were able to achieve what we said we will do, which is to keep the absolute amount. We grew gross profit by 7.4%, and first half is up 1.2%. However, because of the lag of pricing relative to the commodity price increases, and also our intention not to fully pass on the price increases of the commodities to our consumers, we had margin declines.

Jesse Teo:

You will see that our margin decline, versus a year ago, was 1.8% at 33.6, and overall on first half, it's 34.4 or three percentage points lower than a year ago. For core EBITDA, the decline is a bit higher than gross profit, because of our continued investments in OPEX, particularly in our meat alternative business in the US. More on that when Marco discusses the meat alternative results later on. For core net income and core net income at ownership, we were able to churn out positive growth. We had a more favorable tax

rate. Last year, we had several big ticket deductions that were redeemed. Some provisions would be necessary. This year, those deductions are no longer present as we have a more steady state business. And we are now applying a more steady state, 24% blended tax rate. This helped us achieve growth on a core income, and a core income attributable to shareholders.

Jesse Teo:

You will also notice that the difference between net income and at ownership, would be now marginal, as we have now the full year impact of the January 2021 full acquisition of our major subsidiary, Monde MY San. Non-core items is now insignificant part. This has led to a big increase in reported net income. In fact, Q2 last year, because of the extraordinary items related to the IPO expenses and the Arran convertible note expenses, we reported a negative 2.9 billion loss on a reported net income basis. As you recall, we excluded that from the core, and therefore the turnaround from a negative 2.9 to 1.9 is a 3.8 billion turnaround overall in the first half. We are reporting 4.3 billion peso on a net, all in reported net income. The same number year ago for the first half, is negative 0.5 billion. Next slide, please.

Jesse Teo:

Now zeroing in on APAC branded food and beverage, as I mentioned, sales increased 18.1%, led by domestic business, which grew 18.9%. Our international business also had a turn around. We experienced difficult challenges on the logistics front in Q1, but we started back at the growth front for international, growing 7% in Q2. Gross profit grew on absolute terms and EBITDA as well. EBITDA grew a little bit lesser because of the investment in OPEX, particularly in advertising promotion and selling expenses. On the core net income, we had spectacular growth of 27%, largely due to the high tax base that we had for the previous year. First half, our APAC branded food and beverage reported close to 30 billion of sales, representing 13.2% and a core net income of 4.1, or a growth of 3.9%. Clearly, we have able to use our sales growth to cushion the blow on rising commodity costs, to keep the gross profit and net income at least at par versus year ago.

Jesse Teo:

Next slide please. Just to remind everyone also, we never had a difficult year. There was never a collapse in our historical performance, even during the most difficult days of the pandemic. We were growing with some quarters of modest growth, but we never had a decline. And so this 18.1% versus a year ago, is impressive because we never had a bad quarter in our history. In fact, this quarter is even stronger than our previous quarter, growing by 4.3% quarter-on-quarter, on top of the 18.1% year-on-year. Overall in the last two years with the pandemic included. We have been growing steadily at close to seven percent on a three year CAGR basis. Moreover, as I mentioned earlier, our growth is good, sustainable growth. We had to take some pricing to offset the commodity costs and we had a huge pricing increase in our... That drove our revenue, but we also had good revenue, our revenue growth from volume. Forex contributed very little to our overall growth for revenue. Next slide.

Jesse Teo:

Now on to Share, where we continue to maintain number one or number two positions in all of our major categories. In noodles though, after a high during the pandemic, where consumers flock to our brands during the pandemic, we suffered a letdown in Share, ending the Q2 with 67% Share. Still, our opportunities are in the areas of cups and some challenges in our dry pouch business. On the dry pouch business, we have now introduced our Kasalo pack nationwide and have introduced it in our two most popular variants, the Calamansi variant and the Extra Spicy variant.

Jesse Teo:

In order to excite the category also, we introduced a mix and match variant, the Extra Chiliman Hot, and the Sweet and Spicy Mansi. This is a combination of our most popular variants. In fact, these are ideas coming from our consumers, where they mix and match our flavors and we all made them our limited time offerings to excite the category. We also have the Milky Me initiatives. In particular, the chicken variant for Milky Me is doing well. To remind everyone, this is a value add instant mami with the creaminess of milk added to it and fortified with Vitamin A and Iron. We believe that this initiatives along with our communications of assurance should lead us to growth path and lead us to growth recovery.

Jesse Teo:

For biscuits, we had a spectacular growth with volume up double digits, along with value. Our biscuit sales and value sales have exceeded pre pandemic levels, so we have recovered the weakness in out of home consumption that we experienced during the pandemic. However, we have not been growing at par with the category growth. The category has recovered faster than us, and there are several competitors that are doing better. In order to address this, we will focus on our distribution down line or to the general trade with a more focus set of SKUs. We have several SKUs in our stable, but we deem it better to focus on a few bigger, better fewer in the general trade.

Jesse Teo:

We will also partner more aggressively with modern trade. We've determined that visibility is one of the key business drivers in the modern trade. And really we will invest aggressively in order to get a rightful share of shelf in the modern trade. Finally, we will renew value proposition communication in all of our key brands.

Jesse Teo:

Now onto the other categories, starting with culinary. In oyster sauce, very happy to report that we have further increased our Share lead, where we now have a 61.2% Share in our Mama Sita oyster sauce brand. For yogurt drinks, with Proyo helping us lead the way, we have further strengthened our position, breaching now a 90 Share position in the yogurt drink category. For cultured milk, very happy to report that we have now solidified our number two position. Recall that we had supply chain issues as Delight was being brought in by a cold chain from Thailand. We now have more stable supply and this has led us to full recovery and then some in our cultured milk business. I'll now turn it over to Marco who will start, who will discuss our meat alternative results.

Jesse Teo:

I'm sorry. Just one more slide, before I turn it over to Marco. A word on the key commodity trends, Wheat and Palm Oil. Wheat and Palm are two commodities after experienced record surges to all time high levels have now been softening. Recalled that in the first half, our lock ins really helped as we were buying our wheat and Palm oil at much lower than spot prices.

Jesse Teo:

However, with the sudden downturn on these prices, our lock in positions are now higher than spot prices. Recall that we mentioned in previous forums that we have been employing tranching lock in approaches because we didn't know, nobody knew, what the trends will be. This partially mitigated our position relative to the spot price. But overall, our lock in prices are still higher. To remind everyone, for wheat we

are secured or locked in up to Q4 of this year. And for Palm oil, we have positions up to Q1 2023. We will fully enjoy the lower prices of these commodities by the beginning of next year.

Jesse Teo:

On the exchange rate front, we continue to have the stockpile of US Dollar over a hundred million net US Dollar positions. This helps us with the peso weakening relatively to US Dollar. I'll now turn it over to Marco to discuss the meat alternative business.

Marco Bertacca:

Thank you very much, Jesse, and good morning, good afternoon to everyone. Even before I go into the financial performance of the meat alternative, I just to want to give a very small, very short intro and maybe take the last slide as a bit of a reflection of where our key market and the meat alternative business currently is. So, first of all, it's fair to say that we play mainly in the UK and we have a business in the US and we have a global QSR business, which I spend much more time on. But the UK is not exactly... Let's say it's in a particular challenging situation in terms of economy. Also I would argue in terms of the current forecast for very recently the Bank of England has talked about 13% inflation, which is something that the country has not seen for a very long time. Talking about the recessionary behaviors, and in particular also it continues to increase in the commodity.

Marco Bertacca:

Unfortunately, I cannot report the same trend of slowing down on some of the commodity. One of the latest numbers I was looking at, as an example, the UK gas cost has doubled from already very high prices in the last month. So this is putting a little bit of a picture around the challenging situations, certainly from the economical perspective, but also from the overall category perspective. I'll share a little bit about what the category is doing overall. Therefore, it's very important that we discuss, and I will be extremely open with you. How are we doing compared to the competition, how are we doing in an absolute terms and what are we focusing on in order to find a way to sail through these turbulent times for category and the regions where we play and exiting this situation with a much stronger business.

Marco Bertacca:

This is done by working on some of our fundamentals and some of the areas that I will touch upon, in particular, food service and QSR. So maybe I'll start from the financial with the next slide, please. So as Jesse has already introduced, our net sales report Q2 is minus 3.5. On overall reported basis, we are kind of flat year-on-year. What is important to notice here is the trend in the volume, we have a decline of 7.9% in the volume while the overall category was down 13.4 overall in volume. So this is where I was saying in the intro, the category is suffering a moment of slow down, not only overall, but also a bit of a shift from retail to food services, you would see. And we at Quorn are really focusing on ensuring that we're doing better than the category. This is why the volume decline is never good.

Marco Bertacca:

If there's an impact throughout the company that's not what we're here for. What is the good aspect of that, is that we are declining less than the market. And therefore this is a result in a stronger share for the company. And I will address that later in particular about the UK. While in the US, we still have a bit of a challenge also from the share perspective. The other big element that I want to highlight here is the growth in food service. Now, I'm sure you remember our key strategic drives have always been the UK as our core market, overall investing in the US for growth, and food service/QSR on a UK and global basis.

Marco Bertacca:

So touching upon that food service and QSR, I'm extremely happy even Henry mentioned in his introduction, we have experienced a growth of around 45%. This is absolutely in line with our strategic intention. And this is taking the food service area from an 8% contribution to the total meat alternative business to a 15% contribution to the meat alternative business. This is extremely important for us because we are then able to stand on two legs, not just rely on retail, but also the very strong food service business. And in this area we're doing extremely well. We've also passed price increasing in the first half. I will come back to that in the next of the slide. If I then move to gross profit, our gross profit has a 35.6%, a decline compared to the first quarter. And this is essentially driven by, as I said, lower volume. And the fact that our price increases at a time lag that compared to the increase of the cost of raw material.

Marco Bertacca:

I want to put a little bit of a personal reflection on this. You may have seen a number of meat alternative company reporting their numbers in the last couple of weeks. I confirmed that our long term trajectory is to restore our percentages. But for sure we want to always pass on the consumer as also Jesse has mentioned our cost increases, but not to fully recover our margin per se. So we want to pass over what is our cost as also, so we are planning to recover clearly some of our margin, but we are extremely happy to report that our business is extremely solid and we have the most solid business in terms of meat alternative across the world in terms of gross margins. So we are still in a very, very healthy position.

Marco Bertacca:

This has always been one of our intention, because we are been here for the long term. And with the intention of investing below the gross profit, a gross profit stability is very important for us. If you then move to the EBITDA and the Core Net Income, I want to highlight one element in the presentation, which is, despite the fact that this is clearly lower than the first half of 2021, one of the key elements is in line with our strategic intent to heavily invest in the US. I want to be able to maybe start to separate what is related to our heavy investment in marketing and in activities in the US and what is our... Let's call it core business. So if we exclude the US investment in this case, our core EBITDA is in a region of a billion peso and our Core Net Income is in the region of half a billion peso. So very strong and very profitable business in the core with a very conscious decision to invest in the US in particular. Next slide please.

Marco Bertacca:

So here, I want to do a little bit of reflection on... I talked about in the introduction, what's the environment around us, and of course, together with the team, when the environment around us is putting pressure, it's always very important to go back and reflect on what are the key activities to focus on. Where the focus of the organization has to be, and here, I want to share with you some of the key activities that are really tailored at making us a stronger business for the future. I really fundamentally believe, and there's plenty of articles that refer to history. There's always an opportunity to go get out of a downturn with a stronger business. So those businesses that are able to focus on some key actions, we'll get on the other side stronger. And this is what we are really focused on doing.

Marco Bertacca:

So if we start from some of the actions in the first half and focus on the second half, you see on pricing for us has been extremely important. This is why we've been able to keep and to really work on restoring progressively our margins. We have been putting price increases in the market. Our brand is extremely strong. In meat alternative, there's a number of brands out there that are reasonably young. Our brand is

solid. Our brand has been around for many years. So what we see is, we've been able to price twice, actually. For example, in the market like in the UK, but I also want to highlight that the last pricing activity down in the UK was much harder than the first one. So it is the overall with the very high inflation, and the cost of living that is extremely high in the UK, that the overall trend for price increases is really creating tension between supplier, customers and consumers.

Marco Bertacca:

The success that we've been able to achieve so far, I really believe is that it's a big confirmation about how we've been able to restore the relationship with some of our fundamental customers in particular with Tesco. I will show you some specific number of Tesco on the next slide. Clearly consumer offerings. We have chosen a very clear activity to focus on fewer initiatives, but very critical to the time we are living in. So we're not going to go for a wide number of new launches. We focus on one or two, the deli range, which is actually happening as we speak.

Marco Bertacca:

In fact, this morning before joining the call, I was on the line because we are commissioning and we are producing for the launch of this project. It's a fantastic new range of deli slices. And this is one, actually one of the first project I worked since I joined Quorn. So I couldn't leave my baby. I will come back with the results in few months, I'm sure about that, but is a very important project. So is a key launch for us. We're putting messages, we're putting marketing. We really believe that even in difficult times, spending behind a few activities, that is crucial. And also we do value proposition, so we are really stepping up in our messaging to the consumers, that our meat alternative business is now able to provide pricing that is very, very close, if not at times, even lower than the meat business. And that is some of the key messaging that we provide. And I will tell you more in the next meeting.

Marco Bertacca:

Key is also to continue to work on the basics. Distribution and market share are some of the key indicators of the day-to-day that will drive ultimately success in the future. So I'm extremely happy to report that the distribution in particular, in the UK, is up 12%, in the US, is up 4%. And this is why with a category that is declining, our UK market share increased to 31.2. I come back in the next slide. And what is the focus for the second half, is very clearly on, given that the space for the meat alternative on the shelf of retailers is currently constrained, so it's not expanding at this stage as it was couple of years ago. And I believe it will continue to be in the future, fighting for that space, taking a very visible proposition on the shelf, inviting new consumer in is very important, so that's what we are actually focusing on the second half.

Marco Bertacca:

Food Service and QSR combined, it was an incredible growth, is something that is continuing as we speak. We are talking about 51% in the first half of this year compared to a 2019 run rates. So we have extrapolated, we've completely removed the pandemic effect out of these numbers. And you can see that our 2022 first half is actually more than 50% higher than in 2019. So one of our strategic pillar is really giving us a lot of source for encouragement for the future. I'll talk in specific later on KFC launches and limited time offerings, maybe giving you a couple of news feels that are just happening. And we are strengthening, for example, on our Sodexo relationship. Globally, this is what is really driving our growth.

Marco Bertacca:

And also, let's say, given by the extreme volatility of the inflation I've never experienced before, size of the cost inflation, that is really pushing a number of mid alternative business to have to find new homes for their businesses. That's why we've been contacting a number of times for this, is ensuring that we are very, very thorough and very, very clear inside our company on cost control. So our quarter two overall cost is lower than quarter one cost, across all the different segments, including SG&A marketing. So our key intention is to continue to invest, but we're becoming even more choice with than before in the areas where we want to invest.

Marco Bertacca:

We are also clearly working on supply chain simplification. We had, for example, moved one line that we had in one plant in another factory in order to optimize what we had. And we want to continue this type of control also in the second half. We are looking for further and further supply chain initiatives because it is absolutely needed, not just now, but also for the next coming years to continue to recover our gross profit percentages.

Marco Bertacca:

Last but not least, given the fresh supply chain and some of the possible implications, also during the wintertime, driven by gas and availability of some of the raw materials, our key focus is on maintaining a high level of customer service. Being there on the shelf is fundamental now. And we still have more than 95% customer service, and we want to maintain a healthy level of stock and procure the key ingredients from also some of the suppliers that are also finding it tough in the current environment.

Marco Bertacca:

So next slide, please. Here I'm going to do a bit of a deep dive. Can I have the next slide? Thank you, thank you very much. So a bit of a deep dive on something I've mentioned. This is the UK, and I want to just look at some of the key metrics. One of the biggest issues that we had in Quorn for a number of years, since the introduction of new brands and the category explosion, is that we have been losing market share for a number of years. And now I'm extremely happy to report that for the last few quarters, and you can see on the top left of the chart, we are really growing market share. So if you see it, the number June '21 and June '22, on aggregated level, we are growing. But then we are also growing year on year, on both chilled and frozen. And that's very, very important for us because our business has always been very strong in frozen, but now we are really stepping up also our presence in chilled.

Marco Bertacca:

Now this is within the reality of a category that has declined. So you see on the slide, let's say on the chart below, that we are declining, but much lower than what the category included Private Label is. So it is not where we want to be in the long term, but when the time is difficult, looking at how people around you are doing, it is also very important. Now having said that, I just want to confirm one thing, which is also a bit of a message that I continuously give inside the company, which is, we are the market leader, our role is to expand the category. It's not just to do better than our competitors.

Marco Bertacca:

But I have to admit that in difficult times, I take a win of market share as a very, very good sign, but our objective is much bigger. Our objective is to increase penetration. Our objective is back to our purpose, ensuring that more and more people eat our mycoprotein instead of eating meat, for the good of

themselves and of the planet. So strong market share growth, very important for us, but with a big objective that we need to continue to strive for and that will ultimately take us back into growth.

Marco Bertacca:

Now, if you then go to the distribution, this is extremely important because you will remember we had a tough timing distribution, also in the UK. And here you can see that our distribution cumulative, really, versus a year ago has grown 16%. And that is what you see on the chart above. Now, what is even more impressive and more positive for the future is what you see on the graph below, on Tesco. So first of all, you see on the first bar, the orange bar, this is, let's say, the changing number of point of distribution, by account. The first bar refer to Quorn, the second bar refer to everyone else, including Private Label, and the third bar is the net result.

Marco Bertacca:

So you can see that in Tesco, for example, we have been growing in the last year, 31% point of distribution while everyone has declined. And a very similar number has been achieved for Asda, while in Morrison and Sainsbury, we've done similar level than the competition. Now, Tesco is our biggest customer, and we are clearly winning with the biggest customer. And that is a very strong testament of the robustness of today, and also going forward.

Marco Bertacca:

Next slide, please. Now I've been very, and I am very positive and very pleased with the result that we have achieved in the Food Service and QSR. I'll come back to QSR in the last slide. And I'm also very, I think there is very stronger position and results that we are achieving in the UK in particular, if you look at the other players. I have to admit, I'm not as happy about the results that we have so far achieved in the US. It is one of our three strategic pillars. We have started to invest heavily in the last eight, nine months with a number of activities, but you can see on the left, this is not yet translated into, no market share growth, no growth in volume and in net sales. In fact, our sales have declined. It's actually flat in quarter two, but it's down, year on year. So quarter two is a bit better than quarter one, but not where we want to be, particularly not for the drive and investment that we're putting in the market.

Marco Bertacca:

So you can also see that while our point of distribution have increased, they've not yet increased to the level that we want them to increase. So it's tough going in the US. It's not an easy market at this stage. You've seen it also from some other results, but this is only, not even the first half of the whole match and we'll still in it. We're still heavily in it. And we're monitoring and trying to identify what is working and therefore double down. What is not working, and therefore we should stop it. So we have invested significantly, as I show you on the financial slide, behind our awareness. Now awareness is really starting to move. Is now 62% in terms of aided brand awareness, which is an increase of 11% since we started to monitor. We also have some great results in repeat rates at Kroger, which is on one of our biggest customers. We are second only to MSF.

Marco Bertacca:

So it's really going very, very well there, but is only one customer. We also seen that when we do sampling and our consumer have the possibility to taste the product that is bringing, then they come back. And so also on the distribution, we've started to gain. We're not where we want to be. We really driving to get by year end, the same level that we had at the end of 2022, which was really where we want to be, but

we're not there yet. And so a lot of work to do. And in particular, what our focus is for the second half is, we want to build on increased brand awareness. We need to find a way to translate the brand awareness increases into increased penetration, increased sales. And we want to really obtain a higher repeat purchase by increasing the trial activity that we do. So we continue to invest. We have rephrased and revised our investment, and we try to really put the investment behind those activities that we see are working. And some of the activities that are not working, we are stopping.

Marco Bertacca:

Next slide, please. So I think this is my last slide, and I just want to close with the area of Food Service and KFC in particular. This is our other big strategic belief and this is where we have a number of successes. And the team was invited in the US and we have launched, which is interesting. I always said, let's not count on us being able to sell our products to KFC in the US, but they had some failures with some of the competition. They've invited us, and they've already tried our products twice, the US team, which is encouraging, but no progress on that yet. Where we have very clear, visible and tangible progress is launches in Europe.

Marco Bertacca:

What I am extremely happy to share is that recently we had a conversion from what was launched, for example, in the Netherlands and in Germany, from an LTO to a permanent listing. That is very important. That has created a bit of an uplift also in the forecast. I don't want to say too much about this because it's about the future, but we're very pleased about the consumer response to our products in Europe. That's the most important thing because that creates excitement and that takes our brand very much out. We have a number of continuation of conversation also in Asia and Latin, that is preparing for some very interesting prospects ahead. If we then look at, I already mentioned, our Food Service growth, we have had the best ever first half in Food Service. And we have been able to put price increases also across all our markets, including the European market. There's a big effort involving the Sodexo concept across the European market and others.

Marco Bertacca:

And what we are also doing, which is really very much at the crossroad of both our purpose and our commercial intentions, we are partnering with some of the big Food Service providers to be able to provide meat alternative at an appropriate price for schools, for the healthcare sector, and many other sectors of the Food Service that are catering for people in need, in particular during a recession, with a proposition that is even better in terms of, not only nutrition, but also pricing, than meat. And there's a number of activity that are hitting both on our purpose to do well in society, and also to find a way to convert more and more consumer from meat to meat alternative. And the strength and the overlap of some of the purpose, some of the why's of Sodexo and Compass with ours, has really made us step up these efforts.

Marco Bertacca:

And there are a number of activities that are really happening, in particular in the UK society, where we are the protagonist of this shift. And also the insurance that people in need, in particular during the crunch time of much increased cost of living, can still afford healthy nutrition and they don't have to fall back to unhealthy nutrition.

Marco Bertacca:

Having said that, I think this is my last slide. So before passing back to Jesse, we are in turbulent times, the increase of the cost is evident. We've been taking number of steps on there. We want to get at the end of this times as a stronger company. We are doing that by strengthening our UK positioning through market share and distribution. We have a very successful QSR and food service business, and we have much more work to do in the US, but we believe that we will be able to make it happen. Back to Jesse.

Jesse Teo:

Thank you, Marco. Yeah, just to end before our Q and A, just a few remarks on cash and dividends. So, you'll see it in the package that we have a very healthy cash levels of 13.8 billion. Not much has changed versus our position versus end 2021. This is despite the fact that we have invested in a lot more inventory to protect ourselves from issues on supply. With that they have decided to declare a dividend of 14 centavos per share. This is equivalent to 2.56 billion Pesos or 79% of our consolidated net income after tax in 2021. Recall, we said that we will declare dividends of at least 60% of our net profit after tax. We are declaring 79% of the amount, and we just posted that news today. So with that, we start with our Q and A.

Mike Paska:

Thank you, Jesse. This concludes our formal comments. So I will now moderate the question and answer portion. Questions can be submitted via the chat box and we'll attempt to address as many as we can, time permitting. Our first question is for Henry and this involves ethylene oxide question. And the question is how is Monde Nissin addressing the Lucky Me issue in Europe? Is it still selling to EU?

Henry Soesanto:

Currently we are still trying to understand how they test this EtO. So we are still assessing whether or not we are going to keep on exporting to this area. Until we fully understand, we may want to stop it for a while.

Mike Paska:

Thank you, Henry. The next question is for Jesse and this involves noodles. Jesse, can you discuss or comment on the margin difference between Kasalo versus regular pack? And also how much of Kasalo revenue is a portion of overall noodle revenue during the second quarter? And then if you could just remind everyone of the split between dry and soupy noodles.

Jesse Teo:

Okay. So Kasalo pack versus the regular pack has about 600 to 800 bps difference in terms of gross margin. Kasalo pack was just the big pipeline in May, June. So the number is less than 2% as of now. But you know 2% for dry pouch wise is a huge number because we are actually more than 80% of the dry pouch sub segment of instant noodle. So it is off to a good start. What we can say is that in the areas in the test markets in North and Central Luzon, we have been able to see that there is minimal cannibalization number one, and that the volumes for Kasalo pack has been incremental. As far as the split is concerned on our noodles, the main part of our business is in dry pouch, which is 60% of our instant noodles. You have wet pouch that around 30, and then 10% would be cups.

Mike Paska:

Thank you, Jesse. Next question is for Marco. And this is what are the recent trends in Beyond's discounting and in face of this pricing environment, can Quorn continue its current pricing strategy without losing market share?

Marco Bertacca:

Yeah, look, it is a very good question. I've been looking at recently the announcement from Beyond, I think they reported a decrease in revenue per pound of around 15%, so that what they've been doing, that's why you're seeing a ballooning gap at the bottom of the P&L. In the latest reading that we have, we still have headroom because we are still priced below the overall average of the category. So our position is, we have something unique. We make our own protein. I continuously say that. And I think this is what is giving us the strength of being able to position ourself in that situation. That's why we are currently growing market share, despite being the few that have been able to pass the prices up. Because I just want to remind some of the very, very smaller brands have not been able to put the prices up because the retailer just enlisted that and you will see many, many more to come.

Marco Bertacca:

Having said that, you know, we've done two big pricing quizzes, and we will be monitoring... We are monitoring very, very closely, the trend on the volume. Because of course, volume is also important for us. So I believe we are well placed. Our brand is extremely solid certainly, that's also why, if you want, I'm currently talking from the UK perspective, you can imagine that our US perspective is weaker, right? So we are not the number one. And that's why we have not been able to grow market share there so that our core market, which is 80% of everything we do is we have a very, very strong position, which I believe can continue. And we continue to monitor the elasticity of our volumes following the second price increase that we've just put in the market. So we have a good platform, but we continue to monitor that.

Mike Paska:

OK, thank you, Marco. Jesse, the next question is for you, and this is the Philippines domestic food business. How would you characterize the level of inventories in the channel? Did distributors front load buying sales on an expected recovery?

Jesse Teo:

No, we do not. We do not load the trade. In fact, there are limited warehouse space that our distributors cover and modern trade does not have a lot of space. Our products are lower in value and are quite bulky. So it doesn't make sense for people to stock up when there is no off-take. So you could see the transfer immediately reflect in our shipments. And to be able to stock up is very, very expensive, given the logistics cost vis-à-vis the selling price of our products.

Mike Paska:

Okay. And Jesse, another question for you, how much of the 2022 CapEx guidance has been spent? Could you provide details on what CapEx spend was used for?

Jesse Teo:

Yeah. So out of the 9 billion, that we have communicated during the IPO only 2.3 has been spent in the first half. We are deliberately controlling some spending, given difficult economic times. Some of the key

spendings that we made in APAC branded food and beverage are the investments in bread. We are bringing new equipment for our bread facilities, as we communicated. And we are finishing our Malvar plant and it's already running, but we have spending for that in the first half. In the UK, we are finishing the harvester that is associated with our 4th fermenter and also purchasing a deli line, which will be launched in second half of next year.

Mike Paska:

Okay. Thanks Jesse. Another question for you. And it's two parts. The first is where do you source flour? And if you have secured flour requirements, both in terms of volume and price, that's the first question. The second is regarding biscuits. What is your view on competition? Especially the new players entering the space in the Philippines, like Munchy's from Malaysia.

Jesse Teo:

Yeah, so flour, we don't... We actually buy wheat. We have our own flour mill and this is one of our distinct advantage. So we buy wheat from mostly sourced from North America. As we communicated, we have locked in the supply and the prices up until Q4 of this year. So until the end of this year for that. Again, this strategy of locking in served us very well in the first half when prices were on the rise. But again, in the second half, as I mentioned, since the prices of wheat, and palm oil have gone down, our lock-ins are now higher than the current spot.

Mike Paska:

Thank you, Jesse.

Jesse Teo:

And competition on biscuits, actually the key players that are making a lot of strides in biscuits are the local players. There are three main players in the biscuits in the Philippines. All of them are local companies. There's one particular company that is actually surging the highest. Most of the biscuit players are enjoying a surge in volume, going up with the high tide as there is a strong recovery in demand, in biscuits anyway, with the resumption of out-of-home consumption. But one particular local company is doing a bit better than the rest. There are competitions coming in. We see the Indonesia players, Mayora, Nabati playing key role. We don't see Munchy's yet, but we assume that the parent company will try to bring some of their products in, in the future.

Mike Paska:

Okay. Thank you, Jesse. Another question for you is what caused consolidated core income in Q2 to grow despite the declines in margins?

Jesse Teo:

Core?

Mike Paska:

Oh, sorry. Core income.

Jesse Teo:

Core income. Okay. So for core income, I explained earlier that in Q2 of last year, we had several big ticket deductions as part of non-core. We took some provisions under core for tax, and therefore we assumed a higher than normal tax rate of 29 plus percent. The normal going tax rate with the CREATE law tax rate is 24. So there's a significant Delta in the tax rate between what you're using in Q2, 2022 versus Q2, 2021. And that accounts for the huge Delta. There is also some benefits from the volume leverage on depreciation. Depreciation obviously is fixed, and we had much higher sales volume in Q2 2022 versus a year ago. And we also had... It contributed to the operating leverage for depreciation.

Mike Paska:

Okay. Thank you, Jesse. This next question, regards Quorn in the Philippines and it's two parts. First part is, do you think they're competitive enough or is the ongoing supply chain crunch pushing them to price their products at the higher end of range? Second part is, does Monde Nissin price point affect its acceptance among Philippine consumers?

Jesse Teo:

I think the prices of... Several local companies have introduced their own meat alternative brands, and the prices are significantly lower. Ours is imported. It's cold chain, so naturally it'll be more expensive. Yes. I think the price would be a factor in getting scale in the short to medium term. We are looking for interventions on how we are able to bring in the product or make the product in a much more efficient logistics way to solve that riddle for the future.

Mike Paska:

Thank you, Jesse. This concludes the Q and A. I would now like to turn it back over to Henry for closing remarks.

Henry Soesanto:

Thank you everyone. Let me... I was on mute. Thank you everyone for your participation and continued interest in our company. At midyear, we are seeing double digit top line growth driven by our APAC BFB domestic business. While we had a disruption in July with the EU ethylene oxide news, we will continue to work to recover a lost momentum. Additionally, we are cautiously optimistic that the recent pull back in commodity prices may benefit our margin in the long term, but caution that substantial uncertainty still remains. So I look forward to speaking again when we have our Q3 earnings call in November. Until then, stay safe and healthy. Thank you.