



Monde Nissin

Transcript of Monde Nissin Corporation (MONDE)
Nine Months 2022 Earnings Call
November 9, 2022

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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:

Good afternoon and welcome to Monde Nissin's Third Quarter 2022 Earnings Briefing. I am Mike Paska, Director of Corporate Business Development and Investor Relations.

Participants 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 presentation available on the PSE Edge website posted earlier today. These materials are also available in the investor section on Monde Nissin's website at www.mondenissin.com.

Before we begin, please note that the financial information presented today is unaudited and during the course of this call, management may make forward-looking statements based upon current assumptions and expectations. These are not guarantees of future performance and I encourage everyone to read the disclaimer in the 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.

While our third quarter growth was challenged due to selective noodle recall in EU, which happened in July, I would like to highlight some significant and positive things that occurred during this past quarter.

During the quarter, we continue to see very strong revenue growth from our biscuits and other categories, which help offset the temporary decline in noodle sales, highlighting the benefit of our diversified portfolio.

Additionally, starting in September and continuing strongly in October, we have seen a substantial recovery in our noodles business, thanks to the hard work of our multi-functional teams, of our product development, regulatory, procurement, supply network, sales and marketing teams. Jesse will talk about this strong comeback later in the call.

Furthermore, we have enhanced our overall process in our noodles product line to better ensure that all of our products adhere with the highest food quality compliance standards, regardless of the jurisdiction where our goods are sold.

The final significant item that I would like to highlight is that through the continued perseverance and efforts by our Quorn team, we have been pulling ahead in the meat alternative category despite operating in a very challenging economic environment.

During the past quarter, our meat alternative business has seen 7.1% revenue growth at constant currency. This had been driven by successful price increases, strong volume growth in food service and share recovery in the UK retail business. This momentum has continued as we are seeing a good start in current quarter.

Marco will share more of this positive news later in the call, as well as he will update you on some changes being made to enhance the strength of our business.

With that, I would now like to turn the call over to Jesse to provide more details of our APAC BFB business.

Jesse Teo:

Thank you very much, Henry, and good afternoon to everyone. I'm here to present the nine months 2022 earnings results for the Monde Nissin Group.

As Henry mentioned, we had a challenging quarter this third quarter. Revenue only grew by 0.2%, next slide, please, 0.2% because primarily of the weakness in APAC branded food and beverage. The decline of 0.8 in APAC branded food and beverage is solely due to the noodles business, which had a decline of negative 24% during the quarter because of the issues that Henry mentioned earlier. This brings APAC growth to 8.3% for year-to-date.

Meat alternative is reporting its first growth quarter at 4.2% on a reported basis. As Henry mentioned, on a constant currency basis, this is much better at 7.1%. As many of you know, the sterling has weakened. And whereas before we were reporting FX gains on top line, this time around, the year-to-date numbers and the quarter numbers shows a decline in reported pesos net sales because of currency.

Moving to gross profit, gross profit had a big decline of negative 22% and 8.8%, 880 basis points in margin. This is primarily due to the raw material and energy-caused inflation. Energy and material inflation contributed more than 1.8 billion in upcharge.

But to add to this issue on the raw material prices, we have the heavy overhead that was not supported by the volume. With the huge volume decline we had in noodles, that affected how our manufacturing overhead absorption is done and that contributed around 800 million upcharge on a gross profit level and significant margin. Our pricing action for the year was not enough to obviously offset these two wind pressures that happened during the quarter.

Overall, the effect on the gross margin for the year-to-date is 4.9, 490 basis points. We are now to 33.2%, but we believe that at least the effects on the overhead is transitory, as we will be talking later on how our noodles volume has had a strong recovery in late September and even stronger recovery by October.

For EBITDA, we have continued to make investments in the organizations, particularly in meat alternative and A&P. In APAC branded food and beverage because of the situation in noodles, we had to spend unplanned A&P to ensure that we provide a reassurance message to our loyal consumers and also to promote brand love.

This has been successful as you will see later on, but obviously we have to take that charge during the quarter. Net income and net income with ownership followed through with EBITDA.

Now going to non-core items, the amounts there as we reported, are small, 106 unfavorable for the quarter and just 10 million unfavorable for year-to-date. But there are big-ticket items within that, so we would like to actually have a separate slide to discuss the big-ticket items that's embedded in the non-core items. We will also provide a comparison versus year ago.

You will recall that last year we had huge one-off items, particularly the Arran note, which we'll discuss in the next slide. Because of the absence of those one-off items, our reported net income is up 142% year-to-date at 5.6 billion pesos. For the quarter, there were no extraordinary item last year and that's why the decline in the core net income flowed through to reported net income.

Now, as I promised, we will be discussing the one-off items because within it, there are big-ticket items that offset each other. Next slide, please.

Just to ground everyone on last year, last year we had the Arran note and so we had significant financing losses, one-off losses that we took out from the core. This includes primarily the Arran note, the losses

that we have to take from the redemption of the Arran note, and the interest expense related to the loan that we retired using the IPO proceeds.

On top of that, the next big-ticket item was the IPO-related charges of 655 million. Income tax, too. You have some income tax benefit from the tax shield that we had on those one-off items, but a lot of it was offset by the increase in deferred tax liabilities last year that we booked last year because of an impending change in the headline tax rate, corporate tax rate in the UK. So the brand DTL, or deferred tax liability, had to be increased substantially for the 19% to 25% increase in the tax rates last year. That was last year.

This year, the key items that offset each other are primarily a big one-time gain, one-off gain in derivatives. We had a successful cross-currency swap, which yielded a 1.3 billion gain. That's obviously a one-off.

But we also took some one-off charges for the quarter. Part of it is to be able to restore a better cost structure for our meat alternative business. We took almost 800 billion of restructuring charges for PPE, particularly the BF1 machines. We took a change in useful life charge of 523 million and we are also reducing head count complement in the general office and the plant in order to maintain our cost structure.

As Henry mentioned, we took a lot of steps during the quarter to be able to improve our testing process and vetting of our raw materials to be more globally-compliant, including the recall, we took a charge of 249 million for that activity.

Finally, we have also a relatively small impairment of a machine in APAC branded food and beverage. You could see it in the impairment loss slide of 215. Overall, those big-ticket numbers netted out to a small net number, so that's why there's no meaningful difference between core net income and reported net income. But we would just like to alert everyone that within it, there is substantial numbers, big-ticket numbers that offset each other.

Now zeroing in on APAC branded food and beverage, next slide please, you will see that we have a 0.8% decline. Domestically, we declined by 0.7. Our export on a constant currency basis declined 10%, on a reported basis declined 2.5%. This brings the growth of APAC branded food and beverage for the first nine months to 8.3%.

Gross profit, as I mentioned, had [inaudible 00:13:16] effects. We, unfortunately, were saddled with high commodity costs including palm oil and wheat. Later on, we will share, again, remind everyone that despite the fact that these wheat and palm oil prices have gone down in the world market, the spot prices are significantly lower now, because of the actions that we took in Q2 to lock in these prices we will not enjoy the lower prices until Q1 or Q2 depending on the commodity.

On top of that, in Q3 we have that incident of higher overhead rate, the higher absorption of overhead because of significant volume decline in our noodles business. More on that later on.

On core EBITDA, as I mentioned, on top of the investments, the usual investments we are making, we have to do unplanned A&P investments to be able to recover the noodles business. Looks like those

investments in unplanned A&P are working out as we have had a strong recovery, which we will demonstrate later on. Next slide, please.

So the good news is, as Henry mentioned, is it looks like the business is fairly inflation-resilient so far. Inflation has been averaging over 5% for the year, food inflation at about the same and peaking to 7.7 in October and 9% for food inflation in October.

But the business has been quite resilient. If you look at the biscuit and others business, which is primary beverage, despite rise increases, volume has been strong. I'd like to bring your attention to the biscuit's volume growth, which is double digits and in beverage, which is 28%.

However, noodles suffered a significant decline in volume at 32% during the quarter. Some of it was due to the reaction on the recall in Europe, but part of it is also a bit self-inflicted as we had to make sure that we prepare to be more globally-compliant. Now, our efforts is obviously a journey and the regulatory world is an ever-changing and complex environment, but we feel that with our initiatives in Q3, we are in a much better position than three months ago.

Year-to-date, we have very strong growth in biscuits and others, as Henry mentioned. But now that the Q3 incidents has brought down noodles business to a negative position for the year.

Now, how is noodles doing is an obvious question everyone is asking. So let's look at that first from a share standpoint and then let's look at the actual recovery in October next. So let's look at the share situation with the next slide.

For shares, obviously with that kind of reduction in volume, it will take its toll in our share position. We reported quite a big share loss of more than 600 basis points versus year ago because of the incident. We have aired advertising to provide reassurance and to encourage, for our loyal consumers, to reminisce on their old brand love and it looks like it's working. But on top of that, we are making initiatives on our key three segments.

In our dry pouch, we are preparing for a stronger Kasalo pack launch. Previously, we announced two variants, two of our popular variants in Kasalo packs. We are now preparing five of our variants. As we said, we have proven in test markets that there is hardly any cannibalization in this, and so we believe that this Kasalo pack will bring us incremental growth.

We also launched a mix-and-match variant. These are the mix of our most popular Pancit Canton variants prepared into one. This is a result of consumer listening as consumers were doing it anyway on their own, buying and mixing together variants. We offer them in one pack made from us.

For instant mami or our wet pouch noodles, we are reiterating a value message that communicates '*So Sarap, So Sustansya, So Sulit*' in English, so delicious, so nutritious, so good value for money, and this resonates in these times of high inflation.

For cups, we have communicated before that we had supply chain issues, especially when the volume shifted to cups when the economy reopened. Those supply chain issues are a thing of the past now, and we are able to ship significantly more cups and should be able to restore some of our share positions that we lost due to supply constraint.

For biscuits, we are now tied at number one with a local player. Biscuits, the category itself, is surging so the category itself, as supported by Nielsen, is growing by 20%. We are growing strongly with the high tide. We didn't feel like it's prudent to match

Jesse Teo:

... Aggressive promotion in this time of growth. As a consequence, because of our relatively weaker share position despite of our strong growth, we lost share. But we feel that since aggressive promotion is not sustainable, that things will eventually even out. In the other categories, we are very happy to report stronger shares across the board. In culinary, our oyster sauce business is going from strength to strength. We are over 62% share now, and the good news is this is underpinned by high increases in penetration. That means we are embedding oyster sauce as a regular culinary item in more and more Filipino households.

For beverage, our yogurt drink is nearing the 90% share position. And we have made a full recovery and are close to 20% share on cultured milk. Recall, we had supply chain issues as we bring these products from Thailand on a call chain basis.

Now onto noodles, specifically on what has happened. And we are showing this graph, next slide please, on a volume basis. So there's no distortion on the price increases. As you can see, October is now nearly at the level of June. There are less days, so we presented it on an average daily sales basis.

There's a concave curve that happened in July, August, September. But starting end of September and towards October, we are already at the level, and we're happy to report that early November is showing the same signs as October. So we communicated before that we believe that the noodles issue is transitory and temporary, and we believe that October data is proving that's so. We believe that our share would eventually bounce back as our volumes now have bounced back strongly over a tough Q3. Now I'll turn it over to you. Sorry... I have one more slide on commodities. The next slide please.

As I communicated, the world market for wheat and palm oil has tumbled significantly from its peak. Unfortunately, as we said, we had lock ins on those and those lock ins are exacerbated a bit by the low volume in noodles which uses these commodities the most. So those positions will last a little bit longer because of the soft volume position of noodles in Q3. Right now our projection is that our wheat, we will enjoy the lower prices of wheat that are reflected in the world market by Q1, and for palm oil, by Q2. So with that, I'll turn it over to Marco who will tell us about the great news in UK retail and food service. Thank you.

Marco Bertacca:

Thank you very much, Jesse. And good morning, good afternoon to everyone. Before we dive into the details of the numbers, I would just like to introduce a very brief update on where we are, and I just want to start from where Henry left. We are extremely happy to report that we have a stronger growth quarter as Henry said, just above 7% constant currency. So that's very important for us. On top of that, we actually continue to achieve a very strong record performance in food service and QSR. You may remember that our UK business being our core, growing in the UK and growing in the food service and QSR is one of our key strategic intent. So very happy to confirm that once again, we have a new record in QSR and food service.

On top of that, we need to acknowledge we're working in difficult circumstances in terms of economical and spending power, the category is suffering a little bit. And in our core market, I'm extremely happy to share that our market share in the UK continues to grow so we continue to perform ahead and better than the market. Now having said all that, we have also taken some steps to not only address the inflation through price increases in the market, but also to become a more agile and a more and a faster organization. And that's what I would describe.

So we have taken some steps to optimize the way we do things and to reduce our costs internally as well. So this is really creating a very positive momentum for us. We still facing challenges. We have further inflation ahead and our results in the US are not in line with what we expect and that's why we are working hard to address that. But in our core business and in two of the three strategic intents that we have, I'm extremely happy to report the good news of our progress. So I suggest we dive into the details of some of the numbers now. So next slide please.

So you can see on the slide, as I said, a 7.1% growth at constant currency. The UK is a big contributor to that, that in fact has increased at 8% constant currency. As I mentioned, there's a combination of price increases and share gains in the UK. The UK market, we experience a certain pressure on the category. But also during the category pressure, what is more and more true is that the brands that people trust are those that have the possibility to gain. In other words, consumers go back to the brands that they know, the product that they know. And because we have continued to invest and we have continued to invest in our core market during this pandemic, and I'll give you some more details on that, we see that we are actually able to do much better than the category and everyone else. So again, market share growth here.

We have a growth of 44% across food service and QSR. And this for us is an extremely positive result, it's one of our growth drivers. And again, I will share a bit more detail on that. Now having said that, given the fact that we have continued to invest and given the fact that we have our, let's say pressure from the inflation, we can report still a very healthy 30% gross margin in quarter three. Is a little bit behind our year-to-date, but we are taking consistently a number of measures to continue to improve that, price increases also optimization of our organization.

Of course, this shortfall in profit has flowed through the core EBITDA number, mainly because of our continuous investments. I'll say something more about the US of course, we continue to invest there. Actually, we believe that in the years or in the month of challenging economical environment, those brands that continue to invest are those will emerge on the other side with strength. And that's what we continue to do. I always share with you that we look after our gross margins and we are prepared to invest below that where it makes sense.

We have also had of course less volume through our plans compared to the previous months and that has given us a bit of a impact at the core EBITDA. The US business is going through a bit of a difficult time in the last quarter. And you will see, I'll come back on this. And I also wanted to provide to you some of the results when we excluded the overall US business. So you can see that despite the challenges that we have there, we continue to invest. Although, I'll share about the fact that we are tuning the investment in line with the category development. So next slide please.

Here, you may remember this slide that was coming from the last meeting when I was highlighting what is our focus for the second half of the year. And I just want to provide you with the progress compared to the action that we have announced. At the top, you see that the price increase was fundamental for us and we have delivered a second price increase in the UK. We are delivering another price increase through the food service, QSR, and also to the US. I'm extremely positive about this, and maybe is also the right time for me to give you a bit of a reference point compared to the prices that we see in the market. I remember some question from last time was about are we still competitive in the market with the prices that we've driven, in particular in the UK.

I was having an interview a couple of days ago and I was asked by the journalist, exactly this question. And I could make the reference to one of our big bag of chicken pieces, which is sold at Tesco supermarket at £5.90 per kilo. And on the same website when you try to look for alternative, sorry... to chicken protein, so the real animal protein, you could not really find anything that was as competitive as our chicken pieces in the meat area. So not only we believe that we are able to provide the right quality and the right price, we're also very convenient and competitive compared to animal protein. In fact, animal protein on chicken on their website was normally started around £6.00 and up per kilo.

So even at the low, and that's particularly important in a time of where the consumers are looking at being able to feed that family for a lower amount overall of money. So that's very important for us. So despite the fact that we've been able to pass the second price increase, we have been able to remain competitive, we've also been able to continue to grow our distribution points. In fact, it's quite remarkable to refer to the fact that the category, that the retailers are continue to believe in the category growth. That's very important. So we're not the only one. They continue to give a bit more space to the category, less than in the past. The category space on the shelf has just grown 3%, but our space on the shelf is growing and this is why we have more market share.

So we are given the responsibility to drive the category and that's extremely important for us in our core market. In terms of consumer offering, we've launched a new range of Deli products. I give you a bit of more specific update, but there's good progress so far. We are focusing our messaging on Deli and on value bags, and just gave you a reference of that value bag of £5.90 per kilo. Distribution and market share. This is the big success that we had, in particular in the UK. Sorry. And the category is still under pressure, but our market share has increased to 32%. And we are also driving as hard as possible, the recovery of US distribution points.

In the UK, what I'm also very, very happy to report is, not only our market share is increasing, but also our share of total distribution in meat-free is increasing. So as I said, the retailers give a little bit more space

on the shelf, but we take a disproportional part of that additional space. So our share of shelves has actually also increased. I'm particularly proud of that because we suffered of a few years of pressure in our whole market, and now we are really the number one and growing our share in our whole market, which is fundamental.

On the food service and QSR, I'll give you a bit more detail later. There's another record sales, as I've already mentioned. We are also building our Sodexo relationship. We are using really the QSR and the food service as our vehicle to grow not just in the UK, but also across Europe. And the reason is that we have built some solid relationship with key cross country Pan-European players, Sodexo and Compass are two of them. And we really meet in the area of belief that sustainability is a key driver for future expansion of the meat-free alternative protein category, and that's why they have adopted a lot of our solution to grow internationally. So that's a very important growth driver for us because we allow us to take, not only our product, but also our brand, our fame outside of the UK.

On the cost control. Of course, when confronted with such extreme level of inflation, we have to work on both sides. We have to become as efficient as possible, and at the same time, push our prices as we need, to recover our profitability. But the internal efficiencies is equally important and this is why we decided to look at our organization, make it more efficient. Sometimes, less is more. So we've taken some steps. We've optimized also, and downsized in terms of some leadership positions and also some of our manufacturing has been reorganized in a way that it will become less expensive and more efficient.

That has been received, it's been managed with a lot of attention to our people. And it has been received very, very positive, and now, fully implemented. On the service level. It's interesting that we don't talk that much about service, but in the current world of scarcity sometimes of machinery, of ingredients, we have been able to continue to keep our service level very high in order to have our product on the shelf. And we have to continue to do so because there are some challenges, for example, in the free-range egg because of bird flu, and scarcity also in the area of other ingredients that we use for our products. But we are always looking ahead. And so far, our service level has been kept very, very high. Next slide please.

Now diving a bit in the UK market, in particular retail. I just want to show you some of the numbers. We are 2.1 points ahead of the start of the year. You can see our market share is now 32%. You can also see that it is not just a blip. You may remember we had a tough time in the last few years, and now consistently quarter after quarter, we deliver a market share growth. So as I mentioned, it's both in share of space and distribution. We have achieved 18,500 additional points, which is a 13% increase across customer. And that's very remarkable. And this has been achieved on the backdrop of delivering two price increases during 2022.

I was at the recent plant-based forums. There's a lot of smaller brands that are really struggling with that, both in terms of passing price increases. And the retailers are becoming much more choiceful in terms of what they put on the shelf, and that's why Quorn is the place to go both for retailers and for consumer at this time. So the category overall is struggling and we can see that, that the overall category is still -8. It is improving step-by-step. In particular, it is improving in the frozen area, typical of recessionary environment.

And maybe one thing that I haven't mentioned yet is that our market share growth has been for the last quarter, not just in frozen, but also in chilled. And you may remember a few quarters ago that one of our big battle was, we've always been strong in frozen, we had a long way to go in chilled in terms of new product, product performance, product quality, and the presence on the shelf. And now we are growing both. So now our market share is growing in both chilled and frozen.

Marco Bertacca:

When you look at the right, you can see a new a deli range. We spent a significant amount of time and effort in relaunching this capability. This is a category where you have slices and you put it in sandwiches and is a category that it is very, very important for us because it's a ready to eat product, is a product that is extremely versatile. You can put it into the preparation of dishes, or in sandwiches and it goes also with a younger consumer. We have launched that.

We already had a big range so we are already the market leader in deli, but we wanted to upgrade the product and what we decided to do is we left the old range in and we upgraded at the higher price, a more premium product, which is absolutely fantastic. So it's still early days. We launch it just a few weeks ago, but the rate of sale is quite positive, is eight product per store per day and these ahead of all other competitive launches. So the incrementality is high because we've also seen that we are able to steal shoppers from other competitors so it is one of the big areas for growth for us, the deli area and initial signs are very positive. Next slide please.

So this is the US. I share with you at the beginning, the US is still an area for us to where we're not happy with the performance. In fact we went backwards. We have a decline of 15% here today. The category of course is struggling, but here we have a different dynamic compared to the UK because in the UK we have critical mass. We are the brand that is known by everyone, so everybody goes back to us as a brand. In the US, our brand awareness, even if you see that has been growing to 8%, we're growing four percentage point since we launched our initiatives in brand awareness. We are not yet at the level of brand awareness where people go back to what they know best. So there's much more work that we need to do here. We are working on the distributions. We have recovered an element of the distribution.

We're working hard to do that. You see that we've increased 12,000 points of distribution but of course there are some market dynamic and also some of readjustment of our investment that we need to do and we are actually doing in order to stop the decline and go back into growth. One of the key area for us is really to rebalance our investment from just pure awareness at the time where the categories heavily challenged to more trial. For example, we are really shifting our standard from just creating brand awareness to trialing stores because we know that our product is very, very performing and so we are driving more in store sampling and we are also driving hard to penetrate the food service sector. Next slide please.

I want to give you a bit of an update on food services, our big, big shining start of success. Another record. This is on the back of an extremely high number of reasons. Sometimes I'm asked a question, "Look you're really doing well in food service in the UK, but do you still have space to grow?" What is very important for you to be aware of is there are many, many sub-segment and sub-sectors in the food service area, even in the UK and because now we have the right product, the right channel and the right people on the ground, we are able to address 27 additional universities stocking Quorn products. We are addressing the

right demographic for us. We have launched some new products. We also stepping up in contract category with Compass and Sodexo. I already mentioned to you and that's why even Compass and Sodexo, we have achieved a 50% increase compared to the previous year.

Now I always refer to the previous year, but if you look at our comparison with 2019, which is a pre-pandemic, we are also in the era of plus 50%. So we are really, really important drive. To the point that we have seen that our strategy for growth of food service in the UK can be taken into Europe. And in fact now we got the same team, the same leaders that are driving the food service in the UK are now taking our steps into Europe and we already see some very positive steps in a number of countries. The way we do that is through chefs. So we are not just pushing product into the market but we have a chef to chef organization. So our chef talked to the chef of the food service providers and that's why they develop recipes with our ingredients and that's why we really enjoy this success.

The team is extremely motivated. We have a big plan also for next year. So that's a big shining area for us. On KFC, this is another area of... I remember some questions few quarters ago, Marco are you really sure that we're going to deliver on KFC? you've been investing a lot of the time and effort and here is another big, big area of success because not only we continue to grow in the countries where we are, but more recently we have expanded into Europe. We have taken almost all the European countries now and what I'm very happy to mention is we even launching into France. We had a limited time offer into France. The French team from KFC wanted to launch because they've seen the success of Germany and the Netherlands and they have decided to try the product and they moved from an LTO, a limited time offer to permanent listing.

We were expecting that to happen next year, but it's already happening this year and that's because of the performance of the product. So from December 2022, we would be a permanent listing and the food performance is really, really good. So all the other markets continue to perform well and we are in permanent listing in 17 markets now selling Quorn on the menu. Here I just want to highlight that because we don't make the noise that other companies make when we list with a new country because we know that listing in a new supermarket or in a new country is not a prove of success. The proof of success is when you move from a listing or a trial into a permanent listing and when you stay on the menu. And the reason why we stay on the menu is because our food perform extremely well with consumers and that's why we are very, very successful in the rollout of the KFC and product. Next slide. I think I'm probably arrive to the end of my presentation. I'm more than happy to take some questions. Thank you.

Michael Paska:

Thank you, Marco. Yeah, this concludes the formal comments. I will now moderate questions and answers. Portion of the call. Questions can be submitted via your chat box and we will attempt to answer all questions, time permitting. Jesse, our first question is regarding hedging and locking in commodity prices. Given what was done this year, what are your views and or plans going into 2023 on locking in commodity prices?

Jesse Teo:

Yes, so before I talk specifically about commodities, I would like to first mention we did risk management on not only commodities but also currency. We are very successful. I've been talking before about our US dollar stockpile and obviously when the peso depreciated close to 10% right? We did realize a huge

exchange gain and that's part of the big offset from the depreciating peso that we experience. So we were very careful that our position in US dollars is no more than our short US dollar trading position. So I will continue to do that, to monitor that. So that we have an even position as far as foreign exposure is concerned. So that's still our plan.

For commodities, while we modified our lock in strategy to do more tranche lock ins, we still ended up with fully locking in our requirements and that also a key learning that we have. We will still do some lock-ins, but we will probably not do 100% requirements. We will keep some of it in spot, recognizing that we don't know everything. While the news may be bad, it could suddenly turn a sharp turn for good and vice versa, so we have to take a more neutral position versus going in on a more neutral position. Last year on top of just prices, there were concerns on supply and this is why when we locked in, largely we locked in not only because of the prices but also to secure the supply. This year I think that that concern is a little bit less, we should be able to take a more balanced approach on our commodity exposures this year.

Michael Paska:

Thank you, Jesse. The next question is in regarding potential price increases. What are your thoughts or views on future price increases to gain back margin?

Jesse Teo:

So we have always been preaching responsible price increases. That means we will not pass on a necessary price burden because we all know that our countrymen are already suffering from the high inflation environment. We don't want to pass on additional burden that they should not have. As you can see from the commodity trends, some of the key commodities are going down sharply. FX is a big headwind for us, but we are partially protected on that and we also see competition also having some pricing plan in second half and even Q4. We will take that all into account and decide with collected data on our internal cost structure, plus the environment, to make sure that we continue to do responsible price increases. I cannot give specifics. I think it's not right also to in a public forum to declare our pricing plans, but I can say that we are considering all of these factors as we plan for any future price increases that may be necessary to recover some of the upcharges in our cost structure.

Michael Paska:

Thank you, Jesse. The next question is for Marco and Marco, can you comment on your plans and views of the market opportunity outside of your key core markets of the UK, US and Europe? Just general thoughts or views on other markets?

Marco Bertacca:

Thanks. Thanks Mike. Yeah, look, I get two questions quite often. The first one is what's the view of the category and the second one is what is our opportunity outside of our core market? I remain extremely optimistic about the strength of the category for the mid to long term because the fundamental pillars that drive the category, which is healthy food for people and healthy food for the planet are not disappearing because we are in a tough economical environment. If anything, they become even more important. And I just want to add for example, that it is extremely interesting to listen to the top 27 comments that we hear nowadays where they refer to everybody talks about the problem that we have in the world. Everybody talks about the problem that we have on sustainability and we actually make our own protein. We are the only company that does it at scale and we believe that we can be part of that solution, not just of discussing the problem.

And that's why for us the view of the category going forward is so positive. To compare with regard to the second question which you were referring to, Mike, is we want to win in those areas where we have decided to focus. Before we expand that further, the UK is a must win battle for us. I said it all, I said it from the very beginning. If we do not improve our position in the UK, there's nowhere else to go. Now quarter over quarter, we are beating our market share, we continuously improve and now we are getting more and more strength in the UK. The second step that we've taken is the second area of growth is QSR and food service because it's not just a UK driven channel but is a European, pan-European and possibly global. With that, we have decided to choose partners to do it, with, Compass, Sodexo, KFC, Greggs, and with those we are growing very strongly.

So that's why we are already extending into Europe with those food service players. The third area of growth for us is the US and we are not winning there yet. So in finance we've decided to overinvest just a little bit more than one year ago. We continue to do that, but we are also looking at optimizing our investment level there. So outside of this we will grow with our global customers, but for the time being actually we decided to strengthen our situation so that we capture the growth when the growth comes. In particular category growth.

Michael Paska:

Thank you, Marco. Jesse, the next question is for you and it's based on the past two years, nine month core earnings accounted for approximately 87% of full year core figures. Could we expect the same trend this year? Are there any seasonalities per quarter that we need to take into account?

Jesse Teo:

Yeah, usually in the past two years it has been 13 to 14%. Q4 has been 13 to 14% of our full year profits. There are accruals that are booked during Q4 and that depresses the profits of Q4, the contribution of Q4 profits to full year profits. But this year it's a little bit different. Though we continue to have high commodity costs on wheat and palm oil because of the lock-ins, Q3 was an extraordinary quarter for us. So I mentioned the unplanned A&P spending, especially on our noodles business that should taper down and our low volumes in noodles, which we hope is already permanently a thing of the past. As you can see, October is much stronger and since noodles is one of our big profit contributor, if noodles is much stronger in Q4 relative to Q3, then there should be a bigger share of Q4 profits the total year. So I think it'll be a stronger contribution for Q4 given the circumstances in Q3 is a short answer.

Michael Paska:

Okay, thank you Jesse. Jesse, we have another question for you and this is CapEx guidance for the next two years. Do you still plan to follow the CapEx spending set during your IPO?

Jesse Teo:

For now? No. Given that strong success, unless things dramatically change, inflation returns to normal and the war ends and volatility dies down. In fact, this year our original plan was to spend 9 billion CapEx. We probably will end up with maximum of 5 billion CapEx. We have spent 3.4 billion so far for the first nine months. We'll probably end up with five. Next year it depends on the situation. If there's a strong recovery in volume, we will obviously spend to capture the growth. If it continues to be challenging, then we will have to be agile and respond to the prevailing current conditions.

Michael Paska:

Okay, thank you Jesse. Marco, the next question is for you, and this is regarding the US, any consideration of buying out other competitors in the US?

Marco Bertacca:

So it is fact that our critical mass in the US is lower than what we need in order to be able to capture growth and to drive growth there. So our business is... We need to be able to arrive at a 100 million business to be able to really have a stable and sustainable long-term position in the US. Now, do we do that organically? Do we do it partly through partnership in place, give us access with a stronger route to market. Do we do it through M&A?

Marco Bertacca:

We are clearly exploring all these options. I'm going to be in the US for the next couple of weeks to discuss some of the opportunities with our colleagues over that. But of course, we really want to be sure that whatever we do is very much in line with our strategy of long-term investments. So we're not going to follow the flow of the month, or the wind of the month. Everything we do has to have a long-term sustainable reasoning. So to address the M&A question on the US.

Michael Paska:

Okay, thank you, Marco. Jesse, the next question is for you, and this is involving noodles. How much instant noodle volume was forgone in sales during the recall issue, and what was the average price?

Jesse Teo:

I have to get back on the average price, but the volume that was recalled actually was quite small. The amount is just 49 million on the recall, the actual recall. But the PR effect on the Philippine business was huge. July, we reported 15% decline. August was in even stronger decline. If you could just bring back the slides of the noodles evolution, I think we can go there. So if you recall that slide, July was soft from a volume standpoint, August was even softer. And we only recovered really starting the tail end of September, and we were able to fully recover almost to pre-crisis level by October. So it was significant volume that was lost. We have to get back to you offline on the price.

Michael Paska:

Thank you, Jesse. Marco, the next question is for you, and this is how much of the growth in Quorn revenues came from pricing, and how much came from volumes?

Marco Bertacca:

Yeah, so the growth in retail is mainly coming from prices. And the growth in food service and QSR is by vast majority coming from volume.

Michael Paska:

Okay, thank you, Marco. Jesse, a question for you, and this is the estimated case-hold benefit in 2023 from the 0.8 billion non-core charge to Quorn.

Jesse Teo:

What is that the question? The-

Michael Paska:

Oh, okay. Sorry. Sorry Jesse. So the question is, what is the estimated in peso terms, benefit in 2023 from the Philippine peso? Approximately 0.8 billion non-core charge in Quorn. So for the non-core charge in Quorn, is there a benefit to Monde Nissin?

Jesse Teo:

Yes. I don't have the number right off the top of my head. We will give you that number in a while. We'll just have to check.

Michael Paska:

Okay, thank you, Jesse. Marco, the next question is from you. And it's, can you remind us of what are the major cost components in the meat alternatives business? And what were the main drivers for the gross margin compression?

Marco Bertacca:

So the key cost component for us is there's energy. Energy is a high component. There are some key ingredients, materials like glucose, for example. Egg is also very important for us. And so for us, energy is both in electricity and in gas consumption. So these are some of the, I would say are the key drivers for the gross profit. And the decline, let's say the pressure on our margin is maybe driven by the increase in those. And the fact that we also, I always was very transparent about that, our strategy, we want to keep our gross margin protection. And that's why we are still in the 30% area. But we are prepared and very keen, actually, to continue to invest. Below that, we continue to invest in new product, as I told you, in the daily. We continue to invest, for example, in initiatives to promote our products to the UK consumers.

It is very important in our core market we continue to invest in marketing. And we have also continued to invest in the US because we want to get that growth. But in the US, we are adjusting our spending to the category situation. So overall, also because we have suffered a bit of a volume decline, this is why we also had to adjust our organization overall. So the key measures for us to address our gross profit, sorry, our margins going forward is always in the three areas. So continue to manage the input prices, manage our price externally and our internal efficiencies. And that's what we've been doing in the last quarter. We continue to do, because next year's not going to be much, much easier.

Michael Paska:

Okay, thank you, Marco. And Marco, I'm-

Jesse Teo:

I remember as well, Mike. It's 300 to 400 million pesos benefit in '23 for the restructuring charge that we do. Think '23.

Michael Paska:

Okay. Thank you very much, Jesse. And Marco, we have another question for you. And this is, how are competitors reacting to Quorn's pricing actions? Are there differences in pricing competition in the US versus the UK?

Marco Bertacca:

Okay. It's a very, very good question because of course, it is absolutely correct. There is a difference between the US and the UK. In the UK, we are the clear market leaders. We are to some extent, the people are looking at us and they are trying to follow what we do. But we have, while in the US, not being the market leader, we are more on the adjusting and reactive. So we're not the first one to go. That's why we have seen us going twice, say, in 2022 in the UK. What has happened here is very interesting to notice. Just to give you one particular reference point in the frozen business, where Linda McCartney is the second player in frozen. Historically with us, we have taken the decision to do a number of price increases instead of a big one. They went for a big price increase.

They decided to do a 20% price increase all at once. And the impact on the volume has been minus 40%, minus four zero. So I believe because we have now certainly our size, our number one position. The fact that we have learned to do it, we are doing that very, very well, and well managed in the UK. In the US, that the mechanism are similar. But the category is a little bit more under pressure in the US, as you've also seen in some of the announcement from competitors. Having said that, the drivers for future category are still the same.

Michael Paska:

Okay, thank you, Marco. Jesse, next question is for you. And this is, where do you attribute the lower income results in the third quarter, and when do you expect it to fully recover?

Jesse Teo:

Well, as I mentioned on a gross profit standpoint, it was still the high commodity cost that had been locked in. And also the very high manufacturing overhead absorption because of the significant reduction in volume. You have to remember that we actually spent CapEx, built a new plant, the Malvar plant. And we had 32% less volume during the quarter. So that took a major toll on the manufacturing expense for the quarter. Obviously, if our noodles continue, it's a global trend going forward, that will no longer be an issue and that will be recovered.

We still have the manufacturing, the lock ins on wheat and palm oil in Q4, but by Q1 and Q2, we will be out of that and actually will be enjoying the current low spot rates already. That we are starting to partially book. Okay. So if, say, full recovery of gross margin, it'll be Q2 as everything falls into place. Of course, this is ceteris paribus, we don't know what will happen to the other factors. Sugar, for instance, is an emerging risk for most manufacturers that use sugar. But it's very hard to give any assurance. But if it's ceteris paribus, it should be Q2.

Michael Paska:

Okay, thank you, Jesse. Marco, the next question is for you. And this is, how would a recession affect both the US and UK portion of the Quorn business? Any consideration for implementing additional cost rationalization initiatives to adjust to circumstances?

Marco Bertacca:

Yeah, so we're not far from a recession, anyway. We are almost in the middle of it already, to some extent. What we started to do already six months ago is we are keeping a very, very agile look at what is happening. So we are not planning any more at the yearly or by yearly level. We are at the quarter by quarter. So the first thing is what we do is we stay very close to what's happening in the market. The fact

that we've implemented price increases step by step, I think, has also been very, very important and very good. We believe that we sit in the right place for a recession. What do I mean by that? We've always seen that frozen as being an area where consumers tend to go to when they are during recessionary times. That's what we also see. That's what see our frozen business strengthening.

We clearly continuously adjust our organization. So as I said earlier, we've taken this stack, and this that also Jesse talked about already in the second half of this year. When we look into the next year, I would never completely exclude any further actions. Because it's important that we continuously stay in touch with what is happening outside. And we continuously look after our people, and at the same time look after our efficiencies internally. So the impact of the recession, I think it's what we already see. There's clearly some pressure on the category. We are placed in the right area. If you also consider our price positioning, despite the price increases, we are more competitive than some of the meat offering. So let's not forget that this inflationary trend is not just in the meat alternatives. Is across the whole sector, across the whole food sector. And we are developing also very tailored proposition to address this. For example, the big bag, big flashes that talk about value propositions. So we are preparing for it, but we keep a very close eye to the development of the next few months in time.

Michael Paska:

Okay, thank you, Marco. Jesse, the next question is for you. And this is, could you share what percentage of APAC BFB sales does wheat and palm oil comprise of? So essentially, as a cost of sales, what is wheat and palm oil as a percentage?

Jesse Teo:

17%.

Michael Paska:

Okay, thank you, Jesse. Okay, we have one final question, and Jesse, this is for you. And what is your instant noodle market share today versus before the scandal? Is it fair to assume that you have not yet fully recovered all your lost market share, similar monthly sales despite the overall category growing strongly? So essentially, how much market share did we lose? And even given the rebound, are we near recovering?

Jesse Teo:

Yep. So first of all, the market share that we reported is a September market share. There's always a one-month lag. So we report the same period from a Nielsen reporting standpoint as the quarter in order to be apples-to-apples with our quarter results. So not, none of the October recovery is reflected in that. The previous share was around 66 points, 67%, 66 and change, close to 67%. So we declined versus that level, it was 63.6, so three share points. During that time actually, our retail audit sales was down 5%. Our biggest competitor increased by 33%. So they took over the gap that we had, but we had a fantastic 21% increase in sequential growth from October to September. So we project that sales would translate share gain, and so we should have a strong recovery on the share loss that we experienced, that our share position in Q3. So again, the Q3 share numbers do not reflect the October. There's a lag on that. And we also want to make sure that we show shares that are apples-to-apples with the financial results.

Michael Paska:

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

Henry Soesanto:

Thank you again, Mike. So thank you everyone for your participation in this call and continued interest in our company. Despite a challenging quarter with flat top-line growth, we have made significant progress in recovering lost momentum in our noodle business. And now our meat alternative business is starting to show strength in the category. This positive momentum, coupled with the fact that our biscuit and other businesses have continued performing very strongly, give me some kind of optimism for this current quarter, which is off to a good start. With that, I look forward to speaking again when we have our Q4 earning call next year. And until then, stay safe and healthy.