



Transcript of Monde Nissin Corporation (MONDE)
Full Year 2022 Earnings Call
March 30, 2023

This transcript has been edited for clarity. Please refer to the webcast recording, which is the valid, more accurate record. This document is subject to the same terms and conditions.

Participants

Michael Paska – Chief Investor Relations Officer, 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 Fourth Quarter and Full Year 2022 earnings briefing. I am Mike Paska, head of the Investor Relations Team.

On today's call with me are Henry Soesanto, Chief Executive Officer; Jesse Teo, Chief Finance Officer, and Mark Bertacca, Chief Executive Officer of Quorn Foods.

By now, everyone should have access to their earnings press release and presentation, all on the PSE Edge website posted earlier today. These materials can also be found in an investor section on Monde Nissin's website.

And finally, before we begin, please note that the financial information presented today is unaudited, and during 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 legal disclaimer in the presentation. Now I'd like to hand the call over to Henry for introductory remarks. Henry?

Henry Soesanto:

Thank you. Thank you, Mike. Good afternoon, everyone. I'm happy to report that we closed the year with a strong top-line growth in the fourth quarter and for the full year.

Our Noodles product line proved its resiliency, recovering from its third-quarter dip by the end of the fourth quarter, with a double-digit volume growth. We have also seen Q4 volume growth in biscuits, beverages, and culinary surpassing pre-pandemic level. However, I would like to take some time now to talk about the impairment that we announced today on our Meat Alternative business.

This impairment of Php 20.5 billion is a non-cash, non-operating, one-off provisions against the carrying value of our investment in Marlow Foods, which own Quorn and Cauldron. The impairment cost by the application of a higher discount rate due to prevailing higher interest rates and risk premiums. Also, some margin compression, a more prudent forecast incorporating higher input costs, especially energy rationalization of the trends in the meat alternative category, and cost associated with our recent focus in the US market where we are currently undertaking a restructuring.

This provision does not have any effect on our day-to-day operation of Quorn, Cauldron, or any of Monde Nissin's Asia Pacific Branded Food and Beverage businesses. I continue to believe in the long-term, in the long-term growth potential for sustainably-produced and clean label alternative protein. We are the world's largest producer of mycoprotein. We produce it ourself, which fits all the attributes and is a key differentiator for us.

Finally, we are working hard on further new product development for customers to distinguish our mycoprotein and to deliver mycoprotein in new forms. I will further elaborate towards the end of the session, and now would like to turn the call over to Jesse to provide more details on our APAC BFB businesses. Jesse, please.

Jesse Teo:

Thank you, Henry. Next slide, please. Next slide.

So in a very tumultuous year where we saw unprecedented inflation rates, increasing input costs, and dampening demand, especially in the meat alternative segment, and also a big crisis in our most important business, noodles, we managed a 6.7% top line growth. This is highlighted by our 8.4% growth in APAC branded food and beverage, and within APAC, domestic growth of 9.4% growth, now nearly 10% with such a difficult condition and challenge from our noodle business.

Gross margin, however, was severely affected by the high inflation costs and it did not help that we had elevated raw material costs, particularly palm, which we had locked in previously, and so we were not able to enjoy the lower prices in the second half of the year. More on that later on as we discuss what will be our ongoing trends.

Core net margin at ownership has also declined because of additional logistics costs, additional investments in organizational resources, particularly in the meat alternative segment, and this was partially offset by our US dollar natural hedge, as we have been announcing that we have a substantial US dollar stockpile to cover our US dollar short position. For the year, we have about 390 million of forex gain from our US dollar position. However, there was a reversal in Q4, and I'll talk about that later on.

Reported net income is at the negative 13 billion because of the one-off impairment that Henry mentioned earlier. Just to give a few details, the key reasons are the WACC, which contributed nearly 60% of the decline in the value in use. WACC increased from 6% to 7.9%. This 190 basis points in WACC is totally uncontrollable from the company, and resulted to a significant reduction. Because of the inflationary environment, and also the slowing trends in the middle of the segments in the key markets, we also thought it was prudent to lower the forecast. Lowering the terminal EBITDA rate also contributed to the decline in the value in use that resulted in that impairment. Next slide, please.

6.7% actually represents an acceleration of growth versus the last few years. As you can see from the left-hand side, we have never really declined, even through the worst parts of COVID. We have been steadily growing even during the worst of the crisis, and in fact have accelerated our growth rate despite high inflationary demands, high inflation affecting demand, and the noodle crisis that we experienced back in Q3.

We also have respectable bottom line on a core basis. Again, this excludes the one-off impairment, and you will see that in the last three years prior to this year, we had double-digits core net margin, and we have high single digits, even with the current crisis that we have. We were really hit by very high inflation rates, and we will show this in the next slide. Next slide, please.

So inflation rate hit us bad in 2021, where input cost inflation contributed to a decline of 4.2% margin points in our gross margin. And on top of this, we have experienced another 9% of cost inflation in 2022. These consecutive year periods of high inflation is simply unprecedented and it cuts across palm, wheat, glucose, energy. All of the businesses were affected. We did have a lot of cost avoidance and savings projects, but this was clearly not enough. We also took pricing, 0.9% pricing effect on gross margin, in '21 and 4.2 net pricing effect on gross margin in 2022. If you look at just the price increases that we have taken, in 2022, we took an average price increase for our domestic business of 7.7%, and just the Q1 prices that we have announced, assuming no further pricing, this would total 5.8% for the entire year of 2023. You will recall that because of the ETO crisis that we had in the back half of 2022, we stopped any price increases during that time. Thus, we did have to catch up on pricing in Q1 of 2023. All in all, we have raised prices in the last two years by 13.5%. Next slide, please.

Zeroing in on Q4. Before I start discussing Q4, I'd just like to highlight people to the last two columns for the comparable growth rates. The reason why we are choosing to discuss our results in comparable growth rates is because we had a one-off catch up in PFRS 15 booking. Now, PFRS 15, I'm sure most of you know, would be the booking as contra sales, or reduction to sales, of operating expenses that you pay to your customers. This was previously charged under OPEX in the previous three quarters, and there was a one-off adjustment for the full year that happened in Q4. That obviously depressed the sales amount, because we are charging the full year effect of that OPEX reclass to contra sales in one quarter. So the right business trend would be the comparable two columns.

As you can see, APAC Branded Food and Beverage on a comparable basis increased by 15%, strong double-digit growth to end the year. This is highlighted by 7.2% Noodles growth, so we are above water for our most important business, but more importantly, Biscuits grew 22%, and other categories which are made up by culinary and by beverage, grew by 31%.

Meat Alternative had a more modest growth of 1.3%. Gross margin actually had a much better trend with operating leverage improvements, especially APAC, just negative 2.5% despite the high input cost that we experienced. Later on, we will show that actually Q4 was the peak of our lock-in rates, and therefore the

nadir of our margins. The PFRS 15 adjustments do not affect EBITDA or core net income, so you will see it looks the same on a reported basis and on a comparable basis. And obviously on a reported all-in basis, we booked the impairment in Q4, thus making Q4 reported all-in net income to be negative 18.6 billion. Next slide, please.

Now, a quick discussion on the one-off items. You will recall that last year the key non-core item that was related to the Arran note redemption. The Arran redemption would be the two items - loss on redemption of convertible note, and the derivative loss, totaling nearly 4 billion and the interest expenses associated with the Quorn loan, PH Quorn loans, and the Arran notes of 1.4 billion.

This year, the key item in our one-offs would be the impairments. Henry previously mentioned the 20.5 billion on an after-tax basis. Actually, we did. We could reverse 1.1 billion of deferred tax liability related to the brand write-off or brand impairment and therefore net of it, it's 19.5 billion that we took for an after-tax basis for the IS36 write off on Meat Alternative.

We also reported in Q3 a derivative gain from a successful unwinding of our sterling-peso cross-currency swap. This amounted to 1.3bn, and is reported as a one-off item. Besides the impairment on the intangibles of our meat alternative business, we previously reported fixed asset impairments worth 830mn, most of it in our meat alternative business, and some of it in our APAC Branded Food and Beverage business. Next slide, please.

Zeroing in, now, for APAC Branded Food and Beverage, APAC increased 8.4% for the year, again, highlighted by domestic, which grew at 9.4%. Gross profit declined because of the elevated input costs, and core net margin increased because of higher logistics costs. Next slide, please.

In Q4, again, drawing your attention to the comparable columns, we had actually an acceleration of growth. I mentioned earlier that Noodles started to grow again versus a year ago, and we'll show the growth in volume terms later on, as well. Gross profit is actually now up, versus a year ago on a comparable basis. The reported is because of the depressed net sales, obviously. And EBITDA actually increased as there are lower expenses, OPEX, in Q4.

Core net income is down because of FX gain reduction. I mentioned earlier that for the full year, we have a 390 million from our US dollar natural hedge position, but because the Philippine Peso went from 58.91 as of the Q3 balance sheet date to 56.12, as of December 31, we have to claw back 295 million from our gain position. This still means that we booked 390 million for the year, but there was a hurt in Q4. Next slide, please.

Now, just to show that our sales increase is backed by more consumer off take, we'd like to present the shared data. For Noodles, traditionally, we present the data on past 12 weeks, which matches the quarter reporting that we do and compare it versus a year ago. You will see that the numbers doesn't look good from a year-on-year basis. However, since we were coming off a crisis back in Q3, we thought it'll be more appropriate, coming out of a crisis, to show the share progression from a sequential basis. As you could see, before the crisis, we were at 66% share back in June, and we reached our nadir of 61.5% back in October. This was our low point.

From there, we have bounced back strong by 300 basis points to now, in January, 64.5% share. And actually, just this morning, we got breaking news that February shares are out, and we have now a 67.4%

share as of February. The 67.4 versus the nadir represents a huge 590 basis points improvement in our share position.

Highlighting this is our share position improvement in our cup segment. We are number two in the cup sub-segment, and in the cups, we were at 28.4% market share back in December, and as of February we are now 37.9% share, or a 950 basis point improvement in share. Kasalo Pack, which was our sizing and pricing vulnerability, went from 1.7% share back in December, to 2.2% share, making huge improvements or 50 basis point share improvement, proving that when you put the Lucky Me brand on the right size and price, it sells.

Biscuits, again, we are showing the numbers as we have in the past, so on a past 12 weeks' basis, and it shows modest decline. However, again, we want to show, as well, the sequential trends, and you'll see the nadir was 28.1 back in July 2022, and we have steadily improved that position by 140 basis points to 29.5% as of January 2023. Not as impressive as Noodles, but very good progress.

In the other categories that we sell, we continue to grow from strength to strength for culinary, where we have taken oyster sauce above 60% share, yogurt drinks to almost 90% share, and cultured milk to a strong bounce back to almost 22% share. And this is despite the fact that we're trading only for cultured milk in Luzon.

Now for bottom line guidelines and outlook, let me turn to the next slide. Next slide, please. Sorry, one more slide for the top line. Sorry. Sorry, go back to the previous slide. One slide down. Sorry. Once I... Forward, forward, forward, forward, forward. Okay. No, I think back one slide. Yes, that slide.

So we'd like to show our progress in noodles. On domestic noodles, Q3 was really the nadir, and we have substantially improved, versus that on a volume basis, we grew volume by almost 27% sequentially. And versus pre-pandemic, we are actually showing 10% volume growth. We're showing volume because we did take some pricing effects, so we want to separate the pricing effects out and are showing volume.

Jesse Teo:

... For volume at return you could see as well that our volumes are going from strength to strength. January was a fantastic month and February was even a better month as far as an average daily sales. Everybody knows that February has shorter selling days. With the strength and recovery of our volume in noodles, plus the strength of our biscuit business and other businesses, we actually breached 15 billion of quarterly sales for the first time in the company's history in MNC Philippines. And for quarter one, we project net invoice sales to breach Php 16 billion, showing solid progression, quarter on quarter, resetting all-time highs consecutively. In fact, in the last six months, we will be resetting our all-time high sales month, three out of the last six months, showing that the bullish trend we have for our domestic business. Now for bottom line, next slide please.

We'd just like to complete the story on our commodity cost positions. We are highlighting here two of our biggest commodities, wheat and palm oil for the APAC branded food and beverage business. As you can see, in Q1 the red line is the external prices, the orange line is our MNC lock-in prices, and you see for both we enjoyed substantial advantage versus market prices back in 2021 and the first half of 2022. The cost avoidance is in the area in between those two lines.

However, things took a different turn in the second half of 2022, where our lock-in prices were actually locked in at the peak as external prices actually fell down quite substantially. And as you could see from the chart, Q4 was the peak of our lock-ins. We now have much lower lock-ins, both for wheat and for palm

oil. And I just got news this morning that we were able to take advantage of the lower palm oil price recently in the last few days to lock-in further lower prices up to Q4. So this bodes well for us from a bottom line. We should be able to enjoy better operating leverage, and our key commodities should have much lower prices in 2023. With that, I'll turn it over to Marco, who will talk about the meat alternative business.

Marco Bertacca:

Thank you very much, Jesse. And good afternoon, good morning to everyone. Can we move to the next slide, please? Next. Excellent.

So before I give you a bit of an update on our progress towards our key strategic pillars, I just want to take a step back and do a very, very quick reminder on why we believe that Quorn is a very different type of sustainable protein in the world of today. And you can see on this slide that what is really making Quorn different from anybody else is, first of all on the product we have a clean label with significant health benefit continuously displayed and underlined by scientific proofs that we continue to publish. We have our sustainable protein is microprotein, that is we are the biggest one and the only one actually in the world that has this microprotein inside. And we continuously deliver products that are good for consumers in different meal occasions.

So we start with a breakfast in the morning, with lunch, with a snack, with a dinner, with ingredients and so on. So we're able to cover a wide area of product and portfolio. Then if you look at our business model, we continue ... And I'm very happy, I'll touch base a number of times on this today, we continually strengthen our position in our core market, which is the UK. We continuously improve and solidify our leading position in the UK. We've done that for a number of quarters now. We have a very, very strong progress in food service and QSR through our partners, not just in UK but actually more and more throughout the world. And our record of profitability is unique in the industry. We actually one of the very, very few companies that have been profitable throughout their history.

If you then look at the right, we've not just been doing that for the last few years, but we've been doing that for 35 years. So we've been in the UK since '85, a stronger and longer presence in the industry in all the other markets. We are the only one who produce at scale and we make our own protein so we don't have to access the global market. So that's why it's good to bit of a take a step back and remind ourselves what is really different about Quorn. Next slide please.

So our credibility comes from not what we've just done the last quarter, but really from what we have done for the last 25 years. And that's why we decided to share with you this path of continuous profitable growth that we have delivered for 25 years. And here I just want to highlight of course at the different ownership level, but the fact that throughout the Monde Nissin ownership we have even accelerated our growth. And you can see that for the last five years, let's say the 8.3 aggregated growth percentage, and the 5.3, if you take into account the last a couple of years where we have a little bit more challenge given the trend of the category.

So what is this trying to say? First of all, the category is there, is in continuous growth, they've been doing that for 25 years. Second, we've not been doing that for few, but we've been doing that for a number of

years. In particular, on the Monde Nissin we have even accelerated. And that's a little bit just to put a bigger picture in, put the last two years in perspective with a bit of a longer term.

Next slide please. Now let's go into some of the details and then the reporting numbers. I will then dive into the details of UK, of the US and the food service and QSR, which I want to remind everyone, these are our three strategic pillars. So number one, strengthen our position in the UK which are our core market. Number two, enter the US and accelerate in the US. Number three, QSR and food service global acceleration. Okay, I'll report singularly on those. But on an aggregated level we can see that quarter four sales grew by 1.3%. Unfortunately not at the level of the total Monde Nissin group, but given the challenges that we have currently in the category of meat alternative we're still pleased to report growth in the area of meat alternative. Retail decrease by 3%.

As I said, I go into detail on that, but we have some category pressure. The category is in decline, and so the retail market has suffered more. While we have a very strong growth combined of food service and QSR of around 30%. Despite the decline in the retail segment, we have grown market share consistently, which I think is what is going to deliver to us a much stronger position at the end of this period of category pressure. If you then look at the gross margin, we have declined there. We had to take a number of price increases. We always aim to recover at least in the first place, the absolute price increase that we've incurred. As you can imagine, our category is still very, very small in the overall grocery, so this has always been a challenge to put the price up, but we have a very strong price positioning.

So we are lagging a little bit on recovering the prices, that's why you see a gross margin percentage that is lower for quarter four than the full year. But we have a plan to overall recover them and actually, in our ambition through continuously and tactical price increases that we're also planning for 2023, as well as continuous improvement and resizing of our organization, adjusting that to the market and the category, we are planning to fully recover that by the end of 2024. So the core EBITDA for quarter four grew, also reflecting the lower SG&A. And then we always like to make a bit of a comparison, you know that the US market for us has been an investment market. We said it, we wanted to double and accelerate, and double down on the acceleration there. So if you exclude the US investment, the overall business was at 6.1% in terms of core EBITDA margin, and on a full year basis 8.8. Next slide please.

So now I want to spend a bit of time on the UK. Again, to put things in perspective, you know that the UK is our biggest market. The category here, you can see that the category is challenged. So the overall market ... Maybe let's focus one second on the market data. The overall market has declined. This is IRI data. The last 12 weeks has declined 7.5. You can see that all the other players apart from Quorn and Cauldron have declined 11.1, and Quorn has improved its position, has grown 1.6%. Now it is of utmost important that in a market during a period where the category is challenged, and primarily it's because of what is happening from the shopper perspective, which I will come back to, we continuously strengthen our position within that market. And you can see here, growing while everyone else has declined, has of course delivered to us five quarters in a row of market share growth.

And if I can just remind you, when we started some of these calls I think a year and a half ago, our market share was always challenged because of a lot of new entrants. But the year we see who the consumers go back to because they believe ... because of our brand, because of our product, because of our distribution, is a series of element that help us to strengthen our position. And you see that our market share in quarter

4, 2022 is 32.5. And I'm very happy to build on what Jesse has said about Monde Nissin. Our market share continues to improve also in 2023, and we'll see that soon. Now this is on the back of two price increases, one of which is also going to happen on a smaller scale in 2023. And that's why we see that Quorn is performing really, really strongly in the market.

Maybe one reference I want to make to the shoppers, why is the category struggling, is that shoppers currently are really suffering from a very, very high food inflation in the UK. This food inflation has reached in March this year 15%. So not only was it very, very high towards 2022, but it's still continuing. I think food inflation in the case is very, very high compared also to some of the rest of the world. And therefore, shoppers are buying less, they buy less even of some elements like bread, milk, fruit and cheese. And they tend to focus on what they call cheaper carbs like dry pasta, rice, and noodles for example. So that is why we know that historically our experience says that when inflation will flatten, or will go back to more standard level, the consumer, the shoppers will go back to really the fundamental truth about health, sustainability, etc. And this is why having these market share, because things are going up, we know that they will come back to us.

If you then look on the right here, it's not just about market share overall, but it's also about when the retail ... The retailers in the UK have not given, let's say, have held the space that is available on the shelf for the category. That is very important because we know that the top four retailers still believe in the category, still support the category, they've not reduced the shelf space. And within that shelf space that has been allocated, Quorn and Cauldron are taking a bigger share of the space. So you see that our distribution went from 140,000 in '21 to 166,000, almost a 20% increase of distribution gains. And that's why you also see that the share of distribution in the total category is really going up. So I always say one of the three pillars, maybe the most important was to win in our core market. This is what is happening. The category is there to come back, and we are well positioned to capture that. Next slide please.

This is now on the opposite side of the scale. I just want to be completely transparent. The situation in the US has been very disappointing. I told you UK defend core, grow aggressively in the US and that food service and QSR. And the plan that we had for the US was, and it has been, to really overinvest in the US. So we've invested in people, we've invested in marketing, we've invested in particular to drive awareness in the market through a number of marketing initiatives. Well, it is very fair to say the results driven by our investment, they've been very disappointing. So we've been looking at it and we always believe that it's good to take risks, but when things do not work, we got to change. And this is why maybe you can see a little bit on the left, the category is challenged there.

So the category is actually declining at a faster pace than in Europe and in the UK. Despite the fact that our distribution point were a little bit up, our shares been there or thereabout are declining a little bit. But what has been of concern is that the rate of sale, not just of our product, also a number of products that are on the market in the US has been declining. The point is that the retailers in the US see the inflation of food, they see the flexitarian going back a bit, so they buy less into the category. The category in decline, so the retailers have decided to rationalize the space on the shelf. Because of that and because of the fact that our investments have not gained us the progress that we were hoping to have, we have decided to take an ... I want to share with you, even if this is already happened in the first quarter of 2023, we decided to take a radical approach to our footprint there.

So I was in the US personally to explain and to drive these decisions where we structured the marketing function and reduced the spending and redirected the spending. More important because we've redirected the spending to drive velocity at the store. So the SKUs and the product that we have on the shelf, we want them to move faster instead of trying to be in every store available. So the overall principle is to spend better, more focus on trial, penetration, rate of sale, maybe on a smaller range of product, but to ensure that they flow, they fly faster from the shelf instead of trying to go wider. At the same time, the sales organizations, we refocus on a number of customers. They really believe in the category.

So we know that in particular in the US some customers have taken and they've shared with us that they really see that the category is an important step for their future growth, and on those they will decide to invest, but not on others. We reduced our footprint with those. And on top of that, we have taken ... we have flattened a little bit the lines. And now I'm actually driving directly the US business as a smaller group, and I'm there on a quarterly basis together with the team. So we tried, we've invested, been doing work, we're doing some changes. Basically, we really drive to minimize our investment losses that we had in the US, and we will report on the progress in the next few quarters. Next slide please.

Now I bounce back to the very similar, if not even more successful scenario than purely the UK, which is our food service and QSR. Now you can see ... I think you may remember that the food service and QSR represented in 2021 about 10% of our business, and now we are overall reaching the last quarter at 15% of our business. So that is becoming a more relevant leg of our business. And so you can see eight quarters of growth here is like ... The feeling is similar to what Jesse was saying, on a month by month, a quarter by quarter we set new records of sales. And this is done in two separate areas. So in the area of the pure food service where we work with schools, we work with companies, we work with the NHS, with healthcare, where the fundamental elements of healthy nutrition go beyond what is currently being affected by the inflationary pressures, or the challenges of spending.

So healthy food is still extremely important, and we are able to provide, because of our cost base, good propositions for the healthcare, for example which is providing for universities and for hospitality. So we have a strategy of push and pull. We have chefs that develop recipes with the chefs of the counterpart of the clients. And then once the recipe is developed that pull the product that we have in offering. So we are doing that very strongly in food service. The team is now expanded to other areas, not just to the UK.

We are using the same approach across Europe and we see already that we have established partnerships, not just at European level but also global level with clients like Sodexo, Aramark, and others. And that's why you will see that our food service business, we're very positive about the future of this service. Also because you can see on the other side, on the area of QSR, in particular with KFC, we continue with our success story and we continue to roll out across Europe and beyond.

Now I just want to acknowledge that the UK is currently going through a bit of a resetting. KFC has some internal challenges in their stores, so we are finding new ways to enable the cooking that is at least in line ... Because the UK is the only one that is using a vegan product, so they want to cook in a particular way, so we are reviewing together with KFC to even improve, further, the operations in the stores, and at the same time, there's a very powerful growth through expansion in other countries. We are now in 20 countries with permanent listing. What I would like to report, which I think is very important, is that we had 100% conversion rate from LTO, Limited Time Offer, to permanent listing. In other words, every

country where we've done a limited time offer, has then decided to go into a permanent listing. This can only be linked to the quality of the product that we offer. So, that's all from my side, and I pass it back to Henry.

Jesse Teo:

Sorry, Marco. I'll take over. Next slide, please.

Marco Bertacca:

Sorry, Jesse.

Jesse Teo:

Okay. A few last points. I just want to emphasize that despite the impairment, the impairment that Henry mentioned is a non-cash non-operating. We have solid cash balance, 11.6 billion, as of the end of the year, 11 billion as of the end of Feb. Of which, as of end of Feb, we have \$98 million, US dollars, as a natural hedge of our US dollar short position. This is equivalent to six months of imports. This is our GIR, if you will.

On an operating cash flow, we continue to have good cash flow. There was just a decline in 2022, partly because of the EBITDA reduction, but also because we were paying down trust receipts for a week, because of the rising interest rates in our solid cash positions. We also had higher taxable income in 2022. Our ratios for leverages were very good. Gross leverage is at 0.66, and net debt to equities, quite low at 0.33. Our day sales outstanding continues to improve year on year on year, as you can see from the chart. Next slide please.

I'd just like to talk a bit about CapEx. Earlier we announced a reallocation of UOP, where we'll be moving a lot of the OpEx funds for our meat alternative into CapEx for APAC branded food and beverage. You can see we are quite bullish in our CapEx projection for APAC. The volume momentum is there, and frankly in our bakery business, we are constrained by the number of lines that we have. We simply could not serve the demand, and so our immediate priority is to get lines started up in order for us to fully fulfill the demand, the strong demand that we are seeing. For meat alternative, we will have a more modest CapEx budget. A lot of this would be primarily geared towards cost savings projects, possible insourcing if the financials are warranted. Next slide please.

Now, a few minutes to discuss our investment in Figaro, FCG. As many of you know, we took a 15% state or reinvested Php 820 million in Figaro. We believe this is a great business. Justin and Jerry Liu have done a great job, especially with the Angels Pizza brand. They reported, in the last six months, that they grew 88%. This is a business that grew amidst the pandemic when people were locked down, and continues to grow strongly, even after the economy has reopened. We believe that we can learn a lot, and through this investment, get greater exposure in the food service business here in the Philippines and abroad. We believe that we can help them with gray and white spaces here, and we believe that we can help them achieve some potential synergies on procurement. So, plans are at work for us to fully leverage these investments to benefit both sides. With that, we'll be ready for your questions.

Michael Paska:

Thank you, Jesse. This concludes our formal comments, and I will now moderate our question and answer portion of the call. Related to APAC BFB. How many months left of raw materials locked in do you have at elevated prices?

Jesse Teo:

As I shared, the peak of our raw material, the high lock-ins would be... If you could go through slide 12 please, and show slide 12. Okay. The peak of our lock-ins were experienced Q4. We are now enjoying lower prices, as of Q1 for wheat, and for palm. While it'll take Q2 to fully enjoy lower prices, we already are lower in Q1 versus Q4. And as I reported earlier as well for palm, we have locked in even lower prices all the way to Q4 now, the recent team. Mike, back to you.

Michael Paska:

Thank you Jesse. The next question is for instant noodles, what will be your pricing strategy versus lower price competition going forward? Will you cut prices to chase market share?

Jesse Teo:

The answer is we have always played the premium. I think the value that consumers see in our brand, is beyond the price point, and we will continue to operate that way. We are the most chosen brand, as tested by Kantar. In fact, the brand of the decade. I think the brand does command some price premium versus lower price competitors. And people choose us because of the overall value that they get when consuming our brand. Mike, back to you.

Michael Paska:

Okay, thank you Jesse. The next question is for Marco, and this is related to the Terramino investment. How is mycoprotein different from koji in terms of raw materials, production process, and nutritional value?

Marco Bertacca:

Well, it is of course a very, very different plan. It is very different technology, and this is why we've decided to go and collaborate and learn from each other. I think it's a very important element for Quorn to really take the lead as a kind of a father group in what is happening around the world in mycoprotein. So, some of the answers I cannot give also, because it goes into a little bit of the IP of the two companies. But what we see is that there are some very good learnings that we can take from what they're doing. There are some very good learning that they can take from what we are doing, and this is why we decided to take this step and collaborate further into the future. You'll probably see us more in this space.

Michael Paska:

Okay, thank you Marco. Next question is also for you, and this is with the reduced investment in the US. Do you expect Quorn's operating in EBITDA margins to improve this year?

Marco Bertacca:

So we have taken a very clear restructuring effort in the US. On top of that, we are looking at, and we have already implemented already in 2022, but we continue to look at better cost control and more stringent cost control, also in the UK. And in particular as our volumes are challenged, we're looking at

resizing our footprint and resizing our organization and to some extent redirect, for the time being, some of our investment, as Jesse was saying, just from purely growth to optimization of what we have.

So, overall we expect an improvement of margin, even if I have to say that the first half of 2023 will continuously see us being challenged in the gross margins because of the fact that higher raw and packaging material costs are currently into our stocks, and that will have to flush through the first half of the year. But clearly as I shared our trend, both through continuing work on adjusting our pricing, as well as operational improvements, not just in the US but also in the UK, to restore our profitability. That's why I gave you a bit of an element maybe too much, on the future, our overall objective to restore it by the end of 2024. But yes, overall we want to see an improvement, but it is not just the short term, and in fact we will see first half of this year still being challenged on that.

Michael Paska:

And also related to margins, Marco, can you talk about the negative operating leverage from lower volumes?

Marco Bertacca:

Yeah, this is a very, very good point. This is one of the challenges that we are dealing with. We were talking just one and a half, two years ago, of the category is growing 25%, and now the category is declining 10%. And you can imagine that the volume impact of that is flowing through our companies, and we really have to stay very, very agile on how do we adjust.

So, we are taking the following approach. On one hand, we want to be able to have both capabilities in terms of people and of assets that are ready for future growth. And we have really done a number of investment in the last few years that enable that to happen as soon as the market starts again. Because let's not forget, those that will win, are those that will capture the opportunities in the difficult times. So, having the right capabilities in people and in assets is important, right?

Having said that, in the meantime, we need to optimize what we have. So small investment in terms of optimization, automation, and sometimes also a reduction of the footprint also in people and of budgets and of numbers, in order to be able to sustain this current temporary challenge that we have in the volume.

Michael Paska:

Okay, thank you Marco. Jesse, the next question is for you, and this is regarding APAC BFB. How much margin do you expect to recoup this year? Can we get back to a gross margin of 36%?

Jesse Teo:

First of all, we don't give specific margin guidance. What we can show or share, would be things that we know for sure that are happening. For instance, the locked-in prices for wheat and palm oil, we are confident to show this, because it's already locked in. The volume trends are good, and we project a record quarter again in Q1, and this should help our operating leverage. That should help margins. But there are some factors like sugar prices. Everybody knows about the elevated sugar prices and our biscuits uses a lot of sugar. So, there are challenges in that.

Wheat, palm oil and edible oils in general have very favorable trends, while operating leverage is possibly is a positive. But certain commodities like sugar and eggs, which everybody knows is on the rise, are still challenging. Although on a contribution basis, eggs and sugar are relatively lower versus wheat and palm.

Michael Paska:

Thank you, Jesse. Marco, the next question is for you, and this is regarding to the US meat alternative business, and the Teramino investment. How do you rationalize that investment?

Marco Bertacca:

Well, to me it's extremely clear in our head, and we are the leaders, I think Henry said it at the very beginning, in mycoprotein and in fungi fermentation. We've been there for 35 years. We are the expert in that, but we shouldn't be believing that we are going to stay there forever just throughout our own forces. There's a lot, because of our success, because of the healthy element, the clean label element of mycoprotein, there's about 18 to 20 companies that came up as startup, and that started to do fermentation of fungi, fermentation around the world.

This is why we have started an association that we are leading, of the overall fun fermentation around the world with the key players. And we meet and we share in a pre-competitive stage, so that this becomes a third element of the alternative protein. So it is not just soy and pea, it's not just cellular, but there's a fungi, a major, major element to that. So in order to stay ahead with the fungi, is what we do, of course all our research and development, but also what are some of these startups developing? What are they finding? What are they looking at?

So, for us, our key reason to be for having another 35 years of success, is to continuously stay ahead of the fungi fermentation. We can do that by collaborating with other companies, by finding partnership with other companies as we've done for Teramino.

Michael Paska:

Thank you, Marco. The next question is for Henry and this is, has there been a change in your outlook for the meat alternative business, considering the recent developments?

Henry Soesanto:

I think not at all. Quorn or mycoprotein has been there for almost 40 years, and the trend was very, very clear that we have continuously grow the business in this almost 40 years. And with the population growth and then the demand of protein, I'm pretty sure that the traditional protein cannot supply enough. We need alternative protein, which is healthy, which is sustainable, and Quorn is exactly playing in this space. So for me personally, I'm very, very bullish in the future of this alternative protein.

Michael Paska:

Thank you, Henry. The next question is for you Jesse, and this is how should we look at the investment in Figaro in the P&L? Will you equitize it?

Jesse Teo:

No, it will be an investment. Unfortunately, the 15% pause below the 20% usual bar for significant influence, and so we will be marked to marketing that investment.

Michael Paska:

Okay, thank you Jesse. Another question for you, Jesse, and this is, what is management's strategy for instant noodles this year to further grow the brand? How much of APAC's BFB CapEx will be allocated for instant noodles?

Jesse Teo:

I mentioned earlier that... I'll answer the second question first. We have sufficient capacity for instant noodles actually. We built the Malvar plant with additional noodles capacity. So we do have capacity from that. You can see from the chart, that from a volume basis, actually volume is still low, lower than the pandemic volume trends. So we have capacity to produce more, and we added more capacity with Malvar. Bakery is a business that actually needs capacity. I alluded to the strong growth, 20 plus percent growth in Q4, 16% growth for the year for bakery. And in some of the lines, cakes and specific biscuits, variety, we are short shipping because of insufficient capacity, and we have to quickly build those lines in order for us to be able to supply the demand.

Michael Paska:

Okay, thank you Jesse. Marco, quick question for you. How much did food service contribute to sales in 2022?

Marco Bertacca:

So overall, I mentioned earlier that overall food service and QSR represent now 15% of our business overall.

Michael Paska:

Okay, thank you Marco. Jesse, this is just a question for you, can you explain, again, the difference between the reported figures and the comparable figures?

Jesse Teo:

Okay, so the difference between the comparable figures and the reported figures, is that we made a one-time adjustment for the full year of PFRS15 in Q4. So PFRS15, is basically treating payments that we make to our customers as a reduction to sales instead of OpEx. In the previous three quarters we were booking it as OpEx, but the right accounting, as selected by auditors, is to book it as a reduction in sales. We made that adjustment, all in Q4. So that depress the reported number for net sales in Q4, and it's not entirely comparable with the business trend. So we thought that we need to exclude or take out the three quarters effect of PFRS15 adjustments, leaving only the Q4 effect of PFRS15 in Q4 for the numbers to be comparable.

Michael Paska:

Thank you, Jesse. Marco, the next question is for you, and this is, you suggested the slowdown in the UK meat alternative market is temporary, linked to inflation. What does Quorn expect in the longer term in the US and rest of Europe? Do you see the US being on a more permanent slowdown?

Marco Bertacca:

I find that a very, very good question. Let me try to share with you what I believe and what I'm learning through this, in this category, with the following example. I find that the extremes in food preference in the US, are very, very high.

Marco Bertacca:

Hi. So, there's been an explosion of meat alternative all of a sudden and that was super, super hyped and then it rebounded back on the opposite, almost super, super bad. With the articles that were highlighting meat alternative as not good for you. Almost really, really extreme, super high variation of fluctuation of a trend.

The UK has still a plus 20, minus 10, a high variation, really driven by food inflation and by consumers shopping differently. But much less hyped, much more stable and strong. If we then move to Europe, which I know fairly well, the Europeans do not change their taste from one day to the other and don't go by extreme. So in the rest of Europe you will see that these trends take longer, but they're more sticky.

When the Germans, the Italians, the French, the Dutch and the other European switch onto alternative food, maybe they do it through less hype but more stronger and they will not move back very quickly. So to some extent, I believe that the US will rebound, will come back, but it's still very, very hyped, that's why we're taking a more prudent approach there.

We know that the UK, that we know so well, is going to come back solid. And in fact, we are redeploying some of our strength into the European market, where I told you that food service is now extending our relevance, not just the UK, but also to the rest of Europe because we believe that growth there is going to be, maybe at a slower pace, but more sustainable. And that is also certified by KFC moving into Europe, now in every country in Europe with us and moving from LTO to permanent. Sorry, a bit of a long story, but I think it was a very, very good point raised.

Michael Paska:

Thank you, Marco. Jesse, can you comment on our main noodle competitors' strategy for 4th quarter 2022 and whether Monde's market share gain has resulted from that?

Jesse Teo:

I'm not very competent on what our competition is doing internally. I cannot comment on their strategies. All we know is that we are focusing on what we can control. In cups for instance, we previously reported that we have supply hiccups. That resulted to our share going down to a low of 28.4, but now we have fixed that supply. And now we are back at airing advertising both on TV and on digital and this is making a whole lot of difference.

We previously have a sizing and pricing gap that competition was enjoying or exploiting. We now have a Kasalo pack that is now gaining momentum, 2.2% value share. And that is helping our overall share position. Beyond that, I would hesitate to comment on what our competition is doing because I don't know for sure if that's their strategy.

Michael Paska:

Okay. Thank you, Jesse. And then just as a follow-up, can you remind us when did Monde hike prices for noodles in 2022? Which month, approximately?

Jesse Teo:

Q1 and Q2. We had price hikes. We have the moratorium because of the issues in the second half, and then we took another round of pricing towards Feb this year.

Michael Paska:

Okay, thank you Jesse. Jesse, another question, on the jump in CapEx plans for APAC BFB. Can you give some color on what we'll be driving this?

Jesse Teo:

As I mentioned, we are running short of capacity in a lot of our bakery businesses, cakes and several of our biscuit forms. And we need to accelerate the line installations of new biscuit and cakes lines for us to be able to serve demand. So that's what's driving the CapEx. We are locating those lines nearer to where the growth is as well. So I will not give specifics on our plans, but we will be diversifying our plant footprint, as we expand our bakery business.

Michael Paska:

Thank you, Jesse. Another question for you, and this is, can you share how much selling and distribution expenses are attributable to APAC BFB in 2021 and 2022?

Jesse Teo:

We don't have the... Mike, please get the person who asked that question. We don't have the numbers right now. I don't have it readily on hand. I'll get it. We'll email the answer to them.

Michael Paska:

Okay, got it. Thank you, Jesse. Thank you. Jesse, this is a question for either you or Marco, but this is regarding our impairment and can you comment on what specific intangible asset was impaired? Was it brand, goodwill, patents?

Jesse Teo:

Yeah, so the carrying value of our Meat Alternative business was 671 million sterling. And we had a revised VIU, or value in use calculation of 380 million sterling. That represents 291 million of impairment. The impairment, per accounting rules, first goes to goodwill. We have a 245 million sterling balance for goodwill. That has been wiped off so no more goodwill. And as most of you know, goodwill, when impaired, cannot be recovered. The balance 46 is from brand. And the 46 is where we applied the reduction of deferred tax liability. As we previously communicated, we are using a deferred tax liability accrual of 35% for the future tax rate in the UK and there was corresponding reduction for that so the net of it with the DTL reduction is 19.5 billion pesos.

Michael Paska:

Thank you, Jesse. Next question is for Henry, and this is taking note of your acquisition of the 15% stake in Figaro. Are you looking into any new segments, perhaps other acquisitions in Southeast Asia?

Henry Soesanto:

Yes, I think to grow our business, to optimize our portfolio, M&A is one of our strategies. So the answer is yes, but we are going to look for portfolio that can create synergies with ours. Either in territory or product portfolio. The answer is simply yes.

Michael Paska:

Thank you, Henry. Okay, thank you. Thank you, Henry. Jesse, another question for you, and this is regarding PFRS 15. What triggered this and have there been new provisions in the standard? Can you explain what kind of payments to customers were recognized in OPEX in the first three months that is now recognized as contra sales?

Jesse Teo:

Yeah, so there's no new provision that PFRS 15 has been effective years ago, but we failed just to reflect that as a contract asset in the first three months. So that's the only adjustment. So realizing that we have to book the entire amount for the full year in Q4. The nature of the investments will be, for instance, mass display. We do pay rentals to our customers for mass display. These are payments to customers that should be treated as a reduction in sales or some EDI fee. If we enter into an EDI, electronic data interface ordering program, there is a fee for that. A fee that you pay to your customers is considered contra sales. So these are the type of payments that you have to pay to your customers. That under accounting rules should be booked as a contra sales adjustment.

Michael Paska:

Thank you, Jesse. Another question for you, regarding our APAC BFB, are you seeing any increase in supplier support to the modern retailers and where do you see this trend of discounts, shelf support going forward?

Jesse Teo:

Could you repeat the question? Sorry, Mike.

Michael Paska:

Oh yeah. Are you seeing any increase in supplier support to the modern retailers?

Jesse Teo:

Increase in supplier support?

Michael Paska:

Yes.

Jesse Teo:

Oh. I think the modern trade is a bit more demanding than our general trade, but we strive with our sales team to work on win-win agreements with our customers, so that our investment is translated to returns in additional sales. So while there is support, our hope, increased support, our hope is that it'll translate to better sales for both.

Michael Paska:

Okay, thank you, Jesse. Another follow-up here, what is your A&P outlook? Will you invest your growth profit margin benefits into your brands?

Jesse Teo:

Yes, the answer is yes. A&P, especially investing in brand equity is how we have grown our brands and we'll continue to invest those. When we have momentum, we will double down. When we do not have the communication right, we will slow down. It goes differently from brand to brand depending on what brand has momentum.

Michael Paska:

Thank you, Jesse. Jesse, here's a question regarding our baked products. How does management plan to differentiate its baked products relative to its competitors?

Jesse Teo:

I think we need to use our brand differentiation, our heritage and our unique taste to come up with differentiated products versus competition. Most of our competitors are, at least several of our leading competitors are using price. We need to use equity and image beyond price in order for us to win. We have done this with our noodles where, as I mentioned earlier, we play at the premium price, but we believe that because of the brand that we have created, value is not just in terms of price, but the overall experience in consuming our products. We want to do the same for our biscuits.

Michael Paska:

Okay, thank you, Jesse. This concludes our Q&A session. I would like to now turn it back over to Henry for closing remarks.

Henry Soesanto:

Thank you. Thank you everyone for participating in this call and continued interest in our company. 2022, no doubt was a challenging year as we saw high inflationary environment, pricing volatility of key materials and regulatory event of our largest product line. And current rationalization also in mid alternative category. The impairment at our protein alternative businesses is certainly frustrating. This is basically as a result of the outside factors like inflation, interest rate and caused by the severe decline of our consumer expectation power.

In UK, for example, what was been shared by Marco a while ago, a food inflation was as high as 15%. Is that correct, Marco, 15%? And has caused people to trade down the protein from the cheaper carbohydrate. But with the same situation here in Asia Pacific, we see the stellar business performance. So it is important to remember that Quorn has a long history of growth, almost 40 years with its first production sold in 1985. And since then, it has undergone many, many changes continuously improving its process and engineering. Making further technology enhancement, the new product development that makes it close continuously.

Today, Quorn has gained the loyalty from huge number of consumers that assured its further growth and the world's population continues to grow, as I said a while ago, along with the protein requirement. The additional supplies will be impossible to keep up with the demand. That's why we need alternative

protein, such as those provided by Quorn. And this give us the confidence, the continued long-term secular growth of alternative protein, despite the category slow down at this point in time.

As we literally produce our own protein, it also enables us to supply our products as ingredient for others. Helping us achieve our goal to grow aside from growing our own brand. And also in line with our aspiration to improve the wellbeing of people and the planet and create, of course, the sustainable solution for food security. I think overall, as the outside environment keep on changing, our portfolio in protein alternative and Asia Pacific portfolio, provide the ideal combination for Monde Nissin. As we narrated during our IPO, that we will have downside protection with strong brand in our Asia-Pacific businesses during the challenging time. And we will have opportunity for tremendous upside during the better time. And this has of course made us unique.

So as we close the book on 2022 and focus on 2023, we are of course cautiously optimistic. We also expect to see benefits from lower commodity prices in the coming quarters, resulting of course in better margins. With that, I look forward to speaking again when we have our Q1 earnings call in May. And until then, everyone stay safe and healthy. Thank you.