Transcript of Monde Nissin Corporation (MONDE)
First Quarter 2023 Earnings Call
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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 first quarter 2023 earnings call. I am Mike Paska, head of investor relations. On today's call with me 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 today's press release and presentation. These are all on the PSE Edge website posted earlier today. This material can also be found in the investor section on Monde Nissin's website. And finally, 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 legal 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. Good morning everyone. During the first quarter, our APAC BFB the APAC Food and Beverage businesses saw strong top line growth across all of our categories. With our noodle business being a standout performer. During the quarter, our noodles business has doubledigit quarter-on-quarter growth and volumes are now ahead of where we were last year. Looking at the past four-week share ending in March, we are at 68%. This represents a 200 basis points improvement compared to the period prior to the selective recall in EU last year. There's also good news regarding our margins. Our higher commodity locked in prices has now started to run off resulting to a multi-quarter margin recovery. The meat alternative category is still facing strong headwinds. Last quarter, we discussed the step that we were taking to right size our US business to better reflect current market realities. We are now similarly addressing our UK business to better weather the current conditions. We're remaining agile and prepared in order to benefit when the market recovers.

We cannot ignore the recent developments on Monde Nissin share prices. While I'm really sorry about this, but I feel it is our goal to make an effort to better communicate in order to address it, or at least to provide our investors with more holistic information for them to arrive at better decisions. So for this purpose, let us spend some more time in the Q&A sessions and I will appreciate if you can actively participate. For now, I would like to turn the call over to Jesse first to provide more details on our APAC BFB business. Jesse, please.

Jesse Teo:

Thank you very much Henry. Next slide please. As Henry mentioned, we have an overall top line strong quarter with 11% on growth on a comparable basis. The comparable is, again, continuing effect of the PFRS adjustments that we made in Q4 last year. For purposes of through comparisons, we encourage people to look at the comparable column. However, it is a tale of two segments. While APAC grew very strongly at 15.4%, we have challenges in the meat alternative segments as Henry mentioned. On bottom line, the story is the same. APAC would show growth on absolute gross profit, EBIDTA and net income, while the top line struggles of meat alternative had its effect on bottom line. Gross margin, however, on an overall basis is turning the corner. Gross margin improved by 112 basis points quarter on quarter, and this will be even stronger when we look at APAC branded food and beverage.

As Henry mentioned also, all of the categories for APAC branded food and beverage are growing and we will have a slide to show just how we are firing on all cylinders in our APAC branded food and beverage business. Reported net income is at Php 1.9 billion, 17% down versus a year ago, is largely due to the UK restructuring in the US. A big chunk of this is the kitchen - is the shutdown of the kitchen that we previously announced, part of the US restructuring that Henry mentioned. More restructuring will be discussed by Marco later on during the meat alternative segments.

Next slide please. If we zero in on APAC, APAC grew 3.1% gross profit on absolute basis. On an absolute comparable basis, grew nearly 8%. Core EBIDTA, 5% and core net income almost 3%. Moreover, if you look at the gross margin chart, we have obviously turned the corner with the locked in commodity prices now being run off where we are now enjoying lower prices for wheat and soon to enjoy lower prices as well for palm oil starting in Q2. We are happy to note that it has continually improved from Q3 last year and now has improved 125 basis points from that nadir.

Next slide please. As I said, we have all the categories firing on all cylinders. We have both volume and value increases despite all the price increases we have taken and we have taken almost 8% on average price increase in APAC branded food and beverage. Volume is up for all the key category segment. We have noodles at almost 10%, around 10% and others growing at nearly 20% and others. Biscuits growing at nearly 20% and others at more than 20%. This improvement is also reflected in our shares.

Next slide please. Where we have progressed 650 basis points improvement in our market share on a four week basis from a nadir of 61.5% to 68%. This is highlighted by the tremendous improvements in our cups, noodle cups business. Everybody knows that we are number two there but we are making very, very strong progress there. We're also delighted on the progress of our Kasalo shares, where we are now 2.8% of the dry pouch segment. The quarterly shares still reflect some of the overhang of the ETO issue, but we project with our strong recent four week shares that this should catch up. Biscuits is growing very fast. We noted last time that we needed some capacity for several of our businesses.

So despite the high growth, the category itself is on a very high tide. There are particular competitors that are growing faster than us, thus we have lost our number one share position. We intend to get that back through stronger marketing programs when our capacity is available. For others, we continue to [inaudible] over on shares where we have dominant market shares across oyster sauce and yogurt drinks and translating these strong market shares into growth. Next slide please. Our noodles business is a particular delight for us where we see 9% volume growth from Q4 to Q1 and over 20% growth in volume terms versus pre pandemic level. We chose to show this in volume terms as we have taken significant price increases. So you'll see the robustness, the strength, fundamental strength of our noodles business is a display where we had our nadir on Q3 but have quickly recovered very fast. In fact, have now exceeded pre-pandemic levels.

Shifting to bottom line outlook. Next slide. You'll see continuing softening of the material prices for wheat and palm oil. As I mentioned earlier, we are now enjoying lower prices for wheat starting in Q1. And for palm oil there are some lower prices at the end of Q1 but we will fully be enjoying the lower prices of the world market in Q2. The other thing for palm oil learning from what we have done in the past, we have kept a certain portion of our requirements to be at spot so that if the world market prices fall further, we should be able to enjoy them further. Lower prices have been locked in for Q3 and Q4 for wheat and crude palm oil, respectively. I'll now turn it over to Marco who will talk about the meat alternative business.

Marco Bertacca:

Thank you very much Jesse, can I see the next slide please? Next. Thank you. So as already Henry and Jesse has highlighted, it has been a very challenging quarter and the start of 2023, in particular driven by the challenging economical situations that we have in the UK. We'll come back to that. But we are reporting an organic sales decline of 4.3. This is different between retail and food service. While reported that, say, decline is 8.1 in retail while food service continue to grow by almost 5% in the beginning of the year. Gross margin as a consequence is also down. We have two or three drivers, the continuous inflation, lower manufacturing volumes. And of course our pricing has only had an impact on the absolute margin but not on a percentage so as much as we wanted and we continue to drive a margin recovering initiatives.

We have just implemented another price increase in the UK and in other countries. On a very selective basis, you will have heard and it's very clear that it's much more difficult now to pass price increases to the retailers. It's becoming harder and harder, that's why to be very selective is very, very important.

And we expect that this will have a slight improvement of our margin going forward, even if I want to very openly say that our quarter two is still proving very challenging. We don't see a lot of improvement on all the overall category market and our profit recovery will take some time during this year.

Next slide, please. Here I want to drive and take a deep dive into the UK. Of course everyone's knowledge is that the food inflation is even higher than the general inflation is 19.2% in the UK. The UK is escaping recession but the shopper confidence is still very low. This has a direct impact on the market in the UK in the meat alternative which is overall in value down more than 10%. And here what is very important to always consider is all our actions, the very selective price increases or the investment that we do in the market and the strength of the brand that the product are allowing Quorn to have much lower loss compared to the market. In fact, you see on this slide that Quorn is just 1.9%. This is the last 12 weeks decline versus a market that is declined 10.3, and private label that is declining much faster and other brands are declined 10.5.

Next slide please. This is clearly reflected in our market share. This is the area where we are extremely proud of in difficult circumstances. We have now been increasing market share for more than one year. You can see on the graph on the left we are 32.6. it's a very, very strong performance of the Quorn brand. And on top of that, the graph on the right is showing two elements. The first one is that the overall market in the UK, overall retailers, are not radically reducing the number of points of distribution. So you can see at the bottom on the graph below on the right that the gray is just showing a small decline in the overall PODS, point of distribution, from the retailers while Quorn is increasing the point of distribution. So the overall market is not retrenching, is not leaving the meat alternative, the market and the customer still believe in it. And customer by customer, Quorn is increasing the penetration at every customer. In fact, you can see that we are winning in four out of the six big retailers with an increase in distribution as well.

Next slide please. Much more challenging is the situation in the US. This is why we have executed the restructuring that Henry and Jesse have already discussed. The market is a minus four, quarter is minus 16, and we see that the only companies that are growing are Impossible and Beyond through a continuous launch, a continuous refresh, an increase of their distribution. And overall we see that we have lost a share from 5.3 to 4.6. Our drive of restructuring a refocus the organization on a smaller footprint, all our resources now focus on protecting the point of distribution that we have and increasing the resource sales in those distribution. Unfortunately, we've seen that in the US market the approach of the retailer has been a reduction on the shelf available to the meat alternative and therefore you will see that we will continue to suffer for the rest of the year while this is happening. But what we are refocusing our resources is on protecting those distribution point that we have by accelerating the rate of sale on those.

Next slide please. Food service and QSR continues to be a very, very strong area for Quorn. This is one of our three pillars, as I always say. This is the second biggest quarter we've ever had. The report say is very high. Let's say, of course we have challenges. So this performance have been achieved despite the challenges of, for example, in the UK we have a number of strikes that are affecting people traveling and eating outside. But we are increasing and improving our performance by entering and penetrating some sub-sectors that are extremely important for the long term and the future. For example, education and health. Despite the challenges we're growing very strongly there and we continue with the growth momentum in KFC and overall. Not just in the UK but also in the rest of the world.

Next slide please. So as Henry already mentioned at the beginning of the presentation, we are facing some very challenging market condition. So after the actions that we've taken in the US, we decided to also take a right-sizing approach in the UK and in the rest of the company. We are actually implementing as we speak, a restructuring program about 60 full-time employees will be unfortunately suffering the effect of that. A number in the supply chain, but also number in commercial administration after we have executed what we called as a restructuring in the US.

What is the objective here? Look, the objective is really, we want to find the way to ensure that we retain the capabilities that we have started to improve following the IPO in order to be able to restart our growth plan when the market shifts. While in the midterm, we take to take into account that the volume is reduced despite our increased market share, the volume is lower. So we need to basically address our overall footprint. What is also very important is that the resources and the flexibility that we need to retain because we really believe that the market is there to come back. But during this year, we certainly see challenging circumstances.

Next slide please. And here I pass over back here to Jesse. Thank you.

Jesse Teo:

Next slide please. We'd also like to talk about a announcement that we made on infusing GBP 40 million to our UK entity. The 40 million sterling will be invested into our Monde Nissin Singapore entity and then down and then infuse into our UK entity and into our meat alternative operating and legal entity Marlow Foods. The use of proceeds of these 40 million sterling will be to repay partially our external debt, which is denominated in sterling. We have an excess cash position of over Php 11.5 billion. We experience negative carry, especially with increasing interest rates and it'd be good to use the excess cash that we have in APAC to bring down our external debt financing costs.

We will also be financing the six to eight million that Marco talked about is $6 million in cash restructuring. That's a one off cash cost that we'll be helping fund from headquarters. And this money will be spent on the restructuring and as Marco mentioned, this will pay dividends as the payout for those restructuring will be less than one year. With that we end our prepared remarks and as Henry encourage everyone, we are ready for Q&A.

Michael Paska:

Jesse. So

Michael Paska:

This concludes our formal comments. I will now moderate the Q&A portion of the call. Questions can be submitted via your chat box and we will attempt to address as many as possible time permitting. Jesse, the first question we have is for you and this is asking about, will Monde Nissin be able to provide a dividend this year?

Jesse Teo:

Yeah. So unfortunate answer is we are not sure, but we are trying our best. As many of you know, we have a negative retained earnings position after announcing the impairment of our alternative intangibles. We announced an equity restructure that will wipe out that deficit. However, this will require SEC approval. We are working hard with the regulators to give and to submit this restructuring so that we can wipe out this position. Fortunately for us, we have a very cash active APAC branded food and beverage business. We are stockpiling cash every month, every quarter. And from the trends, we should be able to stockpile enough for a dividend. However, again, it requires that some things, some events that are not under our control to happen, primarily approval of regulators.

Michael Paska:

Thank you, Jesse. Next-

Henry Soesanto:

Mike, can I give a bit of additional explanation here?

Michael Paska:

Yes, please.

Henry Soesanto:

The word restructuring, a lot of people has misunderstood this as commonly used, right? This is like debt restructuring or whatever. So this is totally different. We are restructuring our equity in the balance year. Because of the impairment, we have negative equity there. But we have a lot of APIC up there before the equity. We try to bring those additional paid in capital to offset the negative equity there. So it is definitely not a debt restructuring. We almost do not carry debt here. So there is no debt restructuring that we are talking about here, right?

So once you put down the APIC there, this require the SEC approval. Once SEC approve, then our equity will become zero. And then, we have a lot of cash here. As Jesse said, we accumulate a lot of cash. We don't use debt here, so actually we have the capability of distributing dividend, but again, we have to be confident that the declaration of dividend is guaranteed by not in the future experiencing again, the equity restructuring again. So this is still in the process. We are trying very hard, but a lot of things are not within our control. But to mention here, this is not a debt restructuring and the company have the capability in terms of cash to dividend out.

Jesse Teo:

Just to put some numbers to what Henry has mentioned. The additional paid in capital balance is over 46 billion and our deficit is 7 billion.

Henry Soesanto:

A lot, right?

Jesse Teo:

[inaudible].

Henry Soesanto:

We have a lot. We have 45 billion. We are capable to offset 7 billion only, the capital lost there. So this is not a debt restructuring. I have to reemphasize again because the market has understood this as if Monde Nissin cannot pay debt and doing this debt restructuring. That's not the way, that's not the case.

Jesse Teo:

In fact, just to emphasize, on the contrary, we are paying down partially debt because we had good cash surplus in UK. That's one of the key reasons of the cash infusion to the UK, to pay down group debt.

Michael Paska:

Thank you, Henry and Jesse. Henry, the next question is for you and this is what gives you confidence in a long-term viability of the meat alternative business and what do you see are its key competitive strengths?

Henry Soesanto:

Mike, a few days ago, a few weeks ago we were talking about this and we came out with this long-term picture of the revenue growth in UK. We are very lucky. Only a few companies in this world, maybe one or two companies has this kind of long-term numbers to look at, the long-term history performance of the business. Can we put this in the slide here? Can we put the slide here? So Quorn is very, very long company there. We have been producing Quorn more than 30 years ago. Later on you'll see here that... You see the... No, I cannot see the slide again. Yeah, okay. At the right-hand, upper corner there, you see the trend of the revenue of Quorn starting from the year... What is that? 1997. You see definitely it's an up trend there. Only when it comes to the beginning of Brexit and COVID, it starts to taper. The growth there, as we see here, it's about seven to 12% year-on-year. We believe that the trend will continue. There is no reason for the trend not to continue.

The tapering of the graph only reflecting the difficulty of the macroeconomy in the territory there. You see the COVID, you see the Brexit, you see the inflation there. That caused this kind of flattening of the revenue growth. But if you have the long-term view there, post this kind of crisis, we strongly believe that the trend will continue. We are not talking about growing by 50 or 100% every year, that is not going to happen, we believe. But the trend of the long-term here pointing to that, it is very, very likely that seven to 12% growth is achievable post this temporary crisis. Is that the question? The long-term trend of the UK here pointing to the possibility to think, pointing to the confidence that in the long run, in the medium term, the business will grow. It's unlike some new plant-based company, they are just developed only in the past two or five years. We are 30 years there. We see the trend here. Is that basically the question, Mike?

Michael Paska:

Yes, Henry, thank you very much. Another question for you Henry, and this is in light of your minority investments in Figaro and Terramino, can you explain Monde Nissin's inorganic growth strategy?

Henry Soesanto:

I think our growth strategy is clear. We are trying to grow based on our competence, our core competence. So we have to redefine what does it mean by the core competence. We are talking here not only the products, so of course our core product is noodles and biscuit and recently we expanded our core products into yogurt and then condiment. That's a core products, but our competence in the Philippines is involving the capability of distributing products, the knowledge of the consumer insight, the capability of building brand. So this is our core competence in the Philippines. So when we invest into other non-organic opportunities, we always look at this core competence. Can we help growth based on our competence, based on our core competence? If the answer is yes, we will consider investing in that. Is there any specific question here, Mike? Are we talking about the Figaro or no?

Michael Paska:

Just in general. And so, unless there's anything else to add, I have another question for you.

Henry Soesanto:

Yeah, please go ahead.

Michael Paska:

Okay-

Henry Soesanto:

So it depends, right? When we invest, we have to examine what is our core competence. Core competence is not only about competence of producing certain products, it involve the core competence of capability of distribution, capability of marketing, capability of branding, our knowledge of consumer insight. These are all competence. So when we invest, we look at all of this, do we have this? Can we have the investment? I think that's our strategy.

Michael Paska:

Thank you, Henry. This question's related. It's how do we screen and look for opportunities? And what are our KPIs and how do we hold ourselves to them?

Henry Soesanto:

So for example, many years ago when we started the business 40 years ago, our core competence in the product was only biscuits. So later on we expanded again into noodles, and later on we expanded again into cake, into Mama Sita's condiment, into the yogurt drink. So the product keeps on growing, and then capitalizing our capability of distribution, and then marketing and then branding. So that is the way you see all the expansion of the product category here. The specific question is? Sorry.

Michael Paska:

Oh, yeah. So yeah, Henry, it was just talking about the overall capital allocation strategy, and if you have any specific KPIs and how we would hold ourselves to those KPIs.

Henry Soesanto:

Going into certain category, which is not at the moment we are carrying need some time. So for example, when we go into noodles, we need almost 10 to 20 years to develop it until it becomes number one. The KPI that we are always tracking is whether or not we really can execute and what is the timeframe. So it depends on the category that we are in.

Michael Paska:

Thank you, Henry. The next question is for Marco. Marco, the question is what do you think would be the key factor to improvement of the meat alternative industry?

Marco Bertacca:

Thanks, Mike. There are few overall general characteristics and of course every market has got its own interpretation of those. So for sure a recovery of the inflation overall, the perception of the inflation and the perception that the meat alternative category is more expensive than the other categories is a blocker. So I would say currently pricing is an issue, and this is where I believe that Quorn is showing a better proposition compared to others because of our lower cost base overall.

The second one is taste. We discuss it in a number of section. A taste has to continue to improve. And the third one is really when people will have to start worry less about the day-to-day and how do they make to the end of the month. They will find a way to focus again, and more to some extent back to where they were before the pandemic and the war situation, to the health of themselves and of the planet. So I don't think that fundamentally the characteristic have changed, but as Henry was showing earlier with the long-term graph, we've been able to run on those characteristics for the last 30 years. The last two years have been really, really challenging, and so I really believe we will go back to some of those elements that I mentioned.

Michael Paska:

Thank you, Marco.

Henry Soesanto:

Mike, if you can allow me. In the market, I heard about the question of investing minorities stake in Figaro and then Terramino, right? Let me explain a bit, further explain a bit about our investment strategy. So we look at Figaro as a brand. This is a coffee, but we look at the story of the brand. This is a Filipino coffee. This is the coffee from Batangas. We feel that this is a good story to tell, and based on our capability of putting product in the share of the customers based on our distribution capability, we thought that with a good brand, with a good story, we can come up with a FMCG products that hopefully can be successful in the market.

So there's a need to come up with a story of the brand and capitalizing on the capability of our distribution, putting it into FMCG space. This is something that Monde Nissin can do. Then Figaro Coffee, maybe they need someone like Monde Nissin to do this kind of job. So when the opportunity is coming like investment in 15%, we are not looking at the 15% there. We are looking at is the brand having value? Is there any good story that we can capitalize on the marketing? Can we put into FMCG space using our distribution capability? And if the answer are all checked, then we will decide. That is a process of investing minority in this Figaro brand.

And then Terramino is different. Terramino, we look at it as an investment on R&D. This is a meat alternative based in Bay Area in USA. They use different yeast or fungi that we keep on looking today, trying to come up with alternative fungi that can produce different products. Terramino, the brand is Prime Roots. They have a very good product in terms of deli. They are selling in New York, very successful there and we think that there's a big area of collaboration in terms of research and development. So investing 2 million U.S. dollars there, we hope we can gain a lot of R&D collaboration and at the same time mutually helping each other, and putting the product in the market in USA, in UK.

This is a very big category sector. This is a deli. You're talking about hams, salami and this kind of things, which we are still in the process of developing a good product. They have good product already, so we spend 2 million there, trying to get the access of R&D together. So Figaro, there's a concept there. Terramino, there's a different concept. Hope that try to address the question in the market, investing minority, what is the purpose there?

Michael Paska:

Thank you, Henry. Marco, the next question is for you, and this is after the restructuring exercise. Are there further drivers to get Quorn back to positive profitability?

Marco Bertacca:

Yeah, thanks Mike. First, let me add just one comment to what Henry just mentioned because I think is really, really important. The balancing act that we're working together between Monde Nissin and Quorn is really to say, look, on one hand we need to take into account the current economic circumstances and right size our business for what the market requires today. At the same time, the most important thing is our long-term perspective. We really believe that this category has a future, and therefore the key element for us to kick off the growth of the category for which we have a role as a category leader is also an investing in future technologies and in future new advancement of what we call the fungi fermentation technology. So we as Quorn have been for many, many years the owner and the expert in that technology, but we cannot stay still. So we need to continue to invest for the future, and this is where Henry was referring to also with those 2 million investment. Always trying to stay ahead and find a way to continuously develop positively the category of fungi fermentation.

To the specific question, of course there are a number of actions that we're taking to, let's say strengthen our position in terms of profitability as well. The first thing I want to say is that we need to take into account that in quarter one, we historically invest disproportionately because it's the beginning of the year, it's the beginning month. And in fact in 2023 we had a bigger share of voice than everyone else

Marco Bertacca:

... put together in terms of the UK in particular, and this is also reflected in our market share growth. Whatever we do, we do it for the long term, and therefore we don't stop investing in our brand. That's because our brand, and our product, and our technology are the three big legs that will give us success in the future. Of course, there are a number of things that we're working on. We see inflationary pressure that will continue to decline. We already see energy coming down, we see glucose coming down, egg is still up, but there's an element of raw and packaging material ingredients that is hopefully going in the right direction of reduction.

We have taken and we continue to plan to take selective pricing action in the market and that is something that we've just taken also at the end of March. We continue to work on cost efficiency in order, really, to keep our supply chain as flexible as possible. Of course, another element that I would like to highlight is that we have a growing food service business which has got a strong profitability element. We see that the food service business is becoming bigger and bigger, and that's why it's also very, very important for us and strengthen our position overall in the market.

Henry Soesanto:

Marco and Mike, let me also follow up with the comment of Marco here. In the past 20 plus years ago, we have only one revenue stream, that is basically doing the meat alternative. Revenue stream number one, meat alternative. What is the channel? Supermarket retails. Quorn is very strong for the past 20, 28 years only selling into the retail. That is revenue stream number one, selling what? Selling meat alternative. Revenue stream number two. Very recently, about three, four years ago, we were very, very successful in putting our product into the food service and QSR. This is new, this is only five years ago. Today, correct me if I'm wrong, Marco, we are in more or less 20 countries of KFC. This is not a trial, this is a permanent placement there. This is revenue number two. This is only five years.

Revenue number three is in the process today. This is the difference between Quorn and Beyond Meat and Impossible Foods or any other plant-based companies. Those companies are buying the materials. They are either using soy or peas or whatever, protein sources, and then they make the product, the meat alternative. We are totally different. We literally make our own protein, so we don't have to buy soy, we don't have to buy peas. You see, soy can be used into other products. You see the soy milk, you see the tofu, whatever there, instead of meat alternative. In addition to meat alternative, the same thing, our protein can be used to produce non-meat alternative as an ingredient. If soy can make soy milk, we hope our microprotein can make also milk, can make also cheese, can do also yogurt, can do also anything that soy or peas can do aside from meat alternative because these are same, these are protein, right?

You can sell the protein as an ingredient to produce non-meat alternative products. The problem in the future, and still today, and still tonight is because the handling of the protein of Quorn need to be in cold chain. That this is very inconvenient and this is very costly, right? While soy, you can make it powder and sell it properly. Our protein, you have to handle it in cold chains. But the good news today, Marco, you can let on emphasize my understanding here. We are very close to come up with the handling of mycoprotein in ambient. We don't have to put it into the frozen, into the cold chains. When this happen, we already try it, now, we have six months shelf life already. The mycoprotein can stand for six months without frozen.

If this happen and if we can produce it in scale, then we can sell our microprotein like soy to become ingredients. We can put it anywhere. I can tell you this is the third revenue stream and this potentially, I said potentially, can be bigger than the first two revenue streams. This is not yet, but logic, rationale pointing into that direction and we are working very hard to execute this. Maybe you want to follow up on this Marco, giving us the... Without promise on, but give us the likelihood of success or whatever we have achieved today.

Marco Bertacca:

Thank you, Henry. Yeah, so I think you said it really clearly. We started from retail. We have now expanded in food service and you will see that, I think, one year ago I was talking about food service being 14% of the business. Now, we are above 16, 17. We are planning to close the rest of the year and probably the last quarter we will be getting closer to 20 in terms of the size of the food service, so food service is growing strongly. That's the revenue number two that Henry's talking about. Of course, the revenue number three is something that we are somehow reluctant but also excited. It is a very, very difficult internal conversation, even. As Henry mentioned, we are working really, really hard to develop this technology. We've done some important trials. We are installing a pilot as we speak that is going to help us to prove the concept.

Maybe even some of you have already seen that we have announced commercially the launch of this new division that is connecting the mycoprotein and prepared to sell mycoprotein to the rest of the world. I really believe that in the next few months we will be able to say more about this, something that we really believe in, but it's also something that is very much in line with Quorn DNA. You know Quorn has been driving and innovating for many, many years, pushing the boundary of what was possible commercially. Here we are starting something that we don't know yet what it will become. That's why we are a little bit cautious about talking to you, because we want to avoid on one hand to create expectation, but at the same time we want to ensure that you understand this is there's a big game that we're all working very, very hard on. That we believe can change the game on protein, not just meat alternative but also other sectors around us.

Henry Soesanto:

The idea of this session is trying to explain what is our business currently, what we can do, what we plan to do so that everyone is at the same page now as an investor. Right?

Michael Paska:

Thank you, Henry. Jesse, the next question is for you and this is can you give a revenue and core net income guidance for 2023?

Jesse Teo:

No, we cannot. I think you heard what Marco said. The difficulties in Q1 have extended to Q2. We are trying to work hard to reverse the trends, but some of it, which is the high inflation in the UK, which is affecting retail, is not under our control.

Michael Paska:

Thank you, Jesse.

Henry Soesanto:

But Mike, let me explain a bit on this. The inflation has been showing the trend of softening, I think, even in UK. Today, in terms of mycoprotein, you cannot believe this, our input cost has been up for almost 76%. This is because of the materials, the glucose, the electricity, the energy, everything, the inflation, it has been up by 76%, the input cost in mycoprotein. When you translate it into COGS of the whole business, of course they input cost in the mycoprotein and they should include the depreciation and everything that could be translated into, I'm talking about a ballpark figure here. I don't have the detail numbers here. I'm talking about 40% COGS increase and we have been increasing our price by about 15%, about, maybe 13 or 15%. Meaning we have 25% of the additional input cost in COGS that potentially can come back down, potentially. I'm saying potentially.

How much that will come back down? If it is 70% of the 40% that is 17%. You can imagine if the inflation, if the energy, if the cost of the materials go back by 70% in the future, I don't know when, perhaps three months, five months, one year we don't know. Then we will have the opportunity to gain back again about 17% in terms of EBITDA. I'm talking about all, about ballpark figure without a specific timeframe here. But there's most likely it's going to happen in the next short-term period.

You just hope the inflation will taper down. The war will be settled in the next, I don't know, one year, two years. When it happens, we have the opportunity to come back to the original EBITDA. In the past we are enjoying how much, Jesse? 48% right? Today it's less than 30%. When all these inflationary materials get back 70% of the original, we still say that 30% stick to the price. We have the opportunity to regain the gross margin at the level of almost 45%. Compared to the gross margin today, like 30%, you have 15% additional margin when everything goes back to normalcy, so 15% of additional margin in EBITDA, if you times it with the revenue, that is huge.

I'm talking about ballpark, no, I do not know when it is going to happen. How much is the exact numbers that is going to be reflected in here, but that is the potential. That is the possibility when it is going to happen? Maybe six months, maybe one year, we don't know.

Michael Paska:

Thank you, Henry. Jesse, the next question is for you, and this is if the meat alternative market picks up in the coming years, would management consider reversing the impairment?

Jesse Teo:

Yeah. On the 291 million impairment that we took, most of it is goodwill. From accounting rule standpoint, goodwill cannot be reversed, but the portion of intangibles that can be reversed is the trademark or the brand. That certainly if the business comes back, we should be able to reverse that 46 million of the 291. Until they change accounting rules, unfortunately the 245 for goodwill will stay impaired.

Henry Soesanto:

The idea here, Jesse, correct me if I'm wrong, the impairment cannot be reversed, right?

Jesse Teo:

That is right.

Henry Soesanto:

Our effort today is trying to avoid future impairment, right? Because there are still some brand value sitting in the balance here.

Jesse Teo:

That is right. Correct. Today there's over 200 million sterling of trade there, still in the balance sheet.

Michael Paska:

Thank you, Jesse. Thank you, Henry. Jesse, the next question is for you, and this is A&P expenses fell 34% year over year with A&P as a percentage of sales falling to 3.3% in the first quarter. What is the reason for the scaled down A&P spend? Can we expect this to accelerate in the coming quarters?

Jesse Teo:

Yeah, the reason is for because of phasing of initiatives, it's number one reasons. It depends on when we launch initiatives. Usually when you launch you will have a heavy A&P spending. The other reason is for bakery, we talked about our capacity constraints, the reason why we have to build new lines, it doesn't make sense for us to go full blast on A&P, whether it's promo or advertising when you don't have the supply. We have to build the supply first and then start investing the A&P to generate more demand to fill up the new lines. Those are the two key reasons.

Michael Paska:

Thank you, Jesse. Marco, the next question is for you, and this is how much did food service QSR contribute to meat alternative sales in the first quarter?

Marco Bertacca:

Thanks, Mike. Quarter one was about 16% and as I mentioned earlier, in our plan the quarter four will get around 18%.

Michael Paska:

Okay, thank you Marco. Marco, I have another question for you. This is excluding the restructuring charges, how should we think about the operating loss and net loss trend outlook for the remaining three quarters of the year? Is the run rate of the first quarter EBIT loss and net loss expected to be sustained in the next three quarters?

Marco Bertacca:

Yeah, look, this has been a little bit covered in the different answers already, but let me just highlight few points around it. First, our quarter one clearly includes some strong investments in the brand because first of all we'll continue to invest the brand. This is giving us market share would help us to win in the market and it's important for the long term. This is not going to happen in every quarter. We have a similar size of investment in quarter four, which is a typical month, a typical quarter where we see investment needs. As I opened up at the beginning, we continue to see a challenging retailing environment, certainly for quarter two and very difficult to see further ahead than this. We are investing, we are spending money with a very short payback, as Jesse highlighted, to implement restructuring so that we optimize our cost base.

We're trying, really, to be as agile as possible in our spending and we expect a very small gross margin recovery in the next quarter and maybe throughout the year. Clearly, as Henry has highlighted, the possible upside is more relevant. The question is also exactly as he said, how big and how much is difficult to say. This year is going to be challenging. Also, because you need to consider that our product has an intrinsic element of maturation within it. We need to store it for a number of months after it is produced in order to be able to sell it. Therefore, we carry in our inventory quite some element of the old cost that they need to flush through our P&L, and therefore we would see certainly some benefits progressively and into next year. I hope that helps.

Michael Paska:

Thank you, Marco, I have another question for you, and this is, do you see Beyond Meat continuing with price cuts or do you think their balance sheet pressure means the price competition could ease? What are Quorn's own strategy for pricing in 2023?

Marco Bertacca:

Look, it is very, very difficult for me, and I will refrain from any comment that are specifically about Beyond Meat and other companies, because I think every company has got their own challenges and their own-

Henry Soesanto:

Opportunities.

Marco Bertacca:

Opportunities. At the same time, I can share with you that they're trying, we are all in this together to some extent. We are really trying to drive a category. I will not make comment on those. I only can talk about what our plans are. What I can assure you is that our plans that we have embarked on at the IPO with our three strategic initiatives, some of those work and we are doubling down, like food service, some of those we have strengthened our position. In the case, some of that did not work, which was the US and then we have been addressing that.

The important thing is that everything that we do at Quorn with the support of Monde Nissin is really tailored to do the right thing for the long term. We're not going to be here to disappear, we're not going to be here to do one thing today and one thing tomorrow, because it's what the short term will dictate. This is where it was very powerful to hear Henry's conviction and also recognizing all the work that we are doing in increasing the number of revenue streams, which

Marco Bertacca:

Which of course carries with it its own risk because when you innovate in technology, some things work and some things do not. I think what is important that we do more and more often and we discuss internally even the opportunity to invite an investor group to visit our facility, to open up, to show you exactly what we're doing because we believe it's important that when you see what we're doing, you understand how much we're working towards the future. That's what Quorn and Monde Nissin are about.

Michael Paska:

Thank you, Marco. Marco, another question for you. Can you give more color on the restructuring cost in Quorn US, and where in the income statement is this restructuring cost reflected?

Jesse Teo:

Since it's a financial statement question. I'll take it over, Mike.

Michael Paska:

Okay.

Jesse Teo:

It's in the gen admin column, specifically if you want details, bulk of it is the closure of the Dallas Kitchen premises closure. Okay? We also have some staff, the circa 10 people that we are letting go, and then also some marketing services contract that we are terminating.

Michael Paska:

Thank you, Jesse. Jesse, I got a question for you, and this is, have you seen further share gains in instant noodles in April and May? Is 68% a comfortable market share number for you for the rest of the year?

Jesse Teo:

We don't have the data yet, so I don't want to speculate. Yeah.

Michael Paska:

Okay. Next question, and Jesse, this is for you or Henry, and this is what is management's target return on its investments for M&A?

Jesse Teo:

Yeah. So ROIC has to be higher than in general. How much higher is, what is the premium depends on the riskiness, and however you would have the payout periods. Right? Some projects are like more mature businesses that we have, we have a shorter payback period. We need a shorter payout. Some businesses which are, we are investing in the long haul, developing businesses, you have a profile where you initially have losses, you go in investment mode and you then you harvest return toward the terminal value. Right? So we have different profiles of investments and I think a good company should have a good portfolio of short-term payout and long-term payout type of initiatives. But the keepers for this, the overall ROIC has to be higher, significantly higher than WACC.

Henry Soesanto:

Jesse, let me also emphasize this now based on your statement there. ROIC is defined, the formula is the NPAT divided by the capital invested. Right? That should be ideally bigger than the WACC, weighted average capital cost of capital. Today, capital cost is high, so ideally the investment, what you call this requirement there, the ROIC should be bigger than WACC. That's That's correct. Totally supportive. But people talk about Quorn again. Can Quorn keep on investing and then still achieve the ideal ROIC? I think that's a very tricky question here. So today, our fermenter, which is costing a lot, are all basically all old. The depreciation cost has been almost zero, right? So the ROIC today is okay, but in the future if we grow, then that's a different story. I think we have to keep all the transparency here because fermenter is expensive. That's why here we have to thank, Michael, when we are in the session, aside from talking to the investor, we are talking to our people as well. We have to be mindful that the growth of the fermenter products should not be compromised by the requirement of the margin here. We should control the amount of growth there. We should not only chasing the percentage of growth and then sacrificing the margin. It's not going to work because by the time your capacity is used up, we don't have cash to invest. I think that's very important, but today it is clear for everyone based on our capacity and a bit short-term forecast, we still have two to three years capacity.

So in the future, this depends on the success whether we can produce this long-life mycoprotein. That's why it is very crucial to see the success of this number three revenue stream. When this happen, it can not only reduce our inventory in UK, it can also ship out the microprotein globally so that the investment of the downstream equipment will not be in UK. They invite the capital invested. Today, it is lump together. You produce mycoprotein, produce, meat alternative, the gross margin is one. I think we have to separate this. Once the second revenue is done, we have to separate. Look, if the trend is up, we really have to expand and there are possibility in certain territory they will give you a lot of incentive in this kind of capitalization. A huge amount of this.

So the prospect of growth in terms of ROIC for producing mycoprotein, I think the potential is there, but we have just to be mindful when chasing the growth, do not forget that once the capacity is used up, we should have the cash to invest for the new capacity.

Michael Paska:

Thank you, Henry. Marco, the next question is for you, and this is a clarification regarding the restructuring. Is it correct that meat alternative business will start generating five to seven million pounds in cost savings this year in the following quarters, and then going forward in 2024, eight to 10 million in savings for 2024? And this would effectively lower the cost of personnel and salaries. Is that correct?

Marco Bertacca:

Sorry, I was just unmuting. Yes, this is what we have explained on the slide. This is what we intend as you have seen a one-off cost of six to eight million and a fully year saving for next year, let's say, or on a full year basis or about eight to 10 million GBP.

Michael Paska:

Okay. Thank you, Marco.

Jesse, the next question is for you, and this is regarding bread. Can you give more color on the bread performance? What percentage does it contribute to the top line and what is its current market share?

Jesse Teo:

Yeah. Well, bread is one of our highest growth category last year. However, it's still very small, less than 1% of APAC branded food and beverage. Because of its small scale, we don't buy market share data, so we don't have anything to share at this point on market share.

Michael Paska:

Okay, thank you, Jesse.

Jesse, another question for you. This is regarding, can you give more color on the 146 million peso tax benefit of meat alternatives? Should we expect similar tax benefits in the upcoming quarters in 2023?

Jesse Teo:

Yeah, I think this is due to the deferred tax asset from the losses, from the losses that we reported. We will guide you on a going basis for the next four years use 25%, that was announced corporate income tax rate by the UK government. So we will advise you to use that rate when you do your modeling, 25%.

Michael Paska:

Okay. Thank you, Jesse.

Marco, the next question is for you, and this is how much did you raise prices at the Quorn foods level?

Marco Bertacca:

Yeah, you know that we have done a number of price increases. We tend to not be completely... Sorry, what's the best way to explain it is it's very difficult to say the overall, even if we end the region of the 15% that Henry mentioned. But of course, what is very important is that every price increase, we don't do flat price increases. We go by retail, food service, in other areas, by country by country, depending on the inflation locally, and also on the sub-segments because we know the sub-segments are able to absorb more prices than other for their own nature. But the overall number is what Henry mentioned, which is the 15%. And now at we've just executing I think our fourth price increase in the last two years.

Michael Paska:

Thank you, Marco. Marco, another question for you, and this is regarding improving the Quorn product in terms of taste. Can this improvement be done and at what cost?

Marco Bertacca:

Yeah. Look, I think it's very interesting to talk about taste and talk about product improvement. So one of the big actions that we've taken in Quorn in the last year and a half has been to establish a sensory panel and a sensory team. There's, first of all, understanding what is important for the consumer and then finding way to define that elements of the taste profile by market because we need technologies different by market, and then to replicate it into our own product, and then we continuously score our product compared to that reference point. I do not believe that there is a direct link between taste and cost. The key element of our cost increases are linked to the inflationary pressures. We have not and we don't intend to reduce the taste of our product because of the cost pressure. If anything it's the opposite. So for us, the product quality and taste is paramount, is the number one, and then the rest comes last.

Michael Paska:

Thank you, Marco.

Marco, another question for you, and this is, do you see cultured meat as a threat to the long-term growth prospect of plant-based meat?

Marco Bertacca:

So Mike, I will never claim to be an expert in cultured meat, even if I'm trying to learn as much as possible, and I also have views and reflection together with Henry that is always exploring what is ahead of us. It's very difficult and I will not attempt even a summary because there are a number of different perspective on the cost, on the sustainability of the product, et cetera.

What I know is that there is a lot of investment that is still coming into the category. So it is coming into the category through cultured meat, it's coming into the category through fermentation. There's many, many companies that are now really trying to collaborate with us and we want to collaborate with them in fermentation and other products and other prototypes as well. Fermented vegetables is becoming really, really an interesting category.

So all this is saying to me that the long term of the category, because it's driven by taste, the health for the person and the planet, will continue to succeed, one, because the investment is behind it, and two, because the customers are really still very supportive of that. Even if, I must acknowledge, in the UK more supportive in the Europe, more supportive than I would've seen happening in the US where the situation is a bit different.

Michael Paska:

Thank you, Marco.

Jesse, the next question is for you, and this is regarding the equity infusion going into Quorn. Question is, where did the equity infusion come from? Is this just moving money from the parent to Quorn or is external capital raising?

Jesse Teo:

Yes, as I mentioned earlier, it's from the surplus cash of the parent. We have surplus cash. Most of the surplus cash is in the parent and in the paralegal entity, and we are generating more cash with our improving business trends in the Philippines. No external capital raising for this.

Michael Paska:

Thank you, Jesse.

Marco, next question is for you, and this is regarding glucose. Why are Quorn's glucose costs not coming down as quickly as wheat and corn prices? Are there shortages in the glucose production chain?

Marco Bertacca:

So let me start with the last one, are there shortages? In the UK there were more limited supply routes for glucose, but there's a new entrant in the market which we are starting to collaborate with, so that that's good news, but there's no shortages overall. The reality is that indeed the cost are coming down, they're coming down progressively, but as I mentioned earlier, there's still, decrease costs still sit in the value stock and in the overall supply chain. So that is something that we expect to be starting to benefit in the next few quarters into next year more specifically.

Michael Paska:

Thank you, Marco.

Jesse, the next question is for you, and this is, do you expect to implement further price hikes in the APAC BFB business this year?

Jesse Teo:

Well, first of all, our policy is not specific pricing, but I do want to mention that there are commodities that are affecting certain SKUs that have, I've mentioned before. Sugar and eggs, as everyone knows, are high, even if they have come off their peaks, and so we'll be looking at those trends, those commodities and the SKUs that they are affecting. And if cost adjustments, our price adjustments are warranted, then we may consider.

Michael Paska:

Thank you, Jesse.

Jesse, we have one final question here, and this is for you. Question is, given the improvement in noodle volumes, could you providess some details on the utilization rate of the new noodle plant and its impact on operating margins moving forward?

Jesse Teo:

Yeah. Our capacity utilization is over 80%. Of course, more volume means better operating leverage, which will translate to economies of scale advantages on margins.

Michael Paska:

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

Henry Soesanto:

Thank you, Mike, and thank you, everyone, for your active participation in this call and continued interest in our company. I hope the session today we can gain some understanding on what Monde Nissin is doing, what we can do, what we plan to do. So moving forward, we are not only investing in the stock of Monde Nissin, but rather more investing in our business. As a group, we remain optimistic for continued growth and improvement, especially over the medium and long term. Thank you very much for your supports. I look forward to speaking again when we have our next call. And until then, stay safe and healthy. Thank you.