Transcript of Monde Nissin Corporation (MONDE)
First Half 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:

Welcome to Monde Nissin's first half, 2023 earnings briefing. I am Mike Paska, head of investor relations. On the call with me today are Henry Soesanto, chief executive officer. Jesse Teo, chief financial officer, and Marco Bertacca, chief executive officer of Quorn Foods.

By now, everyone should have access to the earnings press release and presentation all posted in the PSE Edge website 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. During the course of the 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. Thank you Mike, and good afternoon everyone. I'm happy to report that during the second quarter our APAC BFB businesses saw continued top line growth. This growth was modest compared to the first quarter, as we have also observed some moderation in consumption across food and beverages categories. Despite this, our APAC BFB business saw further improvement in gross margin. And as our input costs for the remainder of the year have largely been locked in at the lower prices, we expect additional improvement in our gross margin in Q3 and Q4. Additionally, while it is still halfway in the quarter, we expect our year on year Q3 revenue for APAC BFB to grow stronger compared to the lower pace of last year.

Moving to the meat alternative business, the category continues to face headwind, but Quorn has managed to gain market share and has substantially completed the restructuring plan that we announced previously. The targeted savings from this initiative is about five to seven million pound sterling for this year, and going forward, an annual savings of eight to 10 million pound sterling. The Quorn team has been working hard to implement this restructuring and improving the bottom line. So efforts are already showing positive results with EBITDA this quarter back to break-even.

With that, I would now like to turn over to Jesse to provide more details for our APAC BFB business. Jesse, please.

Jesse Teo:

Thank you, Henry. As Henry mentioned, our results for Q2 is marked by challenging top line growth as our growth went from 10.9% in Q1 down to 7% with both slowdown in both APAC and meat alternative. But the good news is the structural economics of both businesses, the gross margin for APAC has improved sequentially and versus a year ago. And for meat alternative, the restructuring initiative that has been implemented is now yielding savings enabling us to achieve breakeven EBITDA, despite a challenging top line.

The gross profit is largely affected by the meat alternative business, which we'll discuss later on in more detail. APAC, as I said, has very good progression, especially with the key raw material prices that we have locked in.

On a core net income or an EBITDA basis it is lower because of unfavorable phasing, especially for advertising and promotion. A&P for APAC had an unfavorable phasing compared to the same period versus year ago, but this is still below than the full year A&P percent of sales. For perspective, last year's full year A&P percent of sales for APAC branded food and beverage was 3.7%, and despite the negative phasing, it's only 2.6% in the first half.

For the reconciliation between core and reported income. This is largely the restructuring costs that we have booked largely during Q2, offset by some impairment reversal for machines that we will end up using, especially in the bakery department. We have reported before strong progress in the volumes for bakery and we are putting online some of the machines that we have previously impaired.

Next slide, please. Drilling down now to APAC. Growth slowed down a bit to 4.9%, but biscuits and others, which is culinary and beverage, continue to have strong growth. The slowdown was noticeable in noodles and later on we'll provide the split of the growth by category and by net price and volume and mix.

Gross margin, however, grew sequentially by 101 bps and 46 bps on a comparable basis. Net income, as I mentioned, is affected by the phasing of A&P, though this should not be a problem for the full year.

Now drilling down to the growth of each of the category. Next slide, please. You'll see that in Q2 we managed to grow both volume and sales in value for both biscuits and others. Culinary and beverage are the same trends for others, but noodles experienced some elasticity effects with volumes declining 8.6% versus the net price increase of 6.3%. This is off a high base last year where there were a lot of election spending related demand, especially in the Visayas and Mindanao regions. And also a general slowdown in the category which we will share. There was a profound effect on noodles, that's because of our dominance in this category.

On the first half, we are still above. Volume growth is still offset fully by net price growing net almost 4% for noodles and double digit growth for biscuits and others. Next slide, please.

As Henry mentioned, the slowdown is across the board in retail for food and non-food. You will see that the chart based on retail chart from independent market measurements shows total food slowing down from March to April to May. And there is hardly a category that is not experiencing the same.

So with that, next slide, our noodles business was not able to defy gravity and therefore fell along with the category. The good news, however, is that we have bounced back quite strongly in July and early part of August as Henry mentioned. In fact, July was 10% above the average of Q2, the monthly average of Q2 and 15% higher than the June numbers. So we are seeing a strong bounce back in July after softening of demand in Q2.

Next slide please. Next is share. We have stabilized our shares to 66.1% slightly below the same period versus a year ago. Now that the ETO issue has been largely overcome, we will now revert back to reporting shares on a more stable quarterly basis. It is kind of flattish versus the same period a year ago. It's the same level from which we entered the regulatory crisis almost a year ago, but we have plateaued from that point on. Many of you know who follow us and follow our competitor know that one of our key competitors had supply chain hiccups during the first half of the year. They have been able to solve those supply chain hiccups thus, it has become a little bit harder to grow further from our share positions. But the good news is some of our key initiatives in order for us to continue to grow share, have been quite successful. The Kasalo Pack, which is the bigger size and price Pancit Canton or dry pouch offering is doing well with past 12 week share being 3.8% and past four weeks at 4.5%. So there's clear momentum on this Kasalo Pack as we are now almost a third of the leader in this sizing and pricing segment. Because of the success there, we are launching a version of the bigger pack on our wet pouch. The wet pouch offering will contain consumer preferred garnish and we expect it to be as successful as our dry pouch version. We have mentioned about our easy prep cups. So far consumers are now enjoying sachet free for our most popular variants, but the business results are yet to come. We will reinforce the communication in order for people to realize the benefits of our new cup features.

Turning to biscuits. Biscuits, we continue to be number two. A local company has overtaken us as the number one biscuit company. We do still have the number one and number two SKU with SkyFlakes and Fita in that category. But the competitor has used a value approach in coming up with different offerings by region that aggregate to market leadership overall. The good news is, however, is that in sandwich, which is an important subsegment of biscuits, we are gaining ground. We had to fix the pricing to be able to address the fundamental structural economics. But despite the pricing, we have been growing volume and share for our sandwich portfolio.

For culinary on oyster sauce, we reflect some share loss due to some supply chain constraints. We experienced some quality issues, necessitating us to take extra care in our production process. These extra steps curtail supply, and thus we lost by default by not being able to serve the demands. Penetration continues to be strong in oyster sauce and we foresee a strong bounce back once the supply issues are fully overcome.

For yogurt, we have maintained our close to 90% share, and this is a category that continues to grow. I think there's a strong migration in the milk-based beverage, and we are with our 90% share, a primary beneficiary of that trend.

Next. On margins, as Henry alluded to, we have substantially locked in our key raw material inputs for wheat and palm oilin the back half of the year. I know there's some noise in the wheat prices. It has gone up quite high due to the news in the Black Sea region and it has gone down but we are substantially protected from those noise as we have locked in at much lower prices than current. For palm oil as well, we have good positions even versus current that will ensure that our margin progression that we started reporting this year, both up sequentially and versus year ago, will continue on in the back half. Next slide. I'll now turn it over to Marco who will talk more about the meat alternative category.

Marco Bertacca:

Thank you very much, Jesse, and good morning, good afternoon to everyone. Can we start with the next slide please? So as a matter of introduction, I think I just want to build on what Henry has already mentioned. We see clearly an economical and category environment that is difficult and in this environment, we are making good progress as we have announced and we have planned.

So we see, for example, that from the growth perspective, our sales declined by 3.7, our volume decline was a bit stronger than that. And so, that the overall sale has also been impacted by an element of this stocking at our biggest customer at Tesco. We've also seen in this area that we have finalized another round of price increases in Quarter 2 2023.

Also, from the gross profit margin, we still, let's say, see the impact of the very high inflation that we have and therefore our gross profit is still challenged in particular versus a year ago. We're still reporting a core gross margin at 24% which is a positive gross margin. But, of course, our ambition is different and therefore, we are continuing to work to compensate the high level of material variances we had in the month, in the quarter actually. We also see that the dilutive effect of price versus inflation continue and of course, the volume decline has also impacted on our gross margin.

So the challenge on the top line, our gross margin is challenged this quarter and at the same time, what we are progressing on is we are at breakeven EBITDA so we see a recovery compared to Quarter 1 and very importantly, also, towards the future. We continually see a growth in market share year on year. So to some extent, the way I look at this picture is we start to see the light at the end of the tunnel but we're not yet fully out of it. So can we move to the next slide please?

So I want to deep dive a bit in the UK market. Of course, many of you would be fully aware of the situation in the UK. In terms of UK inflation, we start to see that the general inflation has started to come down not as fast as everyone is driving for. The food inflation is still higher than the overall inflation. So let's say in the UK the food inflation remains twice the rate of the general inflation which is still having an important effect on the consumer. So we see that the consumer confidence is getting slightly better also because we see actions that started to have a bit of an impact on the overall inflation. But still, in terms of consumption, I'm just reporting here in the Slide 1 one interesting statistic which is 46% of UK adults really reported that they buy less food in the last few weeks. So from that perspective, we're still in a challenging economical and inflationary situation which, of course, is having an impact on a category like meat alternative as well.

Now, if we then look at the chart on the right. Here, we see the overall market trend. Here we see that, first of all, the overall market is minus 6% which means that it is slightly improving compared to the previous reading. We see that the biggest losers in the current environment is the private label. This is quite peculiar because, normally, private label is an area that is able to win in difficult economical market circumstances. In the meat alternative business, what we see is the power of our brand is really, really strong. In fact, you'll see that Quorn in the last 12 weeks is just kind of flat. It's flat. So performing much better than the private label and performing better than the other private brands. And this is because people tend to go back to what they know, tend to go back to the brand that they know and to the food that they know and this is why we see that Quorn is performing better than the category and the other brands. Also, what is important to note is that the last 12 weeks, this minus 0.3 is actually better than the last quarter. I think we were at minus 1.9 in the last 12 weeks. So we see that market is still challenged, we are gaining market share within this market, and the market is slightly improving. But still, the inflationary pressure is still present and this is what is having an impact on consumer confidence and the category overall. Next slide please.

So this is, again, a very important element for us to look at. Because in this area of the last year, let's say 15 months where the category is challenged, everything that we're doing is to get out of this moment with strength and with presence and with relevance for consumers. So that when the market starts again, we are there to capitalize on that. And this is why looking at market share is extremely important. You can see in the graph here, we continue to grow with the previous year. If you look at the 2nd Quarter 2023, we are 32.3 which is 1.1 higher than the 2nd Quarter in 2022. So year-on-year, we are continuously improving. In particular, we are improving with our strong customers, Tesco and Sainsbury. We continue to become stronger and stronger with those. What is also very important for us is that we are improving both in chilled and in frozen. Historically, we've always been strong in frozen. But also in chilled, we're making very, very good progress.

With the graph on the right, we can see that we continuously drive our distribution and number of point of distribution. This is a bit more than 3% higher than last year. This is actually important because in a category that is challenged, what the big customers are doing is indicative of the future of the category. And I was having a meeting with Tesco just a few weeks ago and they are extremely keen, they're extremely... They have a strong belief in the category and this is why when they do new planograms for the future, new assortment for the future, we have the key role as a category leader. Not only defining those shelves but also in designing them and in ensuring that our brand is very prominent on the shelf. So the collaboration with the big customers that really believe in the category for the future is key and this is what is making us value promises towards the future. Next slide, please.

Food service. Food service has been one of our strong strategic choices. A few years ago, I remember where we were talking initially just three years ago about food service. It was about 7 to 10% of our business. Then we moved to 12, we moved to 14%. It is now more than 17% of our business. So food service is becoming a very strong engine of our growth not only in the UK but also in Europe and the rest of the world. Here, we can see that we continue to grow in food service. This is extremely important and is really unique. Whatever you read out of other meat alternative businesses, they're really finding it difficult. Why? Also because the inflation. For example in the UK, restaurants is actually higher than the food inflation and this is why the restaurants having optimize their menu. They're having to offer better choice to their consumers. But the strength of our team, again, UK but also rest of Europe in particular, help us to... You can see the 2nd Quarter 2023 in terms of daily sales, 6.7 million. It's higher than the Quarter 1 of 2022. So year-on-year, growth is still 5.8%. It's less than it was in the 1st Quarter but we believe that we can continue to capitalize on that.

That also helped, as we move to the right, buy a new listing, new wins. We are working a lot with a national health service in the UK. This is particularly significant because there is a lot of noise about the category at the moment and one of the big challenges is, is meat alternatives really healthy? And our unique capabilities with Mycoprotein and the health characteristic of that enabled us to develop a partnership with the different NHS departments around the country because they see a reduction of meat and an inclusion of Mycoprotein. For example, in our 50-50 where part of that is meat and part of that is Mycoprotein gives them not only a better overall carbon footprint in line with the national objectives but also, a better impact, a healthier food for the consumers that they treat in their hospitals. So for us, it's extremely important. So we continue with our strategic alliances with Compass and Sodexo but the NHS is becoming a big player for us and I'm super excited to report that KFC Europe continues to grow with 110 Euro restaurants they're adding in the quarter and now, we are in 24 countries.

So you can see that the strength is... I come back to that, actually, with a bit of a summary slide but our customers believe in us. In terms of retail. Our food service customers believe in us and they continuously grow with us even when the market is under pressure from, really, economical and category situation. Next slide, please.

So what are we doing in order to restore our margins which are very, very important for us to continue to grow and to continue to invest in the market that we believe is going to recover? So as Henry has mentioned, in the year savings is 5 to 7,000,000 and 8 to 10 full year, million pounds. Happy to report that whatever we planned to do, we’ve actually done. At the end of the Quarter 2, we are substantially complete with the plans. We've done it across the board, both in commercial and admin areas. We're done in the supply chain where we organized for efficiency while maintaining the capability to actually to return to growth when this is happening. I just want to remind this, we are flat in the last 12 weeks so we see signs of return in the market. We haven't touched our food service and QSR businesses so we've been very selective in where we wanted to reduce our costs. Our US organization has also gone through the restructuring that we discussed in the past and is now really stabilizing the business over that. Next slide, please.

So in essence, as I said at the beginning, the challenging growth driven by really the outside circumstances. Why do we believe in the Quorn business but also in the category overall? We have a massive presence.We're the number one. We're gaining market share in the biggest market, which is the UK and major retailers and customers in food service are very supportive of what we do. They love the category. This is crucial for our future. Our food service business continue to grow, has been a strategic pillar and still is. It is now a bit more than 17% of our total business. Mycoprotein is unique. I told you in the past, we see a number of players that are trying to jump on this mycoprotein because of its lower impact on the planet and better health characteristics, and our brand is very, very strong. So we've invested relentlessly for 35 years in this brand. People go back to it when it's difficult. We continuously improve our market share, and we continuously, of course, target cost initiatives in order to be able to invest in our brand for the future. So I close with the remark that I made earlier. We start to see the turn. We start to see the light at the end of the tunnel. We're not out of it yet. There's still few months of challenging environment and we are recovering our margin. That's why we had a breakeven in Q2, and we remain very positive about our unique position in this gap. Thank you. Back to Jesse, I think.

Michael Paska:

Thank you, Marco. This concludes the formal presentation. I will now moderate the Q&A portion of the call. Questions can be submitted via your chat box. We will attempt to address as many, time permitting. Jesse, the first question is for you, and you mentioned earlier that you saw softer noodle trends in Q2. Can you elaborate a bit more on the trends you are seeing in July?

Jesse Teo:

Yes. First of all, on the Q2 weakness, there's a general slowdown in the food category, as you mentioned. Secondly, particularly in VisMin, when we started to analyze where the softness was coming from, we zeroed in on this in Visayas and Mindanao, and, in particular, several chains. And simply, the base bar is high because of a lot of local government units purchases during the base period. So it was a difficult period to overcome from a volume standpoint, plus it was rather dry. Even June was rather dry when the rains were coming in. Rainy weather is actually our friend. Our demand naturally goes up through the rainy season. When July hit, we have a robust demand for our instant noodles led by our wet pouch, which has a high correlation with weather and that's why I think July is 10% above Q2 average and also 15% above June. So August is trending the same way, even stronger actually. So we're hoping that the challenges that we saw in Q2 for noodles are temporary. There is good reason, data, to believe that it is so, but we're cautiously optimistic that this trend will continue.

Michael Paska:

Thank you, Jesse. Jesse, next question is for you as well. Given that over this past quarter you had a significant debt repayment and restructuring cost, yet you were able to maintain a fairly stable cash position, do you see this sustainable going forward?

Jesse Teo:

Yes. So thank you, Mike. To remind everyone, we did announce an infusion of cash to pay down the Sterling note in the UK. We have paid a significant tranche already. We target to pay down half of that outstanding loan. Yet, our cash balance remained at the almost 11 billion level, which is fairly constant versus where we ended up as of last year. We had a strong net cashflow from operations of 3.4 billion. This is up 20%. The margins are translating into cash and, as I mentioned earlier, we project even better margins. So that should translate to even better cashflow, so we should be able to pay down even more debt and still maintain a good cash position going forward.

Michael Paska:

Thank you, Jesse. Another question for you, "Given that the previously announced restructuring in the meat alternative business is largely complete and savings are tracking as planned, do you see any further risk mitigative measures being implemented in the near to medium term?"

Jesse Teo:

Yes. Well, through the efforts of Marco, we have been able to successfully implement the restructuring initiatives that we have. We are very happy with those results, but we cannot rest on our laurels. We need to be mindful that the category is still in decline. It's still challenging. So while we are trying to ensure that business remains in a very good position to capitalize on eventual bounce back, which we believe will happen, out of prudence, we need to explore other risk mitigation measures. However, it's too early for us to discuss the details. We're not yet ready to then discuss the details, but we want to assure everyone that we are looking into further risk mitigation measures to limit the downside risk for investors, including looking for ways to minimize disruption in the intended dividend policy, which we communicated during the IPO.

Michael Paska:

Thank you, Jesse. Next question is for Marco. What is the meat alternative business seeing in terms of input cost inflation?

Marco Bertacca:

Thank you. Thanks, Mike. So I think the executive summary is that we believe we have seen the peak in Q4 last year and in Q1 of '23. And in fact, we start to see some of the input key materials and cost drivers coming down. So we clearly see some benefits ahead of us. To some extent, we believe that the worst is behind us. Having said that, there is a couple of additional elements I would like to make. First is interesting also when Jesse was describing risk mitigating factors. We've done an awful lot to reduce our cost base, to become leaner, to become more agile. The truth is we are now more ready to face whatever else the market, the world around us, will throw at us. And the only thing we are sure about is something else will happen and something else will come our way.

What I believe, when I look at positively the last three years and a half, I think our organization has really learned never give anything for granted and be ready for what is going to happen next. I'll give you a specific example. We saw one of our high input costs is glucose. We saw glucose costs coming down and, all of a sudden, as Jesse mentioned earlier, political war forced or pushed the wheat price up and then low again. So there's still a lot of volatility. And also we need to take into account that our inventory level, the fact that some of our product need to mature, need to be staying in stock for a period in order to crystallize and create the texture that is specific about mycoprotein, about Quorn, means that still, we have four, six months before our inventory flushes through our numbers and therefore, we take the full benefit of the input prices.

So we've seen the peak. We see some reduction. We see some positive news up ahead. Volatility remains very high. We're learning to deal with that. We're trying to implement further measures, for example, to reduce our stock levels, and overall we see that... That's why I mentioned earlier, the light at the end of the tunnel. We see that there's further improvement ahead, but it's not going to be radical. It's not going to be that quick. It's going to require a few months to happen fully.

Michael Paska:

Thank you, Marco. Jesse, the next question's for you, and this is, "Can you provide any updates on the equity restructuring?"

Jesse Teo:

Well, the equity restructuring has been approved officially by the SEC as of June 9th, 2023. It's in our disclosure. You can look at it at PSE EDGE. That's one of the key steps for our risk mitigation, but it's not the only step, but we are happy that we got a successful approval from the regulators on this equity restructure.

Michael Paska:

Thank you Jesse. Next question is, "For next quarter, do you expect gross margin improvement to be larger than an increase in A&P and operating cost?"

Jesse Teo:

So just to put the A&P increase in perspective, as I mentioned, even with the unfavorable phasing, the 2.6% first half A&P is substantially lower than the 3.7% that we spent. That's a percent of sales last year. So it is largely a phasing issue. We expect the percent of sales to be in line versus previous year. We are keeping the percent of sales target for advertising promotion. And on the other hand, we do have the large input cost reduction. It was a high base last year, which helps, but moreover, these lock-in prices are good prices, even relative to the current prices that we were seeing in the various indices.

Michael Paska:

Thank you, Jesse. Another question for you, Jesse. Can you comment on the proposed junk food tax and what business segments will likely be impacted if such measures were implemented?

Jesse Teo:

Well, first of all, I don't have inside information. What I know is what we all have read in the papers. The only positive things, our biggest business, I think there was a categorical statement from the DOF secretary that instant noodles will be exempted. So that is a welcome relief. Instant noodles is a foremost source of sustenance, so when the sugar sweetened beverage tax was implemented, three-in-one coffee was exempted for the same reason.

So I think noodles are much in line with that, even more relevant actually, because this is the basic sustenance of the everyday Filipino. So we'll see what happens. There's also some challenges, of course, of defining what actually junk means. So I think that has to be sorted out, so it's unclear. And lastly, there is no global precedent. Unlike sugar sweetened beverage tax, there's some precedence before the Philippines implemented it. For junk food tax, because of the difficulty of defining, "What's junk?", there are no precedents to peg our loss with.

Michael Paska:

Thank you, Jesse. Jesse, another question for you. Can you comment on dividends for investors?

Jesse Teo:

So dividends for investors, so one of the important steps to be able to dividend out, as many of you know, one of the requirements for a dividend is that we need to have positive retained earnings. One of the steps is to get to be able to take out the deficit. That step has been successfully completed with the equity restructure approval last June 9th. So that's step one. We are evaluating our results, our business results, and are looking for ways to be able to issue a dividend as soon as we are able to. We cannot elaborate on any specific details at this point, but management is committed to fulfill the profits that we made during the IPO, which is to be able to dividend out 60% of the consolidated net income after tax, as long as it's permitted by law to do so.

Michael Paska:

Thank you, Jesse. Jesse, I have another question for you. The question is, "Can you comment on the increase in APAC A&P? What's driving this increase?"

Jesse Teo:

I will say, it is phasing of when we do the initiatives. We had a low A&P in Q1 and so there was some more activity that spilled over to the Q2, so it's more accrued and it happened more in Q2. As I said, it should not be a source of worry as it's still, the 2.6% of the first half, is substantially lower, more than 110 bids lower in the full year percent of sales over A&P last year.

Michael Paska:

Thank you, Jesse. The next question is for Marco. And Marco, this question is, can you comment on the outlook for our meat alternative business and the industry in general?

Marco Bertacca:

Yeah, look, I tried to answer a little bit earlier in particular on the development of the materials of the input cost. So on one element we can see the peak of the input cost. We see it coming down, see a bit of volatility, but there is a positive progression in that sense. If we then think about the overall category, look, it's a question that I receive the most, whoever I talk to, whoever I meet. And I can continuously reiterate that the big players, the long-term players, which are some of our big customers, some of the big industries that we collaborated, I was with Migros a few weeks ago, which is a very, very big company in Switzerland, very, very long-term oriented, meat alternative is a key part of the strategic direction and all of them are always referring to the key changes that were happening before the pandemic, that were happening before the war, whether they will still be there and they would survive afterwards.

And in fact, one of the very true, even if apparently superficial way I always have to answer is, we are not the one that will drive the meat category for the future, our kids are. And this is because when I interact with them at universities, as consumers, in the stores, they are the ones that are there for the future and as soon as they have a bit more disposal income to spend on food, as soon as they can make their right choices for themselves and for the planet, that's what will drive the category and so that is a big and fundamental belief. We see that the category, as Jesse was saying, it's still declining. There's no denying, the numbers speak very clearly. This decline is slowing down and we see that Quorn is starting to move from a decline into a closing back to the zero, and hopefully to be positive growth by next year.

Michael Paska:

Thank you Marco. Jesse, the next question is for you, and this is, should we still expect more price hikes for APAC BFB in the second half of this year?

Jesse Teo:

We don't comment on specific price hikes because we don't want to lead anyone on pricing action publicly, but what I can say is that even if we don't implement a price increase, our input cost reduction should be able to enable us to have strong margin progression already in Q3, in Q4, whether sequentially or a year ago. We also have the recent worry, as most of you might be following, is the FX rate. We also have good risk mitigation measures. We have a substantial stockpile of US dollars, so also we're substantially protected against that. So unless there's a big factor, another blackswan event or foreseeable input costs that will become major, that is not required, but we need to be agile of course. No one can predict what will happen next month or next quarter in this volatile, VUCA world.

Michael Paska:

Thank you, Jesse. Jesse, another question for you. What is the A&P as a percentage of sales guidance for this year?

Jesse Teo:

It should be at most at par versus year ago. One of the things I forgot to mention is Q3 last year, because of the regulatory issue, if people recall, we had to up our A&P spending. There was a lot of unscheduled A&P spending in order to restore the trust, went on with heavy weights and did promotion to win back the trust of our loyal consumers. So with the regulatory issue being a thing of the past, that need not be anniversary this year, and so that should help us actually in the overall year A&P as a percent of sales.

Michael Paska:

Thank you, Jesse. Marco, next question is for you and this is, what are the developments for the ambient product for Quorn?

Marco Bertacca:

Thanks, Mike. So here, I'm assuming that the question is related to a little bit of anticipation that I mentioned at the last quarterly review. We are setting up, we have already set up our ingredients business and we are developing ways to be able to provide our mycoprotein to a wider audience. And we are developing ways to be able to do that, let's say, at the wider group of consumer with different application. We are at early stages of that. We see a very exciting potential for that, but I will come back with more information and updates where we believe this is relevant and we have some results instead of just intentions.

Michael Paska:

Thank you, Marco. Jesse, the next question is for you. This is, can you help us reconcile Instant Noodle's 9% volume decline in the second quarter despite industry volumes growing by 4 to 8%?

Jesse Teo:

Yep. If you could scroll back to that slide please, so I can help point out the key numbers. All those numbers are year to date numbers. So if you have a growth number that is slowing down, actually that means that it's becoming more negative. It's either slower than the previous year to date or even negative. If you look at actually the more recent periods, past four weeks, past four weeks, actually noodles on a retail audit basis is in decline versus year ago, same period a year ago, and we along with it, because we are the biggest player and we are not able to defy gravity. There's also the base year effect, as I mentioned earlier, particularly in this mean. So the volume, the category is in volume decline if you want to drill down specifically on noodles. For other categories, we don't have the granular data, but in noodles, if you look at volume, they're in decline. By the way, those numbers earlier year to date, the charts are value numbers, so you have to reconcile volume versus value. And then on volume specifically for noodles, they're actually in decline.

Michael Paska:

Thank you, Jesse. Jesse, next question is for you and the question is, could El Niño be the Black Swan event that drives prices back up? Which raw material inputs would be heavily affected, and what are you looking to do to mitigate risk from El Niño by hedging?

Jesse Teo:

I would think our main input cost of wheat and palm would be affected, but since our positions are already, it's fully locked in Q3 because it's already current, so it's already, and substantially enough in Q4, we are not quite worried about the effects of El Niño. If there are worsening effects, if we don't plan well, I think more of that effect would happen next year, if ever, if it is a continuing issue. But we are not in a rush. We have some positions starting next year, some small positions, but we are not in a rush to fill those positions when the costs are quite high these days.

Michael Paska:

Thank you, Jesse. Jesse, another question for you, and this is how much of the meat alternative business restructuring cost was recognized during the second quarter?

Jesse Teo:

Most of it was recognized already in the second quarter.

Michael Paska:

Okay, thank you.

Jesse Teo:

369 million to be exact.

Michael Paska:

Okay. Another final question for you, Jesse, and this is total operating expense sales for APAC BFB was 16.8% in Q2 versus 12.7% in Q1. Apart from A&P, which was just 100 basis point increase, is this a seasonal pickup or are there any other cost increasing?

Jesse Teo:

A&P is the most substantial one. Other than that, all the other cost factors, whether it's general admin or selling costs or logistics are fairly stable actually on a percent of sales basis.

Michael Paska:

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

Henry Soesanto:

Thank you everyone for your participation and continued interest in our company. So in summary, the second quarter of the year should continue recovery of gross margin in our APAC BFB. We expect further gross margin improvement through the remainder of the year and so far the third quarter has started off with strong year-on-year top line growth. As earlier discussed, we have made meaningful progress at our meat alternative business through our restructuring, and we continue to be vigilant while also ensuring the business is ready to capitalize once the category begins to recover. With that, I look forward to talk to you again when we have our Q3 earnings call in November. And until then, stay safe and healthy. Thank you.