



Transcript of Monde Nissin Corporation (MONDE)  
Full Year 2023 Earnings Call  
April 11, 2024

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**Participants**

Michael Paska – Chief Investor Relations Officer, Monde Nissin Corporation

Henry Soesanto – Executive Vice-President & Chief Executive Officer, Monde Nissin Corporation

Jesse Teo – Chief Finance Officer, Monde Nissin Corporation

Marco Bertacca – Chief Executive Officer, Quorn Foods

Nick Cooper – Chief Finance Officer, Monde Nissin Corporation

**Presentation**

**Mike Paska:**

Good afternoon and welcome to Monde Nissin's fourth quarter and full year 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; Marco Bertacca, Chief Executive Officer of Quorn Foods; and Nick Cooper, Chief Financial Officer for Quorn foods.

By now, everyone should have access to the earnings, press release, and presentation all available on the PSE Edge website posted earlier today. This material can also be found in the investor section on Monde Nissin's website. Before we begin, please note that the financial information being presented is unaudited and during the course of this call management may make forward-looking statements based upon current assumptions and expectations. These are not guarantees of future performance, and I encourage everyone to read the disclaimer in the presentation. Now, I'd like to turn the call over to Henry for introductory remarks. Henry.

**Henry Soesanto:**

Thank you, Mike, and good afternoon everyone. I'm happy to report that we finished fiscal year 2023 with another strong quarter for the APAC BFB Business. All of our categories showed strength. We achieved all-time high core profit for our APAC BFB business. Along with a strong growth, we saw significant expansion in gross margin as key input costs moderated.

Moving to the meat alternative business, the category continues to face headwinds. We are keeping a close eye on costs, which have enabled us to get breakeven EBITDA this year. However, the environment remains challenged. We were required to take another impairment in the business. While the impairment was significant, the listed company was substantially insulated from the impact due to the financial support announced earlier this year that was provided by the family majority shareholders.

Overall, the company had a good year finishing with substantial cash and retained earnings, allowing us to announce another dividend today, which will represent over ₱4 billion in capital being returned to investors in the first six months of 2024. Now, I would like to turn the call over to Jesse to provide more details of our consolidated performance and APAC BFP business. Thank you. Jesse, please.

**Jesse Teo:**

Thank you very much, Henry. I am very pleased to share that we ended 2023 with a strong performance on top-line, recording a record quarter sales of ₱20.9 billion, presenting 5.2% versus the same period a year ago. This brings us to an all-time high revenue on a consolidated basis as well at 9.2%. Within the segments though, APAC led the growth, 7.7% for the quarter and 12.6% - a strong double-digit for the year. Meat alternative had declines in peso terms of -4.2% for the quarter and -4.3% for the year. More on that later on when we discuss the financial performance of the meat alternative segment.

From a gross profit standpoint, we had strong margin accretion of 232 bps. Within that, APAC grew 416 basis points in gross margin, reflecting the continued decline in our key raw materials, and also the sticking of the prices that we took when the commodities initially went up. For the year, overall gross margin is flat, however, APAC increased gross margin by 193 basis points.

Core EBITDA is largely due to APAC BFB, as Henry shared that we were able to achieve about break-even EBITDA for our meat alternative segment. EBITDA grew faster than gross profit because of our control on OpEx. For APAC-branded food and beverage, we experienced good economies of scale on OpEx, while for meat alternative, there was a deliberate reduction in OpEx spending funded partially by the restructuring that we announced previously.

For net income, the direction for the quarter and the year is a bit different. Core net income was higher than EBITDA growth because of favorable FX gains for the quarter, but overall for the year it was an FX loss, thus core net income was slightly lower than core EBITDA growth. There's not much difference between core net income ownership and our core net income. As Henry mentioned, we had to take a ₱10.1 billion after tax impairment on our meat alternative segment. This is the key item on non-core and it is the key reconciliation item towards our reported net income. The ₱10.1 billion impairment was offset by ₱1.3 billion of the guaranteed asset brought about by the family guarantee that we previously announced. This brings reported net income for the quarter to -₱6.4 billion and -₱625 million for the year. Next slide, please.

We will now talk about the impairment starting with a review of the history. You will recall that in 2022 we took a ₱290 million impairment. During that year, there was a ₱245 million goodwill that we wrote off, and we wrote off as well ₱60 million of brand value. In 2023, our updated value in use or enterprise value calculation is down to ₱242 million. This is because of the lower projected cash flow as we only

turned in break-even EBITDA for the year, and also higher WACC. WACC went from 7.9% to 8.45%, and thus put pressure on the VIU of our meat alternative business. This necessitated a ₱145 million impairment.

The balance that is left is ₱115 million of brand and ₱85 million of property, plant, and equipment. For this year, because of the decline in the volume, we had to take an impairment on the PPE because the current volume does not justify the additional capacity that we have built using IPO funds. To continue on with the impairment, we'll move to the next slide.

The ₱145 billion underlying impairment has to be adjusted in our Monde Nissin Singapore private limited entity. MNSPL is our international holdco. You will recall that our meat alternative business is under Monde Nissin in UK, which is directly under MNSPL. When evaluating the impairment at the MNSPL level, we had to adjust for net debt adjustments, that is additional debt and movements in cash. We had additional debt of ₱13 million and a reduction in cash of ₱3.1 million. Together with the additional equity infusion to fund the restructuring of ₱5 million, this resulted to an impairment amount of ₱167 million on the MNSPL books.

Since the guarantee of the family was done at the Singapore level, the guarantee asset was also booked at Singapore. The total amount of the guarantee that was booked is £148 million divided into a day one entry of £129 million, which is a direct charge to equity under other equity reserves and a P&L mark to market December 31st, 2023 adjustment of £18.8 million. Only £18.8 million benefited the consolidated P&L.

Meanwhile, at the listed co., because of the guarantee asset, the ₱448 million that was created at the Singapore level, it protected the ₱167 million impairment and together with the favorable forex, for the sterling appreciated versus the peso from £0.67 to £0.70, the net impact on the list co. books is only ₱245 million, or £3.5 million. The retained earnings for the list co. went from ₱7.2 billion before impairment to ₱7 billion after impairment.

On the consolidated P&L, only the key underlying transactions will be considered. The key underlying transaction amount is ₱145 million, which is the amount that we booked for the UK impairment, at the UK level. This resulted to ₱10 billion offset by the P&L portion of the guaranteed asset, which is £18.8 million or ₱1.3 billion. Overall, the impairment effect is therefore ₱8.8 billion after tax. Now, all of these impairments and family guarantee benefits are all non-cash. I'd like to shift gears and talk about cash. Next slide, please.

For cash, we have a fantastic operating cash flow performance in 2023 where we more than double our operating cash flow to ₱13.3 billion in 2023. The strong operating cash flow led to the all-time high cash and cash equivalent balance of ₱16.7 billion and because of the high cash level and the strong cash accretion, we were able to do the dividends, the previously announced dividend of ₱2.2 billion, and then further dividend declaration just announced now payable in June. We were also able in Q1 to channel £27 million of cash to pay out our sterling debt at the UK level. This was done in Q1 of 2024. The cash levels obviously a reflection of our higher operating income and lower inventories as input costs has gone down. Next slide, please.

As I shared earlier, our retained earnings at the list co. level is ₱7 billion. For purposes of retained earnings available for dividends, this has to be adjusted by non-cash profits. The total non-cash profits, primarily deferred tax assets, brings down the total retained earnings available for dividends to ₱6.2 billion. Out of the ₱6.2 billion, we are declaring 12 centavos per share or ₱2.2 billion declared yesterday during our board meeting, and payable on June 5th. Next slide, please.

On CapEx, we have shifted gears on CapEx primarily now focusing our CapEx spending in APAC. You will notice that in 2023, most of the CapEx is now for the APAC branded food and beverage business, primarily to catch up on capacity as volumes have been good. We will further invest in capacity in the APAC operation in 2024 while keeping the CapEx for the meat alternative to a minimum. Next slide please.

Now zeroing in on APAC branded food and beverage. As I mentioned, APAC revenue progression led to the all-time high quarter and the all-time high year. Gross profit improved 416 basis points for versus year ago, and for the year 193 basis points. Core EBITDA increased stronger than gross profit because of efficiencies in OpEx spending and also economies of scale advantages of higher sales. Core net income, as I mentioned, for the quarter and for the year are different because of the movements of the currency where we took a Forex gain in Q4 and Forex loss for the year. The very good revenue is backed by good progression in share. Next slide please.

The revenue is not only broad-based, but also due to both pricing and volume and mix. You'll see in all categories, we grew led by Noodles in Q4. In fact, Q4 continued with the strong performance that we have experienced the first three quarters onwards through a very strong double-digit gain progression in the year. We have strong net pricing effect for the year. As you can see, the pricing effect is going down as we are lapping the price increases that we have initially took when the commodity prices were going up, but volume continues to be strong across all categories. Again, these volumes were supported by share growth, which we'll talk about in the next slide. Next slide please.

Noodles continues to have good share progression. We have made a remarkable recovery from the regulatory issue. We have also plugged the leaky bucket that is the sizing and pricing gap that we have in our portfolio. Our Kasalo pack for PC is now 58% of the volume of the current leader in that sizing and pricing sub-segment and in some parts of the Philippines, at least three regions, we have 65% to 75% share of the leading brand in that higher sizing and pricing segment. For biscuits we continue to be number two overall in the category, but we inched up in share and we are hoping to continue with that momentum by investing in our key biscuit brand, Sky Flakes. More on that when we launch our initiative for Sky Flakes in the coming quarters. For Oyster Sauce we retain circa 60% market share. Recall that we had some product issues in 2023, but we're narrowing the gap versus a year ago and we have made good progress in recovering the share. The product issue is now a thing of the past as well. Yogurt drink, doing very well. We have breached 90% market share and are setting our sights in the broader beverage category. Our cultured milk business, while not on the slide, is also doing very well. We previously announced we're expanding beyond Luzon, and so far progress in Visayas is very exciting. Next slide please.

Bottom line, we continue to benefit from lower input costs. Let me talk first about wheat, which is 18.5% of our APAC branded food and beverage COGS. We have made good lock-ins. As you can see from the chart, our lock-ins are sequentially better through the year and we are substantially locked in for Q2, Q3 and parts of Q4. There are two varieties of wheat, hard and soft wheat. For Q4 we have locked in 50% of soft wheat, which is the wheat variety that's actually experiencing more soft pricing. For palm oil, relative to the base period, palm oil continues to be lower. However, just to be transparent, crude palm oil is trading at a one-year high and is on an upward trend. The good news though because of our risk management, our lock-in policies, we have good protection, with about 3/4ths of our requirements already locked in at lower prices in Q2 and about half of our requirements locked in Q3. We have very small lock-in in Q4, but if you look at the CPO trends, the future curves are backwardated and so we are hoping that we can either lock in through hedges on those lower future prices or that the future prices will materialize and we will buy our requirements during that time at lower prices.

There are other two concerns I think that people are talking about. USD/Peso rate has been hovering around at 56.50. We have substantial stockpile of US dollars. We use that as a natural hedge for our US dollar exposure. We have about \$78 million of US dollar within our cash. The other key commodity people are talking about is cocoa, which everybody knows is at an all-time high and is steading to reset those all-time highs. We are covered for cocoa until the first quarter of 2025. Again, just like CPO, the future prices of cocoa is backwardated and at those lock in prices, the impact on cocoa is very minimal at only 6 bps of COGS.

Now I'll turn it over to Marco for introduction of the meat alternative results and to Nick as well who will talk the details.

**Marco Bertacca:**

Thank you very much Jesse and good afternoon, good evening, good morning to everyone. As Jesse and also Henry mentioned earlier, it is clear that unfortunately both the UK and the US market and in general the global market for meat alternative is still very, very tough. The key driver for this, as I've mentioned already in previous conferences, is still the cost of living crisis, the element of consumer confidence and the fact that in these circumstances consumers are preferring cheaper ways of nutrition and in fact there was a recent article even the fact that even within the meat sector, lower quality cuts are currently preferred by consumers. This is what we have experienced also towards the end of the 2023 year and unfortunately also towards the start of this year. We'll talk about it a little bit later with Nick and Jesse.

These market circumstances, as mentioned and also as Jesse has described, is also the key driver for our further impairment as has been described so far. However, having said this, it is our role and it is our continuous effort to make good progress and prepare for when these circumstances will change. We're also protagonists of this change and in fact we are paying a lot of attention and focus on a number of areas and Nick will go a little bit in the detail of those. A clear focus for us is cash, attention to cost, is finding any possible way to recover our profitability and that is a number one priority we have. This is why for us it's an element of comfort the fact that we were able to close with the last quarter for a full breakeven EBITDA year in 2023.

On top of that, there are a couple of very important areas for us that continue to grow. On one hand, Europe has been growing, while UK and the US have been declining, but even more relevant, even more important, our food service businesses continues to grow strongly and profitably and is becoming a bigger part of our total business. While we take more steps to improve our profitability, it's also important to share with you that our market share still very solid. You will see in the course of the last quarter and the future quarter, our position in the market remains strong and in particular our position with customers who are still strong believers, in particular UK, Europe, of this category remains very strong. In fact, our space on the shelf remains intact or in some circumstances becomes even bigger.

I just wanted to give a very short introduction. I want to now hand over to Nick. Nick is the Quorn CFO, also because he would be better describing a change in treatments that we have adopted for some of our marketing payments that we made to customers. Over to you Nick.

**Nick Cooper:**

Brilliant. Thank you Marco. Next slide please.

Moving on to the financials. As Marco explained, the quarter saw the business continuing to make progress in what was a pretty challenging environment, but I'm pleased to say that we're able to deliver a positive core EBITDA for the quarter, as Marco mentioned, which has allowed us to reach broadly breakeven EBITDA for the year. During the quarter, we did change the classification of some of our payments to customers under IFRS 15. These payments were previously treated as marketing expenses and in Q4 we've reclassified them as deductions from sales. This change is the same as the change implemented by APAC BFB in 2022. It has no impact on profit or EBITDA, but it does complicate the sales and gross margin picture a little. Our reported results include the reclassification of 463 million pesos of payments for '23, 79 million pesos of this relates to payments made in the quarter and the remaining 384 million pesos is the catchup of payments made in quarters one to three. Comparable results shown here restate the history as if we'd adopted the revised accounting treatment throughout 2022 and 2023 and an appendix is provided with the slides to give you more details of the impact of this change in both years.

Focusing on the Q4 comparable results, the fourth quarter delivered a sales decline of 4.2%, driven by an organic sales decline of 6.3% on volumes that were down 9.8%. This was partially mitigated by an appreciation of the pound against the peso and the fourth quarter gross margin on the same comparable basis was 19.5%. This was down 612 basis points against the same period in '22, driven by lower production volumes and the ongoing gap between input cost inflation and price increases. Inflationary headwinds are starting to reverse for the business, but a significant portion of this benefit is deferred into stock. As a guide, if Q4 actual prices had been recognized without this deferral, the gross margin would've been approximately 200 basis points higher. It is also important to say that the core gross margin in Q4 was depressed, compared to earlier quarters in 2023, due to elevated levels of inventory write-off costs. The final point to make on the gross margin is that the change in IFRS 15 treatment does depress comparable gross margins compared to the accounting treatment adopted previously. This impact is about 160 basis points in Q4 and 50 basis points for the full year.

Moving on to EBITDA, we delivered a positive core EBITDA for the quarter. This includes the benefit of some seasonality in sales and investment phasing, combined with the benefits of restructuring implemented earlier in the year and strong general cost control. This positive performance in the fourth quarter combined with the efforts we've made earlier on in the year have allowed us to close the year with a broadly neutral core EBITDA in the face of a pretty challenging market set of circumstances.

Moving on to cost and cash, as Marco mentioned, this continues to be a significant focus for us. In Q2, we spoke to you about our restructuring program and I'm pleased to say that we're on track to deliver full year benefits in 2024 at the top end of the range that we spoke about, with one-time costs aligned with our original plans. And on cash we're exerting similar discipline. Our 2023 capital expenditure was more than 50% down on 2022 and significantly below earlier years. We also took important steps to reduce our stock holding through the latter part of the year, and this work on costs and cash will continue into 2024. As Jesse mentioned earlier, we anticipate CapEx spend no higher than 1 billion pesos and we're targeting further reductions in inventory holdings without compromising our service levels. Next slide please.

Moving on to the market situation and the economic situation. It's fair to say that conditions in the UK, while they have improved, remain challenging. In the latest quarter, inflation continues to fall but remains significantly above the historic baseline with food inflation running at 8%. Interest rates and mortgage rates are also elevated, and although consumer confidence has recovered from the lows seen in the summer of 2022, those gains slowed towards the end of the year and the index remains negative. In this environment, the UK meat alternative market declined by 7.2% in the quarter with Quorn performing broadly in line with that.

The UK retail business maintained its leadership position in the quarter with share broadly flat on Q4 2022. Within this, we saw share losses in chilled largely offset by gains in frozen [inaudible 00:30:50] in important launches in Q4 2022, and we've seen growing competitive pressure in the tofu segment. While in frozen, we continue our share gain and we now have almost 20 percentage points share ahead of the number two brand.

As you can see from the chart on the right-hand side, our food service business achieved its highest sales quarter so far with growth of over 5% driven by strong performance in the UK and Europe, including growth in KFC, partially offset by lower sales in the US and in some other QSR customers.

Finally, before handing back to Jesse, I'd like to make some final comments on the impairment that Jesse spoke about earlier on in the call. As you heard, the impairment is driven by an increase in the weighted average cost of capital, plus a more challenging cash flow projection for the business as a whole. And I think this chart highlights some of these challenges and helps put them into context.

As you know, and you can see from the chart, this is a business that's delivered consistent growth over a significant period of time. The growth accelerated under Monde ownership and in the period to 2019 and profitability also grew during that period. This was obviously followed by unprecedented macro headwinds affecting both input costs and market growth, and that's led us to a breakeven EBITDA position in 2023.

What I hope we've been able to demonstrate through our Q4 results is the determined action we're taking on costs and cash in recognition of the challenging circumstances that we find ourselves in, plus the fact that we are starting to see some of the cost headwinds reverse and this will start to flow more meaningfully into gross margins as we progress through 2024.

And finally, while the market trajectory has not improved significantly at this stage, the fact that we've been able to strengthen our competitive position means that we should be well-placed to benefit when market growth does return. With this, I'll hand back to Jesse.

**Jesse Teo:**

Thank you, Nick. Now on to our preliminary Q1 2024 results and further guidance. Next slide please.

So let me start with APAC branded food and beverage. For top line, we expect to report low single digit growth. This is primarily driven by the timing of the Holy Week. As many of you know that last few years, holy week has been in April, and this year, holy week in the Philippines, which it's a huge holiday, fell at the end of March. This has significant effect despite the additional day in February. This timing of the holiday had a significant impact in the overall growth rate. We see good recovery in April so far, and so we think this is temporary. However, on a bottom line basis, we continue to project, or we expect to have gross margin improvement of more than 600 basis points year over year. And versus the 34.1% gross margin, we expect it to improve at least 300 basis points sequentially bringing us to the 37% gross margin level for Q1. For beyond Q1, because of the charts, especially for wheat, where we see sequentially lower wheat prices, we expect continuous year-on-year margin accretion through the quarters until the end of 2024. Absent a very black swan event, we should be able to achieve this.

For meat alternative, we are expecting a high single digit underlying decline. Transparently, there's an additional week in our meat alternative business, on a comparable number of weeks, on a reported basis, it is mid single digits, but on a comparable number of weeks, it'll be high single digits decline. We expect break even EBITDA, once again fulfilling our commitment to deliver, to manage the business on a cash neutral basis. And as Nick shared, we expect gross margins to improve year-on-year based on the current input prices. While there will be some lag because of high prices in stock, we will eventually see these lower prices reflected in our COGS.

That ends our prepared remarks. We are now ready for Q&A.

**Mike Paska:**

Thank you, Jesse. So I will now moderate our question and answer 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 is for you, and this is what percentage of COGS is coca for the consolidated Monde business?



**Jesse Teo:**

Oh, it is 0.6% of APAC branded food and beverage COGS. So it's not material and that's why that [inaudible 00:36:37] even for the higher lock-ins in Q4 2024.

**Mike Paska:**

Okay, thank you. Another question for you Jesse, and this is if there are any updates to Monde's investment in Figaro, in particular. Any synergies or new products to be announced related to this investment?

**Jesse Teo:**

We are currently discussing collaboration plans, but unfortunately we are not ready to announce this yet. We hope to be able to share more of this in the upcoming quarters.

**Mike Paska:**

Okay, great. The next question is for Nick and Nick, this is in addition to the 200 basis point gross margin improvements suggested in the guidance slide, how much further could gross margin improve with the ongoing efforts to improve overall business efficiency?

**Nick Cooper:**

Thanks, Mike. We are very clear that we have an ambition to deliver more than the 200 basis points and potentially [inaudible 00:37:47]. We are not in a position to guide a specific number above that at this stage. We have a number of areas of work ongoing in terms of business efficiency that will impact the supply chain. We have a new head of supply chain who's joined us, Mike Tan from the APAC BFB business. He is just getting his head around the opportunities there. So the guidance that we're able to share today that the gross margin expansion will be 200 plus basis points with an ambition to go significantly further.

**Mike Paska:**

Thank you, Nick. Jesse, this question is for you and this is if you can elaborate on the support that the Quorn team is being provided by the Monde Nissin supply chain head?

**Jesse Teo:**

Yes. First of all, it starts with a vacancy that is available in our meat alternative business. We have a vacancy on the supply chain head and since this supply chain efficiency is one of the key opportunities, we thought Mike Tan, who was previously our chief operations officer at Monde Nissin Philippines, he has a lot of experience helping us streamline our supply chain. We thought that he could be seconded to our MNUK business to help Marco out in the key priority. As Marco mentioned, his key priority is cash and costs and Mike Tan is an expert in that cash and costs reduction, having had good track record in the Philippines. So we thought that it was a good opportunity for us to send Mike to leverage his skillset to help Marco achieve his business objectives.

**Mike Paska:**

Thank you, Jesse. And the next question is, I guess it's either for Marco or Nick, but it's should we expect further impairment losses for meat alternative business this year?

**Nick Cooper:**

Let me comment in terms of the valuation exercise that's been performed and you've seen the results of earlier on in the presentation. So we've worked very, very hard through that exercise to come to a realistic valuation that's neither pessimistic nor optimistic. One that's grounded in the challenging reality that we find ourselves in today. And that valuation does have a more modest growth rate than has been used in valuations previously. But the valuation and the projection does assume that the market stabilizes and returns to growth.

So in that sense, I feel it's a realistic valuation and one that we've spent a lot of time with our audit team working through. Potential catalysts for change either way are interest rates, as you've heard from Jesse, we've been impacted negatively in terms of valuation from an interest rate perspective. And I'll leave listeners to form their own view of what interest rates will be going forwards. And as a team, we are certainly working to over-deliver against the cash flows that are included in that projection. But we have a lot of work ahead of us.

**Mike Paska:**

Great. Thank you, Nick. A couple other questions for you, Nick. The first is, how much did food service account for sales in fiscal year 2023?

**Nick Cooper:**

So by the fourth quarter, the food service business had grown to a little over 18% of our total.

**Mike Paska:**

Okay, great. And then a second question also in terms for meat alternatives, is can you elaborate on, you mentioned you mentioned that gross profit margin would've been 200 basis points higher in Q4 given current input costs. Can you just elaborate a little bit more what you meant by that?

**Nick Cooper:**

Yeah, so we have a relatively high inventory level and relatively low inventory turn, which we're working to improve, but that means that a lot of the prices for purchasing goods during the quarter go into the stock valuation at the end of the quarter and are therefore part of the valuation of our inventory on the balance sheet and are not therefore seen in full in the P&L in the quarter. And the 200 basis points that I spoke about is that effect where we are not yet seeing the actual purchase prices reflected in the P&L during the quarter.

**Mike Paska:**

Okay, great. Thank you Nick. Jesse, the next question is for you. Can you give us guidance on how the gross profit margin expansion will percolate to the EBIT margin and if you can also give any color on A&P or major OpEx items?

**Jesse Teo:**

Yes, so I think in previous forums we guided towards expanding gross margin, which will partially reinvested in OpEx. With the prices now being stable, we will rely on volume growth to deliver the top line, and competition has stepped up their spending as well. So we need to match that. We also have important campaigns that we need to run. I mentioned earlier, SkyFlakes in the biscuit segment. We will be reinvesting some of that margin expansion into OpEx in order to drive the volume growth in 2024.

**Mike Paska:**

Okay, thank you. Thank you, Jesse. The next question, it's actually for both you Jesse as well as for Nick. Can you give us a breakdown of your COGS? So I guess Jesse for APAC and then Nick for meat alternatives.

**Jesse Teo:**

Well, for APAC brand food and beverage, I mentioned that the two key items are wheat and palm oil. So wheat is 18.5% and palm oil is 6.1%. We have other oils that we purchased for biscuits and they're significantly less in terms of percentage. So those are the two big items and that's why we talked about it. Cocoa is not a big item. I said 0.6% only for APAC brand food and beverage.

**Nick Cooper:**

Mike, and for meat alternatives, if you look in the second half of the year, our materials and input materials, including packaging is about 30% of our total COGS, utilities is approximately 10%, third-party manufacturing is approximately 15% with the remainder, our conversion costs, fixed overheads, labor, and other. And within the materials, the big ticket items for us are glucose, egg, other food ingredients and utilities clearly dominated by electricity and other utilities that we purchase.

**Mike Paska:**

Thank you. Jesse, this is for you and can you confirm that the carrying value of meat alternatives as of the end of 2023 is 242 million pounds. And then can you also remind us what drives the guarantee asset gain that was recognized in the P&L?

**Jesse Teo:**

Yeah. So yes, that's correct. 242 million pounds is the latest enterprise value or the value in use calculated together with our auditors and the family guarantee is actually a put option that only generates value whenever there's an impairment. So at the end of the period of the guarantee period, which is 10 years, it'll exactly match the amount of impairment that we have from January 1st, 2023, onwards. Of course, from an actual accounting booking because of different factors on volatility, assumption on stock price volatility, the amount will not be exact, but as you can see in this year, it's substantially covered whatever impairment that was both impairment and the family guarantee that are both non-cash in nature.

**Mike Paska:**

Okay, thank you Jesse. Another question for you, and this is, what is the current sales breakdown by category for APAC? And also if you can talk about how much noodle sales is now coming from the Kasalo Pack and remind us of the margin differential that basically... the difference between the regular size pack and Kasalo.

**Jesse Teo:**

Yes, so for Kasalo, it is about 5% on the latest past four weeks share out of the 85% in the dry pouch segment of the business. So it's not that big as a percent of our total business, but it was a leaky bucket for us before as competition had a double-digit share level on that sizing and pricing pack that we did not participate in. Now we are, as I mentioned, 58% of the volume where key competitors in that size and we have effectively plugged that leaky bucket, leaky part of our bucket. On the APAC branded food

and beverage, noodles is still by far the biggest, over 50% I think of our sales is noodles and then followed by biscuits and then beverage.

**Mike Paska:**

Okay, thank you Jesse. Nick, the next question is for you, and this is, how many months' worth of finished goods are you holding now and what would be ideal for the company?

**Nick Cooper:**

Thanks, Mike. We've been holding at a peak more than 150 days down by approximately 20 days. We will continue to drive that down through 2024, we are working, as I mentioned with Michael Tan on a number of aspects around the supply chain and with Mike, we are working to define a target level to get down, but it will certainly be lower than where we are today.

**Mike Paska:**

Okay, thank you Nick. Also, next question is for you on the alternative impairment, can you share what are the underlying projection assumptions that were made in terms of growth, interest rate levels, margins?

**Nick Cooper:**

Yeah, I think Jesse has mentioned some of this and I believe this will be shared in the financial statements. The interest rate that's been used as a discount rate is 8.45%, up from 7.9% in the previous exercise. The growth rate over the five-year period is between 4% and 5% on a compound annual growth rate with a terminal rate 2% after the end of those initial five years.

**Mike Paska:**

Okay. Thank you Nick. Jesse, the next question is for you, and this is, can you provide more color on the 6.2 billion peso APAC CapEx budget?

**Jesse Teo:**

Yes. Before that, I do have more exact numbers on the split of the business for APAC. For full year 2023, noodles accounted for 46% of our sales, biscuits 34%, and the rest would be beverage and culinary. On 6.2 billion peso capex, we are building more capacity. We've started building capacity in our Davao plant for cakes and biscuits. This also includes the long-term lease amount that we have paid for a new site in Pampanga. More on that when we concretize the plants, but this reflects the continued conviction in our bakery business where we will build additional capacity in the north where we are experiencing a lot of growth.

**Mike Paska:**

Okay. Thank you, Jesse. Next question is for Nick, and this is when do you expect to fully flush out the higher inventory buildings?

**Nick Cooper:**

Yeah, I think I mentioned this a little bit earlier, Mike. I think it will take us through 2024 to get down to a target inventory level. So I would expect it would run through the quarters of 2024.

**Mike Paska:**

Okay, great. Thank you. Jesse, what is your A&P to sales ratio target for 2024?

**Jesse Teo:**

For APAC it's 5% of sales.

**Mike Paska:**

Okay. Thank you. And then this actually concludes the questions that have been asked today, so I will now turn the call over to Henry.

**Henry Soesanto:**

Thank you everyone for your participation on this call and continued interest in our company. In summary, the fourth quarter showed continued strength across our APAC BFB business, resulting in the record full-year core income for our APAC BFB business. And while our meat alternative business is still facing challenging times, overall, we ended the year with significant cash and a very meaningful improvement in retained earnings, giving us the ability to announce another dividend. This dividend along with the one paid out in January this year represent a combined total return of capital to investors of over 4 billion pesos in the first half of the year and demonstrate the strong cash generating power of our APAC BFB business. With that, I look forward to speaking to you again on our first quarter earnings course next month. Until then, stay safe and healthy. Thank you.