



Transcript of Monde Nissin Corporation (MONDE)
First Quarter 2024 Earnings Call
May 8, 2024

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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

Nick Cooper – Chief Finance Officer, Quorn Foods

Presentation

Michael Paska:

Good afternoon. Welcome to Monde Nissin's first quarter 2024 earnings call. I'm Michael 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 of Quorn Foods.

Everyone should have access to the earnings press release and presentation. These are all available on the PSE EDGE website posted earlier today. This information 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. 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 the first quarter saw significant expansion in gross margin and overall profitability driven by our Asia-Pacific-branded food business. This was due to continued easing of commodity costs and carryover pricing benefits resulting in an all-time high for net income for APAC BFB. While our top-line growth moderated somehow, partially due to fewer selling days because of the Holy Week holiday, our other categories which include beverage and culinary products continue to show strong growth.

Business conditions for our meat alternative business continue to be challenging and our focus remains on controlling costs with the goal of achieving EBITDA breakeven or better this year. I would now like to turn the call over to Jesse to provide more details for our consolidated performance and APAC BFB. Jesse, please.

Jesse Teo:

Good afternoon, everyone. I'm very pleased to announce our Q1 results for 2024. As Henry mentioned, it is highlighted by a significant increase in our net income of 53.4% on a consolidated basis driven by gross margin expansion in APAC branded food and beverage.

We had modest top line growth of 2.2% in APAC. We'll talk about the effect of the Holy Week holidays later on. And meat alternative recorded an increase in sales on a peso basis, but transparently, there will be some adjustments on an organic basis - will be discussed later.

But the highlight is gross profit increasing by over 550 basis points as what we have been doing where prices have stopped and commodity costs have turned from headwinds to tailwinds, is all happening this quarter.

Core EBITDA has a better growth of 31.3% - faster growth than gross profit because of SG&A control. For APAC branded food and beverage, it's more efficiency on percent of sales. And for meat alternative, it's a deliberate control of SG&A helped by the restructuring costs that we funded last year.

Our core net income expanded even faster to 53.4% versus the 31.3% of core EBITDA. Due to gains in forex, a lot of you know that the peso has depreciated. As of March 31, 2024, forex stood at 56.2. So because of our deliberate strategy to create a natural hedge of US dollar stockpile, we were able to book a favorable exchange rate gain for that and have lower interest expense as we paid off a substantial part

of our GBP denominated debt. It was also a good time to pay that debt because the GBP-peso has appreciated since then.

Core net income at ownership is almost the same as core net income, but there is 606 million of non-core items. The biggest of which, over 300 million, is a fair value gain on the guarantee assets. Let me just explain a bit. Recall that there's the family guarantee and we booked a guarantee gain. In Q4, we booked 167 million sterling of impairment in our Monde Nissin Singapore entity. And this was offset by 148 million of guarantee asset. Because of the stock price increasing from 8.38 at the end of December to 10.92, we are able to book a higher fair value guarantee, but we treat it as a non-core and this is over 300 million. We also have some forex gains and strong income because of the continuous high interest rates. Overall, our reported net margin is 17.2%, which is at quite a high level on a conso basis. Zeroing in on APAC. Next slide, please.

APAC has an even stronger accretion in gross margin with 741 basis points improvement year-on-year and 450 basis points improvement sequentially. Top line is modest due to the Holy Week holidays and we'll explain in the next slide how it breaks down. Core EBITDA grew faster than core gross profit. And core net income, as expected from the forex difference, grew faster than core EBITDA. Let's turn to the analysis of revenue. Next slide, please.

So, on a comparable basis, every category grew, but the highlight, the star of the quarter was Others, which is highlighted by culinary and beverage. There still remains carryover pricing of 2.9% for total APAC as we took our pricing late in first quarter last year. Going forward, there will be less and less pricing effect, so as we have indicated, we'll be relying for most of the year on volume growth to deliver top line.

In comparable like-for-like days, every single category grew 3.1% for APAC - a modest growth of 0.7 for noodles and 0.6 for biscuits, but a very strong growth of 13.2% for others. We'll talk about Others more in the next slides, but the effect of the lower selling days is about 3.8%. This does not include revenue recognition adjustments that we have to make because our incoterm is upon customer receipt. Obviously with the holiday, with the Holy Week holidays at the end of March, there were a lot of shipments that were not received by customers, and they have to be adjusted on our Q1 revenue. All of these will then fall to Q2. Now a further illustration of the effect of that. We are happy to note that in April, we have a 13% increase in our sales because of the Holy Week shift, and most of that should be volume as we have already anniversary our price increases. Next slide, please.

For shares, we continue to gain share in noodles. We inched up further to 67.3%. This is highlighted by our Kasalo Pack. This is the bigger sizing and pricing pack, where previously, we were not competing. We are happy to report that now we are nationwide. We are over 60% of the key competitor in this sizing and pricing segment. And in some regions, particularly in Visayas and Mindanao - in Visayas we are over 80%

of the key competitor, so we are making very good inroads in this sizing and pricing segment, protecting our share in the process.

For biscuits, one of our competitors had a low base last year. And from that loss, because they are very formidable competitors, they were able to improve their performance or recover from that, had tremendous growth this quarter versus the same period a year ago. Because there was stronger growth, we had a slight share loss - continued to be number two and continue to need to work on rejuvenating some of our brands.

For others, we'd like to talk about culinary and our beverage business. For culinary, it's 6% of our top line, and it's growing at 15%. We are now growing share. Last year, we had issues on quality where we had to recall our products because of a viscosity issue. That's now a thing of the past, and we're now growing share.

Beverage is the beneficiary of the extremely hot weather that we're experiencing in Q1, and that's why we see tremendous growth in our beverage business. We had 20% growth in beverage, which is 11% of our Philippine business, and this growth might have been higher had we had more stocks. Obviously, the hot weather, while it benefits beverage, has some effects on our noodle business. A hot bowl of delicious instant mami and hot weather does not go hand-in-hand. Next slide, please.

For commodity costs, while we have locked in a lot of the gains, we continue to see good progress. Our risk management strategy and tranche locked ins has paid a lot of dividends for us. It may not be very evident in the chart, but the numbers will show that for wheat, which is 18% of our APAC branded food and beverage COGS and palm oil, which is 6% of our APAC branded food and beverage COGS, we will have year-on-year double-digit declines in Q2 and Q3.

We will hold our comments on Q4 because the locked ins are still below 50%. All these plus our strategy of putting our excess cash into US dollars has helped us manage through all the volatility in commodities and effects. On palm oil specifically, during our Q4 earnings call, we talked about its being at one-year highs. That has fallen since, and we have started the opportunity to build our lock ins in Q3 and Q4. This will be beneficial for us come these quarters. Next slide. I turn it now over to Marco who will give his opening comments on meat alternative.

Marco Bertacca:

Thank you very much, Jesse. Good morning. Good afternoon to everyone. It is fair to say that there is not a huge number of new news compared to the recent information given to all of you. And in fact, the market has not turned yet. We still have some pressure driven by the fact that yes, while inflation is coming down, the market for meat alternative has not rebounded yet. Having said that, we continue to

focus our efforts on both costs and cash, and you would see some impact on that. Nick will give you a bit more detail in the slides later.

One thing that I want to mention is the very positive news is that we continue to hold over our market share particularly in our biggest market, which is the UK. This is presenting the fact that we are in a market where challenged consumers go back to what they know best. Another important example of that that you would see also in the gain is our relevance, and the strength of our brand is very important.

So, the consumers are staying with a product that they know. Market share is in the right direction. Food service continues to grow - extremely important for us, it's becoming a bigger share of our total business. And in general we see and we anticipate that through the remainder of the year, and as Henry has given you a really set guidance of the fact that we are planning to be at least a breakeven if not better in terms of EBITDA on a full year basis.

Over to you Nick for a bit more details on our quarterly results.

Nick Cooper:

Brilliant. Thank you, Marco. So, if you could move to next slide, please. Great. So as Marco said for the first quarter, the category environment for meat alternative remained challenging, but we have seen profits from our continued focus on cost and cash.

At an underlying level, sales declined by about 9% for the quarter, and we posted a small core EBITDA of 60 million pesos or 1.8% of sales. This represents a 56-million-peso improvement on the negative EBITDA of 116 million pesos in Q1 2023. And as Marco has said, full year, we expect EBITDA at worse breakeven and anticipate some variability, some lumpiness as we progress through the quarters.

Looking at the details on this slide, first you'll recall that from the Q4 results presentation, we changed our treatment of some payments to customers. In Q4 2023, we presented comparable figures which adjust historic comparators for the same change in treatment. I'll focus here on these comparable results which you can see in the right-hand column. On this, comparable base sales grew 1.6% ,driven by a 4% decline in sales at constant exchange rates, offset by an appreciation of the pound against the peso. This result includes two distorting factors which we adjust for to illustrate our underlying trajectory in the quarter. First, we are lapping a period of customer inventory increases in Q1 2023 with a period where customers have reduced inventories in 2024. And second, our Q1 accounting period is approximately seven per cent longer in 2024 than it was in 2023. When you adjust for these two effects, we see an underlying rate of constant currency sales decline of approximately 9% in the quarter.

Moving on to gross profit, our core gross margin of 20% was 376 basis points down year-on-year, with declines driven by lower production volumes stemming in part from the steps we are taking to reduce inventory, partially offset by benefits that we are now starting to see from input cost deflation. You will have noticed that year-on-year, gross margin erosion is slowing, and absolute gross margins have stabilized, and as we guided with the Q4 results, we expect to see year-on-year gross margin expansion of 200 basis points or more on average for the remainder of the year. But as with EBITDA, we expect some lumpiness in this measure through the quarters.

Moving on to core EBITDA, we posted a loss of 60 million pesos in Q1, but as I mentioned at the start, this was 56 million pesos better than the loss that we posted in Q1 2023 in spite of year-on-year declines in sales and gross profit. This was achieved through the impact of our restructuring in 2023 combined with cost control, as well as a change in the phasing of some commercial investment between the quarters.

Finally, during Q1, we continued to focus on cash and drove more than a 10% reduction in inventories held. We expect to see inventory reductions continue albeit at a slower rate through future quarters. Next slide please.

Moving on to the UK retail market, we continued to see modest gains in share, with the frozen sector advancing strongly, partially offset by small losses in chilled, and as Marco mentioned, the UK market continued to decline and was down 8.6% in Q1 compared to the same period a year earlier.

Finally, our food service business continued to grow and posted an increase of almost 7% in sales per day. It's accounted for 18% of our sales in Q1, up from 16% in Q1 2023, and saw momentum continue in Europe and with our quick serve restaurant customers. With that I'll hand back to you Jesse.

Jesse Teo:

Thank you, Nick. Next slide please. So, we end with our prepared remarks with the guidance. So, as we shared earlier for APAC branded food and beverage, we saw a strong rebound of 13% growth in April due to the timing of the holidays, recovering the loss revenue that we had during that end of March.

For meat alternative, we continue to have top line growth challenges. Even if we're maintaining shares, the category is still in decline.

On bottom line, on a consolidated basis, we are expecting continued gross margin improvement year-on-year due to the lock in on commodities - key commodity costs palm oil and wheat - and even forex which is becoming a headwind for us.

We substantially have good risk management that will prevent us from bearing the brunt of the depreciation of the peso. With that, we end our remarks and are ready for Q&A.

Michael Paska:

Thank you, Jesse. Okay, I will now moderate our question and answer portion of the call. Questions can be submitted in your chat box, and we will attempt to address as many as possible time permitting.

Jesse, the question is for you, and this is, can you provide the revenue breakdown for APAC between domestic and international?

Jesse Teo:

Yeah, 94% is domestic Philippines and 6% international.

Michael Paska:

Okay, great. Thank you. And Nick, along the same lines, can you provide the revenue breakdown for meat alternatives - UK, US, and the rest of the world?

Nick Cooper:

Yeah, so the UK accounts for 80%, the US 5%, and the rest of the world 15%.

Michael Paska:

Thank you. Jesse, next question is for you, and this is how much is A&P as a percentage of sales in the first quarter?

Jesse Teo:

It's 2.6% for APAC. It's pretty low actually versus our full-year plan, but it's a phasing thing. We expect that A&P to build up a bit in the succeeding quarters.

Michael Paska:

Okay, thank you. Another question for you and this is on capex - how much was spent in Q1?

Jesse Teo:

771 million spent in Q1. Our budget is about 7 billion, so we have a ways to go to spend the budget declared.

Michael Paska:

Okay, thank you. Nick, the next question is for you, and this is whether there was any meat alternative inventory write-off in the first quarter?

Nick Cooper:

No, there wasn't a material write-off in the first quarter.

Michael Paska:

Okay, thank you. Jesse, this is a question for you just regarding the gross margin for APAC BFB, and the question is how sustainable is that margin for the rest of the year?

Jesse Teo:

I've discussed the key components of it, wheat and palm oil and so far, we have good positions even if those commodities are moving, we have good lock-in positions so we have a reasonable expectation that the gains can be continued. We are quite confident on year-on-year improvements, but sequential improvements depends on the other factors.

Michael Paska:

Thank you, Jesse. Another question for you, and this is volumes for noodles was flattish year-over-year, can we expect flattish volume going forward or is there still room for volumes to trend higher?

Jesse Teo:

Sorry?

Michael Paska:

Oh, sorry Jesse, let me repeat. For noodle volumes, is there room for volume to trend higher for the remainder of the year?

Jesse Teo:

Yes, so as I mentioned earlier, our share continues to be strong. We do have momentum. Earlier, I mentioned that the hot weather has a huge factor, especially our instant mami noodles, a bowl of hot, delicious, instant mami that's not good with the hot weather. So, like many of you, like many of our countrymen all praying for rain in Manila and the rest of the country, I think this will help our business. Fortunately, El Nino is now at its end and hopefully with the rains coming, the demand for our noodles, especially instant mami will increase. But if you adjust actually for the revenue recognition and the fewer selling days, we did continue to earn in volume growth for Q1.

Michael Paska:

Thank you, Jesse. Next question is for Nick, and this is just in regards to meat alternatives. Quorn sales did slightly worse at -10.1% relative to the overall market at -8.6%. Can you provide any additional detail on why this was the case?

Nick Cooper:

Yeah, so as I referenced in my remarks, Mike, the share gains in frozen continue very strongly. Working with some challenges in chilled right now, we are lapping successful deli launches and the ramp up of our deli at the back end of 2022 and the start of 2023. And that is a challenge for us and we're working to drive strong performance in our Quorn brand in the chilled sector. But having said that, and you'll see that from the chart in the backup materials, Cauldron, our other brand in chilled is advancing very strongly in the quarter.

Michael Paska:

Okay Nick. And Nick, another question for you is, can you remind us how much food service contributed to sales?

Nick Cooper:

Yeah, so it was 18.2% to be precise in the quarter.

Michael Paska:

Okay, thank you. Jesse, question for you. Can you share some updates on the synergies and partnership with Figaro as it's the one-year mark of the investment?

Jesse Teo:

Some of the plans that we are discussing cannot yet be shared publicly. We'll share when it's appropriate.

Michael Paska:

Okay, thank you. Jesse, another question for you. Can you share on how the bread business is doing and how much it contributes to overall sales?

Jesse Teo:

Bread business has modest growth, bottom line has improved, so the losses have gone down significantly, but as a percent of total Philippine sales are still very small, less than 1%.

Michael Paska:

Okay, thank you. Next question, I think for you, Marco, and this is, can you address what needs to happen for meat alternative volumes to recover, and also what has changed from the consumer's perspective versus the category growth that was enjoyed over the last couple of decades?

Marco Bertacca:

Thank you, Mike. Well, first of all, it's a very, very good question. You may remember that a few quarters ago, the meat alternative business was really growing as a category, overall a very strong, let's say quarter-to-quarter and year-on-year growth. It was a lot of excitement. I really believe that fundamental reasons behind that excitement are not going to go away, and this is why we remain very committed to the mid-to long-term interest of that category - elements like the reason why our kids are changing their diets for the future of themselves and the planet will not go away, will only strengthen. Of course we have seen a strong headwind, even mainly by the ability of money during these challenging times, really not just in Europe, but across the world, where people had to refocus on, provide themselves with good nutrition, but the shift was more basic. The element of a bit more cash-strapped consumer is an element.

The second one has been a fallback of the animal meat overall category. We have seen meat companies have started a strong campaign against an alternative and that's why we have seen that in this period there is a typical consolidation of brands that is happening around the world. So, it was almost a given that we would go through this consolidation of brands. Some of the brands that started on this market are exiting the market, they not being able to find enough critical mass. The big brands and the heritage brands like Quorn are the ones that are there for today and there for tomorrow. So, you will see that there's an overall general market contraction.

One of the big elements we are focusing on is we are really paying attention to become more efficient and more focused on our cash and our inventory, on becoming more agile, so that we are also able to generate funds to kick off the investment in recruiting more people to our category. We have a big role to play, which is we are the category leader in the UK. So, by generating more cash, being much more careful in the area where we spend the money, and restructuring areas where we have to restructure, we will be able to set aside some funds to also invest in the market, because this is also one of our objectives. So, what has changed as being a consumer refocusing mainly on their finances. Some of the brands left the market. The key brands are here, we will drive in particular the UK, increase penetration, recapture flexitarians, grow the penetration of the market, and we would [inaudible] by saving money and being very careful where we spend them ahead, but in recruitment.

Michael Paska:

Thank you, Marco. Jesse, next question is for you. Can you confirm what April sales growth was?

Jesse Teo:

Yes, I said 13%.

Michael Paska:

Great. Thank you, Jesse. The next question is for you, Nick, and this is regarding food service per day sales being flattish the fourth quarter of 2022. Could you throw some color on QSR partnerships and how it's changed from fourth quarter of 2022?

Nick Cooper:

So, I think, if you look at the chart provided in the materials, you can see some variability quarter on quarter, and that is driven by holiday patterns, driven by customer buying patterns. But within that, I think we see good momentum for both the food service business institutions in the UK with some of our quick service restaurant partners, particularly with KFC in the UK and in Europe, and now growing size contribution from the food service partnerships and the food service institutional business that we're starting to build across Europe. So, I feel good about the trajectory of those different parts of the business, but there is some lumpiness through that profile, but we continue to see that as a strong driver for the business going forward.

Michael Paska:

Thank you, Nick. The next question is for you, Henry, and what are your thoughts in spinning off the meat alternative business from the listed entity?

Henry Soesanto:

I think for me we have to look at it this way. So, in the past three years, aside from this, all black swan events, and then the cost went up, until today they haven't recovered the cost yet. So, prior to that, the category was booming because of the influx of flexitarians coming into this category. But with the difficulty of inflation and energy cost and everything, all these flexitarian people just shied away. They wanted the price to be at parity with meat, they wanted it probably to be as good tasting as meat than the prior taste, it doesn't happen. So, all these flexitarian people, for the time being, under this kind of situation, have just retreated for a while.

But this was an opportunity to regroup, to rethink our strategy. Whether or not the strategy is saying like in the past, it's black and white, the product should be vegan, vegetarian, then you attract the flexitarian, or not. We are still in the process of evaluating this. So, the goal is we have to deliver a product which is as tasty as meat, which is at price parity as meat. Otherwise, we have to offer some benefit for it to be able to sell it at a premium. So, we are still in the process. Give us a bit of time to do this.

Michael Paska:

Thank you, Henry. Jesse, can you talk about the -

Henry Soesanto:

To answer again, for the question on Figaro synergy. Sadly, we didn't see this kind of synergy coming very, very solidly at this point in time. So initially we were thinking that with the brand of Figaro for example, we can easily come into the coffee, ready-to-drink coffee, three-in-one coffee using the brand. To be honest, it doesn't happen. It did not happen. If we forced to do it, we are going to be losing, we are going to lose the market. We cannot compete with the current market leaders, which is playing in a very, very competitive, very tough category. We cannot compete with them. But having invested in that category, we gain a lot of knowledge in QSR and things like this. We are in the process of evaluating what we can do, what we can help Figaro in the future. So, for the time being, the easy answer is that we still cannot find the synergy for the time being, but gain the knowledge for already one year, we gain the knowledge. Let's wait again for a bit of time.

Michael Paska:

Thank you, Henry. Jesse, the next question is for you, and this is, can you talk about the competitive intensity in the APAC BFB and how is Monde differentiating its offering value promotions to customers? How are customers reacting to increased share in noodles? Or sorry, how are competitors reacting to increased share in noodles?

Jesse Teo:

There is severely increased competitive intensity. Fortunately, no one tried to initiate price wars, which is good. That's why our pricing has stopped. But people are trying to innovate, and we have to innovate with them. People are trying to make initiatives to close out gaps, portfolio gaps, as we are doing, and we have to do the same. So, it's FMCG, the goods move fast, but the preferences also change very fast. So, we need to be faster and be able to adapt to changing consumer requirements as fast as consumers makes those changes. So that has been the reality in competing in FMCG. It's very different these days.

How are we differentiating? I think our brand, the strength of our brands Lucky Me!, SkyFlakes, these are something we can build on, as we've shown from Kasalo. When we did not offer a right sizing and pricing entry into the large packs, we were losing because people were looking for that. But when we put a similar sized product with the Lucky Me! brand, that quickly took off, and it's now an essential part of that sizing pricing segment. So, we need to make sure we close those portfolio gaps in order to protect our share. For biscuits, a little bit different. One of the key competitors has obviously better price and has overtaken us as number one. We have to do our part to articulate value, to differentiate, to reinvigorate some grants, so we can be more competitive. And I think that's what we need to do in order to continue to gain and gain share in this category.

Michael Paska:

Thank you, Jesse.

Henry Soesanto:

Let's encourage the questions here. Those who are not going to join the press, we encourage them to ask questions, give us the opportunity to explain.

Michael Paska:

Thank you. Thank you, Henry. The next question is for Nick, and can you talk about how Quorn is doing outside the UK? How is the US business doing? How is the expansion to Asia doing?

Marco Bertacca:

Maybe Mike, I can take this one. So, we have clearly, during this current time, refocused our adoption of what following priorities. Number one, our home turf, we are aggressively defending our market share, and that is the UK.

In the US, you remember, we have initiated restructuring. We see the US with some [inaudible] trends, but if anything even magnified. So, our key focus on the US is on achieving breakeven, so minimizing losses in the US. We've done a lot of effort, and a lot of the team is doing really well. Of course, top line is still suffering from the category trend, but we are really working hard to achieve a breakeven point.

Europe, we are strengthening our vision on selected key markets. I just mentioned you Switzerland earlier, the Nordics as well. We left some markets where we were not able to make profit yet and we are focusing on some specific market and some specific channel.

In particular, we see very strong growth of food service in Europe, and this is why we are now looking at food service on a global basis. We set up a food service division, and you heard from Nick it's now becoming more than 18% of our total business. That is up from around 10%, 12% about four years ago. So, you can see food service is becoming more relevant. This is where we play to our strength, a very, very strong route to market. And for food service, not just in the UK, but also outside of the UK, in Europe, we're growing very strongly there.

And for the rest of the world, we travel either through food service or through our partner in QSR. I know we had a number of projects in particular with our big account at KFC, and for this one, I would kindly ask to be a little bit of patience as we expect to be able to give you more news in the different part of the year, in particular in the Asia area.

Michael Paska:

Thank you, Marco. Next question is for you, Jesse. The question is, do margins of the APAC BFB reflect any seasonality?

Jesse Teo:

So let me answer that question in two ways. First, let me address mix. Yes, a sales mix seasonality effect. Some of our products are, like Graham, are more popular during the holiday season - November, December. Noodles is actually strong during rainy season. So in July, August, where the school calendar starts, you will have strength there. And beverage, when it's hot, obviously people drink more, and it has a tailwind to the category. But sales mix is less of a factor on margins than the key commodity costs. So, the major driver for gross margin is really the commodity costs. Our main commodities being wheat, palm oil, sugar, eggs. If these behave, then it'll offset any effects of sales mix on margins.

Michael Paska:

Thank you, Jesse. Jesse, another question for you, and Henry, and this would be if you could share any comments on the Filipino consumer behavior. We've seen low single-digit growth and was wondering if this will be a trend in the second half? Is down trading behavior persisting and do you think you will benefit from that?

Henry Soesanto:

I think down trading is persisting. I think we'll be somehow benefiting from this. But whether or not the down trading will persist, we don't know. It depends. The inflation rate has picked up a bit again, but let's see.

Jesse Teo:

Let me just add comments to Henry's. I would not generalize all food, because as I mentioned, especially in this hot weather, there are winners and losers. Our beverage business is a main beneficiary of this. It's growing very strongly. Our growth was capped by supply because we simply could not catch up with the demand. But noodles obviously, because it's typically an everyday food item, it has some headwind effect. So, can't generalize, there are some winners and losers, depending on the conditions.

Michael Paska:

Thank you, Jesse. The next question is for you, Nick, and this is with regards to food service sales geographically, how much comes from the US versus UK versus Europe, and has this mix changed over the past four years when food service was a smaller percentage of our sales?

Nick Cooper:

Great, thanks Mike. So, I mentioned earlier that food service accounts were 18.2% of our sales in the first quarter this year, that's made up of 12.7% in the UK, 1.2% in the US, and 4.3% in the rest of the world. I don't have the data going back four years, but for example, if you look back to the start of 2022, so Q1 2022, when it was about 14% of sales, most of the increased contribution has come from the UK in that period. So that 14% was made up of about 10% in the UK, 1% in the US, and 4% in the rest of the world. But as I mentioned earlier on, in the recent history, in the recent performance, we are seeing food service strong growth coming through, particularly in our European business. So, I expect to see that European portion accelerating as we look forwards.

Michael Paska:

Thank you, Nick. Jesse, the next question is for you, and this is, do you expect similar A&P ratio in Q2 that we had in Q1 for APAC BFB?

Jesse Teo:

We expect to accelerate our A&P spending. During Q4, we mentioned that we are targeting 5% of sales for A&P, just over 5% of sales, so 2.6 is about half of that rate, so there will be an acceleration of spending.

Michael Paska:

Thank you. And next question is also for you, Jesse, and this is, what kind of volume growth for APAC BFB are we targeting for 2024?

Jesse Teo:

Different for each category. I think for culinary and beverage, we are expecting strong double-digit growth. For biscuits, historically we have had been single-digit growth, and we expect to be able to sustain that.

Michael Paska:

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

Henry Soesanto:

Thank you. So, thank you everyone for participating in this call and continued interest in our company. In summary, the first quarter showed significant gross margin expansion driven by the continued easing in raw material costs, and some carryover pricing benefits in Asia Pacific branded business, resulting in record Asia Pacific core net income, and then this higher margin and profitability continue to be sustained in the second quarter. Due to the shorter number of selling days because of the Holy Week holiday, top line growth moderated somehow, somewhat. However, our other categories, led by beverage and

culinary products, delivered another strong quarter of growth. So, our focus on meat alternative business continues to be on cost control, and the Quorn team is striving to deliver EBITDA breakeven or better results for the year. So, with that, I look forward to speaking to you later this year when we hold our second quarter earnings call. So, until then, stay safe and healthy.