EDITED TRANSCRIPT
UNIVERSAL ROBINA CORPORATION (URC) FY2013 NINE MONTHS RESULTS EARNINGS CALL

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PRESENTATION

Operator:

Ladies and gentlemen, welcome to the URC's Quarterly Investor Briefing. Joining us today from URC are Mr. Lance Gokongwei, President and Chief Executive Officer; and Mr. Michael Liwanag, Vice President for Corporate Planning and Investor Relations. URC will give you a brief company presentation on the results and at the end of the presentation, there will be a question-and-answer session. I must advise you that this conference is also being recorded today, 14th August 2013. I will now hand you over to Mr. Lance Gokongwei. Please go ahead, sir.

Lance Gokongwei:

Thank you. Good afternoon. Today, I will be presenting the unaudited financial results of URC for the first nine months of fiscal year 2013. Let me begin with our financial performance. URC sustained its top-line growth momentum as Q3 sales grew by 12% versus the same period last year, which resulted in nine months sales of Php 60.1 billion, a 13% increase versus the prior year. Branded Foods Philippines remained to be the main driver of growth, complemented by the Sugar business which benefited from better volumes, and the recovery of our Farms business due to better selling prices for hogs.

Margins continue to expand in the third quarter as we continue to benefit from lower input prices for Branded Foods as well as significantly higher volumes. As a result, third quarter EBIT grew by 28% to Php 2.7 billion which led to nine months EBIT of Php 7.6 billion, a 32% growth versus same period last year.

Nine months core earnings posted a 44% growth versus same period last year at Php 8.8 billion due to other revenues which increased by Php 881 million as we realized Php 740 million of gains from the sale of our financial investments last January 25. Finance cost was likewise reduced by Php 224 million as we paid down our Php 3 billion long-term debt last February 28 as well as some short-term debt and trust receipts amounting to Php 9.2 billion.

Lastly, net income as of nine months ended at Php 8.5 billion, which is 39% higher versus same period last year. The slower growth compared to core earnings was due to reduced marked-to-market valuation gains on the investment portfolio relative to last year, but was somewhat offset by a higher foreign exchange gain following the depreciation of the Philippine peso.

Total Branded sales for Q3 was up 17% versus last year, which resulted in nine months revenues of Php 47.7 billion, an increase of 14%. Q3 EBIT grew much faster at 43% versus same period last year, resulting in Php 5.4 billion of nine months EBIT, a 32% increase. Year-to-date margins ended higher by 155 basis points at 11.4% as key input prices relaxed and higher volumes contributed to improved economies of scale.

Branded Foods Philippines was the key driver of the solid performance of the group and Branded Foods International also contributed as it accelerated its growth in the third quarter, mainly driven by sales in Vietnam and Indonesia.

Sales for Branded Foods Philippines sustained its growth momentum as third quarter revenue grew by 23% versus the same period last year, which translated to nine months sales of Php 30.9 billion, a growth of 22% in value and 20% in volume.

Beverages continue to drive strong top-line growth, registering an increase of 70% versus last year. This was supported by our powdered beverage business, mainly attributable to coffee and our ready-to-drink beverage business. Ready-to-drink beverage was driven by C2, which increased volumes by 28% due mainly to the successful roll out of our 230 ml Solo SKU. Other ready-to-drink beverages including water and juice also contributed to growth.

Our market shares in beverages continue to increase and based on latest exit readings, our total coffee market share is now at 21% coming from 15% at the end of last year. For ready-to-drink tea, we have further strengthened our leadership as we now have an 82% market share coming from 79% last year.

The snackfoods leg grew slightly versus same period last year with the growth coming from our salty snacks category. But this was partially offset by softness in the biscuits and confectionery categories which have both shown very tepid growth in the last year. The salty snacks category grew by 8% and sustained its momentum last quarter as we have addressed some supply chain issues and continues to exhibit strong performance from our top chip brands, particularly in potato crisps and multigrain snacks.

Bakery business was flattish as biscuit sales remained quite soft, and this was not enough to compensate for the strong growth in our cakes business. Confectionery sales were likewise quite flattish. We're beginning to address the issues in our bakery and confectionery business as we have started to refocus on revitalizing our core brands while focusing on product innovation and exploring new price points particularly for chocolates. We launched a total of 41 new products in the nine months of 2013 and these products now contribute 1% of turnover.

Absolute EBIT grew much faster than sales as Q3 ended 47% above last year, which led to a nine-month figure of Php 4 billion, a 43% increase in EBIT as prices of key inputs, particularly robusta coffee beans, and palm oil continued to be soft. Other top inputs were manageable while sales volumes were significantly up which contributed to significant operating scale. Nine-month EBIT margin registered at 12.9%, significantly better than last year by 184 basis points.

Turning to our international operation, sales of Branded International accelerated its growth momentum in Q3 as it registered a 14% growth versus same period last year in US dollar terms which translated to nine months year-on-year growth of 10%. In peso terms, sales grew by 12% for the quarter and 6% for the nine months due to the appreciation of the Philippine peso versus same period last year.

Q3 absolute EBIT for the international business grew 30% versus last year and resulted in nine months EBIT of Php 1.5 billion, a growth of 10% with margins maintained as we absorbed higher A&P costs.

Vietnam's sales sustained its mid-teens growth in dollar terms backed by the strong demand for our beverage products. Ready-to-drink beverage continued to grow in double digits driven by

C2, our ready-to-drink tea, and Rong Do, our new energy drink offering. Average monthly ready-to-drink beverage sales volume grew by 16% year-on-year. Salty snacks sales nearly tripled as our new product, Kornets, began to gain traction. Our efforts now will be focused on widening our product portfolio particularly in snacks and beverage, and expanding our distribution network in Vietnam, particularly in rural areas.

Thailand continued to recover as third quarter sales registered growth of 6% in US dollar terms. However, on a year-to-date basis, sales were still flat. As of the latest AC Nielsen reports of June, we have now began to see some recovery in the size of the biscuit market, showing 3% volume growth versus the negative growth reported in the last year.

Indonesia continues to show robust sales as sales have grown 42% on the back of success in our snacks and chocolate categories. Snacks grew by 32% and was the main driver of sales momentum as Piattos, our fabricated potato chip crisp offering, continued to perform well. We also launched some entry-level enrobed chocolate bars which have shown very significant signs of growth.

Malaysia and Singapore remain flattish as recovery of our chocolate business was not significant enough to compensate for slightly negative growth in our snacks business.

China and Hong Kong continue to play a key role in augmenting Philippine capacity for coffee and creamer and EBIT losses were significantly below last year.

Turning to our Commodity Foods Group, Q3 sales were lower by 12% as we sold most of our sugar inventory in the first semester. On a year-to-date, however, top-line growth remained healthy at 17% to Php 6.9 billion due to the higher volumes for Sugar. EBIT margins remain healthy, resulting in an EBIT increase of 9% for the quarter which has led to nine months EBIT of Php 2.4 billion, a 17% increase for the entire Commodity Foods Group.

For Flour, Q3 sales increased slightly as we increased our sales volume for the quarter, though EBIT was somewhat down as wheat prices were higher than same period last year. On a year-to-date basis, Flour revenues are at Php 3 billion, a 6% decline and EBIT ended at Php 791 million, a 24% decrease due to lower volumes as well as lower margins resulting from the influx of imported Turkish flour.

The Sugar business posted a 23% decline in sales for the third quarter as we sold most of our inventory in the first two quarters while we were back-loaded in the same period last year. Year-to-date sales registered a 42% increase, equivalent to Php 3.9 billion due to the early start of the milling season and the contribution from our newly acquired mill in Tolong. The healthy EBIT margin was due to good cane quality, lower unit cost, which resulted in nine months EBIT of Php 1.7 billion, a 57% growth year-on-year.

For our Agro-Industrial or AIG group, Q3 top-line slightly declined versus same period last year and nine months sales posted a slight growth of 2% due to higher sales from our Hogs business which was offset by the decline in our Feeds business. On the EBIT side, we saw a significant increase versus the same period last year for nine months due to the recovery of hog prices, which resulted in a Php 600 million EBIT.

On the Farms side, sales value increased in Q3 by 14%, resulting in nine months sales of Php 3.3 billion, up by 21% despite lower volumes mainly due to higher pork prices versus last year. For EBIT, year-to-date figures were still significantly up versus last year and EBIT includes a revaluation gain of Php 104 million on our biological assets versus Php 73 million in the first nine months of the same period last year.

Q3 sales for our Feeds business declined by 17% which resulted in nine months sales of Php 2.3 billion or a drop of 17% versus last year. Third quarter results showed weaker volumes brought about by the exit of some of our backyard raisers due to disease as well as competitive pressures. However, year-to-date EBIT ended at Php 287 million, a flattish result, as margins were up due to the effect of lower input prices.

Turning to our balance sheet, it remains very healthy and we continue to maintain a net cash balance of Php 5.5 billion from Php 5.9 billion at the end of fiscal year 2012. We generated Php 6.4 billion in net cash from our operations. Financial debt was reduced as we paid off Php 3 billion debt in February with a coupon of 8.75%. We also paid short-term debt and trust receipts amounting to Php 9.2 billion. The cash used to pay our debt came primarily from the sale of our investment portfolio, amounting to Php 15.4 billion. Gearing ratio remains low at 0.06.

Other major cash items include capex investments amounting to Php 4.4 billion year-to-date and cash dividends paid of Php 5.2 billion. This represents 65% of reported income from last year. EBITDA reached a record high of Php 10.2 billion for the nine months of this fiscal year, a 23% increase versus the same period last year.

Lastly, let me take you through our outlook and plans for the balance of the fiscal year. For our 2013 guidance, though we are maintaining our sales guidance at the low- to mid-teens, we are calling up our EBIT guidance to high 20s to low 30s for total URC with an estimate of approximately Php 9.8 billion to Php 10 billion.

The plan and outlook for the remaining months of the fiscal year are as follows:

1. First, we expect Branded Foods Philippines to sustain its excellent performance for the balance of the year on the continuing strong sales of Great Taste White, C2, and Jack 'n Jill snacks. We will also expand our portfolio by adding instant beverage cereals.

   On the international side, for Thailand, we continue to put our efforts geared towards the recovery of the biscuit and wafer market by continuing to invest in additional A&P, as well as launching higher value added products more suited for the modern retail trade. We expect Thailand to continue to recover albeit at a slower pace with an expectation of low single digit growth in dollar terms. For Vietnam, we expect to sustain its mid-teens growth as we continue to experience robust sales for both C2 and Rong Do while building our other beverage and snackfood legs. We also aim to improve our distribution in Vietnam by expanding coverage beyond the six largest cities in Vietnam and expect to further expand the distribution of both our C2 and snackfoods. For Indonesia, we aim to capitalize on this year's momentum we've gained, particularly on the salty snacks and, most recently, chocolates business. For our salty snacks, we are aiming to be within the top three market position by the end of 2014 on the back of continued improvement in distribution. However, Indonesia continues to experience some difficulties due to inflationary pressures arising from rise in fuel prices, wages, as well as the depreciating Rupiah. For Myanmar, we were granted the investment license by the Myanmar Investment Commission and have now incorporated URC Myanmar. We are now in the early stages of setting up operations and have allocated approximately US$30 million towards building our factory.

2. The overall URC business is expected to continue to benefit from tailwinds in soft commodity prices in the near term. Despite cost being manageable, we will continue to monitor the strengths and margins closely and look for opportunities to further improve margins as we are beginning to see most of our currencies weaken against the US dollar.

3. We will spend around US$120 million in capex for the current fiscal year. We are also ramping up capacity on beverages for coffee and PET lines in Vietnam and additional snack lines in the Philippines. The construction of our bio-ethanol facility is well underway and we expect to start commercial operations for this project sometime in the second quarter of 2014.

4. Our other businesses particularly in Commodities and Agro-Industrial will remain profitable for the balance of 2013 and we expect Sugar to register a significantly higher EBIT in 2013 versus 2012 due to the additional volumes from the mill we acquired in Tolong as well as lower unit cost arising from better cane quality this year. We expect Flour, however, to register lower absolute EBIT due to increasing price competition from imported flour while Farms is expected to continue its turnaround due to higher pork prices and improving margins on the Feeds business.

That ends our short presentation and we're now open to Q&A.

QUESTION AND ANSWER

Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. *(Operator Instructions)*

Karim Salamatian, Credit Suisse:

Hi, good afternoon gentlemen. A couple of questions, I guess. Let's start in the Philippines and Lance, maybe you can just talk a little bit about what you see going into fiscal 2014 in terms of getting the bakery business back on track and growing at faster rates because, you know, while your volumes for beverages are growing very strongly, I don't know - I'd be interested to hear how sustainable you think that is and if we should expect lower growth rates there, can that be more than made up for or at least made up for by the bakery business next year? And maybe just talk about some of the initiatives you're doing in the bakery business to get that growth higher.

Lance Gokongwei, President and CEO, URC:

Okay. Overall, the composition of the business has changed significantly. I think the total snackfood business is maybe about 55% of the business and the total non-snackfood, particularly our C2 and coffee is now about 45% of the business. What we are seeing in terms of category growth, at least based on Nielsen, is that we're seeing in most of the snacking categories, only salty snacks is showing significant growth, about 7% for the year, whereas biscuits, candies and chocolates are all showing growth of between 1% to 2%.

So, we're seeing a shift, I think, in consumer behaviour here where consumers are moving towards more convenient tasty products such as snacks which tend to do well in the modern trade and away from the likes of biscuits and candies which are more traditional trade, sari-sari store type products.

In the chocolate category, although our market shares continue to increase, we are seeing that significant volumes are moving in the modern trade where our relative presence is not as strong as it is in the traditional trade.

So our job is really to continue to perform well in the snacks side. But on the biscuits side, our shares are pretty flat. I think the industry itself is not doing as well. We are focused on a couple of things. I think our strengths have been on the cookie and wafer sectors and our relative weakness has been on the cracker sector.

Fortunately, it seems to me that as the market is getting more mature, the cookies sector seems to be growing a little bit faster and it's more suitable for modern trade. What we've done is we've started rolling out new products using our Fun-O brand which is our Thai brand, which is much more focused on kids which will complement our market-leading Creams and Cream-O brand which are much more adult. So these products are basically copies of what have been very successful in Thailand and we're in the process of rolling this out right now. Initial feedback seems positive as July sales for biscuits were in the double digit range.

I think the main job, it seems for most of our snacking products, is to do a better job in developing products which are more suitable for the modern trade and that really means developing products which are in the Php 10 to Php 20 price point as opposed to the Php 5, Php 6 price point.

Karim Salamatian, Credit Suisse:

Okay. Does this shift in consumer behaviour – does this work in your favour from a margin perspective? Can you talk a little bit about the margin differential on your salty snacks versus the biscuits and confectionery and even against beverages?

Lance Gokongwei, President and CEO, URC:

Overall, our operating margins on snacks and coffee are probably – snacks in particular are the highest. So, it does pay if snacks grows faster. But overall, coffee has a lower margin than the rest of the portfolio and it is growing the fastest in the portfolio. However, because of the – on an operating basis, because it's a single SKU which generates very huge volumes, I think on an operating margin basis, it's not a negative.

Karim Salamatian, Credit Suisse:

Okay. Let me shift gears to Thailand. So you said in your comments that Thailand, low single-digit growth, is that a function – you know, I know you're increasing A&P in brand support there, are you changing your strategy there at all or are you finding that maybe the incremental spend is less effective than you expect it to be? You know, what exactly is keeping that growth of low single digits? Why aren't we going to see it continue to be 6% or so, or maybe even higher?

Lance Gokongwei, President and CEO, URC:

I think in Thailand the key issue seems to be, again, it's surprising I'm seeing the biscuit growth, again, very slow in Thailand. It's still at – it's 3% from what we've seen over the first six months of the year based on Nielsen. I think our – in an effort to revive the category, we've been spending a lot on the promotion side, on the in-store promotion side, and we feel probably not enough on the brand-building advertising side. So, we're probably going to take a step back and focus on rebuilding brand equity on some of our products there.

I think what has also stymied Thailand, I think particularly in the last year is we haven't had a breakthrough product in terms of innovation in both the biscuit and wafer side. And I think the main focus there would be trying to come up with something that is new and more exciting.

Karim Salamatian, Credit Suisse:

Okay. My last question on commodity prices. So, you're seeing commodity prices work in your favour. What are you doing to basically lock in commodity prices post-fiscal 2013? Can you enter into longer term contracts so you get better visibility on commodity prices for next year or what should we expect about commodity prices, say, in the next 12 to 24 months?

Lance Gokongwei, President and CEO, URC:

We are rather selective in doing so, because in many commodities a lot of the suppliers are not willing to give long-term contracts. Where we have been able to lock pretty long-term contracts have been primarily in cocoa and potato products.

In terms of coffee – other major items like coffee and the oils, I think we're probably talking about three- to four-month contracts. We currently do not employ any financial hedges with regards to hedging our commodity exposure. We prefer to hedge physically by signing up long-term contracts with valued partners or suppliers.

Karim Salamatian, Credit Suisse:

Alright. When you say long-term for cocoa and potato, what does long-term mean?

Lance Gokongwei, President and CEO, URC:

9 to 12 months.

Karim Salamatian, Credit Suisse:

9 to 12? So, 9 to 12 on those and the others three months roughly, right?

Lance Gokongwei, President and CEO, URC:

Yeah, rough – rolling three months, yeah.

Karim Salamatian, Credit Suisse:

Okay, fantastic. I'll hand it over to somebody else. Thank you.

Christopher Chu, Hamon Investment Group:

Hi Lance and Mike, thank you for the call and a great set of results. Just two questions, one, could you just brief us more about the instant coffee business and the market share gains particularly whom are you taking the market share from? And also about the pricing and expectations for growth. And second, I was hoping you can comment about the capex, about the Php 4.4 billion and how that's been spent and how the guidance will be spent, will it be mostly for utilization – like production expansion or will any be earmarked for R&D? Thank you.

Lance Gokongwei, President and CEO, URC:

Okay. Coffee – I mean, we're fortunate that coffee continues to be the single fastest growing category in the Philippines. Most categories are growing in the low single digits but coffee, in the last year, according to Nielsen, has grown 20% driven by the growth of instant mixes which is I think growing at 35%–40% and now constitutes maybe two-thirds of the market.

We have gained market share on instant coffee, but the bulk of our market share increase has really come from the coffee mix market where our Great Taste White continues to gain market share from both Nestle and Mayora Indah. I would say, though, over the last year, most of the market share losses have come from Nestle and I think the main reason they're losing market share is that they are losing market share in the faster growing part of the market which is the coffee mix market.

In a way, we're quite confident in our position in the coffee mix market because we're all priced the same. We're all priced at Php 6 in the coffee mix market. Whereas in the instant coffee market, we tend to sell at between a 5%-6% discount in our Great Taste brand and maybe a 15%-20% discount on Blend 45 versus their Nescafe brand whereas in the 3in1 market, we're all at the same price.

Christopher Chu, Hamon Investment Group:

You think – do you think – sorry to interrupt. Do you think it's feasible to take market share from Mayora or will it strictly be from Nestle going forward?

Lance Gokongwei, President and CEO, URC:

Mayora is actually losing market share on the coffee mix part of the market but because the coffee mix market is growing so much faster than the instant coffee market, if you look at the entire coffee market, Mayora is actually maintaining share, but I think we are – from anecdotal feedback, we are hearing that they are beginning to see some softening volumes on their 3in1 product.

Christopher Chu, Hamon Investment Group:

Alright, thank you. And on the capex, please?

Lance Gokongwei, President and CEO, URC:

I think Mike might be in a better position to give the details on the capex.

Michael Liwanag, Vice President, URC Corporate Planning and Investor Relations:

Yeah, the Php 4.4 billion that we've spent nine months, I think a third of that is – may lean to the Commodity Foods Group and two-third was invested on the Branded Foods. We'll be spending US$120 million this year and it's 20% higher than the previous US$100 million we've been spending in the past three years because we bought a mill, a new sugar mill last October. That's around US$17 million- US$18 million.

But if you look at the balance of, say, US$100 million, I mean, 80% is really on the Branded Foods Business and 20% is on the Commodity Foods Group. This was mainly invested for additional capacities and we are currently building a coffee facility in Vietnam and we're also looking into expanding beverage capacities as well in Vietnam. And some selective expansion in the Philippines mainly on snackfoods.

Christopher Chu, Hamon Investment Group:

That's great, Mike. Actually, just on the back of that, how much – I mean, going back to the breakdown, how much will actually go to, like, new product mixes or will it just essentially be an expansion of successful products in other markets?

Lance Gokongwei, President and CEO, URC:

The biggest – if you're talking about new products, it's – you know, our lines are quite flexible, so they can – we can – the lines can do multiple types of products. So I guess that's a difficult question to answer. In terms of R&D though, we tend to expense everything. We do not capitalize our R&D spend.

Christopher Chu, Hamon Investment Group:

Okay. Alright. Fantastic. Thank you very much gentlemen.

Miguel Agarao, Wealth Securities:

Good afternoon, this is Miguel from Wealth Securities. First off, congratulations on your great results. Okay. This is my first question. What difficulty do you anticipate in the Myanmar market? Do you see it to be something like Indonesia or a market closer to Vietnam?

My second question, if commodity prices spike, I'd assume you won't be able to pass on all of the impact. But if commodity prices were to rise, say just 5%, is that something you would be able to pass through completely to the consumer? Thanks.

Lance Gokongwei, President and CEO, URC:

I think if Myanmar is probably Vietnam 15 years ago, in that sense, you know, there's really no modern trade. The purchasing power is quite low. We do already have some business in Myanmar primarily through the export of biscuits from Thailand into Myanmar. So we think we are making an early investment because we think it's important to be early. I think the potential of Myanmar in terms of population, resources, tourism is quite attractive. So we will probably lose money for a few years there, but we do think one of the reasons we were successful in

Vietnam is we were quite early and we hope to be the same in Myanmar. But it's not going to be easy. But we do have some experience already in entering really underdeveloped markets.

With regards to price increases, I mean, I do still expect that we probably have an opportunity to continue to increase margins in the coming year. I think the main headwinds we're facing is really the weakening currencies, primarily the Peso and the Rupiah versus the US dollar. So, that increases a lot of our input cost in terms of dollars. But I think we're also continuing to see some of the benefits from larger volumes in terms of economies of scale and in tightening up our supply chain and production capabilities.

We've seen some of the benefits flow through this year. And I think the other major thing that's happening is with the expansion of our Vietnam coffee plant, we will have an opportunity to improve our margins further as right now, probably, a third of the coffee we sell in the Philippines is sourced from outside URC. With the plant in Vietnam, we'll be able to support increased sales with higher margins than what we are doing right now because it's all going to be sourced within the URC organization rather than buying from some contract manufacturers outside.

Miguel Agarao, Wealth Securities:

How many years did you take for Vietnam to become profitable?

Lance Gokongwei, President and CEO, URC:

Vietnam is a very good example of things going well. It took four years. But we've also had examples where – like China where we've been for 15 years where we're just, you know, getting to breakeven at this point.

Miguel Agarao, Wealth Securities:

Do you anticipate Myanmar becoming profitable in three to four years as well?

Lance Gokongwei, President and CEO, URC:

I would be, actually, I would be quite pleased if it gets to profitability in three to four years.

Miguel Agarao, Wealth Securities:

Okay. Thank you very much and congratulations.

Lance Gokongwei, President and CEO, URC:

Thank you.

Taibah AlQatami, Asiya Investments:

Hello, this is Taibah. Congratulations on the strong results. I guess – my question goes towards just operating margins, EBIT margin, you know, I heard that you guys strengthened the margin but we would say that, like, around 12% would be on the higher end relative to historical level. So the question is how sustainable do you think these margins are going to be going forward?

Lance Gokongwei, President and CEO, URC:

I would say on the branded side, we're quite confident that based on our outlook for our sales and our outlook for unit cost of input prices that we will continue to have an opportunity to maintain, if not improve margins year on year. I think even this quarter is already tracking ahead of the record highs we achieved in Q3 as we continue to enjoy the benefits of increased scale.

And I think as the Branded Food business is becoming an increasing proportion of our entire business then I think the margin situation becomes much more predictable. I think the business where the margins are most volatile will probably be in the Farm business. But again, that's relatively small part of the business today.

Taibah AlQatami, Asiya Investments:

So then just on the branded side, you know, the switch from traditional to more modern, wouldn't that, you know, increase cost to some extent?

Lance Gokongwei, President and CEO, URC:

It really depends. I think from a player like URC which is probably one of the three largest suppliers to at least after Nestle we're probably the second largest food supplier to any supermarket, I think we have relative strength in partnering with our modern trade suppliers. So oftentimes the margin structure is not very dissimilar from what our regional distributors get in terms of discounts.

Taibah AlQatami, Asiya Investments:

Okay. And second question goes just on an update on the China business.

Lance Gokongwei, President and CEO, URC:

China volumes are –

It's up 18% versus last year. But again the domestic business is not large. It's about US$30 million out of US$500 million plus for the entire URC international business. I think the main bulk of China's business is really from the export of coffee and creamer to the Philippines. But definitely on a combined perspective, we are EBITDA positive in China and we have a much smaller operating loss.

Taibah AlQatami, Asiya Investments:

Okay. But relative to the prior year, how did it do?

Lance Gokongwei, President and CEO, URC:

I think we've turnaround about – probably by about US$3 million to US$4 million in EBITDA basis.

Taibah AlQatami, Asiya Investments:

Okay. And, I guess, the last question goes on capex. So you mentioned US$120 million for the next year, is that the –

Michael Liwanag, Vice President, URC Corporate Planning and Investor Relations:

No, no for this year.

Taibah AlQatami, Asiya Investments:

For this year. So out of the US$120 million, you've already spent US$100 million, right?

Michael Liwanag, Vice President, URC Corporate Planning and Investor Relations:

Right. Php 4.4 billion, yes.

Taibah AlQatami, Asiya Investments:

So then the additional 20 is going to be spent on…

Michael Liwanag, Vice President, URC Corporate Planning and Investor Relations:

More on the Branded Foods Business and then some of it as well on the – we're finishing up some projects for our Sugar group especially the distillery.

Taibah AlQatami, Asiya Investments:

And just, you know, going forward let's say the next fiscal year, would this be around the same level of capex?

Lance Gokongwei, President and CEO, URC:

We're still doing our budgeting. I think we'll probably have a number similar to Php 101 million. I do think the Branded Foods spend will probably decrease a little bit, but, well, major spend next year is in the bulk of the – the co-generation plant will be spent next year which is – that's a US$60 million project for the Sugar business, plus Myanmar. So I think you're probably looking at maybe a similar number, US$120 million.

Taibah AlQatami, Asiya Investments:

Okay, thank you so much for your time.

Miguel Agarao, Wealth Securities:

Okay. Good afternoon, another question, do you anticipate any significant M&A transactions moving forward because I noticed – and this is a good thing – that all your growth is practically organic. Is this a strategy you would want to pursue in 2014 and moving forward? Thank you.

Lance Gokongwei, President and CEO, URC:

I think we continue to be interested in M&A opportunities as they present themselves. But another avenue we are looking at is to grow is we are in a couple of discussions for joint ventures with some significant multi-nationals who are interested in entering the Southeast Asian markets.

Miguel Agarao, Wealth Securities:

How would a joint venture agreement look like? You'd manufacture for them or you'd co-brand, or you'd sell their products? How would that sort of thing look like?

Lance Gokongwei, President and CEO, URC:

Generally, we would look to own at least 50% if not more of any joint venture we do. And the general form of a joint venture is the partner would provide the brand and the technology. We would jointly invest in manufacturing facility and then URC would provide all the distribution and logistics as well as the administrative support to that joint venture.

Miguel Agarao, Wealth Securities:

Okay. Thank you, again.

Lance Gokongwei, President and CEO, URC:

Thank you.

Carissa Mangubat, Deutsche Bank:

Hi, good afternoon. I just wanted to get a better sense of the international business in terms of EBIT contribution or EBIT margin contribution. Maybe you could give a breakdown per country or at least who the major contributors are. Thank you.

Lance Gokongwei, President and CEO, URC:

We don't disclose the breakdown of the international business, but suffice to say that the bulk of the sales and earnings are from Thailand and Vietnam.

Carissa Mangubat, Deutsche Bank:

Okay, thank you.

Kong Wee Ong, Albizia Capital:

Hi, Lance. I'm not sure whether I missed the answer to this just now, but C2 sales has been very strong so far this year. But is this 33% growth sustainable moving forward?

Lance Gokongwei, President and CEO, URC:

What are you asking about, the whole URC Philippines or what you are…

Kong Wee Ong, Albizia Capital:

URC Philippines, C2 volume sales.

Lance Gokongwei, President and CEO, URC:

Oh, C2, We are quite happy with the C2 sales growth and I think it's a function of two things. We successfully launched the C2 230 package which is successful in getting new drinkers to try this product especially the sari-sari store level and this has gained very widespread distribution in sari-saris because of the attractive price point of Php 10.

Now we're now continuing to see the benefits of rolling out the distribution there, but now we're seeing a further acceleration of sales because we are now rolling out this product into the modern trade, into special packages of sixes which consumers can take home package of six for Php 50. And this is very suitable for a lot of kids' snacks.

And then the third leg of what we've been doing here is that based on our research, C2 has been consumed primarily during break times or snack times, but never for main meals. We've launched two C2 variants called C2 Red Tea and C2 Ice Tea which are marketed primarily for consumption during meal times. And these two products have done quite well.

We still think the main opportunity in C2 continues to be to take more business from the carbonated soft drinks market which still constitutes about 75% of the ready-to-drink market and still constitutes maybe US$1.5 billion addressable market, so we think the opportunity remains to be in converting soft drink drinkers into tea drinkers. I think we will continue to grow at double-digits, but I'm not sure if it's going to be 33%. Our budget is probably a little bit lower than that.

Kong Wee Ong, Albizia Capital:

How is the sales growth in that, that quarter itself?

Lance Gokongwei, President and CEO, URC:

I'm not sure. Mike is going to look for the number. I don't have it on top of my head.

Kong Wee Ong, Albizia Capital:

Okay, no problem.

Michael Liwanag, Vice President, URC Corporate Planning and Investor Relations:

Yeah. Well, if you just look at June, it's still around 24%, so yeah.

Kong Wee Ong, Albizia Capital:

Yeah. Okay.

Michael Liwanag, Vice President, URC Corporate Planning and Investor Relations:

If you base it in value, of course, volume is higher, what you're seeing in the presentation because of the additional, you know, volume, like the smaller case.

Lance Gokongwei, President and CEO, URC:

The smaller cases, yeah.

Kong Wee Ong, Albizia Capital:

Right, right. Okay, thank you.

Karim Salamatian, Credit Suisse:

Hi, thank you. One more question. Lance, can you tell us what the board is thinking about in terms of deploying the excess cash, like at the end of the quarter, you guys had about Php 5.5 billion of cash or net cash on the balance sheet and then based on your EBIT guidance and capex guidance, it looks like you should generate about another Php 2 billion in the fourth quarter so you could end the year with just over Php 7 billion of cash in the balance sheet. What's the plan with that?

Lance Gokongwei, President and CEO, URC:

It has to be discussed, but I think one thing we're considering is to adjust our dividend policy to a twice-a-year distribution so that we release the cash at a faster rate than before. And then we have not yet set the dividend for next year however.

Karim Salamatian, Credit Suisse:

And then capex next year as you including the – the Php30 million from Myanmar will that be deployed in 2014?

Lance Gokongwei, President and CEO, URC:

I would suppose that would take about 18 months, so that's 2014 and 2015.

Karim Salamatian, Credit Suisse:

Alright. And you're confident you can fund that plus ongoing capex with your operations, correct?

Lance Gokongwei, President and CEO, URC:

Yeah. I mean, this year the EBITDA is going to be over US$300 million and we're hoping for an increase next year, so I think we should be able to support that.

Karim Salamatian, Credit Suisse:

Right, I'd agree. Okay, thank you.

Lance Gokongwei, President and CEO, URC:

You're welcome.

Okay, again, thank you for dialling in. We hope to talk to you again after the fiscal year end. Thank you.

Operator:

Ladies and gentlemen, that does concludes our conference for today. Thank you all for participating. You may all disconnect.

END OF TRANSCRIPT