EDITED TRANSCRIPT
UNIVERSAL ROBINA CORPORATION (URC) FY2013 FIRST HALF RESULTS EARNINGS CALL

EVENT DATE/TIME: MAY 14, 2013/4:00PM (Manila Time)

PRESENTATION

Speaker:

Ladies and gentlemen, welcome to the URC's Quarterly Investor Briefing. Joining us today from URC are Mr. Michael Liwanag, Vice President for Corporate Planning and Investor Relations, and Mr. Eric Isabedra, Manager for Corporate Planning and Investor Relations. URC will give you a brief company presentation on the results. At the end of the presentation, there will be a Q&A session. I will now hand the conference to Mr. Michael Liwanag.

Michael Liwanag:

Good afternoon ladies and gentlemen. I will be doing the briefing today since Mr. Lance is out of the country. I hope I will be able to answer all your queries after the presentation.

If you turn it over to the first page of the presentation, where the headline is total company robust sales and profitability, top-line growth for total URC continued to accelerate as of Q2. Net sales grew by 18% versus the same period last year, which resulted in first half sales of Php 40.3 billion, a 15% increase versus prior year. Branded Foods Philippines continued to be the main driver complemented by Sugar and our Farms businesses. The margin expansion trend continued onto the second quarter as input prices relaxed further for Branded Foods and selling prices for hogs continued to recover for Farms. As a result, second quarter EBIT grew by 52% which resulted in first half EBIT of Php 4.9 billion, a 34% growth versus same period last year.

Core earnings for the first half registered at Php 6 billion, up 55% versus same period last year due to other revenues, which increased by Php 825 million as we realized gains from the sale of our bond and equity holdings last January. Finance cost was also reduced by Php 208 million as we paid our Php 3 billion long term debt last February 28 and some short term debts and trust receipts amounting to Php 9.2 billion.

Lastly, net income for the first half ended at Php 5.4 billion, 21% above last year. The slower growth compared to core earnings was due to reduced marked-to-market valuation gain as we have retired the investment portfolio and higher forex losses versus last year following the appreciation of the Philippine Peso. For everyone's information, our average forex in the first half of 2013 was 40.8 to a dollar versus 42.92 during the first half of last fiscal year.

Onto the next page on Branded Foods, total BCFG sales for Q2 was up 16% versus same period last, which resulted in first half revenues of Php 31.3 billion, an increase of 13%. Q2 EBIT grew much faster at 40% versus same period last year resulting in Php 3.5 billion or 27% increase for the first half. Year-to-date margins ended higher by 121 basis points at 11.1% as key input prices relaxed and higher volumes contributed to our improving scale.

Branded Foods Philippines was the key driver to the solid performance of the division while Branded Foods International also started contributing as sales momentum is already evident in the second quarter as we've seen a slow recovery in Thailand already.

Onto the next page on Branded Foods Philippines, sales for the Philippines further accelerated as second quarter revenue grew by 25% versus same period last year, which led to first half sales of Php 20.2 billion, a growth of 22%. In volume, the growth was 17% for the first half. The significant growth in top-line continued to be driven by beverages as it registered a first half growth of 77% backed by the continued growth of our powdered beverage business, mainly attributed to coffee, and ready-to-drink beverages, specifically C2.

Coffee mixes, behind Great Taste White Coffee offering, remained to be the driver for coffee. Our market share for coffee continued to increase. Since the last quarter, we have gotten an additional 1.9 percentage points in total coffee value market share to exit at 19.2% and 2 points for coffee mixes value to exit at 17.9%.

On the other hand, ready-to-drink beverages was driven by ready-to-drink tea growing by 24% mainly due to our 230 ml or solo SKU. Other ready-to-drink beverages, like water grew 14% and juice by 23%, also contributed to the growth. We also implemented several A&P campaigns to build our momentum for these categories. The snackfoods leg grew at a slower pace versus same period last year with growth coming from salty snacks but this was partially offset by the softness in biscuits and confectionery categories. Sales were also affected by some temporary supply chain issues as we transitioned our ERP system to the SAP platform. The salty snacks category gained some momentum in the second quarter, backed by our top chips brand in potato chips and multigrain, which are Piattos and Nova, together with our extruded and pelletized segments where Chicharron ni Mang Juan is. Our bakery businesses declined slightly by 4% despite packaged cakes growing by 16% as biscuit sales were softer. Confectionery sales were flattish and the company has started to refocus on revitalizing its core brands, specifically on chocolates, product innovation and we are now looking at options of looking for new price points particularly for the confectionery products. We also launched a total of 26 new products in the first half of 2013 which contributed to around 1% of sales.

Absolute EBIT grew much faster than sales as Q2 ended 50% above versus same period last year, which translated to a first half figure of Php 2.5 billion, a 40% increase as prices of key inputs such as robusta coffee beans, which is down 7% versus last year, palm oil, which is down 19%, and other inputs like PET resin, cocoa powder, wheat flour are continuing to trend down. First half EBIT margins registered at 12.4%, significantly better than last year's figure by 162 basis points.

Onto the next page on Branded Foods International, sales for BCF International accelerated in Q2 as it registered a 13% growth versus same period last year in dollar terms which translated to first half year-on-year growth of 9%. In peso terms, however, the 13% is down to 7% for the quarter and 3% for the first half due to the continued appreciation of the Philippine peso. Q2 absolute EBIT for the International Business grew by 15% versus same period last year and resulted in first half EBIT of Php 1 billion, a growth of 2% with margins maintained as we absorbed higher A&P investments and freight and handling especially in countries like Vietnam and Indonesia, and on a A&P in Thailand.

Vietnam sales remained buoyant and registered a mid-teens growth in dollar terms as of the first half. Ready- to- drink beverages continued to grow significantly backed by C2, our RTD tea, and Rong Do, our energy drink offering. Average monthly ready- to-drink beverage sales volume grew by 16%. Salty snacks also grew and contributed to the growth as our corn snacks, Kornets, continued to gain traction. Continued consumption of the products that we offer, our widening portfolio and expansion of our distribution network in Vietnam, particularly in rural areas, continue to open up further opportunities to grow the business.

Thailand continued to show signs of recovery as second quarter sales already registered growth versus last year, 7% in dollar terms. However, on a year-to-date basis, we are still slightly down because of the tougher comparables in Q1. As you know, in Q1, we are still down 12% because of that abnormally high sales in the first quarter of last fiscal year. We believe though that the increased promotions in the modern trade and the increased grammage of the products that we started to implement last July have started to pay off. As per the latest AC Nielsen report dated January 2013, there are signs of recovery in the biscuits market. The volume contraction from 6.3% in November 2012 is down to 3.1%. It's still contracting but I think that it is on its way towards recovery. I just looked at the March report and volume is close to flattish and value for the biscuits market in Thailand is now up 2%.

On Indonesia, year-on-year sales growth accelerated further with a 40% growth in dollar terms on the back of snacks, ready-to-drink tea and chocolates categories. Snacks, the largest category, was the main driver, as sales momentum continued for Piattos, our fabricated potato crisp offering, complemented by the extruded and pelletized products that we launched last year. Ready-to-drink tea is also contributing on the back of the accelerating volume for C2. Lastly, our chocolates category was buoyant as we revitalized our existing brand and launched a successful new enrobed bar offering. It's called Cloud 9 Crunchies.

Malaysia/Singapore sales was flattish as recovery of its chocolates business is lower than expected and we are slowly correcting the distribution fundamentals in that country as we have lost two distributors in West Malaysia in the last fiscal year. China/Hong Kong continued to play a critical role in augmenting the Philippine capacity for coffee and creamer and EBIT losses are significantly below versus last year.

Now turning to the next slide on Commodity Foods. For Commodity Foods Group, Q2 sales was above same period last year by 34% resulting in a year-to-date figure of Php 5 billion, up 32% due to the higher volumes for Sugar. EBIT margins remained healthy resulting in an EBIT increase of 18% for the quarter which led to first half EBIT of Php 1.6 billion, a 21% increase. For Flour, Q2 sales and EBIT were down due to lower sales volume as we were affected by the influx of low cost imported flour in the Luzon where we derive two thirds of our sales. On a year-to-date basis, Flour revenues ended at Php 2 billion, a 9% decline and EBIT ended at Php 524 million, a 25% decrease due to the lower volumes and lower margins coming from the higher wheat costs compared to previous year.

The Sugar business, however, registered an 88% growth in sales for the second quarter which resulted in a year-to-date figure of Php 3 billion, an 87% increase due to the early start of the milling season and the contribution coming from the mill we acquired in October, Tolong. The higher volumes offset the slightly lower selling prices of sugar so far this year. The healthy EBIT margin due to better cane quality and manageable freight and hauling subsidies carried over to the second quarter and resulted in first half EBIT of Php 1.1 billion, a 69% growth year-on-year.

On the next slide on Agro-Industrial, AIG Q2 top-line was 12% higher versus same period last year and first half sales registered at Php 4 billion, a growth of 10%, due to higher sales for Farms which offset the decline in Feeds. On the EBIT side, we saw significant increase versus same period last year due to the recovery of Farms which resulted in Php 378 million EBIT for the first half of the year. On the Farms side, sales value was significantly up in Q2 which resulted in first half sales of Php 2.5 billion, up by 39%. Strong Q2 sales was due to the higher pork prices versus same period last year as the supply of pork has started to normalize. Moreover, the recovery can also be seen on its EBIT performance registering at 189% Q2 growth versus same period last year. With the recovery in prices, we also book a revaluation gain of Php 62 million on our biological assets versus the revaluation loss we incurred last year of Php 104 million. On the Feeds, Q2 sales declined by 19% which resulted in first half sales of Php 1.5 billion, a drop of 17%. Second quarter showed weaker volumes brought about by the exit of some backyard raisers due to pork prices being depressed last year. EBIT ended at Php 185 million, a decrease of 8%, while margins were up as the effect of pricing increases implemented in the previous months were felt.

Turning over to the next slide, our balance sheet remains healthy. We continue to maintain a net cash position of Php 7.9 billion from Php 5.9 billion as of end of fiscal year 2012. We earned Php 1.6 billion in cash from our operations. Financial debt was reduced as of the second quarter as we paid off the Php 3 billion debt with a coupon of 8.75%. We also paid down some short term debts and trust receipts amounted to Php 9.2 billion. The cash used to pay our debts came from the proceeds from our sale of the investment portfolio last January, which amounted to a total of Php 15.2 billion. This brought down our gearing ratio to 0.05 from 0.3 as of end of Q1. EBITDA for the first half reached Php 6.6 billion, a 24% increase versus same period last year and CAPEX investments amounted to Php 3.2 billion.

Let me now discuss the plans and expectation for the balance of the year and the guidance. For fiscal year 2013 guidance, we expect net sales to grow by low to mid-teens and low twenties for absolute EBIT. If you remember we guided at around Php 9 billion when we did the first quarter earnings call. We are now calling up the guidance and adding around Php 500 million. So we expect at least Php 9.5 billion in EBIT for full 2013.

The plans and outlook for the balance of the year are as follows:

1. We expect the strong sales momentum for the Branded Consumer Foods Philippines to continue for the rest of the year. This will be on the back of continued innovation and new product launches. We will continue to build upon the success of the new products launched in the recent years such as Great Taste White Coffee Mix and the Mang Juan for salty snacks line, and we'll continue to address supply chain and distribution issues.

   On our International Business, for Thailand, we will continue to put efforts toward the recovery of the biscuits and wafers market and on building categories such as cakes and salty snacks. We expect Thailand to recover albeit at a slower pace and grow the business from mid to high single digit in dollar terms for the full year.

   For Vietnam, we expect to continue growing at a fast pace as we build the other beverage and snackfoods legs outside of the ready-to-drink tea business. We plan to launch new RTD product formats into the Vietnam market within the fiscal year. On the snackfood side, we will continue to build biscuits, candies and snacks. We also aim to improve our distribution in Vietnam by expanding coverage beyond the six cities and expect to improve the distribution of C2 and rationalize our distribution capabilities to provide ample selling focus on our snackfoods business.

   For Indonesia, we aim to capitalize on the momentum we've gained in fiscal year 2012 and as of the first half particularly on salty snacks, ready-to-drink tea and chocolates. For salty snacks, we are aiming to be in the top three market position by the end of the year on the back of the continued efforts on distribution improvement, product innovation and trying to launch new products at the right price point. We will also continue to invest in A&P both for brand building and distribution initiatives.

2. The CAPEX budget for fiscal year 2013 will be around $120 million with the bulk going to the Branded Foods Business. This amount also includes additional CAPEX investments of around $17-$18 million that we used for Sugar to buy Tolong and as you know we have also started building our distillery, so by the middle of next year we are able to sell fuel grade bio-ethanol already.

3. Input prices have continued to relax and boost the company profitability. We will continue to monitor the trend in soft commodity prices and if this continues, on a minimum, I think we can maintain the margins that we've already reached during the first half.

4. Our other businesses mainly Commodities and Agro-Industrial will remain profitable. We expect Sugar to get the higher absolute EBIT in 2013 closer to Php 2 billion as we are getting the contribution from Tolong, we have better cane quality, yield and recovery, and significantly higher volume in general. Flour will register a lower absolute EBIT due to higher wheat prices. Farms will benefit from higher pork prices.

5. We've declared dividends of around Php 2.4/share and the total payout will be around Php 5 billion, which is 65% of our 2012 net income and this will be paid in June.

6. We will continue to pay down our short term debt using a portion of the cash from the proceeds of the investment portfolio.

With this, we are now open for questions.

QUESTION AND ANSWER

Speaker:

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

Joe-an Alitagtag, Philippine Equity Partners, Inc.:

Hi Mike, good afternoon, thanks for the briefing. Some quick questions, do you mind letting us know the breakdown of the other revenues part in the income statement? How much of that was due to the sale of the financial assets?

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

Most of the other revenues actually came from the sale of the financial assets because those are gains from the AFS. So around Php 685 million out of the Php 831 million came from the disposal of the investments.

Joe-an Alitagtag, Philippine Equity Partners, Inc.:

And then operating expenses, do you mind sharing with us – just articulating a bit on the increase in operating expenses?

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

What we've done is we are investing heavily on A&P, both on our Domestic Branded Foods Business and International. On the Domestic Business, we have allocated more money towards trade and consumer promotions as we were launching a lot of new products and our focus towards distribution is more pronounced this fiscal year.

On the International Business, as you know, we are trying to buoy up the biscuits and wafers market in Thailand so we have invested in a lot of trade promotions for both the key accounts, for the likes of CP-All 7-Eleven, and also on our traditional retailing business. As we are growing Indonesia as well by 40% on a year-to-date, we have started introducing products in the modern retail and we are scaling up the business so we realize that we have to hit both distribution segments and not just focus on regional distributors covering the traditional retail.

We also continue to invest heavily on A&P in Vietnam and we are reaching record levels for C2. As a matter of fact, in April, our total beverage volumes there breached the 4 million cases mark already. Aside from A&P, we are also absorbing higher freight and handling expenses as volumes are accelerating across the Branded Foods Business so that contributed bulk of the Opex. If you look at it, these are really to sustain the momentum that we are experiencing on the business.

Joe-an Alitagtag, Philippine Equity Partners, Inc.:

May I ask just two more questions?

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

Yeah.

Joe-an Alitagtag, Philippine Equity Partners, Inc.:

The two are related. One is on beverage. How much does beverage now account for your total sales?

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

In the Philippines?

Joe-an Alitagtag, Philippine Equity Partners, Inc.:

Well of total.

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

I can just break it down for you. In the Philippines, beverages is closer to around of 40% of total revenues now. Both our ready-to-drink and powdered beverages have grown significantly in the first half. On the International Business, if you look it, the countries with beverages are just

Vietnam and Indonesia; and in Vietnam around 85% of our sales are still coming from beverages. So the challenge in Vietnam is how to widen the portfolio and build a second and third strong legs like say biscuits and chips. In Indonesia, beverage is still very small as compared to the total because Indonesia is around I think 85% snackfoods and just 15% beverages.

Joe-an Alitagtag, Philippine Equity Partners, Inc.:

And related to that, if you had to estimate how much of sales were attributable to the mid-term election campaigns in the Philippines? Is that even possible if you had to estimate that amount?

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

That's very hard in the sense that we've really never seen a trend. I'm running 12 years in the company and I've experienced several elections already. And if you look at it, there's no direct correlation between election spending and the bump in our sales. The Philippine Branded Foods sales accelerated on the back of strong product innovation. If you look at it, not all of the categories are rapidly growing. We have categories like confectionery, mainly like chocolates and candies, that are flattish to slightly declining. So it is really very hard to attribute any growth to elections nor to increase in consumption. So our growth is mainly coming from the successful new product introductions.

Taibah AlQatami, Asiya Investments:

Hello. First of all congratulations on the strong results. And my first question goes on what you just mentioned about the distribution moving from the traditional towards the modern retail. What would be a comfortable level for EBIT going forward if it's going to be more through modern retail?

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

Well, if you look at the Branded Foods Philippines Business, our split is one third modern and two third traditional. And at this point in time, we are able to balance the spending. On modern retail, we book the expenses under A&P mainly trade promotions support. On the distribution side, we absorb a lot of discount off list price but lesser A&P. If you look at them, if you do the P&L for both, we are almost getting the same amount of EBIT.

I think moving forward what we're doing is that we use our size and leverage this so that we are able to lower the bargaining power of modern retail and so far that has worked. So it is really very hard to give you a certain number if there will be any margin degradation at this point, because we haven't really experienced it yet. Ten years ago we thought that the split will change and it really hasn't and we've been analyzing this trend the past few months.

If you look at the countries where we operate, I think we can equate it to the level of GDP per capita. Anything below $5,000, the channel of choice is still traditional retailing. Countries that are above $5,000 like Thailand, Malaysia or Singapore have already started modernizing. But if you look at Thailand since we are market leaders in biscuits and wafers, our bargaining power is also quite strong versus the modern retail in the sense that our market shares are almost twice that of the next competitor who is Thai President. So I think we will try to continue protecting or slightly improving our profitability moving forward and I cannot give you a certain number at this point in time.

Taibah AlQatami, Asiya Investments:

Then just like you know traditional versus modern, for a modern retailer how much of a discount would you give them?

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

For distributors, we give them between 8%-10% discount off list price depending on the category. On modern retail, we usually spend, say you have a budget of Php 1.5 million for advertising and promotions in the Branded Foods Philippines, the split of that is 40% advertising 60% promotions. And out of the 60% most of it goes to trade promotions. So you can do the math. Around say 3%-4% of total sales goes to trade promotion support.

Taibah AlQatami, Asiya Investments:

And my next question goes on your distribution strategy in Indonesia. You mentioned improvement. In what sense has it improved and what have you found is the best way going forward?

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

We are using non- exclusive regional distributors in Indonesia to hit the traditional retailing or the mom and pop stores, and we employ our own account manager to cover modern retailing. What we've done actually last year was to launch complementary snack products. We've always had that potato crisp product, Piattos, but as we launched complementary extruded and pelletized snacks, this reinforced the portfolio altogether.

So our problem before was we were just really in the traditional retailing given that we cannot afford to be present in modern retail. If you are a small company that is subscale, for every dollar that you sell you would have to pay up 20%-25% or $20-$25 cents in trade promotion support because you lack scale. And say you only generate 30% gross margins so that's why we are absorbing EBIT losses in Indonesia. But as we slowly scale up, we realize that the modern retailing in Indonesia is also important. We just have to really be very careful not to overexpose ourselves at this point in time in the modern retail.

So we are trying to hit both segments of the retail trade structure. And I really think it is just a matter of time before we scale up the business. We're growing it by 40% this year. If the trend continues, we expect to trim down our EBIT losses by another $1 million. So to give you a perspective, three years ago it was around $10 million EBIT losses. Last year, it was down to six, this year, I think we'll try to hit a five. We are ploughing back some of the income we are getting into A&P, mainly distribution expenses.

Taibah AlQatami, Asiya Investments:

And how large of a contributor do you see Indonesia in terms of sales going forward or like at the end of five years?

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

You know Indonesia just contributed around 6%-7% of total top-line last year. This year, I think we'll be nearer at 8% or 9% contribution to total but of course since Indonesia is such a huge country, I really think that if we execute the strategies correctly and we reach sales of $100 million in two to three years' time then that will be a formula for scaling up and definitely it will become a significant contributor. I just don't want to give you a number at this point.

Taibah AlQatami, Asiya Investments:

Yes, just on China, I missed what you said. Did you mention that it's starting to become profitable or –

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

In the first quarter, China was EBIT breakeven but there's seasonality in the sales of China. There are two things that contributed to it being profitable. First is that local sales also accelerated. It has seasonality, majority of the sales is really beverage cereals that sells very well in the winter months. The other thing is that as we lack capacity for both coffee and creamer powder in the Philippines, we started tapping our China facilities to augment the products and it is now able to subsidize its fixed cost.

On domestic sales alone, if you just use the machines there, the utilization will just be around 25%-30% and you absorb the same fixed costs but if you ran the machines better, you are utilizing them and you are improving return on assets for the total company. You are not stifling down the momentum on the successful coffee business in the Philippines and you are able to operate another subsidiary at EBIT breakeven.

Our aim for China is if we can operate it at EBITDA breakeven. EBITDA losses in China are at around $2.5 million. So EBITDA breakeven, I think we're okay already.

Sridhar Nishtala, T. Rowe Price:

Hi Mike. I asked my question and then I realized that you could not hear me. Okay anyway so my first question is just on your EBIT margins, particularly on the international side, now obviously some of the gross profit margin tailwinds that you had in the consumer business in Philippines you would have had in the International Business as well but market is obviously flat, right?

So now I just want to understand you know by geography to the extent that you can share what's happening to the profit dynamic in these markets and how should we think of like for like margin improvements over the next two to three years on the International Business?

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

Okay, I told you last month in Singapore when we met. Now in the International Business, it is true that cost of goods is actually decreasing thus gross margins should improve but the caution here is that Thailand's recovery is slower. That's one. As you know in Thailand as well we are absorbing higher costs because we brought back the weight of the biscuit product that we kept shrinking starting 2011.

The other thing is that we have invested additional money on A&P. So if you look at it, Thailand is still lagging on the year-to-date by as much as 300 to 400 basis points in EBIT margin compared to last year.

And, as you know, Thailand used to generate between 15% to a maximum of 17% EBIT margin. So I really think that as we accelerate volumes in Thailand, we can slowly take back Thailand to the usual mid-teens margin level down the road. To manage expectations, I really think that this will happen next fiscal year. If we can grow Thailand I think between low to mid-teens, then the margins definitely expands.

But the good thing about the International Business is that the slack of Thailand, Vietnam is actually covering it up. If last year we experienced some margin compression in Vietnam due to higher prices like on packaging and other commodities, this year, Vietnam's margins are actually even above, even higher than mid-teens.

So that they practically offset one another, because during the first half of last year Thailand's margins was still quite high, and Vietnam started at lower margins so the reverse happened.

So these two countries already contribute around 75% of total revenue so they are representative of the total international profitability. So what is our intention? I think that of course the first marching order is to continue to trim down the losses in Indonesia. If we are about nine and a half now, you just reverse the $5 million EBIT loss in Indonesia easily you're double digits at around 10%. Our intention actually, as I told you last month in Singapore, is in five years' time we want to have a blended EBIT margin closer to a mid-teens level.

The thing that we need to do of course is to continue innovation and drive top-line growth from low to mid-teens. But also what we're doing differently in the company now is we are thinking of ourselves as a regional multinational where we are trying to align our capabilities and exact productivities by exacting operating leverage. So we need to be conscious about our fixed costs. And I think year after year we will be exacting operating leverage.

Sridhar Nishtala, T. Rowe Price:

Right, okay that's fair. Now so you say that in Vietnam you needed to beef up your beverage business with more emphasis on snacks going forward. So snacks I know is a better margin category but then scale will be much lower, so should we think of margin compression for the period as you introduce get into new snack categories and then margins go up or how should we think of that?

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

Okay, so what we're doing Sridhar is that we are trying to launch products on a phase basis. I mean we do not want to shock our sales force and distributors with so many products so it's like a building blocks approach. For example, we launched a corn based conical shaped snack with the brand name Kornets in October and it's proving to be successful in the sense that volumes are doubling every month.

Of course, you are correct that as we launch new brands we have to spend some money into A&P. I think short to medium term we will plough back some of the earnings to build the new brands but I really think our Vietnam's business first is that operations is more focussed; we only have two factories. And if you look at the number of SKUs etc., I mean they're practically say less than one fifth compared to what we have in the Philippines so you know productivities are really evident in Vietnam. I would think that Vietnam's profitability, crossing my fingers, will always be above Branded Foods Philippines.

Sridhar Nishtala, T. Rowe Price:

Okay. And one technical question, just on cash flows I mean is there anything that we should be aware of because your operating cash flows in the second quarter are actually negative. So I know there's some seasonality in dollar but surely there shouldn't be negative free cash operating cash flows during a quarter especially given your profit growth was so strong?

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

Okay, I mean on – let me look at the cash flow.

Sridhar Nishtala, T. Rowe Price:

Yeah so your December quarter operating cash flow was Php 1.69 billion and your operating cash flow for year-to-date March was Php 1.57 billion, so obviously there's a -0.12. It's like a small number but it nevertheless is a negative number. So I'm sort of thinking with operating profit growth of 50% why should operating cash flow be negative, unless there's some adjustments we're not aware of.

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

Well, we've paid down some trust receipts. As you know we briefed everyone that we paid down some of the trust receipts.

Sridhar Nishtala, T. Rowe Price:

So that's above the operating –

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

Let me see.

Sridhar Nishtala, T. Rowe Price:

Yes, you're right.

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

It's just the trust receipts, where we briefed everyone that we zero out, right.

Sridhar Nishtala, T. Rowe Price:

Okay so that's clear, okay that's fine, that's fine. That's okay.

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

So our own working capital days where we're practically almost – I mean on receivables were 30-35 days. On payables, were around 45. On inventories it can range but it's weighted around 63 days. So we are very mindful about working capital management so there should be no significant changes in those.

Sridhar Nishtala, T. Rowe Price:

Okay. Then that's clear I mean so you're right. Actually it's just the trust receipts which are a big positive last year and it's a big negative this year, that's fine, that's okay. Thank you much.

Ong Kong Wee, Albizia Capital:

Hi, regarding the branded foods sales growth in Philippines, how much of it is from volume growth and is there any increase in prices?

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

Okay – volume is 17%. The balance is pricing and mix, around 4%-5% is pricing and mix.

Ong Kong Wee, Albizia Capital:

Okay. And is that mostly from gain in market share or from just industry growth?

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

Well we're actually gaining markets shares specifically on coffee and ready-to-drink tea. Actually we are outpacing the industry growth – I mean on ready-to-drink tea we're basically the category. I mean we have almost 80% market share and if you look at our ready-to-drink tea sales growth year-to-date, it's around 24%. On coffee, our white coffee mix product continues gain traction and we are outpacing industry growth so we are really gaining market shares to the detriment of Nestlé's Nescafe.

Ong Kong Wee, Albizia Capital:

Okay, are there any segments that are losing market share that we should be concerned about?

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

Well you know where we are market leaders like candies, chips and chocolates depending on the read-out etc., sometimes you can lose just 1% this reading then you gain it back next reading. It's just that, I mean there's really nothing worrying about it at this point.

Ong Kong Wee, Albizia Capital:

Okay, thank you. You also mentioned that you've been spending more on A&P this year. Could you break that down into A&P spending as a percentage of sales for the Philippines and for the international markets?

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

Well I think for the Philippine business, it will be between, 5.5%-6% of sales. For the International Business, it will be around 8%-8.5% of sales.

Ong Kong Wee, Albizia Capital:

And how much of that was for last year?

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

Well, last year for the Philippines it was around 5%-5.5% I think. We deliberately saved down and clamped down on some A&P spending last year on the Branded Foods Philippines Business. On the International, as you know, we are ploughing back a lot of money into trade promotions in Thailand and we are trying to sustain both the new brands in Indonesia and we are building distribution capability as well.

Ong Kong Wee, Albizia Capital:

Okay, regarding Indonesia you mentioned that salty snacks, your ready-to-drink tea and chocolates are doing quite well. Is there any sense of what kind of market share do you have in Indonesia?

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

Well, we are not subscribed to the retail measurements, but to give you a perspective on snacks, the market leader is Indofood, they have a joint venture with PepsiCo's Frito Lay. They sell around $8 million a month worth of chips. Next to them are three or four companies selling around $2 million a month, so our intention is to sell $3 million a month of chips. That will actually catapult us to either number two or number three. It's still far from the level of Indofood but it's a formula for scaling up. The majority of the sales are coming from snacks. We haven't subscribed to any retail measurement at this point.

Taibah AlQatami, Asiya Investments:

Hello again. Okay so my first question goes to the Philippine Business. How sustainable do you think the growth will be and what would be the driver?

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

For the full year I think we'll try to hit a 19%-20% sales value growth. For the next years, I mean one or two years we will try to hit a low to mid-teens growth. If you want me to bridge it, say 6% is in line with say GDP, around 3%-4% is new product introduction then the balance is pricing and mix. So that is our intention and if you ask me how we are going to do it, I think our renewed focus on product innovation will really be the key avenue for growing the business and any increase in consumption will just be an upside. As you know, the Philippine government has been doing a lot of growth initiatives say on public private partnerships etc. and if these projects are actually started that will be just be an upside for the company.

At this point in time the way we view it is that we are still operating on a base case because we're not seeing all of the categories growing all at the same time but if you analyze the business as well, since we are a multi-category company the slack of one category, if one category underperforms this year another performs very well so we are able to balance the growth. The other thing is that on snackfoods we are participating in the snacking occasion of the target market. If the kid wants potato chips we have it, if they want candies we have it, if they want chocolates we have it, if they want biscuits we have it. So we capture the total occasions so I think that is working very well for the company because if I think about it, if we are just a confectionery company we're already dead given that the market are flattish to declining.

Taibah AlQatami, Asiya Investments:

Okay, and just going on the Thailand business. I mean I know that the weakness has been going in the past few quarters, but what's driving the volume decline?

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

In?

Taibah AlQatami, Asiya Investments:

In Thailand.

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

Well, what happened in Thailand is that the consumption for impulse products has actually really declined. This started during the flooding and the period January to July last year, the decline was most evident. I mean if you look at Thailand, a lot of Thais lost their jobs during the flooding. A lot of factories also temporarily just shut down. They were flooded so they lost jobs. They started saving on impulse products; I mean they won't eat biscuits, they will buy their staples first.

So it's good that we have maintained our market leadership and our market shares and slowly we are seeing a recovery already, but it is slower than expected because outside Bangkok like in a country Thailand where there's a lot of poorer Thais, if I may call it that, they are still constrained when it comes to you know purchasing impulse products like biscuits and wafers. The other thing is that in Thailand we are also not exactly a value player meaning we are selling products at 5 baht price points. We are not selling 1 baht products and if consumers are actually constrained and they want to eat products like biscuits or wafers, they would go for the cheaper alternatives not really you know the mid-market price point products.

So that's what happened there. So I think as the market leader it is our responsibility to buoy up the market again, because in the case of declining consumption the market leader suffers the brunt. So as we buoy up the market we believe that we will also get the most benefit. And we are expected to really invest heavily, especially on A&P, I mean compared to a Thai President which has half of our market shares, we are expected of course to be spending more relative to them.

Taibah AlQatami, Asiya Investments:

And I just have two more questions I guess. One would be on your distribution in Indonesia. I noticed just by visiting a few retail stores that your products are positioned very closely located next to Indofood products and they're mostly in retail channels that are more premium versus other, let's say, convenience stores and I guess other channels that are not as premium. Yet the pricing is similar but then the volume is higher on your end. So has that been successful for you?

And are you trying to look at distributing your products in other segments other than the supermarkets that are on the premium side?

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

Well we're not just distributed on the premium section of the supermarkets. We are in convenience stores like Alfa Mart in Indonesia. If you look at Alfa Mart, it's between really a modern convenience store like a 7-Eleven with a lot of range and a mom and pop store. It's basically a modernized mom and pop store and we have slowly introduced our products there as well. I mean so we are trying to focus on these key accounts because we believe that they are becoming a significant portion of the retail trade. That's why, as we launch new products, we are also spending on listing fees and trade promotion support for the modern retail.

So the way we merchandise it of course for chips since Indofood is the market leader we really have to you know on the shelves we have to get, even though we're still smaller, our sales are like a third of their sales. We need to merchandise our products closer to them so that we are visible and we are available in the channel of choice of the customers.

Taibah AlQatami, Asiya Investments:

Okay and then just on the CAPEX, you mentioned $120 million for the year. How much of that for your branded products?

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

The formula is this way, the last three fiscal years, we've been spending $100 million. It's just $120 this fiscal year because we spent around $17-$18 million to acquire a sugar mill named Tolong. So say it's a $100 million, 85% is from the Branded Foods Business. Then the balance 15% is mostly spent on our Commodity Foods Business mainly Sugar for the maintenance and upkeep of the sugar mills. As you know, after the milling season we have to really repair the mills to get them into tip-top condition again in preparation for the next milling season. So the way we allocate capital as a company is towards really our core, which is Branded Foods and I think that the formula will continue to be that way. On the other businesses, any CAPEX that we invest will just be opportunistic.

Taibah AlQatami, Asiya Investments:

Okay and then my last question is on the debts that you've paid off. So basically the bond portfolio was valued at Php 15 billion. How much of that did you pay for debt?

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

The proceeds when we liquidated the portfolio is around $370 million. We retired one long term debt, a Php 3 billion debt with a coupon of 8.75%, that is around say $76-$77 million. Then we also paid down some trust receipts and import bills amounting $101 million, so that's $177 already.

Then we paid some short term loans amounting to $131 million. Then the balance of around say $56 million, part of that we used for dividends to fund the dividend that we've paid. I think out of the total proceeds if you look at it we only have a balance of around $15-$16 million left in cash.

Taibah AlQatami, Asiya Investments:

Okay, so then what would explain the reduction in cash if you used most of the proceeds from the investments to pay the debt, why has cash gone down?

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

It hasn't gone done. We have as of March 31, we have around Php 10 billion in cash at the end of the period. It hasn't gone down. The Php 10 billion you less around Php 4 billion to fund the dividend, because we're funding the dividend basically from the cash that we have and partly from the balance of the proceeds after paying off the debts, both short term and long term, right. So I think as of March 31, we have Php 10 billion back of in cash less around Php 5 billion so we have a balance of Php 5 billion, right? Then major CAPEX – we'll spend another Php 2 billion more; so 5 minus 2 is 3. We'll generate EBITDA around Php 6.5 billion so that's Php 9.5 billion. I think that's our ending cash balance at the end of the year.

Taibah AlQatami, Asiya Investments:

Okay, you mention in your guidance that short term debt, you're going to pay off some more. How much more do you expect to pay off?

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

What I'm saying is that the $101 million that we're paying, we still have a balance of around $36 million to pay and we expect to finish this in the third quarter.

Pauline Lee, Standard Chartered:

Hello. My question is regarding the growth of the Thailand and Vietnam markets. How do we look at the growth? For Philippines you intend to grow sales by high-teens. Do you expect growth from these international markets to be stronger?

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

I will give the growth to you in dollar terms. We expect Vietnam to grow by around 16%-17% for the full year 2013. Thailand, we expect a mid to high single digit growth rate in dollar terms for the full year. I think, just to give you a number, if we finish fiscal year 2012 with $471 million in sales for the total International Business, we're trying to guide between $520-$530 million dollars for 2013. That will be a growth of around 10%.

Pauline Lee, Standard Chartered:

I see, okay. I would also like to double check your growth in Indonesia during the quarter is up 40% right, 4-0?

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

Yeah, yeah, it's closer to that yes.

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

Okay if there are no more questions we would like to thank everyone for participating in today's call. You will hear from us again sometime around August 15 for the nine months earnings call. Thank you very much.

Speaker:

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

END OF TRANSCRIPT