EDITED TRANSCRIPT
UNIVERSAL ROBINA CORPORATION (URC) Q1 FY15 UNAUDITED RESULTS
EARNINGS CALL

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PRESENTATION:

Speaker:

Thank you for standing by, ladies and gentlemen, and welcome to 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. At the end of the presentation, there will be a question-and-answer session. I would now like to hand over to Mr. Lance Gokongwei. Go ahead, please.

Lance Gokongwei:

Thank you. Good morning to everyone. URC started the fiscal year 2015 by sustaining growth momentum with sales of Php 27 billion, up 19 percent versus the same period last year. The growth for the quarter was driven by our Branded Foods and Sugar divisions, which grew 20 percent and 29 percent respectively versus the same period last year.

In terms of profitability, Q1 gross profit and EBIT grew faster than sales at 31 percent and 32 percent respectively. Margins expanded by 171 basis points versus the same period last year to 16.4 percent. Branded Foods group Philippines contributed significantly to the increased level of operating income as manageable input prices and additional scale led to healthier margins.

Q1 core earnings before tax ended at Php 4.1 billion, up 21 percent versus same period last year. The company registered a net finance cost of Php 171 million in Q1 of this year versus net finance revenue of Php 36 million prior year as we have financed the acquisition of Griffin's New Zealand via a New Zealand five-year term loan with a 5.3 percent interest rate. The company also invested more money into the new joint ventures for Danone and Calbee, as well as incurred one-time expenses related to the acquisition of Griffin's.

Our net income for the first quarter was at Php 3.3 billion, which was 13 percent higher than the same period last year. Net income grew slower than EBIT and core earnings as we booked unrealized foreign exchange losses due to the appreciation of the Philippine peso and from the relative weakness of the Indonesian rupiah, Vietnamese dong, and Australian dollar.

Let me now discuss with you the sales and EBIT performance per division. Branded Consumer sales for the first quarter of fiscal year 2015 was at Php 22.7 billion, a growth of 20 percent versus the same period last year. The Philippines business continued to perform well with a 17 percent growth to Php 15.1 billion; while international sales grew by 27 percent to Php 7.5 billion. This reflected the consolidation of Griffin's financials which started last November 16.

Philippine growth mainly came from good volumes coming from coffee, salty snacks, instant noodles, and better pricing and mix while international sales growth came primarily from accelerating sales in Thailand and Indonesia.

Branded Foods EBIT grew faster than sales registering Php 3.6 billion for the quarter, an increase of 38 percent versus the same period last year. Prices for some key inputs related to oil such as palm oil, creamer, and PET have continued to go down while other top inputs such as sugar and coffee remain a little bit elevated versus the average for the fiscal year 2014. Branded Food’s EBIT margin expanded by 203 basis points versus the same period last year.

For Non-Branded business, sales were up 11 percent to Php 4.3 billion, driven by both our commodity and agro-industrial businesses. EBIT was up 18 percent, as EBIT for AIG includes a higher revaluation gain for the hogs and higher EBIT from the flour business due to lower wheat input cost.

For our Commodity Foods Group, first quarter sales ended at Php 2 billion, up by 11 percent due to higher sales volumes for the sugar businesses despite lower average selling price versus prior year. Flour registered Php 1.1 billion in sales for the first quarter, up 1 percent versus same period last year due to higher sales volumes.

For the Agro-Industrial Group, net sales for the first quarter was Php 2.3 billion, with an increase of 10 percent driven by the volume increase in the feeds business. The farms business was flattish. EBIT grew by 96 percent as this includes a Php 96 million revaluation gain from our biological assets, primarily from hogs.

Despite the higher base, sales of Branded Foods Philippines remained buoyant in the first quarter of the fiscal year on the back of strong sales coming from powdered beverage, snack foods, and noodles.

Beverage was the primary mover as it registered a Q1 growth of 26 percent versus same period last year on the back of the strong growth of our powdered beverage business, which was primarily driven by coffee, while capacity constraints affected ready to drink beverage performance. We expect to commission new PET lines to augment the capacities in the coming months. We continue to gain market share on coffee mixes with the latest exit reading from Nielsen indicating an approximately 30 percent value market share.

The snack foods leg grew 8 percent versus same period last year with some softness in confectionary, mainly sugar confectionary, as we encountered some production issues in Q1. Salty snacks led double digit growth on the back of sustained sales of our top chips brands in potato crisp and multigrain, and new products such as our successful Mang Juan Chicken Skin and our Pic-A buddy packs gained consumer acceptance.

The bakery business for both cakes and biscuits grew slightly, while confectionary sales were quite flat with sugar confectionary below last year and chocolate showing some growth. We launched a total of 13 new products in Q1 of fiscal year 2015, and this now reflects about 1 percent of total turnover.

Let me now give you updates on our two new joint ventures in the Philippines. We are happy to announce that we have officially introduced our Danone URC beverage product under the brand name B'lue last January 20. This product is a water-based beverage with three variants -- calamansi, lychee, and orange. It is primarily targeted towards millennials with a unique selling proposition centered on an individual who wants to enhance his personal best anytime and anywhere.

We are now in the process of pipelining into the trade with a primary focus on convenience stores. We plan to execute brand activations and integrated marketing communication activities in the second quarter.

For our joint venture with Calbee, we have already finished installations and the commissioning run for the facility. Our target is to pipeline the product by the middle of February with the grand launch scheduled in mid-March.

For Branded Foods International, Thailand and Indonesia drove top line growth, while Vietnam is still growing at mid single digits in a relatively weak FMCG market. Thailand was up double digits versus last year with main categories such as biscuits and wafers both growing in the teen's level. Despite a relatively weak macro environment and consumer sentiment, our business posted growth backed by our core brands; Fun-O, Cream-O, Dewberry, and Tivoli, and new products launched.

The continuation of our promotional activities in key customers, such as 7-Eleven, has also been quite successful. We have begun addressing issues related to our sales and trade marketing efforts, and we believe that better account management and trade marketing execution has begun to bear fruit.

Indonesian sales were up significantly versus the same period last year on the back of strong sales of our Piattos potato crisp and our Cloud 9 chocolates, along with our successful new product launches for Chiz King. We are also continuously improving the distribution levels of these products for both mini-marts and traditional retail.

Vietnam has shown nascent signs of recovery and it has ended the first quarter with mid single digit growth in U.S. dollar terms. Ready-to-drink beverage is now up versus the same period last year despite a category slump of negative 1.4 percent. The snackfood categories are still down versus last year, which are representative of a market decline of 11 percent as indicated by Nielsen.

Malaysia and Singapore were down significantly against prior year as we continue efforts towards the rationalization of the product portfolio in order to give more attention to performing and high potential products similar to what we have done in Indonesia.

We have started to consolidate Griffin's results into URC starting November 16. Looking into this performance, the New Zealand business has managed to grow slightly, while exports to Australia declined, primarily due to a reduction in private label sales to key retailers.

We also have some updates for our ancillary businesses under the sugar division of our Non-Branded Foods group. The URC bioethanol plant was officially commissioned and inaugurated last November. We started commercial sales for Flying V, the Philippines' largest independent fuel company with fuel grade anhydrous ethanol suitable for gasoline blending with the first official sale recorded this January. We have likewise entered into supply agreements with other fuel companies such as Phoenix Petroleum, Chevron, and Sea Oil.

For the biomass plant, we have started exporting the additional capacity of phase I of the plant to the grid last December 18, and we are waiting for final approval for some regulatory and compliance requirements to achieve the feed-in tariff sometime within April to June of this year.

For our balance sheet, we are now in a net debt position of Php 17.4 billion versus a net cash position of Php 1.8 billion as of the end of 2014. The balance sheet contains the debt amounting to NZD 742 million, which was used to finance the acquisition of Griffin's. As a result, our gearing ratio is now at 0.51 with a net debt to EBITDA of about 0.8.

Major cash inflows were Php 3.4 billion from operations. On the other hand, major cash outflows were at Php 1.5 billion in Capex investments. Majority of which went to our branded businesses as we invested in new lines in the Philippines including wafers, additional chocolate confectionary, as well as coffee packaging machines.

We likewise expanded our international investments, particularly for new snacks lines in Indonesia and additional wafer lines in Thailand. EBITDA generated for Q1 2015 was at Php 5.6 billion, a 31 percent increase over the same period of last year.

Let me now take you to our plans and guidance for the balance of the fiscal year. For 2015 guidance, we maintain our initial guidance of mid 20s growth for sales and absolute EBIT of around Php 17.5 billion. The plan and outlook for the remaining months of the fiscal year are as follows -- we expect total branded foods to register above 20 percent growth for sales and EBIT, and maintain record EBIT margins, which we hit last year. We expect to realize gross margin expansion as we benefit from lower, soft commodity prices specifically in palm oil and creamer, plus PET resin for packaging, as well as generating some savings on freight related expenses.

We, however, intend to plow back additional money into future growth through brand building investments, particularly for the coffee business, which is facing more intense competition, as well as additional operating costs as we roll out new facilities and absorb higher selling and G&A expenses.

We will begin commissioning our central Vietnam and Myanmar facilities in the second half of the fiscal year. For Central Vietnam, we will have beverage lines and additional PET beverage lines, which will give us efficiencies in freight and handling in the central part of Vietnam.

We are installing additional capacities in the ASEAN to include PET beverages and snack food lines as well as deploying NZD 23 million to add bar line capacity of around 80 percent by September in New Zealand as we expect to grow sales with the re-launch of the Nice & Natural wrapped snacks product.

We are likewise kicking off a project that will focus on a deeper view of URC's portfolio and rationalize our branding strategies across the markets we cover, with the main focus on our five key brands of Great Taste, Jack 'n Jill, C2, Griffin's, and Nice & Natural. This brand review includes Griffin's to ensure that we will successfully introduce the brand into the ASEAN and China sometime in 2016.

We are also continuing to look for synergies and alignments in quick win areas like procurement for economic sourcing of inputs, and leveraging URC size and scale to manage better pricing from market suppliers. On the operations and manufacturing side, we have implemented a more cohesive approach on how we deploy Capex growth, taking into consideration the benefits of a single ASEAN market with zero tariffs to ensure that our unit costs remain competitive.

The other businesses, particularly in commodities and agro-industrial, will remain profitable in 2015. We expect sugar and flour to broadly register the same level of absolute EBIT while AIG continues to generate positive income relative to 2014.

Finally, we are pleased to announce that effective today; the board of URC has declared a dividend, a cash dividend of Php 1.50 for regular dividend and Php 1.50 as a special dividend with a record date of February 26 and a payment date of March 24. The aggregate Php 3 dividend is flat relative to last year and will enable URC to maintain its strong balance sheet while sustaining the additional debt arising from the Griffin's acquisition while continuing to fund its expansion plans.

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

QUESTION AND ANSWER

Speaker:

Thank you. Ladies and gentlemen, welcome to the question-and-answer session. To ask a question, please press star followed by one on your telephone keypad and wait for your name to be announced.
If you wish to cancel your question, press the hash key. Your first question comes from the line of Karim Salamatian from Credit Suisse. Go ahead, please.

Karim Salamatian, Credit Suisse:

Hi, good morning, everybody. Thank you for doing the call. I have a couple of questions. First, on the whole issue of enhancing the supply chain and looking for where your marginal costs could be lowest, et cetera, on the branded business, can you give us a little bit more detail on that? Maybe you could share information like order of magnitude or what you would expect this might do to your business on an annual basis?

Lance Gokongwei, President and CEO, URC:

OK. Broadly speaking, if you look at our total branded food turnover outside of Griffin's, you're looking at a magnitude of about USD 1.9 billion to USD 2 billion. At this point, we can say that approximately 5 to 6 percent of that is sourced from the ASEAN markets into the Philippines, primarily representing coffee. There is some inter-company trade, primarily related to confectionary out of Thailand, and biscuits and wafer out of Thailand going into our smaller markets such as Malaysia, Singapore, and Hong Kong.

We are seeing broader opportunities to do that as we are constantly seeking to increase our capacity utilization and identifying low-cost production areas. We are seeing Vietnam as a very suitable place to manufacture coffee and beverage products, mostly due to relatively low input prices there and availability of coffee and sugar raw materials.

To be concrete, we are short of the C2 Solo SKU in the Philippines. By June, we expect that about a third or a fourth of the C2 Solo product will be sourced from Vietnam.

In addition, a little bit more than 40 percent to 50 percent of our coffee and creamer is sourced from Vietnam and China. We are currently expanding our Vietnam coffee and creamer facility to support further increases in coffee sales.

Additionally, from a Griffin's perspective, we are seeing some opportunities towards the end of the year to produce some of the lower end SKUs of Griffin's biscuits in our Thailand facility. All in all, we are trying to make our assets sweat harder in trying to achieve better margins overall.

Karim Salamatian, Credit Suisse:
So, essentially, what you're saying is there's about USD 120 million worth of sales that you can get a better margin on by enhancing the supply chain.

Lance Gokongwei, President and CEO, URC:
Sorry, Karim, that is currently what we have. A little bit over USD 100 million of our sales is sourced outside of our home country.

Karim Salamatian, Credit Suisse:
I guess the low-hanging fruit is to enhance that USD 100 million worth of sales to get a higher margin. So if you produced coffee in Vietnam and sell it across the region or sell it into the Philippines rather than producing in Philippines, what do you think the margin enhancement would be?

Lance Gokongwei, President and CEO, URC:
The low-hanging fruit is bringing that USD 100 million up to USD 200 million or more. For coffee, I'll have to get back to you on the exact number. I don't have it currently.

Karim Salamatian, Credit Suisse:

OK. On Griffin's, I guess you've owned it for almost three months. You just mentioned that some of the lower ASP products will be produced in places like Thailand. What else have you started to do there in the first three months of owning it?

Lance Gokongwei, President and CEO, URC:
I think the most important thing we did was to identify key management in Griffin's and work out arrangements with them so that we're aligned in terms of building a three-year business plan for Griffin's. The primary focus of which would be investing a little more in marketing and trying to accelerate revenue growth in Philippines as well as focusing more on building a branded business on the wrapped bar side in Australia to reduce reliance on some of the private label sales into Australia, especially with the weakness of the AUD.

The second primary focus is directed towards building a suitable portfolio for Griffin's into the ASEAN with an initial focus on the Thailand, Malaysia, and Philippine markets; targeted more to the premium side. The portfolio is going to be more on the wrapped bar and chocolate biscuit side.

The third grouping is focused on working off synergies, at least on the cost side at the Griffin's level, such as taking advantage of the larger scale of URC. Part of it is replacing some of the SKUs that Griffin's sources from other vendors outside of New Zealand and replacing that with URC-sourced product.

So those are the three major work buckets we are working on.

Karim Salamatian, Credit Suisse:
Is there any disruption in the business that we should be aware of in the first, whether it's three or six or even 12 months of owning it, whether it's from changes in the management structure or changes in the product portfolio, and manufacturing and what-not?

Lance Gokongwei, President and CEO, URC:
The one thing that we're looking at is that there's been a very strong currency weakness of the AUD versus the NZD in the last two to three months. I would say that’s the single largest surprise that we've encountered.

Karim Salamatian, Credit Suisse:
Remind me, what are the Aussie sales as a percentage of its total or absolute dollar?

Lance Gokongwei, President and CEO, URC:

There are two effects; one is the NZD and AUD weakening against the USD. Second, it's really the NZD dollar strengthening against the AUD. On an annual basis, net is about 40million to 50 million AUD.

Karim Salamatian, Credit Suisse:

Before I give some other people a chance to ask questions, your market shares in biscuits and wafers in Thailand and ready-to-drink tea in Vietnam are flat versus a year ago. Now I understand that the growth in these segments and the overall consumption environment in those markets have been volatile and weak, but I think you've been spending more money on advertising in those markets and investing behind those brands so why is market share flat? What do you think it will take to get market share in Thailand and Vietnam to rise?

Lance Gokongwei, President and CEO, URC:

We have to trust the Nielsen numbers at this point but I have a feeling that the biscuit and wafer numbers in Thailand probably underestimate our growth because our business there seems to be performing quite well, growing generally in the mid to high teens for biscuits and wafers.

For ready-to-drink tea, it's been a battle between us, the second player, THP, and Pepsi Suntory launching their Oolong Tea. The work there has been focused on trying to maintain the leadership of our brand against some very strong spend arising from Pepsi. By and large, Pepsi has gained maybe 8 percent to 9 percent share. We have lost some market share but the majority of Pepsi's shares came from other players.

On the other side of the coin, we have been quite successful in building an energy drink business in Vietnam. According to Nielsen, it's now up to approximately 4 percent of the Vietnamese market. It is becoming a significant business for URC.

Karim Salamatian, Credit Suisse:

OK. With the AC Nielsen numbers aside, is it fair to say that you're going to continue to spend more money on marketing in these countries?

Lance Gokongwei, President and CEO, URC:

I think it's fair to say that. In Vietnam, aggressive players dictate that we continue to defend and try to grow our bands. In Thailand, the marketing spending seems to be coming back to us in terms of additional sales growth. We are likewise increasing our investment in Indonesia as the increased spend we are putting behind Piattos and the launch of Chiz King seems to be coming back to us in terms of sales growth.

A couple of last things we want to point out: as a whole the coffee market in Philippines is getting more intense with the three major players --- Mayora, Nestle and ourselves all having to spend very heavily. The spending is not only on advertising but also on below the line activities to defend our shelf space, especially in the very active 3-in-1 market. Griffin's is also spending more money with the launch of our renewed Nice & Natural wrapped bar range in Australia.

Karim Salamatian, Credit Suisse:
OK, terrific. Thank you. It was nice to finally see that special dividend come through.

Lance Gokongwei, President and CEO, URC:
Thank you.

Karim Salamatian, Credit Suisse:
All right, I'll turn it over to somebody else. Thanks. Bye.

Speaker:
Thank you. Your next question comes from the line of Kong Wee Ong from Albizia Capital. Go ahead please.

Kong Wee Ong, Albizia Capital:
Thank you very much for hosting the call. What would EBIT margins have been if we stripped out the Griffin's operation year-on-year?

Lance Gokongwei, President and CEO, URC:
For the first quarter, we only have 45 days of Griffin's, so I don't think this is reflective of the entire year. The Griffin's margins for the first 45 days, which were related to some closing cost, were lower than the average of the entire Branded Foods business.

Kong Wee Ong, Albizia Capital:
OK. Can you remind me on the funding cost for Griffin's? How much is fixed and how much is floating?

Lance Gokongwei, President and CEO, URC:
It is all floating right now. We are paying about 5.25 percent floating, but we paid about a 1.75 percent arrangement fee, which will translate to about 35 basis points additionally on the average life of the loan. You should probably look at it at 5.6 percent.

Kong Wee Ong, Albizia Capital:

OK. How much of this in Kiwi and how much is in peso?

Lance Gokongwei, President and CEO, URC:
It's all Kiwi.

Justin Seow, Ablizia Capital:
Hi, Lance. It's Justin.

Lance Gokongwei, President and CEO, URC:
Hi, Justin.

Justin Seow, Ablizia Capital:
Hi, how are you? On the joint ventures, how quickly do you think they will scale up? We're already seeing some losses coming through. I just wanted to get a sense of how long you would expect losses to continue before it starts to turn into a breakeven or a profitable situation?

Lance Gokongwei, President and CEO, URC:
I think there are two business models here for both Calbee and Danone. URC serves as a distributor/manufacturer and then we also have the joint venture operation which owns the brand and marketing. As a distributor, we are basically not making a significant amount of money but it just helps us cover our overhead as we distribute over a larger base.

On some of the manufacturing here, again, it's a cost recovery but we do charge a capacity charge for the assets that we use to manufacture the products. That will recover at least our cost of capital plus the depreciation of these products. From a joint venture perspective, we expect losses between FY2015 and FY2017 for both joint ventures, and probably achieve profitability by FY2018.

If you look at the joint venture loss for Q1, which is Php 35 million, I don't think that is reflective of the year. There was a significant charge related to some reimbursements of some of the market research, A&P preparation costs, and JV preparation cost that Danone undertook on behalf of the joint venture reflected in that Q1 number.

Justin Seow, Ablizia Capital:
OK. Maybe you could elaborate on the foreign exchange losses. The PHP has been pretty stable against the USD and against the other currencies. What are your assumptions for FY 2015?

Lance Gokongwei, President and CEO, URC:

The big loss there primarily arose from the weakness of the IDR and the VND dong versus the PHP. It is also reflective of the AUD receivables that we have at Griffin's and its relative weakness against the USD.

Generally, if you see a strong peso relative to other currencies that we operate in, you will see a forex loss for the company.

Justin Seow, Ablizia Capital:
Maybe you could elaborate a little bit about Indonesia. It seems to be turning the corner. Are they still supposed to sustain losses, or is there hope that it will finally come right for you?

Lance Gokongwei, President and CEO, URC:
We're quite excited about what's going on in Indonesia now. We introduced a cluster strategy into Indonesia, Malaysia, and Singapore with a new leadership team that basically diagnosed our problem in Indonesia as trying to do too many things at the same time with a small organization. We, thus, chose to exit the ready-to-drink beverage business where we were generating about 20 percent of our sales but losing money on each case of product we sold. We directed all the efforts towards the remaining snack and chocolate confectionary business.

That business has done extremely well. We're seeing 25-30 percent volume growth from the remaining businesses. In the current year, we've launched a second new product in the snack side in Indonesia called Chiz King, which is an extruded cheese product which seems to be pipelining very well.

Despite the increased spending; we're seeing healthy revenue growth in the mid 20s. As the quarters proceed, you'll see diminished contribution from beverage and you're going to see accelerating sales growth out of Indonesia in the next three quarters.

We are spending a lot of money behind our brands, but because of the revenue growth, we're seeing significantly diminished EBIT and EBITDA losses. From an original plan of two years away, there's a chance we will be EBITDA positive by the end of the year.

Justin Seow, Ablizia Capital:
OK.

Lance Gokongwei, President and CEO, URC:
Yes. So we're quite excited by what's going on in Indonesia. Mind you, though, it is still a small business.

Justin Seow, Ablizia Capital:

OK, great. Thanks very much.

Speaker:

Thank you. Your next question comes from the line of Bobby Jayaraman from Frunze Investments. Go ahead, please.

Bobby Jayaraman, Frunze Investments:

Hello. Thanks for the call. A couple of questions; the first one is what's the sustainable growth rate for the Philippines Branded Foods given that it's scaled up quite well?

Lance Gokongwei, President and CEO, URC:

I guess the background for that, Bobby is we've grown compounded in the low 20s in the last three years. We're working off a base which is almost 80 or 90 percent higher than three years ago. A lot of this was driven by coffee, by our success in the 3-in-1 coffee side, and the recovery of growth in our snacks business.

We think that the period for market share growth in coffee is probably ending. We're seeing a lot more increased competition in coffee. We do still see the category continuing to grow quite robustly in the low teen's rate. We are hopeful that we will continue to grow double digit in coffee as we continue to do so in Q1.

With the increase in spending in consumption in the Philippines, we're seeing that our snack business is growing in the high single digits to low double digits rate. We're seeing some increased interest in our grocery business, particularly in cup noodles. To make the long story short, we are expecting at least a continuation of growth in the mid to high teens rate at least for this year.

Bobby Jayaraman, Frunze Investments:

That's at an EBIT level, or you're talking about sales?

Lance Gokongwei, President and CEO, URC:

We're talking about sales, and we expect EBIT to grow a little bit faster than that.

Bobby Jayaraman, Frunze Investments:

OK. Thanks. The second one is on your Griffin's business; I didn't quite get your last answer so at the Php 4.4 billion EBIT, what was the contribution of Griffin's?

Lance Gokongwei, President and CEO, URC:

The Griffin's number for the first quarter was less than Php 100 million.

Bobby Jayaraman, Frunze Investments:

That was virtually negligible?

Lance Gokongwei, President and CEO, URC:

Yes.

Bobby Jayaraman, Frunze Investments:

Yes. OK. On Griffin's, what's your strategy when you plan to introduce it to other ASEAN countries? There's a lot of U.S. and European MNCs already present there, so what's the edge that Griffin has? Is it going to be price, taste, or how are you going to get your market share there?

Lance Gokongwei, President and CEO, URC:

It's really the heritage of the 150 old New Zealand brand with all the pluses that come from New Zealand, including quality and food safety. Of course, taste is also paramount. Griffin's is quite a broad portfolio. The objective of the next six to nine months is to identify what three or four winners will make sense for us to export from New Zealand into our other markets in the ASEAN, where we clearly see that the market for more lifestyle product is growing. That requires a lot of review and that requires some changes as well in some of the packaging formats in order to be successful in ASEAN, where primarily single-serve as opposed to large multi-packs are more popular.

Bobby Jayaraman, Frunze Investments:

Before your acquisition, was Griffin's selling in ASEAN at all?

Lance Gokongwei, President and CEO, URC:

The total business in the ASEAN is less than a million NZD.

Bobby Jayaraman, Frunze Investments:

So you'll have to establish the whole brand again. This will translate to a lot of marketing branding expenses?

Lance Gokongwei, President and CEO, URC:

I don't think it's really above the line marketing; it's really a lot of activation and in-store activity in selected modern trade outlets.

Bobby Jayaraman, Frunze Investments:

Do you plan to price it at a premium to your URC products? How do you plan to position it?

Lance Gokongwei, President and CEO, URC:

We are still in the process of finalizing the plan, which will take six to nine months, as I said. But definitely, just on a cost basis, they will certainly be priced more expensively than the URC products. I think they'll be very competitive with other multi-national products that are sourced from outside the ASEAN.

Bobby Jayaraman, Frunze Investments:

Finally, what's the return on investment you're looking at on a stabilized basis?

Lance Gokongwei, President and CEO, URC:

I think there are a lot of assumptions in there. I can't really give you a quick answer to that. Definitely, though, if we fund the whole thing on an all debt basis, then our EBIT should cover the interest probably by this year. Hopefully we'll make more money in the coming years as the synergies begin to appear.

Bobby Jayaraman, Frunze Investments:

Just a final question on Vietnam, you mentioned the FMCG market is slowing. Is that for all brands, or are you in particular facing difficulties because of competition?

Lance Gokongwei, President and CEO, URC:

I think it's just the categories that we subscribe to in Nielsen. We saw a slowdown in Vietnam last year, particularly in the tea business, which is our most important leg there. There was a lot of competition from Pepsi, from Masan, and from Vinamilk all going into the tea business last year; the most aggressive being Pepsi. By and large, we're still able to grow our tea business albeit in low single digits. Relative to the market, our market share loss was relatively negligible. We were able to keep our leadership position in Vietnam.

From all indications, at least from what we're hearing on the ground, the market seems to have adjusted to the high inflation of previous years and consumer spending is beginning to come back in Vietnam. We are hopeful that the coming quarters will be a little bit better than last year. At any rate, Vietnam is the biggest beneficiary among our group in terms of lower oil prices because of its large PET consumption.

Bobby Jayaraman, Frunze Investments:

OK. Thanks very much. That's all for me.

Speaker:

Thank you. Your next question comes from the line of Shridhar Nishtala from T. Rowe Price. Go ahead please.

Shridhar Nishtala, T. Rowe Price:

Hi, Lance, Mike. Thank you very much for the presentation. Let me just get back on the coffee market in the Philippines. That's obviously been a big driver for the Philippines consumer business. I'm a bit curious, your market shares seem to be flattish on a quarter-to-quarter basis, but your revenue growth which you mentioned on slide 26, seems higher than what you mentioned was for the market. Is there something going on there? Is it the data which is wrong or are your growth rates converging to the market?

Michael Liwanag, Vice President, URC:

No, Shridhar, because the market shares presented there are on a 12 month average. If you look at the latest exit reading as of November 2014, on coffee mixes, we are now at 30.2 percent.

Lance Gokongwei, President and CEO, URC:

I guess the right number to look at it is against what the November number was last year. That's why there is still growth. On a quarter to quarter basis, the growth rate has probably slowed down to something more similar to the market.

Shridhar Nishtala, T. Rowe Price:

OK. You mentioned a much more competitive activity in there? What sort of competition is taking place? Is it lower prices, is it more brand building exercises? What exactly are you seeing on the ground from both Mayora as well as with from Nestle?

Lance Gokongwei, President and CEO, URC:

There's a definite increase in competitive intensity directly targeting our Great Taste White products. We're seeing Nestle putting a lot of money behind their Nescafe Creamy White product, and Mayora with their Café Blanca product. We've been forced to respond with increased advertising spend and a lot of spending on the trade in terms of protecting our shelves.

We've also taken the offensive in terms of launching two variants of our White product, the Great Taste White Choco and Great Taste White Caramel, to innovate within the White category.

I guess the last major point is that there was some pricing activity by Mayora when it launched its Café Blanca product. Both Nestle and ourselves were selling at about Php 7 per pack, Mayora was at Php 6 but trade reports from the last couple of weeks indicate that Mayora seems to have pushed up their price to a similar level as Nescafe and Great Taste.

Shridhar Nishtala, T. Rowe Price:
So the pricing action is actually getting better, you think?

Lance Gokongwei, President and CEO, URC:
Yes, it seems so but the marketing intensity remains.

Shridhar Nishtala, T. Rowe Price:
OK. Thank you very much.

Speaker:
Thank you. Your next question comes from the line of Koh Sang Lim from NSR Investments. Go ahead please.

Koh Sang Lim, NSR Investments:
Hi, good morning, Lance. I just have a question on your profitability. I think you mentioned that the company will try to maintain a flat EBIT margin, but given the lower cost of raw materials, I noticed that the gross margin expanded quite nicely.

So the question is, how much of that would you spend on additional SG&A and how much of that do you think you will keep assuming you have lock-in prices for rest of the year?

Lance Gokongwei, President and CEO, URC:
Broadly speaking, in terms of pricing, if you look at the total portfolio, we are running about 1 percent below the same period last year. If oil prices do not move up quickly, maybe there's a chance to bring this up to 2 percent to 3 percent below last year in the coming months. There are some margin expansion opportunities there. I guess the contra to that is relative weakness of the currencies which we operate in against the USD.

Broadly speaking, what we're guiding for is really low 20s in terms of revenue growth and maybe mid 20s in terms of EBIT growth. We do think margins will continue to be higher than last year; thus, the slight difference between sales and EBIT growth.

Koh Sang Lim, NSR Investments:
OK. Thank you.

Speaker:

Just a final reminder, if you have a question it is star, followed by one. Your next question is from the line of Dave Montemayor from UBS. Go ahead, please.

Dave Montemayor, UBS:

Hey, good morning. Thank you for organizing the call. Out of the Php 4.4 billion EBIT, Griffin's contributed less than Php 100 million. Is that right? In terms of the Php 27 billion sales and Php 8.8 billion gross profit, how much did Griffin's contribute to that? Thank you.

Lance Gokongwei, President and CEO, URC:

If you talk about Griffin's big numbers, you're already talking close to about NZD 300 million on an annual basis and maybe 20 percent EBITDA margins and 15 percent EBIT margins in the first year.

Dave Montemayor, UBS:

Thank you.

Speaker:

And your next question is from the line of Ricky Chui from CCAM. Go ahead please.

Ricky Chui, CCAM:

Hi. This is Ricky. Thank you very much for the call. I'm just wondering, comparing to your domestic business, which you have a 300 BPS margin expansion, international business margin only expanded by 28 BPS. I'm just wondering why there is only limited margin expansion there. Is it mainly because of high selling and marketing expenses, or is there any other reason?

Lance Gokongwei, President and CEO, URC:

Are you talking about operating margin or gross margin?

Ricky Chui, CCAM:

I was talking about EBIT margin.

Lance Gokongwei, President and CEO, URC:

We are spending significant amounts of money particularly in Thailand, Indonesia, and Vietnam in terms of advertising. We do, however, expect that margin should improve especially in the coming months, particularly out of Vietnam.

Ricky Chui, CCAM:

OK. Thank you very much. Another question is about the Griffin's. I want to know more about the local business, not your synergy with the ASEAN market, its market exposure in the New Zealand and also Australia. So can I know what the revenue breakdown is between Australia and New Zealand, and also the breakdown with respect to sales growth and margins?

Lance Gokongwei, President and CEO, URC:
We don't break that number down, but broadly speaking, New Zealand is 2/3 and Australia is 1/3.

Ricky Chui, CCAM:
Could you also break the down in terms of the EBIT margin or EBIT?

Lance Gokongwei, President and CEO, URC:
Safe to say, New Zealand is higher than Australia because it's more of a branded food offer.

Ricky Chui, CCAM:
OK. What's the total revenue for Griffin's?

Lance Gokongwei, President and CEO, URC:
It should be close to NZD 300 million.

Ricky Chui, CCAM:
OK, got you, thank you very much.

Speaker:
Thank you. Your next question is from the line of Princy Singh from JP Morgan. Go ahead please.

Princy Singh, JP Morgan:
Thank you very much. Apologies if this question has been asked already, I came on this call slightly late. I just wanted to check if there are any one-off expense items on the count of the Griffin's acquisition that has been recorded in this quarter?

Lance Gokongwei, President and CEO, URC:
It's reflected below the line, Princy, in the other expense.

Princy Singh, JP Morgan:
All the one-offs are done now, right? Nothing more is coming?

Lance Gokongwei, President and CEO, URC:

No.

Princy Singh, JP Morgan:

OK. That is great. My second question was with respect to the new launches of your beverages portfolio for Danone and the launch of reach out plan for Calbee. Could we get some sense on any targets for revenue contribution over the next two to three years? In the short term, what kind of potential losses could these businesses book?

Lance Gokongwei, President and CEO, URC:

I would say, in five-year terms, you're probably talking about a USD 20 million to USD 25 million business in Calbee and maybe a USD80 million to USD100 million business in Danone; mainly reflective of the differences in category size.

Broadly speaking, we expect to lose money for the first three years in achieving these goals. Ideally, after that, you have operating businesses that generate EBIT margins in the12 percent to 15 percent range.

Princy Singh, JP Morgan:

Could you give any indication on how do we quantify the losses?

Lance Gokongwei, President and CEO, URC:

I guess this year will be the peak year for losses especially as we're launching both. It's probably fair to say we will lose something in the USD 5 million range for the year.

Princy Singh, JP Morgan:

Understood, that's very clear. Thank you very much. That's all for me.

Speaker:

Thank you. Your next question comes from the line of Karisa Magpayo from Macquarie. Go ahead please.

Karisa Magpayo, Macquarie:

Hi, good morning, Lance and Mike. Thank you for the call. Just a couple of quick questions from my end: in terms of revenue growth for Branded Foods, how much of this was driven by volume and how much was driven by price? Secondly, how much did the beverage business grow in the Philippines particularly for coffee and ready-to-drink tea? That's it.

Lance Gokongwei, President and CEO, URC:

Broadly speaking, coffee grew by 35 percent, and beverage and ready-to-drink, was flat due to capacity limitations. It's not just volume/value, product mix also factors in as coffee cases tend to be worth more than other cases. In volume terms, you're talking about mid single digits, the balance of growth coming primarily from mix and some pricing.

Karisa Magpayo, Macquarie:

OK. Thank you.

Speaker:

Just a final reminder, if you have a question, please press star followed by one. Your next question is from the line of Adam Hakkou from Comgest. Go ahead please.

Adam Hakkou, Comgest:

Yes, hello. Thanks for taking my question. I just had two quick questions. Out of the margin expansion of 170 BPS margin in Q1, what would be the split between what's due to scale and what's due to the soft commodity price environments that we're facing at the moment?

My second question would be, within ethanol and biomass, in the mid term or eventually, what proportion of group sales would you expect to come from these two businesses? If you could just share with us very quickly why exactly you invested in this specific business which is not exactly a core business for Universal Robina? Thank you.

Lance Gokongwei, President and CEO, URC:

OK. Broadly speaking, most of the increase really was related to expansion in gross margins. Because of the 19 percent increase in sales, we increased GP by 33 percent and operating income by 32. So, clearly, we've invested a lot on the marketing side for the first quarter.

With regards to the biomass and the ethanol plants, this is related to our sugar businesses as the Philippine Congress has passed a law about three years ago in an effort to make the Philippine sugar more competitive with the global industry. They passed two laws. The first, related to ethanol requiring all Philippine fuel consumption of gasoline, to use at least 10 percent bioethanol, which is primarily from sugar. The government dictates an actual selling price, which is an aggregate of raw sugar prices and molasses prices, plus the tolling fee, at which the oil companies are required to source ethanol from various bioethanol producers. Second, is that the Philippines also has passed a law supporting renewable energy from biomass, where energy source from biomass must have first priority to the grid and is given a feed-in tariff rate of PHP 6.63 in order to support renewable energy efforts.

That being said, URC has invested approximately USD 100 million; about USD 75 million on our biomass and about USD 25 million on our ethanol plant. We expect returns between five to six years on these projects.

Likewise, they enjoy seven-year income tax holidays as well as perpetual 10 percent income tax rates, and these are enshrined in the law. We think that this will help make our sugar business competitive especially as the Philippine market becomes more open to imports from abroad.

Adam Hakkou, Comgest:
OK. Thanks. Sorry, I'm not sure I got it for the first question regarding margins, so you were saying most of the margin expansion comes from soft commodity prices?

Lance Gokongwei, President and CEO, URC:
No, most of it is from product mix, some from commodity prices, and some from price increases. This is because commodity prices, as a whole, for the Branded Foods business is about 1 percent lower than last year for the first quarter.

Adam Hakkou, Comgest:
Thanks very much.

Speaker:
Thank you. We have no further questions at this time. So I'll hand it back to our host for closing remarks.

Lance Gokongwei, President and CEO, URC:
On behalf of URC, we'd like to thank you all for joining this call. We hope to be able to speak to you again in the succeeding quarter. Good morning, then. Thank you.

Speaker:
Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for your attendance. You may all now disconnect.
[END OF TRANSCRIPT]