EDITED TRANSCRIPT
UNIVERSAL ROBINA CORPORATION (URC) FY2015 FIRST HALF EARNINGS CALL
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PRESENTATION

Speaker:

Ladies and gentlemen, thank you for standing by and welcome to the URC Quarterly Investors Briefing conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question, you will need to press star one on your telephone. I must advise you that this conference is being recorded today, Wednesday the 6th of May, 2015. I will now like to hand the conference over to your first speaker today, Mr. Lance Gokongwei. Thank you. Please go ahead.

Lance Gokongwei, President and CEO, URC:

Good afternoon. Today, I will be presenting the unaudited financial results of URC for the first half of the fiscal year 2015. Let me go into the financial performance for total URC and its various divisions.

Topline growth for total URC remained robust as Q2 net sales grew by 25% versus the same period last year, which resulted in first half sales of Php 55.6 billion, a 22% increase versus prior year driven by the growth of Branded Foods, Sugar and Feeds. In terms of profitability, Q2 EBIT grew slower than sales, though first half EBIT is up 26% against prior resulting in margin expansion of 58 basis points. The year-to-date margins remained healthy due to sustained margins for branded foods, though partly affected by the decline in EBIT for farms as we saw a significant reduction in first half revaluation gains versus prior year. This year we booked a Php 26 million gain for revaluation for the first half versus Php 172 million for the same period last year. Core earnings for the first half registered at Php 8.3 billion, up 16% versus the same period last year. The company registered a net finance cost of Php 474 million for the first half of this year, versus net finance revenue of Php 55 million in the prior year as we have financed the acquisition of Griffins via five-year term loan with a 5.3% interest rate. The company also invested more money into the new joint ventures as well as incurred one-time expenses related to the acquisition. Lastly, first half net income closed at Php 6.5 billion, up by 4% versus same period last year. Net income grew slower than EBIT and core earnings as we booked unrealized foreign exchange losses amounting to Php 312 million versus last year's Php 266 million gain due to the depreciation of the Indonesian rupiah and Vietnamese dong against the Philippine peso and the depreciation of the Aussie dollar against the New Zealand dollar.

Total Branded Food sales for Q2 were up 25% versus the same period last year, which resulted in first half revenues of Php 46.4 billion, an increase of 23%. The Philippine business continued to perform well with a 15% growth for Q2, resulting in first half sales of Php 29.6 billion with a 16% growth. The international business grew 49% in Q2, resulting to Php 16.2 billion in first half sales or a 38% growth with the consolidation of Griffin's starting mid-November. URC international sales without Griffin's in the first half grew 9% and Q2 grew 11%. Philippines growth mainly came from good volumes coming primarily from coffee, salty snacks, noodles and overall better pricing and mix, while International growth came from accelerating sales in Thailand, Vietnam and Indonesia. Q2 EBIT grew much faster at 35% versus same period last year, resulting in overall EBIT of Php 7.2 billion or a 37% increase for the first half. Year-to-date margins ended up higher by 160 bps at 15.6%, as higher volumes contributed to scale and more moderate input cost were experienced for some commodities, particularly for palm oil and PET.

Sales of Branded Foods Philippines were sustained in Q2 with growth of 15%, resulting in first half growth of 16% on the back of strong sales coming from powdered beverages, snacks and instant noodles. Beverage registered a first half growth of 23% versus the same period last year, on the back of the strong growth of our powdered beverage business. This comes primarily from coffee and the moderate growth of our ready-to-drink beverages, which is beginning to show some signs of recovery as we begin to augment some of the capacity constraints we have encountered previously. Our market shares for coffee remained stable even as we face aggressive advertising and pricing actions from our competitors. We will continue to review and monitor competitor activities and we will continue to look for options on how to best address the increasing competition, especially on pricing taken by our coffee competitors. The snackfoods leg grew 8% led by salty snacks, mainly driven by core brands. Bakery business was up slightly at 5% as both cakes and biscuit sales grew. Confectionery sales were flattish as chocolate sales compensated for relatively weaker sugar confectionery sales.

We launched a total of twenty three (23) new products in first half of 2015, which contributed 3% of sales. Danone Universal Robina Beverages, Inc. started to trade the beverage, B'lue, last January. The product launch was mainly driven by social media marketing. There is ongoing brand activation in malls and schools to reach the millennial generation. Our joint venture with Calbee, Calbee-URC, Inc., has also started to pipeline their products last February. The Jack 'N Jill-Calbee mascot, "Jaga", went around the Metro prior to the actual product launch to excite the market. Pop-up stores were likewise set up in malls, offering limited edition merchandise as part of product activation.

For Branded Foods International, three countries, namely, Thailand, Indonesia and Vietnam, drove topline growth.

Thailand was up versus same period last year backed by strong sales for biscuits, wafers, snacks and candies. Despite the weak macroeconomic environment affecting consumer sentiment, our business continued to grow by double digits driven by our core brands, new products launched this year including our new stick biscuits, and the continuation of promotional activities in key customers such as 7-Eleven.

We also have addressed issues related to sales and our focus on better account management and trade marketing execution is bearing fruit.

Indonesia was the star performer in our portfolio with sales up significantly versus last year on the back of the strong sales of our Piattos potato chips and our Cloud 9 chocolates. Our recently launched product, Chiz King, continues to show traction and boost sales. Candies showed improvement in sales as wholesalers and retailers responded positively to our promotions. We continue to focus on improving the distribution levels of our Indonesian products in both minimarts and traditional retail.

Vietnam continued to recover and posted higher single-digit growth. Ready-to-drink beverages posted double digit growth as both C2 and Rong Do energy drink exhibited robust sales. We also implemented a new distributor incentive scheme to stabilize wholesale pricing and also improve the weekly order skewing of distributors. Snack foods sales remained low, which is reflective of the market decline as well as high inventory entering the TET season. We continue to do promotions and launch new products to accelerate growth in the coming months.

Malaysia and Singapore were significantly down versus prior year. Majority of the customers were controlling their inventory level as part of the transition and implementation of the new GST in Malaysia. We will continue to monitor efforts towards rationalization of our product portfolio in order to give more focus to higher margin in performing brands.

We have started to consolidate the Griffin's business into URC starting November 15 and for the quarter just ended, January to March. Griffin's business grew mid-single digit on the back of growth across all categories while exports grew behind the re-launch of wrapped snacks in the Australian market.

For our Non-Branded business, sales were up by 17% to Php 9.2 billion, driven by both our Commodity and Agro-Industrial businesses. EBIT was up 2% as EBIT for Agro-Industrial included a lower revaluation gain versus last year and flour posted a decline in EBIT due to higher input and freight cost.

I'll ask Mike Liwanag to please continue from this point on.

Michael Liwanag, VP, URC Corporate Planning and Investor Relations:

For the Non-Branded business, sales were up 17% with Php 9.2 billion driven by the Commodity and Agro-Industrial businesses. EBIT was up 2% as EBIT for AIG included a revaluation gain versus last year.

Total Commodity Foods Group first half sales ended up Php 4.8 billion, up by 26% due to the high sales volumes for the sugar business and higher average selling price versus prior year. Profitability remains healthy as EBIT increased by 12% for the first half. Flour registered sales of Php 2.1 billion for the first half, down 1% due to flattish volume and selling prices were relatively at par versus last year. First half EBIT for flour declined as wheat prices and freight costs were higher versus the same period last year.

Going to the Agro-Industrial group, sales grew by 8%, while profitability was flattish mainly due to our farms business. Sales for feeds business grew by 20% driven by higher volumes. This has also resulted in a higher year-to-date EBIT growth of 30% due to lower input costs. On the farm side, sales volume increased though selling prices declined from Php 116 per kilogram last year for live hogs. It is actually down to Php 105 per kilogram resulting in a flattish revenue growth for the first half. The main reason for the decrease in selling prices of live pigs was due to the increasing market supply and presence of imported meat, which is cheaper. Adding to this, our biological assets underwent revaluation vis-à-vis market prices and resulted in a revaluation gain of Php 26 million, which is significantly lower than the Php 172 million we booked last year. Since the price of live feeds is increasing, we are shifting our sales to carcass and in retail accounts which has a more stable pricing moving forward.

On the balance sheet, we are in a net debt position of Php 18.5 billion, from Php 1.8 billion net cash position at the end of 2014 as we booked the NZ $742 million long term debt for the acquisition of Griffin's. Gearing ratio is at 0.51. We generated Php 10 billion cash from operation. Total EBITDA for the first half reached Php 10.9 billion, a 23% versus same period last year and Capex investments amounted to Php 2.5 billion. Other major cash outflows include the dividends we paid amounting to Php 6.5 billion.

Let me now turn to the plans and guidance for the balance of the year.

We don't expect further declines in our input prices towards the second half and if the current prices are maintained, we expect full year gross margins to expand slightly. We intend to plough back the additional money into advertising and promotions to defend our market shares against competitor activities, especially on the coffee category, additional investments as well in brand building for new products, as well as investments in operating expenses as we roll out new facilities and absorb higher cost in manufacturing, selling, and general and administrative expenses. We also expect competition to further intensify given the implementation of the ASEAN integration. Existing competitors are now implementing aggressive marketing activities to build stronger equity. Against this backdrop, for our 2015 guidance, we maintain the guidance we gave everyone last February of mid-twenties growth for sales and EBIT or an operating income of around Php 17.5 billion.

Our plans for the balance of the year are as follows:

First, we will commission Central Vietnam and the Myanmar facility in the second half of the fiscal year. For Central Vietnam, the additional beverage line will give us a better distribution level in the region as well as efficiencies in freight and handling.

Second, we will also install additional capacities in the ASEAN to include snack foods lines as well as deploy NZ $23 million to add (bar line) capacity in New Zealand which, will be available by September as we expect to grow sales for the Nice & Natural wrapped bars mainly for Australia. We are also spending some Capex investments for the expansion of our coffee line in Vietnam and additional packaging capabilities in the Philippines, as well as additional capacities for biscuits and chips in Thailand.

Third, we recently kicked off a project that focuses on a deeper review of URC's portfolio and rationalizes our branding strategy across the markets we cover. This includes Griffin's to ensure that we successfully introduce the brand into the ASEAN and China by the next fiscal year.

Fourth, we are also continually looking for synergies and alignments in quick win areas like procurement for economic sourcing of inputs and leverage URC size and scale against our suppliers. We particularly target doing this for Griffin's as we are actively doing the post-acquisition integration. On the operations and manufacturing side, we have implemented a more cohesive approach on how we deploy Capex for growth, taking into consideration a single ASEAN market with zero tariffs to ensure that our unit cost to produce remains competitive.

Last, the other businesses, mainly our Commodity foods and Agro-Industrial Group, will continue to remain profitable in the fiscal year. We expect sugar and flour to register almost the same level of absolute profit contribution while Agro-Industrial will generate less than the amount we booked last year as we are seeing a decline in the profit for Farm group.

So that ends the short presentation. We are now ready to take your questions.

QUESTION AND ANSWER

Speaker:

Thank you. Ladies and gentlemen, (*Operator Instructions*)

Thank you. We do have several questions. The first question comes from Linh Vo from Albizia Capital. Please ask your question.

Linh Vo, Albizia Capital:

Hi. Thanks for hosting the call. Can I just ask about the growth of profit margin for the second quarter of this year, regarding the decrease from the previous year whether it's because of input prices or is it because of Griffin's margin?

Michael Liwanag, VP, URC Corporate Planning and Investor Relations:

I think the growth of profit margins as a whole actually increased by 80 basis points comparing this year versus the same period last year because we declare gross margins on a consolidated basis.

If you also look at it, for the integration of Griffin’s, we just booked 45 days for our first quarter and we’re booking a full quarter – January to March. Please note that Griffin’s also operates on the calendar year and the sales of Griffin’s are actually skewed towards its second semester which is actually the July to December period as well.

Linh Vo, Albizia Capital:

Thank you for that. With regards to Vietnam and Thailand, the two biggest export markets, what do you see moving forward for the rest of the year? How would they grow?

Lance Gokongwei, President and CEO, URC:

Overall, we expect the trend to remain quite positive. Perhaps we grew about 11% in Q2 in U.S. dollar terms, so we do expect that trend of double digit overall growth for the international markets to continue with the three larger markets particularly, Vietnam, Thailand and Indonesia outperforming the balance of the international countries.

Michael Gilmore, Albizia Capital:

Hi, Lance. This is Michael Gilmore of Albizia Capital. Just to follow up on that, both in the Philippines and International, I learned that you just said that your new products generated 3% of sales in the last period. What was the split in terms of whether it’s pricing increases or an increase in point of sale, or was there actually also a lift in terms of conversion through channels?

Lance Gokongwei, President and CEO, URC:

I think for Philippines overall we can say that Q2 was really driven by both mix and volume. Overall, volumes grew about 7 to 8 percent. The balance was coming from value uplifts; faster growth came primarily from coffee and snacks, which tend to have higher values per case relative to the rest of our range. In International, I would say most of it really is driven by volume.

Michael Gilmore, Albizia Capital:

Those volumes are they coming from effectively the same network or have you been expanding the distribution network?

Lance Gokongwei, President and CEO, URC:

In the Philippines, our distribution is already pretty good. I think what we have been trying to do is improving the density of our presence, particularly in key accounts by introducing category management activities. For our lower tier SKUs, for instance the Great Taste Twin Pack for coffee, we do see gaps in the distribution particularly in the general trade which we are addressing.

In simple terms, the distribution of that product is not as good as our lead product, which would be the Great Taste White products, so that's the focus – focusing on the Tier 2 products and improving their distribution to the tier one. The Tier 1 products, I think have very good distribution. I think the opportunities are more on the Tier 2.

Michael Gilmore, Albizia Capital:

Internationally, I'm assuming it is on the expansion of point of sale, is it?

Lance Gokongwei, President and CEO, URC:

I would say that's particularly true for Indonesia. It's really a distribution trade execution-led recovery.

Michael Gilmore, Albizia Capital:

Thank you very much.

Lance Gokongwei, President and CEO, URC:

On Thailand, I would say it's just much better execution overall in the modern trade.

Michael Gilmore, Albizia Capital:

OK. So not particularly any uplift in the distribution network, it's actually just a better conversion through the existing network?

Lance Gokongwei, President and CEO, URC:

I would say overall that would be the thing.

Michael Gilmore, Albizia Capital:

OK.

Linh Vo, Albizia Capital:

Hi, Lance. Can I also ask about the two current JVs – when do you foresee them breaking even?

Lance Gokongwei, President and CEO, URC:

As I said, I think we've always indicated in these calls that these are 3 to 5-year plays. We hope to breakeven within year three to year five of these operations with maximum losses to be experienced in the current launch year.

Lina Vo, Albizia Capital:

All right, thank you very much. That's all for me.

Speaker:

Thank you. Your next question comes from Mr. Sridhar Nishtala from T. Rowe Price. Please ask your question.

Sridhar Nishtala, T. Rowe Price:

Hi, Mike. Hi, Lance. Thank you very much for the presentation. I just want clarification on the gross margins. First half gross margins are up but actually if we look in the second quarter, your gross margins are actually down versus the second quarter last year? Is that due to Griffin's?

Lance Gokongwei, President and CEO, URC:

I don't have that in front of me, but I would say broadly speaking on the branded food business for both domestic and international our gross margins, even for Q2, should be significantly ahead of last year.

So maybe what you're seeing…

Sribhar Nishpala,T Row Price:

In terms of commodity products...

Lance Gokongwei, President and CEO, URC:

I think it's probably because the sugar business has grown as we started to export some lower margin ethanol. Maybe that might have affected the mix for this quarter, but we can say that, broadly speaking, our gross margins on the core branded business are significantly ahead of last year.

Sridhar Nishtala, T. Rowe Price:

OK. That's good. So would you say that you are already getting the benefits of lower raw material cost? If I recollect, your comments state that for the rest of the year, you don't expect a lot from here.

Lance Gokongwei, President and CEO, URC:

We still see some opportunities potentially from the logistic side as the port congestion issue eases but likewise, I think towards the back half, we expect the oil price benefits to start to recede and plastic-related cost to start moving up so we think that will balance out.

Sridhar Nishtala, T. Rowe Price:

OK. So if you got benefits from raw materials during this quarter and if I recollect, the previous quarter, you said that you had not started seeing the benefits of the raw materials. Why haven't your operating margins in the domestic consumer food business actually expanded quarter on quarter?

Lance Gokongwei, President and CEO, URC:

Quarter on quarter…

Sridhar Nishtala, T. Rowe Price:

I mean, the March quarter compared to the December quarter because in December you said you haven't got the raw material cost benefits. This quarter you got the raw material cost benefits. Your operating lines are sort of flat for the Branded Consumer Food business.

Lance Gokongwei, President and CEO, URC:

I guess I don't look at it on a Q2 to Q1 basis but definitely for Q2 versus same period Q2 last year; our operating margins went up faster than sales. On our domestic side, I think we're fairly flat on margins at about 18. I think that's pretty much where we're going to end up. I don't see it expanding significantly beyond that.

Sridhar Nishtala, T. Rowe Price:

OK, got it.

Lance Gokongwei, President and CEO, URC:

In the short term, because there are some larger costs below the gross margin lines related to marketing and fixed manufacturing that we're undertaking right now.

Sridhar Nishtala, T. Rowe Price:

Understood, OK, I got it. Can I just clarify on the international business – did you say that excluding Griffin's, December quarter was plus nine for the international branded and plus 11 for the March quarter?

Lance Gokongwei, President and CEO, URC:

One second…

Michael Liwanag, VP, URC Corporate Planning and Investor Relations:

On the topline?

Sridhar Nishtala, T. Rowe Price:

On the topline.

Lance Gokongwei, President and CEO, URC:

Yes.

Sridhar Nishtala, T. Rowe Price:

OK. Last question I have was just on your A&P expenses. It seems like your A&P expenses descended your sales, even if I take it, whether consumer division sales or total sales – it's actually down during the second quarter? I mean, why is that? Actually down in absolute terms for the second quarter, (was) the same period last year, percentage obviously it is much lower. Why is that? Do you expect this to pick up for the rest of the year?

Lance Gokongwei, President and CEO, URC:

Definitely. We think we will be investing a lot more on marketing especially in the domestic market as the coffee market has heated up very recently with very heavy expenditures from both Nestle and Mayora and some price reductions by Nestle across its product range of between 3 to 4 percent. I think it's signaling much more intensive advertising and trade marketing activities in the coming few months.

Michael Liwanag, VP, URC Corporate Planning and Investor Relations:

If we just look at the Philippines without giving you the absolute numbers, our norm on the A&P spending as of the first half is just around 40% compared to how we budgeted it. The other thing there is that sometimes the skew of our trade promotion spending is actually back loaded. If you look at it, aside from the defense strategy on coffee with Nestle's price rollback, I really think that a lot of new products will still be supported towards the second half as well.

Sridhar Nishtala, T. Rowe Price:

So despite that spending, do you expect that domestic margins to stay at the current level – at operating level?

Lance Gokongwei, President and CEO, URC:

The gross margin level; on the Opex, it depends what sales come out.

Sribhar Nishpala, T Row Price:

OK. Thank you very much.

Speaker:

Your next question comes from Miguel Agarao from Wealth Securities. Please ask your question, Miguel.

Miguel Agarao, Wealth Securities:
OK. Good afternoon. My question would be primarily on margins given the movement in commodity prices. I noticed oil prices are up 40% from the lows already. Are you starting to feel any increase in your raw materials' cost in Q1?

Lance Gokongwei, President and CEO, URC:

I don't think it will affect us still probably June-July. Frankly, I don't think we got the full benefit on the way down and I don't think we'll see the full impact on the way up, except probably for some of the PET cost. On the logistic side, I think there's a bit of a lag on the way down so I think there'll be a bit of a lag on the way up.

Miguel Agarao, Wealth Securities:

OK. Second, on your FX loss, you don't have any hedging so this is basically current impact from your expanding international business or is there a hedging loss somewhere here?

Lance Gokongwei, President and CEO, URC:

There’s no hedging loss. It’s all related to the fact that primarily our assets overseas are valued in currency outside the peso and then when we work back to our functional currency which is the peso, the peso actually appreciated relative to most of the countries we operate in, so thus the unrealized FX loss.

Miguel Agarao, Wealth Securities:

OK. My last two questions – third is on Griffin’s – for your fiscal Q2, how much is Griffin’s of your sales and net income in percent?

Lance Gokongwei, President and CEO, URC:

We don’t disclose that. We don’t break it up.

Michael Liwanag, VP, URC Corporate Planning and Investor Relations:

It’s part of the international group. I think we briefed everyone that consistent with our policy of not disclosing the sales and EBIT per country out of competitive reasons.

Miguel Agarao, Wealth Securities:

OK. Last question – what’s your effective tax rate? Are they expected to stay here moving forward or will it keep going higher?

Lance Gokongwei, President and CEO, URC:

I would say between probably 19 to 20 percent this year.

Miguel Agarao, Wealth Securities:

OK. Do you expect it to move higher next year?

Lance Gokongwei, President and CEO, URC:

It depends on the sales mix.

Miguel Agarao, Wealth Securities:

OK. Thank you very much.

Speaker:

Your next question comes from Mr. Bobby Jayaran from Frunze Investments. Please ask your question, Bobby.

Bobby Jayaran, Frunze Investment:

Could you give us some color on how Griffin's is operating? I know you don't disclose actual numbers, but could you tell us if it has been meeting expectations?

Lance Gokongwei, President and CEO, URC:

I think the Griffin's sales numbers have been meeting expectations. We have been a little bit short especially on the gross margin numbers and I think a lot of that is related to two things – one is the weakness of the Aussie currency versus the Kiwi and the second is the overall weakness of the Kiwi and the inability to really pass on price increases in the domestic New Zealand market. We're seeing a situation where sales are picking up. I think they were much healthier than last year but at the EBITDA level, we're still below last year on an ongoing basis.

I think we do see, however, that based on what our senior management is telling us, the New Zealand market tends to be back dated and that the stronger months are between July and December. We do expect for the calendar year to do about NZ $55 million in terms of EBITDA.

Bobby Jayaran, Frunze Investment:

Have you started selling Griffin's in Philippines and the rest of Asia?

Lance Gokongwei, President and CEO, URC:

We have not. We are going to start trading Griffin's into Singapore and Hong Kong trading markets before the end of the year and we're probably looking at a rollout into Philippines and Thailand by first quarter next year.

Bobby Jayaran, Frunze Investment:

Thank you. That's all.

Lance Gokongwei, President and CEO, URC:

We have to do a lot of work especially on the pack sizes. The testing we've done shows that the products are highly acceptable, except the pack sizes are much larger than what our customers in the ASEAN expect.

Bobby Jayaran, Frunze Investment:

Sorry, just one final comment – when you actually went for the acquisition was the assumption behind the synergies more on restructuring the Aussie and Kiwi operations or was it selling into Asia?

Lance Gokongwei, President and CEO, URC:

I think it's really the latter because this business has been owned by private equity for many years, so it's already an extremely lean operation with major investments in their production facility. It's pretty modern. The benefit here has to be congruent with URC's overall strategy of coming out with more premium product for a growing ASEAN middle class.

Bobby Jayaran, Frunze Investment:

In that sense, we'll be seeing the benefits more from next year when you start introducing it into Asia, correct?

Lance Gokongwei, President and CEO, URC:

Yeah. The big number we're looking for is probably NZ $30 million in sales on the third year of our launch. Hopefully, by 2018 we should source at least 10% of the Griffin's business from outside its traditional New Zealand-Australian market.

Bobby Jayaran, Frunze Investment:

Thank you very much.

Speaker:

Your next question comes from Mr. Henry Tan from JP Morgan. Mr. Henry Tan, please ask your question.

Princy Singh, JP Morgan:

Hi. This is Princy from JP Morgan. I have a couple of questions. First one is on your market share trends. I'm just looking at some categories in the Philippines particularly on snacks, candies, and chocolates, and then also on ready-to-drink tea in Vietnam. All the previous quarters that have been declining in market share, at least based on your presentations, it's about one percentage point in most of the domestic categories and about five percentage points on ready-to-drink tea in Vietnam.

So I just want to understand what's driving this year's losses and who is gaining that market share and what is URC doing to put in place efforts to stop these market share losses – that's the first question. The second question is on the interest cost. Just looking at the interest cost on a sequential basis – I can see that it's gone up quite substantially. I just wanted to understand what the key components are. Is there any currency impact in the interest cost given that there is a fair amount of New Zealand dollar-denominated interest and what should be the run rate of the interest expenses going forward in the future quarters? That's all for me. Thanks.

Lance Gokongwei, President and CEO, URC:

We will answer the interest question first. I think the interest cost is primarily from the NZ $740 million loan that we borrowed. It's funded at a 5.3% interest rate. It's currently floating so I guess the best outcome for us is if New Zealand reduces interest rates.

With regards to market share, the results have been mixed. For snacks we seem to have lost some share marginally on a month on month basis, but the reading seems to be showing that it's the very small companies that sell their product for P1 each that is growing. Our proportionate share of the premium market seems to be maintaining. Actually, the snack volumes have been fairly robust especially the sales of the new products from Calbee which have been well-received, so I'm not quite so concerned about the salty snack business.

On candies and chocolates –there is a real loss in shares for candies and chocolates. In candies, most of the growth has been on the soft candy market where our presence has not been so strong historically. We acquired a new line to do soft candies, primarily for our sugar-coated dragees similar to Mentos. That's been pipelined and we hope to see some benefits from that line in the next 3 to 6 months.

The chocolate business, I think, is a reflection of the composition of our business where we have been maintaining our share in traditional trade but the fastest-growing channels are the convenience stores and the supermarkets where our proportionate share is less.

We have been coming out with higher value SKUs by expanding our Cloud 9 and Nips ranges to larger sizes and more single serves which sell for between P7 and P12 for Cloud 9 and up to P20 for Nips from historically being P5 and below products so that they are more suited for the convenience store.

The strategy is beginning to bear some fruit but I think the other key weakness we have here is that we are not participating in the fastest growing part of the market which is the molded – meaning the straight chocolate bars.

All our products are basically in rolled or sugar-coated and I think that's where the Griffin's portfolio will help us early next year, as we have a lot of very good chocolate enrobed biscuits from New Zealand. These are essentially pure chocolate and in many cases, from what we've seen in Australia and New Zealand, are often used as replacements for molded chocolate bars. I will say though in the chocolate business, the shares indicate a decline but actually our business there is growing double digits as well, so we're not sure if this reading here is capturing all of our growth.

With regards to Vietnam tea, our business in Vietnam is actually quite robust, especially in March-April where we have double digit growth. We suspect we're probably number one now in tea and we hope this comes out in succeeding readings in Vietnam as an individual brand. I guess we'll wait for the market share there because, as you can see from our results out of Vietnam, they've been pretty robust in a market that's perceived to be not growing as quickly.

Princy Singh, JP Morgan:

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

Speaker:

Your next question comes from Jamshed Dadabhoy from Citi Group. Please ask your question.

Jamshed Dadabhoy, Citi Group:

Hi. Good afternoon. This is Jamshed from Citi. Three questions from my side actually. The first is on the international side – could you give us a sense of how much the margin impact at the EBIT level has on account of Griffin's on the consolidation and on a quarter on quarter perspective, please?

Lance Gokongwei, President and CEO, URC:

I think on an EBIT basis I would say that the margins on our international business are currently higher than the Griffin's business.

Jamshed Dadabhoy, Citi Group:

Could you give a sense in terms of how much the dilutive impact has been on account of Griffin's and how you expect this gap to close?

Lance Gokongwei, President and CEO, URC:

Can you repeat that question?

Jamshed Dadabhoy, Citi Group:

Yes. I'm just trying to figure out the impact if I look at your EBIT margins for the international business for the second quarter – about 11% or so, so what I am trying to discern is how much is the dilutive impact, if you want to call it, from Griffin's now that its' being consolidated.

Lance Gokongwei, President and CEO, URC:

As we said we don't really break down our international numbers but suffice to say that without Griffin's the growth in EBIT percentages are very similar to domestic.

Jamshed Dadabhoy, Citi Group:

OK. You're talking about margin expansion, right, or the growth in EBIT?

Lance Gokongwei, President and CEO, URC:

Yes, the margin expansion.

Jamshed Dadabhoy, Citi Group:

OK, that's helpful. Second question – if I heard you all correctly in the opening comments, you said that the capacity constraints that you have been facing in the RTD category in the Philippines are expected to be behind you now?

Lance Gokongwei, President and CEO, URC:

It's not completely behind us but from April, we have been able to increase our production of C2 solo by about 25 to 30 percent.

Jamshed Dadabhoy, Citi Group:

OK. So directionally speaking does this put pressure on the margins just because of a mix effect, if RTD starts growing at a faster pace than say coffee or snacks?

Lance Gokongwei, President and CEO, URC:

Yes. Overall …

Jamshed Dadabhoy, Citi Group:

Just from a mix perspective …

Lance Gokongwei, President and CEO, URC:

On a gross margin basis, tea is not bad except on the operating margin because the logistics costs of tea are much higher.

Jamshed Dadabhoy, Citi Group:

Would you have a sense of how much it might be, and when we should start expecting that from?

Lance Gokongwei, President and CEO, URC:

I'm sorry; I think I don't have that answer for you.

Jamshed Dadabhoy, Citi Group:

All right, thanks. No problem. The third question, on the A&P side – so you expect A&P to, I guess, move up quite sharply from the next two quarters onwards. Would you be able to give a sense in terms of how much of that will be promotional activity versus just marketing spend and advertising?

Michael Liwanag, VP, URC Corporate Planning and Investor Relations:

Our split, I think, is around 40% above the line and 60% promotions, but it really depends on what is happening and then we can always reallocate money between the two.

Jamshed Dadabhoy, Citi Group:

So is it fair to say, Mike, that basically you'll be increasing promotion spend a lot just to counter competition that we all are seeing on the coffee side now?

Lance Gokongwei, President and CEO, URC:

Yes.

Michael Liwanag, VP, URC Corporate Planning and Investor Relations:

Yes.

Jamshed Dadabhoy, Citi Group:

OK. Thank you very much. That's very helpful. Thanks.

Speaker:

Your next question comes from Mr. Ronald Liem from Hillhouse. Please ask your question.

Ronald Liem, Hillhouse:

Hi. Thank you for the time. I just have three questions. One is just clarification, whether the growth number that you show on the per country basis for international business is on local currency or Philippine peso?

Secondly, it is interesting that we see very strong international growth in a very weak economy, let's say in Indonesia, Thailand, or Vietnam. Is there any particular strategy that differentiates you from last year – this year, let's say pricing strategy or heavy promotion on top of your point of sale expansions?

For the third question, on the coffee business in the Philippines, how significant is the pressure from competition? Is there any significant price cutting in the market for both your competitor and also your product? How does that impact roughly on your coffee GP margin? Thank you.

Lance Gokongwei, President and CEO, URC:

OK. For the first question, the numbers we're talking about are in Philippine pesos, so in local currency they would be a little bit higher than that. The second question on why we are growing quicker – I think each country probably has a different answer.

I think that for Indonesia, it's really the activities we did last year wherein we introduced new management that narrowed the range of our products, we exited beverages and put all the sales focus behind three products, which were in snacks and chocolates. That has worked for us, the increased focus, so we're now in a position where we're able to expand distribution for these focused products. Now when we launch our product, we don't launch too many products, we just launch one product at a time and put all the effort behind those product launches.

In Vietnam we have just been doing very well, particularly the energy drink category, so that's been very supportive of our growth. We also introduced a more balanced incentive scheme for our distributors, which hopefully prevented them from competing with each other in terms of price and really prevented them from poaching or moving into each other's territories. That introduced a lot more pricing discipline and hopefully will remove this periodic boom and bust type of sales in Vietnam because there is no incentive to lower the trade for our distributors.

The third, for Thailand, I think the story is really more about much better trade execution in the modern trade sector behind our key wafer and biscuit brands. So overall, we're seeing that internationally, we are beginning to see some signs of recovery.

For the Philippines, coffee is a very significant business for us and has been the engine of growth for the last three years. Historically, we and Nestle raised prices for three-in-one to the P7 price point about July or August last year, if I recall. I think the big issue then was that Mayora did not follow until March. However, in the latter part of March, if not early April, Nestle has cut the price of their three-in-one products by two or three percentage points. They've also cut the prices of their instant coffees by about 4 to 5 percentage points, narrowing the gap we had from our coffee price from theirs to about a significant 9 to 10 percent from 13 to 14 percent range that we enjoyed for a few months.

To give background, in December, they raised prices on their instant coffee, their non-three-in-one, by 3 to 4 percent and we did not increase at that point. Nestle has rolled back that price increase, so that's the background.

Ronald Liem, Hillhouse:

OK. Just as a follow-up question on Vietnam – what kind of changes were there in incentives? Was there a bigger amount or was there any system?

Lance Gokongwei, President and CEO, URC:

No. It's not a bigger amount. What we're seeing in Vietnam is there is a lot of poaching across regions. Let's say our suggested price is 6000 dong, people try to capture volume incentives by discounting slightly, so we removed any incentive to poach into other people's territories.

Ronald Liem, Hillhouse:

OK.

Lance Gokongwei, President and CEO, URC:

So basically, the incentives have not gone up. We've just removed any incentive to push volume beyond what your territory requires by impinging on another distributor's territory.

Ronald Liem, Hillhouse:

This incentive is booked under you A&P lines, right?

Lance Gokongwei, President and CEO, URC:

No. Incentive is a sales discount.

Ronald Liem, Hillhouse:

OK, so on the GPs, captured on the …

Lance Gokongwei, President and CEO, URC:

It's captured as a reduction in sales.

Ronald Liem, Hillhouse:

OK, all right. OK, got it. Thank you. That's all for me.

Speaker:

And the final question comes from Mr. Antonio Salud from Deutsche Bank. Please ask you question Antonio.

Antonio Salud, Deutsche Bank:

Hi, good afternoon. I just have three questions. The first is actually a clarification. On your guidance, you guys mentioned for net profit Php 14.5 billion or was it Php 13.5 billion?

Lance Gokongwei, President and CEO, URC:

We don't guide on net profit. We only guide on sales and operating profit. As we've said, we'll probably be low to mid-20s on sales and mid-20s on operating profit.

Antonio Salud, Deutsche Bank:

Mid-20s in operating profit, OK, thank you. Then can you give us your outlook on input prices moving forward for the year?

Lance Gokongwei, President and CEO, URC:

I think input prices will probably be sanguine for the rest of the year I suspect, at about these levels. I think the real pressures will depend on how oil responds in the next few months, but definitely in terms of the other inputs like grains and oil, palm oil – it's pretty relaxed.

Antonio Salud, Deutsche Bank:

For the final question, if you guys raised prices, can you maybe give us an average percent of how much prices are raised?

Lance Gokongwei, President and CEO, URC:

We had no price increases in the last quarter.

Antonio Salud, Deutsche Bank:

OK. Yes, that's it.

Lance Gokongwei, President and CEO, URC:

Thank you.

Speaker:

One more question from Mr. Ivan Ante from ATR Kimeng Asset Management. Ivan, please ask your question.

Ivan Ante, ATR Kim Eng Asset Management:

Hi. Good afternoon. I would like to ask about the market reception for the new product, which is B'lue and the Calbee expectations for the year.

Lance Gokongwei, President and CEO, URC:

I think the B'lue product will require a lot of marketing and activation because it's a totally new concept, so we think this year would be an investment year. We're still very optimistic about the outlook for the product but this would take some time because beverage habits are a lot harder to change than snack habits. People tend to eat a selection of snacks so I think the Calbee product has been fairly easy to launch. The broad acceptance of the consumer has been quite attractive.

Ivan Ante, ATR Kim Eng Asset Management:

OK, that's all for me. Thank you.

Speaker:

The last question comes from the Mr. Aaron Uy from RCBC Trust. Please ask your question.

Aaron Uy, RCBC Trust Management Group:

Good afternoon. Can you give us an update on your Myanmar operations for 2015?

Lance Gokongwei, President and CEO, URC:

The Myanmar plant is nearing completion. I think we should be operating by July or so, but we've already built up the management team there. We have a full complement of sales, finance, operating people, as well as an R&D head over there so I think we're in the process of building up our management team.

Aaron Uy, RCBC Trust Management Group:

OK. My next question will be on your power generation assets. Last year you have launched two power plants – one ethanol plant and one biomass plant. Coming forward, what are your plans for these power generation assets?

Lance Gokongwei, President and CEO, URC:

The ethanol plant recorded its first sale in Q1. This year I think we expect to sell about 18 million to 20 million liters of alcohol but I guess by next year we'll have a full year of operation on this plant.

On the core generation, the first phase of the boiler has been operating. I think that has an exportable capacity of up to three megawatts which we have been exporting to the grid since January of this year.

The second phase, which is the larger phase, is composed of a larger boiler with an exportable capacity of – if I'm not mistaken, about 20 megawatts. That is going to be commissioned between May and June but the large revenue from that is going to come next fiscal year because the milling season is nearly ended for more sugar mills in the Philippines, so most of the "bagasse" which is the feedstock for the power plant is nearly consumed. We're confident that we will get the feed in tariff entirely for both projects, but I guess the real financial benefit will be next year for the energy but for the ethanol we're already beginning to see contributions from this business.

Aaron Uy, RCBC Trust Management Group:

For your ethanol plant, what is your installed capacity?

Lance Gokongwei, President and CEO, URC:

Installed capacity is 100,000 liters a day.

Aaron Uy, RCBC Trust Management Group:

In terms of megawatts?

Lance Gokongwei, President and CEO, URC:

Sorry, ethanol is alcohol – we make 100,000 liters a day.

Aaron Uy, RCBC Trust Management Group:

One hundred thousand liters per day, moving forward, how much do you expect these assets to contribute on your topline?

Lance Gokongwei, President and CEO, URC:

It depends on the price of the ethanol. Right now it's about P50, so I guess that would contribute about Php 1.2 billion to Php 1.5 billion a year. The power plant should be, I guess, in the high Php 100 million.

Aaron Uy, RCBC Trust Management Group:

My last question would be on your Indonesian operations. May I know your market share for your Indonesian business?

Lance Gokongwei, President and CEO, URC:

For snacks we believe we're among the top five, but we don't subscribe to market share data there.

Aaron Uy, RCBC Trust Management Group:

OK. Thank you very much. That's all for me.

Lance Gokongwei, President and CEO, URC:

OK.

Speaker:

There are no further questions. Please continue with your presentation. Thank you.

Lance Gokongwei, President and CEO, URC:

Thank you. On behalf of URC, thank you for joining this call and we'll speak to you again in three months. Thank you.

Speaker:

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

END OF TRANSCRIPT