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

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PRESENTATION

Speaker:

Welcome to URC's quarterly investor briefing. Joining us today from URC are Mr Lance Gokongwei, President and Chief Operating 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 now hand you over to Mr. Lance Gokongwei.

Lance Gokongwei:

Good afternoon, today I will be presenting the first quarter results of Universal Robina Corporation for the current fiscal year. Let me now go into the detailed financial performance of the business. For total URC, Q1 sales ended at Php 20.1 billion, a growth of 12% versus same period last year. Branded Foods Philippines at 18% and Sugar at 86% were the main growth drivers for top-line. In terms of profitability, Q1 EBIT ended at Php 2.3 billion, up 20% versus same period last year, with margins of 11.6%, 76 basis points above prior year. Branded Foods Philippines and Sugar contributed significantly to the increased level of operating income. Input prices continued to relax which led to the healthier margins for Branded Foods Philippines. Q1 core earnings prior to tax ended at Php 2.6 billion, up 27% versus same period last year. The company registered net finance revenue of Php 200 million in Q1 of this year, versus just Php 31 million last year due to lower interest expense with the retirement of the $200 million bond last January 2012, as well as continued interest income from bond and other money market holdings.

Lastly, first quarter net income closed at Php 2.3 billion, slightly down by 3% versus same period last year, mainly due to unrealized forex losses, as a result of the continued appreciation of the Philippine peso.

Total branded revenues for Q1 ended at Php 15.6 billion, 10% growth versus same period last year. EBIT margins ended higher by 51 basis points at Php 10.8 billion, which led to an absolute EBIT of Php 1.7 billion; 15% growth versus same period last year driven by the branded food operations in the Philippines.

Sales growth of Branded Foods Philippines accelerated in the first quarter of the fiscal year on the back of strong beverage sales. Q1 sales ended at Php 9.9 billion translating to an 18% growth. The growth came primarily from volume increases with a total volume increase of 15% for the quarter. Beverages were the main mover as they registered first quarter growth of 81% versus last year on the back of sustained growth of both our powdered beverage business, primarily coffee mixes, and the strong start to our ready to drink tea business. For coffee, our mixes continued to drive the growth behind the success of our Great Taste White Coffee offering.

URC continued to gain shares, over the past three market share readings we have received another 1.4 percentage points in total coffee value market share, exiting the end of the year at 16.6% for the entire coffee category. Ready to drink beverages posted significant growth, driven primarily by ready to drink tea complemented by other categories, primarily water and juice. Ready to drink tea continued to grow, due primarily to the move to open up our 230 solo SKU to our key accounts. The snackfoods category had a flattish volume versus last year with some softness in biscuits and confectionary categories, as we encountered some temporary supply issues in Q1. Salty snacks continued to grow on the back of sustained sales of our top chip brands, particularly in potatoes and multigrain, complemented by new product success in the extruded segments.

Bakery business was down despite the growth in cakes as biscuit sales were softer due to weak cracker sales. Confectionery sales were rather flattish and we have already launched a few new chocolate products to address lower price segments which some customers have shifted to. Overall we launched 14 new products for Branded Food Philippines in Q1 2013.

EBIT continued to outpace sales in terms of growth with a 31% year on year improvement. This was driven by the price reductions for some key inputs, particularly robusta coffee beans, which is down 17% versus the same period last year, and palm oil, which is down 16% versus same period last year. EBIT margin registered a 12%, significantly better than last year's by 111 basis points.

Q1 sales for Branded Foods International went up 5% year on year, in US dollar terms, but flat due to peso appreciation. Sales registered $129 million or Php 5.3 billion. Vietnam and Indonesia continued to drive top line growth while Thailand was down relative to last year, due primarily to tough comparables. Q1 EBIT registered at $12.4 million or Php 511 million, slightly down versus same period last year, as margins in Thailand ended substantially lower due to the increased level of advertising and promotions and heavier weight of products sold versus last year. However, the quarter on quarter trend shows margins improving versus Q4 of 2012 on the back of better input prices.

Vietnam sales continue to accelerate and ended Q1 with high teens growth in US dollar terms. Ready to drink beverages continue to grow significantly on the back of sales of C2, our ready to drink tea brand, and Rong Do, our energy drink offering. Average monthly ready to drink sales grew by 30%. Salty snacks also contributed to the growth as our pelletized snacks, Kornets, began to gain wider distribution. Continued consumption for the type of products we offer, our widening portfolio and the expansion of our distribution network in Vietnam, particularly in rural areas, we expect will continue to lead further opportunities to grow both the snacks and beverage business.

Thailand was down 12% in US dollar terms versus last year, with the first quarter comparable being extremely tough, but we are now in the process of slowly growing our biscuit and wafer businesses. Q1 of the prior year was the time of prolonged flooding in Thailand and when consumers did a lot of panic buying of products such as biscuits and wafers. This led to an abnormal year on year growth of 12% during that time, despite coming from a very good growth year in 2011 of 34%. Q1 of 2012 was challenging and we expect growth momentum of the business to be more pronounced starting the second quarter of this current fiscal year. On a quarter on quarter basis, we are already seeing sales rebound up by 7% for Q1 2013 versus Q4 2012, and we continue our efforts in revitalizing our biscuit and wafers by temporarily increasing A&P spend, and bringing back product weights to enhance value to consumers. We are now slowly seeing the benefits of this strategy; however, this has resulted in lower margins for Q1.

On the other hand, looking at the last retail report of AC Nielsen, spending on impulse products has slowed down over the past year. On November 2012, the impulse category was growing at 2.4% versus 10.2% growth the previous year, and biscuits and wafers in particular – where we are the market leaders – were down 6.3% for the year. We, however, will continue our efforts to build our salty snacks and cakes business.

Indonesia sales were up significantly versus last year, up 37% on the back of salty snacks and ready to drink beverages. Salty snacks were up 42%, as Piattos, our potato snack – which is now currently one of the top 10 snack brands in Indonesia – continues to gain traction. We are likewise introducing new extruded snacks to offer better offerings at lower price points. This comes on the back of improved distribution structure which provides more focus and specific strategies to different sales channels. Our ready to drink beverage, C2, likewise showed very significant growth under this strategy growing by nearly 70%.

Malaysia and Singapore grew slightly versus prior year and we continue to see efforts toward the improvement of distribution structure as well as the rationalization of the product portfolio in order to gain more attention for higher potential products.

China and Hong Kong were slightly up versus last year in US dollar terms as the Chinese New Year build up this year is expected to be in January instead of December, which was the case of last year. China, however, continued to augment coffee and creamer capacity for the Philippines and operated EBIT positive for Q1.

For Commodity Foods Group, Q1 sales ended at Php 2.4 billion, up significantly versus same period last year by 29% due to the higher sales volume for our sugar business. With EBIT margins remaining healthy, the increased sales also led to a much better operating income of Php 800 million, a 23% increase versus last year. Flour registered Php 1.1 billion in sales for the first quarter down 8% versus last year as sales volume was also down as imports of low cost imported flour increased and calamities affected our main market in Mindanao. Selling prices were comparable to last year but Flour EBIT ended the quarter at Php 292 million, down 21% versus last year due to the lower volumes as well as lower margins arising from higher wheat cost. Sugar business posted Php 1.4 billion sales, an 86% increase versus last year due to better volumes as the milling season started earlier this year. Sugar selling prices have increased slightly versus last year. EBIT margins remain quite healthy resulting in an EBIT of Php 508 million for the Sugar business, an 81% growth year on year.

The Agro-Industrial Business registered Php 2.1 billion in sales for the first quarter; a 10% growth year on year on the back of improving performance of our Farms business. Operating margins improved significantly and led to an EBIT figure of Php 159 million, almost three times the level of the prior year as selling prices for Feeds improved and Farms were profitable due to significantly higher selling prices for hogs. Feeds posted sales of Php 851 million, 15% lower than last year due to much lower volumes, brought about by the relatively lower population for backyard hog raisers as some of them exited during the time of low pork prices last year. However, EBIT for the Feeds business continued to improve at Php 106 million, a 6% increase from the previous year. Farms posted sales of Php 1.2 billion or 36% higher than last year, due to much better selling prices of pork, up 31%, or Php 101/kg versus Php 77/kg, same period last year, and 8% better volumes. This led to positive EBIT margins this year and an EBIT of Php 53 million. The EBIT includes a Php 24 million marked to market inventory gain due to better prices.

Turning to our balance sheet, URC's balance sheet continues to be very healthy. URC generated EBITDA of Php 3.2 billion for Q1, a 14% increase over last year. We continue to maintain a net cash position of Php 6.2 billion in Q1, from Php 5.9 billion at the end of our fiscal year. Major cash inflows would be from Php 1.7 billion in earnings from operations. On the other hand, major cash outflows were Php 1.8 billion spent on capital expenditures including the acquisition of the Tolong sugar mill for over Php 700 million. Gearing ratio continues to be low at the level of 0.3, due to the retirement of our $200 million bond last January, resulting in lower long-term debt.

Lastly, let me take you through our outlook and plans for the new fiscal year. For fiscal year 2013 guidance, we expect net sales to grow by low to mid-teens, and grow our EBIT by mid to high teens. The plans and outlook for balance fiscal year 2013 are as follows:

1. We expect the strong sales momentum for our Branded Consumer Foods Philippines, to continue for the rest of the year. This would be on the back of continued innovation and new product launches, particularly in untapped product segments, building up on the success of new products launched in recent years, such as Great Taste White Coffee and Mang Juan salty snacks. We also expect to capitalise on some temporary increase in consumption arising from both the buoyant economy and more particularly the mid-term elections.

   January sales data for Branded Foods Philippines, shows we are on track as healthy top- line growth continues, from both our powdered and ready to drink beverage businesses, and this was complemented by the accelerating sales growth coming from our snackfoods leg, mainly from both salty snacks and baked products.

   On the international front, for Thailand we have continued to put efforts towards the recovery of the biscuits and wafer markets and on building our cake and salty snack business. January sales were already ahead of last year by 9% and 7% higher than the traditionally stronger October to December period, and we expect this growth to continue for the balance of the fiscal year.

   For Vietnam we continue to grow at a fast pace as we build the other beverage and snackfood legs outside our ready to drink tea business. We will continue to build our energy drinks brand, Rong Do, and aim for the number two position in the energy drinks market, and we plan to launch entirely new ready to drink product format in Vietnam by the middle of the year. On the snackfood side we will continue to build our biscuit, candy and snack businesses, and we aim to improve our distribution in Vietnam, by expanding our coverage beyond the six largest cities and improve the distribution of C2.

   For Indonesia, we aim to capitalize on the momentum we gained in the last fiscal year for our snack business in Q1 of 2013, particularly in growing both our snacks and ready to drink tea business. For salty snacks we are aiming to be within the top three market position by the end of the fiscal year, on the back of continued improvement in distribution, product innovation and addressing price points. We will continue to build our business in Indonesia by investing in A&P.

2. Our capital expenditure budget for 2013 is $120 million with the bulk going to the branded foods business primarily in the ASEAN. This amount includes additional capex for acquisitions and new projects in sugar. On the branded food side of the business, in the Philippines we are looking to install new lines to expand our capacities in various snackfood

and grocery type products while continuing to modify and improve the efficiency of our coffee and PET lines. For Vietnam, we are commissioning new PET lines as well as additional bakery products this year to further expand our category coverage. For Thailand, capex will be more focused on the improvement and maintenance of our existing line as we focus on bringing back our volumes in Thailand. And spending for Indonesia will be primarily on additional capacity in the snack business to support rapid growth in our snack business in Indonesia.

3. Input prices have continued to be quite relaxed and this has been a boost to URC's profitability. We will continue to monitor the trend for input prices very closely as they affect our margins very closely.

4. For our other businesses in commodities and agro-industrial group will remain profitable in 2013. We expect sugar to register record high profits in 2013, versus 2012, due to additional volumes from the mills we already operate as well as the mill we acquired in Tolong. Flour will register lower absolute EBIT versus last year due to higher wheat prices. Farms will benefit from pork prices and Feeds is expected to register more profit on the back of better volumes as the hog and farm populations are projected to increase as the year goes on.

5. Finally, I would like to brief everyone that we have sold URC's investment portfolio amounting to $369 million late January, the proceeds will be used to pre-pay our Php 3 billion debt with an interest cost of 8.75% which is maturing in 2014, as well as repaying all our other short-term debt and trust receipts payable. This transaction will be reflected in the balance sheet of our Q2 financial statement.

That ends our presentation and we are now open to Q&A.

QUESTION AND ANSWER

Speaker:

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

Dawn Koh, Albizia Capital:

Hello, hi, this is Dawn Koh calling from Albizia Capital, a few questions from me. Number one, why did your operating expenses increase so significantly? And number two, are there any investment assets remaining? And, if so, what sort of yield are you expecting? And, number four, has your international operations disappointed, given that you've just acquired the remaining stake last year? And, also I just wanted to check whether the numbers in your presentation are on a pro forma basis to take into account your additional stakes and international ops? Yes, that's all.

Lance Gokongwei, President and COO, URC:

Okay, let's do that slowly. Most of the additional expenses are primarily related to advertising and marketing costs that we have been investing in both the Philippines and internationally, to support the very rapid growth we are experiencing in the Philippines, as well as growing business in Indonesia, as well as supporting our Thai operation. Overall we do expect that we should continue to grow revenue at a faster rate than overall overhead expenses, so we do expect a margin expansion over time. The second question had to do with investments?

Dawn Koh, Albizia Capital:

Yes.

Lance Gokongwei, President and COO, URC:

We, as of this date, I think the remaining investments we have are related to some historic shares we own in a company called Anscor, I think it's about 70 million shares, which is probably worth about Php 400 million, approximately- Php 350 to 400 million pesos. So that's the remaining equity stake we have in the company, outside money market.

Dawn Koh, Albizia Capital:

Right.

Lance Gokongwei, President and COO, URC:

The third question had to do with international growth. I think this is probably not the best quarter to compare because a lot of the sales have to do with the timing of Chinese New Year in Feb. This year, the Chinese New Year is in Feb– traditionally the month before Chinese New Year, you will have strong sales, and last year that was in December. This year it's primarily in January. Also the first quarter last year in Thailand was extremely strong, so that's a difficult comparable.

We have seen the results for January, they're very strong; they're up 40% versus same period last year, but again, I would caution against looking at just one month's sales, because a lot of this had to do with the timing of holidays. We do expect that from sales last year of about $470 million, we think we'll do about between $530-540 million this year, so about 14% to 15% revenue growth overall. So, we do expect that this is consistent with the kind of growth we want from our international business.

Sorry, did I miss another question?

Dawn Koh, Albizia Capital:

Yeah, I just wanted to check whether your numbers in the presentation are on a pro forma basis to take account of –

Lance Gokongwei, President and COO, URC:

100% ownership of URC International.

Lance Gokongwei, President and COO, URC:

If there are no further questions, well Mike and I would like to thank you for joining our discussion. Maybe we'll give you one more minute to see if there are any more questions. If not, I would like to greet everybody a happy new year and we hope to hear from you again in three months. Thank you.

Speaker:

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

END OF TRANSCRIPT