D&L Releases Third Quarter 2024 Financial Results

- 9M24 earnings up 1% YoY to P1.8bn; Incremental expenses from newly commissioned lines weighed on 3Q24 earnings which were down 11% YoY to P 493 mn
- Export outpaces domestic performance - sales +38% YoY, gross profits + 24% YoY; GPM higher by 1.4 ppts vs domestic sales
- Underlying business strength is shown in the double-digit volume growth in both HMSP and Commodity segments, with overall volume growth of 32% in 9M24
- HMSP volumes +10% in 3Q, up for the fifth consecutive quarter since the commercial operations of the Batangas plant
- Near-term earnings drag mask the potential of the new plant, management remains optimistic on long-term growth

Key Figures Summary

	9M YoY			3Q YoY			3Q QoQ		
(In P mn)	**9M24**	**9M23**	*% change*	**3Q24**	**3Q23**	*% change*	**3Q24**	**2Q24**	*% change*
Sales	**29,482**	24,715	*19%*	**10,508**	8,485	*24%*	**10,508**	10,143	*4%*
Gross Profit	**4,753**	4,304	*10%*	**1,689**	1,439	*17%*	**1,689**	1,556	*9%*
Net Income	**1,810**	1,792	*1%*	**493**	552	*-11%*	**493**	698	*-29%*
EBITDA	3,837	3,578	*7%*	1,248	1,303	*-4%*	1,248	1,337	*-7%*
EBIT	3,001	2,831	*6%*	939	998	*-6%*	939	1,051	*-11%*
EPS (in centavos)	**25.3**	25.1	*1%*	**6.9**	7.7	*-11%*	**6.9**	9.8	*-29%*
Gross Profit Margin	**16.1%**	17.4%	*-1.3 ppts*	**16.1%**	17.0%	*-0.9 ppts*	**16.1%**	15.3%	*0.7 ppts*
HMSP Contribution	**54%**	55%	*-1 ppts*	**54%**	61%	*-7 ppts*	**54%**	53%	*1 ppts*
Net Gearing	**68%**	64%	*4 ppts*	**68%**	51%	*17 ppts*	**68%**	55%	*13 ppts*

November 6, 2024 - D&L Industries' recurring income reached P1.8 billion, or earnings per share of P0.253, in the first nine months of 2024. This is higher by 1% YoY. In the third quarter alone, earnings stood at P493mn, down 11% YoY which was largely due to higher cost base resulting from newly commissioned lines inside the Batangas plant. On a year-to-date basis, the new plant remains almost at break even despite higher costs for the quarter.

"What we are seeing now is the natural cycle of operating a new plant. As we further ramp up operations, cost base will increase but this should be offset by the new business that we expect to come in," remarked D&L President & CEO Alvin Lao.

"Strong export sales continue to drive overall business amidst the generally cautious consumer sentiment in the domestic market. So far this year, export is outpacing domestic performance. Export sales are up 38% YoY with gross profits up 24% YoY," Lao added.

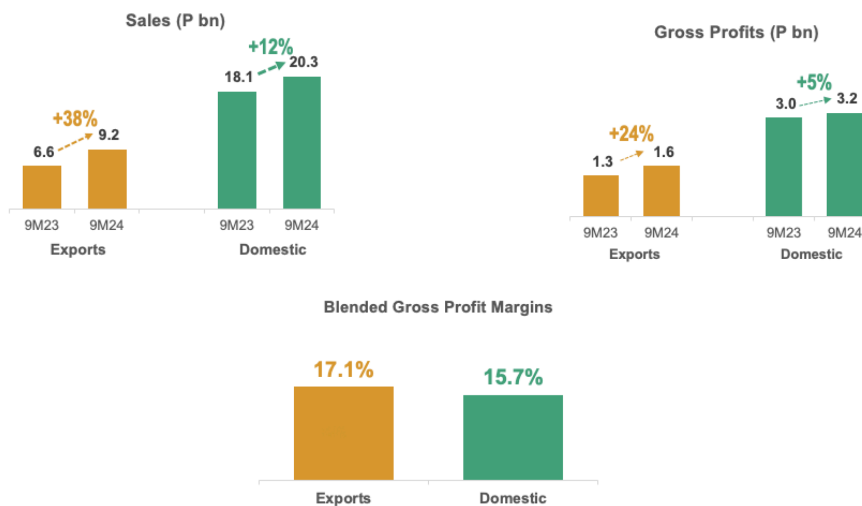
"At current export growth levels, we believe we are still barely scratching the surface. We expect exports to continue to increase its relevance to the overall business. From this perspective, our Batangas plant becomes more strategic as it allows us to go after exports more aggressively. We believe the near-term cost drag coming from the new plant masks its long-term potential.

What we are witnessing is the very early stages of a long-term structural growth story of the company," Lao concluded.

Export is a bright spot

Exports continued its positive momentum well into the first nine months of the year booking a total sales of P9.2 billion, which is higher by 38% YoY. Meanwhile, export gross profits jumped by 24% YoY over the same period. This comes in as a bright spot amidst a generally cautious consumer sentiment in the domestic market in which sales only grew 12% YoY while gross profits grew 5% YoY.

Export vs Domestic market



While inflation has started to taper off, the elevated inflation over the past couple of years has brought up prices to a level that outstrips the general growth in income levels which seems to be weighing down on domestic demand.

The export business provides a strategic revenue diversification for D&L. The potential upside can be far greater than the domestic business based on just the sheer size of the addressable market. In terms of gross profit margins (GPM), the export business also has better margins (17.1% vs 15.7% for the domestic market) as the company mainly focuses on exporting higher value-added products where it has the competitive advantage in.

Natura Aeropack Corporation (NAC) and D&L Premium Foods Corp (DLPF), the operating companies behind D&L's Batangas plant, are aggressively pushing high-value added coconut oil-derived ingredients and finished products for the food, personal hygiene, and home care segments in the export market. With the increasing concern on the massive deforestation associated with the use of palm oil and the depletion of non-renewable energy sources and high carbon footprint associated with the extraction and use of petroleum, coconut-derived

ingredients offer an excellent natural, organic, and sustainable alternative for many industries and applications.

With the commercial operations of the Batangas plant, the company now has the capability and capacity to be able to supply to bigger export customers. Over the medium-term, management is optimistic that it will reach its goal of having export sales account for at least 50% of total revenues.

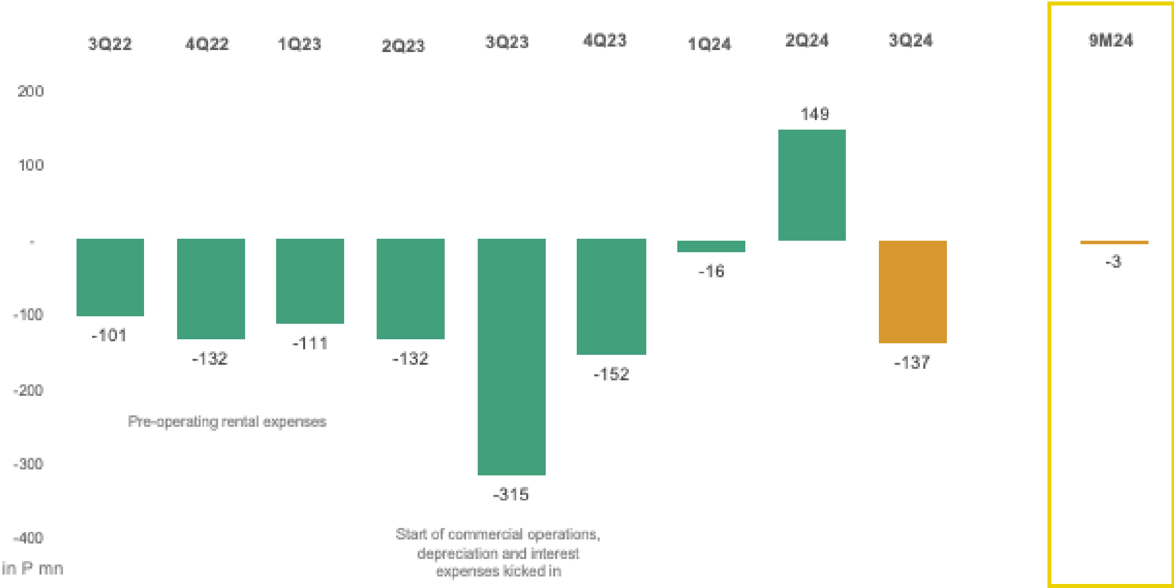
Laying the foundation for future growth

In 3Q24, there were newly commissioned lines inside the Batangas plant. The incremental expenses associated with these additional lines dragged earnings which resulted in a P 137 mn losses for Batangas for the quarter.

While the expenses in commissioning new lines are more apparent in the near-term, the company believes that it masks the long-term potential of the plant. Upfront increase in operating expenses are part and parcel of building a new plant. To a certain extent, this is an indication of capacities coming online in anticipation of future volume growth.

On a YTD basis, the Batangas plant remains at almost breakeven, which based on the company's experience with the several plants that it has built, is already ahead of expectations. In general, for a new plant, it usually takes two years from commercial operations to reach breakeven levels. The Batangas plant started commercial operations in July 2023.

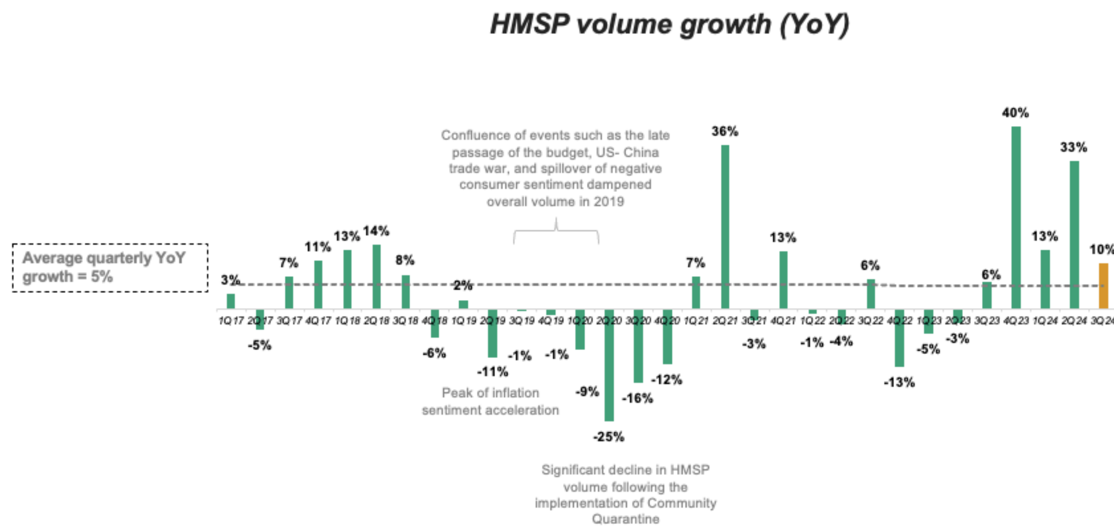
Quarterly & YTD income/losses of Batangas plant



Underlying business strength is shown in double-digit volume growth

Despite a still challenging overall macroeconomic environment, the company managed to book double-digit volume growth in both its High Margin Specialty Products (HMSP) and commodity segments. HMSP volumes were up 18%YoY while commodity volumes were up 44% YoY in the first nine months of the year.

For the HMSP segment, which is the key earnings driver for the company given its higher margins and stickier nature, volumes were up for the fifth consecutive quarter. The additional capacity coming from the Batangas plant, which is mainly geared towards the development and manufacturing of higher value-added products, is helping spur the growth in the HMSP segment.

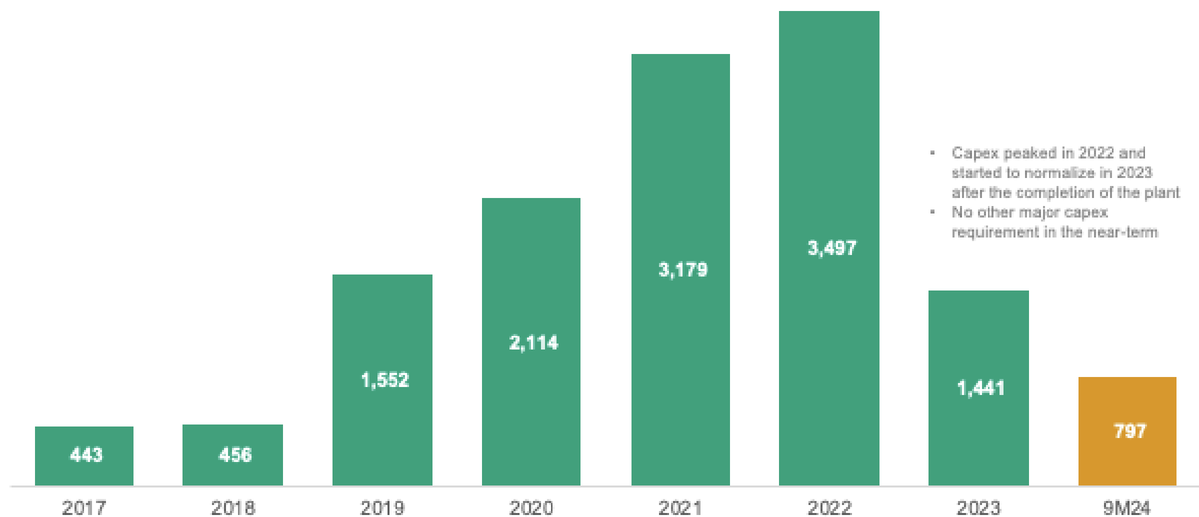


Balance sheet remains robust; capex has started to normalize

The company's balance sheet remained in a solid position even with the huge capex over the past couple of years. As of end-September 2024 net gearing stood at 68% while interest cover remained at a comfortable level of 5x. With the maturity of the P3 billion bonds issued in September 2021 which carry a coupon rate of 2.8% p.a., average cost of debt has increased to 6.42% from 5.73% last quarter. Nonetheless, as central banks continue to cut rates, average cost of debt should start going down in the coming quarters.

From a capex standpoint, the company does not expect any major capex spending in the near-term. As shown on the chart on the next page, capex has started to taper off in 2023 with the completion of the Batangas plant.

Capex (P mn)



Segment results

<u>Food Ingredients</u>

The food ingredients division continues to deliver solid volume growth. In the first nine months of the year, total volumes grew 38% YoY. However, earnings for the period only grew by 4% YoY due to the incremental costs associated with newly commissioned lines in Batangas.

With its global marketing initiatives and active participation in various world trade shows and conferences, the company has had several successes in gaining new export customers to date. As the new plant ramps up operations, coupled with the improving macroeconomic backdrop and an aggressive export thrust, management is optimistic on the long-term growth potential of this segment.

<u>Chemrez</u>

After a challenging year for Chemrez, things have finally started to improve with 9M24 earnings up 11% YoY. In the third quarter alone, earnings were up 49% YoY.

The recovery was largely fuelled by the 1% increase in biodiesel blend to 3% (B3) which was implemented last October 1, 2024. This has positively impacted the biodiesel sales for the period as oil companies have started pipelining prior to the October 1 implementation date. The Philippine government intends to further increase the mandated biodiesel blend to 4% (B4) by October 2025 then to 5% (B5) by October 2026.

In addition to the positive regulatory catalysts on the horizon, management believes that Chemrez is well-positioned to capitalize on long-term opportunities. The new plant in Batangas gives Chemrez a new runway for growth given the additional capability and capacity to manufacture higher value-added products for both its local and international customers.

Specialty Plastics

The Specialty Plastics division delivered strong results in 9M24 with earnings growing by 32% YoY. Total volume for the period was up by 11% YoY while margins were higher by 4.9 ppts YoY. With its stellar performance, the plastics division has overtaken both the food ingredients division and Chemrez in terms of net income contribution for the period.

Improvements in the global auto industry translated to higher demand for engineered polymers for auto wire harness application, which the company manufactures under this division. In addition there were successful market share grabs during the period, as the company continues to demonstrate its reliability as a supplier and as it invests in resources to further develop customer relationships.

Consumer Products ODM

Coming off from a high base last year coupled with the lingering effects of elevated prices and incremental expenses coming from the Batangas plant, Consumer Products ODM segment booked a 53% YoY drop in earnings. The weakness in this division is more of a reflection of the generally cautious consumer sentiment in the domestic market as 94% of this division's sales are local. Moving forward, as inflation continues to cool off and as income levels catch up with elevated prices, the company expects recovery in this segment. Furthermore, exports provide a new leg of growth with contribution to total sales currently at 6% from virtually zero about six years ago. Management sees export contribution to continue to go up over the long term.

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D&L Industries is a Filipino company engaged in product customization and specialization for the food, chemicals, plastics and consumer products ODM industries. The company's principal business activities include manufacturing of customized food ingredients, specialty raw materials for plastics, and oleochemicals for personal and home care use. Established in 1963, D&L has the largest market share in most of the industries it serves, as well as long-standing customer relationships with the Philippines' leading consumer and manufacturing companies. It was listed on the Philippine Stock Exchange in December 2012. For more information, please visit https://www.dnl.com.ph/investors/.

This press release may contain some "forward-looking statements" which are subject to a number of risks and uncertainties that could affect D&L's business and results of operations. Although D&L believes that expectations reflected in any forward-looking statements are reasonable, D&L does not guarantee future performance, action or events.

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