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O32.SI - Full Year 2017 Olam International Ltd Earnings Presentation

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## PRESENTATION

**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Good morning, ladies and gentlemen. A warm welcome to all of you to our Olam Learning Academy at Marina One, Singapore. Today, we announce Olam's fourth quarter and full year results for the period ended 31st December 2017. And we're delighted to have you join us at this time of the year. The new year has just started, so we want to wish you a very Happy New Year and Gong Xi Fa Cai (foreign language) to those of you who celebrate the start of the Lunar New Year.

Before we begin the briefing in earnest, I would like to -- like us to observe safety first. We're going to play the safety video, and we hope to have your attention, please.

(presentation)

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**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

We shall be safe. Thank you.

Let me begin with the formal introduction of our management team seated here with us today. Seated on my extreme right -- or extreme left, sorry, is our Co-Founder and Group CEO, Sunny Verghese. And on his right is his right-hand man, A. Shekhar, Executive Director and Group COO. And on my left is N. Muthukumar, President and Group CFO. He will be our chief presenter today.

Before we get into the agenda, here's a cautionary note on forward-looking statements, and I shall take it as read and understood.

Apart from presenting our results highlights and the business segments, we will be presenting a review and analysis of our value chain segments as well, which we only do at the full year results. This time, we will also update you on our Strategic Plan. I'm pleased to now invite Muthu to come forward to start his presentation. Thank you.

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**Neelamani Muthukumar** - *Olam International Limited - President and Group CFO*

Thank you, Hung Hoeng. Good morning, ladies and gentlemen. A very warm welcome once again to our full year results for 2017.

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I'm delighted to present a very strong set of financial results for 2017: a healthy volume growth of 56% to 22.5 million tonnes; EBITDA grew by 10% to SGD1.33 billion, up from SGD1.2 billion in 2016; PATMI grew 65% to SGD581 million from a SGD351 million base; operational PATMI, our key metric, also grew a healthy 19% to SGD432 million, up from SGD364 million; free cash flow to equity is a positive SGD1 billion, again, from a negative SGD766 million that we ended in 2016; and net gearing is significantly down from 1.99x levels in 2016 to 1.46x.

Clearly, we have had fantastic metrics, all positive metrics on volume, revenue, EBITDA, PATMI, operational PATMI and the PATMI growth. And that is reflecting on our improved returns. And EBITDA by IC, which is at the portfolio level, grew to 8.2%, up from 7.1% (sic) [7.7%]. And ROE grew 3% from 6.1% to 9% for the full year. And here, again, I want to talk about FCF and FCFE. We grew cash positive by SGD1.8 billion on a year-on-year basis.

We had an earlier-than-anticipated conversion of our warrants into equity, and that increased our share capital approximately by SGD585 million. And also supported by higher retained earnings, that had resulted in a very strong balance sheet for us. And all of these have culminated in Olam's board recommending a final dividend of SGD0.04 per share, taking the full year dividend to SGD0.075 per share, up 25% on a dividend payout year-on-year from SGD0.06 per share in 2016.

We are continuing to focus on delivering our 3-year Strategic Plan for the period 2016 to 2018. We are well on plan, and we have delivered a very strong set of financial results in 2017 and poised to deliver on plan for the 2018 as well.

As I talked about volume, the volume grew 56% from 14.4 million tonnes to 22.5 million tonnes across all segments, from Edible Nuts & Spices, Vegetable Ingredients to Confectionery & Beverage. Both Cocoa and Coffee had higher volumes. Food Staples & Packaged Foods business grew by 7.4 million tonnes, primarily on backing of trading volume from Grains, Edible Oils and Rice. And Industrial Raw Material volumes also grew substantially because of increased Cotton volumes, particularly in the U.S.

EBITDA at the portfolio level grew 10.4% (corrected by company after the call) to SGD1.33 billion, up from SGD1.2 billion. Edible Nuts was the star performer, with increase of SGD107 million on a year-on-year basis. Confectionery & Beverage reduced on a lower contribution by SGD80 million, primarily because of significantly lower contribution in Q4 from the Coffee supply chain business and also a little bit of Cocoa bean trading but which has settled down by the year-end. Food Staples grew from SGD330 million to SGD360 million. Good performances from Grains milling and Rice, Dairy trading, partially offset by PFB business in Nigeria and also from Edible Oil business. Industrial Raw Materials and Ag Logistics & Infrastructure grew from SGD135 million to SGD197 million of EBITDA, backed by strong EBITDA growth in Cotton as well as from strong contribution from Gabon SEZ, wherein 2 of our ports came onstream during the second half of 2017. Commodity Financial Services also came to the party by delivering a SGD5 million positive EBITDA with contribution from funds and TSF businesses. Overall, going up to SGD1.33 billion, an increase of 10.4% (corrected by company after the call) on a year-on-year basis.

PATMI grew 65.3% from a SGD351 million base to SGD581 million. I'd like to call out, out of this, yes, SGD125 million is from operational earnings. And also, in spite of increase in finance costs of SGD62 million up from \$403 million to \$465 million, as you all know, we had increasing interest rates, and we as an organization had taken proactive steps in increasing fixed rate -- fixed interest rate loans borrowings during 2017 to mitigate some of this increase in interest expenses, and that has helped us in reducing or increasing interest cost, which otherwise would have been higher considering a 56% volume growth and a 28% revenue growth during the year.

The exceptional items of SGD162 million change is primarily driven by 3 transactions. During the last quarter, we sold 50% of our sugar refining business in Indonesia for a profit of SGD 121 million. We also sold our farmland assets in the U.S. for a SGD34.2 million of profit. And in Q2 of 2017, we had made a resettlement provision in the U.S. for SGD6 million, and that resulted in net exceptional gain for the year of SGD149 million. The change of SGD162 million is on account of a SGD12.5 million loss -- exceptional loss that we have booked in 2016 due to early buyback of our convertible bonds.

Another reason on taxation, there is a positive change of SGD15 million. Our overall taxation provision for the year stood at SGD79 million, down from SGD94 million. Our effective tax rate for the full year last year in 2016 was 21.7% and 20.5% on an operational earnings basis. That has come down to 12.5% effective tax rate on a reported PBT basis and also to a 15.5% on an operational PATMI basis.



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In spite of a significant growth in volumes and revenue, 56% volume growth and 28% revenue growth, our overall invested capital has come down by 5% to SGD15.8 billion, down from SGD16.6 billion. More importantly, working capital came down by 13% due to very focused working capital optimization initiatives that we had undertaken, especially in Cluster 1 businesses, as well as supported by lower commodity prices across various commodities in our portfolio.

Fixed capital grew with continued and committed investments in Upstream and Midstream assets but partially offset by capital release that we had from the sale of edible nut farmland assets in the U.S. as well as repayment of shareholder loan by Gabon SEZ.

Our net gearing came down significantly during the year to 1.46x, down from 1.99x that we ended in 2016. This was supported by lower working capital, aided by somewhat lower commodity prices, lower gross CapEx. We spent close to SGD 900 million much below what we had planned for. And we also had cash release from divestments that I've talked about and supported by conversion -- earlier conversion of warrants into equity than anticipated. Adjusted gearing, adjusted for readily marketable inventories and secured receivables, came down from 0.73x to 0.51x. And during the last -- the month of January until the expiry of warrants conversion date of 29 January, we had additional warrants that were exercised amounting to SGD51 million, taking an overall share capital increase on account of exercise of warrants to SGD 650 million.

We had a record free cash flow to equity in 2017. Most of you and some of the analysts and media had always talked about Olam is in the quest for growth but had always had negative cash growth. And we are very happy to report a significant jump in a positive free cash flow to equity of SGD1 billion. As you can clearly see, that is a SGD1.8 billion move on a year-on-year basis, supported by operating cash flow, the EBITDA growth, changes in working capital by more than SGD1 billion, reduction in tax paid, more importantly, reduction in CapEx and investments through very disciplined investments only and committed CapEx, and also offset by increase in interest paid of SGD116 million. But overall, a very healthy, positive free cash flow to equity of \$1 billion and a free cash flow to firm of SGD1.5 billion.

We have significant and available liquidity of SGD8.5 billion unutilized bank lines; overall, a SGD5 billion of headroom, between SGD11.5 billion of our borrowings having a liquidity -- overall liquidity of SGD16.7 billion, combination of a SGD2 billion of cash, SGD4.5 billion of readily marketable inventories, SGD1.7 billion of secured receivables and, more importantly, SGD8.5 billion of unutilized bank lines.

Moving on to segmental review. Our star performer, as I had highlighted earlier, was Edible Nuts. During the year of 2017, we had SGD107 million of EBITDA growth in this segment. All businesses in the Edible Nuts platform had performed very well, right from almonds, which is supported by firmer prices; cashew; hazelnuts; peanuts, which had a full year contribution from the Brooks peanut-shelling assets, which was acquired during the second half of 2016, had a full year contribution in 2017; and also supported by sesame business. This was partially offset by a lower contribution from Olam tomato processing in the U.S. We had called out the underperformance of the tomato business due to market glut and lower demand for tomatoes right from Q1, and that has continued into Q4. And various measures have been taken to restructure the business, including change in the product mix, to bring back the viability of this business going forward.

The overall investment capital came down by marginally to SGD3.6 billion primarily because of sale of the farmland assets in the U.S. in the fixed capital basis. But marginally, the working capital went up due to firmer almond and cashew prices.

In Confectionery & Beverage Ingredients business, it's a tale of 2 stories. Coffee, which entered 2016 very strongly, had a very good first half of 2017. But due to inversion in market in Robusta and as well as short crop across many origins in Arabicas, that had a significant challenge and headwinds in terms of the supply chain business in -- especially in Q4. And that had resulted in a significantly lower contribution from Coffee in this segment.

Cocoa, however, which had a barrier -- relatively barrier in Cocoa supply chain and origination in 2016 had a slow start in the first half but had a better second half in terms of setting down in terms of margin profile, both on Cocoa bean trading as well as in products trading, while the Cocoa processing business has been very steady throughout the year, supported by high combo ratios.

Invested capital came down significantly from SGD6.1 billion to SGD5.3 billion in the segment, primarily through targeted working capital optimization initiatives, especially on inventories, both in Cocoa and Coffee.



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Moving on to Food Staples & Packaged Food branding business. It had a increase of SGD30 million in EBITDA, up from SGD330 million to SGD360 million, supported by improved EBITDA in grains milling in West Africa, all the increased capacity that we had in Ghana, as well as in Nigeria, as well as Cameroon and Senegal, which had market pickup issues in 2016, have also come to the party, and they have contributed more in 2017. Both Rice and Dairy trading businesses have done well, and this was partly offset by a lower contribution from Sugar and Packaged Food business in Nigeria.

Overall, the investment capital grew from SGD4.5 billion to SGD4.6 billion, mainly on account of higher fixed capital investment in animal feed, mills and hatchery business in Nigeria. I forgot to call out, it has -- it came into commercial production in the second half of 2017, has gone off to a very good start and is poised for a strong contribution in 2018 as well. We had expanded our wheat milling capacity in Ghana and Nigeria as well as our continued investment in Upstream palm plantation in Gabon. However, working capital was lower in spite of significant increase in volumes and revenue on account of optimization initiatives but also supported by lower commodity prices.

Moving on to Industrial Raw Materials, Ag Logistics & Infrastructure segment. This is again a very strong performance from the segment. Apart from Edible Nuts, both Cotton and Gabon SEZ had stellar performances in 2017. Cotton grew volumes, revenue as well as bottom line from across all its important operations in the U.S., in Australia as well as in the integrated ginning business in West Africa.

Gabon SEZ, after the commercial start-up of the 2 ports, have also contributed strongly. And that has resulted in a SGD62 million of EBITDA increase, up from SGD135 million to SGD197 million. In spite of that, our overall invested capital has come down from SGD2.2 billion to SGD2.1 billion, primarily due to inventory optimization initiatives in the Cotton business. The higher fixed capital came about because of continued committed investments in our Upstream rubber plantation in Gabon as well as expanding our integrated ginning operations in Côte d'Ivoire.

So as Hung Hoeng had talked about, we also present our business performance by value chain as part of our full year results by Upstream, Supply Chain, Midstream and Downstream segments. I'm commencing that with the Upstream segment now.

Upstream had a very healthy increase in EBITDA, up from SGD79 million to SGD108 million (sic) [SGD188 million], more than double in terms of EBITDA contribution for the year, based on stronger contribution from almonds due to increasing yields and prices, both in Australia and the U.S. and also very strong performance -- relatively stronger performance from Rusmolco in Dairy as well as the grain farming business. And more importantly, our rice farming business, which had struggled in the past, had turned positive EBITDA in 2017. These were the 3 Upstream businesses that had really contributed to the increase in EBITDA from SGD79 million to SGD188 million. In spite of that, our overall investment capital grew marginally from SGD3.7 billion to SGD3.9 billion, primarily due to continued upstream investments in palm and rubber in -- plantations in Gabon but also partially offset by our sale of farmland assets in the U.S. The optimization initiative that I talked about earlier has also helped in reducing our working capital intensity in the segment.

Supply Chain core. All are fully contributing assets came down marginally from SGD504 million to SGD451 million. I had talked about lower -- significantly lower contribution from Coffee supply chain, especially in Q4 due to adverse market conditions, and as well as initial sluggishness that Cocoa bean trading had and some lower contribution from Sugar trading. The invested capital significantly came down from SGD6.5 billion to SGD5.8 billion due to a slew of working capital optimization initiatives that we had initiated during the year and also supported by lower commodity prices across the supply chain.

Moving on to Midstream and Downstream. 11% EBITDA growth, up from SGD620 million to SGD689 million; improved EBITDA because of higher contribution from the wheat milling in West Africa I called out earlier as part of our Food Staples segment discussion; peanut processing plants with Brooks peanut shelling having a full year contribution into the Peanut business; as well as the Gabon SEZ contributing because of the 2 ports that were commissioned during the year. And this was partially offset by a weaker contribution from tomato processing. We talked about it. We have already initiated various restructuring measures, including reorganization of product mixes to take care of the market situation. And in Packaged Foods business, especially in Nigeria, we had a full strategy refresh, and we have initiated rebranding and also introduction of new SKUs, which we believe will turn around the business in 2018 going forward.

Working capital reduction was caused by positive optimization initiatives, especially in the inventory levels for Cocoa, and also supported by lower prices in the segment. Overall, the invested capital came down by SGD200 million, down from SGD6.3 billion to SGD6.1 billion in the segment.



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So this is an important slide. So every year, we are talking about all we have invested, how much it's contributing, how much future potential Olam has in its growth path. And I'm happy to inform you that you can see from the Upstream here, the EBITDA by IC grew 4.9% at the Upstream segment level, up from 2.3% in 2016, a very healthy growth. In terms of the invested capital, SGD2 billion is fully contributing. But at a 7.8% EBITDA by average IC, it is primarily because of lower contribution than full potential from the Upstream Dairy investments both in NZFSU in Uruguay as well as in Russia in Rusmolco. While both had very positive trajectory from a year-on-year basis from 2016 to 2017, they are yet to reach full potential. And that had resulted in the lower EBITDA by average IC contribution at 7.8% from fully contributing invested capital. So that is definitely an upside that is possible going forward.

The partly contributing of SGD1.5 billion is up from SGD700 million that we had reported in 2016. That is due to the palm plantation assets in Gabon, which has moved from gestating assets to partly contributing assets during the year. While only a small portion of our hectareage has started yielding, the entire 58,000 hectares that we have planted, the entire invested capital has moved into the partly contributing segment, part of the Upstream segment. And in spite of that, the EBITDA by average IC has gone up to 2.8%.

Now in the Upstream segment, there is only SGD300 million of gestating asset that is left, predominantly the rubber plantations in Gabon and some of the coffee plantations and cocoa plantations in Asia.

The supply chain has come down from SGD6.5 billion to SGD5.8 billion. All are fully contributing. That this our core business. And through a slew of working capital optimization initiatives and also supported by lower commodity prices, we have been able to keep the invested capital, which is predominantly working capital, under check, and that will continue to focus on going forward as well.

On the Midstream, we have moved up from SGD2.8 billion of fully contributing assets in 2016 to SGD4.1 billion of fully contributing assets. These are primarily the wheat milling assets in West Africa, the sugar -- the palm refining business in Mozambique as well as the Gabon SEZ investments in ports, which came into onstream in 2017, all have been moved from partly contributing to fully contributing part of the Midstream segment. That has obviously resulted in a reduction of a like-to-like SGD1.3 billion from 4 point -- from SGD3.4 billion, which was -- is part of the partly contributing IC, has come down to SGD2.1 billion of partly contributing IC in the segment. Overall, SGD6.1 billion of IC that is there in Midstream and Downstream segment.

So if you can see on a like-for-like basis on 2016 to 2017, overall IC came down from SGD16.5 billion to SGD15.8 billion. Out of that, SGD12 billion is fully contributing. In 2016, we had -- between partly contributing and gestating assets, we had SGD5.1 billion, and that has come down now to SGD3.9 billion. And that is clearly reflected by an increase in EBITDA of SGD133 million in spite of Supply Chain not delivering as equal to last year. That's a reflection of our delivery on our growth strategy, both in investments in Upstream as well as in Midstream and Downstream businesses.

Hung Hoeng also talked about the Strategic Plan update. We are in the second year of executing our Strategic Plan. In 2017, we ended it very strongly. We remain focused on 2 areas. One is investment in prioritized platforms, which is what we call as Cluster 1 businesses. And second, more importantly, during the Strategic Plan, we had identified 4 underperforming assets and that we had clearly diligently focused in turning around.

The first was the Dairy farming business in Uruguay. That had, had a very strong both financial and operational results from 2016 to 2017, and that is expected to move to positive EBITDA territory in 2018. Rice farming business, which had struggled in the past, as I talked about earlier, has moved to a positive EBITDA after restructuring. And they have started to report better results in the second half of 2017, and going forward, they'll be looking at further improved performance. Restructuring is already underway in the OTP, in the Olam Tomato Processors business in the U.S. And we are addressing the cost structure as well as the product mix issues, and we are very confident that this change will happen in -- going forward in 2018. Packaged Food business have restarted the production of beverages in the third quarter of 2017. As you may recall, in April 2016, we had a fire incident in our -- Ranona, which is our Dairy beverages manufacturing plant in Nigeria. That was since built -- a brand-new plant has been built, and that has been commissioned in the third quarter of 2017. Very positive responses to the new products that we have launched in Nigeria; and coupled with a slew of initiatives and product differentiation, branding, distribution and also looking at cost structures, we believe that going forward in 2019, Packaged Food business in Nigeria is poised for a positive performance.

On the other focus area as part of the Strategic Plan, which was pursuing growth in prioritized platforms. While we are focusing on working capital optimization, we are focusing on cash generation. We are focusing on execution and sweating out our assets that were already invested for. We



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were clearly focusing on growth as well. And we were also very focused and committed and diligent in investing and pursuing growth opportunities only in identified and prioritized platforms. So here, you can see in Edible Nuts, we had grown acreage in almonds, pistachios and walnuts, both in Australia and the U.S. In Spices & Vegetable Ingredients, we have started growing pepper farming -- doing pepper farming in Vietnam and Brazil. We will continue to grow our hectareage in plantations in Laos, Zambia, Tanzania and Brazil for Coffee. We have recently set up our powder facility -- Cocoa powder facility in the U.S., moving from Canada, which, coupled with our innovation center in Chicago, will be able to provide very customized solutions in Cocoa powder for confectionery and bakery industry in and around in the U.S. On Grains & Animal Feed, we had expanded our capacity in Ghana as well as in Nigeria. We set up our organic animal feed mills and hatchery business in Nigeria, which had started off commercial production in the second half of 2017 and also already starting off contributing positively to the segment. In Cotton, while growing trading volumes in the U.S. and in other key locations, also has been focusing on growing our integrated ginning business in West Africa and, more importantly, in Côte d'Ivoire.

So in summary, very strong financial performance in 2017 across all key metrics. You take volume, revenue, EBITDA, PATMI, operational PATMI, free cash flow to equity, gearing. So across all these key metrics, we have grown significantly and delivered very strong financial results. We have enlarged our share capital by SGD 650 million, SGD585 million coming in before -- prior to December and another SGD65 million coming in early in January, taking our overall share capital increase to SGD 650 million, and also supported by higher retained earnings during the year with significantly lower debt. We had reduced debt by more than SGD1.9 billion, and that has resulted in a stronger balance sheet getting into 2018.

We remain focused and continuing to execute our 3-year Strategic Plan. As I had highlighted earlier, we are looking at pursuing growth in our prioritized platforms and, more importantly, turning around all of our 4 underperforming assets. And already, 2 -- 3 of them are clearly underway, and only tomato business needs to be focused on going forward in 2018.

The culmination of all of these have resulted in the board declaring a higher total dividend of SGD0.075, a 25% increase on a year-on-year basis, up from SGD0.06 per share, with a final dividend being SGD0.04 a share.

Thank you.

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### **Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Thank you, Muthu. Before we move on to Q&A, I have a few words to say regarding the questions to be asked later. I know many of you would like our -- to hear our worldview on the commodity prices, supply and demand and everything else. If these are asked, we would like to keep our responses brief and dedicate more time to questions relating to the business and relating to the results. We would also like to say that we have been exploring ideas and opportunities for providing access to some of you to our product desks. A very structured access to the product desks, who obviously, can give us good, if not better, answers on the questions that you ask regarding the prices, supply and demand. So rest assured, we will continue to do that and to give you access through these methods. But for the results briefing, we'd like to keep our focus on the results and on the business today. So I hope that the first question to be asked will be on our results.

Please take the microphone from one of our colleagues here, and let us know your name and where you come from. Thank you.

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## QUESTIONS AND ANSWERS

### **Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Yes, Mervin? At the back.



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**Mervin Song** - *DBS Bank Ltd., Research Division - Assistant VP*

But just in terms of the investment targets that you have, there's the IC -- sorry, EBITDA to average IC, it's still obviously below your target from a few years ago. How long do you think will it take to hit those targets and what you need to achieve? In terms of the dividends, do you have a guidance in terms of payout ratio going forward?

**Shekhar Anantharaman** - *Olam International Limited - Executive Director & Group COO*

So when you look at the value chain-wise EBITDA targets, so clearly, this year, the supply chain part of the business is lower, primarily on account, as Muthu highlighted, a reduction in the Coffee and beverage ingredients business, which had the biggest impact, which also has a significant part of the IC. So if you see that segment has less than 6% EBITDA by IC for the year which has dragged down, both the supply chain part of the EBITDA of IC as well as overall portfolio IC. So if you look at the upstream and midstream part and midstream probably much more easier is within the targeted EBITDA by IC norm 13% to 15%, there is still roughly SGD2 million of partially contributing IC. So we feel quite confident that, that part of the supply chain is on track. There are still some underperforming assets like Packaged Foods, et cetera, there which are performing below par, and that and tomato processing et cetera which is the other part. So we feel quite confident that the midstream currently is showing the demonstrated proof of the targeted IC -- targeted EBITDA by ICs returns and is well on track. Upstream, again, has probably 2 components. Clearly, the fully contributing elements of almonds is meeting more than targeted returns. But the fully contributing parts as to the Dairy farming and the rice farming, which is not as -- at this point of time, although they're showing positive trajectory, not reaching full potential. So that is dragging down that component. And then, of course, the gestating and partially contributing has still got some time before we get there, which is going to be more between 2019 and '22 progressively. So that SGD2 billion roughly is going to take some time to get to full potential, but we feel quite positive that the supply chain business, if it does its normal -- which has been hit by a bit of cyclical problems in the last -- especially in the second half in the segment I mentioned, that should correct itself back to the 10% to 12%. Midstream is on track and upstream should get -- once it's gestating and partially contributing as it gets to full capacity, it'll get down to the 15% to 18% that we expect. So we don't see any changes in the targets but yes, it's -- some part of the results show proof but still work to do.

**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

On the second part of the question on dividends, as you know, we don't have a fixed dividend policy and dividends are determined by a few key factors. The first is our planned growth. Second is the performance itself in terms of the operating cash flows that we generate and the plans that we have for investments, continued investments in the business. We would like to give a certain kind of dividend deal to our investors as well. So it's a combination of various factors that will determine what -- and within the boundary conditions of gearing targets that we have. So that will determine our dividend payout ratio. So we don't have a fixed dividend payout ratio. So our sustainable growth is a function of what returns we make and what is our planned growth within the gearing targets that we have. We obviously feel that our ability to return cash to the shareholders through share buybacks is now limited because we don't have a free float, so we can't really buy back shares although we believe that our shares are trading at -- because there's no liquidity and no discovery of price for us. But that is not an option that we have today. So that is why I think a combination of all of these reasons is why we are given a higher dividend payout this year and, as Muthu mentioned, strong free cash flows to equity, strong free cash flows to firm and strong operational and reported PATMI performance. All of that has contributed in improved returns, both in terms of EBITDA to IC and ROE compared to the prior year.

**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

There's a question from the webcast on the gestation mix slide. Just for the benefit of the rest of the audience who may not have seen this before, could Muthu just give a brief explanation on what is the criteria for partly contributing, fully contributing and gestating? And versus performing or underperforming businesses?



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**Shekhar Anantharaman** - *Olam International Limited - Executive Director & Group COO*

Maybe I'll take that question. So this is an analysis that we have been giving for the last 5 years since 2013, and it basically enables us to provide some insight into because we made fairly significant investments between 2010 and 2016, which are in these 3 buckets on what is fully contributing. So gestation is obviously where there is no EBITDA generation, partially contributing is where there is the beginnings of EBITDA generation but not up to full potential. So if you see the upstream assets, there is a fairly long process where we have the first 3 years that is complete gestation, there is no cash flow generation between, let's say, in a plantation like almond or coffee et cetera between 3 and -- year 3 and year 7, that is partial contribution. And then post that, it starts fully contributing. In midstream assets, that time period might be 12 to 18 months for project commissioning and then getting up to full capacity and fully contributing. So it's probably more a 3-year -- 1 year, 1.5 year cycle of investment, couple of years to get to capacity and then starting to fully contribute. So in -- when we are looking at what these elements of our supply value chain are doing, we try and put them into these 3 buckets and that's how we define gestating, partially contributing and fully contributing. On performance and underperformance, that's obviously our judgment on what we expect even fully contributing assets that were not performing to target and, for instance, like Packaged Foods business, where it's not really a gestation problem or tomato processors, where it's not a gestation problem. And even in Uruguay dairy, which is not a gestation problem anymore, there, it is really an underperformance that we need to address. So as Muthu talked about, as far as we are concerned, as in the strategic plan and on an ongoing basis, we are clearly pursuing growth in prioritized platforms and that is one part of the focus but also addressing the underperformance where there is underperformance or where there is gestation and where it's partial contribution ensuring that the assets and the investments get to full potential as quickly as possible within, obviously, the practical constraints of those particular projects. So that is the basis on which we are tracking as well as reporting our progress, and this is something that we intend to do going forward also.

**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

We're still on the value chain segment analysis. There's a question online on this one. The proportion of EBITDA from upstream and midstream, downstream is now at about 48% of total EBITDA. Do we expect a similar contribution going forward from these 2 segments?

**Shekhar Anantharaman** - *Olam International Limited - Executive Director & Group COO*

I would think firstly that, like I mentioned earlier, supply chain will go up. Supply chain has been a lower performer this year clearly, so we would expect that to go up. But similarly, we would in absolute terms expect upstream as well as midstream to also go up. So overall, I would think that's probably going to be -- I mean, eventually at full potential assuming no further investments, we will get to a ratio of about 40% from supply chain and 60% from midstream and upstream. But at this point of time, I think it will be somewhere between 40-60 as we go along and there will be further investments, so there'll be more gestation and more partially contributing also coming up in these 2 parts of the supply chain -- value chain.

**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Thank you, Shekhar. These 2 questions will -- should be answered by Muthu, I believe. Yes, how much of the overall working capital reduction in 2017 is due to commodity prices versus optimization initiatives? And the second question is long-term investments. Can you talk about what caused the increase in long-term investments in the balance sheet?

**Neelamani Muthukumar** - *Olam International Limited - President and Group CFO*

Okay. On the first question on working capital reduction. So we had close to SGD1.3 billion of reduction in working capital. And this has been primarily, as I'd highlighted earlier, through targeted inventory optimization initiatives, especially in the Cluster 1 businesses and also in Cocoa, Coffee, Cotton, tomato businesses and also some optimization initiatives in other businesses as well. So this, if you have to look at, it's very hard to put a percentage in terms of what do you mean -- how much is quantified as part of the reduction from \$1.3 billion as attributable to absolute optimization initiatives and how much is due to lower commodity prices. I would say broadly 40% should be due to -- 30% to 40% should be due to our own targeted optimization initiatives what we have done -- we are focused on keeping our absolute volume of inventory levels down and have a target volume that we need to carry and that is what we are focusing on because price is not in our control. And it has obviously been

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supported in 2017 by lower commodity prices, and that has resulted in the rest of the reduction in working capital. Going to the second question, yes, going to the second question in terms of the increase in long-term investments, it's primarily driven by marking to market our investment in PureCircle. The prices have fairly gone up between what we were in 2016. It has been going up on a quarter-on-quarter basis. We have been marking it to market our investments of 18.8% in PureCircle as a basis the price, share prices that are declared at the end of the period in the London stock exchange and that has resulted in an increase of close to SGD200 million in our value of our investment in PureCircle, and that's a reason for increase in long-term investments.

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**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

There's a question.

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**Unidentified Participant**

Sunny, I'm from the Business Times. I would like to ask you, what are you exactly referring to when you said near-term uncertainties for some agri commodities?

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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Just referring to the fact that agri commodities are volatile. And there's inherent volatility and cyclicity in the industry, and that's not easily forecastable. So we were talking about in various commodity markets, there could be continuing underlying volatility which is an inherent part of this business.

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**Unidentified Participant**

Could it -- how much of it do you think will impact next quarter's results?

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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Difficult to say.

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**Unidentified Participant**

And I would also like to ask about the new cocoa innovation center in Illinois, which I believe Olam opened last year, right? Is that the latest?

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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

That's the latest, yes. Yes.

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**Unidentified Participant**

Okay. Will there be any more coming in other parts of (inaudible)?



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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Nothing immediately planned. I think we've got a very strong R&D and innovation capability in the Cocoa business, which has resulted in the fact that we have premium powder brands. And if you look at the cocoa market structure today, there's a significant premium for high-quality powders and premium quality powder as compared to natural powders. And that has allowed us to not only gain market share but has also given us increasing pricing premium. So continuing to invest in our R&D innovation centers, and we have now 7, 8 of them, 8 of them and this one. That will continue to maintain our competitive advantage in producing high premium quality powders.

**Unidentified Participant**

Any plans to expand from there?

**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

There will be natural growth in this but I think we are more or less fully invested in what we need to do for our current scale of operations.

**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Yes, a question at the back. Mervin.

**Mervin Song** - *DBS Bank Ltd., Research Division - Assistant VP*

Just a question in terms of your capital structure. Obviously, your gearing has fallen given the proceeds from warrants, now you have positive free cash flow. Do you have any updates in terms of your target gearing? Will they be structurally lower than last time? Or -- and second question related to that is, given all this cash, where do you see opportunities to deploy or reinvest this cash?

**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Firstly, there's no change in our gearing targets. So the gearing targets will remain as it is. Obviously with this, there is more headroom for growth, but we will continue to stay disciplined in terms of executing on a strategic plan, which is really investing in our prioritized platforms and continuing to selectively rationalize the portfolio, as you've seen, in terms of the various examples that Muthu has given. So there is nothing new that is likely to happen in the way that you are alluding to. So we are comfortable with this gearing position. It gives us enough flexibility and headroom to grow but we'll stay disciplined on focusing on executing our current strategic plan which ends in 2018 and then we will have a new 6-year strategic plan starting from 2019 to 2021 and '21 to -- '22 to '24. That plan will be completed by the end of this year, and therefore in 2019, we will have a new strategic plan, but we will stay disciplined in focusing our investments on our prioritized platforms.

**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Yes. Yes, Alfred? Can you please take the microphone?

**Alfred Cang**

Yes, I heard it's the last time I can ask supply and demand questions during the press conference. So this is my question so...



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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

So we just wanted to clarify that we want to give you as much access as possible to our product desks, so that you can have more detailed features on supply and demand. So don't worry, but you can ask a question, no problem. Yes.

**Alfred Cang**

So what's your forecast for palm oil production?

**Shekhar Anantharaman** - *Olam International Limited - Executive Director & Group COO*

There you go.

**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Okay. So the palm oil industry has recovered from the prolonged dry periods as a result of the 2015, '16 El Niño impact. So last year, palm oil production has recovered fully and the growth in palm oil production in 2017 compared to 2016 was 7 million tonnes. We continue to expect the growth to happen, not to the same tune of 7 million tonnes, but in 2018, we expect Malaysian production to go up by 0.9 million tonnes, taking it to about 20.8 million tonnes. And in Indonesia, we expect production to go up by about 1.8 million tonnes. That will take Indonesian production to about 36.7 million tonnes, so total Malaysia/Indonesia production will be about 54.8 million tonnes. So we will see a cyclical seasonal dip in the first quarter arrivals because that is traditional. But we will see a ramp-up in production from the end of second quarter flowing into the third quarter and the fourth quarter. So our view on prices is that in the near term, first quarter, we will see prices trade in the 2,450 to 2,650 ringgit range. And in Q3, Q4, we expect prices to trade in the broader 2,200 to 2,700 range. It's also a function of what happens to the rest of the soft oils complex. So we believe that the current strength in the soybean complex, the differential between palm oil and soybean oil will widen out to the historical highs of \$120 to \$130 differential between palm oil and soybean oil. So that is our view on the palm oil market, edible oil market.

**Alfred Cang**

Okay. The spread will widen to historical...

**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Yes, yes.

**Unidentified Participant**

In Q3 and Q4.

**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Sorry? In Q3, Q4, yes.

**Alfred Cang**

So my next question is what's your view on EU's plan to ban palm oil in some bio...



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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Sorry?

**Alfred Cang**

What's your view on the European, they are going to ban...

**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Very uncertain at this point in time. Everybody is watching that. Both U.S. and European biodiesel policy is a watch-out for the industry. So it's difficult to predict what the regulators will do and what the policy will be but that will have a material impact on the direction of palm oil prices.

**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Right. Thank you. We have some business questions coming online. We have seen a very strong year from Edible Nuts, in particular almonds. What is your expectations for this year? How is the yield looking like, weather impact and whether we will see the same level of performance going forward?

**Shekhar Anantharaman** - *Olam International Limited - Executive Director & Group COO*

I think the business is quite well poised. Last year, the good thing was not -- it was not just the performance was broad-based across almonds, cashews and peanuts, so all 3 products looked -- and hazelnuts and sesame were kind of at budget as per our expectations. So it's a good start and we feel that -- we feel quite positive that last year's performance can at least be repeated, if not improved upon.

**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

There is a question on Coffee. What is the expectations for Coffee going forward given the underperformance in this current year?

**Shekhar Anantharaman** - *Olam International Limited - Executive Director & Group COO*

As I've mentioned previously that Coffee's underperformance is really not structural. So we're really not very worried that there is something significantly has changed. So from a business -- overall business perspective, Coffee is very well positioned strategically. Whether it's in supply chain in terms of our origin spread, customer spread with robusta, arabica, specialty coffee, we feel quite strong about our strategic position, our competitive position, the differentiation that we have built. And similarly, in plantation, soluble coffee, which have performed as per plan last year, we see very strong future potential. So really, the underperformance of last year has been a very specific structural - cyclical -- aspect of the business. And Muthu outlined 3 real areas. If you look at South American crops, especially South and Central American crops, we had short crops going into the Q3 and Q4, and that created a volume shortfall for us. Brazilian farmers also held back, which is again fairly public news. Some part of that will flow through in the first quarter of this year. So that will kind of recover. But overall, we had -- the one big reason for the underperformance was the shortage in volume. And in -- before going into some of these crops, we were also basis short. So in covering some of the short positions, there was a price to pay. Then there was -- on a completely -- on the robusta side, the market has been inverted last year and continues to be going into this year. That is probably something that will have to be managed carefully. As physical players, an inverted market is always tough on margins. And therefore, that again had an impact for our Q4 and might likely continue for Q1 and Q2. But based on current expectations on crop, et cetera, we think that the markets will correct themselves. Arabica crops look very good for next year and we're expecting a much bigger crop. So the second half for Coffee looks -- we should be back on stream, both in arabicas and robustas, although we'll have to navigate the current market condition, which is the same for everybody. And if I look at on a comparative basis compared to the pain that a lot of industry partners have suffered



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-- have felt during these last 2 quarters especially, I think we've navigated this quite well based on our spread of origins, our marketing capacity, et cetera. And again, on the soluble coffee and plantations, we see quite some positive, and Soluble Coffee is looking very -- it did very well last year and looks set for a very good year this year too. We have looked at expansion in both Spain and Vietnam and both of those expansions are pretty much. They're already locking in sales for the expanded capacity even as we start these 2 -- as we commissioned the increased capacity. So we feel quite positive. It is a -- it's been a tough position in the last 2 quarters but we feel quite positive that it will correct itself and coffee is -- there is no structural problem in the business.

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### **Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Another question for you, Shekhar, on the outlook for Cocoa and what's the impact on Olam for current year 2018. The second question is on any intention to add any new products or entry into new businesses going forward? And that would be a question for Sunny.

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### **Shekhar Anantharaman** - *Olam International Limited - Executive Director & Group COO*

So as far as Cocoa is concerned, again, picking on what Muthu highlighted, the start for Cocoa 2016 end and the start for Cocoa was quite tough, especially on the beans trading and products trading in our proprietary trading desks. So the first half was quite tough, but the second half, margins have corrected themselves. And as the West African season has started in October and as it's flowing through now, the supply chain part of the business is back on track. The processing business has remained quite firm. Processing margins have remained quite firm. The combined ratios have remained quite firm. So through the year, the processing business has done quite well. It's quite well positioned even now as we talk. So one part in the processing business that we carried, we carried a lot of extra stocks both on the bean side and the solids side. All that has also been cleared out. So as we look at the start of this year, we feel quite positive about where the Cocoa business is positioned strategically in terms of the changes, some of the changes that we have made in terms of our powder sales, our innovation, which is now driving the cocoa powder market and the position that we have with the brands that we have built and DeZaan, et cetera. Those really position Cocoa very well. On the origination side, we always had a great footprint. The sustainable Cocoa part of the business and the increasing percentage of that in terms of customer demand is, again, something which is very solid. So overall, there were headwinds because of the market, because of some excess supply, because of some extra stocks that we were carrying at the start of last year. A lot of that has been sorted out. And we can see that in the results in Q3, Q4, and we feel quite positive about the business going forward in 2018.

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### **Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Yes. And in terms of the portfolio itself, we believe that we have a stable portfolio and we have enough platforms that provide us meaningful opportunities for profitable growth. So we'll stay focused on these prioritized platforms. The new business adjacency that we entered last year in the grains platform was going into the animal feeds business, which has got off to a good start and is on IT and on plan. And we see strong prospects for that business going forward. So based on the execution milestones, et cetera, we will continue to invest in growing that business also to full potential. We're also making a fairly big push on digital in terms of 2 objectives. One is transforming the efficiencies of a business, whether it's upstream and our plantations business, where we are adopting many digital interventions to help us improve cost and dramatically improve efficiencies including having sensors on our trees that will determine the moisture, stress of the plants and therefore trigger our irrigation systems. So there are many, many use cases of examples of how we are making a major push on digital. We're also making a big focused push on incorporating sustainability and sustainability offerings as a very core part of the business, which will allow us to differentiate for the customers and which will allow us to get a larger share of the customer's wallet and also give us some pricing premium. So there are many initiatives within the existing businesses where we want to take them to full potential, the only new business that we have really entered into is the animal feeds business and also the infrastructure business, which, as you know, we have been investing in for the last 5 or 6 years. But that has now finished gestation and is beginning to contribute strongly. There's a significant infrastructure deficit in Africa. So on a very selective basis, under this deconsolidated activity that we have, we will make targeted investments in that space as well. But really most of our growth going forward is not going to come from new product adjacencies that we're going to be entering into. It is going to really come from getting deeper in the existing businesses that we have already invested in, getting more integrated in the value chain. And if we're making investments, we get more integrated in that value chain, and then focusing on digital and sustainability, giving us significant pricing premium, competitive differentiator, larger share of the customer's wallet and stickiness with our customers as a main strategy that is going to be driving our near-term future.



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**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Thank you so much, Sunny, Shekhar. Any other questions from the floor? Gentleman with the yellow tie.

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**Unidentified Participant**

Bruce from ANZ. I'm just interested in the free float requirement of the stock exchange. Is there an expected time line where the stock exchange will give you the (inaudible) to the I think in April?

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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Yes. As for the stock exchange, we need to have 10% free float to remain listed. We have lost that free float at this point in time. We were expecting the free float to be restored with the conversion of the warrants, which was -- which happened on the 28th of January. However, because some of the existing shareholders have accreted some shares, that did not happen. The next milestone is we have the restricted share awards to the management team and the performance share awards to the management team which will vest on 1st of April. When those vest, we will restore our free float about 10%, barring any of the existing shareholders not buying more shares and remaining at that level. So we are in discussions with the stock exchange and we have given them this plan. And we will wait and see what happens in April. But our view today is that with the vesting of the performance share awards and restricted share awards in April, we will restore our free float and therefore continue to remain listed.

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**David Leong**

David Leong from ANZ as well. Congratulations on a great result and a well-executed strategy. My question is more around the Commodity Financial Services. It seems to have done quite well, and I just wanted to understand a bit about -- you said something here about the funds, investments and all the channels criteria and why is it doing well and so...

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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

So firstly, there is nothing to get excited about now, it's still a very small business. There are 3 parts to that business. One part is what we call the asset management business. It has 2 funds under that business. A quantitative fund, which is systematic algorithmic fund, done very well so far. The second is a fundamental fund, which is also driven through models but there is a discretionary overlay. And that is still gestating, that piece of the business. Then the second piece of the business is we have a risk management solutions business where to our supplier counterparties and our customer counterparties, we offer risk management solutions based on the commodity derivative markets. So we embed risk management solutions to our customer or to a supplier. That business is a fee income kind of business and that business is showing good promise. So that's the second business. The third business is a trade and structured finance business. This is really trying to take advantage of interest rate and currency arbitrages between markets where we have presence and where we have treasury operations. That has gotten off also to a good start, we are relatively new in that business. So these 3 businesses are asset-light businesses, low overhead intense businesses, high return businesses but has a higher element of risk capital. So lower working capital, lower fixed capital, lower overhead capital, but higher risk capital. So we want some counterpoints in our portfolio, which will have, in terms of relative intensity of capital, working capital, fixed capital or relative intensity of risk capital or relative intensity of overhead capital having different profiles that will allow us to balance our portfolio better. So today, I think it's too early to discuss the relevance, saliency of this business going forward. But 2 years down the road, we can sit down and make a good assessment of what is the future for this business.

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**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Thank you.

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**Kentaro Iwamoto** - *Nikkei - Staff Writer*

My name is Kentaro from Japanese newspaper Nikkei. My question is about TPP trade agreement. So the TPP agreement by 11 countries will be signed next week in Chile. Can you explain how this agreement will affect your business this year and how you will respond to that?

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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Yes. So we are an advocate of more free trade and we are very excited with the original version of the TPP. But with the U.S. pulling out, this is the next best alternative of these 11 countries coming together. It will have different kinds of impacts for different segments and product categories within our business. But overall, we expect it to be providing us a tailwind and will be supportive of our businesses within these markets. So we are looking forward to it.

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**Kentaro Iwamoto** - *Nikkei - Staff Writer*

One follow-up question. Do you expect any like changes in U.S. supply chain or production?

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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Yes. It will I don't think have a big impact. I don't think it will have a big impact. NAFTA would also be very important work. How the NAFTA negotiations progress, that could have some impact. For example, in our business we export pecans from Mexico to the U.S. The U.S. is a big market for pecans. Right now, it is duty-free into Mexico. We hope that whatever negotiations are done, as far as NAFTA is concerned, will not impact that kind of trade flow, for example. But overall, free trade and more liberalized deregulated open markets is very supportive for our business. More reregulation, more controls and tariffs and barriers poses a headwind to our business.

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**Hung Hoeng Chow** - *Olam International Limited - General Manager of IR*

Is there any other questions? If there are no questions, I would like to call this briefing to a close. We thank you for your participation and your cooperation. Please join us back at the Wisdom area for your refreshments. Thank you.

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**Sunny George Verghese** - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Thank you.

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**Shekhar Anantharaman** - *Olam International Limited - Executive Director & Group COO*

Thank you.

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