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CREDIT RATING REPORT

D&L INDUSTRIES, INC.

Date: July 16, 2025
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MONITORING OF ISSUE RATING

Amount	Interest Rate	Maturity (Tenor)	Assigned Rating and Outlook
₱2.0 billion	3.5962%	September 14, 2026 (5 years)	PRS Aaa Stable Outlook
Total Outstanding Bonds - ₱2.0 billion			

Use of Proceeds: Primarily financed the Company's expansion plans in Batangas which involved a total estimated capital expenditure (capex) of ₱10.2 billion and the corresponding working capital requirements.

Obligations rated **PRS Aaa** are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. **PRS Aaa** is the highest rating assigned by PhilRatings.

An Outlook is an indication as to the possible direction of any rating change within a one-year period and serves as further refinement to the assigned credit rating for the guidance of investors, regulators and the general public. A **Stable Outlook** is assigned when a rating is likely to be maintained or to remain unchanged in the next 12 months.

RATING RATIONALE

1. Strong market position in the industries that it is engaged in

D&L Industries, Inc. (D&L, the Company) is engaged in product customization and specialization in four principal business segments: Food Ingredients, Oleochemicals and Other Specialty Chemicals, Specialty Plastics, and Consumer Products Original Design Manufacturer (ODM). Having been in business since 1971, the Company is a pioneer in several industries it operates in. According to management, D&L has since remained a market leader or a close second in these industries.

The Company's position is boosted by the commercial operations of its Batangas facility in July 2023. The new plant has a land footprint of 16 hectares (ha), more than the 14-ha combined land footprint of its six older plants. The expansion in Batangas is seen by the Company to accommodate growth for the next 20 years. Moreover, new production lines may be systematically rolled out, as and when needed. The additional capacity presented by the new production facility expands the growth opportunities of the Company for its business segments, further grounding its presence in the market.

2. Diversification of products offered and markets served

The industries that D&L cater to encompass a wide range of applications. The products being manufactured for the four business segments not only cater to numerous needs, but also to customers belonging to different market segments. Moreover, D&L is able to service both the specialized and more basic products that broaden its presence in different consumer markets.

The Company's revenue sources are also geographically diverse, as D&L derives a sizeable portion of its revenues from exports. In 2024, the share of export sales to total sales expanded to 30% from 27% in 2023. Export sales continued to contribute a significant portion to total sales in the first three months of 2025 (3M2025) at 34%. D&L expects its export business to expand further, banking on the additional capacity from the Batangas plant.

3. Innovation-driven specialty products that protect the Company from keen competition and ensure continued demand from customers

D&L categorizes its products into two: Commodity and High Margin Specialty Products (HMSP). A larger portion of the Company's revenues were historically derived from HMSPs. These are products that are innovation-driven and are customized according to clients' needs. The unique nature of the products that D&L offers has created long-standing client relationships that span many years. This unique feature also ensures continued demand for the services of the Company, as clients tend to work with the same suppliers that have already delivered the products that follow their set specifications. Moreover, clients tend to go for the established suppliers who have had a long track record in the industry.

In line with the aforementioned, D&L constantly invests in its research and development (R&D) to gain market insights to best cater to the specific requirements of its customer base. Given such, the technical abilities to produce HMSPs are not easily replicated. In addition, significant capital expenditures (capex) are needed from new market entrants to compete in the same industry and to build facilities that are able to produce such specialized products. These give the Company a certain degree of protection against new and emerging market players.

4. Strong revenue generation, albeit with lower margins

In 2024, D&L's total revenues amounted to ₱40.7 billion, posting a solid increase of 21.4%, attributed to higher sales volume. Costs of sales and services, on the other hand, grew faster by 23.9%, mainly driven by the prices of raw materials used and overhead costs. As a result, gross profit margin contracted from 17.1% in 2023 to 15.4% in 2024. The Company, nonetheless, registered a 9.5% expansion in gross profit to ₱6.2 billion.

Net income in 2024 inched up by 2.0% to ₱2.3 billion, driven by higher revenues for the year. Net profit margin, however, went down from 6.9% in 2023 to 5.8% in 2024, on the back of higher manufacturing costs and operating expenses.

In 3M2025, total revenues jumped by 61.6% year-on-year (YoY), from ₱8.8 billion in 3M2024 to ₱14.3 billion. The significant growth was attributed to higher sales volume for the quarter. Gross profit amounted to ₱1.8 billion, higher by 19.7% YoY. Gross profit margin, however, contracted from 17.1% in 3M2024 to 12.7% in 3M2025. This was on account of the 70.5% YoY surge in the cost of sales due to the heightened increase in commodity prices.

D&L ended the period with a net income of ₱681.1 million, higher by 10.2% YoY from ₱617.9 million in 3M2024. The faster growth in costs and expenses, however, lowered net profit margin from 7.0% in 3M2024 to 4.8% in 3M2025.

The noted contraction in margins is a result of the average 30-45 day lag before the Company eventually passes on its price changes to customers. This was primarily due to the rapid increase in commodity prices, particularly for coconut oil, which is one of the main raw materials of the Company. D&L expects margins to recover once commodity prices stabilize.

5. Manageable debt levels despite increasing trend

As of end-2024, total debt rose by 23.1% to ₱21.1 billion. This was due to additional borrowings for the year, partly offset by the Company's full settlement of its ₱3.0 billion Fixed Rate Bonds in September 2024. On the other hand, stockholders' equity went up by a modest rate of 4.4% to ₱21.8 billion, driven by the increase in retained earnings. D&L's debt to equity (DE) ratio therefore further increased to 1.0x as of end-2024, from 0.8x as of end-2023.

In 3M2025, D&L availed of more borrowings mainly to fund its working capital requirements. Due to the added borrowings during the period, total debt rose by 4.8% to ₱22.1 billion as of end-March 2025. Shareholders' equity similarly grew to ₱22.5 billion, up by 3.1% from as of end-2024, due to the continued plowback of earnings. As a result, DE ratio was unchanged at 1.0x as of end-March 2025.

PhilRatings notes that all outstanding external borrowings of the Group are covered by surety and corporate guarantee agreements executed among D&L and its subsidiaries. These provide cross-guarantees among the companies to cover the liabilities of the Group. As of end-2023 and 2024, there was no default from the borrowings covered by the surety agreements and corporate guarantees.

BUSINESS REVIEW

Company Profile

D&L is a holding company for a group of companies that engages in customization, development and manufacturing of various products, such as food ingredients, specialty chemicals, raw materials for plastics, and consumer products ODM for personal and home care use. The Company also provides management and administrative services to its various subsidiaries and affiliate companies.

The Company registered with the Securities and Exchange Commission (SEC) on July 27, 1971. It subsequently listed on the Philippine Stock Exchange (PSE) on December 12, 2012.

As of end-2024, D&L is majority-owned by Jadel Holdings Co., Inc. (JHI), which had a 62.4% stake in the Company. D&L was 10.4% directly owned by the Lao family, and the balance of 27.2% was held by the public. JHI is 100% beneficially owned by the Lao family, hence raising the beneficial stake of the Lao family to 72.8% of D&L. PhilRatings notes that no single member of the Lao Family beneficially owns over 10% of JHI or D&L.

D&L's corporate structure is shown in Figure 1.

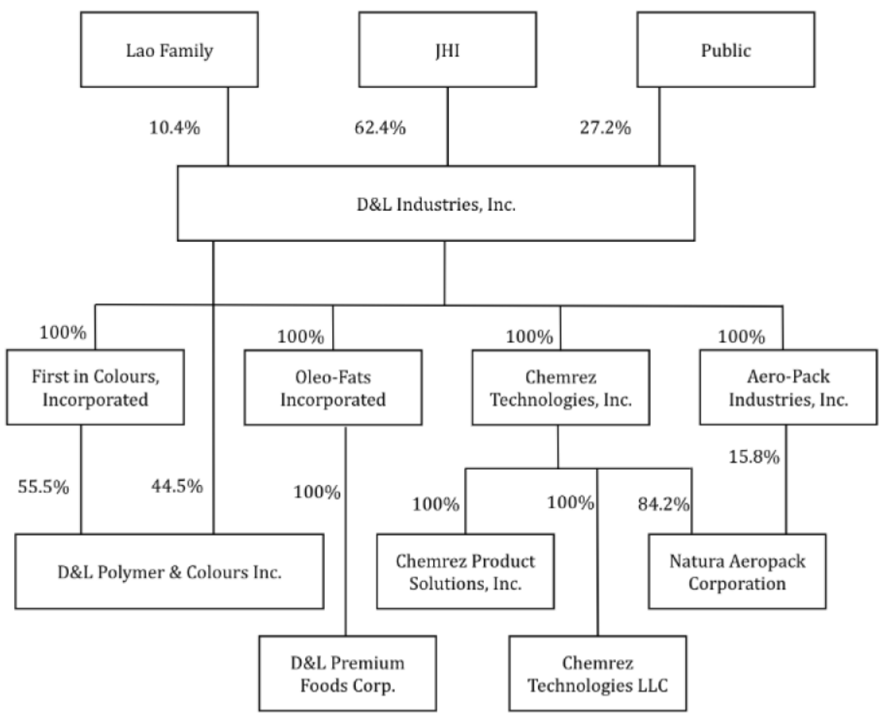


Figure 1. Corporate Map of D&L, as of end-December 2024
Source: 2024 Audited Financial Statements

Operations

D&L has four principal business segments: (1) Food Ingredients; (2) Oleochemicals and other specialty chemicals; (3) Specialty Plastics; and (4) Consumer Products ODM. *(Analysts' Note: Kindly refer to the Annex for an overview of each of D&L's business segments.)*

The largest revenue source for the Company is its Food Ingredients segment, contributing an average of 64.4% of total revenues from 2021 to 2024. This was followed by the Oleochemicals segment whose revenue contribution averaged 32.2% since 2021. The Specialty Plastics segment came in third and lastly Consumer Products ODM, with average shares of 9.1% and 3.2%, respectively.

In 3M2025, the same trend can be observed for D&L's revenues. The Food Ingredients segment still had the largest share of revenues, followed by the Oleochemicals segment. The breakdown of the contributions of each segment to revenues is shown in Table 1.

Table 1. Revenue Contribution of D&L's Business Segments from 2022 to 3M2025

Revenues *in Php Millions*	**2022**		**2023**		**2024**		**3M2025**	
Food Ingredients	28,565	65.7%	20,509	61.2%	26,942	66.2%	9,453	66.3%
Oleochemicals	13,168	30.3%	11,846	35.4%	15,584	38.3%	3,568	25.0%
Specialty Plastics	3,279	7.5%	3,328	9.9%	3,577	8.8%	907	6.4%
Consumer Products ODM	1,111	2.6%	1,334	4.0%	971	2.4%	356	2.5%
Others – D&L Parent*	2,545	5.9%	645	1.9%	571	1.4%	157	1.1%
Eliminations	(5,183)	(11.9%)	(4,158)	(12.4%)	(6,970)	(17.1%)	(173)	(1.2%)
Total	43,485	100.0%	33,502	100.0%	40,675	100.0%	14,268	100.0%

**Pertains to the revenues from management and administrative services provided by D&L.*

D&L categorizes its products into two: Commodity and HMSPs. A larger portion of the Company's revenues were historically derived from HMSPs. These are products that are innovation-driven and customized according to clients' needs. The more customized the product is, the higher the expected profit margin. As such, the technical abilities to produce HMSPs are not easily replicated, which gives the Company a certain degree of protection against new market players. The nature of these products also ensures continued demand for the products of the Company.

Table 2. Sales Mix

Percentage of Total Revenues	**2020**	**2021**	**2022**	**2023**	**2024**	**3M2025**
High Margin Specialty Products (HMSP)	63%	57%	51%	62%	53%	48%
Commodities Products	37%	43%	49%	38%	47%	52%

In 2021 and 2022, consumers were leaning more towards basic products coming from the pandemic, which caused the sales mix to tilt towards Commodities. In 2023, the sales mix slowly returned to pre-pandemic figures and saw an increase in the proportion of HMSPs. In 2024, however, the sales for Commodities posted a faster growth in terms of volume, hence the decline in the share of HMSPs. Due to this shift, overall blended gross profit margin went down from 17.1% in 2023 to 15.4% in 2024. Of the revenues from HMSPs in 2024, the Food Ingredients segment contributed 56% to the total (51% in 2023), followed by the Oleochemicals segment with a share of 24% (27% in 2023).

In 3M2025, the share of Commodities products accounted for 52% of sales and outpaced HMSPs for the first time since 2010. According to management, this was mainly driven by the impact of the increase in biodiesel blend from 2% to 3% in 2024. Since biodiesel is considered part of the Company's Commodities products, this largely contributed to the increase in its share to total sales.

While D&L is taking advantage of the opportunities in the market, it nevertheless remains focused on growing its HMSPs. D&L allocated much of its resources to growing its HMSP business, which is expected to hold a larger portion of the sales mix moving forward. Nonetheless, the Company intends to keep its Commodities business despite having lower margins. D&L continues to see the strategic importance of the business in the form of the following: (1) maintaining customer goodwill; (2) protecting HMSP business by blocking off potential competitors; (3) covering some of the fixed costs; and (4) assuring the quality of HMSP raw materials.

The diversified business segments and product offerings are seen as a key advantage of the Company. Each segment may balance out the decline or increase of the other. The volatile changes in the sales volumes may be seen in relation to the developments in the industries served by each business segment, given the Company's numerous products and their wide range of applications.

Table 3. Export Contribution

	2021	2022	2023	2024	3M2025
Export Sales *(in Php billions)*	10.2	13.6	9.1	12.4	4.8
Export as % of Total Sales	33%	31%	27%	30%	34%

Revenue sources are likewise geographically diverse. A sizeable portion of D&L's revenues are from exports. The largest portion of export sales came from China (average of 29.0%), followed by the United States of America (average of 16.5%), and then from other countries composed mainly of Europe and Australia.

In 2024, export sales continued its positive momentum and expanded by 37% to ₱12.4 billion, increasing its share to 30% of total sales. Approximately 57% and 28% of export sales in 2024 came from the Food Ingredients and Oleochemicals segments, respectively. The Specialty Plastics segment took up 14% of exports, while Consumer Products ODM took the balance of 1%. The share of export sales to total sales rose to 34% in 3M2025, as export sales sustained a substantial increase of 69% YoY to ₱4.8 billion.

The Company remains optimistic to reach its target export contribution of 50% in the medium term. This will be supported by the significant additional capacity from the Batangas facility, particularly for exports and higher value products, which will allow the company to cater to more customers in various markets. D&L is aggressively pushing for high-value added coconut oil-derived ingredients and finished products for the food, personal hygiene, and home care segments in the export market through its subsidiaries, Natura Aeropack Corporation (NAC) and D&L Premium Foods Corp (DLPF). The Company sees untapped potential in this market compared with the domestic market, given its sheer size and greater earnings margin.

Additionally, through D&L's pass-through pricing mechanism, the Company is able to adjust selling prices that would create a buffer from wild swings in forex and commodity prices. *(Analysts' Note: Kindly refer to "Raw Materials and Price Pass-Through Mechanism".)* On another front, management sees this as opportunities for companies like D&L to provide supply to companies who cannot source from either the US or China. The additional capacity of the new Batangas Facility provides D&L with the capability to cater to bigger export customers.

D&L's Principal Business Segments

<u>Food Ingredients</u>

Source: D&L Analyst Deck

The Food Ingredients segment is operated through Oleo-Fats, Incorporated (OFI) and DLPF. D&L views itself as the leading manufacturer of industrial and specialty fats and oils and other food ingredients in the Philippines. The Company provides these products to a wide range of customers belonging to the food and beverage industry—from manufacturers of snack food, dairy, biscuits and confectionery to bakeries and domestic and international quick-service restaurant chains.

The Company's product line has now expanded to over 1,000 varieties of food ingredients, including refined oils, specialty fats, and dry and liquid mixes and condiments, customized according to the customers' requirements.

In addition to oils and food ingredients, the Company also produces food safety solutions such as cleaning and sanitation agents. These food safety solutions are supported by professional and technical services.

Results of Operations

In 2024, sales of the Food Ingredients business sustained an uptrend, posting a significant increase of 31.4% to ₱26.9 billion. This was driven by the overall sales volume growth of 32.7%, fueled by the increases in the sales volume of Commodities products (+40%) and HMSPs (+20%). Net income from the segment likewise grew by 16% to ₱902 million.

Overall sales volume in 3M2025 registered a 33% growth, supported by the double-digit increases in sales volume from both Commodities (+21%) and HMSPs (+56%). The segment's earnings for the period likewise grew by 18% YoY.

Oleochemicals and Other Specialty Chemicals

Source: D&L Analyst Deck

D&L's Oleochemicals and Other Specialty Chemicals segment is being run through Chemrez Technologies, Inc. (Chemrez), its subsidiary Chemrez Product Solutions, Inc. (CPSI), and NAC. This segment includes manufacturing and distribution of coconut-based biodiesel and other oleochemicals (chemicals derived from vegetable oils); resins such as polystyrene, acrylic emulsions and polyester; and a line of powder coatings. D&L produces these products for both the domestic and export markets.

The business segment is divided into two: the Oleochemicals division and the Other Specialty Chemicals group. A larger portion of the business came from the Oleochemicals division, accounting for 74% of the segment's revenues in 2024, while the balance of 26% was from Other Specialty Chemical products.

Encompassing the Oleochemicals division are the commodity biodiesel and high margin oleochemicals. The Company's biodiesel facility launched in 2006 is the country's pioneer and first continuous-process methyl ester facility. This facility, along with the coco-biodiesel products manufactured in this facility, is accredited with the Department of Energy (DOE) and registered with the Board of Investments (BOI) under pioneer status. Products under the high margin oleochemicals category include glycerin and other coconut-based oleochemicals which are used primarily as surfactants or foaming agents for soaps and detergents. These products are mostly catered to the export market.

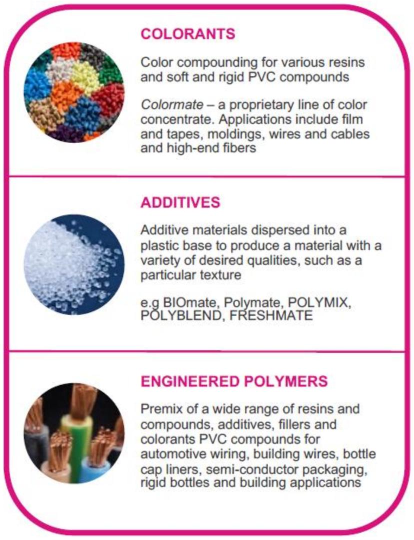
Under the Other Specialty Chemicals division, D&L manufactures powder coating, resins and other specialty resin-based chemicals. Powder coatings are protective materials applied to metals and other surfaces to provide resistance against heat, weather, UV light and certain chemicals. It is used in home appliances, metal furniture, fixings and fittings, mechanical parts, tools and equipment and in the construction industry. On the other hand, resins are chemically modified substances manufactured to suit specific uses. Such includes polystyrene resins for the plastics industry, polymer emulsions for the paint industry and polyester resins for the construction, shipping and furniture industries. Other specialty resin-based chemicals include additives, colorants and solvents.

Results of Operations

In 2024, the sales of the Oleochemicals and Other Specialty Chemicals segment registered an increase of 18.3% to ₱10.2 billion, driven by the overall sales volume growth of 12.5%. The increase in sales volume was due to the 41% rise in Commodities products, which offset the 9% decline in HMSPs. Net income rose by 7% to ₱737 million.

The hike in the government's mandated biodiesel blend from 2% to 3% starting October 1, 2024, proved beneficial for the segment. In 3M2025, the segment's net income jumped by 27% YoY, driven by the strong performance of the Oleochemicals division. Sales volume posted a 41% increase, for both Commodities (+8%) and HMSPs (+71%).

Specialty Plastics



Source: D&L Analyst Deck

Through its subsidiaries, First in Colours, Incorporated (FIC) and D&L Polymer & Colours, Inc. (DLPC), D&L manufactures a line of pigment blends, color and additive masterbatches and engineered polymers for various applications in the plastics industry. FIC focuses on the domestic market, while DLPC focuses primarily on the export market.

For over 50 years, D&L provides for the customers' color concentrate requirements for films, tapes, moldings, wire and cables, high-end fibers and other engineered polymers. The Company investments in R&D and modern technology enabled it to provide products with a broad range of color choices and forms, specialty additives for plastics that enable reduced production costs or add desirable properties to plastics, and custom engineered polymers designed to have the precise color and properties required by customers. The Company also offers compounding services that enable customers to offer specialty compounds branded with their own labels.

The Company announced in November 2023 that it is set to launch a new set of products as an alternative to plastics that is equally durable and cost-competitive but is renewable, sustainable and made from indigenous materials. D&L has ongoing product trials and is optimistic about launching the new products once tests show encouraging results.

Results of Operations

In 2024, the Specialty Plastics segment recorded 7.1% higher sales amounting to ₱3.5 billion due to higher demand. Sales volume grew by 7.4%, as the continued improvements in the auto industry drove higher demand for engineered polymers for auto wire harness applications. Net income for the segment was the highest among the four main businesses for the year at ₱920 million, up by 18% from the previous year.

The segment's performance slowed in 3M2025 from a high base line in 2024. Earnings for the period went down by 5% YoY. About 50% of sales came from the production of wire harness for global automotive industry applications. The uncertainties coming from trade tariffs dampened the business sentiment in the sector. D&L intends to develop product applications that cater to Electric Vehicles (EV) and keep itself relevant in the automotive field.

Consumer Products ODM

Source: D&L Analyst Deck

The Consumer Products ODM segment is being operated through wholly owned subsidiary Aero-Pack Industries, Inc. (Aero-Pack) and NAC. D&L customizes aerosol and non-aerosol products across various industries that focus on maintenance chemicals and home and personal care products. The bulk of sales from this segment is coming from the domestic market. The Company offers a full turnkey solution from formulation, design and packaging to production and delivery of the products to the customer. It also supplies three-piece aerosol cans and components, which comprise the majority of aerosol product requirements in both the local and global markets. In addition, the Company offers aerosol contract filling and compounding services.

Results of Operations

In 2024, the segment's performance was affected by weak consumer sentiment amid lingering effects of high inflation. Sales declined by 12.8% to ₱1.2 billion, as sales volume went down by 16.6%. The incremental costs in relation to the Batangas plant also weighed down the segment's net income. Earnings for the year were cut by 51% to ₱126 million.

Sales volume recovered in 3M2025 and grew by 23% YoY, as price inflation slowed down. The ramping up of the operations of the Batangas plant, however, raised fixed costs per unit and resulted in lower margins. Net income dropped by 30% YoY for the period and gross profit margin declined to 16.4%. Nonetheless, D&L positively noted that the segment's sales coming from exports expanded to 13% of the total from virtually zero in the last six years. Management expects the contribution of export sales to this segment to increase over the long term.

Raw Materials and Price Pass-Through Mechanism

Of D&L's total costs and expenses, at least 80% were for the purchases of raw materials. The Company's primary raw materials are coconut and palm oil, accounting for 35% and 25% of the total in 2024, respectively. Other raw materials include other types of vegetable oils, monomers, resins and other chemicals. These raw materials are sourced from both local and international suppliers. In 2024, approximately 40% of the raw materials are imported and mostly denominated in US Dollars. Prices of these raw materials tend to fluctuate, as these are affected by several domestic and global factors, including changes in global supply and demand, weather conditions, governmental controls and the relative strength of the Philippine Peso against other currencies.

In relation to this, the Company employs a price pass-through mechanism, which enables it to pass on decreases or increases in the cost of raw materials to customers. It takes the Company 30 to 45 days to adjust its selling prices to reflect the change in raw material prices. The lag in price adjustments may become a factor that could affect margins for the period, particularly in the event of rapidly changing prices. The margins will be positively affected in the period of declining prices in terms of raw material inputs, and negatively when raw material prices are going up. Overall, however, such movements will balance each other out and are expected to normalize over time.

Given the fluctuations in raw material prices and the Company's price pass through mechanism, shifts in revenue levels are therefore characteristic of the nature of the Company's business. As such, D&L focuses its efforts on managing its margins, sales volume and net income.

Production Facilities

D&L employs an asset-light business model, where the Company does not own land or real property, but rather leases them from related parties and third-party lessors. D&L leases production facilities and warehouses, as well as barges and storage tanks used in its businesses. Lease agreements are typically for one to five years and are renewable unless terminated by either party. Nevertheless, the Company's rental costs remain minimal. Approximately 2% of the cost and expenses in 2024 were for rental expenses.

Capacity utilization is affected mainly by the anticipated seasonality and quarterly changes in demand for the Company's products. Decreased utilization is attributed to the macroeconomic challenges such as high inflation that affected demand for some products, whereas higher utilization is driven by the continued reopening of the economy and the resumption of face-to-face activities which fueled demand for some products. Moreover, the addition of the Batangas Facility provided D&L with more flexibility in terms of production capacity.

Batangas Expansion Facility

On July 10, 2023, D&L announced the official commencement of commercial operations of the new manufacturing facility in Tanauan, Batangas. The construction of the plant started in 2018 with some delays in the timeline due to pandemic-related restrictions. The completed facility now sits on a 26-hectare (ha) land, located in the Philippine Economic Zone Authority (PEZA)-accredited First Industrial Township in Batangas. The land footprint of the new plant is 16 ha, more than the 14-ha combined land footprint of the D&L's six older plants. There are three production plants within the facility—one plant will be used by DLPF and the other two plants by NAC. The Batangas expansion facility allows D&L to manufacture from source—enabling the Company to process raw materials and package them closer to finished consumer-facing products. This permits the Company to move a step closer to its clients by providing customized solutions and simplifying their supply chain, which is particularly crucial given logistical challenges.

The facility mainly caters to the export business of the Food Ingredients and Oleochemicals segments, in line with the Company's goal of expanding its global footprint and increasing export sales contribution to 50%. According to D&L, the expansion in Batangas is seen to accommodate growth for the next 20 years, although the Company may systematically roll out new production lines as and when needed. The progressive, staged rollout of new capacity will allow for closer control of depreciation and operating costs.

D&L's Facility within First Industrial Township - Special Economic Zone in Batangas

In March 2024, D&L disclosed that Barone International awarded a LEEDv4 Gold Certification to the Central Hub building of the Batangas plant. The six-story Central Hub earned a total of 60 points (out of the maximum 80 points) for its various sustainability features, which gained its second highest rating under the LEED certification.

On April 6, 2025, D&L disclosed that a fire broke out outside a warehouse in the Batangas plant. While the facility has been following the minimum fire prevention standards, management stated that they are considering more proactive prevention measures such as additional surveillance or monitoring equipment in the area and increasing the frequency of hauling materials for disposal from the site. According to management, the financial impact in relation to the incident was insignificant, and only minor repairs were needed to restore the damage.

In 2024, the Batangas facility reported positive earnings, ahead of the initial schedule of two years after operations (based on the performance of previous production plants). The operations of the plant improved in the last quarter of the year, coming from a loss in the third quarter when incremental expenses for the newly installed lines affected profitability. D&L expects income from the facility to continue to increase as operations ramp up and new orders are delivered.

Competition

According to D&L's management, the Company retains its position as top player or a close second in most of the segments it operates in. D&L's market share for each of its business segments reportedly ranged from 30% to over 60%. The Company leverages its pioneering position in several of its chosen businesses and has since been growing organically with the local industries.

D&L consistently aims to develop its R&D in order to deliver high quality products for its customers, and in turn retain its leading market position. The R&D-driven nature of the products manufactured by the Company has served as an initial barrier to entry for new market players. The Company's R&D spend for 2024 amounted to ₱551 million, higher by 22% than in the previous year. This was equivalent to 1.4% of total revenues and 12% of the non-raw materials cost in 2024. The huge capex spending required to build facilities, the applications of the products, and the customers' insistence on working with established suppliers who have a long track record of credibility have further limited the entry of market players. D&L likewise capitalizes on its long-standing relationship with its clients, which it has built over many years.

Management and Strategy

Yin Yong L. Lao is D&L's Chairman of the Board of Directors. He has been a Director of the Company since 1971 and had previously served as President. He concurrently holds top management positions in other companies within and outside of the D&L Group. He is also a Trustee of the Association of Petrochemical

Manufacturers of the Philippines. He graduated from the Ateneo de Manila University with a Bachelor of Arts degree in General Studies.

Alvin D. Lao is the Company's President and Chief Executive Officer (CEO) since August 2016. He has accumulated more than 25 years of experience with the D&L Group. He holds directorship in several other affiliated and non-affiliated companies. He is also Vice President of the Technology Club of the Philippines (Philippine alumni of the Massachusetts Institute of Technology) and past president of the Entrepreneurs Organization (EO, Philippine Chapter). He graduated from the University of Western Australia with a Bachelor of Science in Information Technology (Honours) and Statistics. He also holds a Master's degree in Business Administration from the MIT Sloan School of Management. PhilRatings positively noted Mr. Alvin Lao's in-depth knowledge of the industry and his very hands-on approach to running D&L's businesses.

Mr. Franco Diego Q. Lao is D&L's Chief Financial Officer (CFO), Treasurer and Chief Compliance Officer since May 2021. He was previously Finance Director of OFI and Supply Chain Director for D&L. He has over 21 years of experience with the Group and also holds directorship in other affiliated companies. He holds a Bachelor of Commerce major in Accounting and Marketing degree from the University of Western Australia.

D&L's Advisory Board consisted of Dean L. Lao (Chairman Emeritus), Leon L. Lao and Alex L. Lao. Mr. Leon L. Lao and Mr. Dean L. Lao are co-founders of D&L. Mr. Yin Yong L. Lao, Mr. John L. Lao (Vice Chairman), Mr. Dean L. Lao, Mr. Leon L. Lao, and Mr. Alex L. Lao are brothers. Mr. Alvin D. Lao is the son of Mr. Leon L. Lao, while Ms. Ainslee Anne T. Lao (Assistant Corporate Secretary) and Mr. Franco Diego Q. Lao are the children of Mr. Alex L. Lao. To date, 20 members of the Lao family are involved in D&L. Such demonstrates the Lao family's commitment to the continuity of the business.

While the Company's top-level management is dominated by members of the Lao family, PhilRatings notes the appointment of non-family, experienced professionals in leadership positions. Moreover, four out of its seven Board members are independent directors in line with the Company's commitment to maintain fair and good governance.

There were no changes in the key officers of D&L since the last rating review.

As of July 2025, D&L and its subsidiaries had a total of 1,285 employees. None of the employees are covered by collective bargaining agreements, as there are no labor unions in any of D&L's subsidiaries and operating facilities.

<u>Strategy</u>

D&L's management has identified five key business strategies for the Company, which are as follows: (1) maintain market leadership; (2) innovate continuously; (3) capitalize on growing domestic consumer market; (4) enhance production and business processes; and (5) expand globally.

To keep pace with evolving technological innovations and to ensure that they can respond effectively and efficiently to market needs, around 14% of the Company's workforce is assigned to the technical department (R&D and Information Technology).

Further to its commitment to R&D and product innovation, management also acknowledges that building a more sustainable future is a strategic action to future-proof its business. Thus, the Company has been investing in and prioritizing sustainability initiatives, such as the practice of green chemistry or the design of chemical products and processes that minimize or eliminate the use and generation of hazardous substances. D&L disclosed its plan to launch new cost-competitive substitutes to traditional plastics that are equally durable but are renewable, sustainable and made from indigenous materials. D&L will leverage on its R&D investments to develop new applications in relation to its products and create plastics that are more economical and environmentally friendly. D&L also plans to capitalize on the increasing global relevance of coconut oil and introduce more highly specialized coconut oil-based products.

In 2025, the Company will focus on increasing the utilization of the Batangas plant, banking on its promising results in less than two years of its operations.

ECONOMY AND INDUSTRY

2024[1]

The country's Gross Domestic Product (GDP) grew by 5.2% in the fourth quarter of 2024 (4Q2024), unchanged from the previous quarter. The boost in economic activity in 4Q2024 due to the holiday season was dampened by the impact of destructive storms and other climate-related disruptions. Such brought the full-year 2024 GDP growth to 5.6%, lower than the government's revised full-year target of 6.0%-6.5%. Nonetheless, the Philippines remained one of the fastest-growing economies in the Asia Pacific (APAC) region, trailing Vietnam (7.5%) and China (5.4%).[2]

The Industry and Services sectors grew by 5.6% and 6.7%, respectively. In contrast, Agriculture, Forestry and Fisheries contracted by 1.6%, attributed to the record-breaking typhoon season–six typhoons struck the country from the end of October until the middle of November.

Household final consumption expenditure (HFCE) expanded by 4.8% in 2024, slower compared with the 5.6% growth recorded in 2023. Government final consumption expenditure (GFCE), on the other hand, grew by 7.2%, notably higher than its marginal 0.6% growth in 2023.

1Q2025[3]

In 1Q2025, Philippine GDP grew by 5.4%, lower compared with the 5.9% growth recorded in the same period of 2024. The main contributors to growth were as follows: Wholesale and retail trade, repair of motor vehicles and motorcycles (6.4%); Financial and insurance activities (7.2%); and Manufacturing (4.1%). Services, Industry, and Agriculture—the major economic sectors—all posted YoY growth in 1Q2025 with 6.3%, 4.5% and 2.2%, respectively.

On the demand side, HFCE grew by 5.3% in 1Q2025, higher compared with the 4.7% growth in 1Q2024. Government spending grew significantly by 18.7% in 1Q2025, from 2.6% in 1Q2024.

The peso to dollar hit a 12-month high in terms of average exchange rate in April 29, amid the easing of US-China trade tensions. In late April, Trump's administration shared its plan to ease the impact of

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[1] https://psa.gov.ph/content/gdp-expands-52-percent-fourth-quarter-2024-brings-full-year-2024-gdp-year-year-growth-rate
[2] https://www.philstar.com/headlines/2025/01/30/2417970/philippines-ends-2024-56-economic-growth-missing-govt-target
[3] https://psa.gov.ph/content/gdp-expands-54-percent-first-quarter-2025

automotive duties on local car manufacturers and its prospect of tariff deals with some trading partners. The Philippine Peso averaged ₱56.888 against the US Dollar in April 2025.

Outlook[4]

In December 2024, the Development Budget Coordination Committee (DBCC) revised the GDP growth target for 2025 to 2028, widening this to 6.0%-8.0% from the previous range of 6.5%-7.5% for 2025 and 6.5%-8.0% in 2026 to 2028. Despite the below-target economic growth in 2024, the Philippine government kept the 2025 GDP target at 6.0%-8.0%. According to the Bangko Sentral ng Pilipinas (BSP), however, while the outlook for the domestic economic activity remains firm, growth is seen to be moderate compared with previous assessments, amid the elevated global commodity prices and the ongoing trade uncertainties. The BSP also stated that the country's economic output might only reach the lower end of the government's target.[5]

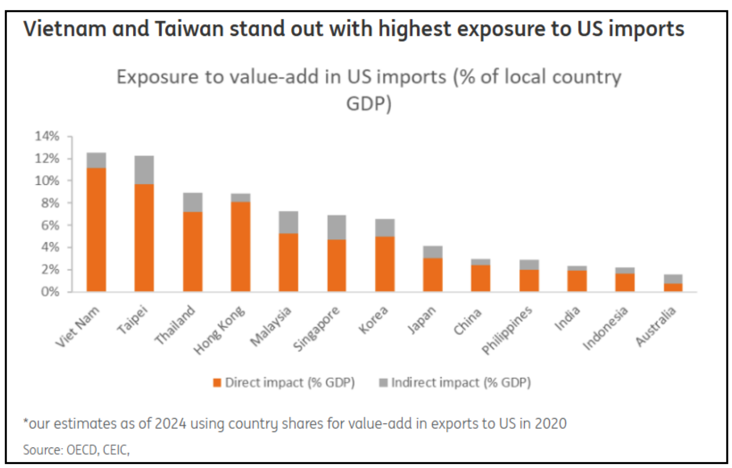
In April 2025, the International Monetary Fund (IMF), Asian Development Bank (ADB), World Bank, and Asean Macroeconomic Research Office (AMRO) all trimmed their 2025 GDP growth forecasts for the Philippines.

Table 4. GDP Forecasts

Institution	2025E	2026E
Development Budget Coordination Committee (DBCC)	6.0% - 8.0%	6.0% - 8.0%
World Bank	5.3%	5.4%
International Monetary Fund (IMF)	5.5%	5.8%
Asean Macroeconomic Research Office (AMRO)	<6.0%	6.3%
Asian Development Bank (ADB)	6.0%	6.1%

The IMF, World Bank, and AMRO, whose forecasts fall below the government's target, attributed the downgrade primarily to the global trade uncertainty, particularly the reciprocal tariffs imposed by the US. The World Bank lowered its GDP growth forecast from 6.1% early this year to 5.3%. According to the World Bank, the possible slowdown in the economy of US and China–our key trading partners—brought by the trade war could weaken external demand for export-oriented countries like the Philippines.

IMF expects GDP to grow by 5.5% in 2025, also a steep downgrade from the previous forecast of 6.1%. In addition to the global trade uncertainty, the downgrade was also attributed to the lower-than-expected GDP growth in 4Q2024. Nonetheless, despite the cut, the IMF reported that the country's economic growth would remain robust, with Philippines poised to become the second-fastest growing economy in emerging and developing Asia, next to India.



[4] https://www.bsp.gov.ph/Price%20Stability/MonetaryPolicyReport/EconomicOutlook_February2025.pdf
[5] https://www.bworldonline.com/top-stories/2025/03/19/660260/bsp-sees-gdp-growth-hitting-the-lower-end-of-6-8-target/

AMRO also cut its growth forecast to below 6.0%, from a previous forecast of 6.3%. AMRO's Chief Economist Hoe Ee Khor, however, acknowledged that the Philippines will be less affected by the tariffs compared with regional peers, given the country's relatively smaller manufacturing sector versus other ASEAN countries. Vietnam, Taiwan and Thailand are expected to be notably affected by the tariffs, given its high exposure to US imports as well as exports to the US.[6]

ADB, on the other hand, attributed the GDP growth downgrade (from 6.2% to 6.0%) to the slower-than-expected household spending growth in 4Q2024. Nonetheless, according to ADB, household consumption and investment will continue to drive the economy, with the moderating inflation and the more accommodative monetary policy to boost growth. It should be noted that ADB's outlook of at least 6.0% was finalized prior to the announcement of new tariffs by the US administration.

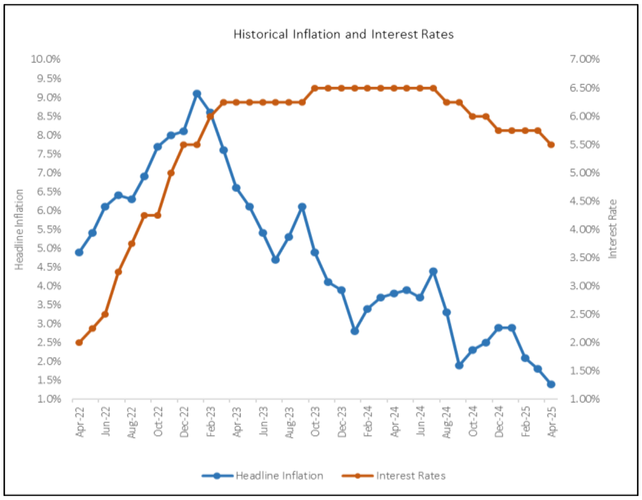
Dindo Manhit, President and CEO of Stratbase Group and Managing Director of BGA Philippines, stated in an article for Bower Group Asia that the arrest of former President Rodrigo Duterte by the International Criminal Court (ICC) is expected to have minimal impact on the Philippines' financial markets and economic stability, with no anticipated immediate disruptions to policies or business operations.

Mr. Manhit also stated that widespread violence is unlikely because former President Duterte is no longer as popular as he was during his presidency and lacks military support at this time. He noted that while followers of the former President remain influential on social media, particularly through the proliferation of so-called "troll armies", such followers face limitations in mobilizing large-scale protests or uprisings, even in Mindanao, which is the Duterte family's stronghold. Rizal Commercial Banking Corp. chief economist Michael Ricafort shared the same view, saying that the arrest of former President Rodrigo Duterte has had little impact on the country's economic outlook. Mr. Ricafort noted the current political noise has remained manageable so far. He also noted the Philippines' favorable credit ratings, kept at one to three notches above the minimum investment grade rating, despite political uncertainties and ongoing tensions with China.[7]

Inflation and Interest Rates[8]

The country's headline inflation continued to slow down to 1.4% in April 2025. This was lower than the 1.8% headline inflation in March 2025 and the 3.8% registered a year ago. The latest headline inflation was also the lowest in over five years, since the 1.2% recorded in November 2019.

[6] https://think.ing.com/snaps/apac-hit-by-tariffs-in-the-range-of-10-49/
[7] https://bilyonaryo.com/2025/03/15/ph-economy-on-track-despite-political-noise-trade-risks-rcbcs-ricafort/money/
[8] https://psa.gov.ph/price-indices/cpi-ir



The food and non-alcoholic beverage index, which sharply declined to 0.9% in April from 2.2% in the March, primarily drove the downtrend in inflation. Inflation of the transportation sector also contributed to the lower inflation for the month. Transport index had a faster decline of 2.1% in April 2025, from a 1.1% contraction in March 2025. On the contrary, housing, water, electricity, gas, and other fuels' inflation in April 2025 increased to 2.9%, from 1.7% in the previous month.

While National Economic and Development Authority (NEDA) Secretary Arsenio M. Balisacan warned that the country may be hit by six to 13 typhoons from March to August, the government will continue its efforts to keep inflation manageable. The current inflation target for 2025 and 2026 remained at 2%-4%. Moreover, the BSP is also reviewing the possibility of adjusting the midpoint of the target band to 2.5%.[9] Headline inflation for the first four months of 2025 averaged at 2.1%, well within the target for the year.

Following the consistent deceleration in inflation, the BSP implemented another 25 basis point policy rate cut in June 2025, further lowering the benchmark interest rate to 5.25%. This marked the second rate cut of 2025, after a series of rate cuts in 2024 that brought the interest rate to 5.75%. BSP Governor Eli Remolona emphasized that while the decision reflects confidence in the inflation outlook, the BSP remains cautious in its approach. He stated that the central bank aims to bring the policy rate closer to the estimated neutral rate of around 2%, but without rushing, to avoid overstimulating the economy.

Industry[10]

Consumer sentiment in the last quarter of 2024 has improved compared to the third quarter of the same year. Based on the Consumer Expectations Survey (CES) report of the BSP, the overall consumer confidence index (CI) turned less negative at -11.1% from -15.6% in 3Q2024. According to the survey, consumers were less pessimistic in the expectations of the following: (a) higher and additional sources of income, (b) more working family members, and (c) more available jobs and permanent employment. The CI has yet to return to positive levels as observed in 3Q2019 to 1Q2020.

In the next quarter (1Q2025), consumer CI also improved from 0.7% to 4.2%. This was attributed to: (a) higher income, (b) additional sources of income, and (c) more available jobs. Consumers registered less pessimism in all components: country's economic condition, family's financial situation, and family income.

The opposite can be observed for business owners. While the business CI went higher than pre-pandemic average of 41.6% to 44.5% in 4Q2024, such dropped to 31.2% in 1Q2025. The dampened sentiment was

[9] https://business.inquirer.net/519348/bsp-reviews-2-4-inflation-target

[10] Sources: Consumer Expectations Survey Report of the Bangko Sentral ng Pilipinas for the 4th Quarter of 2024
Business Expectations Survey Report of the Bangko Sentral ng Pilipinas for the 1st Quarter of 2025

driven by the expectations of the following: (a) post-holiday decline in demand for goods and services, along with a slowdown in business activities and (b) potential resurgence of inflationary pressures.

Nonetheless, business sentiment for 2Q2025 was more upbeat, increasing from 40.3% in 1Q2025 to 45.4%. The outlook was reflective of the following expectations: (a) an increase in demand for products and services, buoyed by the upcoming elections, (b) seasonal uptick in business activities during the summer season, (c) continued favorable economic conditions, and (d) business expectations. In the next 12 months, business CI is seen to be stable at 56.4% since 4Q2024.

Coconut and Palm Oil[11]

In 1Q2025, coconut oil prices in the APAC region recorded volatile movements. January opened with high export prices due to tightening inventories, heightened global demand, and raw material costs fluctuations that drove the bullish price sentiment. This shifted in February with prices declining by 0.6% due to oversupply and muted activity going down the supply chain. The market, however, rebounded in March as prices posted an uptick, attributed to the El Niño-related production cuts, persistent pest challenges, and lower coconut availability.

Price watchers still see strong demand from the US, Europe, and China markets. Stakeholders are advised to maintain adaptive sourcing to navigate through weather volatility and global macroeconomic factors that influence pricing movements.

Palm oil prices in the APAC region registered a more stable trajectory with modest fluctuations in 1Q2025. While there was an observed regional softening of consumption, buyers still replenished inventory on the back of a cautiously optimistic market sentiment. Palm oil also reinforces its position through steady demand despite alternative vegetable oils such as soybean and sunflower. Outlook for the market remains stable with mild price pressures from seasonal factors.

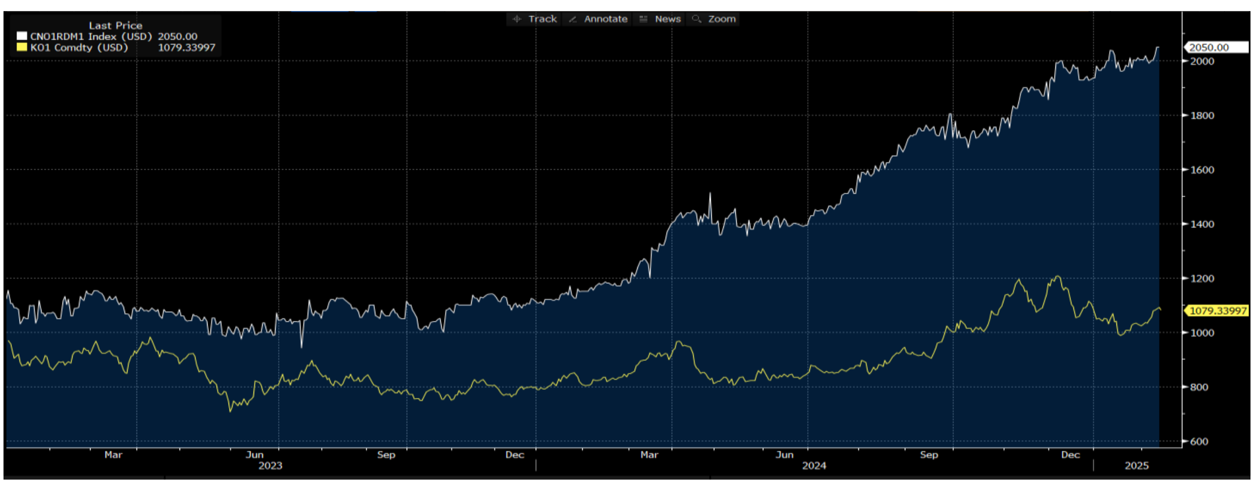


Figure 2. Two-Year Price Chart of Coconut and Palm Oil
Source: D&L's FY 2024 Analyst Presentation Deck

[11] Sources: https://www.chemanalyst.com/Pricing-data/coconut-oil-1316
https://www.chemanalyst.com/Pricing-data/palm-oil-1319

According to D&L, the commodity prices of palm oil and coconut oil tend to be volatile by nature and are heavily influenced by global events that may result in supply shocks. For this reason, D&L does not take long-term positions for these commodities and employs a natural hedge by passing on price changes to customers.

Food[12]

In March 2025, the manufacturing industry in the Philippines recovered YoY from the recorded decline in the previous month. The Value of Production Index (VaPI) for manufacturing improved from -0.6% in February to 0.4% in March. The primary driver was the annual increment from the manufacturing of food products which registered at 19.2%, up from 13.9% in the prior month. Food products made the largest contribution of 35.4% to the uptrend in March, mainly brought about by the faster annual increase in the processing and preserving of the meat industry group. Out of the 22 industry divisions for the manufacturing section, the manufacture of food products was the industry division with the highest weight in the computation of VaPI for manufacturing.

The other contributors to VaPI for the month of March were the manufacture of transport equipment (5.9% in March from -0.9% in February) and computer, electronic and optical products (3.6% in March from 1.8% in February).

The Volume of Production Index (VoPI) registered a slower decline from -1.5% in February to -0.2% in March. This was likewise an improvement from the recorded annual decrease of -5.1% in March 2024. The manufacture of food products similarly drove the milder decrease with an 18.8% annual increment in March 2025 from 13.5% in the prior month.

The revenue from the Food industry in the Philippines is projected to reach $149.3 billion (roughly ₱8.3 trillion) in 2025 and is expected to grow by a compound annual growth rate (CAGR) of 7.9% until 2030.

Oleochemicals[13]

Oleochemicals refer to chemicals derived from bio-based plant and animal materials. These compounds have a vast range of applications in various industries, including personal care, detergents, and industrial applications.

In January 2025, the increase in the General Wholesale Price Index (GWPI) was mainly attributed to the rising costs in chemicals, including animal and vegetable oils and fats. GWPI rose from 2.7% in December 2024 to 2.9% in January 2025, driven by the higher annual increase in the index of chemicals at 9.9%, up from 8.7% in December last year. GWPI is an indicator of price fluctuations in goods entering the wholesale trade sector, giving insight into the probable movement in consumer prices.

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[12] Sources: https://psa.gov.ph/content/production-index-and-net-sales-index-monthly-integrated-survey-selected-industries-march-4
https://www.bworldonline.com/economy/2025/04/01/663277/phl-food-sales-seen-growing-5/
https://www.statista.com/outlook/cmo/food/philippines

[13] Sources: https://legacy.doe.gov.ph/press-releases/doe-mandates-higher-biodiesel-blend-beginning-october-2024
https://businessmirror.com.ph/2025/03/12/chemicals-push-wholesale-prices-higher-at-2025-start/
https://www.philstar.com/business/2025/06/15/2450553/biodiesel-blend-hike-still-sight

On October 1, 2024, the Department of Energy (DOE) increased the coco methyl ester (CME) blend in all diesel fuel sold nationwide from 2% to 3%. The change aims to decrease dependence on imported fuels, reduce greenhouse gas emissions, and bolster the local biodiesel sector. This was a welcome development since the Biofuels Act of 2006, which mandated that all liquid fuels for motors and engines sold in the Philippines be blended with biofuels. The last increase in the required CME blend was implemented in 2009.

The 3% percentage CME blend was earlier targeted to increase to 4% by October 1, 2025, and further to 5% by October 1, 2026. The 1% increase in the CME blend is expected to add around 900 million additional nuts as feedstocks to produce approximately 100 to 120 million liters of additional CME. Such will expand the market for coconut farmers, biodiesel producers, and other stakeholders in the coconut industry.

In June 2025, however, there was a proposed postponement of the increase this year by the National Biofuels Board (NBB) due to the rising prices of coconut oil. As the raw material for the production of the CME blend, the rapid increase in the prices of coconut oil will directly impact diesel fuel prices. The proposed deferral of the 1% increase this year is seen to help avoid unwarranted price inflation in the market. The NBB has yet to disclose its timeline for the resumption of the planned increases.

Plastics[14]

According to industries market researcher Mordor Intelligence, the Philippine plastics market is expected to grow by a CAGR of 5% from 2025 to 2030. The largest application of the plastics market in the Philippines is packaging materials. The increasing household and commercial applications for containers, plastic bags, canisters, and tableware are expected to drive the consumption demand for plastics in the packaging sector during the forecast period.

In relation to the increased use of plastics, the Department of Environment and Natural Resources (DENR) enacted the Expanded Producers' Responsibility (EPR) Act in June 2022. The EPR Act reached a milestone in its first year of implementation as registered businesses reached their target of diverting 20% of used plastics in 2023.[15] DENR Secretary Antonia Yulo-Loyzaga announced the feat during the World Environment Day and Philippine Environment Month in June 2024. According to the DENR-Environmental Management Bureau (EMB), 124,986 tons of plastic packaging were reported to have been diverted out of a total of 624,547 tons of unaudited footprint for plastics in 2023. Secretary Yulo-Loyzaga stated that the target was achieved through waste collection and diversion, including recovery, transportation, and cleanup efforts in coastal and public areas. The EMB also reported a 37% increase in the number of businesses that registered under the EPR program, from 667 in 2023 to 917 companies as of May 6, 2024. The DENR Secretary added her optimism that the Philippines will hit the target of recovering and diverting 80% of plastic packaging by 2028.

[14] Sources: https://www.packaginginsights.com/news/the-philippines-bolsters-epr-law-requiring-businesses-to-recover-20-of-plastic-packaging-waste.html
https://denr.gov.ph/news-events/denr-reports-epr-gains-as-world-marks-environment-day/

[15] Companies with total assets of more than ₱100 million will be required to create a system to recover 20% of the plastic waste that the company produced in the previous year. A fine of ₱5 million to ₱20 million will be imposed for companies that fail to comply.

Aerosols[16]

The APAC region recorded the fastest growth in the global aerosols market, according to the industry study of Grand View Research. Emerging countries such as India and China have driven such growth in the past couple of years, particularly from the working millennial population who are individuals characterized with high levels of disposable income and digital connectivity. The market is aggressively increasing due to the expanding personal care and household industries. The global market size of the aerosol industry grew from $68.7 billion in 2023 to $73.1 billion in 2024. This is expected to sustain a CAGR of 6.6% to $131.9 billion by 2030.

The Philippine aerosols market is projected to continue expanding, driven by increasing consumer demand for convenience and hygiene-related products. The economic recovery since the pandemic has resulted in a growth in disposable income levels in households. This led to higher spending on discretionary products such as beauty and skin care products. Based on data from management consulting firm IMARC, the market size of Philippines skin care products reached $2.5 billion in 2024. This is seen to post a CAGR of 7.6% from 2025 to 2033 and reach $5.04 billion.

FINANCIAL REVIEW

Analysts' Note: *PhilRatings' calculation of certain ratios may be different from what the Company uses and publishes.*

Table 5.1. Balance Sheet

In Php Millions	2022	2023	2024	3M2025
Cash and cash equivalents	3,250	2,844	2,838	2,358
Receivables, net	5,618	5,657	8,058	9,140
Inventories	8,745	9,056	11,372	11,261
Property, plant and equipment	11,540	12,527	12,724	12,580
Total assets	40,760	42,625	48,369	50,996
Total debt	15,478	17,135	21,090	22,107
Total liabilities	20,109	21,758	26,580	28,526
Total equity	20,651	20,868	21,790	22,471

Table 5.2. Income Statement

In Php Millions	2022	2023	2024	3M2024	3M2025
Total revenues	43,485	33,502	40,675	8,832	14,268
Cost of sales and services	37,418	27,789	34,420	7,323	12,462
Gross profit	6,066	5,713	6,255	1,508	1,806
Operating profit	4,331	3,634	3,737	1,011	1,103
Finance costs	236	613	971	223	304
Income tax expense	777	725	424	170	117
Net income	3,318	2,295	2,342	618	681

[16] Sources: https://www.grandviewresearch.com/industry-analysis/aerosol-market
https://www.researchandmarkets.com/report/aerosol
https://www.imarcgroup.com/philippines-skin-care-products-market

Table 5.3. Statement of Cash Flows

In Php Millions	2022	2023	2024	3M2024	3M2025
Cash inflow (outflow) from operating activities	1,984	2,654	48	2,923	(3,291)
Cash inflow (outflow) from investing activities	(3,135)	(1,432)	(1,083)	(229)	(60)
Cash inflow (outflow) from financing activities	(782)	(1,627)	1,047	(1,918)	2,873
Net cash effect	(1,933)	(405)	11	775	(478)

Table 5.4. Select Financial Ratios

	2021	2022	2023	2024	3M2024	3M2025
Gross profit margin (%)	14.8	13.9	17.1	15.4	17.1	12.7
Net profit margin (%)	8.6	7.6	6.9	5.8	7.0	4.8
EBITDA interest cover (x)	25.3	21.8	7.8	3.8	5.6	4.6
Return on average assets (%)	8.6	8.6	5.5	5.1	5.5	5.3
Return on average equity (%)	14.3	16.7	11.1	11.0	10.7	11.3
Debt service coverage ratio (x)	0.4	0.4	0.3	0.2	0.1	0.1
Current ratio (x)	1.8	1.5	1.2	1.3	1.3	1.3
Debt to equity ratio (x)	0.7	0.7	0.8	1.0	0.7	1.0
Total debt to capitalization (%)	41.9	42.8	45.1	49.2	41.9	49.6
Average collection period (days)	53	46	59	72	59	47

Profitability

<u>2023</u>

Consolidated revenues declined by 23.0% in 2023 and amounted to ₱33.5 billion, driven by lower sales volume and lower average selling prices. Both net sales and service income dropped by 23.0% and 1.7% to ₱33.4 billion and ₱103.3 million, respectively.

Gross profit went down by 5.8% to ₱5.7 billion in 2023, on the back of lower sales volume for the year. D&L's gross profit margin, however, posted an improvement from 13.9% in 2022 to 17.1% in 2023. Total expenses decreased by 25.7% to ₱27.8 billion, due to the 25.8% decline in the cost of sales. The drop in the latter was mainly attributed to the lower cost of raw materials used for the period. On the other hand, the cost of services increased by 4.6%, marginally offsetting the decrease in cost of sales. The increase was primarily attributable to employee costs and supplies.

General and administrative expenses (GAE) jumped by 25.0%, on the back of higher rental expenses, repairs and maintenance, professional fees and contracted services. Selling and marketing expenses, on the other hand, inched down by 4.2% largely due to lower delivery charges.

Other operating income amounted to ₱33.7 million, mainly on account of interest income from short term bank deposits. Other income was down by 85.1% from the prior year, as the Company recorded a net foreign exchange loss of ₱15.6 billion for the year, in contrast to the net gain of ₱186.2 billion in 2022.

Finance costs grew substantially by 159.7% to ₱613.3 million, attributed to the recognition of borrowing costs in the income statement which was previously capitalized during the construction of the new Batangas plant.

D&L ended 2023 with a net income of ₱2.3 billion, lower by 30.8% than the previous year. This translated to a slimmer net profit margin of 6.9%, down from 7.6% in 2022, driven by the hike in finance charges.

2024

Net income in 2024 inched up by 2.0% to ₱2.3 billion, driven by higher revenues for the year. Net profit margin, however, went down to 5.8% in 2024 on the back of higher manufacturing costs and operating expenses.

Total revenues amounted to ₱40.7 billion, posting a solid increase of 21.4%, attributed to higher sales volume. Costs of sales and services, on the other hand, grew faster by 23.9%, mainly driven by higher cost of raw materials used and overhead costs. Given such, gross profit margin contracted to 15.4% in 2024. The Company, nonetheless, registered a 9.5% expansion in gross profit to ₱6.2 billion.

Operating expenses jumped by 21.1% to ₱2.5 billion. Selling and marketing expenses likewise ballooned by 43.2%, as D&L incurred additional operating and marketing expenses in relation to the commercial operations of its Batangas facility. GAE inched up by 2.1%, mainly driven by higher professional fees, contracted services, and taxes and licenses. Moreover, finance costs continued to increase by 58.3% to ₱970.7 million, on account of the higher debt balance and interest rates.

On the other hand, foreign exchange gains and interest income from short term bank deposits fueled the 180.9% growth in other operating income to ₱94.6 million.

3M2025

Total revenues jumped by 61.6% YoY to ₱14.3 billion in 3M2025, up from ₱8.8 billion in the same period last year. Such growth was attributed to higher sales volume for the quarter. Gross profit amounted to ₱1.8 billion, higher by 19.7% YoY from ₱1.5 billion in 3M2024.

Gross profit margin, however, contracted from 17.1% in 3M2024 to 12.7% in 3M2025. Such was on the back of the 70.5% YoY surge in cost of sales due to the heightened increase in commodity prices. The margin contraction is a result of the average 30-45 day lag before the Company eventually passes on its price changes to customers.

Operating expenses grew by 9.1% YoY, driven by higher delivery charges, which are related to higher sales volume for the period. Additionally, finance costs jumped by 36.5% YoY from ₱223.1 million in 3M2024 to ₱304.5 million in 3M2025, due to higher debt levels as well as effective interest rates compared with the same period last year.

Driven by the robust sales volume, D&L ended the period with a net income of ₱681.1 million, higher by 10.2% YoY from ₱617.9 million in 3M2024. The faster growth in costs and expenses, however, lowered net profit margin from 7.0% in 3M2024 to 4.8% in 3M2025.

Projected Period (2025-2026)

Revenue growth is expected to continue over the projected period, propelled by the ramping up of the operations of the Batangas facility. D&L aims to increase the utilization of the plant moving forward. Earnings are likewise projected to improve, supported by the foreseen revenue expansion.

Margins are seen to be healthy, notwithstanding the uncertainties of potential external pressures to commodity prices and overhead costs.

Cash Flow and Liquidity

2023

Net cash from operations was the main source of funding in 2023. The generated cash from operating activities amounted to ₱2.7 billion, higher than ₱2.0 billion in 2022 mainly due to higher pre-tax earnings, coupled with a more tempered increase in receivables and prepayments compared with the previous year.

A significant portion of the cash was used for investing activities totaling ₱1.4 billion, primarily for the acquisition of property and equipment in relation to the Batangas plant. Such, however, was approximately half or 54.3% lower than the amount spent in 2022, after the substantial completion of the facility.

The larger portion of cash disbursement was for financing activities amounting to ₱1.6 billion. D&L paid dividends totaling ₱2.1 billion to shareholders, which was the largest cash outflow for the year. The Company also acquired net borrowings and loans as additional sources of cash, while paying off costs and interest in relation to bonds and lease liabilities.

Year-end cash and cash equivalents stood at ₱2.8 billion, lower by 12.5% from ₱3.3 billion as of end-2022. The Company's current ratio slipped to 1.2x as of end-2023, from 1.5x as of end-2022, driven by the decrease in cash balance coupled with an increase in current liabilities. The hike in current liabilities was attributed to the reclassification of the ₱3.0 billion bonds payable which were expected to mature in September 2024.

2024

Net cash from operating activities went down to ₱47.5 million in 2024, as the Company recorded an increase in its inventories as well as in its receivables and prepayments. With the start of the commercial operations of the Batangas plant, D&L ramped up its inventory and raw materials acquisitions.

Net cash used in the acquisition of property and equipment was still significant but continued to tone down to ₱1.09 billion. Such primarily accounted for the cash used in investing activities totaling ₱1.1 billion in 2024.

D&L settled its bonds amounting to ₱3.0 billion in September 2024, mainly through refinancing. Net proceeds from new borrowings amounted to ₱7.0 billion in 2024. The Company also settled its maturing obligations and paid dividends to shareholders totaling ₱1.5 billion for the year.

As of end-2024, trade receivables jumped by 41.6% and stood at ₱8.2 billion. D&L categorizes trade receivables as low, moderate, or high risk based on the customers' credit quality. Of the total trade receivables as of end-2024, 92.8% were low risk or with minimal to zero historical defaults and minimal invoices that exceed due dates. Only a nominal portion of receivables were high risk at 0.4% of the total as of end-2024.

The average collection period of accounts receivables computed by D&L improved from 55 days in 2023 to 53 days in 2024. The Company's cash conversion cycle likewise decreased from 143 days in the previous year to 139 days in 2024. D&L does not enter into derivative financial instruments. Instead, it naturally hedges foreign exchange risk by maintaining sufficient cash in foreign currency to cover its maturing obligations.

PhilRatings notes that all outstanding external borrowings of the Group are covered by surety and corporate guarantee agreements. These provide cross-guarantees among D&L and its subsidiaries to cover the liabilities of the Group. As of end-2023 and 2024, there was no default from the borrowings covered by the surety agreements and corporate guarantees.

3M2025

D&L ended the quarter with a net decrease of ₱477.9 million in cash and cash equivalents which stood at ₱2.4 billion as of end-March 2025. This was a 16.9% drop from the balance as of end-2024. Nonetheless, the Company's current ratio was unchanged at 1.3x as of end-March 2025.

The Company recorded a negative cash flow from operations amounting to ₱3.3 billion. Such was attributed to higher prepayments, mainly to suppliers for the acquisition of raw materials, brought about by the increase in commodity prices of coconut oil. Additionally, receivables posted an expansion in relation to higher sales for the period.

Net cash used in investing activities amounted to ₱59.7 million, much more tempered than the ₱228.9 million in 3M2024, as the Company's capex continued to decline.

The main source of cash for the period was financing activities, which provided a net cash of ₱2.9 billion. D&L acquired ₱3.2 billion in net additional borrowings. Most of these borrowings were short-term and are mainly for working capital requirements.

Projected Period (2025-2026)

Cash flows are seen to be robust, in line with the projected growth in earnings. Liquidity will remain healthy, with current ratio kept at more than sufficient levels. The Company is expected to be in a comfortable position to settle its ₱2.0 billion Fixed-Rate bonds that will mature in September 2026.

Capital Structure

2023

D&L's total assets expanded by 4.6%, from ₱40.8 billion as of end-2022 to ₱42.6 billion as of end-2023. The major contributors to total assets were property, plant and equipment (PPE), inventories, and receivables. Such accounted for a cumulative share of 63.9% of total assets. While cash levels were lower by 12.5% from the previous year, the continued progress in the construction of the Batangas plant increased PPE by 8.5%. Inventories and receivables likewise rose, driven by higher acquisitions for the operations of the Batangas plant.

Total debt went up by 10.7% to ₱17.1 billion due to additional long-term borrowings. This also drove the 8.2% increase in total liabilities to ₱21.8 billion. On the other hand, stockholders' equity posted a nominal growth of 1.0% to ₱20.9 billion, on the back of higher retained earnings. DE ratio inched up to 0.8x as of end-2023 with the faster increase in total debt.

Actual capex in 2023 significantly lowered to ₱1.5 billion, from the peak capex of ₱3.7 billion in 2022. D&L moved past its high capex spend after the completion of its Batangas facility in June 2023.

2024

Inventory and receivables recorded substantial increases of 25.6% and 42.4%, respectively, driving the 13.5% rise in total assets to ₱48.4 billion as of end-2024. D&L invested in increasing its inventory supply to back the operations of its new manufacturing plant.

As of end-2024, total debt rose by 23.1% to ₱21.1 billion due to additional borrowings. Such was also driven by the acquisition of raw materials. Nonetheless, the Company settled in full its ₱3.0 billion Fixed Rate Bonds due in September 2024, reducing its bonds payable to ₱2.0 billion. Stockholders' equity went up by 4.4% to ₱21.8 billion, with the continued plowback of earnings. DE ratio further increased to 1.0x as of end-2024, on account of the higher debt balance.

Capex in 2024 continued to slow down to ₱1.2 billion, the bulk of which was allocated to the operations of DLPF and NAC.

3M2025

Total assets went up by 5.4% and stood at ₱51.0 billion as of end-March 2025, driven by higher balance in prepayments and receivables.

Due to the additional borrowings to fund working capital requirements, total debt rose by 4.8% to ₱22.1 billion. The majority of total debt was current, accounting for 85.5% of the total. Shareholders' equity similarly increased to ₱22.5 billion, up by 3.1% from as of end-2024, due to increased retained earnings. As a result, DE ratio was unchanged at 1.0x as of end-March 2025.

D&L's capex for the quarter was ₱196 million, approximately 13.0% of full-year 2025 capex.

Projected Period (2025-2026)

A reduction in total debt is anticipated going forward, with the expected net repayments to borrowings. In contrast, stockholders' equity will be propped up by higher retained earnings. D&L's DE ratio is therefore expected to remain within comfortable levels.

The Company's budgeted capex will be mainly allotted for the improvement in the utilization of its Batangas plant. Capex is targeted to support scaled operations and capacity in order to address projected demand, as well as continued infrastructure enhancements and product development.

Financial Flexibility

D&L had ample available short-term credit lines with various foreign and local banks, which the Company may tap for funding of major projects and expenses. The loans are positively noted to be clean and without collateral.

D&L's status as a publicly listed Company provides it with further opportunities to tap into the equity market should the need arise. The Company had a market capitalization of ₱38.2 billion as of July 8, 2025.

ANNEX

D&L's Business Operations

Business Segment	Operating Company *(Date of Incorporation)*	Products and Services	Market
Food Ingredients	Oleo-Fats, Incorporated *(May 4, 1987)*	Fats and oils, specialty food ingredients, food safety products	Domestic + exports mostly to Asia plus to the US and European Union (EU)
	D&L Premium Foods Corp. *(June 29, 2017)*		
Oleochemicals and Other Specialty Chemicals	Chemrez Technologies, Inc. *(June 1, 1989)*	Oleochemicals (coco-biodiesel and high value coconut derivatives)	Domestic + exports to Asia and developed economies such as US, United Kingdom (UK), EU, Australia (AU)
	Natura Aeropack Corporation *(July 20, 2016)*		
	Chemrez Product Solutions, Inc. *(November 16, 1988)*	Powder coating, resins and other specialty resin-based chemicals	
Specialty Plastics	D&L Polymer & Colours, Inc. *(March 30, 2006)*	Engineered polymers for various applications such as auto, construction, electrical, etc.	Domestic + exports to Asia
	First in Colours, Incorporated *(November 17, 1988)*	Pigment blends, color and additive masterbatches	Predominantly domestic
Consumer Products Original Design Manufacturer (ODM) *(previously referred to as the Aerosols segment)*	Aero-Pack Industries, Inc. *(September 29, 1989)*	Aerosol and non-aerosol products for personal and home care and maintenance chemicals	Predominantly domestic
	Natura Aeropack Corporation *(July 20, 2016)*		