

CEO Message

2022 Integrated Report

Fellow shareholders,

2022 presented Ayala Corporation with the opportunity to assert itself as the best proxy for Philippine growth. Our full year results demonstrate the strength and diversification of our portfolio as our four key business units – BPI, Ayala Land, Globe, ACEN – took advantage of the re-opening of the economy. Collectively, they helped drive an 18% increase in our core net income.

Our cyclical business units, BPI and Ayala Land, did very well. BPI's earnings were up 66% as a result of better than industry loan growth, widening NIMs with higher policy rates, and lower provisions with improving asset quality. The bank's digitalization initiatives continue to pay off as client acquisition, engagement and transaction count are up even while branch count is down. Over a quarter of the bank's clients are now digital clients. The average cost-to-income ratio of a digital client is about half that of a non-digital client. A digital client also generates more than twice the revenues versus a non-digital client across products like deposits, credit cards, loans, investments and insurance.

Ayala Land saw healthy recoveries across its business segments as it took advantage of increased mobility and spending to book a 51% increase in earnings. Revenues from malls and leisure segments doubled. Residential was resilient despite higher mortgage rates. Office occupancy rates were at par with the industry as BPO take-up kept leasing revenues stable. Ayala Land will continue to capitalize on its landbank of over 12,000 hectares by adding to the number of its integrated estates. It also has the largest REIT in the country and is prepared to inject more assets into the REIT on a regular basis.

Globe and ACEN, our two other core businesses, had challenging years but are in positions to reap the benefits in years to come of initiatives taken in the past few years. Globe saw a 10% drop in core earnings, partly a result of increased depreciation expenses. CAPEX of ₱101 billion was an all-time high as the company bolstered its infrastructure to support growing data demand and 5G coverage. Growth in fiber revenues was strong. Outside the core telco business, revenue contribution from digital services continue to rise on the back of Globe's digital transformation. GCash user count grew to 76 million with the increase in use cases, including financing and investing. Globe used a portion of the ₱108 billion in proceeds from its stock rights offering and the sale of a number of its tower assets to de-lever its balance sheet.

ACEN's net earnings were down 15%. With many of its plants still under construction, ACEN was a net buyer in a period of very tight supply. Confident in its ability to build out, ACEN is now targeting 20GW in attributable renewable capacity by 2030, a five-fold increase from current levels. Complementing this objective was ACEN's full divestment of the coal-fired SLTEC via the world's first Energy Transition Mechanism. Coal no longer features in ACEN's energy mix.

IMI, our global semiconductor business, showed earnings recovery as the global economy re-opened. However, IMI's bolt-on acquisitions remained challenged. AC Motors' 4-wheel business registered growth and profits, but its 2-wheel business experienced losses because of supply chain issues.

In AC Ventures, we pared down our passive investments and booked substantial provisions for our investment in Yoma, which is among Myanmar's leading business groups. We believe Yoma has done well to position its key assets – banking, real estate and digital payments – for growth once the country's overall situation improves.

We have made significant strides in our newer businesses. In AC Health, the recovery of its clinics and pharma businesses allowed the company to book earnings. The consolidation of our digital health assets into the KonsultaMD super-app will support the company's continued growth. By the third quarter of this year, the company will open the first dedicated comprehensive cancer hospital in the Philippines. We aspire to offer the best value private cancer hospital in the country. AC Health will continue to build on its integrated healthcare ecosystem to provide Filipinos with quality, affordable and accessible healthcare.

AC Logistics' acquisition of 60% of the AHI Group will allow us to provide an end-to-end product set to a wider customer base. The company now lists among its growing customer base FMCG companies, manufacturing companies and almost all the companies in the Ayala Group. We believe the efforts of AC Logistics to scale and integrate will pay-off in due course.

iPeople, our education joint venture with the Yuchengco group, registered strong earnings growth as enrollments climbed throughout most of its traditional schools. The company forged a partnership with Arizona State University which will push digital learning, and complement its current product suite.

With earnings at 90% of pre-COVID levels, we are on track towards full recovery. We will continue to invest significantly as a group to take advantage of the country's growth. In 2022, group capital expenditures reached an all-time high of ₱280 billion. For 2023, the Ayala Group is allocating ₱264 billion in capital expenditures, driven by sustained investments in its core business units, Ayala Land, Globe and ACEN. We want to strengthen and maintain the leadership positions of our listed entities in their sectors. At the parent, we are allocating ₱19 billion in capital expenditures. Approximately half will be spent on our emerging businesses, AC Health and AC Logistics, as these companies continue to scale up. The balance will be for opportunistic investments and our other businesses. Our balance sheet remains strong with an average debt cost of only 4.5% and average duration of 18.5 years. We continue to realize value from the sale of non-core assets and are now 60% of the ₱50 billion target we set three years ago.

Our digitalization initiatives across the group, probably most noticeable in BPI, Globe and its fintech arm GCash, have raised customer satisfaction scores considerably. These digitalization initiatives, coupled with the use of data science, are also helping build the Ayala of the future. EV is one project that takes advantage of our group's unique ecosystem. Ayala Land and IMI are working together to put up EV charging stations, Ayala and Globe have teamed up to introduce into the country Gogoro, 2-wheel EVs using battery-swapping technology, and AC Motors has introduced the Kia EV6.

We continue to champion Sustainability through ESG Impact Management and Creating Shared Value. ESG Impact Management involves us mitigating environmental and social issues and being more transparent in the way we do things. Creating Shared Value, on the other hand, involves us developing innovative ideas and scaling them through business models that create value for society. We want to produce and distribute socially responsible products that meet the needs of as many Filipinos as possible. We also strive to have an inclusive work environment, and be an employer of choice.

We remain guarded but constructive in our outlook for 2023. We think that elevated inflation and high interest rates will affect all our companies in terms of higher borrowing and operating costs and dampening demand. That being said, we still expect a reasonable level of GDP growth. With this backdrop, we will keep our objectives straightforward. First, Ayala Corporation and our key business units will work on getting core net income back to pre-COVID levels. Second, with improved earnings, we will seek higher dividends from the core business units. Third, we will rationalize the portfolio so that each of the non-core business units has the potential to be the group's next engine of growth, in the same way that Globe was at the turn of the century and ACEN has been in the last several years. Fourth, we will continue to value realize towards our ₱50 billion goal. Fifth, we will maintain a fortress balance sheet, with strong liquidity and leverage at a reasonable level, to be able to take advantage of attractive investment opportunities that arise. And sixth, we will complete the Net Zero roadmaps of our various business units and ingrain ESG into all our activities so that we help build the Philippines of the future.

Let me close by thanking our Board of Directors for their wise counsel, our management and employees for their dedication and professionalism and you, our shareholders, for your continued support.