

May 2018

**Q&A Session in the Financial Results Briefing
for the Fiscal Year Ended March 31, 2018**

[Time & Date] 13:30 to 15:00, Tuesday, May 15, 2018

[Respondents]

Koki Ando, Representative Director, President and CEO

Noritaka Ando, COO and Executive Vice President, and President & Representative Director of NISSIN FOOD PRODUCTS CO., LTD.

Yukio Yokoyama, Director, CFO and Managing Executive Officer

Yoshinori Miura, Managing Executive Officer in charge of Japan Business and Chairperson & Representative Director of NISSIN FOOD PRODUCTS CO., LTD.

Q: Regarding the business plan of NISSIN FOOD PRODUCTS for fiscal 2019(ended March 31, 2019), please explain operating income under J-GAAP.

A: We did not create a plan under J-GAAP, to avoid overlap with one under IFRS. However, if we make an apples-to-apples comparison of operating income of NISSIN FOOD PRODUCTS, we plan to post an operating loss of around 2.0 billion yen in fiscal 2019, excluding non-ordinary items such as the extraordinary loss. This is assumed in the Medium-Term Business Plan. We plan to post the amount of depreciation expense at the Kansai Plant, which is around 2.0 billion yen, as an operating loss.

In addition to the expenses for the start-up of the Kansai Plant, an increase in material cost of less than 1.0 billion yen is expected to be generated. However, we anticipate that we will be able to offset these factors for higher costs with an increase in sales and profit. We believe we can increase sales further toward fiscal 2021 because the power of our brand and profitability has been increasing.

Q: Please explain the fiscal 2018 results of NISSIN FOOD PRODUCTS.

A: In fiscal 2018, we achieved an increase in both sales and profit for the third consecutive year. We also achieved record total domestic demand for the third consecutive year, despite the declining birthrate and aging population, in addition to posting record sales for the third consecutive fiscal year. This allows us to believe that we can fulfill our role as a leading manufacturer in stimulating the market. To provide the reason for the growth in overall demand, we have released many interesting news

stories over the last several years, understanding that foods must be fun in addition to being delicious. This we believe has increased our mindshare among consumers, resulting in the growth of overall demand for instant noodles. NISSIN FOOD PRODUCTS has been growing better at social media marketing and digital marketing, the effect of which has led to the growth of long-selling brands. Specifically, highly profitable *CUP NOODLES* and *DONBEI* posted record brand sales last year. In addition, instant rice products such as *CURRY MESHI* have finally begun to grow, and contributed to the growth in sales last year. We had been aspiring to this for 50 years. In addition, while retail prices of instant noodles from other companies have been declining, NISSIN FOOD PRODUCTS has been able to keep prices at an appropriate level and could also increase their top line, which we believe is a great achievement. Regarding senior citizens, we told you last year that we would develop the market in fiscal 2018. We released the *OWAN* series bag-type instant noodle products in the summer of last year. This series of products matched the needs of senior citizens, and sales have made more progress than we anticipated. While the market for bag-type instant noodle products has been shrinking, we outperformed the market trend. We believe this is attributable to the effect of the *OWAN* series.

Q: Please tell us about the fiscal 2019 plan of NISSIN FOOD PRODUCTS.

A: It will be 60 years since the invention of *Chicken Ramen*, so we would like to achieve record-high sales of this product by any means. While long-selling brands constitute a major source of revenue for NISSIN FOOD PRODUCTS, the life-span of a brand is said to be about 30 years in the world of marketing. We therefore think that our long-selling brands are at risk in terms of lifecycle. To develop the brand into one that remains profitable despite market trends, or even after its 60th anniversary, and one that symbolizes the era, we must increase the power of the brand by taking initiatives including marketing activities. We believe that, if *Chicken Ramen* achieves record sales in the year of its 60th anniversary, it will prove that NISSIN FOOD PRODUCTS will really achieve its slogan of "Century Brand Company." We will take comprehensive measures for *Chicken Ramen* this year.

While young people do not eat bag-type instant noodles that frequently, we developed a product that young people want to eat, applying our all digital marketing skills. That product is called *Akuma no Kimura*. We released it in April this year, and it has been selling so well that we cannot make enough of them. We plan to achieve further growth in all aspects of other brands including *CUP NOODLES*, *DONBEI*, *U.F.O.*, *MENSHOKUNIN*, and *CURRY MESHI*.

While depreciation expense for the Kansai Plant will remain a burden until fiscal 2021, this is assumed in the Medium-Term Business Plan. In addition, this plant will contribute greatly to the competitiveness of NISSIN FOOD PRODUCTS from fiscal 2022 onward. It will also serve as a testing plant that will be the international standard in five years and ten years from now, as well as the Japanese standard. We know we cannot avoid high costs for a prototype plant. We expect costs to be reduced once full-scale operation begins in fiscal 2022. We therefore assume that this increase in depreciation expense will be absorbed then. The depreciation expense will remain a burden until fiscal 2021, which is unavoidable, but the added value of our brands has been increasing and sales are also expected to grow. This has led us to believe that NISSIN FOOD PRODUCTS will be even stronger.

Q: Concerning the 6% increase in the sales volume of *CUP NOODLES* in fiscal 2018 and your plan to increase it by 9% in fiscal 2019 under the global strategy, please tell us how much each region contributes to the growth of *CUP NOODLES* and to profits in overseas markets.

A: We do not disclose the rate of growth of *CUP NOODLES* by region. In terms of volume, however, we have achieved growth in the United States, Brazil, mainland China, and the Philippines. While the company in the Philippines is an equity method company, its shares in the market of cup-type instant noodle products will exceed 60% in the fiscal 2018, and we believe the business in this country is promising. The business in India is still in the period of initial investment, but the growth rate has been high.

Profits differ among areas. For example, our business is profitable in countries where *CUP NOODLES* has already established its position, such as mainland China and the Philippines. Other than India, we have made a renewal in Brazil. We believe that, in areas where we invest in sales promotions to increase sales, we will begin to make profits when we achieve a certain level of sales volume.

Q: Please tell us the number of servings sold in overseas markets and the actual numbers for sales of *CUP NOODLES* in fiscal 2018.

A: The current total demand in the world is 100 billion servings, and cup-type instant noodle products constitute 20% of them, or slightly more than 20 billion servings. What we aim for at present is to achieve 10% market share only for the *CUP NOODLES* brand of noodles in vertical containers. I believe you can understand the approximate progress if you combine this with our plan to achieve 50% growth in *CUP NOODLES* in overseas markets.

Incidentally, the figure of 10% includes results of *CUP NOODLES* in Japan.

Q: How much equity in earnings of affiliates is included in the planned operating profit for fiscal 2019?

A: The amount of equity in earnings of affiliates is approximately 3.5 billion yen. Roughly, it includes around 1.5 billion yen at THAI PRESIDENT FOODS, 0.5 to 0.6 billion yen at N-URC, and 1.2 to 1.3 billion yen at Mareven Food. Because it is based on IFRS, amortization of goodwill will not be posted. We believe this will somewhat push up the amount of equity in earnings of affiliates.

Q: Of the operating expenses for “Reconciliations, Others” by business segment for fiscal 2019, the amount of which is 9.7 billion yen, you said that 4.5 billion yen is for impairment risk. Do you mean that the absence of the risk will add to the operating profit accordingly?

A: Because we have shifted to IFRS, we will need to recognize risks that we did not recognize before, and impairment and retirement affect operating profit. We have therefore decided to be conservative to some extent. We do not clearly show specific estimated amounts, but we would appreciate your understanding because it is the first fiscal year.

Q: Profit from the chilled and frozen foods business and domestic others will increase significantly. What will contribute to this increase?

A: In chilled and frozen foods business, an extraordinary loss was generated in fiscal 2018, which is why the profit seems to have increased. With regard to domestic others, we will sell our real estate property in Kichijoji as an asset management measure. Profit from the sale of the property is included in operating profit, which is why it will increase significantly. This profit would ordinary have been considered an extraordinary gain but now it is included in operating profit, which will increase accordingly.

Q: Your target operating profit for fiscal 2021 is 47.5 billion yen. This means you will need to increase profit by slightly more than 10 billion yen from the fiscal 2018 level, which is 35.0 billion yen. In what regions and when will you achieve solid profits?

A: We believe that Brazil is at the top of the list of countries where *CUP NOODLES* will contribute to profit. While marketing expense is still needed in Brazil, the product is expected to start contributing to profit when the number of servings, which is

approximately 70 million at present, exceeds 100 million. In Asia, performance is steady in the Philippines and Thailand while we are in the initial investment period in India and Indonesia. We feel that we will move into the black in these countries, one by one.

Q: We believe that results are fluctuating in India and Brazil. Could you tell us a little more about the situations in these countries?

A: We are still in the red in India, and we believe it is important that sales should increase consistently as in Thailand, where we have moved into the black. We believe we will move into the black in India if we establish a structure in which we reliably generate profits from *CUP NOODLES* while keeping the plant operating to produce bag-type instant noodle products.

Next, regarding Brazil, the initial rise has been slightly delayed compared to our plan because of the negative economic growth. However, the economy has begun to recover recently, and *CUP NOODLES* grew significantly in the 4th quarter. We believe that sales will grow steadily if this momentum is maintained.

In Brazil, sales of instant noodles are influenced by the economy. While instant noodles sell well in Japan when the economy is bad, Brazil is supported by foods that are even cheaper than instant noodles. Accordingly, sales of instant noodles in Brazil are extremely susceptible to the influence of the economy. However, we hold an approximately 65% market share in Brazil. We are therefore in a position that allows us to best control the market. In addition, while the business model of bag-type instant noodle products is generally not very profitable, the company in Brazil makes profits from bag-type instant noodle products and therefore has funds for developing cup-type instant noodle products. We therefore aim to create funds with bag-type instant noodle products and invest those funds in cup-type instant noodle products to achieve profit growth from the cup-type products as well.

However, because we have not promoted sales of *CUP NOODLES* in Brazil before, we need to give priority to marketing investment during the coming few years. Basically, the market for cup-type instant noodle products grows when per-capita GDP reaches 8,000 dollars. Per-capita GDP in Brazil is above this level, which means conditions for growth have been met in that country. The Brazilian economy has bottomed out and has begun to recover. We therefore intend to take steps to improve the value of *CUP NOODLES* nationwide in the coming one or two years.

Q: Please tell us your fiscal 2018 results and fiscal 2019 plan in China. Please also tell us

about the competitive environment in that country.

A: It is difficult to answer questions about planned values in China partly because of the issue over the independence of Hong Kong. As far as we can see, however, sales have been growing steadily. Overall sales in Hong Kong have been growing due to the acquisition of MCMS, while sales in mainland China have been growing at a high single-digit rate, broadly speaking.

As for fiscal 2019 plan, we believe we can expect growth in sales at a mid single-digit rate, approximately, in China as a whole. In Hong Kong as a mature market, we will achieve positive growth at a low single-digit rate. In mainland China, we would like to continue to aim for double-digit growth in sales because we can expect geographic expansion. Operating profit is subject to the influence of extraordinary gains or losses, but we expect it to grow positively if that influence is excluded. Regarding the competitive environment, the market for high-grade instant noodles has been growing larger all over the country. We believe this trend is a positive factor for us, too.

Our competitors have announced that they are growing with high-grade instant noodles. They are focusing their efforts on high-grade instant noodles because they see room for growth there. What is important for us is how to differentiate our products from theirs amidst this trend. We therefore promote products including *RAOH* and *Ippudo* in China. We focus on complete differentiation of such products by applying successful cases in Japan and choosing flavors that only the Japanese can choose, thereby offering products that our competitors can never imitate.

Q: The operating margin of your businesses in China began to decline slightly about two years ago. Why is that?

A: Depreciation expense increased due to the start-up of the plant of ZHEJIANG NISSIN FOODS and capital investment in the bag-type instant noodle production line in Hong Kong. The second factor is that the number of sales persons increased as a result of the geographic expansion. Finally, we consolidated MCMS, a wholesaler, in Hong Kong in March 2017. These factors have caused operating margin to decline despite growth in sales.

Q: Please update us about how effective digital marketing has been for reducing cost and increasing profit. Please also share with us your view of e-commerce.

A: First of all, we believe that the current level of advertising expenditure is most efficient, and a reduction in the rate of advertising expenses from the current level would rather make advertising expensive. One method of improving the efficiency of advertising

expenses is digital marketing. Five and ten years ago, TV commercials would be viewed only while they were broadcast, and nothing more happened after the viewing finished. Accordingly, we had to broadcast a TV commercial many times during hours when our targets were watching TV. At present, if our targets view our TV commercial during these hours, we can expect them to talk about the TV commercial on social media. Therefore, the indicator we use now is how many times a TV commercial is viewed again on the internet or shared or spread on social media for each time it is broadcast. We have become skillful in this matter, having been able to run TV commercials in various patterns while limiting the number of ads we run. This we believe has enabled us to increase sales of long-selling brands even further now.

As a result, while we do not disclose detailed numerical results, the rate of consumption of *CUP NOODLES* and *DONBEI* among consumers aged between 10's and 20's has been growing at a high single-digit rate. The rate of consumption of *U.F.O.* also grew by more than 10% last year while the market for fried noodles has been shrinking. *U.F.O.* is the only fried-noodle product that grew significantly year on year.

Q: In the last briefing session, you said you needed to take a measure for e-commerce. Please tell us your future outlook.

A: We believe that most young people will shift to e-commerce in a few years. For example, we believe that time will come when people will do 60% to 70% of their daily shopping via their smartphone. In addition, sales at NISSIN's own e-commerce site have also been growing steadily. We believe that this channel will grow further toward 2020.

Q: We think it is partly thanks to your efforts to cultivate customers among senior citizens and boost their consumption that have allowed the instant noodles market to grow by 2% for about three consecutive years. Is it still young people as your main target who are driving the 2% growth?

A: To maintain the average growth rate of 2%, young consumers are ultimately going to be necessary for future business. As consumers grow older, they eat our products less frequently. However, the retention of older consumers will lead to new sales and profits. Further growth can be achieved by creating a situation in which the rate of consumption among those senior citizens remains unchanged for one or two years. The *OWAN* series and *CUP NOODLE RICH* are the products that have enabled us to retain such consumers.

In addition, because women eat instant noodles less frequently than men do, we

began to sell *Assari Sukuname CUP NOODLE* (a smaller volume of CUP NOODLES with a light taste) as a product intended for women in the spring this year. We didn't have any *CUP NOODLES* that we could offer in channels targeting women, such as drug stores. We will move into these channels to win support from women.

Regarding *MENSHOKUNIN*, we switched all of the noodles to non-fried product containing whole wheat last summer. This became a differentiating factor for women, resulting in growth in sales, because the noodles are good for your health and have a light taste while being rich in flavor. In addition, *RAOH* in vertical containers is also intended for women, featuring non-fried noodles containing whole wheat. In this way, we have envisioned a strategy to continue increasing the top line surely until fiscal 2021 by targeting senior citizens and young people while also winning support from women.