

August 2018

**Q&A Session in the Consolidated Results for the Three Months
of the Fiscal Year Ended March 31, 2019 on August 7, 2018**

[Time & Date] 5:30 p.m. - 6:30 p.m. on Tuesday, August 7, 2018

[Presenter] Yukio Yokoyama, Director/CFO

Q. In terms of the operating profit of the Americas, given the profit increase for Mexico and the effect of the receipt of fire insurance in Brazil, I assume that you will have a deficit in the U.S. business, resulting in a profit decrease of around 1 billion yen. Is my assumption correct? Please tell me your outlook for the recovery of the U.S. business, and what the price hike rate for the U.S. is.

A: As you will have gathered, the performance in the U.S. was not good. Logistics expenses remained high and raw material costs and labor costs increased sharply, resulting in a profit decrease. Negotiations with individual distributors regarding the price hike are advancing. We don't think that the price hike will be realized across the board, but prices will be raised gradually in July to August at the earliest. We have heard from the U.S. that negotiations for the price hike are progressing as planned. But we think that we are going to have to keep a close watch on the pace at which the effect will begin to show. As for the price hike rate, we would like to leave it undisclosed in terms of our policy.

Q: Please explain the background behind the severe selling price situation in the U.S. and why the channel mix has become worse. Regarding the price hike in the U.S., there is a cautious tone in the air at the Q&A session, so please tell me what the true tone actually is. In addition, if you are able to raise prices smoothly, do you think you will be able to achieve the initial profit targets?

A: The number of sales is growing in the U.S. The channel mix is deteriorating and selling prices are also simply falling overall. We consider one of the factors behind this to be the fact that the composition ratio of discount chains is rising. We are advancing our price negotiations with all channels. According to the reports from the U.S., as a matter of course, where we thought it was tough, it was tough, and where we thought could make it, we could make it, and negotiations are progressing as initially expected. Our retailers were informed that prices would be raised from July, but we think that the actual price hike will be executed in August in consideration of the progress of negotiations, and that its progress will have an impact. If we can raise prices as planned, we expect that we will achieve the initial profit targets.

Q: From the viewpoint of the number of sales, I don't think that the instant noodle market in the U.S. is very bad. As the competitive environment intensifies, is the demand to lower the unit price strong? Please tell me why the unit price is coming down.

A: The unit price is coming down due to the competitive environment. Other than that, the composition ratio of the low price channel has risen in order to achieve the overall volume. We think that the key is how we are going to control it.

Q: With regard to the price hike in the U.S., please tell me why you decided that it is an appropriate time for a price hike. If the price hike takes hold, is the price hike rate set in such a way that it will almost achieve the initial targets?

A: In terms of the price hike, the plan was prepared in the second half of FY2018, and we began informing the retailers in May. We don't think that the negotiations with all the retailers will go well, but we believe that they will progress as initially planned. Going forward, we think that we are going to have to carefully follow the extent to which the price hike infiltrates. The price hike rate this time was calculated and set so that the profit target in the Business Plan could be achieved. We think that the key is the extent to which the effect of the price hike shows in August and September and the extent to which high value-added products such as *Very Veggie* grow.

Q: As for the U.S., I remember that the topic of the price hike came up several times. Can you please tell me whether this is the second price hike or the initially planned price hike?

A: We haven't raised our prices for a long time in the U.S. We planned a price hike in the 2nd half of the previous fiscal year and began making an announcement to retailers in May 2018, and commenced the price hike in July-August.

Q: You have just posted an operating loss in the U.S. I don't think that this situation is only just about this year. What measures are you going to take going forward?

A: We think that the launch of high value-added products is the way. *RAOH*, *CUP NOODLES Very Veggie*, and Japanese style *CUP NOODLES* are now in the market, and we have received a steady response. What is important is to build a sustainable profit structure and a structure for achieving steady earnings. Amid a Ramen boom in the U.S., the point is how high added-value and high-quality products can be promoted to consumers. We feel that there was a good response at the start-up regarding this point. What is important is how much growth we can achieve.

Q: Revenue in the first quarter in Brazil increased by 14%. I would like you to comment on the effect of the price hike implemented in April and growth continuity going forward.

A: The number of sales marked 10% growth YoY, and OPM was the lower half of double digits. The Brazilian economy was recovered and the effects of sales promotions including in-store sales promotions or events and the permeation of the steady price hike led to very good results. We launched a new flavor of *CUP NOODLES*, which is showing growth in the number of sales. Truckers went on strike in May, but sales grew, overcoming the strike. The economic situation varies from area to area in Brazil. The economy is not good in the north, so we sell low-priced products there. But in the south/southwestern part of the country, the economy is picking up well, so we think that sales will grow favorably. The real fluctuates against the Japanese yen, but sales are growing steadily on a local currency basis.

Q: Please tell me the growth in the number of sales in the first quarter as to NISSIN FOOD PRODUCTS, the U.S., Mexico, Brazil, Hong Kong, and mainland China.

A: The growth in the number of sales is undisclosed. NISSIN FOOD PRODUCTS registered growth of several percent. The same was true for the U.S. There was just double-digit growth in Mexico, and this was also true for Brazil. There was mid-single-digit growth in mainland China, and Hong Kong had low single-digit growth.

Q: As for overseas, please tell me how you evaluate the first quarter in relation to the plan. The start-up in Asia and EMEA seems to be slow. Please tell me the timing with which your overseas operations will get on track.

A: For China, we have an image as initially planned, and we think that things will progress as initially planned from now on as well.

As for Asia, sales are weak in Indonesia because it is an inactive time until new products are launched. However, sales have been going reasonably in India, Thailand and other countries. There are no problems in Indonesia once new products are released. In terms of the timing with which our overseas operations will get on track, if the aim is to get into the black throughout Asia, it may take until the very last minute of the final year of the Medium-Term Management Plan. But Thailand shows favorable growth, so we think that it may occur a little sooner. We believe that things will take shape in the next 1-2 years for Asia.

As for EMEA, the start-up of the Hungary plant was delayed, but things have settled down now, so we think that sales will grow favorably. Since the new local president is working hard, we have expectations for him. Things have been recovering relatively steadily compared to the plan.

Q: While there are no problems domestically, in terms of overseas, I feel that operating profit may be late for Asia or EMEA. Is it okay to recognize that business performance is in line outside the U.S.?

A: There are no problems domestically. As for overseas, business performance is strong outside the U.S. We acknowledge that our major issue is the price hike in the U.S. and its penetration.

Q: Can you please tell me why the profit of NISSIN FOOD PRODUCTS increased? In addition, can you please tell me whether you can envision maintaining higher profits in the future? For instance, if other businesses register lower-than-expected results, will NISSIN FOOD PRODUCTS be able to cover them?

A: Marketing is going very well. While we are controlling selling expenses, sales are growing. High profit margin products such as *CUP NOODLE* and *DONBEI* are growing steadily at NISSIN FOOD PRODUCTS. The *IPPEICHAN YOMISE-NO-YAKISOBA* series of MYOJO FOODS is growing strongly as well. Accordingly, we are able to maintain a high profit margin. We would like to continue this flow.

Q: As for the profit of domestic - other, gain on sales of real estate of 5.2 billion yen was posted in the first quarter. Compared to the annual plan, I think that a loss on sales of some 1.8 billion yen will be posted going forward. Please tell me when the loss will be incurred. In addition, I hear that depreciation is going to rise from now on. Looking at the second quarter only, do you expect a declining profit for this quarter?

A: Traditionally, there are many cases where extraordinary losses are incurred in the fourth quarter. We think that will often happen in the second half of FY2019 as well, but we cannot generalize it. Regarding depreciation, since the Kansai Plant will commence operation in August, depreciation will be generated from this point. Consequently, we assume that costs will rise from the second quarter onward. Moreover, profit is correlated to sales in the second quarter. *CHICKEN RAMEN*'s anniversary is in August, and *CUP NOODLE*' anniversary is in September. We think that the key point is how much their sales will grow.

Q: The Kansai Plant of NISSIN FOOD PRODUCTS is set to begin operating in August. Please tell me whether the start-up is proceeding smoothly. Please also tell me whether we should consider that it carries some degree of risk. For the full year, please tell me what requirements I should have in mind in order for NISSIN FOOD PRODUCTS to register higher profit, even if fixed expenses rise.

A: The start-up is proceeding steadily. I have taken a tour of the new plant. Automation is advancing, and I was amazed to learn that there are some places in the plant where human operation seems to have been necessary before are now automated. I got the impression that it will start up smoothly. As for the risks involved in the start-up, various adjustments are necessary, and we have been testing all along whether the sensors operate in conjunction with each other. It is a constant concern. As I said before, NISSIN FOOD PRODUCTS expected to make a loss on a J-GAAP basis. This year marks our 60th anniversary, so we are going to increase sales and see how we can narrow the gap. We will use a range of marketing methods for all sorts of target ranges and increase sales steadily from now on as well. We recognized an impairment loss in the old plant in the fourth quarter of the previous year in order to set up the Kansai Plant. Accordingly, we will see its reaction this fiscal year. We therefore think that we will post a profit on an IFRS basis.

Q: I hear that the number of personnel will decrease at the Kansai Plant. Please tell me that sales initiatives or operation reform will generate benefits in the second half.

A: There are actually three terms before the plant starts its full-scale operation. Since this time will be the operation of the first term of operations of the three terms, we don't think we can say that they will generate benefits. Benefits will become evident only after the startup goes smoothly in the third term.

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