

February 2019

**Q & A Session in the Financial Results Briefing
for the Nine Months of the Fiscal Year Ended March 31, 2019**

[Time & Date] 16:00 to 17:00, Tuesday, February 5, 2019

[Respondent] Yukio Yokoyama, Director and CFO

Q: In the financial results briefing for the first half, I heard that NISSIN FOOD PRODUCTS was not considering a price revision. How has the situation changed in the three months following the briefing session? Describe how the price increase will contribute to profit.

A: Noritaka Ando, President of NISSIN FOOD PRODUCTS, always says that environmental changes will be addressed through management efforts, but when this is impossible, price revision is an option. We were forced to revise the prices, because after the last briefing session, the cost of raw materials such as ingredients and packaging materials rose more sharply than assumed. In addition, labor costs and distribution costs also increased more than expected. At NISSIN FOOD PRODUCTS, we have been striving to minimize the cost increase by taking countermeasures against rising raw material costs, such as reviewing materials, reviewing compositions and improving production efficiency. We have also been taking countermeasures against rising distribution costs, such as shifting to pallet transport and controlling the cost with day-after-next delivery and other measures. However, we judged such corporate efforts to be insufficient to compensate for the increase, which resulted in the decision.

Regarding the effects of the price increase, we do not expect a large amount of money to remain because the revision will be basically made in response to the cost increase. Of course, the money needed to facilitate the price increase will be raised using the extra amount gained through the price increase.

Q: Describe the revenue ratio from products whose prices will be increased to the total revenue. Also, describe the price trends of PB products and others, as well as the demand trends after the price increase. If I remember correctly, there was a shift to low-price products after the previous price revision.

A: Concerning the scope of the price increase, prices of about 80% of all products will be revised. Because revised prices will be introduced in June, we will begin to see the impact after June. We will maintain prices of some products such as private brands, some retail

limited-edition products and some from recently-launched brands.

With regard to the shift to products in the low-price range, applicable products are those from the “ASSARI OISHI CUP NOODLE” series, previously the “SOUP NOODLE” series. For these relatively low-price products, we are planning to increase sales by replacing open prices with a quotation price system. We believe that there are consumers who need products in the low-price range, so we would like to strengthen this segment.

Q: I understand that PB products are not included among those whose prices will be increased at this time. Will their shipping prices be maintained or will you reflect the rising costs in the shipping prices?

A: It is likely that we will negotiate prices in the future in consideration of cost increases and other factors. However, currently, we are not planning to increase the shipping prices of PB products.

Q: Is my understanding correct that prices of MYOJO FOODS' products will also be increased?

A: The price revision will only pertain to products from NISSIN FOOD PRODUCTS. We believe that the future moves of MYOJO FOODS will be determined according to the situation. (MYOJO FOODS announced a price increase on February 13, 2019.)

Q: I believe that you decided to increase prices reflecting the situation over the past several years, against which exercised patience, instead of reflecting the current situation and the cost increase. Will the 4% to 8% increase in suggested retail prices compensate for everything? In addition, describe your view of the impact of the price revision on sales in terms of quantity.

A: We have been trying to compensate for losses attributed to cost increase in a variety of ways. However, it has become impossible to compensate for them sufficiently. We have determined a certain scope for the price increase by considering how to prevent number of units sold from declining due to higher prices.

When we increased prices in January 2015, the quantity declined slightly from January to March, but was almost flat from April to October.

Q: Is the increase in the marketing cost very likely to have a negative impact on the first year with increased prices?

A: We planned the price increase in anticipation of the marketing cost increase. Therefore, we do not assume that our profit will decrease due to the increase in cost.

Q: The forecast revenue of NISSIN FOOD PRODUCTS for fiscal 2019 is 195 billion yen. If the prices of 80% of products will be increased, revenue from those products will be around 156 billion yen. Considering that the rate of increase is about 6%, the increase will result in an increase in profit by more than 9 billion yen. Describe whether you will conduct considerable sales promotions, estimate a great decline in quantity, and so forth. In addition, describe the approximate percentage of the additional amount of distribution costs, personnel costs and material costs to 9 billion yen.

A: We believe that the price increase will not be very effective for increasing profit, considering future cost increase, cost of marketing aimed at compensating for the decline in quantity and other factors. The cost for facilitating the price revision was also taken into account, and currently we forecast a reasonably large cost increase. Although it is not necessarily appropriate to say so, we believe that the amount will be quite large.

Q: Describe how raw material costs and distribution costs increased in the third quarter (October to December) at NISSIN FOOD PRODUCTS. Also describe the level of raw material, material and distribution costs in the third quarter compared to those in the first and second quarters.

A: At NISSIN FOOD PRODUCTS, material costs increased by slightly less than 500 million yen. We believe that the amount of increase in distribution costs is almost the same. It was somewhat flat in the first quarter, began to rise in the second quarter and further increased in the third quarter. The impression is that the cost has been increasing gradually.

Q: You forecast an increase in raw material costs at 1.2 billion yen for the Group in fiscal 2019. However, the cumulative total already reached 1.2 billion yen in the third quarter. Is there any particular value for the cost increase that you forecast as the full-year value?

A: We have assumed certain costs. The largest increase will be seen by NISSIN FOOD PRODUCTS, constituting about two-thirds of the overall increase, which has been rising more than expected. Regarding the details of the cost increase, we are seeing an increase in not only raw material costs but also distribution costs, labor costs and others. Seeing these increases as a whole, we are forced to increase prices after all.

Q: You generated profit even without the special factor for operating profit in the fourth quarter of the previous fiscal year, and the target will be reached with another 1.2 billion yen. Are you likely to suffer a big loss in the fourth quarter or were the results for the first nine months better than planned?

A: We would like you to think that we are trying to achieve the business plan as our target. However, we cannot discuss it, because there are various IFRS-related risks. We believe that we should be careful about these points, so we have reflected them.

Q. Revenue of NISSIN FOOD PRODUCTS for October to December seems weak. Can this be interpreted as a result of temporary factors, such as the warm winter? Describe any factors other than climate that you have perceived, such as changes in consumption trends, if any. Also, please confirm whether my understanding is correct that the upward trend of 1% or 2% would have remained unchanged without the warm winter.

A: We believe that the results for October to December are attributed to the warm winter. We hear that sales of oden (Traditional Japanese stew) at convenience stores and hot pot-related products also declined year on year. Therefore, we believe that the previous trend would have continued without the warm winter.

Q: The decrease in operating profit in the Americas grew in the third quarter. While price increases have penetrated the U.S. and Brazil, profit improvement seems slow. Describe the factors behind this trend by dividing the region into three areas.

A: In the U.S., the decrease has not expanded because increased prices have been penetrating gradually. In Brazil, there are two factors. Operating profit declined because of the fire insurance obtained in the previous year and the rise in material prices and other costs in the current fiscal year. We are planning to respond to this by increasing prices in Brazil. Operating profit grew positively in Mexico. We believe that the decline in Brazil makes the decrease in the Americas as a whole appear large.

Q: Am I correct in understanding that, looking at only the third quarter, the price increase in Brazil did not catch up with the rise in costs, because the impact of the receipt of fire insurance was already seen in the first half?

A: While operating profit declined due in part to the prices of wheat and palm oil as well as the cost hike attributed to the weaker real, we revised prices in November as countermeasures against these trends and the effects of the revision are believed to emerge. Therefore, we think that we will achieve the target in local currency.

Q: Describe number of units sold in the U.S., Mexico and Brazil for October to December. Is my understanding correct that number of units sold in the U.S. and Brazil achieved mid-single digit growth?

A: Sales in the U.S. grew pretty steadily in terms of quantity from October to December. The rate of increase in the number of servings was slightly below the mid-single digits. Sales in Brazil also increased in terms of number of units sold at a rate higher than the mid-single digits due to strong sales of both *CUP NOODLES* and bag-type instant noodle products. Sales in Mexico increased overall.

Q: You said that number of units sold in the U.S. grew at a rate that is slightly below the mid-single digits in October to December. Operating profit declined again, although revised prices have been penetrating moderately. Is this because the higher prices have yet to penetrate sufficiently to absorb the cost increase? The percentage of Dollar Store seems fairly high. Describe how prices are actually revised in the storefront of Dollar Store. Also, it is rumored that Walmart does not easily accept a price increase. Describe your prospects for the negotiation to be resumed in the fourth quarter.

A: Operating profit in the U.S. declined significantly in the first quarter and improved in the second quarter. It is true that the result in the third quarter gives the impression that it somewhat levelled off. In the fourth quarter, we will resume negotiations with retailers, including major ones. We believe that they will include Dollar Shop. That is correct. It is difficult to largely revise shop prices at Dollar Shop. Therefore, we will negotiate the share of operating profit. The negotiation will be somewhat meticulous. Because of the large volume handled by Dollar Shop, we will try to improve operating profit.

With regard to Walmart, our rival is very strong. We believe this company is most familiar with mainstream negotiations. We intend to take a different approach, such as trying to sell slightly more value-added products. We will therefore proceed with the negotiation by observing their moves.

Q: Revenue in mainland China for the first half increased by around 7%. However, the rate of growth of the revenue for the first nine months declined to 6%, giving the impression that sales slowed slightly. It is rumored that players from Taiwan and other regions are competing in the low-price range by further increasing rebates. What is the impact of the move? Describe the factors for the slowdown in the third quarter and future prospects related to the competitive environment.

A: Revenue in mainland China did not decline significantly in the third quarter. We think that competition in the high price range as a whole has begun to ease slightly. We also think that we are not affected greatly in the competition of low-price range. We believe that we have begun to differentiate ourselves from Taiwanese manufacturers in terms of merchandise. If anything, competition in our category of vertical cups has been relatively eased, so we believe that we can achieve growth in this category. Brands such as “*Ippudo*” and “*RAOH*” have begun to show their presence. We believe that we will have no problem if we can achieve growth for these brands.

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