

May 2019

**Q&A Session at the Financial Results Briefing  
for the Fiscal Year Ended March 31, 2019**

[Time & Date] 13:30 to 15:00, Monday, May 13, 2019

[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

Shinji Honda, CSO and Managing Executive Officer

**Q: Looking back at the Medium-Term Business Plan 2021, please explain the financial results, including the good points, the bad points, and any unexpected results.**

A: In the domestic business, the high costs had a big impact on our business, so we had to hike prices to a certain degree due to a skyrocketing rise of raw material costs in 2019 following 2015. The effects of the price hike have not necessarily lead to profit, and there is a slight time lag as well.

On the overseas businesses, U.S. did not improve very much, but signs of improvement are finally beginning to emerge. Despite a substantial rise in labor costs and distribution expenses, the U.S., where the retailer is strong, has a structure in which price hikes are not passed through quickly, so we feel that the reinforcement of brand power is a challenge that we should take on. We could not help but book an impairment loss of property. In terms of the soundness of the business, however, we consider that thinner and lighter management foundations are important for our future growth.

In Brazil, an impairment loss of intangible assets was recorded this fiscal year. However, "CUP NOODLES" is continuing to achieve firm, and stable growth. With a sales capability of a 70% market share, we believe that this trend will continue going forward. As for the listing in Hong Kong, we are not in a position to make detailed comments. However, we think that the listing was the right thing for us to do to respond to the sense of speed in China.

In Asia, we consider it to be a very good thing that Thailand is contributing to profits. Meanwhile, in India and Indonesia, it is difficult to establish a distribution network, and we feel that this led to a delay in growth, despite growth in the instant noodles market.

**Q: It appears that profits will recover rapidly over the next two years. Please tell us your outlook regarding internal evolution aside from the price hikes.**

A: We believe that we have made our business lighter by promoting financial soundness this fiscal year. NISSIN FOOD PRODUCTS will raise prices to respond to higher costs overall and improve profitability.

In the U.S., we are focusing on cultivating premium product category, and we believe that we will be able to recover up to the breakeven point for FY2020 thanks to the thinner and lighter management foundations. On top of this, we try to improve India business and the Indonesia business, together with our other businesses. We believe that we will be able to achieve the plan that we have just announced.

**Q: The operating profit of the domestic instant noodles business in the revised Medium-Term Business Plan 2021 will increase to 27.1 billion yen for FY2020 and 29.5 billion yen in the final year of the Medium-Term Business Plan 2021. Please tell us how you think this will be achieved.**

A: There is no change in our basic stance. One driver through FY2021 is the main brands, such as highly profitable “CUP NOODLES”, “CHICKEN RAMEN”, “DONBEI”, and “U.F.O.” At least double-digit percentage growth is continuing this April too, including the effect of *Manpuku* (a TV drama) in February and March, and our brand power is also increasing. We will enhance our main products and continue to make progress until 2020. I assume that there is still room for growth with regard to the next generation of young people. Regarding the bracket of senior consumers, if they are left aside, their consumption frequency will decline, so what we need is the “OWAN” series, which is growing more rapidly than the speed of our production in a plant, or a product for senior consumers that maintains their demand. With this, we will achieve further profits.

To be honest, the development of products for female consumers is not going very well. If we develop a product that will make an immediate contribution to profits while making good use of the existing brands, the achievement of the plan for FY2021 will not be that difficult.

**Q: You said that you booked impairment losses this time and the situation is still difficult in India and Indonesia. Should we be aware that you still have businesses to be further restructured?**

A: Impairment losses were already booked in connection with India, Indonesia, and Turkey. We cannot make a clear statement, but at this point in time, we do not think that we will

book another large impairment loss in the future.

**Q: According to the plan for FY2020 of NISSIN FOOD PRODUCTS, as depreciation expenses increase sharply, a profit increase of 1.3 billion yen will be secured. Please tell us about the change in costs that affect profits.**

A: We expect the effect of the price revisions to result in higher revenue of 6.7 billion yen. Meanwhile, we plan a cost increase of 1.5 billion yen due to rising raw material prices, an increase of 3.5 billion yen in depreciation expenses including the Kansai Plant, and the marketing cost of around 0.5 billion yen to disseminate the effect of the price revisions.

**Q: I think that the market is concerned that the capital investments to date have been too excessive. Please explain how your investment concept has changed from the existing one including ROI, etc.**

A: We feel that some unexpected capital investment projects have emerged. The main reasons include an increase in capital investment due to labor savings, the need for slightly larger capital investment due to a change in the business environment, and gas cogeneration. Moreover, it includes capital investment that was needed due to higher sales of pasta in the frozen food business.

On the overseas businesses, we needed to implement capital investment as the China business expands substantially. However, other capital investments are kept in check.

A combination of the business investment and the capital investment that were initially planned will be within the budget, and they will both contribute to profits. It is just that it takes time for capital investment to show results, and we consider that the Investment and Financing Committee needs to control it.

**Q: Please tell us about the situation of the price hike in June with regard to the domestic business. In particular, please tell us whether there are price hikes in PB (Private Brand products) and whether there is a risk associated with the price hikes.**

A: I am afraid that we cannot say anything definite because the price hikes of retail prices are eventually and virtually decided by retailers, but we have the impression that the Company's negotiations with retailers are going ahead as scheduled. NISSIN FOOD PRODUCTS cherishes its brand value, so we feel that we will be able to fare relatively well, despite a price rise of some 10 yen for its main product.

MYOJO FOODS will also proceed with simultaneous price revisions, although the timing

may vary somewhat. Regarding PB, there are a lot of things that we cannot disclose for contractual reasons. We will therefore refrain from making comments.

The prices of some PB products may change, even though the prices will not rise for all PB products.

**Q: You touched on the cost reductions associated with the operation of a new plant in Japan and DX(Digital Transformation). Will the cost advantages not start showing yet? Please explain this to us.**

A: Although the effects of the Kansai Plant will show partially from FY2021, we think that they will become fully evident from FY2022. The start of the operation of the plant is also creating ideas that will lead to profits in the future. As for the issue of the labor shortage, we believe that labor savings have been made at the Kansai Plant. Having said that, we believe that the digitalization of all lines is important, rather than aiming for a fully automated plant. We also believe that stable production will be possible without a capable master by connecting everything via IoT. DX is currently not at a level where it can be said that it will lead to a clear cost reduction. However, we are planning on a reform to halve the routine workload toward FY2022 and beyond.

**Q: The financial results for the fourth quarter of FY2019 of NISSIN FOOD RPRODUCTS appear to be deteriorating. Please tell us about the situation.**

A: Despite a profit rise of some 0.7 billion yen due to higher sales, the rise in depreciation expenses including the Kansai Plant was about 1.0 billion yen, and the expenses for establishing the Kansai Plant were around 0.5 billion yen. In addition, higher costs, mainly raw material costs, arose on a full-scale basis from the fourth quarter. Their impact was some 1.0 billion yen. Although advertising expenses were used within the annual budget, they increased by some 0.5 billion yen in the fourth quarter due to carried-over expenses.

**Q: You commented that large-scale capital investments have come to an end, and that the operating profit margin will rise in the medium to long term. Please tell us whether there are any ideas regarding the profit margin benchmark of NISSIN FOOD RPRODUCTS.**

A: At this point, no figure has been set that we can give you. Capital investments in plants have passed through, and these investments will be translated into cost competitiveness. We are still calculating the level of investment that we will make in DX. We are discussing how we will build a platform of a next-generation organization while securing at least

12% OPM.

**Q: In the Americas, you are planning to achieve an operating profit of 2.7 billion yen this fiscal year and 3.7 billion yen in FY2021. Please tell us how you will accomplish these.**

A: The Americas include the U.S., Mexico, and Brazil. Brazil accounts for the bulk of the profit contribution.

Growth in the high single-digits is planned for both FY2020 and FY2021 for Brazil. Its operating profit margin is about 9%. Bag-type instant noodle products dominate the Brazilian market, and the Company has an overwhelming market share there. Although “CUP NOODLES” fell short of the expected growth rate at the time of preparing the Medium-Term Business Plan 2021, the product has grown steadily in the past two years, and we feel that the level of recognition has risen clearly from the second half of last year and thereafter. We are therefore convinced that the permeation of “CUP NOODLES” will advance further in the next two years.

As for the U.S. market, its profitability structure will improve through price hikes and by focusing on premium products. Specifically, we will change our product mix and make a shift from a 3-for-1-dollar product to a value-added 1-for-1 product to enhance profitability.

In Mexico, we are rolling out products that demonstrate originality, such as “U.F.O.” or “CUP NOODLES *Intenso*”, although our market share is small. We feel that these products are well received in the market.

**Q: You say that operating profit will be 7.9 billion yen, which is higher profit of 2.0 billion yen excluding non-ordinary profit in the Americas according to the plan for FY2020. Please tell us about the composition of the U.S., Brazil, and Mexico.**

A: We envision that Brazil will account for about one third and the U.S. will comprise about two thirds of 2.0 billion yen.

**Q: You are planning for the operating profit for China for FY2020 to be 3.8 billion yen, and 4.7 billion yen for FY2021. Please elaborate on this.**

A: There is an issue of independence with China, and if we make a comment, it may cause problems. That being said, in Hong Kong, where our instant noodles have a high market share, we see our strategy as one of growing multilaterally for the next two years with products such as potato chips, granola, and other products using organic ingredients. In mainland China, seafood flavor “CUP NOODLES” will grow further. Moreover, we will

play “*Raoh*” and “*Ippudo*” against the Tonkotsu flavor products launched by our competitors. In addition, a high valued-added version of “*Demae Iccho*” is becoming hugely popular, so we would like to let it grow further. Furthermore, there is still room for area expansion.

**Q: Please explain your outlook for the Asia in detail.**

A: It is common to the overall overseas market, but we have a concept of developing a clear-cut priority for investments. In the past, we, as a leading company in Japan, tried to develop our operation into the overseas market all at once. Going forward, however, we are advancing our business on the condition that we have been developing the clear priority of investment a little more and proceeding with overseas business development with a greater focus on the profitability structure since the second half of last fiscal year. In addition, high value-added product category is an area where we can display our originality, so we will place emphasis on business development with a focus on that aspect.

We are a leading player in Singapore. Even though the market is small, we can achieve a leading position there. We would therefore like to undertake a range of experiments and other trials for our future growth.

In India, European companies are the market leaders. As a result, things do not go as well as they do in Japan. Since around the second half of last year, we have been carrying out more sales activities based on data than we did in the past, and we feel that sales have been steadily improving. However, it will still take time before we reach a nationwide scale. Accordingly, if asked whether the results will become evident in the next one or two years, we think that it will take a little more time.

As for Indonesia, since we booked an impairment loss, we think that we will move into the black at an early stage. In Thailand, our China business model is beginning to work, and we are seeing substantial enhancements there. The JV company, a Philippine affiliate in which the Company has a 49% stake, is doing very well, so we assume that their contribution in terms of investment gains and losses accounted for using the equity method is significant.