

November 2019

**Q&A Session at the Financial Results Briefing  
for the First Half of the Fiscal Year Ending March 31, 2020**

[Time & Date] 13:30 to 15:00, Monday, November 11, 2019

[Respondent]

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: I think the needs for instant noodles in major countries have been changing slightly. Please describe the current situation and the outlook.**

A: Hot spicy noodles are becoming popular in Japan, Singapore, Thailand and Indonesia, among other countries. In Japan, *MOKO TANMEN NAKAMOTO* is selling well. Women have begun eating hot noodles, too. There are needs also for low-salt products. Different targets have different needs. Basically, the tastes of home sell in each country. Hot noodles are received particularly well by young people in all countries. In the United States, sales are shifting from three *CUP NOODLES* for one dollar to a one-dollar *CUP NOODLES*. The mindset of U.S. customers is changing. Customers have come to recognize that the one-dollar premium product represents good value. We have launched *CUP NOODLES STIR FRY*, stir-fried noodles that can be cooked in the microwave, and it is selling well. Walmart sells the product at 2,800 stores. Sales of premium goods have exceeded 30% of total sales in terms of value. The sales ratio of premium products has exceeded that of *CUP NOODLES*, the base product.

Since Nissin Brazil became a wholly-owned subsidiary, it has been using the NISSIN FOODS Group's strengths. It has brought in sales strategies and expertise in marketing from Japan, and relevant staff have been sent to Brazil. As a result of those initiatives, Nissin Brazil is performing very well. For the past two years, Nissin Brazil has strongly promoted in Brazil the patterns for success in Japan, and sales of *CUP NOODLES* grew 40% year on year (in terms of volume). Unit sales will likely exceed 100 million this year. The Brazilian real is unstable, and Brazil is most affected by exchange rates. Sales thus appear to have ups and downs in terms of yen in consolidated results, but we believe that sales in Brazil have entered a growth phase.

However, there are foods that are lower priced than instant noodles in Brazil, and consumers tend to choose lower-priced foods when the economy slows, which results in lower results. We will thus watch economic conditions in Brazil carefully although we believe our business has entered a growth phase there.

**Q: The sales volume at NISSIN FOOD PRODUCTS was large in July, but I feel the sales volume was weak in September. Please comment on sales, including sales in October.**

A: The sales volume was roughly on a par with the previous year's level in August and September. Because the reduced tax rate applies to our products, we did not expect special demand before the consumption tax hike and refrained from offering our products at bargain prices in September. That we think is reflected in the sales volume. In October, sales are increasing, but due to a rise in logistics cost after disasters, profit did not change significantly.

**Q: Please describe the situation of NISSIN FOOD PRODUCTS after the price revisions. Please describe also what steps you plan to take.**

A: Results at NISSIN FOOD PRODUCTS fell after the price revisions early in June. Our prices have come to look reasonable and results have recovered. Only NISSIN FOOD PRODUCTS and MYOJO FOODS have increased market share this year.

What will NISSIN FOOD PRODUCTS do after the price revisions? We will focus on marketing. We will raise our mind share, making full use of our brand power. If we promote brand communication and raise our mind share among consumers, demand for instant noodles will rise. Our marketing was successful, and as a result, the sales volume was strong in June and July.

We are considering reducing the number of SKUs as one possible measure. We have not reached a stage where we can announce what percent we will reduce the SKUs. I think we will reduce them in FY2021. The reasons for the SKU reduction are an increase in the workload of the sales staff due to natural disasters that have been increasing year after year and the trend of smart work. Considering those two factors, we have come to think that we need to reduce SKUs. Consumers may naturally have slightly less fun, but as sales of long-selling products are increasing, we think profit will also improve due to a reduction in the number of SKUs.

Another step that we are considering is promoting sales of *CUP NOODLE* next year. *CUP NOODLE* will mark its 50th anniversary in 2021, and next year is the year immediately preceding the 50th anniversary. The single brand *CUP NOODLE* will

exceed 100 billion yen in revenue soon. Our long-selling brands sell well. We think we will be able to revitalize our shelves by continuing to follow a model where we sell regular items and make a solid profit and at the same time by reducing the number of SKUs. In 2019, we used a whole shelf for *CUP NOODLE* at certain stores nationwide. Both revenue and profit rose at certain stores that accepted our plan. *CHICKEN RAMEN* marked the 60th anniversary last year and sold very well. Sales of *NISSIN-NO-DONBEI* hit a record high for four consecutive years. Long-selling brands sell well and make a solid profit. We believe we can further revitalize shelves.

**Q: We have heard that you will replace *CUP NOODLE* containers with Biomass ECO Cups from December. Will this not raise costs and have an impact on the margin?**

A: The Biomass ECO Cup costs roughly the same as the existing container, and the change to the Biomass ECO Cup will not reduce profitability.

**Q: Marketing expenses in Japan fell year-on-year. Please describe your plan for the second half and your thoughts about marketing cost.**

A: Marketing cost in the first half was roughly in line with the plan, although some cost was carried over. We expect that marketing cost in the full year will be in line with the business plan. The contribution of marketing to results is larger in the second half than in the first half. November and December are a high-volume shopping season. We are developing plans so as not to fail.

**Q: Which country in the Americas made the largest contribution to operating profit in the second quarter (July to September), the United States, Brazil, or Mexico? What was operating profit margin in each country in the first half?**

A: A recovery in profit in the United States made the largest contribution. Approximately 90% of both revenue and profit is revenue and profit in the United States and Brazil. The recovery in the United States made a slightly larger contribution than the recovery in Brazil.

Operating profit margin was a single-digit percentage in the United States and Mexico and more than 10% in Brazil.

**Q: Please describe growth rates in revenue and sales volume in the United States, Mexico, Brazil, Hong Kong and China in the second quarter (July to September).**

A: In the second quarter, revenue rose several percent and the sales volume fell slightly

in the United States. In Mexico, both revenue and the sales volume increased by double digits. In Brazil, revenue climbed by a single digit percentage, but the sales volume declined by a single digit percentage. Revenue grew by a single digit percentage in Hong Kong, excluding revenue at MCMS, and rose around 10% in mainland China. The sales volume increased slightly in Hong Kong and rose close to 10% in mainland China.

**Q: How far do you plan to increase the percentage of premium goods in the United States? Please describe how much you expect required capital expenditure will be.**

A: Premium goods account for around 30% of revenue and we would like to raise the percentage to 40% or 50%. Base products (*TOP RAMEN* and *CUP NOODLES*) are well received by consumers and customers. We would like to make sure that those products will continue to generate cash.

We are selling one-dollar premium items but would like to launch items that will be sold for two or three dollars. When we devise medium-to long-term growth strategies, we will first review the investments, capital expenditures and strategic investments in the past and will make our priorities clear.

**Q: Results in Brazil in the first quarter (April to June) may have been good, but I feel results slowed slightly in the second quarter. Please explain the situation.**

A: In the first quarter of FY2019, there was a trucking strike in Brazil, and revenue in the second quarter rose in reaction to the strike. This year, in contrast, the growth rate may appear to have been slightly high in the first quarter and may appear to have slowed in the second quarter. However, in the entire first half, the growth rate in revenue was higher than our plan.

**Q: Please tell me whether profit margin has declined in Hong Kong only temporarily. Please describe the reasons for the improvement in profit margin in mainland China.**

A: Operating profit declined temporarily due to administrative expenses, including M&A-related expense and survey costs. Operating profit increased in mainland China chiefly due to the effect of the value-added tax. There are slight seasonal changes in operating profit due to holidays, such as holidays around National Day, but operating profit for the entire year does not change significantly.

**Q: Please describe your thoughts about strategically held stocks.**

A: We are generally considering reducing strategically held stocks. We will take into consideration market trends and the thoughts of the issuers of the stocks.

**Q: I expect free cash will be generated from next fiscal year. Please describe your views on shareholder returns, including share repurchases.**

A: We would like to consider shareholder return flexibly, taking into consideration overall free cash and the business environment, among other factors.